Moving Beyond Quarterly Guidance: A Relic of the Past
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FCLTGlobal is dedicated to rebalancing investment and business decision-making towards the long-term objectives of funding economic growth and creating future savings.

FCLTGlobal is a not-for-profit organization that encourages a longer-term focus in business and investment decision-making by developing practical tools and approaches to encourage long-term behaviors across the investment value chain. We take an active approach to achieving our goals by:

- Conducting research and developing practical ideas based on solid evidence
- Engaging the world’s top asset owners, asset managers and corporations to problem-solve and test capital allocation approaches that create long-term value
- Developing educational resources and actionable approaches that are available and applicable globally
- Generating measurable change in capital markets behavior among savers, investors, corporations and other stakeholders

FCLT began in 2013 as an initiative of the Canada Pension Plan Investment Board and McKinsey & Company, which, together with BlackRock, the Dow Chemical Company and Tata Sons, founded FCLTGlobal in July 2016. In addition to our founding Members, we involve other member organizations from across the investment value chain, including asset owners, asset managers and corporations, that are committed to achieving long-term tangible actions that benefit businesses, markets and society more broadly.

This document, Moving Beyond Quarterly Guidance: A Relic of the Past, benefited from the insights and advice of a global working group of corporate investor-relations experts and institutional investor staff of FCLTGlobal’s Founders and Members. We are grateful for all the input we have received, but the final document is our own, and the views expressed do not necessarily represent the views of FCLTGlobal’s Founders and Members.
6 Myths of Quarterly Earnings Guidance

**Myth 1**  Everyone does it.

**Fact**  The share of S&P 500 companies issuing quarterly guidance has declined from 36.0% in 2010 to 27.8% today. Among Euro Stoxx 300 companies, issuance is near zero (0.7%).

**Myth 2**  Issuing quarterly guidance improves companies’ valuations.

**Fact**  Our analysis of S&P 500 constituents found no effect on valuation whatsoever.

**Myth 3**  Issuing quarterly guidance helps reduce stock price volatility.

**Fact**  Issuing annual range guidance reduces volatility around earnings reporting periods relative to issuing quarterly guidance.

**Myth 4**  Investors demand quarterly guidance.

**Fact**  Over 75% of surveyed investors say companies should move away from quarterly guidance. Fewer than 7% of investors want companies to offer guidance on any metric for periods of less than one year.

**Myth 5**  Quarterly guidance helps keep management teams accountable for performance.

**Fact**  It keeps them focused on short-term performance, but in the long-term leads to under-investment and poor earnings growth.

**Myth 6**  There is no alternative.

**Fact**  Providing investors with a long-term roadmap of a company’s strategy over at least three to five years, combined with relevant financial and operating metrics, can give investors the confidence and transparency they need while avoiding short-term myopia.

Short-term earnings guidance is not wanted by long-term investors and leads many companies to make counterproductive, short-term decisions.
Introduction

Research has consistently found that the vast majority of corporate executives think that short-term pressure is growing, that it is changing their business decisions, and that those changes are destroying value.¹

One effective way that corporations are combatting this phenomena is by moving away from quarterly earnings per share (EPS) guidance and instead providing investors with a long-term roadmap focused on the fundamental economic drivers of the business tied to management’s outlook on critical key performance indicators (KPIs).

As we highlighted in our 2015 guide for restructuring the investor-corporate dialogue, Straight Talk for the Long Term, quarterly EPS guidance constitutes a critical channel through which short-termism impacts companies and capital markets. By harnessing management teams to self-imposed short-term targets, quarterly guidance ensures that both investors and companies will focus on this time horizon.

It is critical to distinguish quarterly guidance, which relies on forecasts issued by companies to influence market expectations, from quarterly reporting, the retrospective reporting of factual performance, and consensus estimates, external analysts’ forecasts of earnings performance.

Quarterly reporting remains essential in providing investors with the transparency they need and in keeping management teams accountable for their performance. On the other hand, consensus earnings estimates will continue to be a feature of markets regardless of what companies choose to disclose. If companies do not issue guidance, a mismatch between reported earnings and consensus indicates an inaccurate forecast rather than an earnings “miss.”

This paper is aimed not at reporting or consensus estimates, but at the issuance of quarterly earnings guidance alone.

Indeed, there is mounting evidence that companies that play this quarterly guidance game ultimately suffer. Their focus on short-term metrics often leads them to prioritize decisions that will yield the most attractive results on a quarterly basis and neglect their long-term strategies. Such an approach results in companies sacrificing valuable investment opportunities and erodes the foundation of long-term, stable shareholders on which they depend.

A recent Harvard² study helped confirm what many have long suspected, that companies get the investors they deserve. Focusing on short-term metrics attracts transient, short-term shareholders, compared to peers who issue guidance with a long-term orientation.

The inverse holds true as well: long-term companies can attract the right investors. Companies that choose to offer shareholders a long-term vision and strategy benefit not only from a reduced focus on short-term metrics but also by attracting and building a long-term investor base. This virtuous cycle – in which companies that focus on the long-term attract investors who support their longer horizons – is within the power of management teams to achieve.

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Management teams have recognized this connection and are taking steps to mitigate short-term pressure, especially the influence of quarterly EPS guidance. Just 27.8% of companies from the S&P 500 with consistent guidance policies gave quarterly EPS guidance in 2016 (down from 36.0% in 2010), while less than 1% (0.7%) of Euro Stoxx 300 companies gave quarterly EPS guidance that year.³

Eliminating quarterly EPS guidance is a good first step, but it is in no way a panacea for ensuring sustainable, long-term performance. Offering investors a long-term roadmap, rather than just quarterly targets, is essential. Only with an understanding of how a company will sustainably create value over the long term can investors engage companies on their strategy and make investment decisions on that basis.

For companies that do not currently offer quarterly guidance (including many outside the US or those that have yet to go public), these findings offer even more reason to provide long-term investor communications instead of quarterly guidance. For those that do currently guide, the growing evidence in favor of a long-term approach presents an opportunity to reconsider their guidance policies.

³ Analysis of guidance policies performed by KKS Advisors and Prof. George Serafeim of Harvard Business School using FactSet Guidance data. The sample included the 799 firms from the S&P 500 and Euro Stoxx 300 that had consistent and identifiable guidance policies during the sample period from 2010 to 2016.
DEBUNKING GUIDANCE MYTHS 2 & 3

Valuation & Volatility

Many companies that continue to issue quarterly earnings guidance do so under the influence of two pervasive myths. As part of this report, we worked with researchers at Harvard Business School and KKS Advisors to investigate these myths and found both to be false.

**MYTH**
Issuing quarterly guidance improves companies’ valuations due to a “management credibility” premium.

**FACT**
Analysis of S&P 500 members from 2010–2016 found guidance policy had no effect on valuation whatsoever.

**MYTH**
Issuing quarterly guidance helps reduce volatility by taming investor expectations.

**FACT**
The opposite is true: companies offering annual range EPS guidance over the same period experienced lower volatility around earnings reporting periods when compared with those that issued quarterly guidance.
It is worth noting that the use of quarterly earnings per share (EPS) guidance is increasingly rare. Although many market participants assume EPS guidance is common practice, issuance of forward-looking quarterly EPS guidance peaked in popularity just after the turn of the millennium, approaching 50% of large cap companies in 2004.\textsuperscript{4}

Since then, the use of quarterly EPS guidance has declined markedly. In 2016, just 17.8% of companies in the S&P 500 and Euro Stoxx 300 with consistent guidance policies offered quarterly EPS guidance, and only 20.9% offered annual EPS guidance. A clear majority of sampled companies (61.3%) offered no EPS guidance whatsoever in 2016.\textsuperscript{5}

What is driving this decline in popularity? Awareness of recent research may be one contributing element. However, two other factors likely account for the lion’s share of this change. First, buy-side investors have abandoned the view that short-term earnings results are especially predictive of long-term success. Second, investors are aware of the imprecision of short-term metrics.

**A. INVESTORS DON’T WANT SHORT-TERM GUIDANCE**

In repeated surveys of the buy-side investment community (primarily institutional buy-side investors) earnings guidance given for periods of less than one year was consistently deemed irrelevant in evaluating a company’s future prospects. A 2006 CFA Institute survey of its membership demonstrated this lack of interest in short-term earnings guidance. When asked the question, “Should companies move away from focused quarterly earnings guidance?”, 76% of the survey’s 2,686 global respondents answered, “Yes.”\textsuperscript{6}

This aversion to earnings guidance has only become more pronounced over the last decade. In a Rivel Research Group Intelligence Council report published in September 2017 summarizing in-depth interview responses from the global buy-side, just 9% of respondents cited earnings guidance for periods of less than one year as an important

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\textsuperscript{5} Analysis of KKS Advisors for FCLTGlobal, 2017.

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The Case Against Quarterly Earnings Per Share Guidance

Notably, in that same survey, an average of just 6.8% of respondents wanted companies to offer guidance on any metrics at all (both financial and operational) for periods of less than one year. When viewed in context, these findings are perhaps unsurprising. Seven in ten shares of US companies are owned by longer-term investors. For these shareholders, who aim to generate continual returns over decades, not weeks or even months, why would we expect short-term guidance to improve their investment decisions?

The rise in intangible assets and the subjectivity of accrual-based accounting methodologies can cause meaningful distortions in reported earnings numbers that have little bearing on the value and future prospects of the underlying business. Investors recognize these issues. While reported earnings numbers may drive headlines and media attention, investors themselves put significantly less weight on such metrics.

In fact, according to a 2016 book by professors at the NYU Stern School of Business and the University of Buffalo, “Today’s financial reports provide a trifling five percent of the information relevant to investors.”

### B. QUARTERLY GUIDANCE LEADS TO SHORT-TERM BUSINESS DECISIONS

The evidence that quarterly EPS guidance harms companies in the long run grows stronger each year. Although the literature is not unanimous, the preponderance of the evidence suggests quarterly guidance is harmful. Quarterly EPS guidance, in particular, leads many companies to manage around quarterly targets rather than long-term goals that match the business and investment cycles of their industries. At the same time, this behavior often attracts investors with a short-term orientation who intensify the attention to short-term results and eschew strategies with long-term payoffs. When it comes to quarterly earnings targets, the familiar adage is right: “What gets measured gets managed.”

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**Percentage of S&P 500 and Euro Stoxx 300 Offering Quarterly EPS Guidance**

<table>
<thead>
<tr>
<th>Year</th>
<th>S&amp;P 500</th>
<th>Euro Stoxx 300</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>36.0%</td>
<td>10.0%</td>
</tr>
<tr>
<td>2011</td>
<td>33.8%</td>
<td>1.0%</td>
</tr>
<tr>
<td>2012</td>
<td>31.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td>2013</td>
<td>31.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td>2014</td>
<td>26.0%</td>
<td>0.7%</td>
</tr>
<tr>
<td>2015</td>
<td>26.2%</td>
<td>0.7%</td>
</tr>
<tr>
<td>2016</td>
<td>27.8%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Executives admit to taking short-term action to meet quarterly guidance:

- **60%** would delay projects
- **80%** would cut discretionary spending
- **40%** would give discounts to customers

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According to a 2016 McKinsey and FCLTGlobal survey, nearly 60% of executives said their companies would act to avoid missing quarterly targets, including cutting discretionary spending or delaying projects. This problem is not new. In a 2005 survey of over 400 financial executives, 80% of respondents noted they would cut discretionary spending on R&D, advertising, maintenance or hiring to meet short-term earnings targets. Meanwhile, nearly 40% said they would give discounts to customers to make purchases this quarter rather than next.

Worryingly, both surveys independently found that approximately half of executives would delay new projects and investments to hit quarterly targets, even with the knowledge that it would sacrifice some value.

Recent research suggests this is more than just majority opinion and that guidance is a central culprit: companies that issue guidance more regularly do in fact invest less than their peers. A 2007 study found that “regular guiders” spend nearly 10% less on R&D each year than “occasional guiders.”

The interplay between the issuance of quarterly EPS guidance, the attraction of short-term-oriented investors, and the pressure exerted on managers to meet investor demands does indeed undermine long-term investment and growth.

C. SHORT-TERM CHOICES LEAD TO LONG-TERM HARM

Not only is the issuance of earnings guidance clearly tied to adverse short-term behavior, it also causes long-term harm to a company. Over time, underinvestment in long-term opportunities leads to long-term underperformance.

- The same 2007 study found that regular guiders suffer significantly lower long-term earnings growth rates when compared with their occasionally guiding or non-guiding peers.

• A 2012 Harvard study found that the stocks of companies exhibiting short-term behavior were more volatile than the market as a whole and that the cost of capital for those firms was 0.42% higher than average.  


• In a 2015 follow-up study, the authors found firms with greater emphasis on the short term experience lower ROE over the following two years.  


• 2014 research suggests that companies that provide more frequent and regular guidance often experience higher volatility during earnings reporting periods as short-term investors speculate on forthcoming results.  

15 KKS Advisors & Generation Foundation. “Earnings guidance: Part of the future or the past?” 2014.

• Finally, a 2016 study found firms that stopped issuing quarterly earnings guidance saw their investor bases become more long-term oriented, with greater proportions of long-term institutions as investors, more weight placed on long-term earnings in valuation, and lower sensitivity to short-term analyst forecasts relative to firms that did not end quarterly earnings guidance.  


• In contrast, the benefits of taking a long-term approach are well detailed in a 2017 McKinsey study. From 2001 to 2014 the revenue of long-term oriented firms cumulatively grew on average 47% more than the revenue of other firms, and with less volatility. Similarly, on average, the earnings of the long-term firms grew 36% more over this period than those of other firms, and their economic profit was 81% higher by 2014.  

The evidence demonstrating the adverse effects of issuing quarterly earnings guidance – including higher share price volatility, higher cost of capital, lower ROE and lower earnings growth rates – is strong. The lack of desire for such guidance from buy-side investors is clear. For firms still providing this form of forward-looking communication, the question is “why?” There has been no better time for firms to reevaluate their approaches to investor communications and free themselves from the constraints and harms of quarterly guidance.


Impact of a Change in Guidance Policy

Companies contemplating a decrease in the frequency with which they offer guidance often ask: What would the effect of that decrease be on my stock’s volatility and valuation?

To answer that question, we identified US firms that have decreased their EPS guidance frequency and collected data on their volatility and price-to-book (P/B) ratios for the year before, the year of, and the year after the EPS guidance frequency change. We compared this sample with a control group consisting of firms of the same size and industry that had no change in their guidance frequency practices. By comparing the volatility and P/B ratio between the companies that decreased guidance frequency, we found that there was no effect on a firm’s volatility or P/B ratios from the guidance change in either the year of the change or the year after.

Additional Perspectives on Earnings Guidance

Although most studies and surveys of earnings guidance suggest short-term guidance is harmful, the literature is not unanimous. In particular, it is worth highlighting two recent studies that suggest quarterly guidance has no impact.

A 2016 study of 289 companies by Andrew Call et al. found no difference in investment or tendency to meet earnings targets between firms that issue long-term guidance and those that issue short-term guidance. While colored by the context of the financial crisis during which this change took place, this finding no doubt complicates the narrative.

In addition, 2017 research released by the CFA Institute examined the UK’s institution of quarterly reporting requirements from 2007 to 2014. This change led about half of companies in their sample to adopt earnings guidance, as well. Based on this sample, the authors found that the introduction of reporting (and in many cases, guidance) did not lead to changes in investment. They measured investment in terms of capital expenditure, PP&E and R&D and found no significant effect across 471 companies.

It is important to remember that ending quarterly earnings guidance is no panacea and offers no guarantee of improved financial or operational outcomes. There is no evidence of a beneficial impact from short-term guidance, and the preponderance of the evidence suggests the practice is harmful, unnecessary and worth reconsidering.

Eliminating the use of quarterly earnings guidance (while maintaining quarterly reporting) is a first step in revitalizing investor-corporate dialogue. But what is an appropriate replacement? Shareholders still need information to make their decisions and exercise their voting rights, but it must be the right information to support long-term value creation.

Valuation analysis conducted by McKinsey and others suggests that 70–90% of a company’s value is related to expected cash flows three or more years out. If that is where the value lies, then investors need to be educated and informed with that horizon in mind. Long-term investors say they are less interested in quarterly results than in long-term business drivers. As one investor put it, “It’s all about the horizon. Long-term investors don’t need a lot of detailed guidance about quarterly numbers. They need clarity, consistency and transparency from managers in communicating strategic priorities and their long-term expectations.”

Companies, too, benefit from providing a vision of the company’s strategic goals and performance on the right metrics, matched to a long-term strategy. Attracting long-term shareholders empowers management to make strategic and operating decisions that build value for the long term. When short-term investors propose plans to shake things up, for example, a long-term shareholder base that has been educated about the company’s long-term goals and supports its strategy is better equipped to evaluate management’s approach rather than give into short-term plans.

Instead of quarterly EPS guidance, companies can introduce a long-term roadmap – as many leading companies have done already – as the centerpiece of their investor communications.

A long-term roadmap helps build trust between the company and its shareholders. Recent research from Edelman Financial Communications & Capital Markets, a global financial communications and investor relations advisory firm, revealed findings in support of long-term guidance. The Edelman Trust Barometer Special Report: Institutional Investors 2017 surveyed over 100 global chief investment officers and portfolio managers to understand broad perspectives on items that build or detract from trust in publicly listed companies, with implications for how corporations should communicate with the financial community:

**THIS ROADMAP IS BASED ON THE GOALS OF:**

1. Educating investors about the core drivers of the company’s business.
2. Laying out a clear vision for long-term performance based on these drivers.
3. Establishing specific interim and long-term strategic goals tied to appropriate metrics that track the achievement of this vision.

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Edelman’s survey of institutional investors found:

- **68%** agree that providing long-term guidance on financial performance positively impacts the trust they have in companies they are/may consider investing in or recommending.

- **86%** agree focusing on short-term results does not benefit their investment strategies.

By providing a clear vision of where the company wants to go and long-term forecasts around relevant KPIs (rather than a simplistic focus on short-term earnings), companies can instill in their shareholders the confidence investors need to support a longer-term approach. To accomplish this, companies providing a long-term roadmap typically consider:

- **Core Drivers**: the primary drivers of the business and determinants of the company’s success, including competitive landscape; relevant macroeconomic factors; key customer segments; primary technologies and products used and trends; and critical internal factors, including talent, assets and/or organizational structure.

- **Long-Term Objectives**: where the company wants to be in three to five years and beyond, including specific, numerical targets at the enterprise and business unit levels that investors can assess for feasibility, including both operational and financial goals.

- **The Roadmap**: the set of concrete actions the company will take to achieve the objectives, including the timing of each action; expected outcomes; capabilities required for each objective (and plans to acquire those the company does not currently possess); and critical risk factors that could impede any of these plans (especially risks linked to a core business driver).

- **Key Performance Indicators**: a mix of financial and operational KPIs tied to the company’s core drivers (to ensure continued success and ability to leverage those drivers) and to the set of actions in the roadmap on an interim and long-term basis to enable investors to track progress toward long-term objectives.

A long-term roadmap can help companies communicate the elements needed to build investor support for long-term strategies. With these pieces in place – a supportive long-term investor base, a long-term strategy and the right KPIs to give investors the transparency and information they need to back the strategy – companies can make the decisions required to create long-term value. These strategies will not only be more rigorously followed and tracked, but will also be more resilient in the face of challenges from activists and other sources of skepticism. At its root, long-term value creation relies on trust and collaboration between companies and shareholders. Long-term roadmaps are a vital step in establishing this shared commitment to sustainable success.

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23 For more information about Edelman’s Trust Barometer Special Report: Institutional Investors 2017, please contact Deb Wasser deb.wasser@edelman.com or Julia Sahin Julia.Sahin@edelman.com
3 Measuring and Capturing Long-Term Performance

A long-term roadmap can help focus conversations with shareholders on appropriate horizons for continuous value creation.

While every company is different, in our conversations with the investment community, we identified several guiding principles for crafting a successful long-term shareholder communications strategy. First and foremost, in both our own conversations and in Rivel Research Group’s surveys, the global buy-side investment community consistently ranks operational goals, cash flows, and margins (i.e., profitability) as highly important areas on which to receive a long-term outlook (i.e., greater than one year). In particular, the importance investors place on non-financial operational performance is unparalleled. The goal of the investor-corporate dialogue is to encourage investors to adopt a longer-term view of their investments, and ensure this view is aligned with the company’s objectives and plans to achieve them.

A. MILESTONES AND KEY PERFORMANCE INDICATORS

To aid investors in measuring progress toward long-term strategic goals, companies can develop and share KPIs that are updated consistently and act as milestones along the path to success. Metrics that correspond to underlying drivers of business success, reflecting ongoing performance over time, are most effective.

THE NORTH STAR

We suggest starting every conversation with a reminder of what the company is trying to achieve in the long term, both financially and operationally.

Answer the question: what is the North Star toward which you are sailing? Paint a clear picture of what success will look like and how the company plans to achieve it.
Some guidelines in developing appropriate KPIs include:

**A. SELECTING THE RIGHT METRICS**

1. **Provide guidance for metrics that will help investors understand and track the company’s long-term strategy.** Such metrics include (a) those the company can comfortably and accurately predict, (b) those over which the company has a reasonable degree of control, and (c) those that are relevant to the strategy but difficult for outsiders to estimate or analyze.

   *Glencore* renovated their corporate guidance policy to reflect metrics that are specific to their unique business, including specific mineral production levels. The new strategy won awards for top corporate communications policy.

2. **Invest resources in gathering information that investors need, and avoid extraneous or distracting items.** Frame and contextualize metrics where necessary to explain key assumptions.

   *Generali Group* went from 20+ pages of quarterly financial disclosure (for the quarter ended March 30, 2016) to just two pages, after the CFO evaluated time and resources spent compiling the longer format report and determined it was not an effective use of resources. Generali received few complaints from the investment community following the first report in the new condensed format.

3. **Resist the natural tendency to alter metrics, introduce new ones, or abandon targets when expectations are not met.** Honest conversations about shortcomings and steps underway to reposition the company build more credibility with true long-term investors. Where necessary to do so, make the case for why new metrics are relevant to strategic goals than previous ones and share the five-year history of the new metrics to provide needed context.

   *Unilever* ended short-term earnings guidance when Paul Polman took over as CEO in 2009. Since then, the company’s guidance policy has evolved. Unilever now offers annual guidance tied to its longer-term strategic vision, including forecasts for underlying sales growth, underlying operating margins, long-term cash conversation targets, return on invested capital and leverage expectations.

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* Denote members of FCLTGlobal.

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24 Please note: While these examples are used to highlight and illustrate corporate best practices when it comes to long-term investor communications strategy, we in no way intend to indicate blanket FCLTGlobal endorsement of these organizations.
# B. Putting KPIs in Context

1. Offer a three- to five-year outlook for each KPI, as well as key risks and outside factors relevant to this outlook. Use this as an opportunity to share detail on market conditions, trends, operating environment, expectations, and the competitive landscape as related to the strategy and KPIs.

   Facebook offers a three-, five-, and ten-year plan, with specific KPIs for each horizon and strategic milestones over each period. Facebook’s CEO Mark Zuckerberg on the 1Q17 Earnings Conference Call said,

   “I want to give a quick update on what we’re building over three time horizons: how we’re making our core services more useful and engaging right now; how we’re building ecosystems around products that a lot of people already use over the next five years; and how we’re investing in the technologies that will give more people a voice and make sharing more immersive over the next ten years.”

2. If offering annual guidance on KPIs, connect that to progress toward longer-term goals and contextualize interim results within the frame of long-term objectives.

   BP explains how near-term results fit into longer-term strategic context. BP’s CEO Bob Dudley said during the company’s 2017 Strategy Update,

   “Earlier this month we published our year-end results for 2016 – a year where we have come a long way forward from a year ago. That was mainly about looking back. Today, with this strategy update, we’re focusing squarely on the future – we’ll focus mostly on the immediate five years ahead but we’ll also be looking beyond that to what you can expect from BP longer term.”

3. Use ranges rather than point estimates when possible. Ensure ranges are sensible and sufficiently broad to avoid handcuffing the company, but sufficiently narrow to be meaningful for investors. Consider using rolling averages where appropriate to aid in highlighting longer-term trends (vs. short-term fluctuations).

   GlaxoSmithKline provides ranges for growth and performance estimates and explains the underlying assumptions and scenarios that drive the potential outcomes included in the range.
C. EXPLAINING HOW METRICS ADVANCE LONG-TERM GOALS

1. Ensure internal metrics used to incentivize management match both long-term goals and external messaging to align management and investors’ focus.

   Exxon uses a 10-year vesting period for employee stock grants so that their incentives match the time cycle of their industry. From their 2015 Executive Compensation Overview:

   “Vesting periods of 10 years or longer require that executives hold their equity compensation through commodity price cycles, which is especially relevant in today’s price environment.”

2. Discuss capital allocation priorities and associated return hurdles, expected payback periods, and realized returns for each category of investment. Help investors connect the dots: highlight sources and intended uses of cash, including how free cashflow will evolve if investments succeed and KPIs are achieved.

   Marriott International offers a three-year outlook for sources of cash with various dollar-value ranges and uses of cash, broken down by areas for planned investment and cash available for return to shareholders.

3. Select targets that are conservative and achievable but sufficiently aspirational to inspire confidence among investors. When in doubt, use investor-corporate dialogue as a channel to test whether targets have achieved this balance.

   The Coca-Cola Company sets a series of strong but conservative annual financial targets that feed into an achievable target of 6–8% before-tax profit over the long term. This ranged target has been paired with specific productivity and investment initiatives that will all contribute to headline objectives.
Building a long-term investor base is consistently among the top priorities of management and investor relations professionals when designing their investor communications strategies. For companies pursuing this goal, the implications of recent research are clear: Corporate leaders and institutional investors have recognized that short-term earnings guidance leads to counterproductive, short-term decisions. They understand that this practice is outdated and have moved on.

The use of earnings guidance, especially quarterly earnings per share guidance, is counterproductive in building the kind of investor base long-term companies need. It attracts the sort of transient, speculative investors that undermine long-term planning and pressure companies to neglect long-term opportunities. It leads companies to lose focus on what matters: the fundamental drivers of their business, the strategy they believe will unlock future value, and the steps required to get there.

Both the investor community and the research are clear: quarterly earnings guidance is an outdated relic of the past.

Conclusion

Attracting long-term shareholders is vital for building the trust and confidence that companies need to pursue long-term strategies and create continual value.