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## Stay Tuned: More Initials for the IRO — These Could Spell Long- Term Success... Or Market Failure for Corporate Issuers

By Hank Boerner

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# IRupdate

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## More Initials for the IRO — These Could Spell Long-Term

# S-U-C-C-E-S-S...

## Or Market Failure for Corporate Issuers

BY HANK BOERNER

The investor relations professional lives in a world filled with capitalized initials and catchy acronyms — she is an IRO, of course, usually reporting to the CFO (who reports to the CEO). All around is talk of TARP, if the company is in financial services, and CO2 if he heads IR at a utility company. There is constant buzz about the impact of FASB rules (such as FAS 157 and fair market value), and more about GAAP and recently the impact of IFRS (coming from IASB but encouraged by FASB). Now, we're learning — quickly — about the latest development, XBRL and what this means to the business and financial reporting.

**Stay Tuned to ...** several important new trends becoming very evident at critical intersections of corporations and capital markets players. Add these important initials to your vocabulary for 2009: **ESG, SRI and CSR**. ESG = the environmental, social issues and corporate governance factors important to growing numbers of asset owners, asset managers and financial analysts (also stated by an almost equal number of capital markets players as “sustainability” factors). And, corporate performance measured against these factors, being evaluated and rated now by a global community of analysts and researchers who are shaping perceptions, reputations and ultimately, corporate valuations.

SRI is not about *touchy-feely* investment strategies, as some critics have judged this approach to be. Think of it this way: What began as “socially responsible investing” (and has been so for 30 years) for a growing number of investors, is morphing as more mainstream market players embrace the style, and approach: making sure the target company is **sustainable** and that this is a **responsible investment**.

Recently at a New York Society of Securities Analyst briefing, author and former foundation investment manager Stephen Viederman explained the movement of SRI into mainstream investment thinking: “SRI as defined more recently as “sustainable and responsible investment” is becoming a powerful force that is being embraced by all manner of asset owners and their legions of advisors. Who would want to make long-term bets on unustainable and irrresponsible companies!”

And then, there is CSR, or “corporate citizenship,” as this may have been called in past decades, or later, as defined as public affairs or community relations programs. Then, as senior management and even boards began embracing the notion of *doing well by doing good things*, corporate social responsibility became a full-fledged approach in many companies. To some, CSR can be an ideal response to capital market players who are raising expectations of what a corporation should be doing to be “responsible” (and note this fits “sustainable and responsible” investor desires).

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Therefore, CSR should become an important concern for IROs — investors will be asking about the company's CSR efforts and policies, if they are not already inquiring about ESG and Sustainability.

A broad array of powerful trends and market forces is shaping tomorrow's capital markets and coming to consensus on what will be the important deciding factors for tomorrow's capital markets winners, laggards and outright losers. This is more frequently boiling down now to the questions surrounding the issuer's "sustainability." (You'll be interested to know that in a survey of owners and analysts last year the two terms that respondents decided best summed up their approach were "ESG" and "Sustainability," and these are interchanged very frequently.)

Some companies are placing huge bets on ESG, Sustainability and CSR efforts (and most important, measurable performance factors). General Electric talks about its "Eco-magination" programs across many business units as being — if measured by the standards of the *Fortune 500* — among the top 200 companies by itself. That's how important the sustainability approach has become for America's largest manufacturer.

As we monitor developments in the ESG, Sustainability, and CSR categories, the impression is strongly made: Almost no publicly-held company will be untouched by the major trends taking shape in the global capital markets. In the U.K. and EU, these factors are much more important than in the U.S. today. But the waves of change are washing on our shorelines — IROs cannot afford to overlook the increasing investor focus on ESG.

**Stay Tuned to ...** the G-20 nations' summit in early April in London. We briefed you on the earlier Washington DC summit at year-end. The leaders of the world's top 20 economies will have a slew of issues to grapple with, including climate change. President Barack Obama is invited to attend. The G-20 will "seek a collective response that could restore confidence in a shattered global financial system," observed Reuters — every IRO would welcome that!

Among the topics high on the agenda is reducing carbon emissions — setting the path from here to there for a low-carbon future, including financial institution reforms to help achieve these goals. The G-20 meetings will set the stage for a global meeting (of many more nation leaders) in December that could impact most U.S. companies: this is a follow up to the Kyoto (Japan) meetings of 190 nations that arrived at a treaty on global warming that the U.S. decided not to join. U.N. leaders expect that there might be mini-summits before year-end involving the U.S.

We offer the climate change example because the issue cuts across all three "ESG" concerns for investors: "E," as in environmental, and energy (the use of fossil fuels in business); "S," for the societal concerns of climate change, such as floods, droughts, heat waves, impacts on agriculture); and "G," as in how a company is governed. The "G" factors include board policies and behaviors (and decision-making), and the daily practices and behaviors of the corporate collective.

**Stay Tuned to ...** ESG pressures brought by investor coalitions on individual corporations, as well as industry groups and sectors. We know that a passel of reforms will be offered up over the next two years as the 111<sup>th</sup> Congress and the Obama administration consider updates or even replacements for 1930s securities industry and banking legislation. The new players (not present in the Great Depression years) who will assuredly be at the table are institutional investors: public employee pension funds, SRI mutual funds, investor coalitions (such as the Investor Environmental Health Network, focused on "... financial and public health risks associated with corporate toxic chemicals policies," mostly mutual fund members with \$40 billion in assets under management).



Hank Boerner

A powerful force for change for IRO consideration is Ceres — the Coalition for Environmentally Responsible Economies, a national network of institutions, environmental organizations, issue advocacies, public interest groups, and collaborating corporations. Ceres manages the Investor Network on Climate Change, a 70+ member coalition, which targets companies and sectors for engagement and dialogue. INCC called for new climate disclosure guidelines for auto manufacturers in March, and named nine "climate watch companies" for action in February (citing emissions, and calling for U.S. national mandatory limits on CO2 limits).

As in most crises events that occur, there are two sides to consider: the threats to the organization (the risks) and the opportunities presented for change (the upside potential). It's the same for the IRO today looking at ESG and Sustainability issues: which path will you follow ... risk or opportunity? The answer could be spelled out as either s-u-c-c-e-s-s or ....? IRU

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*Hank Boerner is editor of NIRI IR Update and has been "watching the watchers" in the ESG and Sustainability community for two decades. E-mail him at [hboerner@niri.org](mailto:hboerner@niri.org).*