Six Reasons Why Companies Should Start Sharing Their Long-Term Thinking With Investors

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TIM YOUMANS AND BRIAN TOMLINSON

Companies need to be more forthcoming about their strategies for long-term value creation when they communicate with investors — especially about environmental, societal, and governance issues.

Over the last five years, CEOs have faced mounting pressure to produce short-term profits, increasing the likelihood of management practices that reduce long-term value, such as scaling back R&D. Corporations and investors tend to blame each other for this situation. CEOs complain that investors don’t ask about the long term, and investors respond that corporate disclosures discourage engagement on long-term metrics, with quarterly calls exclusively focused on recent past performance.

But CEOs and their management teams do think about the long term. In fact, all CEOs have long-term plans, which are often detailed, extensive, and at the core of senior management’s work. To date, such plans tend to be closely held secrets, as many executives worry that competitive advantage may be undermined by detailed disclosure. Concerns around releasing forward-looking information prior to it meeting the standards required for securities filings have also given pause. As a result, corporate strategy and practice is inadequately captured in corporate-shareholder communications.

At the same time, elevated expectations about corporate contributions to society have become more common. Material sustainability issues are now broadly acknowledged as relevant to financial and operating performance. Investors have become more assertive in considering environmental, social, and governance (ESG) factors, identifying them as a potential source of long-term corporate performance.
If a subset of a corporation’s strategic long-term plans *can* be disclosed, CEOs may rightly ask two questions: “Why should I disclose our long-term plans?” and “How should I disclose our long-term plans?”

We offer six reasons to disclose and several suggestions about how to do it.

**Why Disclose Long-Term Thinking?**

1. **To demonstrate that there is a long-term strategy.**

   Organizations oriented toward long-term value creation that better manage material sustainability issues have been shown to outperform competitors, demonstrating both enhanced resilience and ability to innovate. The investor-facing presentation of a long-term plan provides an opportunity for a meaningful conversation about continuing corporate performance involving two key elements: a long-term value-creation story (about the past) and a long-term value-creation plan (about the future).

   Spending more time talking about the future corporate context does not mean less specific or meaningful disclosure. The CEO Force for Good (CECP), a coalition of more than 200 CEOs of some of the largest corporations, has launched the Strategic Investor Initiative, bringing CEOs together with large, long-term investors. These partner investors want to review long-term plans that look five years forward and set out appropriate metrics (such as those developed by FCLTGlobal and the McKinsey Global Institute), including the rate of investment, earnings quality, margin growth, and earnings growth.

2. **To show that the company can anticipate and capitalize on megatrends.**

   A corporation is exposed to a variety of megatrends, the relevance of which will be industry-dependent. A CEO’s long-term plan provides an opportunity to outline how the corporation is responding to business-critical trends such as the transition to the low-carbon economy, technological disruption, and an aging society, and offers leaders an opportunity to identify how they intend to manage the risks and leverage the opportunities these trends present.

   The strategy to capitalize on megatrends necessarily involves the company’s long-term capital allocation plan. This plan should include appropriate in-year metrics and will enable a corporation to differentiate its long-term stance from its short-term-focused peers. A clear explanation of how the company will balance its long-term uses of strategic capital (such as acquisitions and divestments, debt paydown, reinvestment, and return of capital to shareholders) is valuable information for major shareholders with long-term investment horizons.
3. To help investors understand ESG issues “through the eyes of management.”

Responding to sustainability considerations is increasingly forming a core part of business strategies across sectors. A majority of investors see ESG factors as financially material and expect sound management of material ESG factors to deliver better performance over the long term. Investors also express frustration at the inadequacy of corporate disclosure of ESG factors. As BP’s Deepwater Horizon and the Volkswagen diesel emissions scandals demonstrate, mismanagement of material ESG factors can destroy value and confidence across time horizons.

A long-term plan provides a corporation with an opportunity to identify its financially material sustainability issues and gives management an opportunity to demonstrate how it thinks about and manages these business-critical issues. Frameworks such as the Sustainability Accounting Standards Board can provide management with a template through which to begin such thinking. By telling “war stories” about how ESG issues are incorporated into strategy, executives can help their investors view the corporation’s approach to ESG issues through the eyes of management.

4. To encourage the C-suite to reflect on the corporate ecosystem.

A corporation’s business model has many dependencies and affects a large universe of stakeholders through its activities. It is important for a corporation to account to its stakeholders, including — but not limited to — investors, though not all stakeholders are critical to its success.

Disclosing its long-term plan can also demonstrate that its future business benefits are aligned with the interests of long-term-oriented shareholders and other stakeholders. To do this, a corporation can identify its few “mission critical” stakeholders (beyond shareholders) and ensure that their interests are considered in the long-term strategy presented. Tools such as the one-page Statement of Significant Audiences and Materiality can enable companies, at the board level, to identify such stakeholders strategically.

5. To help inspire — and retain — both employees and investors.

Communication of long-term purpose yields many collateral benefits for a corporation. One is the social construction of loyalty. Corporations that focus on communicating long-term plans are able to attract more long-term-oriented investors — what EY have called “investor allies” — to support a long-term management perspective. Where a company embraces an authentic, sustainable purpose, it seems better able to attract, motivate, and retain personnel — all vital activities in the knowledge economy. The long-term plan provides an opportunity for a CEO to set out an inspiring vision of the organization’s purpose and the corporate future.
6. To foster leadership in corporate-shareholder communications.

Communicating about the long term doesn’t require reducing the frequency of periodic corporate-investor communication. Rather, it requires the existing schedule to be reoriented to address a longer-term perspective, offering more valuable opportunities for conversations between corporations and investors.

To enable this, organizations can join a small but growing cohort of corporations that delivers annual long-term plans (in the customary format for corporate-investor communications), setting out certain strategic goals and appropriate long-term metrics. The quarterly call can then be partially adapted to serve as a forum in which investors ask the company to account for milestones toward the objectives set out in its long-term plan.

A New Platform

Several major corporations have begun to present such plans. Corporate leaders from IBM, PG&E, Humana, BD, Nielsen, and Welltower (an aggregate market capitalization of $600 billion) have presented plans for long-term value creation to investors representing $20 trillion in assets under management, including Vanguard, Goldman Sachs, and State Street.

The long-term plan is a new tool in the regular sequence of periodic corporate-shareholder communications and represents an unprecedented opportunity for leading companies and investors together to drive sustainable value creation and help clarify the role of the corporation in a sustainable society.

An adapted version of this article appears in the Spring 2018 print edition.
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