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SHORT-TERMISM V MAINTAINING FAIR DISCLOSURE

There has been much talk recently, fuelled in part by the renewed calls to scrap mandatory quarterly reporting in the US (FT Weekend, Saturday 18 August 2018), about the damage done to business by the undue pressure to achieve short term goals. Listed companies become fearful of or restrict attractive long-term growth investments to make sure they have flexibility to achieve near-term expectations and potential growth businesses are scared away from listing, to only provide leveraged returns under private equity ownership.

As a result, with over 200 chief executives arguing that short-termism is harming the economy (Buffett/Dimon, WSJ, 6 June 2018), there is a growing likelihood that quarterly reporting will end. Good news? Well, yes, probably – we all want to see equity markets grow and provide the investment opportunities that should be available to all, rather than the rarefied few in private equity.

But the tenor of the debate is that less communication is more, and therein lies the risk. We need to make sure we don't throw the baby out with the bath water and create unintended consequences.

The challenge, highlighted by a respected panel of investors, including Richard Buxton, Matthew Siebert and John Bennett, at this year's IR Society conference is that quarterly reporting fuels hedge fund speculation, share price gaming and unnecessary volatility. However, no communication achieves the same outcome – long voids between company reporting filled with the hubbub of market news, industry data and speculative comments from 'respected' analysts.

The real opportunity is for companies to take back control of how they manage the flow of relevant information to the market. If businesses are to provide a useful role in this environment it is not to say less, but instead say the same, or possibly even more, but at times and dates relevant to them; to their news flow or how they're interacting with the market. Major roadshows, conferences and capital markets days need the 'air cover' provided by an up-to-date 'tweak' to corporate guidance – even if to say nothing has changed. Otherwise companies will be running increased risks of breaching disclosure rules through inadvertently responding to someone's assertions and being asked to clarify – which becomes defensive and damaging.

Many of us recall recent and not-so-recent events when company teams are accused of selective disclosure during analyst meetings or consensus gathering exercises; it is these rumours that fuel a breakdown in trust. The quarterly reporting issue, in the minds of critics, is intertwined with quarterly or short-term earnings forecasts which many attribute to various acts of corporate misbehaviour. As Jamie Dimon of JP Morgan commented in his WSJ editorial with Warren Buffett, earnings forecasts "can often put a company in a position where management, from the CEO down, feels obligated to deliver earnings and therefore may do things that they wouldn't otherwise have done."

The reality is that, regardless of how a company limits communication, the market will form views, typically annual in the absence of undue precision, on how a company's performance will unfold. Behind the scenes, Boards have a responsibility to make sure that there is a sense of alignment between the company's internal expectations and those of the market – after all that is what incentives are aligned around and to allow a gap to unfold can only create difficulties down the road should rewards not be well aligned with investor experience. As a result, it's almost impossible, and certainly very unwise, not to equip management or Investor Relations teams with some tools – whether well-crafted 'annual' outlook statements or limited technical guidance – with which to manage market expectations. And then the challenge links back again to controlling how these are updated or reaffirmed as the company goes about its regular engagement with the market.

Best practice communication for companies requires them to become the trusted source of relevant information. Trusted means timely, transparent and clarifying – and to do that it needs to be well managed by proactive management and investor relations teams. Quarterly reporting, forecasting or not.