NIRI CELEBRATES 50 YEARS OF SUCCESS

The investor relations profession, born in the 1950s as Americans began investing in corporate stock in record numbers, officially came of age in 1969 with the founding of NIRI. Learn how NIRI made a difference during its first two decades. BY AL RICKARD

The story of how NIRI was born officially begins in 1969, when its constitution was signed by 22 founding members.

However, to fully appreciate the market environment and shareholder issues that gave rise to NIRI, it helps to briefly review the state of the investor relations profession in the 15-20 years leading up to that momentous occasion.

DeWitt (Dick) Morrill, one of the founding members of NIRI, wrote a fascinating paper, "The Origins of NIRI," that resides in the "About NIRI" section of the NIRI website at www.niri.org. In it, he meticulously reports the many twists and turns of the birth of investor relations as a profession in 1950s, the efforts of IR pioneers to form professional societies, the official launch of NIRI, and some of the early challenges that NIRI overcame to help ensure its future success. Portions of his paper are summarized early in this article to tell the story of the formative years of NIRI.

EDITOR'S NOTE:

To celebrate the NIRI 50th Anniversary, *IR Update* magazine will feature an era of the NIRI history in each issue during 2019. This article reports on the first 21 years of NIRI from 1969-1990. The Summer 2019 issue will include an article recounting NIRI history from 1990-2010.

Economic Drivers of IR

In the years following World War II, the economic engine of the United States kicked into high gear, driven by corporations developing and applying new technologies, tapping a strong labor market of war veterans educated in the postwar years through the G-I Bill, and attracting capital from individual shareholders buying stock in an era of powerful economic optimism.

In 1952, a study commissioned by the New York Stock Exchange (NYSE) and conducted by the Brookings Institution found that 4.5 million families – 4.2 percent of the population – owned stock. By 1965, 20 million families owned stock – 15 percent of the population. By the late 1960s, trading volume was stretching Wall Street paperwork processing capabilities to the limit.

As this investment trend began, General Electric Company (GE) formed the first IR department in 1953 – coining the phrase "investor relations" and marking the first systematic effort to formalize a corporation's relationship with its shareholders. GE Chairman Ralph Cordiner hired Glenn Saxon as manager-investor relations.

As shareholder numbers increased and activism began, corporations wrestled with a new reality. No longer were shareholders only a relatively small group of relatively quiescent wealthy investors as in earlier times. Some major companies launched campaigns to solidify shareholders as customers, and all faced the challenge of answering a growing number of questions and demands coming from investors.

NIRI Chairs 1969 – 1990

O. Glenn Saxon
1969-1970

Arthur R. Roalman
1970-1972

John A. Gearhart
1972-1973

William E. Chatlos
1973-1974

Richard M. Brodrick
1974-1975

Marshall A. Peterson
1975-1976

Richard J. Olsen
1976-1977

William P. Hartl
1977-1978

Jerome C. Isham
1978-1979

Peter G. Osgood
1979-1980

Kay S. Breakstone
1980-1981

James C. Mabry
1981-1982

John C. Fuller
1982-1983

Carol A. Ruth
1983-1984

J. Roger Beidler
1984-1985

Johnnie D. Johnson
1985-1986

Mark A. Steinkrauss
1986-1987

Robert A. Amen
1987-1988

Walter E. Skowronski
1988-1989

James C. Armstrong
1989-1990

The upsurge in shareholders also created a demand for the services of proxy solicitors such as Georgeson & Company and D.F. King. Georgeson initiated an advisory service on shareholder relations, headed by William E. Chatlos, who wrote a monthly letter called TRENDS in Shareowner Relations. Morrill reports that Chatlos was the key individual who drove his colleagues in the mid-1960s to meet and plan a structured organization for IR professionals.

Securities analysts also played increasingly important roles during this era, yet there was no established process by which corporations communicated with analysts. The job usually fell to a financial person – not necessarily the chief financial officer or even the "shareholder relations" person, as they were often called. The need for corporate management to respond to analyst requests fueled the rise of the investor relations function in the 1960s.

Tackling Early IR Issues

The American Management Association (AMA) was the first association to study investor relations and held the first IR conference in 1958. AMA also published a book in 1963, *The Company and its Owners*, that established the first codified "body of knowledge" for the field.

In 1965, Saxon chaired an AMA seminar on investor relations. Topics on the agenda included shareowner relations (principally the annual meeting and correspondence), professional investor relations (contacts with analysts), investor publications (annual, quarterly reports), investor relations research and management (testing effectiveness of communications, shareholder demographics and attitudes, industry needs for new capital and other topics), and advice and counsel to executive management (factoring shareholder considerations into executive decisions).

That same year, Saxon and John Gearhart (one of Saxon's early colleagues in the GE investor relations department) held a meeting at the Harvard Club to begin talking about forming a professional IR organization. In 1966, they joined a few other IR professionals to form the Investor Relations Association (IRA). Membership was limited to 30 people and 10 years of experience as an IRO was required. It was a New York City-centric organization.

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Planting Seeds of NIRI

By 1968, Gearhart – who was then the IRA president – joined Saxon in advocating strongly for a larger, national organization, which they argued was needed to develop the profession, respond to rapidly emerging disclosure issues, and influence regulations and legislation. At the same time there was sentiment from IRA members that launching a larger organization should not divert IRA from its original purpose of constructive networking in the greater New York City area.

Discussion ensued as to whether to call the proposed organization an association, as initially suggested. Charles Kuehner, who joined IRA in late 1968, persuaded members that any group could form an association – from parent-teacher groups to police chiefs – and that the connotation was more one of fraternity than education. He suggested that the word "institute" gave distinction and was appropriate for an organization that would focus on educating IR professionals, which proved to be a compelling case.

Gearhart sent a meeting notice in January 1969 to the 25 IRA members with a proposed constitution for what would be called the National Investor Relations Institute (NIRI). On February 13, 1969, a copy of the Final Constitution of The National Investor Relations Institute was signed by Saxon, Gearhart, Richard P. Axten, Richard M. Brodrick, John Silver and Howard A. Bradley. Subsequently a total of 22 IRA members signed the constitution, all of whom are considered the founding members of NIRI.

Morrill was elected president of IRA for 1969-70, and he appointed a steering committee consisting of Gearhart, Alan Singer, Saxon, and Chatlos to develop NIRI. At a meeting of IRA held that year, a motion was passed that IRA was the originating chapter of NIRI, although the two organizations were not linked financially and membership was exclusive to each group. Dues invoices for $100

for the first year of NIRI membership were sent to all IRA members so they could choose to join the fledgling organization. NIRI leaders also decided to admit IR counselors as members in addition to IR practitioners.

The NIRI Launch

Former AMA executive Ed Berkin was initially appointed executive secretary to manage NIRI, and James E. Bryan, Inc., was later hired as the NIRI management firm.

In early 1970, Saxon was elected as the first NIRI president – fellow NIRI founders Gearhart and Morrill felt strongly that Saxon had given NIRI its intellectual foundation and its character as the primary "thinker."

Gearhart was named executive vice president, Chatlos and Morrill were vice presidents, and Singer was secretary-treasurer. These officers, together with Dick Brodrick, Jeff Bradley, and Truman Henley, became the first NIRI Board of Directors. By March 1970, NIRI had 110 members from 25 states and a province of Canada.

The new Board focused on three goals:

- To win public attention for NIRI's principles and standards of performance.
- To develop chapters as rapidly as possible.
- To accelerate planning for the first annual national conference.

The goals were interrelated – the Board believed that public visibility would help build chapters. More chapters would build attendance at the conference. A successful conference would prove to new members that NIRI could and would provide meaningful opportunities for professional development.

NIRI Tackles Tough Issues

The new NIRI leaders were barely in office before *The Wall Street Journal* published a front-page article in March 1970 called "The Drum Beaters," which documented multiple incidents of malfeasance by financial public relations practitioners.

One case involved a PR person who made lofty projections of his client company's earnings potential and stock price, without mentioning that he was a shareholder or that the earnings were declining sharply.

Another involved a former analyst representing a company whose profits tended to bunch in the fourth calendar quarter. He persuaded them to delay reporting the full fourth-quarter profits at the initial announcement and flow them into the income statement during the following year.

At that time in the early 1970s the Securities and Exchange Commission (SEC) was beginning to sound warnings about managed earnings, a cause the agency ultimately took up in earnest.

NIRI responded quickly – the Board sent a letter to *The Wall Street Journal* stating that NIRI was formed precisely because it knew of a fringe element of companies and public relations firms that artificially boosted stock prices. The letter then set forth the NIRI principles that were designed to prevent these problems. Although the letter was

Burning Issues of the 1980s

By the 1980s, NIRI's newsletter had evolved to a worthy forerunner to *IR Update* magazine, covering key issues facing the IR profession. Some of the headlines shown below are similar to issues that are relevant today.

- Portfolio Managers Not Understood as Well as Research Analysts (June 1982)
- IR People Need to be Aggressive, Risk Takers (May 1983)
- Banks May be Doing Less Research (November 1983)
- Institutions Voting More Against Management (April 1984)
- Mutual Funds Growing as IR Opportunity (December 1985)
- Investor Relations Offers Strong Path to the Top (May 1986)
- IR Should Push for Long-Term Investing Focus (May 1987)
- Investors Rate Role, Relevance of Research (September 1987)
- Institutional Activism Making Inroads, Questioning Corporate Governance Practice, Proxy System (March 1988)
- Unified Europe by 1992 Means Opportunity, Competition for Investment Funds (October 1988)
- Who Controls the Future of Companies? Investors, Bankers, Lawyers – The List Grows (August 1989)

Dick Morrill, one of the founding members of NIRI, working his Rolodex back in the early days of NIRI.

not published, it became an excellent reference point for guidance on the practice of investor relations and was later incorporated in a progress report to members and prospective members.

Shortly afterward, NIRI achieved important national publicity in a *Business Week* article, which published an article, "Chilling Touts with Cold Facts." The article included a photo of Gearhart and Saxon with the caption, "Gearhart and Saxon aim to drive stock touting out of investor relations work."

The article effectively publicized that NIRI was in favor of full, fair, and timely disclosure. It also helped differentiate IROs from public relations or financial public relations practitioners. NIRI not only wanted to stand out *from* something, it wanted to stand *for* something.

A NIRI Conference and More

In 1970 NIRI launched the *Progress Report*, which highlighted the positive publicity NIRI was generating, a NIRI library, regional and national training seminars, and chapter development procedures. That publication was renamed as *NIRI Notes* in 1971 and later became *Investor Relations Update* in 1978.

Also in 1970, Charles L. Cohen, director of investor relations at Lear Siegler, became a powerful ambassador to create and build NIRI chapters. Letters written by chapter members in Boston, Chicago, Detroit, and Los Angeles told the story of how Cohen called on NIRI members everywhere to form chapters.

By early 1971, Pittsburgh, Philadelphia, and Cleveland formed chapters and NIRI members in Minneapolis-St. Paul were planning a chapter. By that time NIRI membership had grown to 321, offering more opportunities for growth.

The first annual NIRI National Conference in Washington, D.C. in November 1970 marked the start of NIRI's ambition to feature high-level speakers from the investment community, academia, Congress, and regulatory agencies. NIRI recognized that it needed a strong conference to distinguish itself from other organizations that it believed had become distracted by the nuts and bolts of their field and ignored the larger view. NIRI wanted to show the value of vision, looking into the future, and anticipating trends. It also recognized that the conference could generate revenue to fund NIRI programs.

"The Information Explosion" was the theme of that first conference, which was particularly relevant to the upsurge in communications technology and the difficulties Wall Street was having in coping with increasing trading volume. In addition to the many individual shareholders, institutions were ramping up their investments.

SEC Chairman Hamer Budge spoke and provided insight into SEC thinking that was new to most of the audience. He also revealed his intention to resign, which was not released publicly until the next day. Coverage by the national media gave NIRI excellent visibility because of this newsworthy announcement.

Alan Levenson, who had been named director of the SEC Division of Corporation Finance only a few months earlier, also spoke. His appearance at the NIRI conference was seen as a groundbreaking event. Levenson saw investor relations people in their familiar setting, was asked questions, answered them, and discovered, to his own confessed surprise, that this was a world far different from what he had imagined corporate society to be. NIRI members also discovered that a regulatory official could be witty, quick-minded, and charming. The dialogue that subsequently developed between the SEC and NIRI proved extremely valuable.

The day after the conference, Robert Metz of *The New York Times* devoted his entire column to NIRI, saying in part that the conference was an impressive undertaking for an organization less than one year old with fewer than 300 members – 146 of which attended the event.

May Day Market Changes

As trading volume increased, so did pressure to alter fixed commissions, which the NYSE and brokers opposed. The SEC announced in 1973 that it would do so, and on May 1, 1975 – popularly known as "May Day" in the investment world – fixed commissions were abolished. This led to the rise of discount brokers and a new do-it-yourself class of investors who could do their own research and pay lower fees for their trades.

As more attention was focused on corporations and pronouncements from their management teams, the need for IROs continued to grow rapidly.

Corporate Disclosure Heats Up

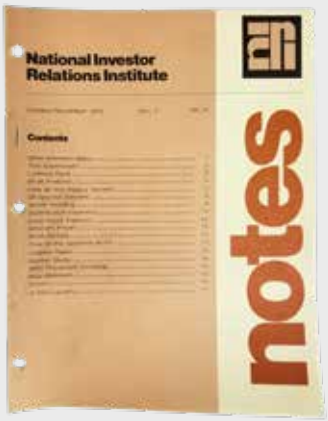
In the late 1970s, the SEC released its first rules defining a safe harbor for forward-looking information and the markets were changing dramatically with analysts and institutional investors playing ever-increasing roles. The SEC was considering the concept of "differential disclosure" (which would allow disclosure of different information for sophisticated investors and individual investors).

The SEC created an Advisory Committee on Corporate Disclosure, chaired by SEC Commis-

The Evolution of the NIRI Newsletter

NIRI Notes, the first name of the NIRI Newsletter, was first published in 1970. During the next 20 years, its design evolved, and by 1980 it took on the name *Investor Relations Update*, which endures today.

NOVEMBER 1970



OCTOBER 1974

JUNE 1980

NOVEMBER 1980

MAY 1983

DECEMBER 1985

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- Deborah Kelly

sioner Al Sommer, which deliberated for two years in 1976-1977. Deborah Kelly, who was then the IRO for Lowes Companies, served on the committee with along with Warren Buffet, Levenson, and several other people, including accountants and prominent securities lawyers such as Marty Lipton.

The committee determined that the disclosure system established by Congress in the Securities Act of 1934 was sound and not in need of radical reform or renovation, reaffirming that disclosure should be clear and available equally to all investors. The committee recommended that rather than lawyers speaking to lawyers (corporate to SEC and vice versa), companies should speak directly to investors in terms they could understand. This included SEC filings and allowing companies to "file" their annual and quarterly reports, along with any additional required information on SEC 10-K forms.

This recommendation led to later work by the SEC, with input from NIRI, on plain English disclosure. The committee also recommended that the SEC continue to support forward-looking information, including "soft" information, such as projections, with a safe harbor provision protecting management from liability for making financial projections and forecasts in good faith.

IR Professionals Discover NIRI

For Kelly, the SEC committee role introduced her to NIRI, which reached out to her to discuss the IR point of view in the committee deliberations. She had just joined the IR profession after serving as a buy-side analyst for several years and became more involved in NIRI, joining the Board as it faced dramatic change in the early 1980s.

Many other IROs also joined NIRI during those years. One of them was Leonard Griehs, who began an IR position in 1979 at Gerber Products Company not long after the company fought off a hostile takeover. Griehs was mentored by Bob Amen, Gerber's IR consultant, who recommended a more proactive approach to investors and that Griehs join NIRI, which he did in 1981. Amen served as NIRI Chair in 1987-1988.

"In those days, NIRI held two conferences each year – one in the Fall in New York, and one in the Spring in a resort setting," Griehs says. "I remember being amazed that some of the leaders of the sessions had spent 10 years in IR! It was then that I realized what a benefit a professional organization could be."

Griehs worked in Western Michigan, a 200-mile drive away from Detroit, the nearest NIRI chapter, which he also joined. "But my isolation did inspire me to get more involved with NIRI on a national level," he notes. Griehs went on to become NIRI Chair in 1997-1998.

Mickey Foster, who joined NIRI in 1983 after he landed an IR position at ARCO, also actively reached out to investors. "I remember using fax machines to send out earnings releases, then taking a red eye flight from Los Angeles to New York City every quarter to meet with investors and analysts," Foster recalls. "In the late 1980s I was with Pacific Enterprises and we began aggressively targeting investors – which really worked!" Foster became very involved as a volunteer leader and served as NIRI Chair in 1995-1996.

Change in Leadership

As it grew, NIRI faced a critical juncture in the early 1980s with a sudden transition in executive staff leadership. The Board searched for a new executive director – someone with vision, strong leadership skills, and the ability to take NIRI to the next level.

Kelly and Carol Ruth (who became NIRI Chair in 1983-1984) led the search committee, which found Lou Thompson, whose experience included a similar role at the National Association of Home Builders and before that, assistant press secretary for President Gerald Ford. Thompson became NIRI executive director in 1982.

"Hiring Lou, who assembled a great team, and the strategic and tactical work they did over the next 25 years, significantly changed NIRI for the future, putting us on the map as leaders in disclosure, advocacy, and education," Kelly recalls. "We also formed partnerships with institutional investors and engaged with NIRI chapters, all of which linked back to the original NIRI charter."

Deb Mitchell, who served as NIRI Chair from 1992-1994, joined NIRI in the early 1980s when she

was the IRO at Anchor Hocking. "If you wanted to learn how to deal with something you could turn to NIRI," she declares. "The chapters were so valuable because they gave new practitioners a place to learn.

"Lou Thompson was a strong advocate for IR. He was charismatic and had a great sense of humor, but he was very serious about advancing the cause and credibility of NIRI. Top executives of Fortune 500 companies came to respect IR and value it, setting up a career path and a seat at the table for IROs."

Reflecting on his early years at NIRI in the November 2009 issue of *IR Update* celebrating the 40th Anniversary of NIRI, Thompson said, "When I joined NIRI, there were only two employees. The people we hired subsequently took simple jobs and turned them into huge jobs. They encouraged new practitioners to call more experienced members for help and understanding, which I believe fostered a culture of extreme collegiality among NIRI members."

Defining Fairness

The evolving trends and challenges for NIRI during this time centered on disclosure and transparency. Kelly explains that members wrestled with questions that included: What are the rules of engagement with investors? How do we disclose information on a level playing field? What are the best practices to implement these rules? What does the research say about what is really meaningful to investors? What is the IRO's role internally when bridging the views of management with the expectations of investors? If IR is to be an integral management function with a seat at the table, how do we measure the impact of IR?

"NIRI sought to iterate and define the answers to these questions, with ever-increasing sophistication and data," Kelly reports, "Our work helped inform later SEC deliberations on Regulation Fair Disclosure (Reg FD)."

In the pre-Reg FD era of the 1980s, it was common practice to discuss interim results or data points with both sell-side and buy-side investors. But some analysts and portfolio managers called more often than others and had differing levels of knowledge, skewing the playing field. Some analysts and investors such as Ivan Boesky and Michael Milken also became rich and famous, and their potential market-moving impact was changing the nature of IR.

"IROs in those years really had to be on their toes to best apply the fairness of what they disclosed, to whom, how often, and decide when something might be material," Kelly explains. "It was not unusual to 'walk down' or 'walk up' an estimate following an earnings announcement. Of course, in those days there were no webcasts or conference calls – those came later. IR was much more of an art in the 1980s, and it felt like the job was more challenging and complex."

NIRI also lobbied successfully in 1985 for the disclosure of "street names," defined as the names of non-objecting beneficial shareholders whose accounts were held with brokerage firms. The SEC mandated that these names be made available starting in 1986, and by April of that year nearly 900 companies had requested lists with a total of nearly 4 million shareholders. Most companies said they were only using the names for "informational purposes," but some indicated they planned to send annual reports and other communications to them.

David Olson, a former senior counselor with Abernathy MacGregor Group, also commented on the trends of that era in the 40th Anniversary issue of *IR Update*, noting, "The late 1980s were a critical time and turning point for NIRI and the IR profession. The market shifted from being a retail investor market to an institutional investor market. When CEOs suddenly realized that activist institutional investors could cost them their jobs, they started taking what we do seriously. NIRI always did a great job of listening to its members and modifying its efforts to meet those needs."

Morrill, a NIRI founder, adds this observation: "One reason NIRI has thrived is because we are a professional development association. That is one of the great strengths of NIRI. We knew that if we made it an educational organization it would have a strong foundation." IR

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