

# **GROUP OF 100 POLICY STATEMENT SHORT TERMISM AND CORPORATE PERFORMANCE**

(September 2007)

The maintenance of private sector health which is a major wealth generator of the economy requires initiatives and investment strategies which by their nature are long term in their planning and execution.

This contrasts with the pre-occupation of some in the investment community with the short-term performance of companies, for example, quarterly reporting and the provision of earnings updates and estimates. Excessive focus on short-term performance has a corrosive effect on long-term wealth creation because it is creating a climate of risk aversion. It is important for the economy that the short-term performance of companies is assessed in the context of progress towards them achieving their long-term objectives.

The Group of 100 believes that gaining sensible outcomes regarding the measurement of company performance is a question of balance. Currently it could be argued that balance is skewed towards meeting short-term expectations at the expense of longer term sustainable gain. It is important that directors and senior management drive a clear balance between short-term performance and long-term value creation by fostering a culture of shareholder value creation on the part of shareholders, analysts and other capital market participants.

The Group of 100 believes that companies should be aware of the corrosive effects of short-termism and implement practices to minimise its influence and focus attention on the progress towards achieving long-term objectives. For example, this can be achieved by:

- Providing regular, clear and understandable communications to shareholders that focus on the consistent creation of long-term shareholder value and the way in which current performance reflects progress towards achieving those objectives.
- Ensuring that employee compensation schemes and incentive plans are designed so that rewards are aligned with progress towards achieving long-term objectives and performance benchmarks rather than rewarding short-term out-performance.
- Providing qualitative briefings on business strategy, the operating environment and achievements towards meeting medium to long-term objectives to shareholders, analysts and other capital market participants.

The Group of 100 considers that the continuous disclosure regime and half-yearly reporting serve to provide shareholders and the market with a regular flow of relevant information to assess the performance of a company and its success or otherwise in meeting its long-term objectives.

The Group of 100 does not believe that providing more information more frequently, for example quarterly reporting, necessarily serves the best interests of shareholders and market participants. Rather the focus of communication by the company should be to align long-term performance metrics with business strategy.

The Group of 100 believes that companies should demonstrate leadership by resisting demands for guidance based around short-term metrics and by providing detailed information on the strategic initiatives that are designed to enhance long-term shareholder value in a sustainable way.

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