**Committee for Economic Development**

# For Immediate Release

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## *Improving American Corporate Performance*
## *Business-led Policy Group Urges end to "Short-Termism"*
### CED Releases Recommendations in New Report, *Built to Last*

Washington, DC – June 27, 2007 – An increasingly short-term focus by many business leaders is damaging the ability of public companies to sustain long-term performance. This trend is hampering growth in the American economy. That is the message of a new report, *Built to Last: Focusing Corporations on Long-Term Performance*, released today by the Committee for Economic Development (CED), a business-led policy group.

"Decision making based primarily on short-term considerations damages the ability of public companies—and, therefore, of the U.S. economy—to sustain superior long-term performance. Emphasis on quarterly earnings, compensation tied to earnings per share, shortened CEO tenures, and financial reports that fail adequately to inform about company performance impede the task of building long-term value. These phenomena are commonly known as "short-termism," and we believe that it is the responsibility of corporate boards to use their power either to eliminate these practices or to counteract their effect," said former Securities and Exchange Commission Chairman William Donaldson. Mr. Donaldson, a CED Trustee, is the Chair of CED's Subcommittee on Corporate Governance which produced *Built to Last*.

The report calls on boards of directors to address these problems by putting the long-term interests of the corporate entity at the forefront of their concerns and demonstrating through their actions that those concerns trump interest in short-term price movements. Directors can:

- Support management's development of comprehensive strategic plans with appropriate long-term objectives, and continually assess management's performance vis-à-vis those objectives and interim milestones.

- Structure incentive compensation plans so that a significant portion of the income of the CEO and other top executives is tied to the achievement of well articulated long-term performance objectives in line with the corporate strategy.

- Insist that corporate reporting be redesigned to include useful non-financial indicators of value, such as those proposed by the Enhanced Business Reporting Consortium, and that such measures count internally for assessment of performance.

- Eliminate quarterly guidance on earnings per share. Such guidance encourages a focus on (and sometimes a distortion of) short-term financial results and attracts short-term, speculative trading rather than long-term investing.

- Promote succession plans that emphasize growth of internal managerial talent. Doing so would help diminish reliance on costly contracts for recruited executives and may counter the pressure to achieve short-term performance.

*Built To Last: Focusing Corporations on Long-Term Performance*
**Recommendations:**

Directors provide the link between shareholders and corporate managers. **We therefore stress that the best course is to act in the long-term interests of the corporate entity.**

Supporting Strategic Plans with Long-Term Objectives

- Acting in the shareholders' interests, the board should constructively engage with management to promote the development of long-term strategies. Such engagement should avoid the pitfall of micromanagement; rather, it should focus on the process of reviewing, appraising, and enriching management's plan, and on holding management accountable for its continuing evolution and execution.

Linking Executive Compensation to Long-Term Performance
**To help create an effective system that links compensation to long-term performance, we recommend that directors:**

- Be vigilant in constructing pay packages that motivate executives to maximize the company's long-term economic value.
- Align company executives' financial interests and incentives with the long-term health of the company and its stock price. For similar reasons, directors also should be required to buy and hold the company's shares.
- Engage major shareholders in a dialogue about executive compensation programs.

Encouraging Succession Planning and Addressing Shortened CEO Tenures
**To address issues of shortened CEO tenure, we recommend that directors:**

- Ensure that the company has a strong succession plan and grows managerial talent internally, and consider alternatives to contracts at the CEO level. When contracts are necessary, they should be carefully devised to foster the achievement of the company's long-term goals during a realistic time frame.

Develop More Meaningful Indicators of Corporate Value

- For their internal assessments of performance, we recommend that directors encourage management to adopt reporting systems that focus attention on "value drivers" and long-term risks, such as those proposed by the Enhanced Business Reporting framework. Directors may consider requesting reports on such metrics as part of the information provided in the board package. Companies also should voluntarily provide information derived from those systems to complement public financial reports.

Curb Quarterly Earnings Guidance

- Companies should voluntarily refrain from issuing short-term guidance.

*Built to Last: Focusing Corporations on Long-Term Performance* is available at www.ced.org
CED is a non-profit, non-partisan organization of more than 200 business leaders and university presidents. Since 1942, its research and policy programs have addressed many of the nations most pressing economic and social issues, including education reform, workforce competitiveness, campaign finance, health care, and global trade and finance. CED promotes policies to produce increased productivity and living standards, greater and more equal opportunity for every citizen, and an improved quality of life for all.