

Middle East Investor Relations Society Interview

IR Spotlight with Mohamed Abdulla Isa, CPA, MBA

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Why did you choose IR as a topic for your MBA dissertation?

IR is a fascinating and challenging subject. On one hand, it is fascinating because it is a strategic multidisciplinary field that combines finance, corporate communication, marketing and regulatory compliance requirements. On the other hand, it is challenging because there is a dearth of IR-related research about improving IR Practices in Bahrain. I like to challenge myself by exploring new subjects.

Why should listed companies in Bahrain be interested in improving their IR Practices?

Companies should invest in IR because it will support them in achieving their market fair valuation which will help them in achieving the ultimate objective of any company that is – the maximization of shareholders wealth. Some may argue this might not be necessarily the case because GCC stock markets are not efficient enough in responding to companies' IR activities. That might be true to some extent. However, as an Investor I would rather invest my funds in companies that are transparent and provide me with timely and relevant disclosure than companies that are keeping me in the dark. Many foreign and/or institutional investors will have the same approach and outlook. Having a strong IR program is considered to be a “best practice” by international finance and investment communities. Conducting the same practices in Bahrain can lead to higher inflow of FDI.

Also, long-term institutional investors (which are the type most companies want) will have more confidence in a company with strong Investor Relations. The practice helps build shareholder loyalty. So, generally, and in summary, IR can attract and lead to higher equity capital for the listed companies which allows them to expand while achieving their growth objectives.

What research methods did you employ to conduct your research?

I employed two research tools. Firstly, I conducted several semi-structured interviews with a wide spectrum of market constituents like audit partners, investment analysts, CFOs, regulators, academics, and share registrars.

Secondly, I analyzed the websites of 40 Bahraini Listed Companies using a model I developed. I dubbed it as “The Good IR Website Model.” The Model has 36 criteria to evaluate the websites of companies based on their level of company and financial disclosure, design, interactivity, the application of technology and most importantly their timeliness.

What are the IR drivers in Bahrain?

Based on my research, there are six key factors driving IR Practices in Bahrain. They are the following:

1. **Cross-listings abroad:** Bahraini Companies that are cross-listed abroad tend to have better IR Practices because they are aware that they need to reach out to the shareholders in different stock markets.
2. **Regulatory Environment:** A strong regulatory environment and enforcement to protect investor compels companies to upgrade their IR practices.
3. **Board of Directors Orientation:** The Board of Directors sets the level of disclosure and transparency within listed companies. The litmus test for measuring their orientation is to attend the AGM to see whether they discuss the business matters in details and invite the shareholders for comments or try to finish the AGM quickly according to the regulatory agenda.
4. **Shareholders Structure and Activism:** The more fragmented the ownerships of shares in companies, the more active the shareholders will be. In Bahrain, like other GCC countries, few shareholders are dominating the shareholders list of public companies. Hence, there is little or no shareholders activism.
5. **Industrial Sector:** The nature of business activities dictates whether the company will have active IR practices. For example, listed manufacturing companies are likely to be less active than listed banks and investment houses that have international dealings and are rated by investment and credit rating agencies.
6. **The Internet:** The internet is a very important technology. It is one of the fastest developing communication channels today. The internet is becoming more widely used as an integral part of companies' IR activities. Now more than ever, companies have access to a wide variety of cost-effective tools to communicate with their shareholders in a timely fashion.

What were the most interesting peices of information you found during your research?

I was amazed to know that General Electric conducts around 350 investors meetings per year and many of them through webcasts. This really puts in perspective how important IR is to the most successful companies. What is more amazing, in 2007, around one million stakeholders tuned in to listen to a webcast discussing the GE Annual Report and other matters. Can you imagine what kind of logistics and costs required to bring one million people in one place? That’s the power of the internet.

What were the most disappointing pieces of information you found during your research?

I was disappointed to realize that 20% of Bahraini Listed Companies do not have a website. How much does it cost to build a basic website?

The other disappointing thing is that 23 of the 40 listed companies scored 50% or less based on my website evaluation model. Websites are not rocket science, if the company does not have the internal capability to build a website, they should hire someone to build it.

What is the outlook for IR in Bahrain?

The current IR Practices in Bahrain are heterogeneous. There are few companies which are already employing International IR Best Practices while there are those who just stick to the bare minimum regulatory requirements.

The outlook of IR in Bahrain is very promising. The Central Bank of Bahrain and Ministry of Industry & Commerce will promulgate a new Company Corporate Governance Disclosure Code. The Code has a dedicated section on IR. Great efforts have been exerted in this project by the regulatory authorities, companies operating in Bahrain and several international consultants.

In addition, Bahrain Stock Exchange is conducting a survey as part of its ongoing efforts to tailor its services and introduce initiatives to improve Bahrain's capital markets.

Last but not least, the Middle East Investor Relations Society conducted an IR Forum last April that has definitely increased the overall awareness of IR in Bahrain within companies and the media. I am looking forward to this year's event which will further promote the importance of IR.

What are your suggestions for companies to improve their IR Practices?

There are many things companies can do to improve their IR Practices. I think their priority should be at least the following, given constraints imposed by the financial crisis:

1. Improve the quality of your press releases. Be honest, be transparent and tell us the story behind the numbers.
2. Build a good IR website and make sure it is updated. There are plenty of good IR websites, emulate them.
3. Go beyond the regulatory requirements for conducting the Annual General Assembly. Don't just tick the requirements, use this golden opportunity to inform your shareholders about company's performance and interact with them.

4. Through the website or other publications, the company should have a clear source for information and contact point for investors to contact with their queries.

What are your IR resolutions of the Year 2010?

In 2010, I will practice what I preach! I am already working on a plan to improve our company IR Practices. Once it is approved, I will we start the implementing it.

I am also planning to conduct few presentations to certain professional bodies in Bahrain to improve the awareness of IR. In addition, I have already agreed with an Arabic Business Magazine to publish monthly IR articles.

Can we know what grade you received for your dissertation?

Distinction!