



Ethics Meets Disclosure

By Jay Gould

Scenario: It's Friday night. The road trip had been exhausting: five cities; 12 investor one-on-ones; two breakfast, three lunch and two dinner meetings in three days.

American Widgets was on a roll. The company had emerged from bankruptcy just nine months ago, and targeted long-term investors were again showing interest. Bob Biggaman, CEO and chief architect of Widgets' turnaround, and Irene Richardson, VP of investor relations, jumped in the back of the limo and headed for the airport and home.

In the relaxed environment of the ride to the airport, the conversation turned to discussions of home, families and the upcoming weekend. Richardson noted she was exhausted and looking forward to the rest. In an unguarded moment of familiarity, Biggaman said he had not been feeling well the last couple of weeks and was especially exhausted.

Tuesday morning: Charlie Counsel, Widgets' head legal counsel and corporate secretary, informs Richardson that Biggaman was hospitalized Sunday morning after suffering a stroke. The early prognosis was mixed. While alert, he had not regained much of his speech, and movement on his left side remained partially paralyzed. With the doctors still developing a full diagnosis, Counsel instructs Richardson to keep this to herself until they know more information.

Solution: IROs have always had two masters: management who pays them, and investors who depend on them. Anybody in the profession learns early the challenges that the tug-of-war between these two loyalties places on them. Richardson has a dilemma: Biggaman and his family's right to privacy versus an investor's right to know material information. Ethics meets disclosure.

Richardson is a well-seasoned IRO who is aware of how some companies have handled such situations: McDonald's skillful maneuvering through the untimely death of CEO Jim Cantalupo and subsequent appointment of Charlie Bell, who two weeks later was diagnosed with colorectal cancer and underwent surgery. Not all fare so well, including

Kraft's handling of the two-week, unexplained hospitalization of CEO Roger Deromedi and temporary replacement Louis Camilleri.

What an investor needs to know to make an informed decision has been the foundation of investor relations long before Reg FD and Reg G came on the scene.

As Richardson returns to her office, in our scenario, she assumes the role of Widgets' largest shareholder and begins jotting down key questions and answers that will help her decide what, if anything, should be done.

1 How important is Biggaman in the Widgets equation?

Very important, she concludes. The board hired Biggaman as the turnaround architect. It was his successful track record in such situations that helped investors stay calm.

2 How deep is the bench? This is good news. Biggaman brought in a new COO who quickly demonstrated the ability to understand the issues of the business and to make tough and timely decisions. Further, the CFO and division managers have been with Widgets for a number of years.



Jay Gould

3 Is there a formal succession plan? With the company struggling through its turnaround, a plan has never been developed. However, the new COO has had a visible role in the IR effort, and the Street has confidence in his leadership and ability to execute strategies. Further, Biggaman strengthened the board by adding two new members. And the board has demonstrated it can make important decisions quickly — including the appointment of an interim or permanent CEO if warranted.

4 Is this information likely to leak? The longer Biggaman's prognosis does not improve, the higher the probability there will be leaks. Almost two days have

passed. Richardson is reassured that she was told about the situation and didn't hear it through the company's grapevine. But a call to Biggaman's assistant indicates she's going to have to cancel a number of his internal meetings for the rest of the week. If asked for a reason, Counsel instructed the assistant to simply say, "He's had to change his schedule." Richardson reasons it's only a matter of a day or two — or even just hours — before rumors start to fly internally and then externally.

5 Is the CEO's illness information an investor needs to know to make an informed decision? "Yes," Richardson concludes, especially if it has the potential to impact his ability to manage. She also knows that up to 40 percent of an investor's decision involves management and that often people invest in people as much as the business model. Further, her just-concluded business trip told her volumes about what investors considered being the No. 1 reason for investing in Widgets — Biggaman himself.

Her self-analysis confirms what she felt intuitively in Counsel's office. She does not relish the public airing of Biggaman's personal health issues, yet this is part of what

"comes with the territory" for high-level, high-profile executives and their families. She's certain Biggaman would understand. Nor does she look forward to going back to Counsel to argue her case for investors, but Richardson knows this is the right thing to do.

Richardson calls Counsel and advises that she feels strongly that, despite the temptation to wait for more information, a press release should be issued as soon as possible. She'll have a first draft for his review this afternoon.

The wheels of disclosure are set in motion, and investors win this tug-of-war. **IRU**

Jay Gould is senior vice president, director of investor relations at Huntington Bancshares, Inc., and a member of the Ethics Committee. He can be reached at jay.gould@huntington.com.

RESOURCES

"McDonald's CEO Health: Don't Ask, Do Tell," by Matthew Boyle, *Fortune*, May 31, 2004.

"The Mystery of Kraft CEO's Disappearance," by Gerald E. Murray, *Investor Relations Newsletter*, May 2004.