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# Why Candor is Good Business

**Companies that practice straight talk with their shareholders outperform their obfuscating peers.**

By Steve Minter, Wednesday, January 11, 2012

In his 2010 letter to shareholders, Sherwin-Williams Co. Chairman and CEO Christopher Connor praised the performance of the paint and coatings manufacturer, noting sales up nearly 10% and net earnings up 6.1%, but he also cautioned, "If 2010 did mark the end of the four-year slide in U.S. coatings industry volume, we believe the recovery from here is likely to be slow and erratic."

Such plain-spoken language wins high marks from Laura Rittenhouse, who conducts an annual ranking of candor in the letters to shareholders of CEOs from 100 Fortune 500 companies. Rittenhouse's CEO Candor Survey, which ranked Sherwin-Williams first, provides strong evidence that CEOs who frankly discuss their companies operations, triumphs and challenges provide a financial benefit to shareholders.

In fact, the share prices of survey companies in the top quartile of CEO candor outperformed companies in the bottom quartile by 31%. For nine of the past 10 years, top-ranked companies have outperformed bottom-ranked companies on average by 18%.

Rittenhouse, a former Lehman Brothers vice president and now president of Rittenhouse Rankings, an investor relations firms based in New York, says clear, comprehensive reporting by a CEO is an indication that a company is going to be reliable in reporting its financial results.

"Numbers are the result of numerous decisions within a company about when to count cash, how to count it, where to book it. In a culture where you have these standards of candor, these decisions are more likely to be prudent and conservative and reliable than in a culture where you don't have these standards," says Rittenhouse. "That is one of the really important indicators for an investor."

Rittenhouse says companies that demonstrate candor are also likely to execute on their strategy better. In such companies, she posits, there is less fear in the culture and employees are likely to be more empowered. As a result, they spend less time second-guessing others or being second-guessed and spend more time solving problems.

Finally, says Rittenhouse, reliable numbers are indicative of a disciplined company culture that executes on its plans and is thus likely to achieve better financial results.

Rittenhouse examined the top 100 manufacturers in IndustryWeek's IW500 list and found 42 firms that her survey covers. She discovered that before 2007, when the "global financial system started to unwind," 60% of the companies in the bottom quartile of her candor survey were manufacturers.

Since the collapse, she noted, manufacturers represent 40% of the bottom quartile. The reason for the shift, she explains, is less candor among health care and financial firms and improvements in the candor of manufacturers. "It is a very positive sign for the manufacturing sector," she says.

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