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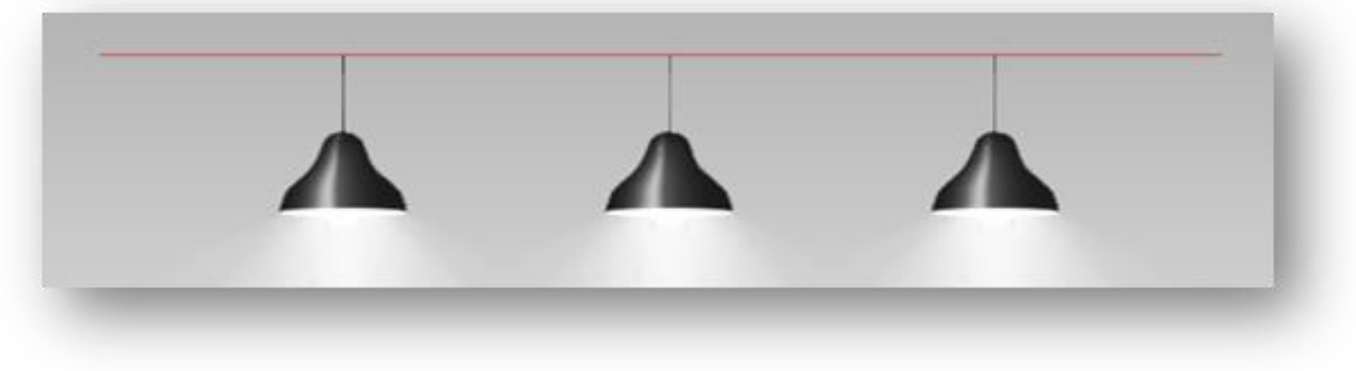

Corporate affairs directors beware – Investor Relations is coming for you

How investor relations and corporate affairs are on a collision course for the same leadership role.

Corporate affairs directors need to sit up and see what's coming around the corner. The convergence of communications disciplines could see them edged out of their own jobs.

It can sometimes seem there has never been a better time to be a corporate affairs director. Communications has grown in influence, corporate affairs departments are swelling to accommodate ever larger remits, and the function's leaders are increasingly sitting at the top table in major institutions.

For those who have toiled in the profession's trenches for decades, fighting for credibility, it feels like a breakthrough; not just a validation but a door opening to genuine professional growth – a seat on the executive committee, perhaps? Maybe some non-executive directorships, or a trustee position? Possibly sideways moves into strategy or general management? Perhaps even, one day, a CEO role?

Yet, even amidst that justified sense of actualisation, a spectre already looms overhead, threatening to disrupt it. For the enhanced power and influence of corporate affairs functions has now made them attractive career landing zones for other ambitious leaders too. In particular, the exact reputational headwinds that have been propelling corporate affairs' rise over the last decade have, ironically, simultaneously been silently strengthening the capabilities of another set of professionals, giving them the skills and boardroom exposure to eye up the department's leadership for themselves – and, increasingly, they are going for it and winning it.

In executive search, we're seeing it more and more: Large and medium-sized organisations handing the entire corporate affairs remit to the head of investor relations.

A blurring of the lines

For many corporate affairs leaders we speak to, this comes as a surprise. Corporate affairs is, after all, a highly complex portfolio nowadays, typically comprising not just PR, media relations, government relations, public affairs and internal communications but sustainability, ESG and corporate philanthropy too. Frequently, brand and marketing report in; sometimes even strategy or HR. That's too much technical and strategic breadth for the bean counters of investor relations (IR) to take on, surely?

Yet this is exactly what has happened at major FTSE institutions like Experian and Informa recently. The trend is going unrecognised, in part, because that image of IR – as a cabal of backroom nerds, sell-side analysts and accountants telling the company story through balance sheets – still holds such sway in corporate affairs. It is a grossly out-of-date perception. The last five years have seen the biggest reinvention of investor relations' purpose in perhaps half a century – a total, back-to-the-drawing-board rethink of the function's fundamental role, and a broadening of its worldview well beyond the numbers. It's a well-armed revolution, too, with most IR teams now handling increased responsibilities and welcoming an influx of highly sophisticated IR leaders from general business management (who often have the CEO on speed dial) to give the reinvention teeth.

The implications for corporate affairs are serious. First, because this role transformation is well resourced and has executive backing. Second, because it has significantly blurred the lines between the essential remits of IR and corporate affairs. Indeed, if you study them, the overarching briefs are now almost identical in large organisations today: Define and shape the company's reputational narrative**.** And CEOs and ExCos are agnostic about who pulls which lever to achieve that communication outcome, as they increasingly see the needs of investors, consumers and employees as an integrated whole. The two departments are clearly heading for convergence as far as senior management is concerned.

"Consistency matters more than ever before for companies, because we're all being held responsible for a much wider sphere of activity," explains Experian's Nadia Ridout-Jamieson in *From Band Leader to Master Conductor*, our recent report detailing seismic shifts within the corporate affairs profession. Broome Yasar helped appoint Ridout-Jamieson as head of investor relations at the FTSE30 company just a few years ago, but today she leads a combined function as its chief communications officer. "If you think about it from a CEO's point of view, they're responsible for everything in the company. It doesn't matter whether it's strategy or risk or operations or brand – or how we communicate with investors or how we communicate with employees. So you're trying to achieve a single voice for the company through everything, and bringing IR and communications together just helps with that consistency."

Third, however, this shift in attitude and capability should be of grave concern to corporate affairs directors because it might not mean a future of greater alignment, or even disciplinary convergence. It might mean takeover. Because frequently in small-to-medium-cap companies – and increasingly even in larger corporates – IR is actively positioning itself in the boardroom as the most natural home of the reputational narrative, and as its most effective creator. IR isn't "falling in behind" the corporate affairs position. It's increasingly defining it.

A complete change of approach to IR

To understand how and why a hostile takeover of corporate affairs is now within IR's grasp, it's essential to understand the journey the function has been on in recent years.

The initial catalyst for change was the democratisation of financial information in the late 2000s with Web 2.0, smartphones and an exploding app market. Cue a genuine existential crisis for IR: When market actors could get real-time financial data digitally, 24/7, from multiple credible sources, who needed a formal reporting function anymore? IR had to adapt, and fast. (And IR has always adapted to the market needs of the era – shapeshifting from a sales function in the 1950s, to an actuarial function in the 1970s, to a legal and compliance function in the 2000s. It has never been a discipline with a fixed methodology. It simply provides whatever format of communication investors need in a given era.)

The answer to this crisis of purpose arrived with the reputational storms of the 2010s – consumer activism, bearpit social media, political instability, anti-corporatism, ESG, regulatory complexity, war, pandemic and populism – because it led to a generational shift in market calculus. Centuries-old reputations could now evaporate in a single tweet. Economic strife, world war and pandemic-induced total business shutdown had become lived realities. Suddenly, institutional investors really *did* care about much more than the balance sheet.

For decades, of course, shareholders had been urging organisations to codify the intangibles in the company valuation. But those mild insistences (which, 20 years ago, saw the emergence of soft metrics like "CSR" and "human capital management") have today become non-negotiable demands. Institutional investors are insisting to know what the company stands for and how people feel about it. At AGMs, they're demanding detail on how the organisation will fulfil its social commitments, ensure employee wellbeing, or improve the world in which it exists. They want to hear its plans for avoiding all the reputational landmines of a fracturing public and political space.

For shareholders today, brand equity *is* the commercial strategy; reputation the very reason for investing in a company. According to the *Edelman Trust Barometer 2020*, a staggering 84 percent of institutional investors now say that "maximizing shareholder returns can no longer be the primary goal of the corporation; that business leaders must commit to balancing the needs of shareholders with those of employees, customers, suppliers and local communities." And this is not just a passing vogue. In some cases, it's law: Pension funds, for example, simply cannot invest in a company anymore if it does not have a structured ESG strategy.

It has forced IR to completely overhaul the fundamentals: core skillset, strategy, hiring profile, even its basic approach to the job. The old, scorecard reporting style – with the company story seen simply through divestments and investments; a small-print catalogue of assets moved from one side of the ledger to another – just won't cut it anymore. Today, IR can instead be found sweating over the creation of a nuanced, interpersonal narrative, one that weaves the tangibles and the intangibles into a single, emotive story of reputational strength. IR has come to traffic, in other words, in exactly the same communications space as corporate affairs. The age-old Venn diagram of purpose between IR and corporate affairs has become a single circle. The only difference is the audience.

An ever-closer relationship with the CEO

The implications for corporate affairs are profound. At first glance, it might seem like a welcome convergence of ideals – strategic alignment at last. At the very least, it demands that corporate affairs and IR work together much more closely and more readily than in the past. But it is in the marginal details – all the accompanying developments that have enabled this revolution – that one understands why it threatens to go further and deeper.

First, in many organisations, regular executive access has given IR a head start on claims to being the natural home of the reputational narrative. Such proximity to the boardroom wasn't always the case, of course. For decades, IR's role was, in many ways, to shield the executive suite from shareholders. Back then, corporate CEOs thought it outrageous to be asked to answer to investors' questions on strategy (a management matter, not a shareholder one!) which is one reason investor relations was first created – to act as a buffer between the company and its investors. Today, CEOs have no option: They need to sign off on an ESG policy that will be scrutinised by City analysts as a measure of the company's commercial viability. Their every market-sensitive utterance must coherently weave together the company's commercial plans and its strategy for reputational growth.

It has led to a new working alliance between IROs and CEOs, the two now commonly spending weeks together ahead of major investor events, shaping that narrative into an agreed, market-acceptable portrait of the company's public positioning. For many senior executives, therefore, investor relations today is where the organisation's reputational story lives because, frankly, it's where they've personally seen it being crafted.

"Our incoming CEO viewed communications strategically," says Richard Menzies Gow at FTSE50 company Informa, explaining the growth in his own head of IR role. "He's always felt, in particular, that the message should be consistent across investors and colleagues, especially around sustainability; a golden thread to everything in terms of the narrative. So when we went through a whole strategy review and created an executive management team, it was at that point he said to me, as IR director: 'Right, you're just going to just take control of the whole comms piece – as well as sustainability and IR – and bring it all together, make it all make sense.' And that was that. So we've now arrived at that future: I'm 'director of investor relations, corporate communications & brand', and I have a sustainability team, a comms team and an IR team, but they're interconnected and naturally that means there's consistency in what we're saying and how we're saying it."

It highlights another key complication for corporate affairs with the shifting sands of ownership. Sustainability and ESG are hot-button issues, yet where they should sit in the organisation is still a live debate, with no settled answer. For CEOs, though, they are unquestionably market issues, their effects, in tiny variations, able to cause the share price to plummet or soar: What matters most about the company's ESG and sustainability position, therefore, is how investors will respond to it. Who, then, are they most likely to want to see owning that narrative?

A new cadre of IR leadership coming into view
Second, the pressure to present a more nuanced company portrait to investors has altered IR's talent profile. Previously, the typical pathway into the function was via promotion from the finance team – a rising young star with a penchant for writing and analysis. Today, companies are instead parachuting in immensely sophisticated business professionals as IROs – investment bankers, financial consultants, and tier-1 analysts from the major City banks. This new cadre of IR executives has seniority and executive experience. Armed with CFAs, ACAs and MBAs, they bring sophistication and credibility. More than that, they bring ambition. Little wonder that, in the last five years, we have seen record numbers of high-flyers moving into IRO positions – and then moving out again to take up other executive roles.

Some of the IROs we've placed in recent years have moved on to become heads of strategy, heads of corporate development, CFOs, even CEOs. Today, however, they are much more likely to tell us they're eyeing up corporate affairs leadership. The function suddenly has the right level of seniority for them, they say. It's in their skillset: They have a grasp for reputational issues and know instinctively why markets care about everything from ESG to employer branding. They feel their expertise will help the company approach reputational governance in the most effective way: That is to say, such that it will bring sustained levels of investment interest. It is a compelling argument in the boardroom.

Can IROs really take on such a weight of responsibility?
Of course, there are challenges with IR professionals taking the corporate affairs brief. For one thing, the current breed of IRO usually has no background in PR, media relations or government relations, much less internal communications. Alongside concerns that a career ceiling may be being placed over the heads of today's corporate affairs leaders, therefore, we must also worry for communications as a profession: What are the implications if, five years from now, multinational comms teams are being run by people whose fundamental instincts are for financial analysis and investment opportunity?

More concerning for corporate affairs leaders, however, is whether that critique will resonate with their own executive teams. If the two functions are indeed converging, somebody will have to upskill to adopt the other's brief. Is it easier for an IRO to learn the skillset of external and internal communications, or for a corporate affairs leader to pick up the intense mechanics, intimidating vocabulary and byzantine market complexities of investor relations? Perhaps more pungently, which of the two would a CEO consider to be the more likely skills transition?

And consider what really has driven corporations' sudden appetite in recent years for financing the growth of vast, all-encompassing corporate affairs departments with executive clout. The professionalisation of communications has played its part, but the real fuel has been modernity's reputational vortex, and a desire to have that risk managed holistically and centrally by the executive team. It's not a promotion for communications. For CEOs, it's the creation of something entirely new – chief reputation officer – and companies are therefore critically appraising whom they feel best fits that "new" role. And since reputational issues like ESG, sustainability and brand are, for boardrooms, primarily market issues, vital to winning and maintaining investment, who is the most likely candidate for managing them most effectively? And which stakeholder audience would a boardroom consider it most important to shape the company's reputational narrative around, from which all other audience narratives must then fan out?

A function of constant reinvention
Finally, if all of this still just seems like a strategic leap too far for IR, a little history lesson should cause pause for thought. For investor relations has been here before – both adapting its scope and purpose, and having a much more direct communications profile. Indeed, IR has always been a chameleon-like function, u-turning scope in response to the fluctuating trends of the markets and what companies want from their shareholder relationships in any given era. Reinvention is in its very DNA.

Investor relations was created to be a pure sales and marketing function during the post-war period – tasked with crafting thrilling stories of never-ending share growth to draw in a new type of retail investor: American homeowners. (The newly affluent 1950s US consumer was becoming the biggest buyer of Wall Street stock at the time). It worked: By 1965, one in six American citizens was a company shareholder. At that point, investor relations departments were reconstructed along pure, old-school PR lines, as those new, small shareholders began demanding updates on their investments. In came slick press agents and publicists to head up IR, communicating with the millions of new mom-and-pop shareholders via mass media. Cue: puff pieces in the national newspapers; glossy annual reports heavy on grandiose claims and low on financial detail; and gift baskets to shareholders in place of bottom-line reporting.

When Wall Street, collapsing under all this new trade volume, was forced to institutionalise in the 1970s and ‘80s, those retail investors were consolidated into more manageable groups – “institutional investors.” And these weren’t mom-and-pop investors anymore, happy with a hamper full of company freebies. They were experienced Wall Street financiers. So out went the PR publicists, and in came heavy-duty financial analysts and accountants, working directly under the CFO: Investor relations was reborn again, now as a serious data-crunching function for serious market actors.

And so it has continued: That reporting function gave way to a skilled communications department again in the face of 1990s shareholder activism, proactively defending management decisions. Post-2008 financial crisis, government and law weighed down, and investor relations morphed again to become a very compliance-focused, box-ticking function, full of chartered accountants.

Adaptation is in its bones because investor relations doesn’t exist to serve its profession, it only exists to service investor demands. In short: investor relations has never been a ‘discipline’ as such, with specific methodologies that have endured over time. It is a reflection of market need; a cipher for whatever is the current corporate relationship with the people financing the organisation; a function that constantly reinvents itself to become the embodiment of whatever story the company wants to sell to the markets.

And right now, that story is the company’s brand and reputation.

The ‘investor relationship’ companies want to cultivate is the story of corporate affairs.

In our next assessment, we will look to understand what corporate affairs leaders can do to develop their own skillset and better position themselves for this combined role.

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