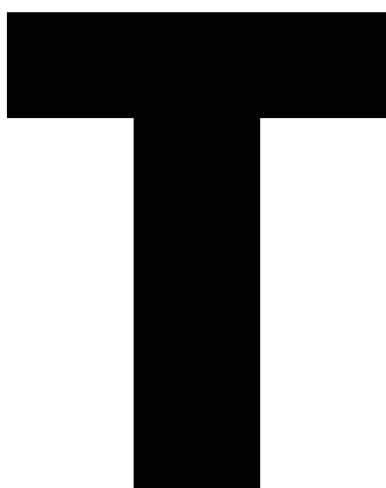


Empower Your IRO



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he risk of losing touch with investors increases with business and market complexity.

In this environment, the role of investor relations (IR) needs to be strategic.

The increasing volume and velocity of daily trading, and the vast variety of information sources now available to investors, have combined (along with greater regulation and the growth of social media) to increase market volatility. In this environment, companies need to understand the

way investors will perceive business strategies and corporate discussions. To do so, your investor relations officer (IRO) should have a seat at the table and the ability and opportunity to communicate directly with the C-suite and the board.



The Problem: What's Happening in (and to) the Market?

The oft-noted speed of computerized trading is part of the “evolving complexity of the market,” according to Sally J. Curley, senior vice president, investor relations, for \$101 billion Cardinal Health, a global healthcare services company. “The volume of data, the access to data, and the consumption and generation of data are vastly different from 10 years ago,” Curley says.

But the complexity of markets is not solely technological. Communicating a company's values, and the heightened risk of losing control of that message in a hyper-connected, social media world, is another type of complexity that can adversely affect organizations.

Just last fall, for example, as Apple launched its new iPhone 5, reports of harsh labor conditions in the company's Chinese Foxconn factories resurfaced in the media. This was just months after Apple Chief Executive Officer (CEO) Tim Cook claimed an “unprecedented” audit of working conditions at Foxconn.

A media firestorm followed, and, in little more than a month, Apple's stock fell 5 percent. It has fallen further since. It is impossible to determine how much of the decline was a result of the Foxconn scandal and how much was due to other factors such as the difficulty of managing a global supply chain. But as a Forbes commentary noted, Apple's largely affluent customers, “do not like the idea that their products are being produced in abusive sweatshops.” It's not just customers — many socially responsible investors do not like the idea, either.

“You have to make sure your company's story is well-understood,” advises Curley. “It's critical to understand key investor concerns and their vision of the future for the company and industry and to measure your company's accomplishments against those expectations.”

Meanwhile, governments are demanding more transparency from companies about their financial activities. Legislators are flexing their regulatory muscle with enactments such as the Dodd-Frank Wall Street Reform and Consumer Protection Act, which demands immediate disclosure

of material events even when such disclosures potentially could inform competitors about company strategy.

The combination of increased investor hunger for corporate information — even as government regulations insist that more information be disclosed — and the speed with which social media magnifies messages like ripples in a pond equals volatility, with the markets swiftly punishing companies perceived to have made missteps.

At Netflix, a mishandled new product and pricing announcement — [and an even more questionable apology](#) — devastated the company's position in a matter of days. (It since has recovered.) A financial controls problem at Groupon, and a consequent earnings restatement, led to the dismissal of the company's founder and CEO. Michael Dell's desire to take his company private has been stalled by activist investors who have leveraged social media to get their message across. Carl Icahn, who has been spearheading the resistance to Dell's offer to its shareholders, took to social media late last July, tweeting to his followers from @Carl_C_Icahn, “[all would be swell at Dell if Michael and the board bid farewell.](#)”



When Your IRO Lacks a Voice

These companies lost control of their corporate message and were either insensitive to or were unaware of what influenced their investors. In fact, some of these companies may not have known who their key investors were. But there are very few major decisions a CEO or board makes without asking, “What will the investors think?”

“When I teach students about investor relations,” says Curley, “I ask them: ‘To whom does the CEO report? The board. And to whom does the board report? Investors.’ That means being careful to accurately portray the company to investors is imperative, and it’s equally

dangerous,” Curley says. Without the ability and opportunity to communicate directly with the C-suite and the board, she continues, “The executive team could be missing the data from IR that feed into the strategy.”

All too frequently, IROs have been left out of decision-making teams, limiting the department’s scope of action to setting up investor meetings for the CEO, hosting conference calls and digesting analyst materials. But by doing so, senior management deprives itself of critical information IROs uniquely possess.

“Without that information, management and boards will be hampered in their ability to make strategic and financial

was being slammed quarter after quarter.

Fortunately, Point was able to identify an analyst who, although not with a major firm, influenced other analysts. This analyst, “had a very different way of valuing a company,” Point recalls. He wasn’t interested in quarterly earnings; his projections were long term.

Point spoke with the analyst and explained the situation to members of the data gathering services, convincing participants to remove this particular analyst from their collection for quarterly expectations while keeping him in for the 12-month consensus.

This was possible only because Point was in constant contact with the analysts and was able to spot the anomaly. And because she had developed a line of communication with the board, reporting up through the chief communications officer, she was able to explain the situation to the leadership and fix it.

The company stopped missing quarterly estimates.

In another case, a company’s board signed off on a compensation plan before testing it with its investors, which the investors later voted down. The board was surprised, and the company was forced to redo the plan structure.

That was when the IRO became involved. She saw that due to an accumulation of prior equity offerings, “no amount of media” would have made the program a success. Once board members understood the problem, “they realized they had to monitor their investment community and understand it better.” For the IRO, this was an opportunity to prepare the board more thoroughly. For the board, it became a way to discuss top-of-mind investor issues.

“The IR person is the best source for how the shareholder vote will work out,” says the IRO. “Too many companies don’t care about that until something goes wrong.”

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important to share investor feedback with the C-suite and the board.”

Knowing who the investors are, what they’re thinking about and the principal inputs that affect them is the IRO’s job. “The role of investor relations is to analyze the reputational impact of events for the C-level and the board, as well as manage related communications with the capital markets,” says Janet Meenehan Point, former executive vice president of communications and investor relations of a \$1.5 billion developer of wireless technologies.

Unfortunately, at many companies — especially newly public companies — the IRO can’t do that job effectively because he or she is not viewed strategically, and “that can be

decisions about the future of the company in an unbiased way,” says Lynn Antipas Tyson, senior vice president, investor relations, for \$8.2 billion AECOM, a global provider of technical and management support services. To this day, Tyson says, “Some companies don’t appreciate how IR can be a strategic asset.”



When Your IRO Takes Care of Business

As the Street saw it, Point’s former company kept missing quarterly projections, regularly coming in below the analyst consensus earnings estimates. The company’s leaders thought the company was right where it should be and couldn’t understand why it



The Solution: Earning a Seat at the Table

IROs agree that the onus falls on them to earn C-suite trust by partnering with and reporting to the chief financial officer (CFO) or the chief communications officer. These are the two ideal positions to whom the IRO should report.

Cardinal Health's Curley suggests having a conversation with the CEO or, if the IRO reports to the CFO, with the CFO first, then the CEO. According to Curley, the conversation should go like this:

- **“I have a lot of information from the investor perspective that would be valuable to the board, especially in this age of shareholder activism.”**

- **“Here's a mockup of a communications plan to report to the board.”**

Curley suggests it should be no more than 10 pages (with an executive summary), including an analysis of share price and price/earnings performance vs. peers, sell-side ratings, shareholder composition and price targets, among other elements.

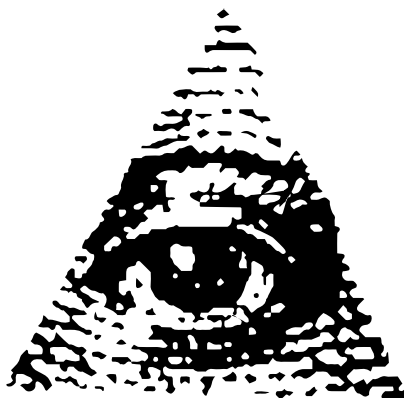
Curley advises IROs to move slowly to avoid conflicts with company management. “As leadership's comfort level with you increases, your access improves,” Curley adds

Says AECOM's Tyson: “Once you demonstrate your own business acumen, business leaders are more likely to share information with the IRO, which helps make the role increasingly effective.”

Tyson also emphasizes that IROs need to be aware of, and ideally be a part of, company events — mergers and acquisitions (M&A), major product kickoffs, initial public offerings (IPO) — that can influence investor perception.

To achieve that alignment, IROs should be fully briefed on board and executive-level discussions on enterprise and regulatory risk. Surprises to the investment community can derail a company's growth and can damage a corporate reputation. Surprises to the IRO can heighten risk in many areas.

“The importance of accurate data cannot be overstated, both from conveying data to investors, as well as sharing feedback with management and the board,” says Curley. The U.S. Securities and Exchange Commission (SEC) in the 2005 Flowserve Corporation case called investor relations the “gatekeeper of information”, and charged the IRO with being as responsible as the CEO or CFO for the sharing of corporate information.



“That's a tacit endorsement of the significance of the IRO role,” Curley says.

IROs can't reshape a company's organizational chart by themselves. CEOs need to send a message to the organization — both by interacting directly and by modeling the behavior — that the IRO is a critical conduit for managing the external reputation of the business.



What an Empowered IRO Can Do for You

When the Street realizes that the IRO has timely access to operational information, analysts begin to regard him or her as a window to what's really going on inside

a company. This allows the IRO to help mold the way a company is perceived and become the person upon whom investors and analysts rely. And that makes it essential that the information the IRO has is accurate.

“That's the main risk,” says Curley. “You're the company's public spokesperson to Wall Street. Investors are putting their faith in you. I always try to make sure I can look myself in the mirror and know that the way I've portrayed something is as accurate as possible. I tell them: Here's the upside; here's the downside — thus, investors can make good, informed decisions.”

Similarly, “You get credibility from management and investors by being knowledgeable about the company, the sector and the capital markets, as well as being as transparent as possible,” Point says.

Transparency and truth are in the eye of the beholder, but it is the IRO's job to view every event from many sides. This especially is valuable when everyone is looking for an edge.

For example, on Sept. 1, 2009, Cardinal Health spun off its \$5 billion medical equipment business as a separate public company (now called CareFusion). One risk was that some Cardinal Health investors would exit the stock and invest in the second company. “In order to prepare for the spinoff and to try to mitigate any volatility in the stock of the restructured Cardinal Health, the IR team assessed which investors would stay, which would exit and which should be targeted as new investors who fit the profile of the changed Cardinal Health,” Curley says.

Curley and her team had numerous conversations with analysts and investors so that on day one of the spinoff, both companies would have, “the strongest investor base and analyst coverage as possible.”

Also, a small team led by the CFO that included Curley, the corporate controller and the treasurer evaluated

whether to adopt a revised dividend policy that would differentiate Cardinal Health from its peers. A vital piece of data was an IR perception study conducted with 150 investors who had growth and income profiles that fit the reorganized Cardinal Health. The result was a dividend increase that put Cardinal Health's yield above its peers. That helped reduce volatility, retain key institutional investors and attract other investors during the spinoff.

“Bankers and traders have an important function in an M&A or an IPO,” continues Curley, “as long as you recognize their view is skewed by their loudest client and their sales force. There’s an

inherent bias in the data that bankers and traders use since they’re driven by commission. The investors they point you to might not be the right ones for your company.”

Blogs and Tweets and Likes and Oh, My!

During Superstorm Sandy, [Gap took to Twitter](#) to suggest this was a particularly good time to shop at Gap.com. Many people felt that Gap was trying to profit from their misery.

Similar gaffes fill the media every day. Curley works with the legal department

to provide disclosure training for all Cardinal Health employees.

An empowered IRO must engage with a company’s social media experts to create safe and sustainable policies for communication. The IRO also should become deeply involved with the corporate website and have the leading voice in what data are displayed and how. The corporate website is the most powerful public-facing tool available to control the way in which a company is perceived, and the website is the primary source of information for shareholders, analysts and the media.

Call to Action: Just the IRO You Want

When hiring an IRO to be part of the executive team, management should look for someone with:



A good grounding in finance; someone able to perform financial analysis.



Excellent writing and communication skills.



An ability to build strong relationships both inside and outside the company.



Backbone: “You need to find someone who will be honest with you about how the Street will react to decisions,” says Point. For the CEO to leverage the IRO’s knowledge, the IRO must feel free to present difficult news and alternate views.

As Tyson says, “An IRO should be of the same caliber as other senior finance leaders within an organization such as treasurer, or head of financial planning and analysis. The person should have gravitas and be a problem solver and an overall asset to the team.”

Companies that empower their IRO and offer a seat at the executive table will profit by it; companies that don’t

and still see the IRO as little more than a gatekeeper won’t get maximum value from the role. As business and market processes continue to become more complex (and there’s no sign that this trend will slow or reverse), companies should take a hard look at whether they have an IRO with sufficient skills, gravitas and a broad enough scope of responsibilities to serve their needs. ■

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