THE EVOLUTION OF THE MODERN IRO

Bloomberg

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EXECUTIVE SUMMARY

The role and responsibilities of the Investor Relations Officer have changed dramatically over the last 15 years, with much of that transformation coming since the 2007 financial crisis.

Today an Investor Relations Officer (IRO) is asked to do more than ever—execute sophisticated competitive analyses, ensure regulatory compliance, engage in corporate sustainability efforts—even participate in strategic planning.

This goes far beyond the traditional function of the IRO, who was historically charged primarily with communicating with investors and analysts about events that might affect the organization's stock valuation. Increasingly, much deeper knowledge of company operations—such as budgets and forecasts, financial planning and analyses, IT systems, risk management and many other facets of the enterprise—is vital to IROs.

Today, the expertise and competence of the IRO can be a differentiating factor in a company's stock value. Bloomberg has the tools and data—all integrated on a single platform—that next-gen IROs need to win in this new age.

This article draws from wide-ranging research studies and interviews with several IROs about their changing responsibilities and how they are responding to these challenges.

All agreed that their role has expanded over the last decade. As Daniel Cravens, managing director, investor relations, at U.S. Airways Group, Inc., said, "These are very exciting times for the profession."

Overall, our analysis illustrates the three things successful IROs are doing right now:

1. Participating in the formation of company strategy
2. Dissecting the financial metrics of peer companies
3. Communicating the company's position on a variety of issues in a manner tailored to the various needs of analysts, investors, et al.

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THE MODERN IRO

What formerly was purely a communications and public relations role within publicly traded companies has evolved rapidly into into a position of vast importance—today's modern IRO.

According to a 2012 survey by Korn/Ferry Institute, the professional composition of IROs has changed dramatically. The study indicates that:

- 15 percent of IROs are former sell-side/buy-side analysts, up from 10 percent in the Institute's 2008 survey.
- Only 8 percent came from positions in public relations or communications, down from 15 percent four years earlier.
- 21 percent are CPAs, up from 15 percent in the Institute's 2010 study.
- 11 percent are pursuing or have attained the CFA (Chartered Financial Analyst) designation, up from 6 percent two years earlier.

Today's typical Fortune 500 IRO has previously worked in three different industries. Most respondents are relatively new to the role, with 42 percent in the position for two years or less. Moreover, the IROs' sophisticated skill set makes them widely sought after, with companies paying base, on average, salaries and total compensation of $237,216 and $362,500, respectively.

Fran Butera, director of investor relations at WPP Group, a London-based marketing communications company, fits the profile of today's IRO. "Out of college, I started working for KPMG, then got my CPA and went on to do financial reporting for a public company before taking a corporate finance role at PepsiCo," Mr. Butera related. "In the early 1990s, I went to grad school at NYU and got my MBA in Finance on PepsiCo's tab. Since then, I've enjoyed many roles [at the company], working in capital management, cash management, short-term finance—just about everything except issuing debt."

He eventually ran PepsiCo's treasury group before joining investor relations to be the second-in-command. In 2001, Mr. Butera was recruited by WPP Group as its IRO. Since accepting the position, his role has expanded. "I was lucky because I had the financial background required of the position," he explained. "What used to be largely financial PR has transformed into more of a shareholder advocacy role. You have to understand the company's strategy, corporate finance, the market you're operating in and the plans of your competitors. You have to be able to understand the balance sheet, esoteric things like financial covenants and pension accounting. For someone without a financial background, this would be extremely difficult."

The credit crisis of 2007 resulted in many new IRO responsibilities, he added. "Back in the late 1990s and early 2000s, everything was EPS driven, not balance sheet focused," he said. "As long as you had a handle on the company's latest earnings drivers and trends, you were good to go. No longer. Now there is a pronounced demand for IROs to have a full understanding of the company's financials. Today, many of my peers, like myself, are predominantly analysts."

Jason McGruder, head of investor relations at BGC Partners, a New York–based global brokerage company primarily servicing the wholesale financial and real estate markets, also fits the modern IRO profile. As an undergraduate at Cal-Berkeley, Mr. McGruder majored in political science and economics and then became a junior analyst covering media stocks. He eventually took a position in the San Francisco Bay Area offices of investor relations consulting firm Morgen-Walke Associates (FTI Consulting today), where he essentially "learned the ropes," he said.

"In the late 1990s when I was hired, there was plenty of work in Silicon Valley from all the dotcom startups needing professional IR on an outsourced basis," Mr. McGruder noted. "You even had large public companies without an in-house IR function. Then, SOX (Sarbanes-Oxley legislation) kicked in and changed all that. CFOs had so many other responsibilities now dragging them away from IR. Nowadays, you see mid-sized and even smaller companies with an in-house IRO."

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STAYING AHEAD OF KEY FACTORS

Mr. Butera said he routinely handles investor outreach activities, conducting non-transactional road shows, for instance, on his own. “I am truly the surrogate face of the CEO and the CFO, which is what our investors want,” he explained. “Sometimes, I feel they would rather speak to me than the CEO. They’ve got so many companies they’re following and are cramped for time. CEOs often have a way of going off on tangents.”

The demands from both the sell side and the buy side have intensified because of less reliance on expert networks. Such firms connect buy-side investors, consultants and business decision makers with industry experts. “To get an edge, many investors used to turn to the expert networks for their input,” Mr. Butera observed. “This is changing.”

Rising concern over recent insider-trading cases is causing some clients to reassess their relationships with the networks. “Rather than go to the networks, they come straight to me for access to operating executives and other managers,” he explained. “Just last week, I got four calls from investors wanting to meet with our operating people. In the past, they would have gone to these intermediaries.”

Regarding his responsibilities, Mr. McGruder said he is the first point of contact for all incoming investor calls. “It could be a retail investor or Fidelity, a hedge fund or someone on the sell side,” he noted.

He also writes conference call scripts, press releases and edits merger and capital-raising releases. “I prepare PowerPoint presentations on our earnings and organize and manage the annual analyst day,” he added. “I also prepare our executives for various presentations, helping them practice their responses to frequently asked questions and even atypical ones. If we’re doing a non-deal road show or investor conference, I coordinate it with the investment bank that has a relationship with us or with the analysts.”

Mr. McGruder also pilots various special projects, such as an in-depth overview of a particular industry or a financial analysis of a competitor. “I recently put together a presentation for the board with forward-looking calculations on our competitors’ return on equity, invested capital, dividend payout ratios, debt ratios, cash flow and EPS, right down into the various multiples,” he said.

“It’s a full-time job,” he added. “Sometimes stuff all comes at once—I can work 24 hours and not get it all done. I recently read an 80-page tome written by an analyst on the future of OTC regulation and sent an email the next day correcting a typo on the 80th page. The analyst wrote back, ‘You’re the only person that got that far.’” Lately, he has also found himself in the trenches with IT, vetting processes and systems to ensure internal data does not leak out via social media use by employees.

Mr. Cravens also routinely provides competitive intelligence to senior managers and the board. “We’re the canary in the coal mine, modeling all the competitors and knowing what’s going on in the industry,” he said. “I scour their financial results, the 10K and the 10Q, and try to the best of my ability to forecast what our competitors are up to. This has become a key role for many IROs.”

Platforms that organize information and allow the IRO to customize the information—in ways that integrate with both workflow and market information—establish a better, more comprehensive understanding of what information about their organizations the buy side is looking at. The Bloomberg Professional service is a good example of a platform that is connected to both news and market sentiment through a meaningful lens. David Farwell, senior vice president, investor relations, at New York–based facilities services company ABM Industries, said he works very closely with ABM’s CEO and CFO, and reports semiannually to the board of directors “at a minimum,” and is “always talking” with the audit committee. He said he also is engaged in developing the company’s strategy and its long-term plans.

The interviewees agreed that the responsibilities of the IRO are likely to become even greater and more demanding in the future, given the fast pace of technology expansion and increasing regulatory scrutiny in the wake of recent insider-trading scandals. “We’re moving toward more credentialed IROs and more of a senior role,” observed Mr. Farwell. “Diverse experience is becoming far more important to the job, as is a more sophisticated knowledge and use of technology.”

He added, “More metrics equals more algorithms equals more complexity in what drives margins.”

“No longer is the IRO an administrator,” Mr. Cravens agreed. “Today, we are the voice of the company.”

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DRIVERS OF CHANGE IN THE IRO ROLE

The IRO has been around for as long as there have been public companies. However, the discipline did not become widely incorporated until 1953, when General Electric's then-chairman Ralph Cordiner created the first Investor Relations (IR) department in the United States.

Initially, IR departments were largely staffed with public relations personnel, not personnel with financial expertise or knowledge of and experience in strategic management.

As the investor community gradually shifted from private individuals to institutional investors in the 1970s, the role of the IRO shifted along with it. Rather than simply provide written communications to investors, IROs were called upon to verbally respond to investor questions about these communications. For the first time, accountants and finance staff were recruited to effectively convey strategic and financial data to the investor community and respond to their queries.

This progression was evolutionary because veteran public relations executives were entrenched in these positions. For a time, the two-way interactions with investors required collaboration between—finance executives and public relations executives as their respective skills were both needed. "Back in the 1980s when I was working with an investment boutique in Dallas, the IROs I talked with were more PR types—gatekeepers to the CEO or CFO, who set up appointments and mailed out the annual reports," Mr. Cravens recalled. "They were talented people, but rarely did you find one who knew the inner workings of the company or how to navigate a balance sheet or income statement."

Several factors worked together to elevate the recruitment of executives with extensive exposure to and experience in finance and with related educational credentials. Regulations requiring more transparent reporting and disclosure of company financial performance were the primary drivers of professional IRO advancement. In the U.S., these rules principally included Regulation FD (Fair Disclosure) promulgated by the U.S. Securities and Exchange Commission in 2000, the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2012.

With regard to Regulation FD alone, IR departments were compelled to "dramatically increase" their quarterly public earnings disclosures, according to a 2011 study by the Fisher School of Accounting at the University of Florida. The school's survey of 182 publicly listed companies indicated that in the post-Regulation FD period, quarterly management forecasts also increased 152 percent.

"IR has grown from a peripheral component of the CFO's responsibility in the 1980s to a demanding professionalized function staffed with full-time IR employees who directly report to the CEO and/or the CFO," the study's authors stated.

The increasingly activist status of institutional investors was another factor driving enhanced professionalism among IROs. "You're seeing a lot more shareholder activism," said Mr. Cravens. "The questions I receive are increasingly more probing, especially around earnings guidance. In the old days, an IRO would simply say 'Let me get back to you with an answer from our CEO or CFO.' Well, my CEO has an airline to run. That job is mine. That's what I'm being paid for."

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TECHNOLOGY AS CHANGE AGENT

The ever-growing speed of technology is yet another reason why IROs today must possess broad knowledge of their organizations' business strategy, financial condition and forecasted performance. Business and financial market news providers like Bloomberg, among others, offer a wealth of real-time market data, research, capital structure information and modeling data to both investors and IROs. Formerly, this information was provided behind closed doors.

Mr. Farwell recalls the launch of Bloomberg Anywhere. "My role expanded when Bloomberg opened up its terminal architecture." The ease of both installation and use of the system made it more accessible to different audiences. "All of a sudden, it became much easier [for investors] to get all this information." At the time, Mr. Farwell was a portfolio manager at another company. "Fortunately, I had experience using Bloomberg, which gave me a leg up," he added.

As the investor community leveraged these tools, their expectations of IR increased. "They were grabbing all this data and analyzing it," recalled Mr. Farwell. "Many of them had earned their MBAs in Finance and were CFAs, and they became far more demanding. I was in treasury at the time with touch-points in IR, and while they were very effective communicators, they weren't all that great when it came to in-depth financial knowledge of margins, key financial metrics, the balance sheet, cash flow and P&L. To be honest, they struggled. And this was before regulations became more complex."

These various demands redefined investor relations and greatly expanded the scope of IRO responsibilities. In the Korn/Ferry survey, 63 percent of Fortune 500 IROs stated that their responsibilities have grown in the past two years. Among these tasks are financial media relations (handled by 43 percent of respondents), external communications (42 percent), community relations (28 percent), sustainability (20 percent) and competitive intelligence (20 percent).

Seventeen percent of the respondents now provide financial analysis and 15 percent participate in strategic planning. Five percent of the respondents also have marketing responsibilities. Obviously, this extraordinary level of responsibility requires individuals to have broad industry, business and financial acumen, as well as a high level of proficiency with current technology.

CONCLUSION

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Increasing regulatory, technological and investor demands have profoundly altered the role and responsibilities of the IRO. What once was primarily a communications function has transformed into a senior executive position requiring, in many cases, undergraduate and graduate degrees in economics and finance, professional certification by the National Investor Relations Institute and a successful tenure in finance and operations in different industries.

Today's IROs must be equipped to understand, navigate and instantly provide complex information on strategic plans, budgets, forecasts, cash flow, margins and other key financial metrics. They must be able to discern and absorb the nuances of the balance sheet, income statement, P&L and 10Ks and 10Qs—basically every financial measure. They must further cultivate and nurture close relationships with both the buy side and sell side, manage road shows and investor conferences, and deliver competitive intelligence on peer companies.

Searching for information and waiting for results instead of seeing real-time events as they unfold is no longer an efficient way to make decisions. Integrated platforms dedicated to market intelligence—the same platforms that the buy side uses to assess value and uncover opportunities, keep today's IROs in tune with the markets. Bloomberg, with more than 80% of the buy-side audience connecting through the Bloomberg Professional service, is offering a vital tool that enables IROs to be inside the conversations about their organizations rather than behind the curve. It allows for proactive rather than reactive management, resulting in giving IROs an advantage that is necessary to remain vital to their C-suite.

One responsibility has not changed for modern IROs—they must be effective verbal and written communicators. Past is often prologue.

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