IR Insight

Prepared by Tokyo consultancy Investor Impact, Inc., **IR Insight** provides analysis about the latest IR trends and recommendations on communications strategies that positively impact corporate value.

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INVESTOR IMPACT

National Investor Relations Institute Senior Roundtable Conference 2013/2014

In this and the next issue of IR Insight, we address some of the main points discussed at the annual U.S. National Investor Relations Institute (NIRI) Senior Roundtable Conference, which was held December 3–6, 2013. Attendance at the annual roundtable conference is limited to NIRI members with 10 years or more experience in investor relations (IR). Increasingly, the NIRI roundtable is playing a leadership role in the IR profession and providing guidance to the U.S. Securities and Exchange Commission (SEC) and other public and private institutions on the proper course of development of IR practices. Topics discussed at the conference included evolution in reporting styles (the rise of integrated reporting), the role of outside directors in communicating with institutional investors, dealing with activist shareholders, and putting the maximization of shareholder value in proper perspective.

Interest in Integrated Reporting Process in U.S. Lagging

One of the global issues in IR that has been pending for some years is how to break away from the standard annual and quarterly reporting style disclosure that evolved in the closing decades of the 20th century. The goal would be to develop a reporting framework that better highlights the relationships between recent performance, corporate strategies, and prospects for long-term shareholder value creation.

Earlier movements in this direction included the preparation of environmental reports, which sought to persuade institutional investors that companies were aware of the impact of their activities on the natural environment and were working to minimize them. This was followed by sustainability and corporate social responsibility (CSR) reports that, in many cases, included environmental report sections. CSR documents expanded the reporting horizons to include the overall effects of corporate activities on the economy, the contributions companies make to society, as well as how companies govern themselves to continue to increase shareholder value and remain compliant with laws, regulations, and business ethics.

A relatively recent movement toward the enhancement of corporate reporting is that of the International Integrated Reporting Council (IIRC), a global coalition of influential interests that shares the view that the next step in the evolution of corporate reporting should be improved communication about corporate value creation in the short, medium, and long terms.

One interpretation of the activities of the IIRC is that they are aimed at giving providers of financial capital more insight into how companies can increase value over the long term. According to the IIRC, the integrated reporting process " … focuses on the ability of an organization to create value in the short, medium and long term, and in so doing it: Has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies; and emphasizes the importance of integrated thinking within the organization." For more background, please access presentations and video from Investor Impact's recent joint IIRC / Japan Investor Relations Association (JIRA) workshop on the integrated reporting process: http://goo.gl/4YkEbo

In our own activities at Investor Impact Inc., we have noted a strong and rising interest in the integrated reporting process among European, South African (where it is mandated), and, more recently, among Japanese companies. What about the integrated reporting process in the U.S.?

Given that the integrated reporting process was not even on the agenda at the NIRI conference, Investor Impact took it upon itself to informally poll some NIRI Senior Roundtable members. A surprising finding from our polling and from our review of U.S. reporting of financial reporting practices is that U.S. companies apparently have been very slow in adopting the integrated reporting approach. As one IR executive stated, "Interest in integrated reporting in the United States is not yet as strong as in other countries. The interest here has not been as high as I expected, and most companies are not thinking about taking the integrated approach any time soon." Another somewhat more-dismissive comment was, "Integrated reporting is just not on our radar. We have our hands full meeting onerous disclosure obligations under Dodd-Frank Wall Street Reform and Consumer Protection Act and other legislation."

As a corporate governance specialist indicated, "I think interest in integrated reporting in the United States is not as high as in Europe and Japan. But, the fact is, the better, more advanced, and effective the disclosure approach, the better the IR program. I believe interest here is on the rise and will continue to grow."

Implications for Japanese Corporations

Perhaps one interpretation is that the United States is no longer the sole model to follow in all matters, which may hold true as regards the integrated reporting process as well. In IR, the aftereffects of the Lehman Shock and the introduction of more strict, mandated disclosure practices are a fact of life. The growing interest in the integrated reporting process in Japan might present an opportunity for Japanese companies to take the lead in the integrated reporting process and position themselves more advantageously to obtain funds from long-term investors around the world. However, this is going to require more robust, top-quality IR programs. Investor Impact is doing its utmost to support clients in these initiatives.

Role of IROs and Outside Directors in Communicating with Institutional Investors

Articles of faith espoused by NIRI and similar organizations in other countries include the point that the mission of the Investor Relations Officer (IRO) is to increase corporate value. While the CEO is almost always the final spokesperson to investors on material matters of corporate performance and strategy, given the demands on the time of the CEO, responding to all demands would interfere with CEOs' management, so the IRO is being called on more and more to act as the interface with investors.

The CEO oversees the development of and puts his final stamp on corporate strategy. The IRO, on the other hand, is assigned the task of communicating the investment story and retaining the interest of investors by replying to investor inquiries responsively. Recent developments in this area means there has been a growing role for IROs, and this has necessitated the appointment of more senior management to this position, because the IRO must understand the strategy and investment story of the company in more detail than a more junior staff member could hope to.

Another development in the case of some companies has been growing requests from investors to meet with outside directors who are both familiar with the company and who have had experience in the management of companies in the same, or closely related, industries. Although the number of outside directors on boards in Japan is still limited, as many companies in Japan are now finding, the appointment of outside directors gives access to high-level executives and other professionals with a genuinely seasoned perspective on corporate performance, strategy, and long-term value creation. This has long been one of the main reasons in the United States for appointing outside directors. From the investor's perspective, directors of this quality can also provide perspectives that may be valuable in making investment decisions.

However, as participants in the NIRI Senior Roundtable pointed out, if companies allow their outside directors to meet with investors, it must be within the framework of Regulation Fair Disclosure. Some outside directors can add to corporate value by providing views that are useful for investors in planning their investment strategies and offering insights that may be supportive of the company's investment story. However, cardinal rules are that company representatives must be present in such meetings, and records must be kept of the discussions. Companies must always remain aware of the possibility that outside directors may leak insider information, and the outside directors themselves must remember that, in the United States and other countries, they can be subpoenaed in connection with insider trading activities. In others words, great discretion is required.

Implications for Japanese Companies

Japanese companies may be confronted with this issue as the number of companies appointing outside directors increases. For some companies, it may already be an issue they will be obliged to deal with. One of the solutions that would help to prevent this issue from arising, as more and more foreign investors, including activists, make requests to meet directly with senior management, would be to raise the positioning of the IR function to enable the IRO to respond directly to investor inquiries. Another approach would be to upgrade the disclosure program so that all stakeholders are reading from the same "hymnbook."

In the next issue of *IR Insight*, we will take up two more topics discussed at the NIRI Senior Roundtable Conference 2013/2014: Activist shareholders and putting the maximization of shareholder value in proper perspective.

Feel free to contact the following with your comments on or questions about IR Insight:

C. Tait Ratcliffe
Tel: +81-3-6417-4932, Email: tait.ratcliffe@investorimpact.com
Thomas R. Zengage
Tel: +81-3-6417-4933, Email: thomas.zengage@investorimpact.com
Rika Sumi
Tel: +81-3-6417-4935, Email: rika.sumi@investorimpact.com

Investor Impact, Inc.
8th Floor, Gotanda KY Building, 2-18-2 Nishi-gotanda,
Shinagawa-ku, Tokyo 141-0031, Japan
Tel: +81-3-6417-4930 Fax: +81-3-6417-4931
info@investorimpact.com
www.investorimpact.com