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“Is Short-Term Behavior Jeopardizing the Future Prosperity of Business?”

In a must-read [report](#) highlighting the pressures public companies face to meet quarterly guidance, maximize immediate profits and extract value today instead of investing for the future, the Conference Board examines what is driving short-term behavior and outlines what can be done to restore balance. The following specially selected highlights from the report and associated re-release (omitting tax policy matters discussed in detail in the actual report) support the need for action to curb short-termism and the excesses of shareholder activism that are detrimental to the American economy and society:

What Is Driving Short-Term Behavior?

- Activist hedge funds that agitate for immediate shareholder value above all else
- “Quarterly capitalism” preoccupied with the next earnings report
- Executive compensation design that does not encourage a “buy and hold” mentality
- Changes in capital markets in which trading has supplanted investment

What Can Be Done?

- Abandon quarterly bottom-line earnings guidance and replace it with long-term guidance and information that is material to the company’s longer-term prospects
- Revamp executive compensation to reward longer-term thinking
- Consider the benefits of offering extra dividends or enhanced voting rights to reward longer-term investors
- Adopt capital allocation policies to ensure the long-term interests of the company are not sacrificed to the pressures of daily business activity
- Move away from quarterly portfolio manager compensation and evaluation
- Do not overly discount longer-term corporate investments

Understanding the causes of short-termism and the Conference Board’s recommendations for re-focusing public companies and institutional investors on long-term investment and sustainable prosperity should be a top priority.

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