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TOOLS AND RESOURCES FOR FINANCIAL EXECUTIVES

Link Found Between Candor, Share Prices

Most CEOs at large public companies fail to report net income forthrightly, survey finds.

Stephen Taub, CFO.com

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Honesty is the best policy, if a company's leadership wants a better stock price.

That's the conclusion of the Rittenhouse Rankings survey, which claims that there's a positive correlation between candid communication and superior share-price performance. Of the sample 100 *Fortune* 500 companies surveyed, the top-ranked ones boosted their share prices over a two-year period by 21.5 percent, while bottom-ranked companies saw only a 7.3 percent increase.

The survey, conducted by andBeyond Communications, found that in the 2003 annual-report letters examined, 87 percent of the CEOs failed to candidly report their bottom-line performance.

"CEOs are well compensated for attending to the bottom-line performance of their companies," said L.J. Rittenhouse, president of andBeyond. "As companies spend millions of dollars to comply with Sarbanes-Oxley, it is alarming that only 13 percent of the CEOs in our survey met this simple test of forthright investor communication."

Rittenhouse, whose firm conducts an annual survey of disclosure in annual-report letters from *Fortune* 500 companies, added, "Companies that offer generalities without meaningful and straight-forward explanations will never restore investor trust."

The candor test created for the Rittenhouse Survey required CEOs to:

- Include the diluted earnings-per-share (EPS) numbers for prior and current years.
- Match the EPS numbers to those in the income statements.
- Explain the difference between GAAP and non-GAAP EPS.
- Clearly explain significant year-over-year variances in EPS.

According to andBeyond, one of the standards for best practices in this area is exhibited by Berkshire Hathaway CEO Warren Buffett, because he begins his letter by reporting on the year's per-share performance, compares this with the performance of the S&P 500 Index, and calculates the compounded growth rate over the more than 30 years since he took over the business.

Companies that scored well on the candor test included Alltel, Cisco Systems, ConAgra, Dow Chemical, Dow Jones, Estee Lauder, General Mills, Jack in the Box, Kimberly-Clark, Knight Ridder, Pfizer, Sherwin-Williams, and Wells Fargo.

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