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## Financial PR's new guard

Craig McGuire - 1 Nov 2004 00:00

### The financial practices of large agencies have had to evolve.

From ugly investor uprisings and crusading federal prosecutors to unforgiving regulators and shrinking sell-side coverage, it's not getting any easier to be a financial communications or investor relations pro. T

he past several years dramatically changed the landscape for IR and financial communications agencies in the US. While most smaller boutiques were lightweight enough to simply switch gears into areas such as crisis management and bankruptcy, the larger agencies have been forced to make more profound changes to survive and thrive.

"You will surely hear from many about the effects of Sarbanes-Oxley and Reg FD, as these two alone have required more sophisticated counsel and deeper knowledge," says Michael Claes, MD, corporate/financial (US) for Burson-Marsteller. "But there are other forces at work, including the participation of individuals through mutual funds and 401K plans, the impact of the internet, and the challenge of the 24-hour news cycle."

Claes echoes what his counterparts at other major agencies are saying: that they face not one or two emerging new client demands, but instead they grapple with a barrage of emerging needs. Underneath it all, the fundamental need to appease increasingly suspicious and inflexible audiences has made clients more dependent than ever before on IR and financial communications counsel.

"We are seeing a return to IR as a strategic counseling exercise and a retreat from commoditized IR tactics," says Cohn & Wolfe president and CEO Donna Imperato. "And most clients are requiring that IR counselors possess a deep understanding of the vertical category in which they are competing."

While an IR executive is still a very distinct animal in the PR kingdom, the synergies between IR and PR operations are now inextricably entwined. In fact, you'd be hard pressed to find an agency head that did not profess to have woven IR and financial communications components through other practice areas.

"In many cases, professionals with financial or IR backgrounds are members of cross-practice teams that provide marketing support and financial communications as a single blended unit," Imperato says.

This is a departure from just a decade ago, where much of the IR agency's relationship with the client was restricted to the CFO/treasury area of the company. "As the regulatory arena tightened, corporate scandals spread, and the scrutiny of companies grew, all of top

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management has become engaged," Claes says.

"It's not uncommon for us to spend three days with a CEO working on a key financial announcement, particularly where important accounting or reporting issues are involved."

### **A boost in IR's relevance**

More than anything, the regulatory pressure that produced a slew of landmark rulings in recent years has increased the relevance of IR and financial communications. This included Reg FD, passed by the Securities and Exchange Commission (SEC) to prohibit the selective disclosure of material information by public companies to the market professionals and select shareholders.

That was followed by the Sarbanes-Oxley Act of 2002, marking the most profound change to federal securities laws since the 1930s, dramatically transforming federal regulation of corporate governance and reporting obligations for public companies.

And in light of corporate accounting scandals of recent years, the SEC adopted Reg G, which essentially requires publicly traded companies to state when earnings reports don't adhere to national accounting standards. This raft of new rules has created an environment where it is almost as important to promote adherence to them as it is to actually follow them.

"Overall, our clients are pretty savvy in realizing that anything they do can affect their IR profile, but we have increasingly found that our IR and financial communications work is becoming consultative, not just tactical," says Walter Jennings, EVP, corporate practice, North America, at GCI Group. "Companies need to know that their IR firm can not only execute on tactics, but can also predict business outcomes based on the market landscape."

This environment is also fueling increasing instances of clients maintaining both an IR presence internally and contracting for expert outside counsel. "Our relationships with clients have extended from projects to longer, larger consultancy roles," Jennings adds. "Our relationships with the C-suite in many of our engagements have strengthened. The more our work has affected corporate perception across key constituencies, the more we're being perceived as a partner who is down 'in the trenches' with [clients]."

Not surprisingly, clients expect a lot more these days for their financial communications or IR dollars. "They are more demanding simply because the stakes are so much higher," Jennings explains. Claes adds, "[Clients] now expect counsel to have the answers, know the rules, and understand the impact of what is being communicated."

Hungry for results, corporate clients are now more open to new and creative approaches to communicating through the media or directly with investors, use of the internet, and new marketing strategies. "The complexities have ushered in greater client receptivity to different approaches," says Bob Leahy, EVP and MD of the Financial Relations Board.

"As in the past, though, an agency's value is defined by results which can be clearly measured," he continues. "The agency's top deliverables are a realistic and sustainable market value, improved liquidity in terms of average monthly trading volume, a systematic build-up of quality brokerage and retail sponsorships, and positioning to permit pursuit of additional capital or acquisitions."

At the same time, certain expectations, at least for some clients, are changing. "What has changed is that management teams are less sensitive to the daily fluctuations of the stock price itself and much more focused on communicating how they are effectively delivering long-term growth," says Gordon McCoun, senior MD at Financial Dynamics.

"Clients are also increasingly recognizing the value of trade-media programs," he adds. "A recent survey we did revealed that portfolio managers value trade-media coverage and perceptions of a company more highly than national business media coverage or sell-side sponsorship." That's a good thing, as the dwindling numbers of sell-side analysts in certain sectors is of great concern.

"Our relationships with the investment community have become increasingly more important as many companies have lost sell-side coverage," McCoun says. "Over the last couple of years, the degradation of traditional sell-side research has resulted in substantially more demand from investors to meet with management one on one."

And with IR staffs significantly constrained in their ability to have informative discussions with analysts that do cover companies, the analysts have been forced to look for other sources of intelligence about a company. "We know these conversations happen - between analysts and customers, customers and regulators, regulators and NGOs - because the internet has enabled these conversations to take place with ease," says Chris Atkins, MD, corporate practice, Ogilvy PR.

"So, the question becomes," Atkins continues, "what are these people saying to each other and can we have influence on those conversations? That means that we have entered a new era of inter-related stakeholders, and a silo approach to communications is no longer effective."

**Impact in agency operations**

Managing expectations and adapting to emerging needs has effected substantial operational changes at every agency. "We've had to add senior counselors who can sit with management or a board, sometimes over a period of time, to deal with these issues," Claes says.

"For instance, I've been on-site almost full time for the past four months with a company facing challenges associated with a merger and other related issues."

Meanwhile, agencies continue to integrate financial communications and IR components into other units. "For example, at GCI, our corporate group now works closely with our consumer, pharmaceutical, and media groups," Jennings says.

At least for the foreseeable future, as long as the financial markets continue to struggle with less-than-anticipated performance, and as long as the fear of the next big scandal drives investor and regulatory perception, life for financial communications and IR pros will remain unpredictable, to say the least.

**The ups and downs of financial PR What's keeping the agencies busy?**

Decline in sell-side analyst coverage

Greater difficulty finding long-term investors

Rise in influence of hedge funds (now 35%-40% of US equities trading)

Fallout from the mutual-fund scandals

Increased regulatory compliance (Regulation FD, Sarbanes-Oxley, Regulation G, etc.)

An increase in independent-board oversight

Heightened shareholder activism

New standards in financial disclosure and corporate governance

Need for greater transparency and clarity

Improved risk disclosure and management

Emphasis on the quality of revenue and earnings

Intense interest in management compensation and incentives

More pressure to increase valuation

Greater complexities in valuation analytics

**What's keeping agencies awake at night?**

The "pitch" process for new business has gotten more detailed and thorough

More senior management, and in some cases board time, committed to the process of agency selection

Having a global agency presence with "local" offices in key international financial centers is becoming increasingly important to large multinational clients

You need integrated agency resources in certain key practice areas, such as healthcare, technology, biotech, public affairs, and crisis

Transactional (M&A, restructurings, IPOs) assignments have been particularly affected by the stricter regulations

Boards and strategic advisors take more time to approve transactions and define strategic rationale

Transactions are more complex and take longer to move from announcement to approval and closing

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