Best practice first principles

Growing complexity challenges the IRO – so it is essential to return to best practice first principles, argues **Brian Rafferty**.

Leading investor relations is never going to be simple, and it's getting more complicated for the IRO with each new regulatory and governance guideline. When every month the sell-side continues to cut back resources that have been – for better or worse – key components of the IR infrastructure for the entire careers of most IROs. Listing the growing complexities of the IR function is like explaining why more information delivered more quickly makes decisions more difficult and less clear.

But there are simple ways to make it more rewarding to lead IR – personally and for your company – both in terms of prioritising efforts and gaining necessary resources for seizing the opportunities inherent in the IR function. Most importantly, the right conceptual starting point is essential to proving what IR and you as IRO can achieve in the capital markets. Simple in concept, but requiring more than what most expect from IR, they are based on identifying and setting goals that recognise the competitive elements of attracting the best investors, and committing to achieve them; the two Cs.

Competition

'Best Practice' is like 'quality' in that everyone feels they know their meanings, but they're hard to define once you try. 'Best Practice' has also become poorly defined because internal and external opinion leaders rarely demand the best from investor relations and the sell-side has for decades discouraged IROs from supplanting brokers and investment bankers' highly remunerative position between public company and investors.

Because meeting disclosure, regulatory and investor demands offer more clarity and urgency in protecting the downside, they've tended to shape the formation of 'best practice' IR guidelines. The dominant perception of IR as providing downside protection versus seizing upside potential is also a reason managements don't appreciate the real value of investor relations. When was the last time you heard a CFO say "Let's invest more money in disclosure" or "I'd really like to spend more time answering investors' detailed questions"?

But when it comes to competing for the company's end markets, you've certainly heard 'we're increasing our investment in marketing to this sector,' or 'we're investing more to expand our higher margin customer base.'

Management's responsibility to investors is to seize upside potential while maintaining downside protection. Best Practice IR is defined by the same principles, but with the IRO leading a competition for capital among investors while fulfilling regulatory, ethical and common sense responsibilities to the investment community.

Until the raison d'etre of IR is understood and appreciated as building economic value and increasing strategic options through investor communication and collaboration, 'best practice' may as well be defined as 'best process'. When management accepts that corporate financial and strategic goals can be significantly advanced by competing for capital, the IR 'process' is transformed from a burden to an opportunity and attracts its fair share of management and corporate resource. Which leads us to the second 'C'…

FIRST PRINCIPLES

- **Best practice IR involves leading a competition for capital among investors while fulfilling regulatory, ethical and common sense responsibilities to the investment community.**
- **Committing to compete against yourself or others is the difference between 'best process' and 'best practice' IR.**

Brian Rafferty is chief executive of Taylor Rafferty.
brian.rafferty@taylor-rafferty.com

Commitment

Capital markets performance will always be affected by external and unpredictable factors, and these are different depending on the company (e.g. weather or commodity prices can be key drivers for some companies and unimportant for others). Frankly, this has been used as an excuse for claims that strategic IR success is 'not measurable' which inspires retreats into 'tick the box IR'.

In this approach, the boxes that are ticked are activities, and benchmarking is built around activity levels and not longer-term strategic or capital markets goals. Real 'Best Practice' IR success is as measurable over time as any long term goal-oriented campaign conducted over the course of months and years and, like 'quality,' you may not be able to link cause and effect as precisely as you'd like, but you know it when you see it (or experience it, to be more precise).

Best Practice IR goals will not be achieved unless the IRO commits to them, and engages the senior management team in a discussion about how these goals can be set to best support the corporate strategy.

Anyone that has committed to an athletic challenge or competition knows the difference between 'practice' without a goal, and the commitment that comes from setting a public goal and working to achieve it. The former is a process, good for your health and probably lowering the downside risk of disease and mitigating the effects of aging, the latter is deeply satisfying, most often leading to discovering new strengths and capabilities that would otherwise have been considered out of reach or unrealistic.

Committing to compete, against yourself or others, is the difference. It's also the difference between 'best process' and 'best practice IR.' ■