

ARTICLE REPRINT

INVESTOR RELATIONS
update

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IRO as Trusted Adviser

Mastering Issues at the Intersection of Influence

By Hank Boerner

June 2004

IR Update is published monthly by the National Investor Relations Institute as a service to its members. Annual subscriptions are available to non-members: \$175. ISSN 1098-5220 © 2004 by the National Investor Relations Institute. All rights reserved.

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IRO as Trusted Adviser

Mastering Issues at the Intersection of Influence

By Hank Boerner

NIRI's new chairman, Margaret Wyrwas, moved quickly to expand the initiatives set in motion by her predecessor, Mark Aaron — to increase the role of IROs as they become trusted advisers to senior management and the board of directors ... since IROs sit at the intersection of influence and represent the voice of company stakeholders.

Here are some top-line concerns of said managers and directors that IROs could tune in to as we reach the halfway mark on 2004's calendar:

Stay Tuned to ... exponentially increasing activism by institutional shareowners. Think public employee pension funds, union membership funds (both types have defined benefits for retirees), mutual funds, endowments, foundations. Combined, these thousands of investment entities *are* the equity and debt markets!

Your model to track could be the giant California Public Employees' Retirement System. Each year the fund zeroes in on what it considers to be underperforming companies in its portfolio — poor governance and lagging financial performance are triggers — and the dozen companies selected are treated to the "CalPERS effect," including letters to management and board, meetings with directors, media visibility and conversations with money managers. Some of last year's targets actually have enjoyed market turnarounds, outpacing benchmarks and peers (not all due to CalPERS actions).

Does activism pay off for the fund? The system enjoyed 23 percent return on investments in 2003, including profits from real estate, community development, domestic and international stock holdings, and hedge funds.

And here's the punch line: CalPERS' investment in funds that have a strong emphasis on corporate governance strategies to turn around ailing companies is up 39 percent (68 percent of the \$160 billion portfolio is in equities). So the next time your management asks, "Why should we care about corporate governance or pension fund points of view?" use the example of CalPERS' "concerned activism" as your talking point.

Stay Tuned to ... shareowner access to the proxy process. We've all been inundated with news about this, and the new SEC rules governing nominations will be in place for the critical mass of 2005 annual meetings. The SEC is focused on "corporate democracy" (see *IR Update*, Feb. 2002, p. 11). SEC Chairman William H. Donaldson responded to Stay Tuned, pointing out that the agency's proposed rule — The Shareholder Access Proposal — would require companies to include security holder nominees for election as director and to enable holders to "participate meaningfully" in the nomination of directors (except where prohibited by state laws).

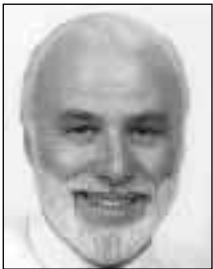
This is a hot-button issue: Some activist institutional holders see direct nominations as a primary means of reaching into the boardroom to develop greater board and management accountability; on the other side, some corporate managers and directors see nothing but meddling interference if direct nomination by shareowners is allowed.

Think of NIRI Chairman Wyrwas' observation: *IROs sit at the intersection of influence and represent the voice of company stakeholders*. IROs should maintain their focus on the SEC rulemaking process to help to shape and enhance the proxy process within their com-



panies. The process can be positively shaped by focusing on accountability, greater disclosure, cooperation, transparency and responsiveness to stakeholders.

Stay Tuned to ... greater disclosure by mutual funds in terms of their relationships with corporations. The SEC recently adopted rules to expand the flow of information to investors about a funds' corporate governance policies (for the companies held in portfolio), and to report annually on the actual proxy votes.



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Since 100 million Americans are now invested in the equity market, regulatory developments should not be ignored by IROs. At some point, issues will spill over into your executive suite and boardroom.

Stay Tuned to ... chief executive officers stepping forward to take responsibility for, among other things, corporate reputations. Executive recruiter Korn/Ferry, in a survey of CEOs, found corporate executives are focusing more on company reputation, what influences that reputation and corporate social responsibility. Three out of four responding CEOs and board chairs said their companies were improving internal controls in response to the revelations of corporate wrongdoing, and more than half revised codes of conduct.

Stay Tuned to ... corporate social responsibility. NIRI and its leadership continue to stress the importance of IROs focusing on valuation drivers for their companies. One candidate we'll add to the list is your company's demonstrated (or perceived) sense of social responsibility. This is a big deal for some investors: One estimate we saw pegged "socially responsible investing" as accounting for \$1 of every \$8 invested in equity markets.

In the Korn/Ferry survey, CSR initiatives were seen by 80 percent of responding CEOs as contributing "something" to corporate reputation.

Business Ethics magazine has announced its fifth annual listing of "100 Best Corporate Citizens." The ranking is based on quantitative measures of corporate service to seven stakeholder groups: shareowners, employees, customers, community, the environment, overseas stakeholders, and women and minorities. (See the complete list at www.business-ethics.com.)

The well-known KLD Research & Analytics has provided social data since the start of this listing; the initial list was drawn from the socially screened Domini Index. Methodology has changed over the years, but not the focus: Excellence in business is considered to be about more than profits for shareowners — it is about serving stakeholders, as well, says *Business Ethics*.

And in case you think "business ethics" or "corporate citizenship" is a chimera, at least for your company, keep an eye on the portfolios of social funds and institutional faith-based investors.

That's our short list of issue drivers for midyear 2004. Good luck as you pull your chair up to the corporate strategy-setting table as a trusted adviser to management and board! **IRU**

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