The Growing Role of Investor Relations for GCC Companies

2023 is on target to be another strong year for IPO and M&A activity in the GCC. And foreign institutional investors have a renewed interested in the Gulf: for example, they have been net buyers of Saudi equities, whereas domestic investors have been net-sellers. As these trends play out, the role of investor relations (IR) will become increasingly important in the region. Our experience has shown, however, that many organizations leave important IR decisions until the end of their most critical transformations or limit the IR function to management of regulatory requirements, with resulting downstream consequences that may lead to future headaches. Issuers, and especially those in the GCC today, need an IR function aligned with their needs that can help them truly manage the increasingly complex investor world they find themselves in.

The role and importance of IR for GCC companies has definitely grown along with the region. Not that long ago a call by analysts to the switchboard of major companies in search of their IR team yielded mixed results: sometimes they were directed to Public Relations, other times Marketing, sometimes Government Relations, possibly even the CFO ended up answering the phone. External communications overall remained very limited, and not infrequently the press release on company performance – all the communication there was to any stakeholders - was one line stating the profit in Dirhams or Riyals.

Over the last five years things have certainly improved, and the number of IR professionals in the GCC has grown significantly, particularly in the Kingdom of Saudi Arabia, the UAE, and Qatar, with an increase of over 50% according to the Middle East Investor Relations Association. And the capabilities of these IR professionals have benefited from efforts to build back-office competencies to encourage institutional investors and portfolio managers to engage in the region and strong government support to build the skills of nationals to fill rising demand for IR roles.

But as they manage IPOs and M&A, for example, many GCC firms still rely on banks and capital markets advisors to guide their IR activities or make their hiring decisions for key IR roles at the last minute. By contrast, developed companies outside the GCC include IR strategic engagement through all phases of a transformation and begin planning as much as 12 – 18 months in advance.

Building a robust, multi-faceted IR capability that can manage the increased activity in the GCC region will require companies to move from a reactive and tactical mindset to a proactive and strategic one. In essence, effective IR plays a pivotal role within the company, shaping the story drawn from other functions to present it to outside stakeholders. The IR team need to be effective collaborators, storytellers, communicators, and bridge builders who can work with company leaders to anticipate risks, proactively manage stakeholders, and align with other PR and Marketing efforts in advance of the listing, during the due diligence, and after the deal is done. Indeed, IR can and should play an especially critical role in the pre-listing process, managing the heightened scrutiny and alignment with best practice that will come as GCC firms' add the diverse and high-quality international investors now paying attention to growth and opportunities in the region.

And effective IR extends beyond these landmark events to help manage ongoing processes. Take ESG as an example. As adoption of ESG practices by GCC companies increases, and outside investors with their own ESG agendas become more important, a timely weaving of the role of ESG into the fabric of a company's message to its stakeholders will become more important. IR will need to move beyond mere management of regulatory requirements on frequency and thoroughness of reporting. They will need to work with Finance to obtain and understand the necessary data, to coordinate with Government Relations and Legal to understand the regulatory requirements for their own company and of their stakeholders, and with PR and Marketing to align external messaging across the spectrum of interested parties.

GCC companies should ask strategic, not tactical questions as they consider what kind of IR they need. Do they have a dedicated function to provide strategic guidance on investor relations, or do they draw on transaction advisors outside the firm or from existing internal functions like PR or Marketing? If they have an IR function, is it positioned strategically in the organization, as an advisor to the c-suite? Is IR at the table to contribute to strategic discussions, provide the stakeholder point of view, and anticipate stakeholder risks? How well connected is IR to other, related functions (e.g., Legal, Finance, Marketing), and are they aligned on key corporate events? Does IR play a proactive role in managing stakeholders: engaging in dialog, capturing stakeholder concerns, mapping potential risks?

Few business leaders would deny that timely and meaningful engagement with and management of key stakeholders is important before, during, and after key "moments of truth" like IPOs, mergers, acquisitions, and other key transformations. Today's GCC listed companies have moved from an older, regional investor-driven world into an increasingly international marketplace, one more in line with – and linked to – other developed global financial centers. Engaging effectively and proactively with the investment communities of this evolving world, comprised of shareholders, potential investors, institutional investors, fund managers, analysts, credit ratings agencies, and others, requires more than occasional messaging or fulfilling a regulatory requirement. But there is no "one size" IR that fits all. In our experience, IR can be what the company needs it to be. What is required is strategic understanding of their investor and potential investor communities, the skilled professionals in place, and the willingness to allow IR to help the company move forward.

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