AUSTRALIAN INSTITUTE
of COMPANY DIRECTORS

CURBING EXCESSIVE SHORT-TERMISM
A GUIDE FOR BOARDS OF PUBLIC COMPANIES

THOUGHT LEADERSHIP PAPER LOUISE POCOCK

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Chapter 1: Introduction

Decision-making generally involves some balancing of short, medium and long-term objectives. However, a decision-maker may prioritise short-term objectives at the expense of longer-term objectives because the short-term impact of decisions is acutely felt and readily attributable to the decision-maker. In a world where information is ubiquitous, everyone is digitally connected and the media runs on a “24/7 cycle”, the short-term impact of decisions can become widely known within a matter of days, if not hours. Arguably, this is contributing to a growing trend towards short-term perspectives and objectives. This heightened short-term focus is apparent at various levels of society – from politicians making policy for the next election, to the constant updating of information through social media, to the focus on short-term performance by some fund managers, investors and, in turn, public companies.

This publication considers how and why “excessive short-termism” can affect Australian public listed companies, as well as the Australian economy and broader society (chapter 2). It then examines how boards can play a pivotal role in helping to reduce the impact of excessive short-termism on the companies they serve, while also promoting a longer-term outlook (chapter 3).

While this publication focuses on excessive short-termism in Australia, many of the observations and recommendations will also be relevant to boards of public companies in other countries.

The following key points are outlined in more detail in chapters 2 and 3:

1. Some investors and fund managers are increasingly focused on the short-term performance of the companies they invest in. Factors contributing to this short-term focus include new technologies, market volatility, short-term performance pressures, the regulatory reporting framework and behavioural factors.
2. Managers and directors of public companies may feel compelled to respond to pressure from the investor community to focus on short-term performance. They also face a variety of other pressures that are similar and related to those affecting investors.
3. Excessive short-termism distracts public companies from creating long-term value and may even be inconsistent with long-term value creation. It also has broad public policy implications.
4. Boards of public companies can work with management to curb excessive short-termism in several practical ways, including:
   - setting long-term goals, strategies and actions
   - adopting appropriate shareholder engagement, communication and reporting practices
   - structuring executive remuneration to incentivise long-term value creation.

Chapter 2: The problem of excessive short-termism

What is short-termism?

Short-termism has been variously described as “concentration on short-term projects or objectives for immediate profit at the expense of long-term security”,[1] “the focus of investors and managers on short-term returns at the expense of those over the longer-term”,[2] and “corporate and investment decision making based on short-term earnings expectations versus long-term value creation for all stakeholders”.[3]

Decisions, including decisions of a business, investment or financial nature, are often made with a particular timeframe in mind. Similarly, the outcomes of decisions are often assessed having regard to a pre-determined timeframe (whether implicit or explicit). The identification of a timeframe by decision-makers for expected outcomes is often important because decisions made with a view to achieving certain long-term outcomes may have negative short-term consequences, and vice versa. For example, an investment decision by a company that has a relatively long payoff period may not have an immediate positive impact on the company’s market value, and may actually have a negative short-term impact.

For the purpose of this publication:

1. “short-term” is defined as approximately three years or less, bearing in mind that the meaning of “short-term” will vary across industries
2. “excessive short-termism” is defined as a focus on short-term objectives that disregards (intentionally or otherwise) the potential adverse effect on long-term value creation; it manifests as actions, such as behaviours and decisions, as well as inaction.

Not all short-termism is excessive. Effective company strategies will generally have short, medium and long-term elements. In some circumstances, a focus on short-term risks, results or opportunities can be beneficial – particularly during a crisis or in a time of rapid change. The view that the “long term is nothing but a 'series of short terms' put back to back” can also be valid as companies that perform consistently well over the short-term may have a better chance of succeeding in the long term.[4]

Importantly, the timeframe contemplated by the decision-maker is not necessarily indicative of the quality of the decision. Decisions made with a view to the long-term may not be “good decisions” and, similarly, short-term decisions may not be “bad decisions”. Accordingly, it is important that companies manage short, medium and long-term horizons across all their decision-making, and strike a balance between these timeframes.

It is submitted that there is an imbalance in decision-making in favour of short-term perspectives and objectives, and that a greater emphasis on longer-term considerations is now required to achieve a sustainable balance.

Short-termism in equity markets

There is a view that investors in capital markets increasingly prioritise short-term investment performance; recent studies indicate that short-term behaviour among investors

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[1] Oxford University Press, definition of Short-termism, *Oxford Dictionaries* <www.oxforddictionaries.com/definition/english/short-termism>.
[2] UK Department for Business Innovation & Skills, “A Long-term Focus for Corporate Britain: A Call for Evidence” (Department for Business Innovation & Skills, October 2010) 21 [4.17] <www.bis.gov.uk/assets/biscore/business-law/docs/l/10-1225-long-term-focus-corporate-britain.pdf>.
[3] Dean Krehmeyer, Matthew Orsagh and Kurt N Schacht, “Breaking the Short-Term Cycle: Discussion and Recommendations on How Corporate Leaders, Asset Managers, Investors, and Analysts Can Refocus on Long-Term Value” (CFA Centre for Financial Market Integrity & Business Roundtable Institute for Corporate Ethics, 2006) 1 <www.cfapubs.org/doi/pdf/10.2469/ccb.v2006.n1.4194>.
[4] Deepak Kumar Pelluru, *The CEO Conundrum: Choosing between Panoramic View and Snapshot view* (5 July 2012) Leaderati <www.infosysblogs.com/leadership/2012/07/>.

is statistically and economically significant and has been rising over time.[5] For example, the average holding period for Australian equities has fallen from more than six years in 1986, to less than 12 months today.[6]

There are a variety of interrelated reasons for short-termism in equity markets.

Technology and market practices

The efficiency of equity markets has improved significantly in recent years. With the assistance of new technologies, trading times and transaction costs have decreased, while information availability and liquidity have increased. There are now fewer barriers to short-term investment.

High frequency trading, conducted by computers using programmed algorithms, is a relatively recent short-term investment practice that exploits the efficiency of equity markets.[7] High frequency traders generally measure time in fractions of a second. Salter (2012) likens the modern market to a "top-of-the-line gambling casino, where gamblers – many with access to easy credit – play numerous high-speed games of chance with immediate payouts or losses".[8]

Another manifestation of short-term behaviour from investors and fund managers is the regular 'churning' of their portfolios to take advantage of minor adjustments in stock prices.[9] Higher turnover rates are associated with reduced tax efficiencies,[10] but investment managers often manage and report the returns on portfolios under management on a pre-tax basis.[11] As such, investors may fail to fully appreciate the magnitude of tax costs and the effect of tax on the fund.

Volatility and excess discounting

Turbulent macroeconomic conditions and volatile markets may contribute to excessive short-termism in equity markets. If markets are volatile, it is more difficult for investors to assess a company's longer-term performance potential, which may lead to a greater focus on short-term indicators. The constant media attention on market conditions may also unnerve investors and exacerbate their tendency to focus on the 'here and now'.

A related issue is the phenomenon of 'excess discounting' of future cash flows by investors. Haldane and Davies (2011) have observed that in the United Kingdom (UK) and United States (US), "cash-flows five years ahead are discounted at rates more appropriate eight or more years hence; ten year ahead cash-flows are valued as if 16 or more years ahead;

[5] Andrew Haldane and Richard Davies, "The Short Long" (Speech delivered at the 29th Société Universitaire Européenne de Recherches Financières Colloquium, Brussels, 11 May 2011) 2 <www.bis.org/review/r110511e.pdf>.
[6] Mark Arnold and Jason Orthman, "The Economic Costs of Excessive Short-termism", (Paper published at Portfolio Construction Forum Conference 2011: Due Diligence Forum Research Paper, Hyperion Asset Management, August 2011) 14-15 <www.hyperionam.com.au/LiteratureRetrieve.aspx?ID=105820&A=SearchResult&SearchID=17014072&ObjectID=105820&ObjectType=6>.
[7] While the scale of high-frequency trading (HFT) activity in Australia is still relatively low, it accounts for a significant proportion of stock market transactions in the United States and Europe. See Andrew Haldane, "Patience and Finance" (Speech delivered at the Oxford China Business Forum, Beijing, 2 September 2010) 17 <www.bankofengland.co.uk/publications/Documents/speeches/2010/speech445.pdf>.
[8] Malcolm S Salter, "How Short-Termism Invites Corruption… And What to Do About It" (Working Paper No 12-094, Harvard Business School, 12 April 2012) 13 <www.hbs.edu/research/pdf/12-094.pdf>.
[9] See, e.g. Alison Atherton, James Lewis and Roel Plant, "Causes of Short-termism in the Finance Sector" (Discussion Paper (final), Institute for Sustainable Futures, University of Technology Sydney, July 2007), 10 <www.isf.uts.edu.au/publications/atherton2007causesofshorttermism.pdf>.
[10] This is because the gain on the value of stock is not taxable until the stock has been disposed of, and a tax discount applies to capital gains on stock that has been held for at least 12 months.
[11] See Gordon D Mackenzie, "Reporting Investment Performance After Tax" (University of UNSW) 3, 5 <www.asb.unsw.edu.au/research/cps/Documents/G.%20Mackenzie%20-%20Reporting%20Investment%20Performance%20After%20Tax.pdf>.

and cash-flows more than 30 years ahead are scarcely valued at all".[12] Investors may undervalue future cash flows because of excess volatility in asset prices relative to future dividends and earnings, or because the information they have access to is inadequate to assess the future risk profile.[13] Neo-classical economists, such as Arthur Pigou, have described the tendency of humans to discount future outcomes excessively as a "defective telescopic faculty".[14]

Institutional investors, fund managers and analysts

Institutional ownership of Australian equities increased significantly in the years leading up to mid-2007 (the beginning of the Global Financial Crisis) due, in part, to the growing pool of funds under management from compulsory superannuation contributions.[15] As at March 2010, Australian institutional investors owned approximately 40% of Australian equities.[16]

The investment horizon of institutional investors depends to some extent on the type of investor. For example, superannuation funds and life insurance companies may have longer-term perspectives given the nature of their responsibilities. On the other hand, liquidity is a key concern for hedge funds, and so they may have a shorter timeframe to seek returns on investment.

In managing their equity investments, institutional investors may allocate funds to equity fund managers, some of whom are index managers and some of whom are active managers. While superannuation funds theoretically have a longer-term focus, the trustees of superannuation funds measure the performance of the active fund managers against benchmarks, typically a stock exchange index. Results are usually received monthly or quarterly. Trustees become increasingly anxious if the performance of a manager is significantly below the benchmark, and there is a constant threat to the manager that their mandate may be removed. Accordingly, even if the fund manager believes the 'long-term story' of a company, they may not invest in the stock due to what the price might do in the short-term, rather than longer-term investment fundamentals.

There is widespread concern that short-termism among institutional investors and fund managers is growing.[17] Given the sheer size of their funds under management, this significantly affects total investment activity. Other factors causing this short-termism include:

- A focus on short-term performance assessments and rewards and reduced tenure of fund managers. For example, institutional investors commonly make decisions about the hiring and firing of fund managers based on short-term investment performance, notwithstanding that periods of short-term underperformance are to be expected in investment portfolios that perform well over the long-term.[18] Gonski (2012) has observed that fund managers may be graded and selected on the basis of short-term

[12] Haldane and Davies, above n 5, 2.
[13] See, e.g., Haldane and Davies, above n 5, 3 (referring to Stephen F LeRoy and Richard D Porter, "The Present Value Relation: Tests Based on Variance Bounds" (1981) 49(3) *Econometrica* 555; Robert J Shiller, "Do Stock Prices Move Too Much to be Justified by Subsequent Changes in Dividends?" (1981) 71(3) *The American Economic Review* 421; John Y Campbell and Robert J Shiller, "Stock Prices, Earnings, and Expected Dividends" (1988) 43(3) *The Journal of Finance* 661). See also Jane Diplock, "Integrated Reporting and Challenges" (Speech delivered at the Australian Global Reporting Initiative (GRI) Conference, Melbourne, March 2012).
[14] See Haldane, above n 7, 6.
[15] Susan Black and Joshua Kirkwood, "Ownership of Australian Equities and Corporate Bonds" (2010) September Quarter *Reserve Bank of Australia Bulletin* 25, 26 <www.rba.gov.au/publications/bulletin/2010/sep/pdf/bu-0910-4.pdf>.
[16] Ibid 26-27.
[17] See, e.g. Organisation for Economic Corporation and Development (OECD) Secretary General, "Promoting Longer-Term Investment by Institutional Investors: Selected Issues and Policies" (Discussion note for the Eurofi High Level Seminar 2011, Paris, 17-18 February 2011) 1 [3], 5-9 [12]-[21] <www.oecd.org/insurance/privatepensions/48281131.pdf>; Atherton, Lewis and Plant, above n 9, 11.
[18] See Arnold and Orthman, above n 6, 13-14; Brandes Institute, "Death, Taxes and Short-term Under-performance" (Brandes Investment Partners, 2007) 1 <www.brandes.com/Institute/Documents/BI_DeathTaxesandShortTermUnderperformance0907_US.pdf>.

results, even when the purpose of the investment is to provide for retirement benefits in many years' time.[19]

- Heightened competition between superannuation funds because of choice of fund legislation and, arguably, the increased pressure on funds to deliver high returns to members in the short-term. Ratings agencies may add to the pressure on superannuation funds.[20]
- A focus by some fund managers on the performance of their rivals and the expectations of their clients.[21]
- A focus by some fund managers on pure trading and share price fluctuation, rather than on company ownership.[22]
- The duties of fund managers are to the investor, not to the company in which they are investing.[23]

Analysts also contribute to excessive short-termism in financial markets. For example, they may be interested in generating market activity rather than understanding the drivers of long-term value.[24] Furthermore, analysts may fail to incorporate long-term value drivers in their analyses if they perceive that there is little demand for such analysis in the marketplace.[25]

Regulatory reporting framework

The regulatory reporting framework may encourage investors to focus on short-term indicators rather than the underlying value of companies. For example, ASX-listed entities are required to continuously disclose information that a reasonable person would expect to have a material effect on the price or value of the entity's securities.[26] The continuous disclosure framework is founded on the principle that all investors should have equal and timely access to material information that is relevant to the taking of investment decisions.[27] However, the frequent disclosure of information to the market may encourage short-term reactive investment decisions, rather than long-term planned investment.

Behavioural, societal and cultural factors

Certain human behavioural factors may contribute to excessive short-termism in the finance sector. For example, individuals may find decision-making for longer time horizons challenging as there is more uncertainty and less information than for shorter time horizons.[28] This can lead to the perception that short-term investment decisions are more informed.[29]

Some have suggested that excessive short-termism may be embedded in society, and its systems and institutions. Economic and political systems and institutions are predisposed to

[19] David Gonski, "A Competitive Country Picks Winners", *The Australian Financial Review*, 15 August 2012.
[20] See Atherton, Lewis and Plant, above n 9, 6.
[21] Ibid 10.
[22] See UK Department for Business Innovation & Skills, "A Call for Evidence", above n 2, 21 [4.19]; UK Department for Business Innovation & Skills, "Summary of Responses: A Long-Term Focus for Corporation Britain" (Department for Business Innovation & Skills, March 2011) 14 [43].
[23] See UK Department for Business Innovation & Skills, "Summary of Responses", above n 22, 16 [49].
[24] Atherton, Lewis and Plant, above n 9, 12.
[25] Ibid 12-13.
[26] Australian Securities Exchange, *Listing Rules* (at 1 January 2003) r 3.1.
[27] Australian Securities Exchange, "Continuous Disclosure: Listing Rule 3.1" (Guidance Note No 8, Australian Securities Exchange, June 2005) [61].
[28] David Marginson and Laurie McAulay, "Exploring the Debate on Short-termism: a Theoretical and Empirical Analysis" (2008) 29(3) *Strategic Management Journal* 273, cited in Atherton, Lewis and Plant, above n 9, 9-10.
[29] See Atherton, Lewis and Plant, above n 9, 10.

certain behaviours and customs, which are difficult to change as they are deep-seated and shared by many people.[30] Laverty (1996) states that "short-termism, as the accepted way of doing things, can become legitimised as an accepted form of institutional behaviour".[31] Modern society has come to expect immediate returns and satisfaction. Constant media scrutiny of financial markets is both a contributor to, and a consequence of, this expectation.

National culture may also play a role in promoting excessive short-termism. Dutch cultural anthropologist, Professor Geert Hofstede, has studied how workplace values are influenced by culture. He has identified six dimensions of culture that distinguish countries from each other, one of which is "long-term versus short-term orientation".[32] Professor Hofstede describes Australia and other Western nations, such as the US, UK and Canada, as "short-term-orientated" societies, while China, Hong Kong, Taiwan and Japan are "long-term oriented" societies.[33]

Short-termism in public companies

There are various pressures on managers of public companies to focus on short-term financial results at the expense of longer-term value creation. Boards also experience some of these pressures.

Investor pressure

The response by management and boards to the time horizons of investors may lead to excessive short-termism. With many investors focused on short-term indicators of company performance, and media commentators quick to report on those indicators, boards and management are under pressure to manage short-term performance metrics rather than longer-term value creation.

Financial analysts and ratings agencies also place pressure on companies to consistently meet short-term earnings targets. Graham et al (2005) state that "the stock market values predictability of earnings because market participants hate the uncertainty created by a firm failing to hit the earnings benchmark or by earnings that are not sufficiently smooth".[34] Financial analysts and ratings agencies may impose severe sanctions on companies with short-term problems.[35]

There is also pressure on companies to maintain a high market valuation, since a reduced share price makes a company potentially vulnerable to hostile takeover. Indeed, the fear of takeover may be a strong incentive for managers to attempt to ensure stable cash flows, high security and high returns, and to pay high dividends to shareholders.[36] Managers may also be motivated to meet or beat earnings benchmarks and maximise short-term earnings in order to improve their own external reputation and career prospects.[37]

Atherton et al (2007) describe the "predicament" that companies are in as follows: while companies recognise the need to address excessive short-termism, they may be reluctant to allocate capital to address long-term issues because of market expectations.[38] Some executives may consider that they have no choice but to adopt a short-term orientation given

[30] Atherton, Lewis and Plant, above n 9, 9.
[31] Laverty (1996) cited in Atherton, Lewis and Plant, above n 9, 10.
[32] Geert Hofstede, *National Culture – Dimension – Long-term versus short-term orientation (LTO)*, The Hofstede Centre <http://geert-hofstede.com/dimensions.html>.
[33] Geert Hofstede, *National Culture – Countries*, The Hofstede Centre <http://geert-hofstede.com/countries.html>.
[34] John R Graham, Campbell R Harvey and Shivaram Rajgopal, *The Economic Implications of Corporate Financial Reporting* (11 January 2005), Social Science Research Network, 36 <www. ssrn.com/abstract=491627>.
[35] UK Department for Business Innovation & Skills, "Summary of Responses", above n 22, 16 [50].
[36] Trades Union Congress, "Investment Chains: Addressing Corporate and Investor Short Termism" (21 December 2005) 7 <www.tuac.org/en/public/e-docs/00/00/01/F5/telecharger.phtml?cle_doc_attach=566>.
[37] Graham, Harvey and Rajgopal, above n 34, 2-3 & 3-4.
[38] See Atherton, Lewis and Plant, above n 9, 13.

shareholders' expectations, the substantial decline in the average holding period for Australian shares, and the fact that there are now so few long-term shareholders.[39]

Financial reporting

The reporting cycles for listed companies may lead to short-term thinking.[40] In Australia, listed companies are required under the *Corporations Act 2001* (Cth) to report to shareholders biannually.[41] The financial reporting obligations in the Corporations Act are supplemented by the ASX's continuous disclosure regime, which requires that listed entities immediately disclose to the ASX any information that could reasonably be expected to have a material effect on the price or value of the entity's securities.[42] There has been ongoing debate around what is 'material', for which shareholders, and within what timeframe.[43]

Listed companies are also required to correct false markets,[44] and manage earnings expectations by using the continuous disclosure regime to establish a range within which earnings are likely to fall.[45] Such requirements may encourage managers to focus on the present and short-term performance, rather than to develop the underlying and longer-term competitive strengths of their businesses.

Some Australian public companies also issue frequent guidance on future earnings, particularly in response to pressure from analysts and short-term traders. This is notwithstanding widespread criticism of the practice, especially in the US and UK given the emphasis there on quarterly earnings forecasts. For example, groups such as the CFA Centre for Financial Market Integrity and the Business Roundtable Institute for Corporate Ethics, have called on public companies to end the practice of providing quarterly earnings guidance, claiming that such guidance inadequately reflects the complex dynamics of companies and their long-term value drivers.[46] A 2006 US McKinsey study also found that quarterly earnings guidance "can be a powerful incentive for management to focus excessive attention on the short term; to sacrifice longer-term, value-creating investments in favour of short-term results; and, in some cases, to manage earnings inappropriately from quarter to quarter to create the illusion of stability".[47]

Executive remuneration

Incentive pay that focuses too heavily on short-term targets may drive excessive short-termism. Where executives have a significant personal stake in particular short-term economic outcomes or performance measures, the nature and time horizons of their decision-making may be affected.

Stock options that have relatively short vesting periods may encourage executives to focus on short-term earnings to boost stock prices, exercise their options early, and "cash out opportunistically".[48] A similar practice is to accelerate the vesting date of an executive's options at retirement.[49]

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[39] See Alfred Rappaport, "Ten Ways to Create Shareholder Value" (2006) September *Harvard Business Review: OnPoint* 1, 2-3 <http://analystreports.som.yale.edu/internal/S2008/tenways.pdf>.
[40] Gonski, above n 19.
[41] *Corporations Act 2001* (Cth) ss 292, 302.
[42] *Listing Rules* r 3.1.
[43] It remains to be seen whether the new version of ASX Guidance Note 8 on continuous disclosure will go some way towards resolving such debates.
[44] ASX Listing Rule 3.1B provides that if the ASX considers that there is or is likely to be a false market in an entity's securities, the entity must give the ASX the information that it asks for to correct or prevent the false market.
[45] Australian Securities Exchange, Guidance Note No 8, above n 27.
[46] Krehmeyer, Orsagh and Schacht, above n 3, 2, 7.
[47] Peggy Hsieh, Timothy Koller, and S R Rajan, "The Misguided Practice of Earnings Guidance" (2006) 19 *The McKinsey Quarterly* 1, 3 <www.uic.edu/classes/actg/actg516rtr/Readings/Markets/Earnings-Guidance-McKinsey.pdf>.
[48] See Rappaport, above n 39, 2.
[49] Ibid.

The focus of executives' targets may also encourage short-term behaviour. For example, targets may focus too heavily on market capitalisation, potentially promoting short-term merger and acquisition activity over long-term organic growth.[50] Determining annual bonus pools based on annual revenue growth is a common practice in investment banks that also emphasises short-term revenues over longer-term value creation.[51]

Short-term performance measures and corporate culture

Some commentators have observed that the duration of executive contracts and performance evaluation intervals have progressively shortened.[52] This may encourage management to pursue short-term strategies, even though their actions and decisions will often have longer-term consequences. Managers may also tend to focus on outcomes that will occur during their expected tenure, rather than on those that will occur after their employment ends.[53]

The CEO is likely to be particularly vulnerable to short-term performance evaluation.[54] The mean duration of a departing CEO from the 2500 largest companies in the world was around ten years in 1995. This had fallen to around six years in 2009.[55] Significantly, the average tenure of a CEO leaving due to underperformance is only 3.6 years, which suggests that a CEO's position may be at risk if he or she does not produce results quickly.[56]

A small number of Australian companies have also adopted annual director elections, providing shareholders with an annual opportunity to express their views on the performance of directors. In the UK, all directors of FTSE 350 companies are expected to submit themselves for annual re-election.[57] However, several large pension funds have warned that annual director elections could engender a short-term culture.[58] While shareholder accountability is important, annual director elections may add to the short-term performance pressures on boards.

Corporate culture may also play a role in fostering excessive short-termism. For example, a self-interested employee culture may lead to employee behaviours that are detrimental to the company's long-term interests. Dallas (2012) states in this regard, "to the extent a firm's culture is focused on employee self-interest, a greater likelihood exists that when employee self-interest and the long-term health of the firm diverge, the long-term health of the firm will be sacrificed to serve employee self-interest".[59]

Consequences of excessive short-termism

Consequences for individual public companies

Excessive short-termism in investment and, in turn, corporate decision-making may have significant consequences for the longer-term value and sustainability of individual

[50] See UK Department for Business Innovation & Skills, "Summary of Responses", above n 22, 8 [14].
[51] Salter, above n 8, 10.
[52] See, e.g. Haldane, above n 7, 12, 20.
[53] Salter, above n 8, 12.
[54] Haldane, above n 7, 20.
[55] Arnold and Orthman, above n 6, 4.
[56] Ibid. See also Business Council of Australia, "Beyond the Horizon: Short-termism in Australia: a Call to Think Into the Future" (2004) *2004 Annual Review: Seeing Between the Lines Looking Beyond the Horizon* 36, 44.
[57] Financial Reporting Council, *The UK Corporate Governance Code* (at September 2012), provision B.7.1. As with all provisions of the Code, companies are free to explain the reasons for any non-compliance.
[58] Letter from Railpen, the University Superannuation Scheme and Hermes to the Chairmen of 700 companies as referred to in Deloitte, "Major investors call for caution on the new annual re-election of directors provision of the UK Corporate Governance Code" (29 July 2010) *Governance in Brief: Your summary of the latest corporate governance developments* 1, 3 <www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Services/Audit/Corporate%20Governance/Governance%20in%20brief/UK_Audit_GovernancebriefAug2010.pdf>.
[59] Lynne L Dallas, "Short-Termism, the Financial Crisis, and Corporate Governance" (2012) 37(2) *Journal of Corporation Law* 264, 354 quoted in Matthew Orsagh, "Visionary Board Leadership: Stewardship for the Long Term' (CFA Institute, June 2012) 30 <www.cfapubs.org/doi/pdf/10.2469/ccb.v2012.n3.1>.

public companies. Ultimately, it may lead to reduced shareholder value and returns over the longer-term for reasons that include:

- Missed opportunities to create enduring value for shareholders. Companies excessively focused on short-term performance measures may fail to adequately consider and develop growth opportunities.[60]
- Under-investment in value-creating opportunities such as research and development. A 2006 survey of over 400 financial executives in the US found that 80% would decrease discretionary spending on such areas as research and development and advertising in order to meet a short-term earnings target, while 55% would delay starting a new project.[61]
- The rejection of long-term projects, or projects with high build or sunk costs, including infrastructure and high-tech projects.[62] The same 2006 US survey found that 59% of executives would reject a project with a positive net present value if it would mean missing short-term earnings targets.[63]

Excessive short-termism also has important consequences for public companies from a risk management perspective. For example, rewarding executives for short-term results can incentivise them to take excessive risks.[64] Further, excessive short-termism may affect the corporate governance practices of public companies. As the turnover of shareholdings increases, it becomes more difficult for companies to know and understand their shareholders.[65] It may also undermine the traditional role of shareholders in monitoring companies because short-term shareholders are generally less concerned about stewardship, and less likely to engage with boards and management.

Broader economic and social consequences

Excessive short-termism is also a public policy issue. Potential consequences for the Australian economy and broader society include:

- A reduction in the capacity for innovation and competitive advantages of Australian businesses in global markets. Gonski (2012) has observed that a long-term perspective may improve global competitiveness "because of the focus it brings and because it reduces the costs of changing, stopping and starting again".[66]
- The misalignment of share prices from value fundamentals leading to an inefficient allocation of capital, where companies with potential for sustained long-term growth do not receive adequate financing.[67] Haldane (2010) argues that market prices are "buffeted by two winds. Momentum-based speculators cause deviations from fundamentals, while long-term investors drive prices back towards fundamentals". With a growing number of momentum traders, prices may deviate persistently from fundamentals.[68]
- The potential for institutional corruption. Monetary payoffs based on short-term performance measures may lead to weaker accountability for long-term

[60] See Rappaport, above n 39, 10.
[61] John R Graham, Campbell R Harvey, Shivaram Rajgopal, "Value Destruction and Financial Reporting Decisions" (2006) 62(6) *Financial Analysts Journal* 27, cited in Arnold and Orthman, above n 6, 10.
[62] See Haldane and Davies, above n 5, 13.
[63] Graham, Harvey and Rajgopal, above n 61, cited in Arnold and Orthman, above n 6, 10.
[64] Lucian A Bebchuk and Jesse M Fried, "Paying for Long-term Performance" (Discussion Paper No 658, Harvard Law School, 2010) 1.
[65] UK Department for Business Innovation & Skills, "Summary of Responses", above n 22, 10 [24].
[66] Gonski, above n 19.
[67] UK Department for Business Innovation & Skills, "A Call for Evidence", above n 2, 22 [4.20].
[68] Haldane, above n 7, 10-11.

consequences and create incentives for executives to "game society's rules for immediate gain".[69]

- Increased equity market volatility and uncertainty. This may further discourage long-term investors and amplify the problem. Additionally, investors may increasingly move to private markets – so-called "dark pools", which allow participants to transact without displaying quotes publicly.[70] Dark pools already account for about 30% of total Australian trading volume, and traders operating inside them operate under limited regulation.[71]
- The distraction of companies from environmental and corporate social responsibility issues. Additionally, projects with a high potential for broad social impact, and which could help facilitate Australia's long-term growth, may be less likely to receive funding.

If excessive short-termism is left unchecked, there is some risk that it could lead to a reduction in the value of the Australian share market over the long-term. This would cause particular difficulties for older Australians who have a substantial proportion of their net worth invested in superannuation, and are relying on a rising share market over time to fund their retirement. Furthermore, excessive short-termism and its consequences could exacerbate systemic risk. It has been argued, for example, that the Global Financial Crisis was exacerbated by excessive short-term thinking.[72]

[69] Salter, above n 8, 7, 16.
[70] Dark pools were originally created as venues for institutional investors to trade directly among themselves without high-frequency trading interference, and help to guard against short-term spikes in the price of a security. However, high-frequency traders are now also active inside most of the dark pools.
[71] Malcolm Maiden, 'Still Time to Face Market Gremlins', *WA today* (online), 3 August 2012, <www.watoday.com.au/business/still-time-to-face-market-gremlins-20120802-23ic4.html>.
[72] See, e.g. Orsagh, above n 59, 1.

Chapter 3: Addressing excessive short-termism

While excessive short-termism has been commonly diagnosed, the cure has proved more elusive. In June 2011, the UK Secretary of State for Business, Innovation and Skills asked Professor John Kay to examine activity in UK equity markets and its effect on the long-term performance and governance of UK businesses (the Kay Review).[73] The Final Report of the Kay Review, published on 23 July 2012, concluded that short-termism is a problem in UK equity markets, and that the principal causes are the decline of trust and the misalignment of incentives throughout the equity investment chain.[74]

In the Final Report, Professor Kay set out a number of principles and recommendations for the government, regulatory authorities and key players in the investment chain to promote a long-term perspective in UK equity markets. His proposals aim to, *inter alia*:[75]

- restore relationships of trust and confidence in the investment chain, including by applying fiduciary standards more widely
- establish high level "Statements of Good Practice" to key players in the investment chain – i.e. asset holders, asset managers and company directors
- improve the quality of engagement by investors and asset managers with companies, including through an investors' forum
- realign incentives in the remuneration practices of company executives and asset managers
- reduce the pressures for short-term decision-making arising from excessively frequent reporting of financial and investment performance.

Some commentators have suggested that regulation may be needed to reduce the effects of short-termism and promote long-term time horizons. For example, Haldane and Davies (2011) suggest the following approaches:[76]

- requiring greater disclosures by companies of their long-term intentions, including their long-term performance, strategy and compensation practices
- providing incentives for long-duration holdings of securities, such as tax and/or subsidy measures
- providing disincentives for short-duration holdings of securities, such as tax and/or subsidy measures
- introducing governance measures, such as linking voting rights to duration of equity holdings.

More regulation is not the way to address the problem of excessive short-termism in Australia, and may result in adverse and unintended consequences, as well as unnecessary compliance costs. The Kay Review (2012) also favoured clear and specific guidance as to good practice rather than new regulation. Such good practice guidance would set out

[73] UK Department for Business, Innovation & Skills, "The Kay Review: Terms of Reference" (Department for Business Innovation & Skills, June 2011) <www.bis.gov.uk/assets/biscore/business-law/docs/k/11-1015-kay-review-terms-of-reference.pdf>.

[74] John Kay, "The Kay Review of UK Equity Markets and Long-term Decision Making: Final Report" (July 2012) 9 <www.bis.gov.uk/assets/biscore/business-law/docs/k/12-917-kay-review-of-equity-markets-final-report.pdf>.

[75] Ibid 9-10.

[76] Haldane and Davies, above n 5, 13.

principles, rather than prescribe behaviours or business modes, allowing flexibility for individual circumstances and for change over time.[77]

Instead, improved board governance may be able to assist in curbing excessive short-termism. The board has ultimate responsibility for the performance of the corporation and, as such, directors have “an obligation to act as stewards of the corporation’s long-term economic health”.[78]

Boards should consider having a clear framework for managing long-term value creation and curbing excessive short-termism.

Set out below are some suggested practices, which extend beyond minimum regulatory requirements, that boards of public companies could adopt to help foster longer-term value creation. Importantly, long-term corporate success is likely to require that the board be committed to working with management, influencing management to focus on long-term value creation, and providing support if management face short-term pressures. It is also important to bear in mind that what is appropriate for one company will not necessarily be appropriate for another.

A long-term outlook and culture

Boards can formulate goals and make strategic decisions with a view to protecting and maximising long-term shareholder value.

Summary of suggested practices

- Set long-term and forward-looking strategic goals, business strategies and implementation plans, and monitor performance with long-term considerations in mind.
- Invest in activities that contribute to long-term value, such as research and development.
- Be guided by the company’s core values and purposes to help balance short, medium and long-term priorities.
- Build and reinforce a corporate culture that contributes to long-term value creation.
- Reject actions that produce only short-term benefits if such actions are at the expense of the longer-term interests of the company.

Make long-term goals, strategies and decisions

At common law, directors are obliged to act in the best interests of the company as a whole. The “company as a whole” has been interpreted to mean the shareholders as a general body.[79] With the growing complexity of the shareholder mix, and investment horizons of market participants ranging from seconds to decades, the question arises: which shareholders do directors need to protect?

[77] Kay, “Final Report”, above n 74, 48 [6.21]. Note that the the UK government supports Professor Kay’s approach that necessary changes cannot simply be achieved through regulation, but will require the development of good practice in the investment chain (see UK Department for Business Innovation & Skills, “Ensuring Equity Markets Support Long-term Growth: The Government Response to the Kay Review” (Department for Business Innovation & Skills, November 2012) 3).

[78] Committee for Economic Development, “Corporate Governance Practices to Restore Trust, Focus on Long-Term Performance, and Rebuild Leadership” (2009) 8 <www.ced.issuelab.org/research/listing/corporate_governance_practices_to_restore_trust_focus_on_long_term_performance_and_rebuilding_leadership>.

[79] *Greenhalgh v Arderne Cinemas Ltd* [1951] Ch 286, 291; *Ngurli Ltd v McCann* (1953) 90 CLR 425, 438.

In their 2001 article, "The End of History for Corporate Law", Professors Henry Hansmann and Reiner Kraakman stated that there was "no longer any serious competitor to the view that corporate law should principally strive to increase long-term shareholder value".[80]

The Corporations and Markets Advisory Committee (CAMAC) has observed that, from a legal perspective, Australian directors are not confined to short-term considerations in their decision-making.[81] The interests of a company can include its continued long-term well-being, though a director who acts in the short-term interests of members will not have breached his or her legal duties. CAMAC further observed that it is ultimately "a matter for companies themselves and the commercial judgment of directors how to balance or prioritise shorter and longer-term considerations".[82] Boards can seek to protect long-term shareholder value by focusing on longer-term goals, strategies and actions. It may be appropriate for boards to reject actions that produce only short-term financial results if such actions are at the expense of the longer-term interests of the corporation and its shareholders.

The following practices, which would ordinarily be shaped and assisted by management, may assist boards in helping to ensure that the goals and strategic decisions they make, and the implementation plans they oversee, have due regard to the long-term financial health of their companies:

- Set long-term, forward-looking strategic goals, having regard to potential risks and opportunities. Salter (2012) recommends that boards adopt a five-to-seven-year time frame for securing future growth in order to curb excessive short-termism.[83]
- Develop long-term business strategies and implementation plans to achieve strategic goals. This will include analysing the short, medium and long-term risks associated with proposed business strategies. Boards may also choose to integrate relevant social and environmental concerns into their plans where these would strengthen long-term competitiveness.
- Support significant and ongoing investment in activities that create long-term value, such as research and development.
- Monitor the implementation of business strategies and evaluate their effectiveness based on longer-term considerations. Performance may be measured over the medium to long-term.

Be guided by the organisation's core values and purposes

Boards should be guided by their company's core values and purposes. A values-based approach to board decision-making may help directors and executives to balance short, medium and long-term priorities. It may also encourage an outward-looking and longer-term perspective, while still enabling flexibility.

Boards may find that it is useful to define their company's core values and purposes in a mission, vision and/or values statement. It is important that such documents are accompanied by mechanisms to help ensure that the stated values and purposes guide decision-making and remain relevant in practice.

[80] Henry Hansmann and Reinier Kraakman, "The End of History for Corporate Law" (2001) 89 *Georgetown Law Journal* 439, 439.
[81] Corporations and Markets Advisory Committee (CAMAC), "The Social Responsibility of Corporations" (Report, December 2006) 84 <www.camac.gov.au/camac/camac.nsf/byHeadline/PDFFinal+Reports+2006/$file/CSR_Report.pdf>.
[82] Ibid 84-85. See also cases cited at 84 (footnote 157).
[83] Salter, above n 8, 21.

Foster a corporate culture that contributes to long-term value creation

Boards can work with management to build and reinforce a corporate culture that contributes to long-term value creation. For example, they may use mission, vision and/or values statements, internal communications, employee incentive schemes, and an emphasis on responsibility (e.g. innovation, safety and customer retention) to contribute to a positive, long-term corporate culture.

In setting standards and expectations of corporate culture, the board may embrace a narrative of corporate purpose that extends beyond short-term profit maximisation for shareholders. For example, the BHP Billiton Charter describes the company's purpose as to "create long-term shareholder value through the discovery, acquisition, development and marketing of natural resources". The Charter also describes the company's broad strategy, values, and measures of success. BHP Billiton considers the document to be "the single most important means by which we communicate who we are, what we do, and what we stand for as an organisation, and is the basis for our decision-making".[84]

Select directors with longer-term strategic perspectives

Effective boards are generally composed of directors who bring a variety of skills, knowledge, abilities and perspectives to the board, and contribute to the board in different ways. Boards can work to ensure that the long-term financial health of the company receives appropriate attention by selecting directors who have longer-term strategic perspectives. Directors from certain backgrounds may be more inclined to take a longer-term view.

The board could also consider designating a director to focus on issues likely to affect the company over the long-term, and who will be the advocate for the long-term health of the company.

Engagement, communication and reporting practices

As discussed in Chapter 2, boards and management often act in response to market expectations and pressures from the investor community in relation to short-term company performance. As such, engagement with the investor community is an important part of any strategy to counter excessive short-termism. Notably, it is the character, timing and quality of engagement, rather than the amount of engagement, which is relevant.[85]

Summary of suggested practices

- Effectively communicate the company's long-term goals, strategies and achievements to investors, fund managers and analysts.
- Encourage reporting practices that disclose short-term performance in the context of medium and long-term goals and strategies.
- Supplement short-term earnings guidance with more meaningful disclosures.
- Promote clear and transparent communications.
- Educate the market to understand the benefits of longer-term thinking and the drivers of long-term company value.

[84] BHP Billiton, "About Us: Our Company: Our Charter", BHP Billiton <www.bhpbilliton.com/home/aboutus/ourcompany/pages/charter.aspx>.
[85] See Kay, "Final Report", above n 74, 10, 21 [1.30]. See also Australian Institute of Company Directors, "Institutional Share Voting and Engagement: Exploring the links between Directors, Institutional Shareholders and Proxy Advisers" (2011).

Focus investor relations on the longer term

It is incumbent on the board and management to ensure that the company's long-term vision and strategies are communicated to the investor community. By making meaningful disclosures about their long-term strategies, and how they relate to business fundamentals, companies can signal their commitment to long-term sustainable value creation and encourage their investors to adopt a similar outlook.[86] While much of this communication will take place at the executive or investor relations levels, it is advisable that boards take steps to ensure that such communication is taking place, and participate when appropriate and when it can add value.[87] Naturally, effective communication and engagement with investors is a "two-way street", and an effective board will listen to investors to better understand their perceptions and concerns.

Boards may find it helpful to develop, together with management, a communications strategy that addresses how the company will convey its long-term goals, strategies and achievements to the investor community. The communications strategy could also address how the company will communicate information that does not bear upon its long-term goals and strategies (e.g. where it is required to do so by law or if there is a strategic need to communicate such information). Furthermore, if a company is reporting on its short-term performance, it could do so in the context of its longer-term goals and strategies. The Kay Review (2012) recommends that the frequent reporting of data irrelevant to long-term value creation, which it describes as "noise in information", should be reduced.[88]

Promote reporting practices that reflect long-term considerations

Boards may consider it appropriate to encourage management to provide certain information to the market relevant to long-term corporate sustainability and financial health. This may include the following quantitative and qualitative information:[89]

- qualitative statements about long-range goals and business strategies
- qualitative statements about market conditions and the expected business climate
- trend information that may affect the company
- qualitative statements about high-level performance measures
- estimates or forecasts of factors that may drive earnings.

Boards, together with management, might also consider whether to provide short-term earnings guidance, bearing mind that it may lead to an excessive focus on short-term results and distract companies from longer-term value creation.

Renowned investor Warren Buffett makes clear in Berkshire Hathaway's communications that the company does not provide earnings guidance because it may reveal relatively little about the company's true economic performance. Instead, the company reports to shareholders on "the pluses and minuses important in appraising business value" and "the business facts that we would want to know if our positions were reversed".[90] The Kay Review (2012) also recommends that companies "should seek to disengage from the process of managing short-term earnings expectations and announcements".[91]

[86] Hsieh, Koller and Rajan, above n 47, 5.
[87] See Orsagh, above n 59, 9, 11.
[88] Kay, "Final Report", above n 74, 72.
[89] See, e.g. research conducted by the US National Investor Relations Institute referred to in Krehmeyer, Orsagh and Schacht, above n 3, 6.
[90] Michael J Mauboussin, "Approaching Level 10: The Story of Berkshire Hathaway", reproduced in Rappaport, above n 39, 4.
[91] Kay, "Final Report", above n 74, 13.

Importantly, improved dialogue, and more meaningful communications about company strategy and long-term value drivers, can lessen investors' dependence on earnings guidance.[92] This may help to reduce the focus on short-term performance. If companies choose to provide frequent earnings guidance, they could adopt guidance practices that incorporate a consistent format, range estimates, and appropriate metrics that reflect overall long-term goals and strategy.[93] For example, global consumer goods company Hannesbrands releases as goals the broad percentage-range growth estimates over three to five years.[94]

Promote transparent and accurate reporting

Boards can encourage the investor community to take a longer-term view by recommending that their company's financial statements are transparent and clearly communicate the company's financial position and longer-term, value-creating prospects.[95] In particular, the form and content of companies' financial statements can help investors, fund managers and analysts to more readily understand the underlying value drivers and key performance indicators that relate to long-term value creation.

Further, boards can recommend that good quality, narrative (non-financial) reporting accompanies quantitative information provided to the investor community. This can "put the financial results in context, highlight important factors and communicate strategy and risks to investors in an understandable, engaging and concise format".[96] Ideally, communications will be in "plain language" and avoid accounting and legal terminology.[97] A board audit committee can play an important role in influencing the quality of a company's financial reporting.[98]

Transparent and accurate corporate reporting may allow the investor community to forecast with more confidence. This reduces an element of the risk of investing in a stock and may encourage long-term investors to take a position in a company.[99]

Educate market participants about the benefits of long-term thinking

Boards, together with management, can promote a longer-term perspective by educating market participants about the benefits of longer-term thinking and the costs of short-term thinking. This may also include helping investors, analysts and others to understand the drivers of the company's long-term value (e.g. research quality, innovation rates and customer retention) as well as relevant long-term metrics of corporate performance.

Executive remuneration and rewards

Remuneration is an important tool in seeking to influence executive and company performance. One way to encourage a company to focus on its long-term health is to put in place financial incentives reflect this commitment.[100] Boards can implement remuneration policies and practices that reward key outcomes that add long-term value (having particular regard to the specific needs and value drivers of the company), support the long-term

[92] Krehmeyer, Orsagh and Schacht, above n 3, 1.
[93] Ibid 2, 7.
[94] See, e.g. Joseph McCafferty, "The Long View: Companies are trying to shift investors' focus from short-term results to long-term goals", *CFO Magazine* 1 May 2007 <www.cfo.com/printable/article.cfm/9057969/c_9064230?f=options#>.
[95] See Krehmeyer, Orsagh and Schacht, above n 3, 15.
[96] Kay, "Final Report", above n 74, 76 [10.21].
[97] Krehmeyer, Orsagh and Schacht, above n 3, 2, 15.
[98] Orsagh, above n 59, 6.
[99] Letter from PricewaterhouseCoopers LLP to UK Department for Business, Innovation & Skills, "Long-term Focus Call for Evidence", 14 January 2011, 1-2.
[100] See, e.g. Salter, above n 8, 22. We also note that the remuneration policies and practices for fund managers can similarly promote a long-term perspective.

strategy and performance of the company, and are appropriate having regard to the company's risk profile.[101]

Summary of suggested practices

- Base a meaningful proportion of executive remuneration on long-term performance measures.
- Include qualitative criteria when evaluating the performance of executives.

Align the interests of executives and shareholders

Value creation may be encouraged through aligning the interests of executives and shareholders. Boards can achieve this by delivering part of executive pay in the form of equity instruments (shares or options), and requiring executives to hold this equity for a sufficient period of time.[102] For most public companies, executive remuneration structures will include a mix of cash and equity-based payments.

Boards could require all executives to hold a meaningful amount of equity in the company, being an amount that is economically material to the individual.[103] At eBay, for example, the CEO is required to own stock in the company equivalent to five times annual base salary, while other executives must own company shares equivalent to three times their salary.[104] Executives who bear the same risks of ownership as shareholders may be more likely to make decisions with sustainable value creation in mind.

Another way to encourage value creation is to tie incentive payments to performance hurdles. These performance hurdles and payments may be short or long-term, and most executive remuneration structures for public companies will include both short and long-term incentive payments.[105] However, executive incentives that focus disproportionately on short-term objectives may foster excessive short-termism.[106]

Factor long-term value creation into rewards

Boards can encourage long-term value creation by aligning executive remuneration with the company's long-term goals and strategies, and basing a meaningful proportion of remuneration on long-term performance measures. It may be appropriate in some circumstances for the long-term performance measures to extend beyond the tenure of the executives.

Some of the relevant principles in seeking to tie executive remuneration to long-term performance include:

[101] See BlackRock, "Corporate Governance and Proxy Voting Guidelines for Australian Securities" (April 2011) 14; Orsagh, above n 59, 4.
[102] See Australian Government Productivity Commission, "Executive Remuneration in Australia" (Productivity Commission Inquiry Report No 49, 19 December 2009) Ch 7 'Linking Pay to Performance' 192 <www.pc.gov.au/__data/assets/pdf_file/0008/93590/executive-remuneration-report.pdf>.
[103] See, e.g. Krehmeyer, Orsagh and Schacht, above n 3, 9.
[104] Rappaport, above n 39, 1, 8.
[105] Australian Government Productivity Commission, above n 102, 192.
[106] Krehmeyer, Orsagh and Schacht, above n 3, 9.

- basing the vesting of stock grants and options on longer-term metrics and extending the required holding period of exercised stock options; Salter (2012) suggests that the vesting period could reflect the time frames of executives' business strategies[107]
- linking the structure of the company's long-term incentive plans with its long-term strategy through the performance period and measures chosen[108]
- employing longer time periods for measuring executive and corporate performance and paying incentive-based awards.[109] Significant vesting periods for incentive pay may encourage a longer-term focus, since poor long-term performance may reduce the value of earlier incentive awards before they can be cashed out or realised.[110] Bhagat and Romano (2009) recommend that long-term incentive awards should not vest until two to four years after the last day in office.[111]

Boards may also find it useful to consider qualitative criteria, including criteria relating to the company's long-term goals and strategies, when evaluating executive performance.

[107] Salter, above n 8, 23.
[108] BlackRock, above n 101, 15, 19.
[109] Salter, above n 8, 23.
[110] Brian G M Main, Rolf Thiess and Vicky Wright, "Career Shares as Long Term Incentives" (University of Edinburgh Business School (Edinburgh) and Towers Watson (London), December 2010) 4.
[111] Sanjai Bhagat and Roberta Romano, "Reforming Executive Compensation: Simplicity, Transparency and Committing to the Long-term" (Research Paper No. 393, Yale: John Ohlin Center for Studies in Law, Economics, and Public Policy, 2009), as cited in Main, Thiess and Wright, above n 110, 4.

Chapter 4: Conclusion

Outlined above are a number of suggested practices for boards of public companies to help address excessive short-termism and support long-term value creation.

Ultimately, however, all stakeholders will need to work together to reduce the impact of excessive short-termism. In particular, a commitment by boards, together with management, to effectively balance short, medium and long-term priorities will require the cooperation and corresponding commitment of key external stakeholders such as investors, fund managers and analysts. It is in the interests of all stakeholders for that balance to be achieved.

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