



COPING, SHIFTING, CHANGING:

Strategies for Managing the Impacts of Investor Short-Termism on Corporate Sustainability



Global Compact
LEAD



PRI | Principles for
Responsible
Investment

This report forms part of a wider collaboration between Global Compact LEAD and the Principles for Responsible Investment (PRI) within the “Realizing Long-term Value for Companies and Investors” project. The aim of this project is to enhance the dialogue between companies and investors on the materiality of corporate sustainability and on the importance of companies and investors taking full account of long-term sustainability-related factors in their business strategies and capital investment decisions. We would like to thank the LEAD companies that participated in meetings, webinars and one-one discussions with the project team to discuss their experiences of engaging with investors on sustainability-related issues.

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We would like to thank the following for their comments on an earlier draft of this report:

- LEAD Companies
- Institute for Governance of Public and Private Organizations
- The Aspen Institute
- Universities Superannuation Scheme
- McKinsey & Company

TABLE OF CONTENTS

Executive Summary	4
1. Introduction	7
2. Short-termism in Financial Markets: An Overview	9
3. Understanding Investors' Needs and Interests	12
4. Defining and Tracking Outcomes: Coping, Shifting, Changing	15
5. Coping Strategies: Reducing the Negative Consequences of Investor Short-termism....	18
6. Shifting Strategies: Attracting Investors that are Supportive of and Interested in Longer-term Strategy.....	20
7. Change Strategies: Addressing Capital Market Short-Termism	25
8. References	27

EXECUTIVE SUMMARY

Short-termism in investment markets is a major obstacle to companies embedding sustainability in their strategic planning and capital investment decisions. Given that short-termism is likely to remain a defining characteristic of investment markets for many years to come, the question considered in this report is, whether it is possible for companies to adopt strategies that lead to their investors supporting measures that address sustainability-related risks and opportunities, that support the long-term growth of the business and that improve the company's impact on society and the environment.

Short-termism is likely to remain a defining characteristic of investment markets for many years to come.

Why is Investor Short-termism Such a Problem?

The most common explanation for short-termism in listed companies relates to their interaction with financial markets. The short-term performance pressures on investors result in these investors having an excessive focus on short-term, quarterly earnings and paying less attention to strategy, fundamentals and long-term value creation. Many companies respond to these pressures from the investment markets by reducing expenditures on research and development, foregoing investment opportunities with a positive long-term net present value, and focusing on restructuring, financial re-engineering or mergers and acquisitions rather than on developing the operational capabilities of the business.

Short-term pressures from investors lead to companies underinvesting in sustainability-related research and development, failing to develop sustainable products which could open new markets, failing to develop their human capital and not effectively managing the social and environmental risks to their businesses.

From a sustainability perspective, these short-term pressures lead to companies underinvesting in sustainability-related research and development, failing to develop sustainable products which could open new markets or increase their customer base, not investing in measures that deliver operational efficiencies, failing to develop their human capital, or not effectively managing the social and environmental risks to their businesses.

Dealing with the Impacts of Investor Short-termism: An Agenda for Action

The central argument of this report is that it is possible for companies to act in a more long-term way in a short-term world. This requires companies to:

- (in the near-term) Cope better with prevailing short-termism in their existing investor base.
- (in the medium-term) Shift to a more long-term oriented investor base.
- (over the medium to long-term) Support wider systemic change in the capital markets.

The central argument of this report is that it is possible for companies to act in a more long-term way in a short-term world.

Recommendations

Understand Investors' Needs and Interests

Recommendation 1: Companies need to understand the diverse needs and interests of their current investor base and of potential (or target) future investors.

Recommendation 2: Companies should analyse how investor short-termism has affected their business strategy, their capital investment and their financing of the business.

Define and Track Outcomes

Recommendation 3: Companies need to define the outcomes – coping, shifting, changing - they wish to achieve from their efforts to alleviate the impacts of investor short-termism on their businesses.

Recommendation 4: Companies need to develop performance measures that they can use to track progress against these outcomes.

Recommendation 5: Companies should monitor the results of their efforts to cope with short-termism, to shift their investor base and to change the capital markets. They should share their knowledge and experiences with other companies.

COPE with Short-termism in their Existing Investor Base

Recommendation 6: Companies should develop and implement sustainability strategies that, as far as possible, provide clear financial benefits (e.g. cost reduction, improved efficiency) over the short-term.

Recommendation 7: Companies should communicate the short- and the long-term financial benefits of their sustainability-related strategies and activities. They should highlight metrics that are of relevance to short-term investors and clearly articulate how the company's longer-term investments positively affect its net present value.

SHIFT to a More Long-term Oriented Investor Base.

Recommendation 8: Companies should confidently communicate and demonstrate how their business strategy, including their approach to sustainability, will create long-term value for their investors.

Recommendation 9: Senior management remuneration should depend on the long-term performance of the business, across a range of financial and non-financial metrics, of the business.

Recommendation 10: Companies should consider whether they should stop producing quarterly earnings guidance and instead report on issues and metrics that are of relevance to the longer-term success of the business.

Recommendation 11: Boards of directors should produce formal statements that set out their duties as stewards of the company and that commit them to long-term decision-making. Within these statements, they should explain how they define long-term, and explain how this relates to their business and investment cycles.

Recommendation 12: Companies should proactively meet with current and potential investors to discuss the company's approach to creating and protecting value. These meetings should cover issues such as sustainability, long-term strategy, performance, governance, culture, risk and reputation, and should occur outside of the results season.

Support Wider Systemic CHANGE in the Capital Markets

Recommendation 13: Companies should provide policymakers with evidence (case-studies and data) of how investor short-termism has affected their business strategy, their capital investment decisions, their approach to sustainability and their ability to create long-term business value.

Recommendation 14: Companies should encourage policymakers to take action to address the negative consequences of short-termism and to adopt measures that enable companies to take a longer-term approach to sustainability-related activities and investments.

Recommendation 15: Companies should take a long-term approach in their own investment practices and in the investment practices of their pension funds.

1. INTRODUCTION

The case for companies to take account of sustainability-related issues¹ in their strategic planning and capital investment decisions is compelling. To provide just one example, 93% of the CEOs that participated in the recent United Nations Global Compact-Accenture CEO study on sustainability stated that they consider sustainability as important to the future success of their business, with 76% stating that they believed that embedding sustainability into core business would drive revenue growth and new opportunities².

93% of CEOs consider sustainability as important to the future success of their business.

Yet, these CEOs also expressed frustration that their efforts are constrained by current market structures, incentives and expectations. One of the key constraints is pressure from investors for companies to focus on short-term financial performance, often at the expense of the longer-term needs of their businesses³. This pressure may lead to companies underinvesting in sustainability-related research and development, failing to develop sustainable products which could open new markets or increase their customer base, not investing in measures that deliver operational efficiencies, failing to develop their human capital, or not effectively managing the social and environmental risks to their businesses.

Companies face pressure from their investors to focus on short-term financial performance often at the expense of the longer-term needs of their businesses.

There has been some progress. For example, over 1,000 asset owners and investment managers have now signed the UN-backed Principles for Responsible Investment (PRI), committing themselves to integrate consideration of environmental, social and governance factors into their investment decision-making and into their dialogue with companies⁴. There is also growing evidence that a focus on sustainability-related issues can enable investors to make better investment decisions⁵. However, this progress is limited by short-termism in investment markets, with the average stock holding period in the New York Stock Exchange having fallen from 5 years in the 1980s to just 5 months today⁶. The reality is that short-termism is likely to remain a defining characteristic of investment markets for many years to come.

Short-termism is likely to remain a defining characteristic of investment markets for many years to come.

About this Report

The central premise of the report is that it is possible for companies to at least partially alleviate the impacts of investor short-termism on their sustainability goals. That is, the starting point is that short-termism in investment markets does not necessarily need to result in short-termism in business models. The core question, therefore, is *what strategies might companies adopt that lead to their investors supporting the long-term growth of the business and thereby improving the company's impact on society and the environment?* Expressed another way, the question is whether it possible for companies to act in a more long-term way in a short-term world.

The central premise of this report is that companies can at least partially alleviate the impacts of investor short-termism on their sustainability goals.

The report has three objectives:

- To explain why investor short-termism is an issue for companies (see Section 2).
- To describe what success in mitigating the effects of investor short-termism might look like (see Section 4).

Is it possible for companies to act in a more long-term way in a short-term world?

This report argues that companies should (a) aim to cope

better with prevailing short-termism in their existing investor base, (b) shift to a more long-term oriented investor base and (c) encourage wider change in the capital markets.

- To provide practical recommendations to companies on the strategies they might adopt to achieve this success (see Sections 3 to 7). In offering recommendations, this report is not downplaying the systemic importance of investor short-termism, nor is it suggesting that mitigating the effects of short-termism on companies will be easy to achieve. This report, however, makes clear that taking action will provide benefits to individual companies and will make an important contribution to catalysing wider change within the investment community.

This report focuses primarily on investors and on the capital markets. It is, nonetheless, important to recognise that there are other external and internal pressures on companies that reinforce this emphasis on short-term performance. The external pressures can include those from the media and those resulting from the extremely competitive markets that many firms operate in. The internal pressures can include the incentives being offered to senior management, the progressive shortening of average CEO tenures, the organizational culture and the relative emphasis placed by the Board and senior management on short-term rather than long-term performance. While the primary focus of this report is on the relationship between companies and their investors, it is important to acknowledge that investors can exacerbate these internal and external pressures.

It is also important to highlight the extensive work already underway on the business case for sustainability⁷, on how companies might communicate more effectively with their investors⁸ and on short-termism in the investment markets⁹. Rather than repeat or duplicate the recommendations made by these various initiatives, this report takes these as the starting point and focuses its attention on the additional or complementary measures that companies might adopt to address the specific problems caused by investor short-termism for their sustainability-related strategies and capital investment decisions.

2. SHORT-TERMISM IN FINANCIAL MARKETS: AN OVERVIEW

What Do We Mean When We Talk About Short-termism?

Short-termism refers to the excessive focus of some corporate leaders, investors and analysts on short-term, quarterly earnings and a corresponding lack of attention to strategy, fundamentals and long-term value creation¹⁰. Short-termism in companies can manifest itself in a variety of ways, including¹¹:

- Lower expenditures on research and development.
- The foregoing of investment opportunities in physical assets or in intangibles such as product development, employee skills and customer reputation with a positive long-term net present value, in order to satisfy the market's short-term performance expectations.
- Accounting adjustments that maximise short-term earnings and stock prices, rather than the long-term value of the corporation.
- A bias towards high dividend payouts and share buybacks, at the expense of investment.
- Remuneration structures that reward short rather than long-term performance and that skew management's incentives towards actions that provide short-term boosts to the share price.
- A lack of attention to longer-term risks in the company's products, services or business strategy.
- An excessive focus on restructuring, financial re-engineering or mergers and acquisitions rather than on organic growth or on developing the operational capabilities of the business.

Short-termism refers to the excessive focus of some corporate leaders, investors and analysts on short-term, quarterly earnings and a corresponding lack of attention to strategy, fundamentals and long-term value creation.

The most common explanation for short-termism in listed companies is pressure from the financial markets. In this account, financial market participants face considerable short-term performance pressures from their clients and from the media, with the benchmarking and evaluation of investment managers based on their 1-month and 3-month investment performance a seemingly inescapable part of the investment landscape.

Even those investment organizations that should, at least in theory, be classed as long-term investors, too often appear to be primarily interested in short-term performance. For example, asset owners — whose investment time horizons should extend many decades into the future — often focus on quarterly or even monthly investment portfolio performance. This results in investment managers seeing this as the *de facto* time horizon over which their performance is being assessed¹². This emphasis on short-term financial performance tends to be reinforced by the manner in which investment management mandates (i.e. the contracts between asset owners and asset managers) are structured and monitored¹³. These mandates often require investment managers to report quarterly, or more frequently, on investment performance, again reinforcing the perception that short-term investment performance is of primary importance. While mandate design and investment manager monitoring are important issues, the emphasis on short-term investment performance also reflects some of the regulatory and other requirements that asset owners have to meet. For example, in the wake of the global financial crisis, regulatory bodies have placed much more emphasis on short-term performance management and reporting, especially in situations where pension funds have shortfalls against their liabilities.

Investor short-termism is now widely recognised as one of the key issues for investors and policymakers.

In recent years, short-termism has been recognised as one of the key issues for investors and policymakers^{14, 15}, and there have been a series of important reports, policy statements and recommendations from the business and financial communities and from government on the subject¹⁶.

Why is Short-termism an Issue for Sustainability-related Issues?

Investor short-termism affects the manner in which companies consider sustainability-related issues in their strategy, capital expenditures and day-to-day operations. In discussions, Global Compact LEAD companies have acknowledged that emphasis on short-term financial performance means that they tend to prioritise investments that offer immediate returns over those where there is a significant time between capital being invested and returns being delivered (even if these investments provide a greater net present value), prioritise investments that provide tangible financial benefits over those that provide non-financial benefits (e.g. improved brand or reputation), and prioritise investments in research and development that relate to their core business areas, rather than those where the primary drivers are sustainability-related risks or opportunities.

The emphasis on short-term financial performance means that sustainability-related activities are often not prioritised for capital investment or for research and development.

Even those companies with well-established sustainability strategies and programmes acknowledge that the effect is to reduce their total investments in sustainability-related activities, even those that are seen as critical to the longer-term success of the company.

Mechanics of Influence: How Do Investors Influence Companies?

Before discussing the strategies that companies might adopt to mitigate the negative impacts of short-termism on their businesses and/or contribute to the creation of investment markets that have a longer-term orientation, it is important to understand how investors influence companies. In broad terms, investors exert influence through the share or asset price, and through the dialogue (engagement and voting) that they have with companies.

Share prices (or other financial measures, e.g. the cost of capital) provide companies with a broad measure of how they are perceived by financial markets. Investors tend to focus on how the company and its share price will perform over the next year or two years at most. This does not mean that these investors are unaware of or do not analyse issues that are likely to impact on companies beyond this one or two year time horizon. What it does mean is that investors tend to focus on short-term factors in their investment decisions and to be less interested in investments that provide longer-term returns, or that mitigate risks that may occur at some point in the future¹⁷.

Investors tend to focus on short-term factors in their investment decisions and tend to be less interested in investments that provide longer-term returns, or that mitigate risks that may occur at some point in the future.

There is evidence that companies respond to the signals sent to them by the financial markets; for example, concern about the market reaction to a failure to meet earnings expectations might cause companies to engage in earnings management to meet these market expectations¹⁸. This statement

should be qualified by acknowledging that there are a variety of reasons why companies may behave in this way, such as the desire to build the firm's credibility with capital markets, to maintain or increase their stock prices, to convey future growth prospects and to achieve particular credit ratings¹⁹. That is, while short-termism is a factor, there are a variety of other factors at play in the relationship between companies and their investors.

The manner in which investors use their formal rights (e.g. to vote proxies, call meetings) and their informal influence (often referred to as engagement) also signals to companies the issues that are seen as important by investors²⁰. The general arguments for companies to take a proactive approach to communicating with investors on long-term and sustainability-related issues are that regular engagement increases mutual trust between companies and their investors²¹, that constructive challenge by institutional shareholders of strategy and capital expenditure is a necessary and invaluable part of the value creation process²² and that engagement enables shareholders to better understand the business²³. In practice, however, many companies express frustration with their engagement with investors, criticising investors for focusing primarily on near-term financial performance, quarterly earnings and remuneration. The conclusion that many companies draw from this engagement is that investors are primarily interested in these short-term issues and have less interest in longer-term business drivers or in sustainability-related issues²⁴. These perceptions are compounded by the fact that investors are often not forthcoming about their views on the long-term prospects for the company, or how they use the information provided by companies in their investment decision-making²⁵.

Companies that emphasise long-term strategy in their communications can attract investors with similar horizons. Companies that focus more on the short-term tend to have a more short-term oriented investor base and to have higher stock price volatility.

Companies' perceptions of the importance that investors assign to short-term rather than longer-term performance are likely to be exacerbated in situations where short-term investors are disproportionately represented on their share registers²⁶. These investors have less reason to care about long-term corporate performance and so are unlikely to exercise a positive role in promoting corporate policies²⁷. Moreover, their focus on quarterly earnings and other short-term metrics can harm the interests of shareholders seeking long-term growth and sustainable earnings, if managers and boards pursue strategies simply to satisfy these short-term investors²⁸. In this context, one of the wider arguments for companies to proactively communicate with investors on sustainability-related issues is that this may make the company more attractive to investors that are interested in and supportive of long-term strategy. Research by Brochet *et. al.* (2012) suggests that companies that emphasise long-term strategy in their communications can attract investors with similar horizons and that companies that focus more on the short-term tend to have a more short-term oriented investor base and to have higher stock price volatility.

3. UNDERSTANDING INVESTORS' NEEDS AND INTERESTS

While it may sound obvious, companies need to start by properly understanding the diverse needs and interests of their current investors and their potential (or target) future investors, i.e. the type of investors they would like to see investing in the business. This will enable them to understand investors' investment objectives and time horizons, the extent to which investors care about and are willing to reward the company's longer-term strategy and the extent to which investors are prepared to support sustainability-related investments²⁹.

Companies need to understand the needs and interests of their current investors and their potential (or target) future investors.

Box 1: A Typology of Investors

A useful starting typology of institutional investors is provided by Palter *et. al.* (2008), who divide investors into three broad categories: (i) intrinsic investors, (ii) mechanical investors and (iii) traders.

They define intrinsic investors as those who make a significant effort to understand the companies they invest in and who are interested in the company's intrinsic ability to create long-term value. In contrast, mechanical investors such as computer-run index funds and investors who use computer models to drive their trades make decisions based on strict criteria or rules. These investors tend to pay limited attention to management quality or strategy in their investment decisions. Finally, traders seek short-term financial gain by betting on news items, such as the possibility that a company's quarterly earnings per share (EPS) will be above or below the consensus view. Traders tend to move in and out of stocks over short periods (often days or hours).

Palter *et. al.* (2008) suggest that executive management should pay most attention to intrinsic investors because of these investors' interest in the company's strategy, in its current performance and in its potential to create long-term value. They also argue that these investors are more likely than other investors to support management through short-term volatility.

In this process, it is important that companies:

- Do not confine their engagement to investment managers but also seek to engage with the ultimate asset owners (e.g. the pension funds and their beneficiaries on whose behalf investment managers are acting, the individual investors whose money is being invested by the investment manager).
- Engage with potential future investors, specifically those investors that the company would like to see represented on its shareholder register.
- Recognise that investors are not homogeneous (see Box 1) and that, even within an individual investment organization, different individuals are likely to have quite different time-horizons and quite different views on the relevance of sustainability-related issues to their investment decisions (see Box 2).
- Recognise that many of those investors that are supportive of and interested in longer-term strategy (the intrinsic investors in Box 1) may well behave in a relatively short-term way in relation to their actual investment decisions and that the average holding period of these investors may not exceed one or two years³⁰.
- Seek investors' views on both their investment processes (e.g. the timeframes that inform their investment decisions, the weight they assign to sustainability-related issues³¹) and on their wider

expectations of companies (e.g. the importance they assign to long-term strategy, their expectations of companies' approach to sustainability-related investments).

Box 2: Getting Clear on Materiality³²

In broad terms, investors tend to divide issues into those that are:

- Financially material. That is, do they have the potential to significantly affect the financial performance (positively or negatively) of the business in the short term? Typically, these would be defined as issues that have at least a 5 or 10 per cent impact on one or more key financial indicators over a period of one to two years.
- Strategically important: That is, do they have the potential to significantly affect (positively or negatively) the ability of the business to deliver its strategy in the medium to long term?
- Operational: That is, are they important to stakeholders but that, if reasonably well managed, do not present a significant threat to or opportunity for the business?

Investors will be primarily interested in issues that they see as financially material or of strategic relevance and will tend to focus on operational issues only when there is some reason for them to do so (e.g. media concern).

This is not a "hard and fast" classification, but is best seen as a practical rule of thumb to be used when identifying priorities for action and in informing reporting (see, further, Section 6 of this report). Investors will tend to class issues differently, some issues can fall into more than one category and issues may move between categories over time.

Apart from enabling companies to better target their strategies and communications, conducting a survey of investors' needs and interests should also provide companies with the confidence to more effectively respond to very short-term investors. Because investors with a short-term focus tend to command the most attention, companies often over-interpret this as a signal that all investors only care about short-term results. An investor survey should enable companies to make informed decisions on how much attention they should pay to short-term investors and on how much emphasis they should place on short-term issues in their communications with investors.

Recommendation 1: Companies need to understand the diverse needs and interests of their current investor base and of potential (or target) future investors.

While the broad implications of investor short-termism for business decision-making are reasonably well understood (see, further, Section 2), companies need to understand how investor short-termism has affected the decisions that they have made. For example, has it affected the decisions they have made about priorities for research and development, about capital investment, about product development, about the structure of their balance sheet, or about returning capital to investors (e.g. through dividends, through share buybacks). Companies should also, as far as practicable, assess how these decisions have affected the health and sustainability of the business compared to the alternative strategies that they might have adopted. It is important to stress that we are not offering any opinions on whether the decisions are positive or negative for the business. While much of the literature on short-termism emphasises negative impacts, it is recognised that investors have an important role to play in ensuring that companies have appropriately focused business strategies, in ensuring that companies are run

profitably and efficiently, and deploy capital effectively. These are all important contributions that need to be built into an assessment of the effects of investor short-termism on the business.

This analysis is important for three reasons. First, it will help companies determine whether investor short-termism is an immediate problem and, in turn, what coping strategies they need to adopt (see Section 5). Second, it will help them decide how much effort they need to put into attracting investors that are supportive of and interested in long-term term strategy (see Section 6). Third, it will provide them with a robust evidence base that they can use to shift their investor base (see Section 6) and that they can use in their engagement with policymakers (see Section 7).

Recommendation 2: Companies should analyse how investor short-termism has affected their business strategy, their capital investment and their financing of the business.

4. DEFINING AND TRACKING OUTCOMES: COPING, SHIFTING, CHANGING

Across the capital markets as a whole, the success of efforts to encourage investors to take a more long-term approach will be measured by the willingness of investors to support strategies that enable the long-term growth and success of the business, that address sustainability-related risks and opportunities and that improve the company's impact on society and the environment.

When we look at the needs and interests of individual companies, we see that they can focus their efforts in three areas:

- (in the near-term) Coping better with prevailing short-termism in their existing investor base.
- (in the medium-term) Shifting to a more long-term oriented investor base.
- (over the medium to long-term) Supporting change in the capital markets.

These areas of activity broadly align with the timeframes over which benefits might be expected to accrue. That is, coping strategies should provide some relief from the short-term pressures faced by companies, shifting strategies should increase the level of support provided by investors for the company's sustainability-related strategies and investments and change strategies should advocate for and contribute to wider systemic changes that alleviate at least some of the short-term pressures from the wider capital markets.

Coping

The immediate priority for companies is to be able to take a longer-term perspective in their strategic planning and capital investment decisions, and to ensure that these decisions take account of sustainability-related considerations. In the context of this report's focus on investors, this requires companies to reassure their ever-changing cohort of investors that taking account of sustainability-related factors and adopting sustainability oriented strategies in their strategy and capital investment decisions does not negatively affect enterprise value and, if possible, does not come at the cost of short-term financial performance. More positively, it also requires companies to explain how their investments in sustainability and in measures to enhance the long-term profitability of the organization improve the net present value of the company. We offer suggestions on how companies might do this in Section 5.

Companies need to be able to take proper account of sustainability-related factors in their strategy and capital investment decisions. To do this, they need to reassure investors that this does not come at the expense of financial performance.

Companies could measure the success of their efforts to cope with investor short-termism in terms of:

- The level of understanding that their investors have of the company's short and long-term business objectives, and of the role that sustainability-related activities play in the delivery of these objectives.
- The level of support from their investors for their sustainability-related strategies.
- The assessments that other investment industry actors (e.g. investment banks) make of the company's sustainability strategy.
- The behaviour of their investors (e.g. if, in response to bad news, they divest rather than engage).

Shifting

The second, and more medium-term, goal for companies is to attract more investors that are supportive of and interested in longer-term strategy to their share register. The rationale is that such investors are more likely to be inherently interested in the sustainability-related aspects and impacts of the business, because they are more likely to be supportive of strategies and investments directed at building a business that is successful and sustainable over both the short and the long-term. We offer suggestions on how companies might attract these longer-term investors in Section 6.

Companies need to attract more investors that are supportive of and interested in longer-term strategy to their share register, as these investors are more likely to be supportive of strategies and investments directed at building a business that is successful and sustainable over the short and long-term.

Companies could measure the success of their efforts to shift their investor base in terms of:

- The proportion of investors (e.g. large investment institutions, asset owners, pension funds) on their share register that is supportive of and interested in longer-term strategy.
- The proportion of investors on their share register with explicit commitments to responsible investment (e.g. signatories to the PRI or similar frameworks).
- Share price volatility relative to the market or relative to industry peers. In both cases, lower volatility suggests a more stable investor base.

Changing

Companies can, either individually or in collaboration with other similarly-minded companies and investors, seek to support changes in the structure and operation of the capital markets that address the underlying causes of short-termism and promote longer-term approaches to investment. As outlined in Section 7, companies can do this through raising awareness of the negative implications of short-termism on value creation, through dialogue with policymakers and through their own investments.

Measuring the success of these efforts is difficult given that individual companies are likely to have a relatively modest impact on the wider operation of the capital markets. However, companies should be able to identify the actions that they have taken and to track the influence of the initiatives they have supported or engaged with have had on the capital markets.

Recommendation 3: Companies need to define the outcomes – coping, shifting, changing - they wish to achieve from their efforts to alleviate the impacts of investor short-termism on their businesses.

Recommendation 4: Companies need to develop performance measures that they can use to track progress against these outcomes.

Tracking Progress and Impact

Some Global Compact LEAD companies have adopted some of the recommendations set out in this report and others are considering doing so. As yet, there is relatively little information on how these measures have altered companies' dialogue with their investors, or affected the investment system more generally. This reflects a variety of factors. In part, it is because in many cases it is simply too early to make any conclusions as to their effectiveness, given the time required to implement these measures, and then for these measures to take effect. In part, it is because companies are reluctant to talk about the issues around short-termism until they have their own activities in order. In part, it is because of concern that talking about short-termism will affect their relationship with their investors. In part, it reflects a lack of systematic evaluation of the impacts and effectiveness of these measures.

While some companies have adopted some of the recommendations set out in this report, there is relatively little information on how these measures have altered companies' dialogue with their investors, or affected the investment system more generally.

It is suggested that, as companies implement measures to cope with short-termism in their existing investor base, to shift their investor base or to call for changes in the investment system, they monitor and critically review the impacts of these actions on their engagement with their investors, on their investor base and on the investment system as a whole.

To enable good practices to be shared across the business community, companies should share information on the actions that have been taken, the challenges and barriers that have needed to be addressed and the outcomes that have been achieved.

It is important that this information is collated and shared, to enable lessons to be learned and for good practices to be communicated across the business community. This would help to develop a robust body of evidence on how these actions have been implemented, the challenges and barriers that have needed to be addressed and the outcomes that have been achieved. In turn, this would both build the capacity of the companies involved in this process and, critically, catalyse other companies to adopt similar practices.

PRI and the UN Global Compact are likely to have a valuable role to play in this process, through their ability to convene companies and investors, to provide a platform for information for capacity-building and information sharing and to provide technical and other support to this process³³.

Recommendation 5: Companies should monitor the results of their efforts to cope with short-termism, to shift their investor base and to change the capital markets. They should share their knowledge and experiences with other companies.

5. COPING STRATEGIES: REDUCING THE NEGATIVE CONSEQUENCES OF INVESTOR SHORT-TERMISM

In order for companies to be able to take a longer-term perspective in their strategic planning and capital investment decisions, they need to reassure their ever-changing cohort of investors that taking account of sustainability-related factors does not negatively affect enterprise value and, if possible, does not come at the cost of short-term financial performance.

Focus on the Financial Benefits

Companies seeking to convince their existing investor base of the value of focusing on sustainability-related issues need to ensure that their sustainability-related activities and investments deliver tangible financial benefits over both the short- and long-term. Too often, however, sustainability-related activities and investments are presented by companies as providing benefits that are difficult to measure in hard financial terms or as solely providing long-term benefits. These arguments tend to be treated with scepticism by investors who tend to focus most attention on the near-term financial costs and benefits, and to pay correspondingly less attention to longer-term benefits and to benefits that cannot be expressed in financial terms.

Short and long-term financial performance is hugely important to investors.

This is not intended as an argument that companies should neglect sustainability strategies that provide wider business benefits such as improved brand and reputation or strengthened customer loyalty. Nor is it an argument that companies should prioritise short-term over long-term financial gains. Rather, the point is that companies need, as far as possible, to ensure that their sustainability-related strategies and investments provide clear financial benefits, over the short and long-term³⁴.

Recommendation 6: Companies should develop and implement sustainability strategies that, as far as possible, provide clear financial benefits (e.g. cost reduction, improved efficiency) over the short-term.

Proactively Communicate the Financial Benefits

In order to convince investors that sustainability-related investments do not undermine or compromise financial performance, companies need to explicitly discuss the short- and the long-term financial benefits of their sustainability-related activities and investments. Moreover, companies need to communicate the value of sustainability to their businesses in terms that also are of interest and relevance to their short-term investors. They should be prepared to talk about the implications of these in the context of conventional financial metrics such as net present value and earnings per share. Discussing sustainability-related activities and investments in this way should help establish management's credibility as being focused on business outcomes, and should reassure investors that a focus on sustainability does not have to be at the expense of the company's financial performance and might in some cases even strengthen the present valuation

Providing robust evidence of the short-term financial benefits should reassure investors with a short-term focus that sustainability-related activities and investments does not have to compromise financial performance.

of the company. The provision of this sort of hard financial information should also help educate investors about the wider benefits of sustainability-related strategies and investments.

Recommendation 7: Companies should communicate the short- and the long-term financial benefits of their sustainability-related strategies and activities. They should highlight metrics that are of relevance to short-term investors and clearly articulate how the company's longer-term investments positively affect its net present value.

6. SHIFTING STRATEGIES: ATTRACTING INVESTORS THAT ARE SUPPORTIVE OF AND INTERESTED IN LONGER TERM STRATEGY

Section 4 of this report argued that investors that are supportive of and interested in longer-term strategy are more likely to be inherently interested in sustainability-related issues, and are more likely to be supportive of strategies and investments directed at building a successful and sustainable business over the short and long-term. This Section discusses the strategies that might be adopted by companies seeking to shift their investor base in this manner.

The Starting Point: A Clearly Communicated Strategy for Creating Long-term Value

The companies that are most likely to be attractive to investors that are supportive of and interested in longer-term strategy are those that: (a) have a clear focus on long-term performance as an integral part of their overall business strategy; (b) can clearly explain how the business strategy will deliver financial value (profitability and growth) over the short- and long-term; (c) can explain how the company's performance across a range of financial and non-financial parameters will develop over time; and (d) can explain how the company will benefit from changes in wider political, economic, social, technological, environmental and regulatory factors.

These investors should see that the company is committed to its strategy, that it understands the risks and opportunities presented by the strategy, that it understands the trade-offs and compromises that have been made (e.g. if specific measures have not been adopted because the benefits take too long to accrue) and that it understands how the decisions that have been made may affect financial performance over the short- and long-term. It is also important that companies are to explain how they will respond to pressures from short-term investors (including the threat that these investors will simply sell their holdings) and how they will ensure that these responses do not compromise the company's ability to create long-term value for its investors.

Sustainability-related issues should form part of this discussion, although the weight given to sustainability-related factors will depend on the company, the sector it is in and the importance placed on these factors as drivers of business value (see Box 2 in Section 3 of this report). Companies need to communicate carefully and thoughtfully with their investors on sustainability-related issues and on the business benefits of implications of sustainability. When deciding on what and when they communicate, companies need to consider:

- Is the issue financially material (i.e. are the amounts involved significant in the context of the business as a whole, are the timeframes relevant to the analyst)?
- Is the issue relevant to the company's strategy?
- Is the issue relevant to the questions that investors are likely to ask? For example, does it demonstrate that key business risks are being effectively managed, or does it relate to what investors are likely to see as fundamental value drivers or key business risks?
- Can the benefits be quantified in financial terms?

Recommendation 8: Companies should confidently communicate and demonstrate how their business strategy, including their approach to sustainability, will create long-term value for their investors.

Link Remuneration to Long-term Value Creation

An integral part of communicating and demonstrating how a company's business strategy will create long-term value is by developing metrics that allow investors to assess the effectiveness of the company's strategy and the long-term performance and health of the company. This requires that companies move beyond reporting on standard financial metrics and instead report on metrics such as ten-year economic value added, research-and-development efficiency, the patent pipeline, multiyear returns on capital investments and energy intensity of production³⁵.

It is not enough to set and report on these metrics. In order to be credible, it is essential that senior management remuneration is dependent on performance against these metrics³⁶. This sends a clear signal about the importance of long-term performance to the company's management.

Recommendation 9: Senior management remuneration should depend on the long-term performance of the business, across a range of financial and non-financial metrics, of the business.

Review the Value of Quarterly Earnings Guidance

It has been suggested that companies should cease producing quarterly earnings guidance, and instead report on cash flows and a broad range of operating metrics that are important to the short and long-term success of the business³⁷. The argument for stopping the production of quarterly earnings guidance is that it would reduce the pressure on managers to meet financial performance expectations on a quarterly basis and instead allow them to focus instead on building a successful sustainable business over the long-term³⁸.

Moreover, such a decision has, as with the explicit linking of remuneration with long-term value creation, enormous symbolic value. It sends a clear message to investors about the importance of long-term value creation to the business and about the company's willingness to resist short-term pressures from the investment markets.

The argument for stopping quarterly earnings guidance is that it would allow managers to focus on building a successful, sustainable business over the long-term.

While the arguments for companies to stop providing quarterly earnings guidance clear, it is important to acknowledge that investors will continue to press management to provide information on short-term performance and that at least some will publish their own views on the company's prospects. The publication of these views may create pressure for the company to correct any inaccurate figures or assumptions and, effectively, provide at least some form of earnings guidance to investors.

Recommendation 10: Companies should consider whether they should stop producing quarterly earnings guidance and instead report on issues and metrics that are of relevance to the longer-term success of the business.

Revisit the Role and Responsibilities of the Board

In a recent *McKinsey* survey of more than 1,000 Board members and senior managers, 46% of respondents said that the pressure to deliver strong short-term financial performance came from their Boards³⁹. The Board members interviewed argued that they were often just communicating the messages that they were receiving from their investors about the importance of short-term performance. While this may be true, it also seems that many Board members are exacerbating rather than alleviating the short-term pressures on company management. There are different aspects to this. First, it is not clear how effectively Board members communicate and defend the company's strategy to investors. While Boards have a critical role to play in ensuring that the needs and interests of investors are protected, they also have a reasonability to ensure that investors understand the company's strategy and understand how the strategy will create value for investors. Second, the reality is that many Board members — because of their backgrounds in finance and business — are likely to hold similar views to those held by investors. They may also hold similar views about the timeframes over which company performance should be judged. Third, Board members may use the argument that investors are concerned about short-term performance to support or reinforce their personal views on the actions that executive management should take. Fourth, Board members are under increased personal scrutiny from investors and face pressure to justify their contribution to the Board. This is likely to be particularly the case in companies where board members need to be re-elected annually⁴⁰.

Boards may be exacerbating rather than alleviating the short-term pressures on company management.

It has been suggested that company directors should, subject to their fiduciary duties, produce formal statements that set out their duties as stewards of the company and that commit them to long-term decision-making⁴¹. The idea is that these statements would provide a framework for company and investor dialogue and would formally commit the company to taking decisions and acting in ways that promote the long-term interests of the company. These formal statements could include commitments to promoting the success of the company over the long-term, to providing information, which supports shareholders' understanding of company strategy and long-term value creation, to not allowing expectations of market reaction to particular short-term performance metrics to significantly influence company strategy and to disengaging from the process of managing short-term earnings expectations and announcements⁴².

One of the important contributions of these statements would be to define what is meant by "long-term" and how this relates to their business and investment cycles. From the perspective of an individual business, long-term may be defined in a variety of ways, e.g. in relation to the business cycle (which may be between 7 and 10 years depending on the sector), in relation to the company's strategic objectives (which may be 20+ years), in relation to the lifetime of key assets (which may be 40-50 years for an electricity generation company). These timeframes are longer than the typical tenure of the CEO of large publicly listed companies, which in turn is significantly longer than the timeframes being used by investors in their investment decisions (see Section 2.1).

Recommendation 11: Boards of directors should produce formal statements that set out their duties as stewards of the company and that commit them to long-term decision-making. Within these statements, they should explain how they define long-term and explain how this relates to their business and investment cycles.

Communicate Proactively with Investors

Companies need to recognise that their engagement – which includes both the board and executive management – with investors is not a one-off activity. Constructive and proactive dialogue is at the heart of the process of building long-term, trust-based relationships between companies and their investors.

Constructive and proactive dialogue is critical to build long-term, trust-based relationships between companies and their investors.

For this to happen, companies must be prepared to give the time and effort to regular communication with their investors⁴³. For example, they might consider meeting with investors – both current and potential investors – once a year to discuss the company's approach to creating and protecting value⁴⁴. These discussions should cover issues such as sustainability, long-term strategy, performance, governance, culture, risk and reputation, with issues such as remuneration discussed in that context. These meetings should be separate from the formal schedule of meetings and presentations associated with the results calendar⁴⁵.

Companies should also embrace other opportunities to engage with investors on long-term strategic issues. For example, the UK Investor Forum⁴⁶ and the US Shareholder Director Exchange⁴⁷ (SDX) in the United States providing a forum for companies and investors to meet and discuss corporate governance and long-term strategy issues. Another potentially valuable forum is the PRI Clearinghouse's monthly webinars where companies discuss their approach to sustainability and investors ask questions and provide feedback to the company on the information provided⁴⁸.

Companies need to approach these meetings with investors with a constructive and open attitude and they need to accept that it will take time for benefits such as improved quality of dialogue with investors or changes in the investor base to eventuate. A recent PRI survey of UN Global Compact signatories found mixed views on the value of business value of proactively engaging with investors⁴⁹. Some companies stated that they saw this engagement as something of a waste of time, covering issues that the company considered to be adequately covered in its formal reports or focusing on issues that the company did not see as material. In contrast, others saw these meetings as providing them with an opportunity to engage with their investors, to put the company's data and performance into the context of the business' overall priorities and as a means of gaining feedback on the company's strategy.

Companies need to approach meetings with their investors with a constructive and open attitude and they need to accept that it will take time for benefits such as improved quality of dialogue with investors or changes in the investor base to eventuate.

Seeking and responding constructively to investor feedback is particularly important. Inevitably, even investors with an interest in longer-term strategy will want to understand how this strategy will create financial value over the short- and long-term. More short-term investors may well be sceptical about the benefits of taking a long-term approach to strategy and may prefer that the company focuses on short-term financial performance. Companies need to be prepared for these reactions; they need to be willing to respond to suggestions on how the strategy might be improved, and they need to be able to demonstrate that the strategy is working and that it is providing real benefits to the business. While companies need to be clear that their aim is to be a successful, sustainable and value-creating business,

and to be willing to strongly advocate this to their investors, they also need to welcome feedback from their investors and respond in a constructive manner.

Recommendation 12: Companies should proactively meet with current and potential investors to discuss the company's approach to creating and protecting value. These meetings should cover issues such as sustainability, long-term strategy, performance, governance, culture, risk and reputation, and should occur outside of the results season.

7. CHANGE STRATEGIES: ADDRESSING CAPITAL MARKET SHORT-TERMISM

Section 4 of this report argued that companies, either individually or in collaboration with other similarly-minded companies and investors, should seek to support changes in the structure and operation of the capital markets that address the underlying causes of short-termism and promote longer-term approaches to investment. This Section discusses the strategies that might be adopted by companies seeking to change or influence the capital markets as a whole.

Publicise the Business Effects of Short-termism

In Section 3 of this report, we recommended that companies should analyse how investor short-termism has affected the decisions that they have made about, for example, research and development, capital investment and product development and how these decisions have affected the long-term health and sustainability of the business. This information is important for investors and for other stakeholders. It is important that investors understand how they affect the long-term success and sustainability of the companies they are invested in. This may, in turn, encourage them to revisit the dialogue they have with companies and to consider whether they pay greater attention to and be more supportive of strategies and investments that support the long-term success of the business. It is also important that other stakeholders — the media, policymakers, civil society and employees — have a fuller understanding of the influence that capital markets have on corporate strategy and investment and investment decisions, and the consequences for the business itself and for wider society.

Recommendation 13: Companies should publicize evidence (case-studies and data) of how investor short-termism has affected their business strategy, their capital investment decisions, their approach to sustainability and their ability to create long-term business value.

Engage with Policymakers

Public policy plays a critical role in regulating and framing the relationship between companies and their investors. In the wake of the global financial crisis, there are major debates in many countries about the actions that need to be taken by policymakers to prevent a recurrence and about how longer-term investment can be encouraged⁵⁰. The issues under discussion include: the disclosures that need to be provided by companies to their investors and to wider society, shareholder rights (e.g. in relation to takeovers), investors' fiduciary duties⁵¹, incentivising shareholders to hold shares for longer periods⁵², incentivising long-term investment⁵³ and mobilising the end beneficiaries of the asset owners to voice their concerns for future issues⁵⁴.

Public policy plays a critical role in regulating and framing the relationship between companies and their investors.

Companies are recognised as a key stakeholder in these discussions and company input is being actively sought on the implications of investor short-termism for their businesses (see Recommendation 13) and on the policy measures that could be adopted to at least help alleviate some of these pressures or, more

positively, to enable companies to take a longer-term approach to their strategy and capital investment decisions.

In relation to the process of engagement⁵⁵ with policymakers, there are three wider factors for companies to consider. The first is that much corporate lobbying is conducted through industry groups. It is therefore important that each company ensures that the positions adopted by those groups where the member is a member or signatory align with those of the company. The second is that companies should, where feasible, look to work with investors and investor groups such as the Principles for Responsible Investment, which has established a research and collaboration platform for its signatories to engage with policymakers on the creation of enabling policy environments for long-term responsible investment⁵⁶. The third is that companies should be transparent about their engagement, and the engagement conducted on their behalf by industry groups and other actors, with policymakers. This should include details of the proposals they have made to policymakers, who has made these proposals (e.g. the company itself or organizations acting on behalf of the company) and the outcomes that have resulted from this engagement.

Recommendation 14: Companies should encourage policymakers to take action to address the negative consequences of short-termism and to adopt measures that enable companies to take a longer-term approach to sustainability-related activities and investments.

Leading the Change

As discussed in Section 2, one of the key drivers of investor short-termism is the demands that are placed on investment managers by their asset owner clients. By adopting appropriate responsible investment policies and strategies for their pension funds and other pools of capital that they control or influence, companies may be able to alleviate some of the short-term pressures that they and their peers face from the capital markets through demonstrating leadership and through exerting direct influence on other investors (e.g. through requiring these organizations to have adopted responsible investment policies and strategies, through monitoring the implementation of these policies and strategies)⁵⁷. It may also allow them to demonstrate the benefits of taking a longer-term approach to investment, thereby providing best practice leadership for the industry at large. It is also relevant to note that adopting responsible investment strategies in their investment practices and in the investment practices of their pension funds is starting to be seen as a standard expectation of companies (such as the Global Compact LEAD companies) that have made strong commitments to corporate responsibility⁵⁸.

One of the key drivers of short-termism is the demands that are placed on investment managers by their clients. These clients include corporate pension funds.

Recommendation 15: Companies should take a long-term approach in their own investment practices and in the investment practices of their pension funds.

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ENDNOTES

¹ For the purposes of this report, we use the UN Global Compact definition of sustainability, which is: “the delivery of long-term value in *financial, social, environmental, and ethical terms*”.

² Accenture and Global Compact (2013: 35).

³ See, for example, Graham *et. al.* (2005).

⁴ As at 14 April 2014, the Principles for Responsible Investment (PRI) had 268 asset owner signatories, 788 investment manager signatories and 188 professional service organisation signatories. See <http://www.unpri.org/signatories/signatories/>

⁵ See, for example, Becht *et. al.* (2009), Brav *et. al.* (2008), Dimson *et. al.* (2012) and Eccles, Ioannou and Serafeim (2011).

⁶ Della Croce *et. al.* (2011) provide data on average holding periods for the period 1991-2010 for a range of stock exchanges.

⁷ See, for example, the UN Global Compact Value Driver Model, http://www.unglobalcompact.org/Issues/financial_markets/value_driver_model.html

⁸ See, for example, the PRI ESG Investor Briefing Project, http://www.unglobalcompact.org/docs/issues_doc/lead/Enhancing_Compacy_Investor_Communication_ESG_IB_Project.pdf

⁹ Examples of organisations that are active in this area include:

- OECD: <http://www.oecd.org/fr/assurance/pensionsprivees/institutionalinvestorsandlong-terminvestment.htm>
- The Long-Term Investors Club: www.ltic.org
- Tomorrow's Company: <http://www.tomorrowscompany.com/tomorrows-capital-markets>
- The Rotman International Centre for Pension Management: <http://www.rotman.utoronto.ca/Connect/MediaCentre/NewsReleases/20130620.aspx>
- CFA Institute: <http://www.cfainstitute.org/learning/future/pages/index.aspx>
- The Principles for Responsible Investment (PRI): <http://www.unpri.org/areas-of-work/policy-and-research/>
- The Aspen Institute's Corporate Values Strategy Group: <http://www.aspeninstitute.org/policy-work/business-society/corporate-programs/corporate-values-strategy-group>

¹⁰ CFA (2006: 3); Graham *et. al.* (2005); Rappaport (2005).

¹¹ See, further, Aspen Institute (2009); Brochet *et. al.* (2012); CFA (2006); Dallas (2012: 266-272, 277-280); Graham *et. al.* (2005); Kay (2012: 12-14); Salter (2013).

¹² Della Croce *et. al.* (2011).

¹³ The PRI has identified investment management mandates as a key barrier to a sustainable financial system. Operationalising long-term responsible investment mandates is now a core element of PRI's Policy and Research work programme. For further information, see <http://www.unpri.org/areas-of-work/policy-and-research/>

¹⁴ Dallas (2011). For example, in a recent survey of PRI signatories, short-termism was identified as the single most important barrier to a sustainable financial system (PRI, 2013A).

¹⁵ The argument that investors have a short-term focus is not a new one. A useful overview of the literature is provided in a recent paper by the Executive Director, Financial Stability of the Bank of England (Haldane and Davies, 2011).

¹⁶ See, for example, Aspen Institute (2007, 2009), CED (2010), CFA (2006), Conference Board (2006), and Kay (2012).

¹⁷ Sullivan (2011).

¹⁸ See Dallas (2011: 269) and the references cited therein.

¹⁹ See, for example, see Bhojraj and Libby (2005); Graham *et. al.* (2005, 2006).

²⁰ See, further, Sullivan and Mackenzie (eds.) (2006: 151-157, 332-346).

²¹ Godfrey *et. al.* (2009).

²² ICSA (2013: 5).

²³ Cronin and Mellor (2011: 4).

²⁴ While not specifically related to sustainability, a recent article suggests that company executives often go to some lengths to meet or beat consensus estimates, and potentially even act in ways that could damage the longer-term health of the business. This is despite the limited evidence (other perhaps in situations where a company consistently fails to meet consensus estimates) that investors will reward the company with a higher share price (Koller *et. al.*, 2013). In fact these authors caution: “At year-end, never resort to using cosmetic quick wins to meet estimates, such as creative accounting with accruals. Investors recognize these for what they are. Instead, focus on the company’s underlying fundamentals and on communicating those to investors. That’s what is most important for your share price” (Koller *et. al.*, 2013: 8).

²⁵ Sullivan (2013). In an effort to address this issue, one of PRI’s priorities is to develop guidance on how investors take account of environmental, social and governance issues in their investment processes. See, for example, PRI (2013B, 2013C). For a practitioner’s perspective, see Sullivan (2011).

²⁶ Acknowledging that these may not be the ultimate beneficiaries or owners of the shares (e.g. they may be investment managers acting on behalf of pension funds or individual investors).

²⁷ Aspen Institute (2009: 2); Millon (2013: 913-917).

²⁸ Aspen Institute (2009: 2).

²⁹ There is an increasing amount of information on how investors take account of sustainability-related issues in their investment processes. A number of investor managers, asset owners and insurance companies now produce reports on their approach to responsible investment (see, for example, <http://www.unpri.org/signatories/signatories/>), the PRI has introduced mandatory public reporting requirements for its signatories (<http://www.unpri.org/areas-of-work/reporting-and-assessment/>), and the PRI has published guidance on how investors take account of sustainability-related issues in their investment processes (see, for example, PRI (2013B, 2013C)). However, these various publications provide relatively little information on investment time-horizons, or on how investors reconcile short- and long-term considerations in their investment decision-making.

³⁰ See for example the analysis by Cremers *et. al.* (2013) who found that the median holding period for US mutual funds and pension funds had remained relatively unchanged at around 1.5 years in the period from 1985 to 2010. See also Chakrabarty *et. al.* (2013) who found that even pension funds tend to trade in and out of shares in less than a year for some 65% of their portfolio.

³¹ It is important to stress that the fact that investors do not explicitly ask about long-term strategy or about sustainability-related issues does not mean that they are not taking these factors into consideration in their investment decision-making process. Most investors now have ready access to company information through data providers such as Bloomberg, and through specialist ESG research organisations such as Sustainalytics and MSCI. This means that investors can benchmark and evaluate company performance without needing to ask the company for data. For interesting insights on the data that investors look at, see Eccles, Krzus and Serafeim (2011).

³² Adapted from Sullivan (2011).

³³ See, for example, the manner in which PRI is organising its signatories to work together on long-term mandates and on policy frameworks for long-term responsible investment. <http://www.unpri.org/areas-of-work/policy-and-research/>

³⁴ See, for example, the Global Compact LEAD and the Principles for Responsible Investment’s Value Driver Model, which provides guidance on how companies can monitor and gather robust information on the costs and the benefits of their sustainability-related investments.

http://www.unglobalcompact.org/Issues/financial_markets/value_driver_model.html

³⁵ See, for example, Barton and Wiseman (2013).

³⁶ See, generally, PRI (2012).

³⁷ See, for example, the proposals and arguments in CFA (2006), US Chamber of Commerce (2007) and Generation Investment Management (2012). Barton (2011) notes that Unilever, Coca-Cola and Ford have stopped issuing earnings guidance, that Google has never issued such guidance and that IBM has created five-year road maps to encourage investors to focus on longer-term issues.

³⁸ See, for example, Generation Investment Management (2012), Hsieh *et. al.* (2006), Houston (2010), Karageorgiou and Serafeim (2014). There have been similar discussions about whether investment managers should reduce the frequency of their reporting to their clients (see, further, the discussion in Section 2).

³⁹ Barton and Wiseman (2014).

⁴⁰ For example, the UK Corporate Governance Code states that all directors of FTSE350 companies should be re-elected annually. <https://www.frc.org.uk/getattachment/b0832de2-5c94-48c0-b771-ebb249fe1fec/The-UK-Corporate-Governance-Code.aspx>

⁴¹ See, for example, the proposals in Kay (2012) and Department for Business, Innovation and Skills (2012).

⁴² Department for Business, Innovation and Skills (2012).

⁴³ Cronin and Mellor (2011: 4).

⁴⁴ ICSA (2013: 6, 12).

⁴⁵ ICSA (2013: 12). In practice, many company-investor interactions occur in the shadow of the results season. Most of the investors that engage with the company at this time are, inevitably, more interested in near-term financial performance rather than longer-term business value drivers, and may even see discussions of longer-term strategic issues as distractions from the more important business-relevant matters that they think should be under discussion.

⁴⁶ <http://www.investmentfunds.org.uk/current-topics-of-interest/investor-forum/>

⁴⁷ <http://www.sdxprotocol.com/>

⁴⁸ <http://www.unpri.org/areas-of-work/collaborations/priority-collaborative-engagements/>

⁴⁹ Sullivan (2013).

⁵⁰ See, for example, the UK Kay Review (Kay, 2012), the UK government's response to the Kay Review (Department for Business Innovation and Skills, 2012), and the European Commission's work on shareholder engagement (European Commission, 2013A) and on the long-term financing of the European economy (European Commission, 2013B).

⁵¹ http://lawcommission.justice.gov.uk/areas/fiduciary_duties.htm

⁵² For a discussion of the potential use and contribution of loyalty shares, see Mercer and Stikeman Elliot (2013).

⁵³ The importance of long-term policy frameworks has been a core message from investors. See, for example, the 2011 Global Investor Statement on Climate Change (signed by the Institutional Investors Group on Climate Change (IIGCC), the Investor Network on Climate Risk (INCR), the Investor Group on Climate Change, and The United Nations Environment Programme Finance Initiative (UNEP FI), and supported by the PRI Advisory Council) at <http://www.iigcc.org/files/publication-files/2011-Investor-Global-Statement-FINAL-NOT-EMBARGOED.pdf>.

⁵⁴ See, for example, the Push Your Parents campaign in the UK: <http://www.pushyourparents.org/s/campaign>

⁵⁵ 'Engagement' includes lobbying (i.e. directly influencing policymakers to shape legislation), marketing (e.g. public advertising), financial contributions (e.g. to campaigns, to research organizations) and expert input (e.g. through testimony, through working groups) (Caring for Climate, 2013).

⁵⁶ See <http://www.unpri.org/areas-of-work/policy-and-research/>

⁵⁷ A useful guide is the PRI's guidance for asset owners on incorporating ESG factors into manager selection, appointment and monitoring (PRI, 2013D). For examples of the measures that

⁵⁸ For an evaluation of the responsible investment practices of corporate responsibility leaders, see UKSIF (2011). This report provides examples and a framework for companies looking to implement responsible investment in their pension funds.