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Communicating Corporate Responsibility to Investors. The Changing Role of the Investor Relations Function

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COMMUNICATING CORPORATE RESPONSIBILITY TO INVESTORS[1]

The Changing Role of the Investor Relations Function

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COMMUNICATING CORPORATE RESPONSIBILITY TO INVESTORS

The Changing Role of the Investor Relations Function

Based on an inductive study we analyse the role of the investor relations (IR) function in the light of rising investor concern about Corporate Social Responsibility (CSR). The study draws on interviews with IR professionals in twenty firms. It highlights their awareness of CSR issues as well as their assessment of concern among mainstream investors and socially responsible investors (SRIs). From these findings we develop suggestions on how the IR function is moving from a mere 'broadcasting' mode regarding CSR issues into a much more interactive mode of relationship management.

Keywords: *corporate social responsibility (CSR), investor relations, firm ratings, shareholder engagement, socially responsible investing (SRI).*

Introduction

Investors increasingly consider non-financial aspects in their assessment of companies. Among these intangible factors, corporate social responsibility ('CSR') has received a particular amount of attention. Although it is by no means a new phenomenon (e.g. Ackermann and Bauer, 1976; Carroll, 1979; Davis, 1973; Frederick, 1994; McGuire *et al.*, 1988; Sethi, 1975; Vogel, 1986; Wood, 1991) CSR is currently experiencing a major renaissance (e.g. AccountAbility, 1999; Gladwin *et al.*, 1995; Hockerts, 2002; Kapstein, 2001; Moir, 2001; Shell, 1998; SustainAbility, 1999; Tepper Marlin, 1998; WBCSD, 1999; Zadek *et al.*, 1997). The nature of the non-financial issues for which firms are responsible has been seen as contentious (Moir, 2001). The EU, in its recent white paper, has defined CSR as 'a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis', but this approach does not deal with the problems of which issues and to which stakeholders. However, a more complex issue arises with investor interest in CSR, as this focuses particularly on the shareholder as a key stakeholder. In particular, CSR traditionally addresses issues which impact on multiple stakeholders such as employees, customers and the community – yet a focus of socially responsible investing ('SRI') is that investors will judge a company in investment terms partly, at least, in terms of the firms response to multiple stakeholders. Shareholders in this environment might look both for financial returns and also a certain type of corporate social performance. In the context of these potentially conflicting objectives, how do firms communicate with socially motivated shareholders as well as general shareholders, whose focus is presumed to be entirely financial?

The traditional way for firms to communicate to their shareholders is via the use of investor relations ('IR') as boundary spanners. The role of IR professionals is to ensure that firms' equity is fairly priced and thus the effectiveness of investor relations might be regarded largely from the perspective of that of securities analysts or by volatility in share price. However, as investor interest in CSR grows the role of investor relations expands.

We therefore examine the role of investor relations professionals in communicating CSR. Interviews were undertaken with twenty companies in order to establish the ways in which investor relations officers communicate with investors on matters of CSR. Results of these interviews are then discussed to examine the future potential role for IR officers in relation to CSR.

This paper continues in the next section with a brief review of the existing literature on the role of investor relations and its impact on CSR. Section 3 reports on the method and background to the data collection and Section 4 provides the results of the key themes of those data. The paper concludes with a discussion of the implications for the ways in which firms communicate on social responsibility and the potential roles for investor relations in this field.

Literature Review

The growth of SRI has led to forms of investor pressure on firms to address issues of CSR and has made management actions more visible (Kahlenborn, 2002; Nelson Sofres, 2001; O'Rourke, 2002b). In response to this, large firms now increasingly produce social reports as a way of communicating their perspective of their responsibility. There are responsibility indices such as the Dow Jones Group Sustainability Index and FTSE4Good, each of which, together with SRI funds generally now means that investors have to decide whether or not a firm is 'responsible'.

Shareholder interest in CSR can be considered by looking at two distinct groups of investors – mainstream and SRI. The majority of what one might call mainstream investors is likely to be interested in social responsibility only as it affects either the firm's cost of capital or its stated results. Indeed, some of what passes as social responsibility may be only just marketing of activities without substance in order to maintain legitimacy (Gray *et al.*, 1996). Socially responsible investors on the other hand have a direct interest in the specific nature of the firm's interactions with society and with its multiple stakeholders.

Three types of SRIs can be distinguished which we may consider as seeking:

1. to invest in firms on the basis that greater responsibility will lead to higher value (best in class approach or positive screening);

2. to avoid investment in specific industries – e.g. arms manufacture, tobacco – or firms with particular irresponsible management style (negative screening); (Sharfman, 1996)

3. to be active shareholders committed to stimulating change for the better through a number of engagement techniques (shareholder engagement). (Lewis and Mackenzie, 2000; McLaren, 2002; O'Rourke, 2002a)

Each of these categories of investors will have different demands for information and indeed some aspects might be in competition.

In terms of mainstream investors we can assume an increasing overlap with the first category of SRIs. A recent survey revealed that "the majority of [32] fund managers interviewed [in the UK and the US] now see social and environmental performance as part of the non-financial risks facing their investments" (Pearce and Ganzi, 2002). Other studies report similar results (Bragdon and Martin, 1972; EuroSIF, 2002; Kahlenborn, 2002; Nelson Sofres, 2001).

In this context, how do managers communicate with investors with diverse levels of interest in social issues? One possibility is the use of investor relations professionals as is the case with investors generally.

The Traditional Role of Investor Relations

> "Investor Relations is a strategic management responsibility using the disciplines of finance, communication and marketing to manage the content and flow of company information to financial and other constituencies to maximise relative valuation" (NIRI, 2001).

The National Investor Relations Institute (NIRI), founded in the US in 1969, was the first recognised professional IR body. In the opinion of one of the founders of NIRI, the main role of IR is to ensure a firm's "fair relative market value" (Savage, 1970). Ellis similarly formulates the aim of investor relations management as:

> "help[ing] a well managed company gain appropriate recognition and credibility within the business community for its capabilities and longer-term prospects [and to] help corporate executives to fulfil their fiduciary responsibility to ensure that investors who are selling […] or buying know they are able to do so at prices that fairly and reasonably reflect true value." (Ellis, 1985)

As such, the traditional approach to investor relations has been to focus on the valuation of firms. A long-standing review of the quality of investor relations was an annual survey of sell-side analysts and buy-side brokers by the US Association of Investment Management and Research (AIMR). High ratings in the AIMR survey have been found to be correlated with more accurate analysts earnings forecasts and in a lower dispersion of these forecasts (Farragher *et al.*, 1994). Similarly higher AIMR survey ratings were also found to be associated with an increase in the volume of shares traded and an increase in analyst following (Lang and Lundholm, 1993). By measuring the impact of enhanced IR on the variables linking share price, a causal chain has been linked from more effective IR to a lower cost of equity capital (Brennan and

Tamaronski, 2000). A basic argument here is that higher analyst following leads to higher institutional ownership, leads to higher liquidity and thus a lower required rate of return. Thus, success in IR has traditional been focussed on the market valuation of the firm and presumably those issues that drive firm value.

From a different perspective, it has been argued by Marcus and Wallace (1997) that the nature of the role of IR has evolved through three phases. Initially there was a role of simple communication of the company's actions, then this developed into an increasing focus on the financial function and financial results and, finally, in more advanced companies, there is a trend towards active marketing, in order to encourage investors to buy or hold the company's stock as well as to ensure that firms are fairly valued. This study will examine whether these three phases apply to IR management in the context of communicating CSR, rather than general financial performance.

Research Questions

Academic interest in ethical investment has a long tradition (Irvine, 1987; Teoh and Shiu, 1990). Studies have analysed the construct validity of such measurement systems as the KLD rating (Sharfman, 1996), or the impact institutional share ownership has on a firm's social performance (Coffey and Fryxell, 1991), as well as investor motivation (Rivoli, 1995). A large number of studies have analysed whether such ethical approaches actually lead to better or worse financial performance (Bragdon and Martin, 1972; Butz and Plattner, 2000; Feldman *et al.*, 1997; Fogler and Nutt, 1975; Hart and Ahuja, 1996; King and Lenox, 2000; Mahapatra, 1984).

To date studies researching CSR make only passing comment on the role of IR professionals (Axelrod, 2000; Gilmour and Caplan, 2001; Mastrandonas, 1992; Papmehl, 2000; Swift, 2001) of which only a small number have examined specifically the link between corporate responsibility and investor relations (de Sévaux, 2002; Larsen, 2002; Stock, 1999; Thompson Jr, 2002). These studies identify responsibility as a reputation issue that needs to be managed carefully by the firm.

In order to fill this gap, this paper examines

(i) how IR officers perceive the concept of CSR,

(ii) the role which IROs currently perform in managing CSR and to which groups of investors and,

(iii) how IROs perceive the development of the role of investor relations relative to CSR.

Research Method

The objective of this research effort was to study how investor relations professionals respond to the corporate responsibility challenge. The results reported in this paper were part of a broad study into the role of investor relations commissioned by CSR Europe and the Investor Relations Society. Following the suggestions for empirical CSR research advanced by Robertson (1993) and Crane (1999) we have adopted a grounded theory building approach (Eisenhardt, 1989; Glaser and Strauss, 1967). Towards this end we interviewed investor relations professionals about their awareness on the topic as well as their assessment on its merit and relevance for investors. A total of 20 companies participated in the study. Table 1 sets out the firms and job titles of the respondents to the interviews.

Table 1: List of Interviewed Firms

Company	Name	Designation(s)	Country
ABB	Ann-Sofie Jönsson	IR Manager	CH
BASF	Carolin Weitzmnann	Senior VP Investor Relations	D
Beghin Say	Olivier Leduc	IR Director	F
Boots	Peter Baguley	IR Director	UK
BP	Peter Hall	IR Director	UK
BP	Duncan Kirk	Senior Advisor, Corporate Communications	UK
BT	Mark Smith	IR manager	UK
Citigroup	Sheri Ptashek	IR director	USA
Citigroup	Iris Gold	VP, Environmental Affairs	USA
EADS	Pierre de Bausset	Senior VP, Investor Relations	D/F/NL
ENI	Jadran Trevisan	IR Head	I
FORTIS	Tine Vandenbussche	IR Manager	B
FORTIS	Babs Dijkshoorn	Project Manager Corporate Sustainability	NL
Intel	Abhay Gadkari	IR Manager	USA
Intel	Dave Stangis	Manager, Corporate Responsibility	USA
Lafarge	James Palmer	IR Director	F
Novartis	Karen Huebscher	Global Head of IR	CH
Novartis	Martin Tanner	Corporate Citizenship	CH
Novartis	Katharina Furrer	IR Manager	CH
Rentokil Initial	Tony Stephens	General Manager, Corporate Affairs	UK
Rentokil Initial	Stuart Rutherford	Corporate Affairs Executive	UK
Royal Ahold	Huib Wurfbain	IR Director	NL
Royal Ahold	Caspar van Zijl	Senior Manager, CSR	NL
Sulzer AG	Gabriela Meier	IR Manager	CH
Swiss Re	Stefan Senn	IR Head	CH
Swiss Re	Kathrin Schriber	IR Executive	CH
Telenor	Erling Thune	IR Head	N
UniCredito	Claudia Zannini	IR Manager	I
Volkswagen	Gero Fröhlich	IR Director	D

The interview partners were chosen following theoretical sampling (Eisenhardt, 1989; Yin, 1989). In order to allow variation in the attitude towards corporate responsibility three different ways were adopted to identify contacts. We approached members of CSR Europe, a business network whose mission is to promote corporate social responsibility, members of the UK Investor Relations Society, and alumni from a leading European business school now working in investor relations. As a consequence interview partners had different levels of experience with corporate responsibility. A small number of respondents were designated specialists for corporate responsibility within the IR department (UniCredito and Volkswagen) while the majority were general IR officers for whom corporate responsibility made up only a very small part of their work. The focus of the study was on large multinationals headquartered in Europe. The selection of countries was effected so as to ensure the coverage of multinationals from different parts of Europe (Germany, Italy, Norway, Switzerland, Netherlands, UK, and France). To further increase variation we included three smaller-capitalised companies as well as two US-based firms.

Data were collected through 20 semi-structured individual interviews. Eight of the interviews were conducted in person and the remainder by phone. In most cases, interviews were solely with investor relations staff. In some cases, a representative from the Corporate Citizenship or Corporate Responsibility function sat in on the interview as well. Interviews lasted on average 60 minutes. During all interviews hand-written notes were taken. In addition all interviews were tape-recorded and subsequently transcribed. The transcripts were confirmed with the interviewees and their approval was obtained for the quotations, together with their identification. Respondents had the possibility to have their statements deleted where they felt that quotations were taken out of context. Furthermore, the quotation was attributed to anonymous whenever the real source preferred not to be named. Overall very few respondents made use of this option.

Secondary data sources were used to triangulate findings from the interviews, to resolve inconsistencies of informants responses about certain dates and facts, as well as to identify discrepancies between "narrative truth" (Spence, 1982) and the historical facts. Indications from the interviews as well as internet searches were employed to identify key documents on each firm (such as annual financial, environmental, and social reports, company website).

Data analysis used approaches common to qualitative, inductive research studies (Eisenhardt, 1989; Lee, 1998; Miles and Huberman, 1984; Yin, 1989). For each interview a transcript was prepared. Initial results were used to identify blank spots and inconsistencies that could be probed in later interviews. Each interview was studied regarding the key research issues. Codes and sub-codes were developed as the analysis progressed. The codes were developed after a first round of data analysis conducted after the first five interviews had been concluded. Each code was then applied to all subsequent interview transcripts. As the analysis advanced a few more codes emerged while redundant codes were eliminated.

Elements of a potential theory emerged through an iterative process of going back and forth between data and theory (Eisenhardt, 1989; Glaser and Strauss, 1967). As new insights were integrated in the emerging constructs, the focus of the analysis always returned to the data to probe for inconsistencies or new categories. From this resulted a first framework of the role of IR in communicating corporate social responsibility. This model was once again contrasted with the case data, thereby continuing the iterative process between data and theory.

Results

A key result of the interviews is the high awareness among investor relations staff of the issues underlying this study. The two core concepts that have emerged from the respondents are "corporate responsibility" and "corporate sustainability". All interview partners used one or the other concept and many employed both interchangeably such as for example in the following quote:

> "In France, [some people] talk about '*development durable'*, (i.e. sustainable development) being different from socially responsible investment (SRI). I don't think so. I think SRI is probably more of an old fashioned term. […] I think in business terminology it's moved ahead to be called sustainable development. That means of course the long term development of the organisation and the company, while taking into consideration the surroundings and the effect you have on third parties not necessarily connected with your business." (Palmer, Lafarge)

Whenever interview partners defined corporate responsibility or sustainability they systematically understood both terms to encompass social (for example human rights issues or corporate philanthropy), environmental (for example climate change or waste management), and economic (for example corporate governance) dimensions. Nonetheless, they tended to describe corporate responsibility in the context of social responsibility while sustainability was mentioned more often in relation to environmental sustainability. The third element was usually addressed in relation to corporate governance.

Respondents gave the impression that mechanisms to deal with environmental sustainability were well implemented in the subject firms. Corporate social performance on the other hand was found to be more difficult to manage. "Social impacts are inherently local and it's very difficult to aggregate them," judges one respondent (Kirk, BP). Not surprisingly respondents identified the national context as a major precursor for the relevance of corporate responsibility and sustainability.

> "The definitions vary when I talk […] to the communities around our manufacturing sites and when I talk to the general public. […] As we get closer to our sites, it's much more of a community focus, volunteerism, taking the right place at local forums, influencing local legislative decisions. On a US level, CSR is a term that hasn't stuck as well. Corporate responsibility, corporate ethics, corporate governance seem to translate better. In Europe, it's much more of a broader social agenda and it really does focus on human rights" (Stangis, Intel).

Some firms reported using national differences as an early warning system. "If it is a success factor in other countries, could it be one for us as well"? (Zannini, UniCredito) However, national differences were also felt to make it difficult to transfer policies from one area or country to another as cultural idiosyncrasies as well as legal specificities have to be taken into account. "You can't take every Norwegian working practice and copy and paste it overnight [abroad]." (Thune, Telenor)

Respondents reported very different attitudes towards the timing of their corporate responsibility initiatives. One respondent described how he tried, in his role as investor relations officer, to foresee developments that might become relevant for his firm in the future:

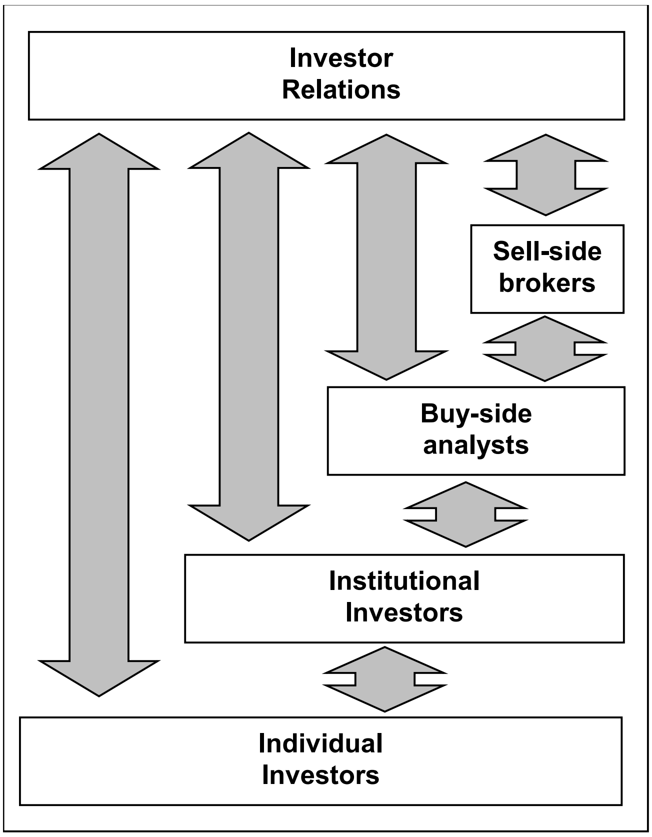
> "Corporate governance has hit our radar screens recently. [Although] this hasn't been an issue specifically raised in meetings with [our] investors, we have tried to pre-empt any problems that may arise from this in the future. So in effect, it has been higher on our priority list than suggested by our investors." (de Bausset, EADS)

Altogether the interviews showed that respondents had different perceptions of what CSR meant for their firms. However, most respondents framed the topic in financial terms thus, in particular, the value of CSR for the company was highlighted. Its value was not just in terms of reducing costs or inducing cost savings in innovation, it was also in terms of gaining and retaining a license to operate. This confirms some of the results in the social accounting literature, which point to legitimation as an important factor (Gray *et al.*, 1996).

Investor Interest and the Materiality of Corporate Responsibility

Information between IR officers and individual investors is often filtered by intermediaries. Often, sell-side brokers, who are the first point of contact, support IR staff in positioning a firm with investors. Their counterparts are buy-side analysts and fund managers who aim at identifying and assessing investment opportunities. Institutional investors such as pension funds in turn act upon the advice of (independent as well as in-house) analysts. Only at the extreme end of this chain come the individual investors (see Figure 1).

Figure 1: Information Flows between Investors Relations Officers and their Stakeholders



Respondents indicated that corporate responsibility has filtered into this system through investor demand. There is a long history of individual investors contacting firms with very specific queries about social issues. Interviewees reported that these initial contacts were followed by certain pension funds enquiring more systematically about the corporate responsibility stance of the firms they invested in. This in turn led to the emergence of specialised funds screened for social and environmental criteria, as well as more actively managed engagement funds. Managers at these funds are supported by a growing number of analysts in rating agencies specialised in assessing corporate social responsibility. To date respondents felt that sell-side analysts were the least concerned about CSR issues. However, as firms have begun to market their firms' responsibility more actively, a new role has emerged for sell-side analysts to bring together firms and groups of interested buy-side analysts and large investors.

Most respondents reported a very low interest in corporate responsibility among main-stream investors. "They appear not to have a direct line in their model for this" (Stephens, Rentokil Initial). IR officials felt that the company's financial value drivers remain the focus of mainstream investors and analysts.

One respondent articulated the dilemma as follows:

> "There are so many things that go into the profitability of a company. Shareholders say we can't possibly track all of those, so we're going to rely on you to do [what] you need to do. We will focus on only a few [aspects] that we believe have a very significant impact on the profitability of a company." (Kirk, BP)

Also eclipsing much of the social and environmental agenda are concerns arising from prevailing market conditions. Some IR officers pointed out that in the current stock market downturn, corporate responsibility was in jeopardy of being sidelined as investors narrow their scope and harness their efforts at preserving investment returns.

Respondents felt that investor interest in corporate responsibility was very much confined to specialised socially responsible investors (SRI) and analysts at screened funds or in ethical rating agencies. All interview partners agreed that interest from this quarter had increased in recent years in volume as well as in the quality of questions asked. However, in total numbers these investors still constituted a minority.

While the majority of information exchange about corporate responsibility happened through questionnaires, most respondents also reported personal meetings with key SRI experts. However, only a minority of the 150-300 investor meetings attended by the average IR officer each year concerned corporate responsibility. On average respon-dents mentioned between two or five meetings in the last twelve months dedicated to this topic.

Given that they were largely of a non-financial nature it is not surprising that IR officers drew widely on experts within the firm to answer surveys. Faced with growing demands on their time IR officers also tried to use documentation as a means to pre-empt questionnaires. Most agreed that no amount of well-documented policies or practices could ever answer all questions. However, as the criteria of analysts and investors converge, reports and websites are becoming important tools of communication. They can address basic issues leaving personal meetings free for more strategic questions or for a debate of special issues.

Although interested investors were given the opportunity to meet with a company's senior management, some interview partners noted that investors seemed to prefer approaching corporate responsibility issues "offline" i.e. in a phone conversation or after a formal meeting has ended. One respondent, in particular, was surprised that they did not get more responsibility-related questions through the CEO or CFO route.

> "I'm surprised that we get so few questions [on the highest level]. After all, they're the most important people in the company. Frankly, I would ask the CEO if I were a responsible investor and wanted to know what the company thought." (Anonymous)

However, there was agreement among interviewees that SRI analysts will have to articulate better why corporate responsibility has a material impact on a firm's performance if they want to attract the interest of the CEO or CFO.

Recently CSR issues have also emerged within some mainstream investment funds. Having launched screened funds as a niche product, investors such as ISIS Asset Management, Henderson Global Investors, or Morley Asset Management in the UK have now begun to develop dedicated engagement practices for all or most of their general investments. Respondents acknowledged the trend towards engagement as offering a larger leverage for socially responsible investment than does a pure focus on screened funds.

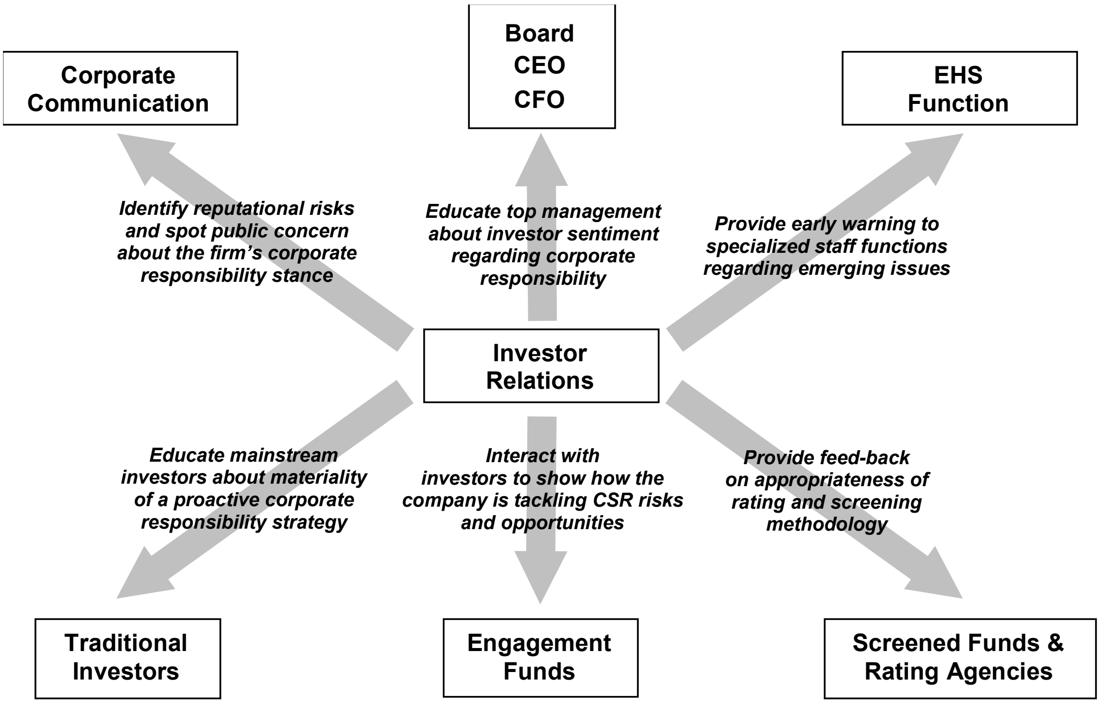
Interest from individual (retail) investors on the other hand tended to be sporadic and topical, framed to a large extent by what was being highlighted in the news. Interest from this group of investors filtered to the company via mail or phone calls. Most respondents did not handle direct queries from individual shareholders leaving them to the designated corporate responsibility person.

Discussion of Implications for the Role of Investor Relations

Respondents characterised their core responsibility as IROs as the management of the information flows and relationships with the investing community. However, it was stressed that the profession is relatively young and still vying for the recognition of financial news management as a core business skill.

One respondent likened the recent changes in the IR function to the move from one-way broadcasting towards two-way relationship management. As part of this transition he saw IR becoming "the eyes, ears and mouth of the organisation" (Hall, BP). On the one hand IROs communicate firm strategy and firm performance to the external community. On the other hand they feed back the reactions of the marketplace to management. The engagement with CSR issues, it was felt, exposes IR increasingly to a broader audience including the NGO community or even government and thus broadens their role.

Figure 2: The Role of Investor Relations in Communicating CSR Performance



While corporate responsibility broadens the IR function's duties it has also driven the integration of IR with other departments in the firm. A large majority of respondents said that the answering of SRI questionnaires was a collaborative effort carried out together with the environmental function or with corporate communications. Most respondents had instituted systems to handle SRI issues by dividing up responsibilities between IR and other departments. At UniCredito the task of filling in questionnaires has, for example, evolved from IR towards the corporate environmental and social function, itself a new function.

> "In the past, we used to deal with [questionnaires] directly but as of two to three years ago, we started to direct these questions to the people working in [the appropriate] department, which was established at this time." (Zannini, UniCredito)

Although the work of filling in questionnaires was increasingly delegated to the experts IR officers kept close tabs on the relationship with SRI analysts and investors. Of those interviewed, most had met with an SRI group in person at least once. Some were meeting regularly – up to once per month, while for others it was between two or three times per year. In general, yearly meetings with the larger SRI investors as well as the bigger rating agencies were encouraged.

Meetings which started out as one-on-one (company to individual SRI) have increasingly become multi-stakeholder. Part of this shift is due to corporate leadership (ie by organising question sessions) and partly by SRIs who want to maintain good relations with the companies and not overload them en masse. One respondent described meetings with stakeholders that included investors as follows:

> "In the past, you could say the company would be having a conversation with investors over here and NGOs over there, but increasingly those conversations are getting more integrated. Indeed, we run sessions over the year with both interested investors and

> NGO groups in the room together. So we can look at issues more holistically." (Kirk, BP)

Typically engagement with SRI analysts or investors starts with a presentation by the IRO, but would be continued by more specialised environmental or social managers (Leduc, Beghin Say). Corporate responsibility issues have also begun to enter meetings with mainstream investors. However, as described by one respondent corporate responsibility remains far from being completely integrated in such meetings:

> "[When we meet a large investment fund] there would be a lead analyst who takes the meeting from their point of view, plus 6 or 7 fund managers and there'll probably be somebody who is SRI. We will answer the normal questions about the business, business performance, and that sort of thing. Then right at the end the analyst will turn to the SRI person and say 'you can ask your question now'. Then he will ask questions about safer chemicals or whatever it is. You give an answer and then that's it. So it's a little bit of paying lip service." (Anonymous)

Estimates of how much time IR officers spent on social and environmental issues (including dealing with SRIs) varied. Most IR officers said that they dealt with corporate responsibility issues for less than two to three hours per week. However, all agreed that the amount of time spend on the topic had increased over the past five years. In a few firms IR officer had been particularly designated as the responsible person for corporate responsibility issues on the IR team.

IR officers spend much of the time dedicated to SRI by filling in surveys as well as responding to enquiries from pension funds and lobby groups. Dealing with surveys was felt to be particularly time consuming as information had to be sourced from a variety of areas. "And you need to get very top level sign off for any external communication," adds Rutherford (Rentokil Initial).

Many IROs expect to take on more communications functions relating to the social and environmental dimensions in the future, resulting possibly in a convergence of what used to be segregated communications.

> "CSR will become increasingly part of the mainstream investor unit. We will start to see a coming together of the SRI and the mainstream investor community and therefore my role will be less separated." (Smith, British Telecom (BT))

Some companies like BP already note that their meetings with investors are increasingly integrated, with both mainstream and SRI investors in the same room, and even on occasion with other stakeholders like NGOs present as well (Kirk, BP). Volkswagen's Fröhlich, meanwhile, points out that relations between companies and external parties have up to now been dominated by shareholders. "But other stakeholders are important for shareholders too. The value of a company is more than just its profit," he adds. As such, he expects IR communications to widen to encompass stakeholder relations as well.

Educating Management

The findings from the study indicate that the role of IR in relation to CSR issues is changing from a broadcasting mode towards more interactive relationship management. Several IR officers reported the wish to educate their constituents about corporate responsibility issues related to their firm. On the one hand they wanted to alert analysts and investors to the value potential of their firm's proactive behaviour. On the other hand they played a key role in identifying emerging issues and forewarning management about potential risks to the firm's reputation in the market place.

In their role as the relationship manager between a firm and the financial markets IROs emerged as an important driver of corporate transformation. A first contribution was to point out gaps in corporate responsibility policies or programmes as identified by the SRI's ratings. Examples of gaps that were identified through SRI ratings and later acted upon include: introduction of a social policy, adaptation of the corporate governance structure, as well as the implementation of a policy on ethical trading. Companies were also using engagement with SRI experts to monitor the emergence of social and environmental issues in the public domain.

Respondents stated that improved corporate communications was a major learning point: "We've learnt that we probably get better results if we're out there, if people can see what we're doing and what we're not doing" (Stephens, Rentokil Initial). The process of filling in SRI questionnaires was seen as a useful education in itself: "If you are able to answer the questionnaire, it means you are well on track on that issue" (Zannini, UniCredito). Many IRO's mentioned benchmarking as one of the key drivers for organizational learning outcomes from the SRI's ratings and engagement process.

> "We look at the ratings that are done on us very carefully and we benchmark against other companies" (Joenssen, ABB)

Interviewees mentioned that they learnt more in the informal, off-line engagement process with investors and analysts than they did in the rating or questionnaire process. It was usually in these informal settings that analysts talked about an emerging issue and asked the IR staff how they dealt with that.

A big driver for organizational learning seems to be the down-rating of a company. For example when Intel slipped one year on KLD's Business Ethics Best Corporate Citizens list from position 3 down to 18 the firm tried hard to understand why this had happened.

> "Once you get on top of these lists, everybody wants to stay there. It gets competitive among our peers and it's all healthy improvement." (Stangis, Intel)

Educating Investors and Rating Agencies

Apart from internal learning processes it also emerged that IR officers have a role to play in educating investors and analysts about corporate responsibility issues. One point of learning that emerged from the interviews was that companies were often leading or even teaching investors how to approach social or environmental issues.

Some companies were actively communicating their social or environmental performance to investors, whether questioned by analysts or not. This role was not limited to the SRI funds. Several respondents saw a role for educating mainstream investors as well.

> “We as the IR department should inform mainstream investors and hopefully they will include this in their investment decision” (Froehlich, Volkswagen)

In this quest IR officers were egged on by SRI analysts in the large asset management companies. Being often smiled upon by their mainstream colleagues these analysts welcomed the unexpected help in educating their own non-SRI inclined peers.

Those IR officers that did pro-actively communicate on social and environmental issues to investors found that some of their audience became very interested in the issue and wanted to know more – while others mere “listened politely” (Baguley, Boots). Some IR departments went further by offering investor events outside of normal reporting and schedule dates wherein investors spend one or two days with the company learning about the vision, the strategy and the ‘real issues’ of the company. Part of these meetings was a discussion of pro-active management of environmental and social risks.

The Role of Investor Relations

We can incorporate the findings of this study to the stages in the role of IROs proposed by Marcus and Wallace (1997).. Although there are three phases, they take on different characteristics. The first phase is again pure communication, typically responding to enquiries and surveys. The second phase - that of CSR results, focuses on risk issues. The final stage has less overt marketing, but has both a two way educational flow and also allows a broader role for IROs as a conduit for strategic change. It would be interesting to explore more broadly whether the role of IROs generally has expanded beyond external marketing toward one of having an impact internally on strategic choices. This is represented in figure 3.

Figure 3: The Role of Investor Relations in a CSR context

TRADITIONAL	CSR
COMMUNICATION	Responding to enquiries
	Survey responses
↓	
FINANCIAL RESULTS	CSR RESULTS
	Limited integration with mainstream investors
	Focus on Risk Issues
↓	NEW ISSUES
ACTIVE MARKETING	
	Conduit for strategic change
	Two way education

Conclusions

This paper set out to understand three issues in relation to investor relations and CSR. These were the perceptions investor relations professionals held of CSR, the role of IROs in communicating CSR and their perceptions of future development. Although there is lack of consistency on the precise definitions of CSR, it is clear that the companies are addressing a broad range of stakeholder issues. What the interviews indicate is that companies are beginning to realise the need for improved disclosure and reporting on social and environmental performance - ahead of mainstream shareholder demands, but in a context where SRIs demand disclosure at least for screening purposes. One respondent underscored this by noting that the "corporate side has taken on the issue of corporate responsibility more seriously than the investor side" (Stephens, Rentokil Initial). Expectations first and foremost are for greater reporting requirements in general and for communications with investors to become more transparent and more wide-ranging. This development may mean that as mainstream investors become used to receiving this information from some firms, there will be an expectation that all firms will need to explain their approach to wider stakeholder issues.

In this regard, IROs said that they expect mainstream investors and analysts to increasingly integrate social and environmental criteria into their assessments – but only gradually. A starting point for such integration is likely to be with risks, especially material risks that are quantifiable and which have a direct financial impact. Companies can expect to come under scrutiny as to how they manage the different risks they face not just in terms of sales and earnings and costs but also in terms of the risks from their impacts on the environmental and on the social front.

Investor relations is still a relatively young profession. As such, the scope for greater development of the role is significant. The communications function for IR, for example, can be expected to become more two-way in nature. As IR is a "window to the capital markets" (Senn, SwissRe), there is plenty of potential for IR officers to communicate the investment community's concerns and perceptions of the company back to management on a greater scale than is currently being done. And from IR officers' reflections on what they have learnt, there is increasing awareness for more effective and impactful communications with mainstream investors.

This research develops our understanding of the role of investor relations professionals beyond a traditional form and so adds to our theoretical understanding of the role of investor relations as boundary spanners. In particular, it points to a role of educating the market and impacting on firm strategy.

This paper has implications for the practice both of investor relations and of investment management. Investor relations officers need to become more closely involved in the strategic management of their firms. For managers of SRI funds, there remains the issue of legitimacy within the investment management industry, all may be well as long as investors are drawn to these products. However, if fashions change, they may secure less access to senior management of the firms in which they invest.

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