



Credibility:

What's Ethics got to do with it?

BY RALPH ALLEN

As well known “given” among investors and IRO’s is that *Quality of Management* is near the top of the list of professional investor requirements for long term investing. Investor Relations and Communications pros know that “Quality of Management” usually translates to mean companies that have delivered good investment results consistently, with good levels of communication and transparency.

In other words, companies with high quality management also have high levels of credibility. *Fortune* magazine compiles an annual list of the world’s most (and least) admired companies. It is likely that we will find good correlation between those with high credibility and those with a high ranking for quality of management.

What does this have to do with Ethics? While quality management implies quality ethics, it must be obvious that high credibility is supported by an ethical approach to communications. And good IRO’s are clear that an ethical approach always serves their company well in the long term. That said, it is often difficult to maintain high standards in the short term. Contrasted with the

advertising, political, sports and entertainment fields, public companies are held to a higher standard of credibility and consistency. Very often this higher standard is enforced by regulations and laws with very real criminal and monetary penalties.

IROs frequently find it necessary to report on and explain changes in direction, performance shortfalls, personnel changes, unexpected events and the like, and to do so credibly. Some events create a temptation to experience some institutional memory loss in reporting the change. This is exactly the sort

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of ethical lapse that erodes credibility and trust among investors (and perhaps among employees.) In every public company, events and circumstances change and plans must be updated with

appropriate credible reporting of the reasons behind the variance to prior expectations.

An interesting topical parallel may be the “First 100 Days” for this or any presidential administration. Each new president is faced with reconciling campaign promises or assertions with evolving reality. (A notable exception was William Henry Harrison who was dead after only 32 days in office following an unfortunate inaugural speech in the cold rain.) For every presidential administration, however, events and reality overtake some early plans.

TELL INVESTORS OF CURRENT PLANS AND GOALS WITH THE NEAR CERTAIN UNDERSTANDING THAT IT WILL BE NECESSARY TO RECONCILE ACTUAL RESULTS WITH YOUR ORIGINAL PLANS.

One reporter states it like this: “Every four or eight years a new president arrives in town, declares his determination to cleanse a dirty process and invariably winds up trying to reconcile the clear ideals of electioneering with the muddy business of governing. Mr. Obama on his first day in office imposed perhaps the toughest ethics rules of any president in modern times, and since then he and his advisers have been trying to explain why they do not cover this case or that case.”

Melanie Sloan, executive director of Citizens for Responsibility and Ethics in Washington comments about apparent discrepancies by the new administration: “This is exactly why people are skeptical of politicians, because change we can believe in is not the same thing as business as usual.” Other examples exist for every other administration back to George Washington.

In public companies as in government, it is important to report credibly on the reasons behind changed circumstances. Doing this well consistently will earn public companies a reputation for good communications. Combining credible reporting with good financial results can earn your firm a place among the most admired companies...often accompanied by an enviable share price.

For professional communicators, a good approach to credible communications is to treat every reporting occasion with the “first 100 days” phenomenon in mind. Tell investors of current plans and goals with the near certain understanding that it will be necessary to reconcile actual results with your original plans. The credibility you and top management earn will provide you with the valuable benefit of the doubt when the going gets tough.

Note: President Harrison’s untimely death created a brief constitutional crisis but resulted in clarifying presidential succession.

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