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CORPORATE Finance REVIEW

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HANK BOERNER

THE NATIONAL INVESTOR RELATIONS INSTITUTE AT 40 YEARS: MANY CHANGES AND MANY MORE TO COME

The term *investor relations* first came into being in corporate management circles in the early 1960s. Before that, the term for the person (usually a male) who dealt with retail investors and financial editors was generally *financial communicator*. The equity and bond investor in the US in the post–World War Two period was typically an individual—the retail customer. There were some "institutional customers"—a mutual fund manager, a trust officer of a bank that had some blue chip equity issues in portfolios (and more likely corporate bonds), or a family trust.

In the late-1960s a handful of corporate managers gathered in New York City to discuss the affairs of their companies as they related to investors and agreed, among other things, that more emphasis had to be put on the dealings with new players coming into the market. From this concern they formed (in November 1969) what today is the National Investor Relations Institute (NIRI), the largest investor-relations professional membership organization in the world, with 4,000-plus individual members representing more than 2,000 public companies.

The new market players were what we familiarly refer to today as *institutional investors*. Up to the early 1960s, the "prudent-man rule" dictated what many pools of fiduciary monies could be invested in: triple A corporate bonds; federal government debt issues (Treasuries); US state sovereign debt; and not much more. As the rule was relaxed, at first dozens and then hundreds of fiduciaries began investing in corporate equities and other financial instruments. Wall Street as it was known through the post-war period was about to change dramatically!

In the decades following the end of World War II, Wall Street came to Main Street. The venerable house of Merrill, Lynch, Pierce, Fenner and Beane (Beane was later changed to Smith) became the local brokerage best known to many Americans. Others followed the example of serving the grass roots—Dean Witter, Morgan Stanley, et al. Most of the firms were partnerships—for example, Goldman Sachs was organized as a partnership for 130 of its 140 years of existence and only recently became a publicly traded corporation.

As *investor relations* became the preferred term for the business function, and as the prudent-man rule relaxed, the nature of the marketplace changed dramatically. Billions of new dollars flowed into the markets from sources such as public-sector employee retirement systems and pension funds. The base of the US equity market was about to shift from the 75% share held by the retail investor (over three decades) to the 75% share held today by institutional investors.

The nature of the company's investor relations officer (IRO) was also changing; corporate finance was becoming much more complex as the 1960s ended. The VP of finance morphed into the chief financial officer (CFO). This writer experienced these changes and many others over the decades that followed. As I consider the changes taking place as this decade nears an end, I think about the many important shifts that created "new normals" time and again in the markets. I began my career as a business and financial reporter and editor. My usual con-

HANK BOERNER is the corporate governance commentator for Corporate Finance Review. *He is editor of NIRI IR Update and attended his first NIRI meeting a few years after its founding. Mr. Boerner has been an NIRI member for most of the last three decades and currently serves as a board member of the NIRI's New York chapter.*

tacts for obtaining information were "financial communicators" at public companies. Then I joined American Airlines management and with my boss we became the company's IROs to investors, the Street and the media. Daily attention to media relations was a critical element of our workday and the work of our peers in other companies.

Another interesting note from that era: Many financial analysts were also coming out of the ranks of financial journalism to join the wire houses as they bulked up their research staff—"soft dollars" resulting from fixed rates on trades supplied ample cash flow. These analysts applied the research, interview, and writing skills acquired in journalism to analyze and write company trend reports. Some of the analysts I have dealt with were former fellow journalists.

The retail trade—king of investors in the 1960s

In writing these commentaries over the past years I have frequently focused on emerging trends, or events that seem to be inflection points after which, particularly in corporate governance issues, financial executives will be dealing with issues in new ways. We could call some of these "long-wave" developments; changes occur quickly at times and the long-wave consequences are not immediately discernable. The passage of the Sarbanes-Oxley Act in July 2002 could be considered such a change. Think of the impact of Title III requiring CEOs' and CFOs' personal certification of the numbers.

Here's another long wave to reflect on: As the prudent-man rule changed for pension funds, mutual funds, trust companies, and other fiduciaries, so did the focus on institutional investors profoundly change Wall Street, and then other markets. By the late-1970s, the retail component was greatly diminished.

With dramatic shifts taking place in a relatively brief amount of time, think of the long-term consequences: the financial communicator as IRO quickly gave way to the business major with a finance background and most likely an MBA rather than a master's degree in journalism. The CFO and the IRO today spends her or his day talking with institutions (asset owners or hired managers), and not so much with individual investors (unless they work for a small-cap company). And so because of that change we see discussion today about the proper balance between finance and communications career backgrounds and focuses for the corporate IRO. (Today, surveys show that only 25% of NIRI members have both responsibilities vs. almost 100% at the time of NIRI's founding.)

New investment vehicles emerged: At American Airlines we learned of a new method of financing our growing fleet of jet aircraft: the use of eurodollars. Long before the euro currency debuted, these were US-dollar denominated bonds issued by foreign entities (mostly in London) well away from SEC oversight and regulation. Think of all the new investment instruments that would follow in the late twentieth century!

Over NIRI's forty years of existence the dominance of US companies in the capital markets and industry profoundly changed. At the end of World War II, with the destruction of the industrial bases of Japan and Germany, the US became *the* global industrial power. Firms such as General Motors and General Electric were indeed industrial leaders. For much of the first three decades of the "postwar" period, the US dominated world industry and global trade (with 50+ percent share). Although today the US has about a 25% share of global trade—and trade itself has greatly expanded since the 1950s—other nations such as those Goldman Sachs calls "the BRICS" (Brazil, Russia, India, China) are competing at a level unheard of at the start of NIRI in 1969. What nations will emerge as power centers by 2019 or 2029?

China's arrival—long-term consequences

Think of the great historical inflection point when a president of the United States and his secretary of state fly to Communist China and end almost a quarter century of isolation from much of the

AS THE PRUDENT-MAN RULE CHANGED FOR PENSION FUNDS, MUTUAL FUNDS, TRUST COMPANIES, AND OTHER FIDUCIARIES, SO DID THE FOCUS ON INSTITUTIONAL INVESTORS PROFOUNDLY CHANGE WALL STREET, AND THEN OTHER MARKETS.

western world. The long-wave results of the decisions taken by President Nixon and Secretary Kissinger unleashed the industrial might of China, and we could very well say it will become the dominant economy of the world by the end of the twenty-first century, and perhaps sooner.

Think back to the days at the end of World War II when Merrill Lynch was opening Main Street offices and inviting retail investors to come open an account. The US population was 165 million at the end of the 1950s. As more Americans entered the economic middle class, they bought mutual funds, invested in stocks, and some joined "investment clubs" to pool their monies and share investment knowledge. Smart entrepreneurs tapped this growing pool of money to expand their business—think of Ray Croc of McDonald's and Sam Walton, the legendary founder of Wal-Mart.

Now switch your attention to China with its emergent middle class; we are at another China-related inflection point: its population is 1.3 billion people; that's one in every five people on the planet. Hundreds of Chinese versions of Croc and Walton are forming companies, tapping investors for funds for growth, and providing new investment vehicles for the growing Chinese middle class, which could dwarf the middle class and ranks of the wealthy of the US and the EU at some near point.

And so we look to the future years of investor relations and the NIRI organization: What will people be commenting on when NIRI's fiftieth Anniversary rolls around in 2019? The mix of asset owners and sources of capital for US and global corporations will likely be quite different. McKinsey Global Institute's "Global Capital Markets: Entering a New Era" report, which looked at cross-border investment flows of more than 100 nation-states since 1990, sees mature financial markets now at an inflection point with slower growth ahead.

Power investors of the twenty-first century

Updating its 2007 research, McKinsey's new report identifies four important power brokers of investment to watch: (1) Asian sovereign investors; (2) global private equity players; (3) oil-exporting nations with surplus petrodollars; and (4) hedge funds. Sovereign wealth funds (SWFs) are a twenty-first century phenomenon, already with an aggregated US $3.2 trillion in assets, and before NIRI's fiftieth anniversary they could be a dominant source of investment flows with $15 trillion or more in assets.

Think of the consequences of the rising of China alone: it has three SWFs, including China Investment Corporation with $200 billion in assets. By 2025, China may have a gross domestic product equal to or greater than that of the US. The "going out" of China started with reengaging with the world as a nation-state in NIRI's first decade. The *going out* of Chinese companies and asset flows will bring its investors into the next decades. Already, China's leaders have suggested that the US dollar should be supplemented by a new globally accepted currency (the International Monetary Fund's Special Drawing Rights). Will the American financial manager be prepared to deal with investors in different currencies and different languages?

NIRI members are for the most part US citizens working for US-headquartered companies. The US has always been a nation of immigrants. By 2019 today's financial executives and investor relations professionals may become a much-dispersed profession, *going the other way,* working in the BRICs, in Asia, and all over the developing world. Where will *you* be working in 2019? What investors will you be dealing with every day?

As we said earlier, some changes may seem profound at the time, and as events ride on, *everything* could seem changed just a few years later. As the global capital markets recover, the "new normal" of the capital markets and corporate finance may be very strange places indeed. ■