CHANGING OF THE

When transitions in C-suite leadership occur, IR professionals have an important role to ensure these changes mean opportunities – and not obstacles – for their companies.

BY APRYL MOTLEY, CAE

Steve Jobs and Apple were synonymous. And Tim Cook had what many industry observers considered a very unenviable task: succeeding him as CEO of the company in August 2011. Although Cook had served as Apple's chief operating officer since 1998, there was considerable speculation from both analysts and investors about whether he would be up to it.

A June 2014 *New York Times* article ("Tim Cook, Making Apple His Own") cited one analyst who "credit[ed] Mr. Cook as having great skills in operations and in managing the supply chain, which entails getting the raw materials and machinery in place to build things — but not with having the vision to design them." The same article noted investors' concern that the company's sales were so large that "it [couldn't] continue to match the growth that brought it from $65 billion in sales in the 2010 fiscal year to $171 billion in 2013." Six years later, Cook is still being compared to Jobs.

While every company's CEO may not be as iconic as Jobs and his or her departure from the C-suite may not be as dramatic, any transition in executive leadership means significant change. However, IR professionals can strategize effectively to navigate both the challenges and potential opportunities that transitions in the C-suite present.

Let the Transitions Begin

So far this year, several companies have named new CEOs, including AIG, Amtrak, Docker, Ford Motor Company, General Electric, General Mills, Haliburton, Honest Company, and Whirlpool.

During the course of their careers, IROs could be faced with managing one or both of the following leadership transition scenarios.

GUARD WILL YOU BE READY?

Strategic Shift

"A new leader with a new perspective may usher in a new era for a company," said Michael A. Steele, vice president of investor relations at Zebra Technologies Corporation. "IR needs to communicate the merits of this new leader and what he or she brings to the table that is best for the company at that time."

At one point during Steele's tenure at OfficeMax (2007 to 2014), the company brought in a new CEO to drive growth. "This executive had a track record of driving growth at companies," Steele explained. "We introduced him through informal group meetings with our covering sell-side research analysts, which were designed to help people get to know the CEO's background, philosophies, and strengths, but not to unveil strategy." Steele also coordinated personal visits to the company's top 10 shareholders.

Then, almost a year later, the CEO gave a presentation during an investor day, unveiling his new plan for the company's five-year strategy. According to Steele, taking this approach "allowed appropriate time for the new CEO's overall view and full assessment of the company to develop."

Unexpected Exit

One day she was reporting to the CFO and the next to the chairman of the board. The CEO was leaving the company as well. That's the situation with which NIRI Senior Roundtable Member Wendy Wilson was presented mid-way through her career. "The board decided that the strategic direction the CFO and CEO were providing didn't match where they wanted the company to go," she said, "so they voted to terminate both of them."

Once the board's decision was made, Wilson was asked to write a press release in two hours announcing their departure. From there, she turned her attention to working with the chairman of the board, who would serve as acting CEO. "I was very fortunate in that the chairman of the board was Wall Street savvy, shareholder- and media-trained," Wilson recalls. "My first task was to introduce him to our primary investors so that they were assured that the company was moving forward in a way that would both protect and grow their investment."

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"We made sure that we got in front of primary shareholders within 10 days of the announcement." The chairman was acting CEO for almost a year, and Wilson stayed with the company through this transition and its subsequent merger with another corporation.

Communicating About the Change

Many people believe Tim Cook's first official email to employees as CEO of Apple was deliberately leaked to the press. Leaked or not, this initial message helped set the strategic tone for how the company's change in CEO might be viewed. In part, the email read as follows: "I want you to be confident that Apple is not going to change. I cherish and celebrate Apple's unique principles and values. Steve built a company and culture that is unlike any other in the world and we are going to stay true to that – it is in our DNA. We are going to continue to make the best products in the world that delight our customers and make our employees incredibly proud of what they do."

IR teams may be charged with crafting messages similar to this one, which offers reassurance about the company's future. According to Katy Herr, founder and CEO of Audacia Strategies, every IR professional should be prepared for a transition in leadership, planned or otherwise. "The challenge for IR when major executive transitions occur, planned or unplanned, is that in the minds of investors, change equals risk," she said. "IR's challenge is determining how best to manage that perceived risk."

"When you bring in a new CEO or CFO, you have one chance to make a first impression," offered Theresa Womble, director of investor relations for Compass Minerals. "The biggest challenge is getting him or her up to speed fast enough on the nuances of the company's historical and financial results."

"You want them to command that knowledge and be able to demonstrate it. Initial meetings with investors will focus on why he or she was selected for the role, so there is a small window where your audience will give you a pass."

"Don't underestimate the impact of messaging to internal and external audiences, such as investors and consumers," said Evan Pondel, president of Pondel/Wilkinson Inc. "Why is this person being brought in? Who is reporting to him or her? What operations are being consolidated? Is this a turnaround person? These are the kinds of questions employees, investors, and consumers will have."

"You have to think about all those points of communication. It's not just about issuing a press release. The IRO needs to be intimately involved in developing messages for both internal and external audiences."

Those messages need to accentuate the positive. "The biggest challenge is getting your shareholder base to understand the transition in leadership as an opportunity for them to hold onto stock and possibly buy more," Wilson said. "One of the keys is already having established relationships with investors. I want my shareholders to call me first before they make any decisions about buying or selling stock."

From Herr's perspective, leadership transitions present an opportunity to "revisit key messages and strategies for those stakeholders and get back to basics in terms of communicating the company's vision and purpose while positioning the new leader as the right person at the right time."

DO'S AND DON'TS DURING THE TRANSITION

DO

Wilson: "Be accessible immediately to everyone internally and externally."

Pondel: "Be intimately involved in the communications aspect."

Herr: "Think about how the new leader fits into the company's overall strategy."

Steele: "Introduce the CEO early in his/her tenure when he/she is not expected to provide a full evaluation of the company strategy and financial goals."

Womble: "Hold a full rehearsal of your first earnings call."

DON'T

Wilson: "Hide; you have to be out front to maintain your credibility with shareholders and gain it with a new management team."

Herr: "...panic and go silent. You may not have all answers, but it's important to say here's what we know about our transition."

Steele: "...let him or her lean too far forward in initial interactions with Wall Street. Encourage him or her do a full assessment of the company before making bold promises to the Street."

Pondel: "Assume the new executive will be receptive to investor meetings."

Womble: "Wait too long to get new executives to your major investor market."

Preparing to Meet the Street

Once the new executive has arrived, the real work of getting him or her ready for investor meetings begins. "In the initial days, the IRO will be marketing the new leader," Womble said. "You'll want to highlight their attributes without any comparison to prior executives."

"Keep in mind that new leaders will be drinking from a fire hose for the first few months while you're getting them up to speed. Don't expect it to happen in one day. Develop a schedule, so they don't get overwhelmed."

Herr concurred, "To the extent possible, allow the new executive a little bit of time to have internal meetings and customer meetings before heading to the Street. The IRO can observe the leader during these meetings and get a better sense of his or her presentation style."

"One of the important things is listening to his or her early interactions with your team," Womble agreed. "If it's a CEO, there will be a company-wide communication (such as a town hall). Also the executives that I've worked with have been pretty open about their level of experience: 'I need help with Q&A, for example, but I am good at public speaking.' And I consider it a best practice to bring in trainers for Q&A prep before the first earnings call with a new leader."

Herr cautioned against trying to force him or her into the mold of someone else. "It's uncomfortable for the leader, and investors can see right through it," she said. She also offered these suggestions for making sure initial meetings with investors go more smoothly: "You have to build in additional time for prep and walk him or her through the typical lines of questions from specific investors at certain organizations. Establish internal rules of the road and make sure he or she is comfortable with them."

To be sure, welcoming a new leader to their companies will require adjustment by the IR teams. "Everyone has different styles," Steele observed. "You have to leverage the strengths of that executive. For example, if this person is better in person than on the phone, IR needs to leverage that. And some may be better with the financial media than others."

"I would search online and look at what they have done in the past. If they had a similar role at a prior company, review its website or YouTube [videos] to watch them present to get a better feel for how effective they were and how they active they were."

Pondel noted that the new leader may have a different view of the IR function. "Perhaps, he or she was less active with the Street or had less engagement with investors," he said. "This can pose a challenge if your universe of investors was accustomed to having a close and open relationship with the CFO and/or CEO."

"It's in your best interest to provide the incoming executive with a holistic assessment of previous expectations and what continues to be the expectation for his or her participation in IR. It's really important that the IRO serves as a proxy to the investment community and gives the new executive a good assessment of how the role functions in terms of investors. The IRO should serve as his or her guide with respect to investor engagement."

"You're really trying to help this person get up to speed. Provide a download on what is going on with respect to IR – where you've been and where you're headed. Schedule a time to sit down and review the IR program. You'll be able to glean pretty quickly how receptive that new executive is to certain aspects of the program. Some may not be amenable to being on the road while others may be. Having a sit-down is an easy way to get to know the new executive and provide guidance."

But what's an IR professional to do if the newcomer is not well-versed in IR or has no desire to be as engaged with investors as his or her predecessor was. "If you don't have that asset in the person who's now managing the company, plan B would be to find other credible people internally that you can use," Wilson said. "Hopefully, in the case of a CEO transition, there's still a CFO with a lot of credibility with the Street. You have to look at the assets that you have and leverage those people."

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Leveraging New Leadership

With the arrival of a new person to the C-suite, the IR team should also be on the lookout for the potential opportunities that the transition may present, which requires remaining flexible and optimistic about the new relationship.

"It's a matter of being open and engaged and communicating in a way that shows you're there to assist and be helpful," Pondel said. "It's easy to make assumptions about new leaders. It's really important to manage your own expectations prior to the arrival of a new executive."

"Go into it with a positive outlook," Herr urged. "When you stay positive, that comes across in the rest of your interactions externally and internally. It is always better to be perceived as being open minded and willing to change and adapt."

In fact, Wilson looked back fondly on her experience working with an acting CEO.

"He was able to give me quite a bit of time going on the road to meet with current investors and targeting new ones," she said. "We viewed the transition as an opportunity to recruit new investors, and we were able to recruit new shareholders and sell-side analysts as well as increase share price."

"It's so important to be flexible enough to establish that new relationship because you never know what will happen next. You have the opportunity to create a great relationship with someone who may be able to help you throughout your career."

According to Steele, building a relationship with the new executive requires IROs remaining flexible and open-minded in their approach. "Every executive has different strengths and weaknesses," he said. "You also need to be open-minded to any new ideas he or she brings to the table. The people with the best attitudes are the ones who thrive during times of change. Always believe there's room for improvement in your investor relations efforts."

In Pondel's view, a transition in leadership might be a great opportunity to re-energize an IR program that's been in place for a while. "Being able to breathe new life into an IR program with a new CFO or CEO is always welcome by the Street," he said. "The arrival of a new exec is an inflection point that gives the IRO a chance to reset the IR program and refocus priorities."

"The IRO now has a clean slate for introducing new ideas that may not have resonated with the previous exec. Generally, you hope the new leader will do as good of a job or better than the outgoing executive that improves the company's relationship with investors and gives the IRO a chance to augment his or her role."

This has been true for Womble. "Working with a new leader provides an opportunity for an IRO to demonstrate his or her value to the incumbent," she said. "For me, it's been beneficial in demonstrating the value that IR brings to the C-suite. The way I've been viewed throughout the organization has grown with each transition because of the historical knowledge that I have and the relationships that I've built." IR

APRYL MOTLEY is a freelance writer based in Columbia, Maryland.