IR function in Greece: Perception vs. Practice

By Nick Demos*

«Τα πράγματα δεν ταράζουν τους ανθρώπους, αλλά η άποψη που κάποιοι έχουν για τα πράγματα»

Επίκτητος

What is Investor Relations (IR)?

The basic aim of the Investor Relations (IR) department, according to the international experience and the academic research is: 1) the creation and cultivation of relations of trust with the investors, 2) the direct, correct, valid and timely disclosure of company's activities to the market (analysts, institutional investors, brokers, bankers, etc.), and 3) the strategic planning and programming of IR activities, which have as ultimate goal to optimize the company's share price.

In Greece, though, the IR is still viewed differently, not only by the top management of the listed companies but also by the other stock market participants. For example, some expect from the IR department mainly to prepare and disclose the mandatory information, set by the Athens Stock Exchange (ASE) and the Capital Market Committee (CMC) (i.e. 5/204), to the investors. Others believe that the IR is primarily a public relations activity, and so on.

Let me refer to three major IR issues that affect the effectiveness of the IR function and consequently the budgeted costs for disclosure, the time devoted and spent by the top management, the liquidity of the stock, the cost of capital for the listed company, the share price and others.

Two of the mentioned issues are structural and one is behavioral or better psychological, referring mostly to the personality of the IRO.

It is indeed suggested that the interaction between the organizational structure of the IR department and certain features of (the IRO's) human personality can bring about the best results for the listed company. In other words, the hiring of a good, high paid, IRO should go along with the maintenance of an efficient IR office/department and adequate IR budget.

1) Operational position of the IR

The effectiveness and the performance of the IR department is influenced directly as much by the organic position it has in the company's structure as well by the understanding and consequently by the way the company's chief executives (Chairman of the Board of Directors, CEO, and CFO), will treat IR's activities.

If we accept that the IRO has to know very well the strategy, activities and the financials of the listed company in order to be able to communicate the "story" and convey it to the investors, then the organic position of the IRO and his/her department is between the president of the Board of Directors, the CEO and CFO (graph 1).

In the mature markets, it has been noted that the IRO accomplishes his goals more speedfully and economically (referring also to time, the man/hours, etc) when he/she has a seat in the company's Board of Directors without voting right.

In Greece, where the IR has been recently instituted, the IRO's position is not optimal, to say the least. Most of the time is wrongly placed and does not support the IR role and activities. This situation is attributable mainly to:

- the view of the management for the IR (perception)
- the phase of maturity of the Greek stock market and the listed companies (life cycle) and
- the lack of good IR practitioners (training and specialization)

Indeed, the findings of my research indicate that most of the CEOs and CFOs believe in a passive IR and the IRO should be a "line manager", who only reacts and complies with the mandatory requirements and they often equalize the IR with the registry office (metoxologio). Moreover, the position of the IR department is under the CFO, which is insufficient and not functional. There are also IR departments, which are under the PR department, something that the international experience has rejected long time ago as not being effective and efficient. I hope that the newly founded Institute of the IROs, the HIRI, is going to work with the management of ASE, the CMC, the Association of Institutional Investors (AII), the Investment Services Provision Companies (ISPC), the Association of Members of the Athens Stock Exchange (SMEXA), the Ministries and other institutional bodies, in order to create and set sound and solid practices with the best communication people and policies in order to be able to draw long term foreign investors to Greek stocks.

2) Mandatory vs Voluntary Disclosure

The issue of disclosure is very important. There are two kinds of information disclosure. The mandatory disclosure to investors and the voluntary one. (Graph 2).

The small and medium capitalization Greek listed companies have a long way to go even for the mandatory communication and especially when it is conducted in English language. The IR naturally conducts the mandatory or involuntary disclosure policies, such as:

- Dispatching of quarterly financial and operational results,
- Informing the investors on important developments (acquisitions, mergers, etc)
- Informing also on subjects, likely to influence the demand and offer of shares (for example change of management, of members of the Board, and executive management, dividend yield, stock option plans, etc.)

But the significant value the IR office adds is based on the voluntary disclosure policies. For instance, policies that involve roadshows, investor days, lengthy press releases, group presentations, web site initiatives, etc.

Each company creates its own communication and disclosure strategy for investors, analysts, bankers, brokers, etc., always within the framework of market's regulations.

Research indicates that the Greek companies do not use voluntary disclosure policies and when they do they misapply and misuse these policies and consequently are fined accordingly by the CMC.

Naturally each company creates its own communication and IR strategy and integrates and organizes the IR within the scope of its needs. The question though is how effective are these IR activities?

3) Being an effective IRO

The IRO has to combine theoretical training, broad experience, honest predisposition and amiable personality. More specifically, he/she should have analyzed companies and stocks, managed money for investment, been a broker, exposed in the media, worked in sales and marketing, and have even legal knowledge.

Above all, the IRO should be proactive, tenacious and competent. In addition, he/she should be able to gather, filter and use intelligence.

The job of the IRO must be established from the beginning on its right position. The hiring of a devoted analyst or the transferring of a staff member from the department of company's public relations covers only certain needs and might create more problems.

For instance, an excellent analyst could be "lost in the numbers" and not make the point across; a good journalist might not sell to institutional investors because his natural target and audience is the retail market and the small individual shareholder.

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