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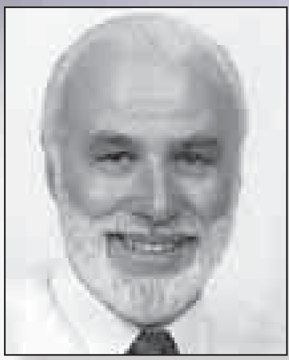
PERFECT STORM CONDITIONS IN STORE FOR YOU IN 2007?

BY HANK BOERNER

In his best-selling book, "Perfect Storm," author Sebastian Junger spins a harrowing tale of a 1991 North Atlantic storm that created a rare combination of factors meteorologists dubbed "the perfect storm" — one that created real crises events for those who could not prepare ahead of time or were out at sea and caught up in its fury. The storm conditions were created when three powerful weather systems converged; author Junger explains that he had misgivings about calling the situation "perfect," but in meteorological terms, the storm could not have possibly been worse. And said, "I've written as complete an account as possible of something that can never be fully known…"

So it is in the financial world. The prognosticator's role is always a dicey one, but in retrospect there have certainly been other Perfect Storm situations that have occurred both in Corporate America and on Wall Street that have left companies feeling as if they



Hank Boerner

have been swept into the maw of 110-foot swells and 100 mph winds. The financial collapse of Enron, Fortune's 7th largest ranked company, followed by the largest corporate bankruptcy in history — WorldCom — and a string of other lesser financial hurricanes created the momentum to led to passage of the Sarbanes-Oxley Act in July 2002 and the wide range of reforms that followed.

With these lessons in mind, we scanned the horizon for other gathering storm clouds and Perfect Storm-type conditions that could challenge the investor relations professional, as well as financial executives, senior management and even boards of directors. We can clearly track the convergence of several important trends in the first half of 2007 that could have very powerful effects on corporate IROs.

Stay Tuned to… the challenges raised by the requirements for "total" executive compensation disclosure. This issue, one that has been dubbed "the coming hailstorm" for IROs kicks in with 2006 financial reports. CEO compensation will be an anchor in some shareholder-filed proxy resolutions that tie to other issues — some focused on traditional corporate governance topics, and others on social, environmental and related topics.

Stay Tuned to… the importance of environmental, social and governance policies practices and factors, or ESG. ESG represents the convergence of many different issues, topics and action points, most of which are clustered under umbrella terms that all IROs are familiar with: corporate governance, corporate citizenship, corporate responsibility, accountability, socially responsible investing, sustainable investments, and triple-bottom line. ESG factors are clearly now of growing importance to both individual and institutional investors.

Stay Tuned to… rising investor and broad-based societal expectations for clear demonstrations of "good citizenship" by publicly owned companies You may know about corporate social responsibility (CSR); investors and stakeholders do want communication and they also demand clear, demonstrable action that can be assigned metrics. These often "intangible" issues are growing in importance alongside your traditional financial (and tangible) metrics.

Thomson Financial recently circulated a "Strategic Resource" document — "What IROs Need to Know Now About Corporate Responsibility" — that spells out for IROs the specifics of CSR and its importance to investors. In a recent Thomson survey of institutional investors, a whopping 89 percent of respondents rated corporate governance as either a primary (21 percent) or secondary (68 percent) influence in investment decision-making. That means portfolio managers representing $13+ trillion in assets under management now "take corporate responsibility" into consideration. These are facts "IR professionals cannot afford to ignore," say Thomson Financial Strategic Research team authors.

Thomson Strategic Research team authors list the key areas of demonstrable concern for institutions as:

1. Environmental impact of corporate activities
2. Global labor standards
3. Equal employment opportunity
4. Product safety (and related product lifecycle stewardship)
5. Supply chain
6. Corporate political contributions
7. Ethics and the firm's corporate governance

Stay Tuned to… rising, focused and more aggressively pressed institutional investor demands being made on corporate management that respond to these concerns in practical terms. Calvert, the prominent socially responsible investment mutual fund advisory firm and the Institute for Responsible Investment (IRI) are reported to be working on a report, due Spring 2007, that benchmarks corporate performance on key sustainability metrics — the key metrics of energy efficiency, land use, stakeholder involvement, housing affordability — to create greater understanding of the ESG policies of the nation's largest publicly owned homebuilding companies. The long-term objective is to promote interest in and commitment to residential development that delivers financial, social and environmental returns.

Stay Tuned to… the global effects of your company's ESG policies and practices. It is now the rare company that is not involved in the global marketplace, and what decision-makers and influencers outside the U.S. think of your company could be important. The United Nations Global Compact advances a set of 10 principles dealing with human resources, labor, the environment and global corruption for voluntary adoption by corporations. The UN formally delisted 500 companies from the Compact roster in 2006 for failing to publish progress reports.

Stay Tuned to… anything having to do with global warming, climate change, carbon emissions — almost any factor of the "E" in ESG and your company. As *Business Week* observed in its "Best of 2006" story compilation, *"… this was the year global warming went from controversial to conventional for much of the corporate world … a growing list of blue chips are formally including climate change in their long-range plans…"*

While global warming issues and concerns may have not been a financial, tangible metric in your dealings with investors and analysts, the storm clouds are clearly gathering for many,

many companies and even whole sectors on related climate change issues. What starts on Main Street could quickly sweep Wall Street and Corporate America. Insurance coverage may be denied for oceanfront property, or priced beyond reach for many homeowners among the two-thirds of all Americans who live within 100 miles of an oceanfront. Without insurance, mortgages cannot be written. Without a bank closing, no new furniture or appliances will be purchased. No legal services purchased, no title insurance issued, no moving van called.

In December, capital markets players, insurance industry executives, state treasurers and pension fund managers, and outside financial advisors met to discuss climate change. The folks in the room manage $3.7 trillion in assets. All participants apparently agreed on this: Companies should be pushed to disclose their climate risk and the SEC should be pressed as well to mandate such disclosure. IROs take notice!

Stay Tuned to… college and university campus goingson. A rising number of student activists, aided by faculty in many cases, are focused on corporate behavior and the pressure that can be brought to bear by leveraging endowment investments and influencing goods sold (and barred from sale) on campus. United Students Against Sweatshops, for example, has formed a "Worker Rights Consortium" involving numerous campuses, and is focused on the sourcing activities of major brands apparel marketers, and other brand marketers in food and marketing. In addition to pressuring endowment managers to divest, the activists are demanding that certain brands not be sold on campuses — with some surprising success to date.

Stay Tuned to… new types of societal ratings for your company. A United Kingdom think tank — AccountAbility — issues ratings on corporate accountability, "an arena where social responsibility meets corporate governance," notes firm CEO Simon Zadek. With the U.K.'s CSRnetwork, AccountAbility issues the annual Global Accountability Rating. Number 1 for 2006 was Vodafone (with a score of 72 out of a possible 100), followed by BP and Shell; U.S. top ranked firms included General Motors (#13 globally) and General Electric (#16). One rating factor is comprehensive and systematic engagement by the company with its stakeholders.

Stay Tuned to… good news and praiseworthy achievements from Corporate America as well; in November the influential Conference Board (New York) issued a report — "Reward Trumps Risk: How Business Perspectives on Corporate Citizenship and Sustainability Are Changing" — by author David J. Vidal. A survey by the organization found that while companies see more potential reward than risk when it comes to "CC&S issues" (corporate citizenship and sustainability), American companies are clearly struggling to find more concrete ways to capitalize on their programs in the marketplace.

Observes author David Vidal: "One of the measures of the rise of corporate citizenship and sustainability market phenomenon is the rapid establishment of 'non-financial' reporting as a practice of leading companies. By year-end 2006 there could be 2,000 nonfinancial reports from as many companies issued to focus on environmental and other issues." Most companies, said The Conference Board, are beginning to report on citizenship and sustainability performance; 52 percent have done so in self-standing annual corporate citizenship or social responsibility reports apart from their annual (financial) reports; another 40 percent of issuers reference these topics in the annual report.

Stay Tuned to… American public opinion. A recent Golin-Harris International survey found that 68 percent of respondents believe that "business should invest significantly more time, money, attention and resources to corporate citizenship than it does to today. Americans are sending a message to business that good corporate citizenship is a 'must have' critical to business success in good times and bad…"

Stay Tuned to… rising seas, metaphoric or literal, and sea water shifts that are real. It's fitting that as we talk global warming and the scary possibility of cities such as New York disappearing under the ocean's waves as icebergs melt and the seas rise that we return to the ocean thriller. At the end of the Perfect Storm, Sebastian Junger concludes: *"Writers often don't know much about the world they are trying to describe, but they don't [necessarily] need to. They just need to ask a lot of questions. And then they need to step back and let the story speak for itself…"* The coming events of 2007 and beyond may form a "world" somewhat unknown to us — but recent events are telling a story that investor relations professionals need to Stay Tuned to — and the theme lines can be summed up in the "ESG" stories that your company's activities tell investors.

Hank Boerner is an advisor and consultant to corporate, social and public sector organizations on governance and accountability issues, and was a pioneer in the "corporate citizenship" movement when he was a manager at American Airlines and chief spokesman for the New York Stock Exchange. He welcomes comments and questions at: ***hank@hankboerner.com.***

RESOURCES

For information on the Thomson Financial report on Corporate Responsibility: Kara Newman, VP-Strategic Research; email: ***kara.newman@thomson.com;*** *tel: 646-822-6410.*

Copies of the 18 corporate responses and the original request from the pension fund investor coalition are available at: ***www.state.ct.us/ott.***

For information on the United Nations Global Compact, see: ***www.unglobalcompact.org***

AccountAbility's various voluntary standards are explained at: ***http://www.accountability21.net/***

Information on The Conference Board "Executive Action Series," #216 — November 2006 — "Reward Trumps Risk: Business Perspectives on Corporate Citizenship and Sustainability Are Changing," see: ***www.conference-board.org*** *or telephone 212-759-6600.*