

THE EVOLUTION OF IR

A special feature looking at how the industry has changed since its inception more than 40 years ago – including contributions from 16 IR professionals.

Upwards and onwards

Industry veteran **Richard Davies** looks back at the fledgling IR industry of the late 80s, and describes how it transformed into the multifaceted discipline that it is today.



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As I leave the company I founded 20 years ago to pursue pastures new, it is an appropriate moment to look back over the last 35 years of my time in the IR sector to comment on some of the changes that have occurred in our industry.

I started my career in the City in 1988 as the editor and publisher of an ‘old school classic’, *The Index of Nominees &*

their Beneficial Owners, fondly known by many in the broking world as ‘The Big Red Book’. The data that underpinned this publication became the basis of one of the UK’s first share register analysis systems, once we had added into the database the important link of beneficial owner to investment firm. Understanding who has control over your share register is usually more important than knowing who receives the benefit of the dividend from your share, although sometimes these entities are the same.

While good share register analysis remains the foundation of the investor relations process, other aspects of IR have changed significantly, mainly as a result of technology.

When I started my career, IR was not even called IR by most people in the market, despite the profession being ‘invented’ in the US two decades earlier. Public companies in the UK had departments called ‘shareholder relations’ or ‘corporate affairs’ which dealt with shareholder enquiries, whether from individual or professional investors. Engagement with investors in those

days generally meant companies meeting with their top five or 10 shareholders after results. Annual reports were hard copy only and conference earnings calls were just starting to become popular in the UK.

The Big Bang

To provide some context, this was the era just after Big Bang in 1986, which was the start of what we know as the City in its current format. Big Bang fundamentally changed the structure of the City in terms of bringing together hitherto separate parts of the capital markets into new entities, and ushered in the deregulation of financial markets. This was the start of the rise of importance of the all-service investment bank and the move to electronic trading.

Big Bang took place under a new legal framework in the UK: the 1985 Companies Act. As well as enabling companies to be formed by registration, and setting out the responsibilities of companies and their directors, the act provided public companies with a mechanism under its Section 212 to allow the interrogation of shareholders regarding interest in their shares. For the first time, companies could discover who were the owners and fund managers behind the nominee shareholders on their share registers. This information would soon become vital for companies to defend themselves against takeover in the wave of corporate mergers and acquisitions that followed Big Bang in the late 1980s (a wave that ushered in the increasingly important role of the ‘financial public relations’ agency in the UK market).

Working in financial data in the 1980s was very labour intensive. These were the early days of PCs, before the arrival of the internet as a mass culture, when ‘research’ meant looking things up in books or having telephone conversations (by landline only, of course). This was a world of microfiches, floppy disks and printers that took hours to print anything. Share registers arrived for analysis in boxes upon boxes, taking up half the office in the case of the blue-chip companies. Data had to be marked up and then typed up, with the processing thereof by the creaking computers of the age taking hours, not seconds as today.

Research of a company by analysts or fund managers involved going to their firm’s library to source a hard copy of the annual report to be marked up by pen or pencil. Comparative data analysis involved long hours of creating spreadsheets by hand in basic software packages that frequently collapsed under the pressure.

Those nascent IR professionals involved in shareholder relations relied almost totally on their house broker for information and investor access in the 1980s. Information flows into the company’s finance team were scant and untimely, market rumour and ‘gut feel’ as important as facts. The house broker analyst knew more about the company than anyone else and profiting from information arbitrage was, by default, part of the process.

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Insider dealing remained rife, despite its illegality in the UK since 1980, and the leakage of results ahead of announcement hardly unknown. Big Bang created the notion of the ‘Chinese Wall’ to separate off the trading desk from parts of the investment bank that had inside knowledge of corporate activity but after a few years, even some of the biggest fans of the new banking configuration began to think the unified model was perhaps not such a good idea.

A new era

The arrival of the internet in the 1990s changed the City and the investor relations industry forever. Asymmetrical information flows were flattened out, as data could be supplied in a timely manner to all market participants instantly, although for many years professional investors remained ahead of retail investors, before corporate financial data became a mass market product. The regulators stamped on insider dealing through a number of legislative interventions across the developed economies to criminalise this activity specifically and to ensure fair and transparent disclosure.

The 1990s saw the expansion of the IR sector in the UK and across the world, catching up on the USA, which had led the way from the 1960s. IR teams in the larger companies grew from one or two people to perhaps a dozen or more. Larger companies

A voice at the top table



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The influence of IR has grown exponentially – one indicator of this would be the number of times IR is present at exec/board meetings – it really does now have a voice at the table, which was not the case 10 to 15 years ago. The current situation could be improved by cementing those arrangements to ensure that they continue in a more formalised and structured way going forward. As a profession that does not get a lot of press time it is important that the IR Society and its members continue to raise the profile of the profession as much as possible.

The CIR is an extremely valuable stepping stone for anyone working in IR and I would thoroughly recommend it to my IR team members. ■

relied less on their brokers to manage their IR activities, utilising data and services from a burgeoning IR support ecosystem. By the mid-1990s most companies had at least some understanding of who owned their shares, although the tricks used by more exotic investors, such as hedge funds, to hide their investments became more sophisticated (the cat and mouse game of shareholder identification continues even today, for example, via the use of derivative positions).

Companies began to understand that the historical model of institutional and corporate broking did not necessarily provide them with the best access to the capital markets, domestically or internationally, so, in some cases, they started to use more than one broker for their roadshows – or even a third party corporate access provider.

They started to use the share ownership data on peer companies provided by the public data platforms or other providers to carry out their own basic targeting research, and eventually to create meetings with target investors themselves, outside of the broker.

The IR train grew longer and longer: at the back end, the companies who did little pro-active IR activity – relying solely on their broker – and at the front end, the companies who ran intensive, highly analytical IR programmes using their own research, not frightened to engage with investors directly and using their broker as a helpful resource. In my anecdotal experience, the companies which fell into the latter category tended to last longer than the former.

This century saw the rise of the dedicated online CRM platform as a standard tool for IR teams, and not just for the large caps, as hitherto had been the case. These platforms have become increasingly sophisticated, and essential to the wide range of tasks that forms part of IR workflows these days. They will typically include areas for investor meeting note-keeping, investor profiling, targeting and email distribution – usually linked to analysis of the company's share register and the ownership profile of the company's peers.

Becoming a master of all

While technology has made the life of the IRO easier since the 1980s, the job itself has become much more complex. On one hand, quick access to timely market information and less reliance on the sell side to drive the relationship with the buy side has placed the onus on companies to achieve the most efficient marketing of their equity. On the other hand, the increasing importance of non-financial metrics in the investment process has added another layer to the creation of the equity story and a whole new set of audiences.

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There is a case for arguing that we should rename ‘investor relations’ as ‘stakeholder relations’ because the role of the IRO these days has gone way beyond just dealing with the traditional fund management firms and financial yardsticks. My previous columns in this journal have explored this development in depth, so I will not repeat that content here. Suffice to say that the IRO of 2023 has a lot more to think about and to explain to investors than in 1988.

The other great change in the IR market since I started in the City has been the increasing importance placed on IR by company boards and the increasing professionalisation of the IR executive. Most companies now realise the importance of good IR to maintain healthy share price performance and to reduce the future cost of capital.

The demands on today's IRO are many and varied. The good

IRO needs to: be an equity marketer; remain pro-active in terms of engagement with investors and targets; understand how to use market data; think strategically to create a good IR programme; have a grasp of not just the numbers but how to create adequate messaging around those numbers; manage up to senior management and down and sideways to their teams and colleagues; and act as the hub of market communication to and from the company's board.

These days, IROs also need a firm understanding of the financial aspects of ESG, given that an increasing number of portfolio managers believe that ESG factors are central to a company's value proposition. The field remains somewhat nebulous, with various frameworks and standards, and a lack of an overarching valuation model on which to base disclosure or presage the impact of behavioural change. The creation of the new International Sustainability Standards Board under the aegis of the International Financial Reporting Standards Foundation is an important step in the, no doubt, long process of producing a set of global ESG accounting standards that should hopefully benefit both corporates and investors.

The IR world has changed so much since I started my career in the City but one thing remains as true today as it was 35 years ago: public companies require the highest levels of transparency around the ownership of their shares to manage their investor relations strategy efficiently. The IR process is based on this fundamental piece of information. I hope that the next 35 years will not see any dilution of the legal rights of UK public companies to gather this information, and that current and future IROs – and, indeed, the IR Society – will continue to safeguard this vital part of corporate governance.

I wish the UK IR industry all the best for the future – and look forward to the IR Society remaining the centre of the profession for many years to come. ■