

# IR: the strategic imperative

**Left:** Paul Argenti of Tuck School, Dartmouth University: "IROs have a growing opportunity not to just affect stock price or reputation but strategy. It's time you stepped up and did it."

**Top right:** Pietro Mazzola of IULM: "If investors are important stakeholders, it's important to understand who they are. A lot of companies don't know who their shareholders are."

**Above, centre:** Anne Guimard of Fineo

**Right:** Eliane Rouyer of Accor: "The best information is that which is useful for analysts or investors in order to build their model."



■ **Words:** Stuart Rock  
 ■ **Photography:** John Millar

In November, Paris-based IR consultancy Fineo and Real IR organised an innovative symposium that brought together IR professionals and academics in the field of communications. Fineo founder Anne Guimard chaired the event, which was held at the Palais Brongniart in Paris.

**Paul Argenti, professor of corporate communications, Tuck School of Business, Dartmouth University, urged companies to think strategically about communication. “They tend to think tactically about it and reward tactical behaviour. It’s a vicious cycle that needs to end now.” He believed that reputation management would continue to grow. “One of the main reasons is because it’s a way to differentiate yourself and add value, particularly financial value.”**



Here are some edited highlights from his address:

“The US and Europe are in negative and volatile environments for business: negative in terms of attitudes about business and volatile in the financial markets. Most of the significant polls show confidence levels in business at an almost all-time low. This combination of negativity and volatility creates a nasty brew.

“Scandals such as Enron and Parmalat have increased the burden on companies. People expect businesses to report information in a more responsible way. Things that were once nice to do are now what you have to do. It leads to a need for transparency at a level that most senior executives are still not used to.

“IROs will face challenges as they help senior

managers get through this difficult period. Part of the challenge means sticking to regulations and communicating properly within those structures. So companies tend to say less – because they can’t say as much as they used to – and are less nuanced in their communication.

“In this environment, IROs need to step up to a much more strategic position. The strategic communication imperative requires several things. It must be consistent with the overall strategy of the firm. That sounds simple, but it doesn’t seem to be executed. In my experience, few companies understand how important it is to make sure that the strategy is consistent throughout their communication activities.

“The second rule is that it has to be true. Often companies promise more in their vision statements than they actually deliver.


“But the chief rule is integration. It is a major part of what I think the best companies in the world are doing – integrating communication activities. The sub-functions of

communications – PR, advertising, internal communications, IR – work more closely together. This can be done only with an enlightened group of people in the organisation who are willing to break down the barriers. Those that follow this integrated strategic approach are able to stand out from the group.



“The most important intangible by far is trust. This has to be shared by everyone. It takes years to build trust; it takes only a couple of seconds to destroy it”

**Eliane Rouyer**  
 Senior vice-president,  
 investor relations and financial  
 communication, Accor, and  
 president of CLIFF



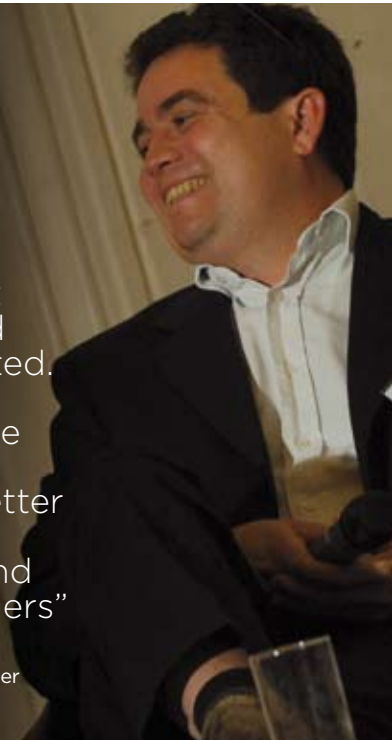
“The function of IR cannot be limited to financial communication and has to be seen as a strategic tool aiming at managing the equity story”

**Martine Charbonnier**  
Executive director listing and issuer relations, NYSE Euronext



“A stock is not only any more a stake of ownership, but it's also a good that is transacted. So if you want your price to be close to their value, you'd better look after your stockholders and your shareholders”

**Philippe Lubineau**  
Managing director, Dresdner Kleinwort France



## IR HAS TO BE SEEN AS A STRATEGIC TOOL AIMING AT MANAGING THE EQUITY STORY

**Martine Charbonnier, NYSE Euronext**

“Technology has democratised information and has allowed other players – particularly antagonists such as activist shareholders and non-governmental organisations – to be very well integrated in their activities just on the basis of sharing information. Corporations are at a loss if they are not doing the same thing.

“Integration can be achieved through councils, through leveraging technology and through having a strong chief executive. The benefits are that you preserve the brand and the corporate reputation of the firm, you are able to get through a crisis more easily and you are able to achieve desired business outcomes. Firms

that are more integrated in terms of their communications activities are more likely to be able to execute on strategy.

“The impact on IR is fairly significant because senior management now realise the importance of the function to the overall management of information in the organisation. That wasn't there 20 years ago. You have to have a CEO who is very involved to make this work. Communication has to have a more long-term orientation; that's difficult when you are trying to satisfy the short-term need of the markets.

“I think that the biggest, and perhaps the most important, challenge for IR in the next few

years will be taking on some of the responsibility for dealing with reputational issues.

“Companies with a stronger reputation can command premium prices and get the best people to work for them. Their stock price is less volatile. They don't get into as many crises.

“Why wouldn't every company want to have a good reputation? They do – they just don't want to do what it takes to get there. Most companies just want to make the quick hit in whatever way they can, but they also want to have a strong reputation. That is not the way life works.

“There is a number that can be placed around what your reputation is worth. Companies can either add to their reputational capital or take away from it. Today, the best companies are trying to figure out ways to avoid reputational risk.

“Studies show consistently that IR improves a firm's credibility. As Warren Buffett said to my class at the Tuck School several years ago: ‘if you lose dollars for the firm by bad decisions, I will be understanding; if you lose reputation for the firm, I'll be ruthless.’





The panelists in the magnificent setting of the Palais Brongniart. From far left: Philippe Lubineau, Pietro Mazzola, Stuart Rock, Eliane Rouyer, Paul Argenti, Anne Guimard

Centre photos, top: Pietro Mazzola  
bottom: asking questions from the floor, James Fitzsimons of Goldman Sachs



“There are opportunities for IR to become more strategic. First and foremost, take the lead in creating value around intangibles. This is an area in which most people are groping for information. Intangible valuation is increasingly important, defining those things that are creating the most value. Somewhere between 35 and 80 per cent of the value of a firm is based on intangibles. Who, if not the company, should be responsible for telling people?”

“Another opportunity for IR to have a more strategic impact on the organisation is to be the source of business intelligence. The relationships that IR people have with analysts and investors are unique. Those opportunities create an incredible amount of intelligence.

“Senior management doesn’t have the constant access to analysts, with their opinions and information about the industry. IR can leverage its knowledge in ways that are unique and put it into forms and terms that management teams can use – that’s unusual. It’s that kind of intelligence that allows the best communicators to differentiate themselves. If it’s not working at your company, move on to one where it matters.

“I think you have a growing opportunity not to just affect stock price or reputation but to affect strategy. It’s time you stepped up and did it.”

**Pietro Mazzola is professor of strategic management at IULM University and senior faculty member of Bocconi School of Management. He argued that IR is “something completely different from just financial communication”. However, for IR to add real value and become part of the top management team, it has to deliver in three key areas: valuation, market intelligence and shareholder register management.**

“When I started working and researching this

topic, I asked a number of questions. Isn’t IR the same as financial communication? Does IR have a real impact on enterprise value or the long-term success of the company – or is it just a cost? What’s the role of IR inside the company – is it a parrot transferring information from management to the market or is it a top management team member?

“I have arrived at the conclusion that the direct impact of IR on share price may be limited, but IR makes a great contribution to maintaining the fair value and market value of the enterprise. And this is a completely different effect from changing the cost of capital. You help your firm to have a fair market value, which importantly avoids overpriced or underpriced shares, and any subsequent market overreaction.

“IR consists of four different components. The most traditional one is obviously the communication or the disclosure of relevant and price-sensitive information to the market.

“A lot of well-ranked companies have established good and large teams for disclosure. They have improved their practice and started to disclose segment information. There are still some areas for further improvement; forward-looking information and discussion of strategy is something that, in some ways, companies try to avoid. This is not only an Italian problem. It is a more general problem.

“For IR to really become part of the top management team, it must perform: valuation activity; market intelligence; and shareholder register management. Only if the IRO performs these activities can he or she move from the

position of parrot to a top management team member.

Because it’s only through these activities that he or she can gain credibility and legitimacy with the top management team.

“Valuation activity is the study of all the analysts’ reports, understanding their recommendations and where the target price comes from. This is relevant information; if there is a gap between the fair value, the management’s view and the analyst’s perceptions, it’s important to learn where that gap comes from.

“Market intelligence activity is a tool through which an IRO systematically organises and collects annualised data – on the company and on its competitors. This really brings the market view inside the company. And if the IR team brings that view into the company, it is making a relevant contribution to management.

“The final issue is shareholder register or analyst management. If you want to have shareholders who are willing to invest in the long term, and whose behaviour is consistent with your business model, then you have to spend time scouting this kind of investor. Understanding who they are, and then using management time – the most important tool – to convince them to invest in the company. And you know better than me that the amount of management time devoted to IR activity is a limited.

“Only if IROs perform not only financial communication activities but also these other components can it become what I suggest – a real two-way communication, conceived in a far broader perspective, that makes IR part of the top management team.

**STUART ROCK is editorial director at Caspian Publishing.**

