



A window out



a window in

A report on the evolving role of
the Investor Relations Director
and the investor relations function

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About Watson Helsby

Watson Helsby is an executive search firm that specialises in mid to senior level search assignments in the field of corporate and financial communications. We work for clients on both sides of the fence – from large corporates and investment banks to the specialist communications and PR consultancies that support them.

This is the latest in a series of research studies that we have commissioned, all of which are designed to provide a more structured and in-depth analysis of the roles and disciplines in which we specialise.

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1 Introduction

(i) Background and objectives

Over recent years investors, either covertly or publicly, have become a good deal more active in their dealings with the companies in which they invest. In these circumstances it is inevitable that the investor relations function, the key functional interface with the investment community, will have seen its role increase in significance and importance.

As an executive search firm that specialises in this field, we felt that it would be informative to explore how the function has evolved in response to these and other pressures, what it now demands of the practitioners within it and where it might go next.

We therefore commissioned a research study, the aim of which is to provide answers to these questions and specifically to provide insight into:

- how the role has changed and what has driven this change
- the attributes of a world class IR function
- organisational and operational best practice
- the evolving skill set
- remuneration and reward

It is the most comprehensive study of its kind and should interest a number of different audiences. The first is investor relations professionals. For them we hope this report offers insights and ideas from the very top of the profession. The other audiences include CFOs, corporate communications directors and the HR function. Brokers and analysts will also find much of interest.

It is important to note that in our definition of investor relations we deliberately did not include debt IR since this activity, in most FTSE100 companies, tends to be undertaken by the treasury function.

(ii) Methodology

In 2006 and 2007, we conducted face-to-face interviews with the investor relations directors of just under one third of the FTSE100, plus some FTSE250s. It was their 'voice' that we wanted to give greatest prominence to since, as the leader of the function, the Investor Relations Director is best equipped to offer insight into the role as it is practiced today.

However, cognisant of the need to balance this with an external perspective, we also conducted face-to-face interviews with a number of corporate brokers and with both sell-side and buy-side analysts. We have kept their identities anonymous at their request.

(iii) Nomenclature

Although all participants were the head of the IR function in their respective companies, the job title varied. For the purpose of this research we have used the title IR Director throughout.

2 Executive Summary

A window out, a window in...

What emerges most clearly from this extensively researched study, which aggregates opinions from both practitioners and external stakeholders, is that IR is now an established and highly regarded management discipline. No longer an administrative and logistical function and the mouthpiece of the CEO/CFO, it now possesses a great deal of authority in its own right, and has significant influence externally and internally. IR directors themselves are frequently highly experienced individuals, often viewed as part of the leadership team, a development which has further enhanced the external credibility of the IR function.

A number of factors have driven this development, first and foremost the fact that investors – who can inhibit a company's ability to execute its strategy - need to be understood, communicated with and engaged with in a much more professional and proactive manner. As the key functional interface between the company and the capital markets, the IR function must take the lead on this, acting as both 'a window out and a window in'. Externally IR must ensure that the right information reaches the right audiences at the right time and that the investment story is both compelling and memorable. Managing the perceptions of key financial audiences and projecting the right image to the capital markets is also a critical part of IR's external facing remit. Internally IR is responsible for bringing 'the outside in' and for ensuring that senior management are informed of what the markets are saying and thinking, and that they understand what is influencing and driving the share price.

Consequently the IR director is now regarded as a key appointment, both by the CEO/CFO and by external City audiences.

A financial or a communications discipline...

Though IR has both financial and communications elements, the general consensus is that it is, above all, a financial task and, therefore, a financial discipline. This is evidenced by the 69% of our interviewees who reported to the CFOs or FDs of their companies. The exceptions occurred when the role reported to the communications director or when IR and communications / corporate

affairs were in a combined management structure and reported to the CEO.

A close, if not seamless, link with the corporate communications function is crucial since analysts talk to the press and vice versa. Without this connection there is a real danger that there may be discrepancies between the way the story is told to the investment community and to the media. IR also must be aware of emerging non-financial stories and the possible impact of these on City audiences; further reinforcing the need for a close link.

Attributes of a world class IR function...

A considerable amount of time in the research was spent attempting to compress and distil the essential attributes of a world class IR function. With the help of interviewees, we identified the following six attributes or characteristics that a function is likely to exhibit:

- (i) a very detailed, intimate and encyclopaedic knowledge of the business - financially, strategically and operationally. This attribute encompasses both sector knowledge/understanding and the high levels of financial literacy expected of an IR function
- (ii) a strong and broad network of connections within the company as well as strong relationships with key internal functions and operational management. Good internal access to all parts of the business is very high on the list of the investment community expectations of an IR function
- (iii) the ability to communicate effectively and the ability to extract messages from a strategy and deliver them with 'colour'. Coupled with this, an understanding of how best to market and position a stock to capture market interest and differentiate it from its peers
- (iv) a detailed understanding of how the City and global financial markets work and an in-depth understanding of the drivers of sell-side and buy-side behaviour and decision-making, in all its various guises

- (v) strong strategic thinking and direction – the IR function must be able to provide a clear strategic view of communications with financial audiences
- (vi) an intimate knowledge of the shareholder base and an excellent grasp of what the market is expecting and looking for. An ability, therefore, to develop strong relationships combined with the antennae to pick up on investor mood and sentiment

These attributes provide the foundation of what is, without doubt, the key requirement of the IR director's role – to build trust and confidence, both internally and externally.

IR directors' backgrounds...

Although directors of IR arrive in the role via a variety of channels, corporate finance or corporate planning and strategy seem to be the most common entry points (over 50% of interviewees). While sell-side analysts are increasingly being hired into senior IR roles, this trend was not reflected in our survey - only 8% had moved from the sell-side. An accountancy qualification is not yet a requirement for an IR director (though 44% did possess one), but it was generally agreed that an IR team now requires a qualified accountant within its ranks.

Sector also has a great bearing on what sort of background an IRO needs. An IR function in a pharma, for instance, might place greater value on sector experience than it would on an accountancy qualification.

Remuneration...

Remuneration varies enormously, influenced partly by the seniority of the person in the role and partly by the size of the company and the function. These two factors are synonymous anyway - the more global and high profile the company, the greater the seniority of the person in the role. The salaries range from under £100,000 to over £250,000. But the majority of interviewees (58%) earned a salary within the £126k - £175k range. As the value of the role continues to grow, it is likely that we will see salaries increase and the range narrow.

Resource...

The size of an IR function of a FTSE100 obviously varies, but our research indicates that the average is a team of two to three, with 57% of companies reporting a function of this size. Companies with more than one listing accounted for the majority of the larger sized teams (5+), since most have smaller satellite teams in the financial centres concerned.

External and internal pressures...

The IR function is exposed to significant pressure, both internally and externally:

- externally the company/investor interface is a lot more important and often a lot more tense than it was
- internally the role is more exposed and accountable because of board level interest in IR matters. Managing the relationship dynamic between the three most senior people in the company can also be extremely challenging. They are very strong characters with their own strongly held views about what they want to say. Differences of opinion between these three can be ruthlessly exposed when a company is communicating a key message externally and the IR director sometimes has to act as an internal broker, arbitrating and looking for areas of reconciliation
- prying analysts, and others, will work hard to get information and IR directors have to be wary of being "bounced into something by the City."

Keeping control of the message...

Another development is the exponential growth of media outlets and the fragmentation of media generally, predominantly an online phenomenon. This has had two consequences. First analysts and others have new ways of accessing information. Second, companies, and the IR function specifically, now find themselves in a position where they can no longer be the sole guardian and gatekeeper of information.

It is a development which underscores the crucial importance of a seamless link between IR and corporate communications / media relations.

Globalisation...

Capital markets are now very much a global phenomenon and IR directors therefore have to be knowledgeable about where the pools of investor money are based, and the investment strategies that these funds pursue. Companies now need to go wider to meet investors and the IR function has to have many more meetings than was previously the case.

Managing a scarce resource...

Managing the demands of this enlarged global investment community for access to the CEO/CFO has meant that maximising the efficient use of the CEO and CFO's time - and the effectiveness of their interaction with investors - has become a key skill of an IR director. It is now critical that he/she commands the trust and confidence of these two figures in order to carry the burden of the contact programme, thereby unloading the diary of the "two senior guys."

Regulatory environment...

The current UKLA disclosure rules governing disclosure and transparency are designed to ensure that all the sell-side have identical access to information and data. But sell-side, understandably eager to generate interest in their own recommendations, want more colour and additional information in order to stand out. This development has put a premium on the IR director's ability to provide insight and steer expectations without flouting these new disclosure rules.

Focus on buy side...

Though not a completely new development, we observed that there is now a greater emphasis on direct dialogue and relationship building with buy-side. This is partly driven by the growth in hedge funds and their demand for direct contact with companies. Other factors include the disintermediation of some sell-side by buy-side.

Measurement...

The true value add of IR, and more importantly, how this is measured, remains something of a conundrum, in that no-one really has an answer. On one issue all interviewees were agreed and that is the fact that there should be no attempt to correlate IR with the share price, given the impracticality of isolating the impact of IR from other factors that might influence it. There is certainly very little consistency in the way that IR effort is measured and generic KPIs for the function, that could be adopted by all companies, do not exist. Most rely on qualitative feedback from the market, delivered direct from investors or through the corporate brokers, and the annual perception audit. This is combined with a mix of gut instinct and intuition. It is clearly a source of frustration and an area where fresh thinking is required.

3 Conclusions

We have focused these conclusions on the subjects that most directly concern us as an executive search firm – getting the role right, understanding the skill set and finding the right candidate.

It should be noted that the findings from this study have been used to produce a comprehensive Role and Candidate Specification. It has not been included in this report, but is available on application.

The role

It is the role of IR to ensure that investors have the best possible information available (and the access to senior management) to make rational, well informed decisions about buying or selling the shares of a company and, therefore, to ensure that there is a fair value of the company's worth in the share price.

There is, however, a significant element of subjective judgement involved in a company valuation, and this is largely determined by unquantifiable factors such as trust, sentiment and reputation. Though these will, to a degree, be formed by impressions outside IR's control, there is no doubt that they will also be influenced by the way in which a company chooses to communicate and engage with investors and analysts.

It is now incumbent upon the IR director to provide leadership in this area. Not only must he/she ensure that a company communicates and engages with integrity and openness, but that it also takes a more proactive and innovative approach to communications. Not only does the investment story need to be compelling, it needs to be constantly refreshed and updated so that it remains front of mind. It is an approach that puts a greater emphasis on telling the story behind the numbers, on a more creative approach to communicating the vision, on showcasing intangible assets and linking these directly to future growth prospects. While numbers and modelling should always form the basis of valuations, they are only part of the story. Investors and analysts want colour and granularity, and it is possible for companies to provide this and simultaneously to stay within the rules governing disclosure.

Engagement is equally important - an IR director's job specification should highlight the requirement to get to know the investor base really well. It is critical that the IR director has an excellent grasp of what the market is looking for and thinking. By establishing a strong connection with investors, a company is more likely to engender trust. Companies that build up a bank of trust are more likely to be given the benefit of the doubt in more challenging times. Trust also brings other benefits. One interviewee observed that if an investor trusts someone they are not only more likely to believe that person, but to be more open in what they tell them.

Understanding how best to optimise the use of senior management time (and indeed other key managers within the company) is an important part of the communications and engagement programme, since investors are ultimately buying into the combined skills of this senior team and understandably require access to its members.

There is another facet to the role, one sometimes overlooked, which must also be highlighted in a job description. Investors are sophisticated consumers in their own right. They get their information (and form their impressions) from a far wider mix of sources than in the past. The message(s) delivered via the IR function are only a part of the picture. Too often, companies communicate with a silo mentality and fail to communicate externally in a joined-up way, thereby failing to capitalise on opportunities to reinforce and enrich the message through a multi-channel programme.

An IR director needs to understand this and not view their role, and communications channel, as discrete. He/she must work closely with all the disciplines within the corporate communications function (not just media relations), to ensure that IR is a cohesive part of a broader, integrated communications programme. This, in turn, will help ensure that the IR strategy and programme is consistent with, and benefits from, other communications activity.

Skills and personal attributes

Appointing an IR director is a key hire, an observation that both brokers and analysts will confirm. The role is a critical functional interface – a window in and a window out – between two highly demanding and intelligent parties (executive management team and the City) dealing with matters that impact share price. It is no longer an appointment that companies can afford to get wrong.

An IR director therefore needs to be a well rounded, high calibre individual, not only financially literate but a credible and effective adviser. He/she must also, and this is key, possess excellent communications and relationship building skills.

Communication skills include an ability to write and to be able to extract messages from a strategy and to deliver them with colour. This is something that is sometimes missing when an IR director is appointed from a previous financial role, and it can show to the external world. Presentations which are dull, and from which it is difficult to pick out the salient points, are unlikely to stimulate interest in the stock and may also undermine investor confidence. Competition for investment funds is much greater and companies have to make a greater effort to stand out.

Because relationship building is so important, strong interpersonal skills are absolutely non-negotiable in today's IR director. This is because the IR head, just like the media relations head, represents the company to key external audiences. Just as the personal and professional qualities of a head of media relations will influence the way a company is covered in the media, so an IR director's personal and professional qualities can shape perceptions of a company among analysts and the wider investment community.

An individual who is reserved and lacks interpersonal skills, is unlikely to have what it takes to establish a deeper connection with investors.

Reporting line

The most common reporting line is for IR to report through the finance function to the CFO or FD. This, in the view of most people we interviewed, is the best arrangement, since the CFO should play an active role in IR strategy and activity. The CFO is also probably best placed to articulate the financial performance of the company, so it makes sense that it reports to the person whom investors want access to.

This reporting line can, however, result in a more limited numbers-led approach to communication, especially where the CFO (who sets the tone and approach to external communications) shows an inclination to restrict communication and engagement to the acceptable minimum.

In today's environment, where there is as great an emphasis on communicating the story as there is on explaining the numbers, perhaps the best solution – found in a small minority of the companies we interviewed – is a combined IR and communications management structure. This has to be led by either a very communications literate IR professional or by a very financially literate communications professional.

Investors, as we have already noted, consume a broad mix of information before forming a judgement. The above model helps to institutionalise a more integrated approach to communications, one that ensures consistency and reinforcement of message.

Irrespective of reporting lines, the IR leader must be embedded into the senior team and integrated into top-level decision-making. This helps to ensure that the investor sentiment and expectation is factored into the decision-making process, and minimises the possibility of Board level decisions triggering a hostile reception in the city.

Appointing an IR Director – what are the options?

There is a growing tendency amongst FTSE100s to favour an internal appointment when employing an IR director. There are two factors driving this trend:

- IR is increasingly viewed as a function in which high potential talent should develop experience as part of their development programme
- an in-depth understanding of the business (as well as a strong network within it) is an extremely valuable attribute that cannot be bought externally. Analysts particularly want to deal with someone who knows the company, understands the business and has internal credibility and connections. This type of appointment is very much favoured by highly technical sectors such as pharma and financial services

Much will, of course, depend on the background/ experience and skill set of the internal candidate. An experienced individual within the corporate finance or corporate development team may have a background in the City and, as long as that person also has strong communications and relationship building skills, there is a case for appointing someone with this profile to the top IR job. It also helps if there is an experienced number two in the team.

The argument against hiring internally is that it is now a professional role/function with its own specialist skill set and expertise. One has to question how sure-footed one can be in the role if one is unfamiliar with global capital markets, the mechanics of the City, the regulatory environment and, most importantly, the drivers of sell-side and buy-side behaviour and decision-making.

If a company is prepared to compromise on a proven track record in IR, then it must make sure it compensates by appointing someone who has strong interpersonal and engagement skills (we are taking financial literacy as a given).

Externally the options would look as follows:

- hiring a top IR professional from another organisation
- finding a top analyst from the relevant industry sector. The drawback is that while they may have a deep understanding of the sector and the mechanics of the global capital markets, sell-side analysts do not always have the communication and relationship building skills the role demands. They may also come with baggage (for instance disliked by an investor or by some of the other sell-side analysts).
- bringing in a senior member of a corporate broking team of a top broking firm. This move is not common because good brokers are well remunerated and would find it difficult to maintain that level of remuneration in a corporate IR role, however senior. Yet in many situations a corporate broker could well be an inspired hire
- recruiting a high level and extremely financially literate communications professional who is experienced at communicating with both financial media and global capital markets. This has the added advantage of enabling IR and communications to be brought together into an integrated team.

The optimum blend of skills and expertise

Although there is no template as such, we believe that a FTSE100 IR function must contain, at minimum, a highly experienced IR professional (schooled in the ways of the capital markets), a qualified accountant and someone from within the business/company who brings operational experience and insight to the team.

4 The six attributes of a world class IR function

“A well run IR department will become a key differentiator for companies”

The ability to gain trust and build confidence, both internally and externally, is without doubt the key requirement of the IR director and his/her function. Establishing IR's credibility externally and building the trust of the analyst and investment community is dependent on the IR director's ability to win the absolute trust of the CEO and CFO internally, and vice versa. The two are inseparable. Below we have identified the attributes that are necessary to engender this trust and confidence.

(i) The first attribute of a world class IR function and indeed the core competency of IR is a **very detailed, intimate and encyclopaedic knowledge of the business**, financially, strategically and operationally. A good IR director, as one interviewee put it, *“has to be able to articulate the DNA of the company.”*

“You have to know the company inside out and back to front and you have to understand, in minute detail, and be able to articulate what drives the business and what is going on in the business.”

“You have to know an enormous amount about the company. That's why I employ people who have worked in the business. You have to be an expert in every part of the business.”

“What institutions want is to be able to get hold of someone who is easily accessible and who really understands the business.”

Another interviewee observed that you need to be able to describe business developments, outlook and strategy in the same way as the CEO or CFO would.

“This is achieved by spending significant time with these individuals and by listening to their responses to investor questions.”

Detailed knowledge of the industry sector is also very important, particularly when discussing company performance and prospects in a broader context.

“You need to be able to have informed and in-depth conversations about the industry, as well as the business. This helps you reason with people more objectively and point out where they might be going wrong.”

(ii) Because accounting, financial analysis and modelling, and the reporting and explanation of financial performance can now be incredibly complex, exceptionally high levels of financial literacy, numeracy and analytical capability are critical. This is the **second attribute** of a world class IR function. The knowledge required ranges from a technical understanding of accounting issues to the interplay between capital investment and revenue generation, through to an understanding of the financial and commercial implications of strategic business and capital expenditure decisions.

“You have to analyse and understand the numbers and what lies behind the numbers. What does this mean, what does it say?”

“Need a finance background to explain the wider position or to explain the treatment of pensions in the accounts.”

The best IR teams will not be satisfied with just providing the correct financial data to the markets. They will complement this with the relevant operational and sectoral data that will help explain and contextualise the performance and the figures. This will often mean that they need to possess the analytical ability to 'clean up' operational data coming out of the businesses (finance people won't always do this – they do not see it as their job), challenge it, validate it and reconcile it with financial data.

This topic of financial literacy raised the issue of whether an accountancy qualification is now a mandatory requirement for an IR director.

Do you need to be a qualified accountant?

Yes: 18%

No: 82%

The overriding consensus was that it was not, but that some financial training (and certainly a strong financial background) is important. It was, however, generally agreed that the IR team now requires a qualified accountant within its ranks.

“You need to be as financially literate as a management accountant.”

“My team deals with spreadsheet modellers and analysts and you need accounting skills to talk to them.”

(iii) The third attribute of a world class IR function is that it is **close to / influences the strategy and thinking of the business, that it is extremely well connected and networked within the company, with strong relationships with key internal functions and operational management**. This will ensure that information and data relating to what is going on in the company is readily accessible. It is not just about creating efficient disclosure practices across the company, though this is important. It is about knowing where and to whom to go to get key operational and financial data and building the rapport that ensures that relevant individuals / departments will put themselves out to provide the information that is needed.

This takes time, initiative and self-motivation, but if an IR team is not perceived to have this access, then credibility will be seriously undermined in the eyes of its key external audiences.

“You've got to be plugged into so many areas of the business to get what you need.”

“Trying to get people who don't come under your influence to do things for you. For instance the financial teams in the opcos.”

Strong interpersonal skills and the ability to build strong relationships and networks outside one's immediate area are all critical and non-negotiable in this respect.

The gravitas and authority to operate at the most senior levels in the company is equally critical. There will be times, for instance, when the IR director has to persuade a CEO to make a statement to the markets that is different to the one that the CEO feels strongly disposed to making (for instance promising certain levels of growth). It is crucial that the IR director is able to impact on debates and has the courage to say no to his/her CEO.

“You sometimes need to tell the CEO that he's wrong or you might need to dissuade him from talking up a particular number.”

“A key skill that you need is that of upwardly managing your CEO and CFO. They might be bloody-minded and you need the courage to stand up and fight your corner.”

Maximising the efficient use of the time that the CEO and CFO devote to IR, as well as the effectiveness of their interaction with investors, is one of the most crucial components of the IR director's role.

(iv) The **fourth** defining characteristic of a world class IR function is the **ability to communicate effectively**. A world class IR director will understand how best to 'market' and position a stock to capture market interest and differentiate it from its peers. And today's IR director ideally needs to be able to write well, extracting key messages from the strategy and delivering them with colour. It is a skill that requires the ability to assimilate and simplify complex information as well as an ability to turn this into a simple and compelling story or investor proposition.

"Good powers of quantitative explanation – to explain trends in revenue and margin growth for instance in ways that are compelling and simple."

"The overriding aim is to differentiate your IR offering to become more memorable to investors, who don't have much time."

"IR should be creating news and keeping the story bubbling along."

Effective communication with external audiences requires not only confidence in articulating the story, but also confidence and belief in it. In representing the company to financial audiences, as the IR director does, any perceived lack of conviction undermines confidence in the investment case.

(v) The **fifth attribute** is a **detailed understanding of how City and global financial markets work and, even more important, an intimate knowledge of the drivers of sell-side and buy-side behaviour and decision-making**. This entails an understanding of how analysts and investors judge and evaluate companies, how they think as well as an understanding of what they are really asking and what motives lie behind a question.

"You need to be able to understand and anticipate where the line of questioning might go next."

"You have to listen hard to understand where people are coming from. Equally, you have to know how not to answer a question, as well as how to answer it."

Doing all of the above and ensuring compliance with UKLA disclosure rules, and other statutory requirements, is an increasingly difficult tightrope to walk. The current regulatory environment here in the UK - driven by UKLA disclosure rules, the Combined Code, IFRS - is very different from what it was. The IR function now plays a key role in ensuring that a company not only communicates effectively to the City, but also does so within the constraints of this complex and stringent regulatory environment. The IR function, in concert with the company secretary and the company brokers, has to be able to provide sound and smart advice about what information can be, or should be, disclosed to the market and when.

An IR team that possesses all of the above attributes will add value to a company in the following ways:

- It will be strong enough to handle many of the investor and sales force meetings on its own and therefore capable of shouldering the burden of the contact programme, thereby freeing up the CEO's and CFO's time. Given that the time of the CEO and CFO is expensive, this is a significant benefit, the value of which should not be underestimated. Maximising the efficient use of the time that the CEO and CFO devote to IR, as well as the effectiveness of their interaction with investors, is one of the most crucial components of the IR director's role.

"My job is to effectively allocate a scarce resource, the CEO's time, wisely."

- Assisting the sell-side with their models, and helping the market understand and interpret complex data, the implications of which could otherwise be completely misunderstood or misinterpreted (for instance customer acquisition data or clinical trial data). If sell-side models are wrong, inaccurate notes will be going out to buy-side, so it is incumbent upon IR to ensure that this risk is minimised.

"Give them a better idea about how they should be modelling the business looking ahead."

"They want to understand things down to the micro level."

- Thinking through potential issues and developments within the business and making a sound judgement about how to position the information and when to disclose it, thereby ensuring that there are no nasty surprises.

"So that when something negative happens, analysts will say 'oh yes, we knew that was going to happen'."

- Communicating the 'story' in a persuasive, efficient and regular fashion to ensure the market understands the business and its key drivers and has an informed view of the company's strategy, performance and prospects. IR plays a key role in steering market expectations and brokers' numbers,

"Turning the economic details that come out of the company into succinct summaries of progress."

(vi) The **sixth and final attribute of a world class IR function is its ability to build and develop strong relationships with investors combined with the antennae and network to pick up on investor mood and sentiment**. An IR director must have an intimate knowledge of the shareholder base and an excellent grasp of what the market is doing and looking for.

Keeping senior management aware of what investors are thinking and saying and providing a continuous loop between company and investors is where IR earns its crust. A good IR director will go out and proactively solicit that kind of information, so it is absolutely critical that a company employs an IR director who investors like to talk to and who is capable of winning their trust.

"You have got to understand what is influencing and driving your share price, particularly if you are either a target or an acquirer. Equally you have to make sure that your shareholders understand you."

"You have got to keep close tabs on the views of shareholders, which means more direct dialogue."

As a key functional interface with City audiences, IR is uniquely positioned to:

- 1 Advise senior management on how to tell the story and what they should be saying. Alternatively, if there are problems, IR can give advice on how to refine or change the message and the IR programme to address the issues directly and thereby retake control of the agenda.
- 2 Provide an early warning of activities such as stake building and stock shorting. While IR cannot stop these, it can help craft strategies to minimise their impact
- 3 Anticipate market reaction to corporate activities and announcements and help management appreciate how decisions will play out and therefore how best to position them. Companies can sometimes be too positive in their statements, thereby raising expectations and causing subsequent disappointment. Good IR can help get a more balanced statement out there

"Make sure the CEO, the board and operating heads know what the market thinks and is expecting – you are therefore in a much better place to run your business."

For instance, something that may be deemed harmless from an internal business perspective may cause surprises from an external perspective, and vice versa.

"Senior management might misjudge reaction both ways, i.e. do something the market might react negatively to or not do something that the market wouldn't care about."

"What the implications will be. We often therefore have an influence on the timing of a decision and also help management understand what the next move should be."

One interviewee cited the example of a recent planned acquisition to which the market reacted badly, but only because the cost synergies had not been communicated or explained well enough.

- 4 Ensure that the Executive Committee and the Board are made aware of any difficulties or issues that the market has in understanding the business. It can be dangerous to take that understanding for granted.
- 5 Obtain valuable intelligence - a well networked IR function will acquire information via financial markets contacts that is often not available to (or easily accessed by) operational management – for example analysis of competitor operations.

This is imperative in a bid situation, when a company needs to know exactly what each of the top ten to twenty shareholders are looking for, what they are thinking, what they would like the company to do. The advice originating from IR in this area needs to be spot on, since it can have a significant influence on corporate decision-making and certainly on the positioning and presentation of decisions.

“The level of consciousness about City expectations is now very high.”

“It is one of the key influences on senior level corporate decisions.”

An IR function that exhibits these attributes should, barring performance issues beyond its control, deliver on its principal purpose which is to:

- a) create a better understanding of the equity and the investment case
- b) differentiate the IR offering so that it is more memorable to investors, and thereby ensure that a company’s profile remains as high as possible
- c) gain investor support for the strategy and tactics of the company
- d) ...thereby reducing the volatility of the share price and ultimately...
- e) ...to ensure that the share price correctly reflects the true worth of the company.

“By helping create a better understanding of the company and minimise nasty surprises, the result should be better market valuation.”

5 Organisational and operational findings

5.1 Reporting Line

In almost all cases, the IR heads we spoke to reported to their respective CFO or FD. Ten years ago this would not have been so, as the reporting line to PR / communications was more common.

CEO	6%
CFO or FD	69%
Corporate Communications/Affairs Director	19%
Dual (either to CFO and CEO, or CFO and Corporate Communications/Affairs Director)	6%

A reporting line to the CEO is unusual and only occurs when IR and corporate communications are in a combined management structure.

The overall consensus of opinion was that IR had to report to the CFO/FD – though there was a minority that opposed this view. The case for this reporting line was articulated as follows:

- The FD/CFO, who tends to be the lead communicator with the financial markets, has a major role to play in IR. There will be times when investors will have questions about a company (for instance, when they want to dig a little more into and behind the numbers) that they will expect the CFO/FD to answer. More importantly, one of the CFO’s jobs is to manage and minimise the cost of capital in the business and effective IR helps to do that, so the CFO has to be involved. So it is logical that IR reports to him/her.
- While IR is both a financial role and a communications role, it is essentially a financial discipline, a financial function and a financial task (“never more so”). As one participant noted.

“In the old days it used to be more of a sub set of PR.”

- CFOs have more influence and clout, and will have a seat on the Executive Committee, if not the plc board. This ensures that IR is represented at the right level and thereby invests the IR function with more influence than it would have if it reported to the corporate affairs director.

“I wouldn’t look at any IR role if it did not report to the board.”

- There is a perception that the corporate affairs / communications function, which in most cases is the alternative reporting line, lacks the necessary financial knowledge and expertise. Alongside this there is a concern that a reporting line into communications will not help promote a longer-term career in finance, which is the preference of a large number of IR professionals.
- IR will be better informed about financial performance and financial issues if it is part of the finance function.

Another important issue raised by a few of the IR directors we spoke to is that there is less pressure on the communications function to validate the financial data that they disclose. Consequently out of date, out of context and unverified data may be used when the actual market performance is slightly less flattering.

“Without the influence of IR my belief is that corporate communications would be more likely to make unsupportable claims about market share, product qualities etc.”

The natural instinct of financial audiences to home in on inconsistencies means that IR is left to deal with the fall-out caused by inaccurate and inappropriate information that escapes into the marketplace.

It should be noted that a small number of interviewees did not agree with this reporting line, on the basis that IR, in their view, is first and foremost a communications discipline. Communication is the common thread that runs through all the key activities.

What is absolutely critical - and this was universally acknowledged - is that IR and corporate communications / affairs have to work extremely closely together and have a constant input into each other's areas (physical proximity is key in this respect). Effective coordination, if not seamless interaction, is imperative for a number of reasons. In particular:

- (i) Some analysts talk to the press and vice versa and there is real danger that there may be discrepancies between the way the story is told to the investment community and to the media. Fragmentation and inconsistency of message is potentially very damaging.

"His stakeholders and my stakeholders are talking to each other all the time."

"If you detach, you end up with mixed messages which is dangerous."

- (ii) IR has to be aware of emerging stories and the possible impact of these on City audiences. The corporate communications function is responsible for, and therefore more informed about, non-financial news flow, which nonetheless can have reputational ramifications among financial audiences. Investors and analysts (who are naturally inclined to chase short-term news flow) wanting to verify and ascertain the likely impact of wider news stories will call the IR function. If the two functions are closely integrated and closely linked, IR is likely to be better briefed and abreast of the same news flow and thus equipped to counter any inaccurate conclusions. If the link is not as strong as it should be, there is a danger that some news flow will not get picked up on IR's radar until too late.

"The news may be out quickly on the wires and the corporate affairs function is more likely to be in the loop as the story emerges. Investors may call asking 'what does this mean for us'? We can deal more effectively with these calls if we are also in the loop."

5.2 Size of the function

The size of the IR function of the 30 FTSE 100s we researched ranges from one (literally, no support) to nine. This figure includes 'assistants' whose responsibilities include helping to organise roadshows and project managing presentations. It does not include admin support.

A team of two to three, normally consisting of the IR director, an IR manager / analyst and an assistant, appeared to be the most typical arrangement with 57% of the companies reporting a function of this size.

Companies with more than one listing accounted for the majority of the larger sized teams (5+), since most have smaller satellite teams in the financial centres concerned (23% of the sample in all).

Where the UK-based team exceeds three, the IR director tends to be supported by a team of two IR managers and two or more analysts.

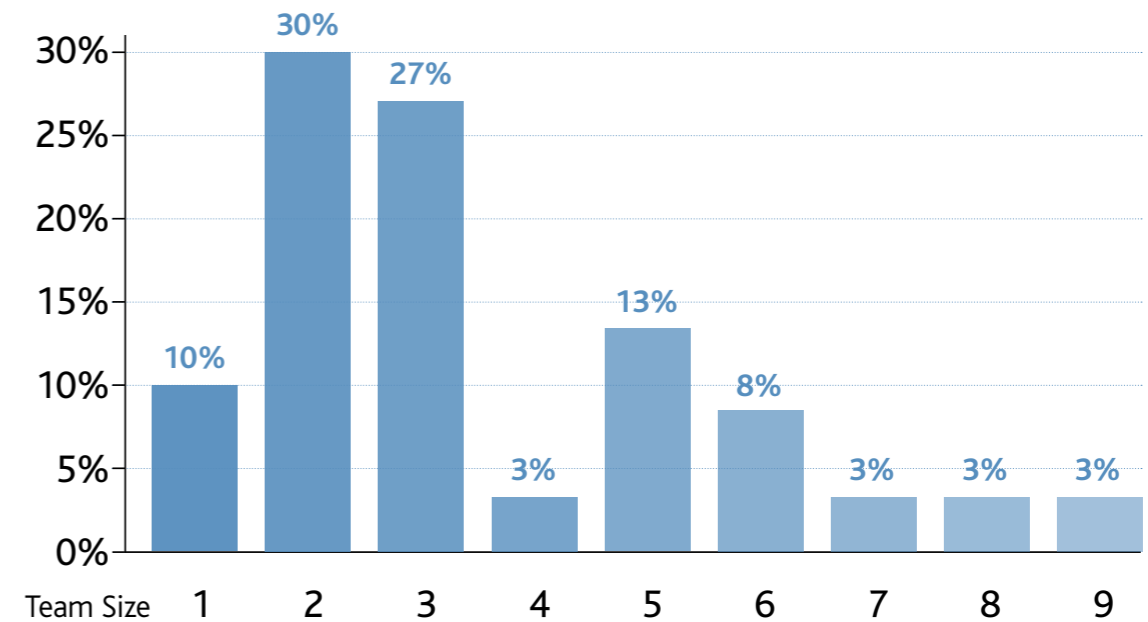
Some IR directors in the bigger caps had a number two reporting to them, normally entitled Head of IR, a position that tends to command a salary in the region of £100,000.

We asked our interviewees if they believed they had sufficient resource to set a proactive IR agenda:

Yes	70%
Only just.....	11%
No.....	19%

"A lot of my time is spent on housekeeping issues, which could be better spent on more strategic activity."

Although resource is an important factor, the attitude and commitment of the executive board to IR (specifically that of the CEO and CFO) is a more significant determinant of whether a proactive IR agenda is set.



"It is really hard to do a decent job if senior management don't put the time in."

"There is real resistance to the disclosure of information amongst the board."

If there is a reluctance at the top to engage in regular and open dialogue with the investment community, then it is impossible for even the most proactive and dynamic IR function to set a proactive agenda.

5.3 Performance measurement

Judging by the conversations we had with participants there is very little consistency in the way in which the IR function's performance is measured.

Some 25% of participants did have formal KPIs. Approximately half of the participants interviewed remarked that they had goals and objectives but no formal measurement, and 25% reported that they had no KPIs of any sort.

Have formal KPIs	25%
Goals & objectives but no formal measurement	50%
Nothing	25%

The 'KPIs' that we identified were as follows:

- the proportion of equity held by certain classes of investors, measured against the investor targeting criteria (e.g. % of overseas shareholders, normally US, on the shareholder register)
- effective use of the CEO and CFO's time
- investor targeting and the number and perceived effectiveness of events and meetings (benchmarking whether the IR programme is actually being delivered)
- ranking in the Dow Jones Sustainability Index and BITC index (often delivered by IR)
- awards (Extel, IRS, Real IR etc) which are sometimes viewed as a gauge of effectiveness
- meeting legal and compliance obligations

"just not screwing up on legal"

On one issue all were agreed, and that is the fact that any attempt to correlate the effectiveness of IR activity with share price would be misleading, given the impracticality of isolating the effect of IR from other factors that impact share price.

In reality, informal investor feedback and sentiment is a measure by which most IR functions tend to be evaluated.

“Analysts will happily pick up the phone to the CEO to let him know that they don’t think that IR is doing a good job.”

“More a value judgement, communicating the story into the market.”

In this respect, an annual audit of investor feedback, such as the perception study that Makinson Cowell produces for many of its clients, is often used to assess the effectiveness of the IR programme and, by extension, the IR function. Corporate brokers may also be used to provide this feedback, though some interviewees questioned whether the brokers would see it as in their interests to provide completely candid feedback.

“If it is bad, the broker is unlikely to tell you, since it damages their chances of organising future roadshows.”

5.4 Use of advisors

(i) Corporate brokers

The majority of the companies we spoke to employ the services of two brokers. The manner in which they are used, and the amount of work that the IR teams will devolve to them, will depend on the size of the IR team and the quality of the relationship. It was generally acknowledged that a good relationship with a reputable corporate broker is an enormous asset, particularly when a company is in a transactional situation. The value of the broker relationship is judged by a number of criteria, key amongst them their geographic placing power and their ‘clout’ with institutions *“who they know, can they carry the institutions, can they deliver the City?”*

The range of advice/activities they provide to a company will include all, or some, of the following:

- collecting and providing feedback and market intelligence, checking rumours and gossip. It is acknowledged that because brokers talk to major institutions on an ongoing basis they will have access to outside information that in-house IR functions will not get

“Helping to understand what is going on in the market. IR has to be one step ahead of the executive team.”

- strategic advice and as a sounding board, for example on the positioning of results, presentations, profit warnings
- targeting and identification of new shareholder prospects
- advice on primary activities – buy backs, capital raising etc
- information on trading flows, particularly big trades. brokers will often provide a daily trading statement
- formal disclosure advice – requirements of listing authorities etc

“They have expertise that we don’t.”

- intelligence about peer group activity and intentions.
- helping organise roadshows (although this will depend on the size and requirements of the in-house ir team)
- as a comfort factor – an external perspective for the chairman
- providing assistance and back-up to the ir team when they want to make a point internally that might be unpalatable

“More to confirm decisions, rather than to shed light.”

“The brokers are very important – they will tell us what their sales team are hearing in the markets.”

Some participants observed that when it comes to arranging investor meetings, the advice of the broker will sometimes be guided by a degree of self interest. Hence their advice is not always deemed to be totally impartial.

“They will often try to put us in front of their best clients – those that generate most income for them rather than investors that we might want to, or need to, see.”

“The advice they offer is good, but it comes with baggage attached.”

However this was not a majority view and, as one participant with an excellent relationship with his corporate broker stated, *“if you suspect them, then you should probably change them.”*

(ii) Others

Several of the companies we spoke to (45%) employed the services of a specialist IR consultancy, mainly for independent advice, be it ad hoc or ongoing. In almost all instances the IR consultancy concerned was Makinson Cowell, whose key product is the annual investor perception study / audit which it undertakes for its clients. This is used by several companies to help guide investor targeting, as well as to provide the Board with a qualitative evaluation of the IR function.

A small percentage of interviewees used their financial PR advisors to do ad-hoc sell-side research. Several interviewees used a specialist provider of shareholder register analysis services, otherwise this tended to be done by the corporate broker.

No other category of external advisor was mentioned and there was no perceived gap in the market for new or different offerings. The combination of their own internal capability with the external perspective and input of the broker, and in some cases the IR consultancy and financial PR consultancy, appeared to be more than adequate.

5.5 Relationships with the Corporate Communications function

We asked what interdependencies and interconnections there were between IR and the corporate communications / affairs function - and who leads on what, when and why. Most interviewees said that they had a close relationship that worked well. That said, there will always be the potential for disagreements, so tensions are inevitable. Decisions which cause disagreements normally centre around which information to prioritise, messaging around issues and how information should be positioned at results. This is a natural consequence of the different information expectations and interpretative tendencies of two discrete but symbiotic audiences, namely investors / analysts and the media.

“IR has their own audience and corporate communications have their own audience and each thinks their audience should take priority.”

“Disagreements tend to centre around the IR view that less is more and the communications view that more is better.”

The IR function in a FTSE100 will always lead the preparation of the financial calendar set pieces (i.e. results and trading updates) and any communications with the investment community.

"On results, our call is final."

"The messaging around results is IR driven and IR drafts the financial statement."

"The CEO likes IR to take the lead on messages around results."

This covers key message development, scripting, summary financial statement and the earnings announcement. It will also include the drafting of the press release, historically the preserve of the corporate communications function. But as one IR head remarked, the results press release (now over 20 pages in length) isn't really a press release, in the traditional sense, any longer.

"It is a financial piece, therefore I write it."

The corporate communications team plays a valuable role in commenting on likely press reaction to different nuances of the same message. The communications function will also lead on financial media, adapting the investor message for media consumption. It is at this stage that the risk of discrepancies in the way that the story is told to the investment community and to the media has to be vigilantly guarded against.

"The PR team aren't always familiar enough with the P&L and balance sheet to be able to explain it as well to serious financial journalists as the IR team could do to investors."

In such cases there is a real danger of inconsistency in what is understood and therefore in 'take out'.

If the issue is a complex one – for instance pension liability/IFRS – IR may step in and deal directly with the media. This, of course, will depend on the organisation, but it is evident from our research that many IR heads do deal directly with the media if necessary:

"When corporate communications gets out of its depth, I talk to the media."

"Today, for example, we announced our biggest acquisition ever and I, with the CFO, have been speaking to the financial reporters of the main nationals, and of the financial newswires."

"I do speak to the financial press – on background only – and always with a member of the press team present. Examples are Lex, Breaking News or Investors Chronicle. Typically I will be explaining things like dividend policy, accounting issues or other 'technical' subjects that journalists can't easily understand."

Tensions tend to be kept to a minimum when both functions are valued equally internally and when the strength of each function's profile and relationship with the Board is comparable. There also has to be mutual respect and both functions need to listen to each other and value each other's input and perspective. As one IR director remarked (with deliberate understatement):

"If that wasn't the case, life would be difficult at times."

As is so often the case it comes down to personalities and the ability of both parties to act in a reasonable and pragmatic manner.

"Our personalities make it work."

6 Ensuring IR is "in the loop"

To be an acknowledged authority on what is going on in the business – which it must be if it is to operate as an effective interface with City audiences – IR has to be "in the loop" and to have senior level access. This is a critical issue so we asked interviewees how they ensured they remained integral to the business. In general they rely upon a combination of formal processes and structures and informal networks and relationships.

(i) Formal structures and processes

The IR director will receive all the key management reports. In most cases he or she will have the opportunity to review these with a Board level director – normally the CFO. In terms of formal management committees, 40% of the IR directors we spoke to sit on the Finance Committee or Finance Leadership Team (one and the same) which normally consists of the FDs of the businesses plus Tax, Treasury etc. 23% of interviewees also sit on the Disclosure Committee. While these figures are higher than they used to be, it means that the majority still do not have a seat on a relevant management committee.

Other forums that they are part of or are invited to attend are:

- monthly business reviews with either the divisional COOs or FDs
- quarterly strategic reviews with divisional MDs/CEOs
- annual strategy meeting
- annual budget and forecast meeting
- annual CEO meeting
- annual FDs meeting

"I have quarterly meetings with the divisional management which ideally are a 'warts and all' discussion of business performance."

Some IR directors will be invited to the audit closing meeting and it is quite standard to be copied in on the meetings of the Group Executive Committee and, in those companies that have one, the Investment Committee.

"Business heads contemplating a transaction will get IR involved."

(ii) Informal networks and relationships

IR has to make sure that it is among the first to be briefed by relevant senior management on any emerging business issues. The best IR functions will therefore be 'plugged in' across the business and will have developed their own independent networks. Not only do you have to be a self starter to build and nurture these networks, but it also helps if the relationship is two-way. In other words that there is a perceived benefit for both parties – for example offering information from the financial markets to divisional heads.

"Passing on competitive intelligence from the City keeps the individual company managers committed to maintaining a relationship with me."

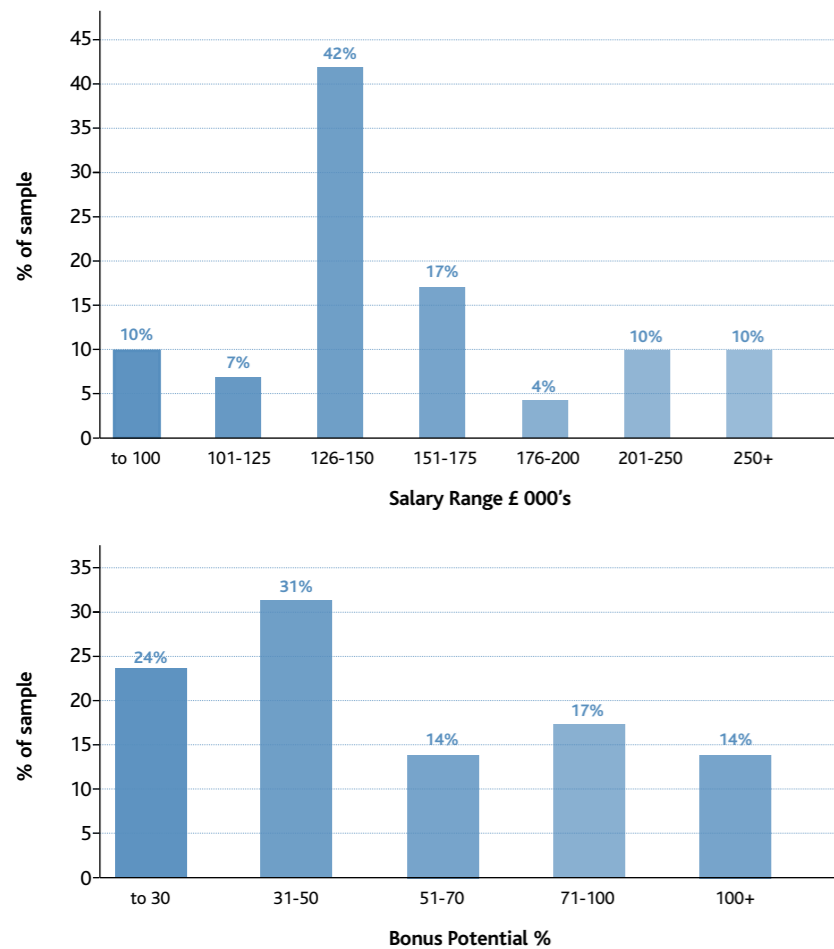
Any IR director with clout will have access to members of the executive committee and will be able to walk into their offices for informal conversations at any time, within reason.

With a few exceptions, most of the IR directors we spoke to felt that they had good access points and were, therefore, "in the loop."

7 Remuneration – what do IR directors get paid?

The wide range of benefits and incentive plans within IR directors' compensation packages makes detailed analysis – as well as meaningful comparisons – difficult. We have focused on basic salary and bonus potential, partly because these are more straightforward to analyse and partly because annual salary remains the important reference point for most people.

Bonus potential refers to the annual bonus awarded for on-target performance. It does not include the longer-term bonus scheme (effectively an LTIP) which allocates stock on the basis of performance over a three year period, which many IR directors also receive as part of their package.



Notes

- (i) The salary range, from under £100,000 to over £250,000, is huge. This reflects a lack of consistency in the way companies resource and value the IR director role.
- (ii) The majority of interviewees (58%) earned a salary within the £126k - £175k range.
- (iii) 20% of interviewees earned in excess of £200,000. Not surprisingly those at this level were senior, highly experienced individuals often with a wider remit including corporate affairs or finance and who had moved into IR from a senior role, usually in finance.

8 How the world of IR is changing

We have aggregated the views of IR directors, corporate brokers and analysts we interviewed to highlight some of the key changes that the IR function has experienced. These are as follows:

1 A fully fledged management discipline

The significance of the IR function has increased considerably in recent years. Previously something of a logistical and administrative function, it has become more professional and more strategic in that IR has functional responsibility for the management of the perceptions of key external audiences. IR now has reputation management as a key component of its role.

“The whole perception thing is very important and something that companies want greater influence and control over. You just have to get it right.”

Its credibility and stature, both internally and externally, have grown appreciably. It now plays a critical dual role, ensuring that the senior management understand the sentiment and expectations of the investment community and simultaneously ensuring that the capital markets understand and 'buy into' what the company is doing (strategy, performance, prospects etc). Investors can, if they wish (and often do, as several companies can testify), inhibit a company's ability to execute its strategy. Consequently the IR director is now regarded as a key hire, both by the CEO/CFO and by external City audiences.

“It is a key conduit and any large company without a dedicated IR function will be exposed.”

The 'postbox' syndrome of old, which cast IR people as ineffective and frustrating blockers, is no longer pertinent. IR is now much more empowered by the CEO and CFO, a situation which is acknowledged by the brokers and analysts we interviewed as part of this study, and is recognised to speak authoritatively on behalf of the CEO/CFO.

“These days it is a profession, with some very high calibre people in it.”

2 Part of senior management team

As a result, the role now works very closely with senior management teams, most of which are very conscious of the need to integrate the expectations of City audiences into decision-making at a much earlier stage.

“One question they will always ask is ‘what does the City think of this?’”

“CEO and CFO are more concerned about their reputations and therefore more concerned about getting it right.”

“Directors have seen what happens if you get it wrong. The financial press has stimulated this and no one wants to be singled out.”

This means that the role is much more exposed than it used to be – everything it does is visible at Board level, especially as it is reported on and discussed at Board meetings.

In terms of the internal recognition of its importance and value, the progress that IR has made is evidenced by the fact that management development programmes for high potential talent increasingly include an extended spell in IR.

3 Media fragmentation – keeping control of the message?

Another development is the exponential growth of media outlets and the fragmentation of media generally, predominantly an online phenomenon. This has had two consequences. First analysts and others have new ways of accessing information. Second, companies, and the IR function specifically, now find themselves in a position where they can no longer be the sole guardian and gatekeeper of information.

Stories or rumours will therefore sometimes circulate which can be either wholly incorrect or blown out of proportion. Since the IR function is the main point of entry for investors, it must be intimately connected to the business, and particularly to the group

communications function. The IR team's ability to answer all of the questions that come its way - quickly, correctly and convincingly - is critical to avoid speculation.

4 Meetings and more meetings

The global investment community has mushroomed over recent years, a trend driven predominantly by the growth of hedge funds, and recently compounded by the emergence of sovereign funds. This development has inevitably increased the demands for CEO/CFO access, the filtering of which is now a significant, if not a key, part of the IR director's role.

"We get inappropriate requests for meetings all the time – small institutions and hedge funds just assume that management want to spend time with them – they don't."

"I would put the CEO or CFO in front of them if they had scale, and if they could convince me that they were genuinely interested in the business and were long-term investors."

Most companies take the view that engagement with hedge funds is sound business practice. They are recognised to be an established investor class, and one that accounts for a significant percentage of trading activity. They do make a difference in that they set the share price, and they increasingly play a pivotal role in M&A outcomes. Since IR is expected to shoulder the burden of the contact programme, and since the number of hedge funds has multiplied, meetings with investors consume a lot of the IR director's time.

"Hedge funds are going to trade the stock whatever, so better that they are informed than not. Therefore you have to engage with them."

"We do engage with them, if only because we want them to hear the story from us."

This not only requires a greater investment of time, it can also require a lot of preparation, since their research is often very thorough and can only be satisfied by more complex and detailed information.

These meetings with hedge funds and other members of the AIM universe – and the relationships they may lead to – are a new and demanding feature of the IR director role and have further reinforced the requirement for higher levels of financial literacy and sophistication.

Compare this to ten years ago when the universe of investors was more easily managed and monitored.

"It was a much simpler task to talk to them, meet them and get them on the register."

5 Exposure to hedge funds

The emergence of hedge funds has made shareholder register analysis considerably more complicated and thereby added a further element of anxiety. Companies, and specifically their IR functions, now find themselves in a position where, given the non-disclosure of shares held through vehicles such as CFDs, they do not know the identity of all the investors on their register. And, more worryingly, what motives lie behind the decision to take an interest.

"The thing that unsettles me most is not knowing who is buying and selling our stock. What exposure do we have to hedge funds? I don't know and it doesn't make me look smart."

6 IR goes global

IR has had to become more global. Pools of investment money and sources of capital are now located across the globe; particularly US, Russia, India and China as well as the Middle East. Trading has also become internationalised. This growth in global capital markets means:

- (i) Investor targeting is a bigger and more complex task.
- (ii) The IR function is required to demonstrate an understanding of where the investable pools of money are based as well as an understanding of the investment strategies of these global investors.
- (iii) Companies need to spread the net wider to meet investors.

7 Managing the sell-side without breaching disclosure rules

The current UKLA disclosure rules governing disclosure and transparency are designed to ensure that all the sell-side have identical access to information and data. Buy sell-side, understandably eager to generate interest in their own recommendations, want more colour and additional information in order to stand out. The unbundling of research and the changing fee structure has further exacerbated this situation.

"They are becoming more like salesmen, aggressively marketing their recommendations."

"Analysts nearly always want to have something that differentiates them from the rest of the pack, so that an investor will sit up and listen."

This development has put a premium on the IR director's ability to provide insight and steer expectations without flouting these new disclosure rules. Sell-side analysts are also more likely to respect and value an IR director who can get them the access they require and respond quickly to their needs.

"In order to propagate their theme they need the IRO to be able to set up calls / meetings with the relevant person within the company (sometimes deep within the company) and to be able to respond very quickly to these needs."

Given the mutual dependency in the relationship, coupled with the need to maintain the sell-side's interest and enthusiasm, companies with an astute understanding of how to navigate this fine line undoubtedly derive some competitive advantage.

"People want colour and giving them colour without revealing too much is a constant challenge."

"Part of IR's role is to help the analysts. If they dwindle in number then there won't be anyone covering the companies."

8 Focus on buy-side

There is now a much greater emphasis on direct dialogue and relationship building with the buy-side. A number of factors have influenced this change in emphasis:

- IR directors recognise that they need to build their own franchises and buy-side are now more inclined to regard IR functions as authoritative sources of data

The disintermediation of some sell-side by the buy-side who are less reliant on the research produced by them and are now more inclined to build their own models and produce their own research. They therefore want more direct contact with companies than they used to.

"Sell-side are less important to us, partly due to their reduced credibility amongst buy-side analysts. This means that buy-side has grown in importance and we now have more regular interface with buy-side than we used to."

- the growth in hedge funds and their demand for direct contact with companies
- the sell-side can have their own agenda and are often judged on the generation of short-term commission-generating ideas to service hedge funds as opposed to long-term share picks

"The sales machine sometimes overrules the broking machine."

However, it should be emphasised that there was a clear consensus of opinion in favour of the view that sell-side analysts remain a very important audience. The larger the number of analysts following a company (the retail sector for instance), the stronger this viewpoint is held by IR directors. Why are sell-side important? Because:

- they have the power to influence many different institutions, whereas even the best buy-side analyst can only impact the decisions of his or her own house.

“Certain sell-side analysts are very influential and can sway market sentiment. You ignore them at your peril.”

- an upgrade or downgrade by an influential analyst still can move the share price
- they influence journalists and therefore media coverage and comment, though many banks have a firm policy of not allowing analysts to talk to the media
- sell-side analysts are a valuable source of market intelligence, insight and gossip

“IR is about meeting sell-side – it is my domain. Sell-side will give you information that is valuable.”

9 The importance of equity sales teams

Presentations to equity sales teams are now a more important component of the IR agenda, and one in which both the CEO and CFO are generally prepared to invest time. With more competition for investor money, companies like to ensure that they are front of mind. Though presentations are often held at the request of the analysts, IR directors recognise the value of putting the CEO/CFO in front of an audience that will have no inhibitions in telling it as it is.

“It can be a wake up call for the CEO and CFO. They really hear what the market says.”

“Unvarnished feedback from the front line.”

These meetings provide an opportunity for a company to get its message across to sales teams directly and avoid any distortion or filtering that analysts may be inclined to impose. This is particularly useful if you have a sell-side analyst who is negative on the stock.

And vice-versa - sales teams are on the front line and have longstanding and high level relationships with fund managers. As a result they provide direct feedback from the market(s), and in particular, the hedge fund

community, which can be very useful. They are also a point of influence on analysts and, in the words of one IR director, *“quite powerful.”*

10 Corporate responsibility and SRIs

The emergence and growth of the SRI sector was not viewed as having had any discernible impact on the role, according to most of our interviewees. Whether it makes any difference in terms of obtaining a premium rating also remains questionable. It is still more a matter, with some notable exceptions, of managing the downside, rather than maximising the upside.

“SRIs want to hear it, they want to know it but they don’t attribute much value to it.”

“You’ve got to get it right because the downside is huge. But do you get rewarded for it is a difficult thing to gauge.”

If a company has SRI investors on its register, it will inevitably need to cater for their information needs.

“If you have Hendersons, Morley and Co-op as shareholders, you will have specific meetings about it. We are now having to develop a whole corporate responsibility story.”

However, there is little doubt that SRI will become a more mainstream investment decision, if only because it is becoming an important facet of the risk management process.

9 The outside perspective – what the brokers and analysts see

We interviewed a number of brokers and analysts to capture their views on what constitutes best practice IR and to find out more about their perception of the calibre and status of the function. The response to the latter of these was very positive. It is now perceived as a profession, which is much more empowered than it used to be and boasting some high calibre practitioners.

It is still regarded as a gatekeeper function, but due to the levels of professionalism now found in the function, its credibility has altered radically. Investors are generally happy with this access point.

These are some of the criteria that they use to judge the effectiveness of an IR team:

- An intimate acquaintance with the shareholder base and capacity to take responsibility for direct dialogue with shareholders.
- Incredibly good knowledge of the business combined with the communication skills to articulate it. Good IR directors should, for instance, be capable of running sales force meetings on their own.
- Thoughtful and innovative approaches, in terms of identifying the right data and information to enable external audiences to understand both the health of the business, and the wider context within which the company operates.
- Excellent judgement and a good appreciation of how a situation will play, leading to an ability to predict accurately investor sentiment and behaviour.

“There is still a disconnect between their perception of what is important to the market and how the market will actually react.”

- Internal credibility to arrange access to key senior executives.
- Focused on keeping advisers fully in touch with what is going on in the business.

“We can’t advise them if we don’t have good information.”

- Forward looking – an ability to read shifts in external landscape and shape longer-term IR strategy accordingly.
- A good grasp of new communications technologies, their impact, the channels available to external audiences and how IR should respond to the new media landscape.

“There are more channels, so we have new ways of getting information. I will sometimes use blog sites and other technology and IR needs to tap into these.”

10 Where do IR directors come from ...and where are they going?

Few people set out to make a career in investor relations. We wanted to establish how participants had come into the IR function. And since IR is now more technical and complex than it was, and requires greater financial expertise and knowledge, we thought it would be instructive to find out how many had an accountancy qualification of some sort.

Percentage possessing accountancy qualification:

Yes	44%
No	56%

A significant proportion of the 44% figure began their careers in tax / audit.

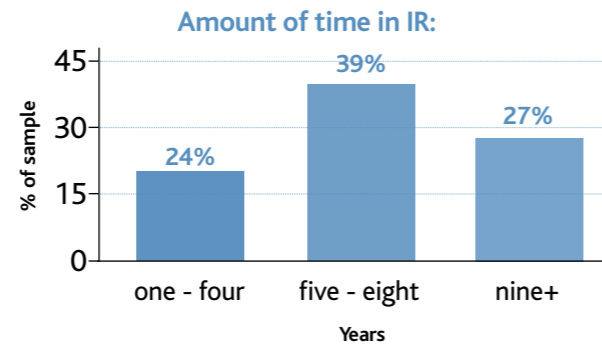
Previous function / role:

Corporate finance	28%
Corporate strategy / planning	28%
Finance and operations	16%
Analyst	8%
Accountant	8%
Treasury	4%
Always in IR	4%
Communications / PR	4%

While anecdotal evidence suggests that the move from sell-side analyst to IR is increasingly common, that trend is not reflected in these figures.

Since IR is increasingly a staging post for high potential talent, and rarely a career for life, participants were asked how long they had worked in IR, and what they thought their next moves would be.

This shows that two-thirds of the sample have spent over five years in the IR function, underlining the fact that an IR posting for high potential talent (unlikely to be much more than two years) is a recent phenomenon.



What is your next move likely to be?

Bigger IR role	23%
CFO/head office finance	23%
Operational management	19%
Corporate communications/affairs	13%
Retirement	13%
M&A/strategy/business development	6%
Consultancy	3%

This subject raised two interesting issues. First, the background and previous experience of an IR director will determine the options available. If an IR director has come out of finance or out of a business line, then he or she is likely to progress to a more senior role in either of these areas when an opportunity presents itself. Opportunities for an IR practitioner are much more limited, particularly within the company that he/she works for.

“There is a ceiling, but this is less likely to be an issue if you come out of the business line.”

Second, a few interviewees remarked that the CFO will be loath to lose a good IR director because it has become a very relationship-driven role.

“The CFO is not keen to provide other opportunities because we are dealing so effectively with the markets.”

“A lot of IR people get stuck – the CFO does not want to lose them.”

If nothing else this issue underlines just how far the IR function has come in recent years. This would not have been a dilemma ten years ago, but striking the right balance between getting fresh blood into the function, while at the same time minimising the impact on the business, is now one of the CFO’s more difficult decisions – and one that he/she cannot afford to get wrong.

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