

ETHICAL BEHAVIOR Begins With the Individual

BY NANCY HOBOR



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The CEO of Arcadia Distribution Corporation exuded charisma. Highly demanding of his team, Peter led them with a vision that he communicated clearly and with a great deal of showmanship. He could be tough, but he was fair. Most of the management team would have walked over hot coals if he had asked them to.

The company had grown dramatically through geographic expansion. By adding new locations, revenues had compounded at an average annual growth of 25 percent and operating earnings somewhat higher. The darling of the industry, most sell-side analysts had buy or strong buy recommendations and aggressive sales and earnings gains in their models. The challenge that the investor relations officer, Darlene, had was to dampen the irrational exuberance of the investment community. That enthusiasm was fueled, in part, by Peter's own enthusiasm for the business and what he and the team could accomplish.

But Arcadia's management knew the company was running out of real estate. Even though there were dozens of projects

in the plan, finding new locations with the potential to sustain a similar growth rate was increasingly difficult. Investors kept asking senior executives if the growth rate was sustainable. Since a majority of the investors were momentum investors, any indication of a slowing would likely mean a major correction in the stock price. And the stock price was something that Peter followed closely. He would call Darlene regularly to find out "what they're saying about us" and was unhappy if the stock fell or an analyst lowered his or her rating. Darlene felt the pressure. It was unspoken, but she knew that she was being judged on how well the stock performed. She was expected to "keep the Street happy."

Sound familiar? Most investor relations officers probably have experienced a similar scenario at some point in their careers: Tough, demanding boss; an environment which has changed or is changing; and subtle or not so subtle pressure to "keep the stock price up." What do you do? Your personal answer may be found below.

According to the latest Deloitte & Touche ethics and workplace survey conducted by Harris Interactive, 91 percent of the respondents felt that having a healthy work-life balance increased the likelihood of someone behaving ethically. That may relate to the fact that when a person's job is everything in his or her life, it becomes harder to draw the line. (And aren't most investor relations professionals devoted to their jobs?) Not surprisingly, the survey found that respondents credited the behavior of management and direct supervisors as the top factors leading to an ethical workplace; towards the bottom came penalties for violating the code of conduct and ethics training.

What the survey reinforced was the idea that ethical behavior relies on inner direction not outer prompting. Having friends, family, and a moral compass from philosophical or religious grounding helps when making tough moral decisions. So does having enough personal savings, which makes being without a job for months practical. Ethical behavior is not always easy. It takes courage to stand up to someone who has

more power. Even if the episode in question passes, there is always the lingering concern that taking a stand may have hurt future opportunities within the firm...or elsewhere.

But, there are several ways that an investor relations professional can get help. Members of NIRI's ethics committee are available to discuss any issue. The company's general counsel should be another source of confidential advice (but don't forget who he or she reports to!). Investor relations colleagues outside of the organization may be able to offer perspective and lend support. Just remember when listening to those colleagues that it's easier to give advice than it is to make the tough choice.

That's why, in the end, ethics comes down to the individual. How does one handle a suggestion from a CEO or CFO to give investors information that's only "slightly" bogus? What if an analyst asks how the quarter is shaping up during the company's quiet period? At some point in time most investor relations officers have had these and other ethical dilemmas. What's your goal? Is it to make your boss or the analyst happy or to lead a happy life yourself? Sometimes those aims are in conflict. In any case, the truth always emerges, and the situation is one of "pay me now, or pay me later." You have to know who you are and where the line is. Can you take the pressure? Can you be true to yourself? [IRU](#)

A listing of NIRI Ethics Council members can be found on the NIRI Web site at www.niri.org/about/ethics_council.cfm

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