

ARTICLE REPRINT

What's in Store for Companies in 2007

By Hank Boerner

December 2006

INVESTOR RELATIONS *update*

PRODUCTION MANAGER

Melissa Jones

DIRECTORS

Maureen T. Wolff-Reid, *Chairman*

K. Blair Christie	Catherine Mathis
Carol DiRaimo	Pamela Murphy
Mary Dunbar	Elizabeth Saunders
Randi Paikoff Feigin	Matthew Stroud
Geoffrey G. Galow	Bina Thompson
Paul Gifford	Lynn A. Tyson
Nancy C. Humphries	Bradley Wilks
Tom Katzenmeyer	
Jenny R. Kobin	

IR Update is published monthly by the National Investor Relations Institute as a service to its members. Annual subscriptions are available to nonmembers: \$175. ISSN 1098-5220 © 2006 by the National Investor Relations Institute. All rights reserved. Reprint permission granted by the National Investor Relations Institute.

FOR SUBSCRIPTIONS OR CHANGE OF ADDRESS,

CONTACT: NIRI-*IR Update*, 8020 Towers Crescent Drive, Suite 250, Vienna, VA 22182, Phone: (703) 506-3570, FAX: (703) 506-3571, e-mail: amumeka@niri.org

IR UPDATE E-SUBSCRIPTIONS FOR NONMEMBERS:

Annual subscription: \$75.

FOR QUERIES, SUBMISSIONS AND REPRINT REQUESTS:

Melissa Jones, Manager, Marketing Communication
Phone: (703) 462-2207, e-mail: mjones@niri.org

ADVERTISING:

Kendra Hastings, Advertising Sales Representative,
Marketing General Inc., Phone: (703) 706-0384 e-mail: khastings@marketinggeneral.com

REPRINT FEES PER ARTICLE:

Electronic copy — Adobe Acrobat PDF file
Authors only: \$75, Members: \$200, Nonmembers: \$300
Web posting or e-mail distribution: \$500

Hard copies: Quantity under 10: \$10/copy

Quantities 10-100: \$5/copy

An estimate will be provided for quantities over 100.

All prices are subject to a signed agreement.

NIRI WEB SITE: www.niri.org

What's Ahead for Companies and Markets in 2007?

More globalization!

Stay Tuned to Life in the Fast Lane
of the POST-POST-WAR ERA

BY HANK BOERNER

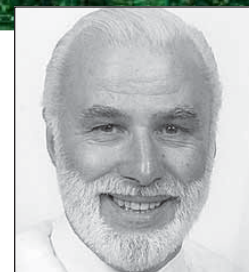
The new era of the early years of the 21st Century is “post-post-war,” a brave new frontier for leaders in business and the capital markets with events never before experienced as the world’s economies globalize. What’s ahead for the investor relations professional?

Stay Tuned in 2007 to... more globalization! The world’s bankers, capital markets players, investors, financial analysts, public sector and self regulatory organizations, corporate leaders, board members, and policymakers have experienced much change over the past two decades. And there is more to come in this world that is, well, *global* in nature, with processes that are more global than national or domestic.

The New York Times foreign affairs columnist Thomas Friedman, in his books on global trade — “The World is Flat,” and “The Lexus and the Olive Tree” — brilliantly describes and elegantly frames the exciting globalizing era that corporations and capital market players entered beginning in 1989 with the fall of the Berlin Wall and end of the U.S.S.R. (The subtitle of “Flat” is: “A Brief History of the 21st Century.”)

The half century-long Cold War (or “post-war” era) has ended. The ensuing relentless globalization of things familiar to us — politics, economies, technologies, regulation, cultures, business practices, capital markets, stock exchanges, investments, and information flows — provides the theme for both books. In our daily lives we experience, but do not always acknowledge, the effects of globalization as national borders are eliminated, and harmonization sweeps regulatory, accounting, financial reporting, corporate disclosure, and other regimes so familiar to the investor relations professional.

To better understand where we stand as we approach 2007, consider Friedman’s position: “This new world was born when the Berlin Wall fell in 1989, and the global economy is still finding its bearings.” And what do we call this new era? He dubs the new era as “post-post-war.” The post-war era was characterized by the standoff between communist and capitalist societies. Now, human society has embarked on a new era characterized by accelerated globalization that is still taking shape and form. Each of us is affected by the changes. And so, what new or continuing changes might affect the IR professional in 2007?



Hank Boerner

Stay Tuned to... more change to corporate and capital markets regulation and oversight. We see the daily effects of globalization on both financial and non-financial measurements for corporate performance, as we experience increased (and steadily increasing) public scrutiny of or greater investor focus on:

- ◆ Demand for changes in or convergence of national or regional accounting systems, including competing financial reporting systems; (Which is better for investors, “rules based,” or “principles-based?”); the drive is toward global harmonization of accounting systems (such as FASB and IASB);
- ◆ Ever-higher expectations of investors demanding more realistic, more timely, more useful and transparent corporate financial reporting;
- ◆ New standards for financial disclosure and greater corporate transparency, including movement toward “real-time” or instant

reporting of material developments and changes in enterprise financial conditions;

- ◆ Increased measurements for corporate performance, beyond traditional financial metrics. Disclosure of “non-financial metrics” will matter a lot for your company;

- ◆ New standards of materiality — “everything!” is material, some investors believe;

- ◆ Higher levels of expectation for “good” corporate governance standards;

- ◆ Dramatic changes in financial research and analysis, and changes in traditional investor access to independent and objective analysis;

- ◆ The importance of clearly-demonstrated corporate social responsibility;

- ◆ The maturing and greater empowerment of global (and frequently networked) shareholder activist and “corporate democracy” advocacy movements;

- ◆ Which will likely result in greater investor access to corporate electoral affairs such as nomination of directors and greater say in what was formerly considered “normal business activities” beyond the reach of shareowners.

Stay Tuned to...the Focus on Enterprise Risk and Your Company's Risk Profile.

“Risk” is becoming an important watchword for global business. The brave new world of globalization poses many risks — and outright threats — to the well-being of multinational corporations, trade blocs, capital markets, banking networks, monetary frameworks, and national and regional economies.

New risks include the escalation of terror attacks on urban areas, or, the growing popularity of investment hedging strategies. Some risks have been emerging for decades; the prime example for 2007: *Global warming*, now a major concern for insurers, re-insurers, banks and lenders, and leaders of large, diversified multinational enterprises. More opportunity for your company offshore? More risks, as well.

Don't believe in global warming? Insurers do — and so do journalists and government officials. Public opinion is shifting. Leaders in the insurance industry don't agree that, “*you can't do anything about the weather...*” and are taking steps to address the effects of weather, at least on their finances and asset base.

One short-term hit on your company's finances in 2007 could be spikes in insurance premiums, or even denial of coverage. In a report published in October — “Climate Change and Insurance: An Agenda for Action in the United States” — the Allianz Group and the World Wildlife Federation argue that climate change *does* pose significant risk to global economies

and especially to the United States, with its coastal, earthquake, flood-prone and fire-prone areas.

Allianz and WWF believe the insurance industry now has a two-fold responsibility: (1) to prepare for the negative effects of climate change that can impair assets; and (2) to significantly help mitigate economic risks and help business enter the low-carbon economy by providing appropriate products and services. Allianz and WWF believe that companies ready to seize new opportunities will ultimately reap benefits for society — and their shareholders. Solutions are needed for such important issues as “...the increase in greenhouse gases (such as carbon dioxide or CO2) which traps the sun's heat like a blanket, warming Earth's climate and causing global warming...”

The U.S. business community is “beginning to recognize that climate change is likely to cause physical and weather-related risks in the future,” the report notes, “...with real regulatory, competitive and reputational risks for companies. For the insurance industry, results of global warming could be disastrous. Catastrophic losses double every ten years and tens of billions of dollars have been paid out by carriers.

THE BRAVE NEW WORLD OF GLOBALIZATION POSES MANY RISKS – AND OUTRIGHT THREATS – TO THE WELL-BEING OF MULTINATIONAL CORPORATIONS, TRADE BLOCS, CAPITAL MARKETS, BANKING NETWORKS, MONETARY FRAMEWORKS, AND NATIONAL AND REGIONAL ECONOMIES.

annual reports
corporate literature
interactive
financial branding
corporate identity

creativity strategy

curran&connors

where **creativity** and strategy meet

631.435.0400
www.curran-connors.com

One response by the industry is the development of sophisticated risk-modeling tools to help underwriters better understand climate change impacts on companies and industries. "Cat risk" will be significantly different for the insurance industry, beginning in 2007, leading short-term to rate hikes and the eventual shifting of burdens of catastrophic risk to covered companies and asset owners. What will be the balance sheet reflections of risk-shift for corporations? Banks? Mutual fund and pension portfolios?

Financial executives, said Allianz, can now expect more and tougher questions — from analysts, lenders, bankers, shareholders and stakeholders — on their organization's plans to address and mitigate "climate change" risk factors.

Stay Tuned to... greater investor focus on climate change risks.

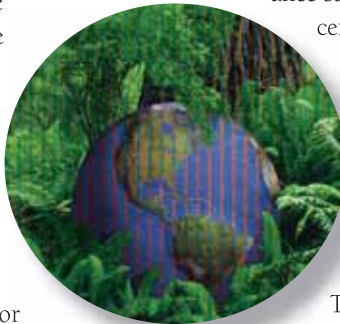
Some investors are also taking action; a coalition of major institutions organized under the umbrella of "CERES" (an environmental coalition), is requesting federal regulatory guidance on corporate disclosure related to climate change risks. The investors asked the SEC to issue guidance on the "materiality" of climate change risks to provide investors with more accurate disclosure of a company's short- and longer-term financial outlook. IROs must be ready to discuss climate risks with investors who believe climate change is "material."

Investor-members of the CERES "Investor Network on Climate Risk" (INCR) approached SEC in September to begin a dialogue; the group claims to represent \$3 trillion in assets. Other investor groups joined forces with the coalition, including the Center for Political Accountability and institutions of the Interfaith Center on Corporate Responsibility's (ICCR) Global Warming Working Group. Proxy resolutions have been filed at almost 60 companies by publication time and global warming will be among those issues gaining headlines in the 2007 proxy-voting season.

Stay Tuned to... corporate response on sustainability and corporate citizenship issues.

American companies *are* responding to global warming and issues and concerns that affect how shareholders and stakeholders judge "good corporate citizenship," and take the measure of companies using an expanding range of "non-financial" metrics. The Conference Board in a November survey of 198 companies, most having 10,000+ employees and \$5 billion or more in global sales found:

- ◆ Two-thirds of responders thought "corporate citizenship" and "sustainability" ("CC&S") issues are of growing importance to their business.
- ◆ Just under half (44 percent) see CC&S issues as both risks and opportunities.
- ◆ Still, 59 percent don't have strategies for developing opportunities that arise from meeting CC&S needs.



◆ Sixty-two percent have instituted formal programs to manage their CC&S practice(s).

◆ The big three activities of CC&S for companies involve (1) community and stakeholder involvement; (2) corporate giving/philanthropy; (3) environmental sustainability and addressing climate change.

◆ Most companies (71 percent) do issue reports on CC&S.

◆ Half of respondents said the board of directors is engaged in CC&S; 11 percent said there was "no board review" on these issues.

◆ And of the challenges management faces, the issue of measuring results of CC&S programs is most important, followed by the challenges of coping with limited financial and staffing resources, and the attempt to align CC&S with business objectives.

The Conference Board's ongoing surveys clearly signal changes taking place in corporate america, including the spread of non-financial metrics reporting. Among the globalizing standards that are established or emerging, the authors cite the ISO 26000 guidance standard being developed for voluntary sustainability certification; the Global Reporting Initiative (GRI) of the United Nations; and competition among global companies to produce "non-financial corporate reports" on their environmental, social, sustainability, corporate social responsibility, and health and safety efforts. CorporateRegister.com reports 12,209 non-financial reports were produced between 1992 and 2006, issued by 3,355 companies in 87 countries.

The results reported each year shows a slow, but steady increase between 1992 and 2000, but a significant increase between 2000 and 2001, and then again between 2003 and 2004.

Stay Tuned to... adjustments and resistance to change.

Clearly, even in the new age of globalization there will be limits to what national governments — and even state governments — and domestic interests will give up or yield on even as they cheer on greater business involvement in non-national marketplaces.

As 2007 begins — the 18th year, in author Tom Friedman's calculation, of the "New World" of the post-post-war era — the effects of globalization continue to affect corporate and capital markets leaders in both positive and negative ways. The greatest challenge we face may be our ability to continue to ensure through our decisions and actions that investors can trust in the increasingly-globalized market systems that are shaping an ever-more complex and sophisticated investment environment! In 2007, assuring investor trust will continue to be Job #1 for many IROs. IRU

Henry "Hank" Boerner is a consultant to corporations on accountability, corporate governance, corporate social responsibility, and related issues and concerns. He welcomes comments at: hank@hankboerner.com.