NOVEMBER 2018

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CECP
THE CEO FORCE FOR GOOD
STRATEGIC INVESTOR INITIATIVE

# The Economic Significance of Long-Term Plans

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### CECP's Strategic Investor Initiative (SII)

The Strategic Investor Initiative (SII) is a coalition of leading companies and investors committed to re-orienting capital markets toward the long-term. SII convenes CEO-Investor Forums to provide a venue for CEOs to share their long-term strategic plans with audiences of long-term investors. Through leading research, SII assists companies in developing and communicating long-term plans that help inform the decisions of institutional investors.

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At KKS, we advise leading organizations on bold and effective strategies that pave the way to a sustainable society. Formed with the vision to reshape markets, we enable clients to create long-term value through the integrated management of environmental, social, and governance factors. Applying our unique, research-backed approach, we work with corporations, foundations, NGOs and investors on sustainable strategies that deliver lasting impact. For more information, visit www.kksadvisors.com.

# Contents



# Executive Summary

**Short-termism in capital markets has increasingly become a concern for both companies and the investor community.** Although there have been widespread calls for investors and companies to pay more attention to the long-term, until recently there was no platform for companies to exchange long-term information with their long-term investors. CECP's Strategic Investor Initiative (SII) presents a solution to this structural gap in corporate-shareholder communications, with CEO-Investor Forums providing the stage for CEOs to share their long-term strategic plans with institutional investors.

The purpose of this research is to understand whether investors consider the long-term information provided at the CEO-Investor Forum as decision-relevant and to assess the quality of specific disclosures and the overall long-term plan. We do this by examining the capital market reactions following the presentations and by creating a framework for assessing and structuring an effective long-term plan. We recognize that the sample we examine is small and therefore we regard our evidence as a first attempt towards creating a market infrastructure for the systematic and rigorous examination of strategic long-term plans.

Our work adds significant weight to the argument for companies and investors to engage in dialogue about the long-term as it is value-enhancing. It is time for corporate communication strategies to evolve; disclosing more actionable long-term information can be an effective way to reorient capital markets towards the long-term.

Going forward, companies should voice their long-term strategies to investors to drive sustainable long-term value creation, using our long-term plan content framework to guide their efforts. Our own long-term plan will include the creation of a database with best practices and quality long-term plan content as a resource for companies, investors and researchers. As more of the world's largest companies join our initiative and the sample size grows, we expect the evidence to become even stronger, leading to a new paradigm where long-term plans are considered an essential part of corporate communications strategies and investors have the information they need to invest for the long-term.

FIGURE 1. 9 THEMES FOR A GOOD LONG-TERM STRATEGIC PLAN


## Summary of Key Findings

### Capital market reactions to long-term plans:

- Long-term plans are associated with abnormal market reactions for both stock prices and trading volumes within three and five days after the presentation. This translates into the long-term plans providing information that investors find value-relevant.
- We find no significant difference in analyst revisions of their forecasts in response to the information presented. This is consistent with sell-side analysts being primarily focused on short-term financial results delivered on the earnings call.
- We find evidence that better quality disclosure on themes like corporate purpose and competitive positioning is linked to larger capital market reactions.

### What makes a good quality long-term plan?

- We find variation in the quality of disclosure across themes and issues that are important for a long-term plan:
  - **a.** CEOs seem to be comfortable disclosing forward-looking metrics on their competitive positioning, market and mega-trends, and financial performance.
  - **b.** There is a lot of discussion around corporate purpose and the value of the company's strategic partnerships, but the information is broad and fails to take a forward-looking view.
  - **c.** CEOs appear to be struggling with incorporating information about corporate governance and assessments of financially material environmental, social and governance (ESG) issues in the long-term plan presentations.
- There is variation in the overall quality of long-term plan disclosures. The most comprehensive presentations were given by Beckton Dickinson, Medtronic, and PG&E (*see videos and transcripts here*).

# What is the problem with corporate communications and how can we solve it?

**Today, more than ever, both investors and companies are waking up to the costs and inefficiencies caused by the short-termism of capital markets.** Several factors, such as the length of investor holding periods being shorter than ever and compensation incentives for investment managers often being linked to short-term performance, seem to have influenced the existing structure of corporate communications (Roberge et al. 2017). Consequently, the current communications avenues have become highly short-term oriented, resulting in an inefficient allocation of resources (The Generation Foundation, 2015).

The vitality of public markets also suffers at the hands of short-termism. The number of public companies in the US has been in rapid decline. From a peak of over 6,000 in 1996, this figure has almost halved in two decades with fewer companies listing and those doing so are doing it later in their life cycle (Doidge et al. 2015). Management teams seem to fear the perceived impatience of the public markets. Academic evidence also suggests that those sectors with the most severe short-term pressures experience disproportionately lower listing activity (Asker et al. 2011). Reorienting our capital markets toward the long-term is part of a broader public policy mission to revitalize the public markets – to ensure the wealth creation opportunities the public markets offer are available to all.

Many actors have called for companies to curb short-term disclosures in a bid to reduce corporate and investor short-termism. For instance, on October 18th (2018) the Commonsense Principles 2.0, which give guidance for effective, long-term focused corporate governance, were signed by renowned individuals like Warren Buffet, Jamie Dimon and Larry Fink in another attempt to address short-term pressures. A practice that has been under particular scrutiny for exacerbating these pressures is the practice of quarterly earnings guidance. Research by FCLTGlobal demonstrates that an emphasis on quarterly guidance pushes companies to focus management on quarterly targets rather than long-term goals (FCLTGlobal, 2017).

Interestingly, Call et al (2016) find that investor short-termism is unlikely to be shifted by switching to long-term earnings guidance and conclude that instead of changing the time horizon of disclosure, it is more effective to alter the mix of available information. In other words, capital can be steered toward the long-term through rebalancing the existing disclosure mix and the corporate reporting landscape. It follows that capital markets need to receive more long-term strategic

## The CEO-Investor Forum

- 22 CEOs of S&P 500 companies (see Technical Documentation for full list).
- Audience of institutional investors representing more than $25 trillion in AUM.
- Vision that every publicly-listed company will regularly share their long-term plans with investors.

information about companies in order to reduce the negative impact of short-term pressures on management, corporations and the wider economy. Consistent with this, Brochet et al. (2015) find that senior management that speaks mostly about the short-term in earnings calls has a more short-term oriented investor base while companies with more long-term focused earnings calls have more long-term oriented shareholders.

Most commonly, companies communicate with investors quarterly (in their 10-Q and earnings calls), and through other more infrequent communication channels like sustainability reports, industry conferences etc. However, no communication platform exists that is primarily focused on long-term sustainable value creation and related disclosure themes (Tomlinson, 2018). To address the challenge, The Strategic Investor Initiative (SII) of CECP has created a framework and a platform for CEOs to present the long-term strategic plans for their companies. The content expectations for an effective long-term plan are described in SII's Investor Letter to CEOs. Signed by Bill McNabb, Chairman of Vanguard, and nine leading institutional investors, the letter describes components of a long-term plan that enable a CEO to address enduring issues of investor interest and help plug an unmet market need for information with a long-term time horizon.

There are several reasons why a CEO should share a long-term plan (see e.g. 6 Reasons Why Companies Should Start Sharing Their Long-Term Thinking with Investors). The way a corporation communicates with the market influences the composition of its investor base. Through signalling a long-term outlook, the presentation of a long-term plan, when combined with other activities such as ending quarterly earnings guidance, may enable a corporation to attract a higher proportion of long-term shareholders. When surveyed by SII, companies that have presented a long-term plan, identified three categories of motivation for delivering a long-term plan: frustration at the earnings call and wanting to enhance disclosures on the themes that drive business value over the long-term; extending the work of existing initiatives, such as expanded reporting on sustainability themes; and a desire to demonstrate leadership on a key issue for investors and corporate stakeholders (Tomlinson & Krzus, 2018) However, to date, not much evidence on the capital market consequences that the presentation of a long-term plan may have exists.

We have been asked by presenting companies, those considering presenting, and our stakeholders, to demonstrate real world impacts from delivering these plans – the "what's in it for me" argument for why a company should deliver a long-term plan.

## Research Approach

**We wanted to understand the economic significance of the information presented by CEOs to investors at the CEO-Investor Forums (CIF), and to thereby provide first evidence on the market reaction to long-term plan announcements.** We also wanted to understand what constitutes a good long-term plan – the building-blocks – and whether the "quality" of the long-term strategic plan delivered is reflected in the market reactions. Our analysis therefore has two streams: qualitative content analysis, and quantitative market analysis. We combine these two to understand whether the quality of the long-term plan is linked to the market reaction.

Given the limited sample size available, we consider our results preliminary. However, they provide important early evidence and can be used in the future as an anchor in analysing more long-term disclosures and the long-term effects from the presentations of these plans.

# Do Capital Markets React to Long-Term Plans?

## Findings

**Our analysis finds that investors do care about long-term information.**

- The results show abnormal market reactions both for stock prices and trading volume for three and five days after the presentation.
- We find no significant difference in sell-side analyst revisions of their forecasts in response to a long-term plan, which is consistent with them being more focused on the short-term.

**To explore how capital markets react to long-term information we constructed an event analysis examining the reaction to the CEO long-term plan presentations given at the CEO-Investor Forum.** Our event analysis sought to understand how stock prices, turnover (trading volumes), and analyst forecasts change around the time of these events in comparison to the expected change (*see Technical Documentation for more detailed methodology*). If the long-term plans contain no new information (i.e. they are only marketing tools, or the information is already disclosed somewhere else) we would expect the presentations not to inform investor decision making, and as a result to observe no abnormalities in the market around the time of the event. If, however, the long-term plan presentations contain new information or information that is available but hard to access (e.g. information in sustainability reports), we would expect abnormal movements in the market around the time of the event, as a result of investors processing and acting based on the new information set.

We analyse 17 companies that have presented at the first four CEO-Investor Forums, and build a process by which more observations can be added as more Forums are held. We place extra care on screening for potential other events or announcements that may contaminate our results (e.g. earnings calls, mergers or acquisitions, etc.) and ensure that our methodology addresses this bias and adjusts for general market movements. Having made those adjustments our results show some abnormal reactions following the event:

- By looking at stock prices, we find that there is an excess absolute abnormal return of 1.83% following the presentations. If we apply even stricter conditions and adjust for historic abnormal returns, we find that the absolute abnormal return is 0.53% higher than the expected historical abnormal return.

- We also analyse share turnover and look at whether the percentage of shares traded during and following the event differs from the past percentage of shares traded. Share turnover is defined as trading volume over shares outstanding. We find that there is an abnormal share turnover of 7.6% as compared to the median share turnover before the event.
- When analysing the analyst forecasts we look at whether the number of analyst forecast issuances changes during the event and in the days following. Specifically, we look at five and ten-day windows post presentation. Our results show that the number of analyst forecast revisions actually decreases by 1.2 following the event.

The stock price and share turnover findings imply that the long-term plans presented at the CEO-Investor Forum contain information that investors find relevant and meaningful. In other words, investors are trading on the information presented in the long-term plans. This supports the argument that long-term plans are not mere marketing presentations or "cheap talk". As for the analyst forecasts, we find this consistent with such analysts being primarily focused on short-term financial results delivered through the earnings call. Overall, it does suggest though that the long-term plan is providing decision-relevant information to segments of investors with longer time-horizons.

Given our limited sample size, it is surprising that we find any signal in the market. Although we consider this early evidence, it does strengthen our hypothesis that long-term information is value-relevant. We expect to further validate this relationship as more data is gathered.

Our findings are aligned with the results by Whittington et al. (2015) who investigated the market movements resulting from overall strategy presentations by CEOs and found that investors do value the information contained in strategy presentations. They report a same day average stock value rise of 2%, which translates into a $1.1 billion gain in market value (Whittington, Yakis-Douglas & Ahn, 2015). Bushee et al (2011) analyse the market reaction to conference presentations and find positive average abnormal stock return and share turnover signals following the presentations. Although the statistic found by Bushee et al (2011) is larger than the signal we find, this can be explained largely by our small sample size, and we could expect more robust signals once more companies take the podium and the number of observations increase.

# What Constitutes a Good Long-Term Plan?

## Findings

**A good long-term plan contains specific, actionable disclosures – but companies are struggling to reach this level.**

- There is variation in the quality of disclosure around the issues that are important for a long-term plan. Becton Dickinson, Medtronic and PG&E are amongst the companies that provide most forward-looking and specific metrics on the issues.
- There is variation across themes and issues: companies disclose more forward-looking information on trends, financial performance, and competitive positioning, whereas disclosure around plans for corporate governance and assessments of financially material issues were in general missing or only descriptive.
- Plan content seems to be correlated with capital market reactions to the long-term plan.

## Developing a framework for quality long-term plans

**In order to find the most important building blocks of a good long-term plan, we carried out an extensive analysis of relevant literature and also invited feedback from relevant stakeholders.** We compiled broader themes and specific issues from a wide range of sources, including: investor feedback from the CEO-Investor Forums, McKinsey and FCLTGlobal[1] -reports on long-term plans, SII's Investor Letter to CEOs, industry-specific issues from the Sustainability Accounting Standards Board (SASB), and the Integrated Guidance framework.

A preliminary list of themes and issues was constructed and through several iterations between the research team and a selected group of investors, which constituted the basis for the creation of a long-term plan content framework of 9 overarching themes and 22 underlying issues.

[1] **FCLT (2017) – Moving Beyond Quarterly gener: A Relic of the Past; FCLT (2015) - Rising to the Challenge of Short-Termism; FCLT (2015) – Straight Talk for the Long Term**

**FIGURE 2.** 9 THEMES AND 22 UNDERLYING ISSUES TO GUIDE AN EFFECTIVE LONG-TERM STRATEGIC PLAN

**Financial Performance**
- Capital efficiency and profitability
- Leverage
- Revenue growth

**Capital Allocation**
- Capital allocation plan
- M&A discipline
- R&D investment and CAPEX
- Excess cash

**Trends**
- Market trends
- Mega-trends

**Competitive Positioning**
- Long-term value drivers
- Medium-term value drivers
- Short-term value drivers

**Risks & Opportunities**
- Assessment of financially material ESG issues
- Risk management
- Opportunities

**Corporate Governance**
- Executive compensation
- Board composition
- Role of board
- Shareholder engagement

**Corporate Purpose**
- What is the purpose and is it aligned with long-term strategy

**Human Capital**
- How is human capital managed over the long-term

**Long-Term Value Creation**
- Value of strategic partnerships / improving the operational ecosystem

**We see this framework as dynamic and evolving over time as more companies communicate their long-term thinking and more investors request information on topics they consider as material.** For instance, the feedback provided at the CEO-Investor Forum is crucial in reshaping the understanding of what investors find valuable and how to improve the setting of long-term plan disclosures.

Our analysis finds disclosure on the following issues as relevant for investors, but only if the information is specific and actionable.

## Financial Performance:

The metrics and disclosure in this theme are around capital efficiency and profitability metrics (e.g. ROE, EPS, EBITDA, ROIC, ROTCE, CAGR, RONA etc), leverage, and predicted revenue growth.

- **Example:** 3M provided a diagram that showed metrics of 20% ROIC, EPS growth of 8-11%, Free Flow Cash Conversion of 100%, and 2-5% Organic Local Currency Growth for the time-period 2016-2020.

## Capital Allocation:

The underlying issues include provisions of metrics around the capital allocation plan; whether there is a framework underlying the long-term allocation strategy. What are the elements of M&A discipline? Plans for investing in R&D projects and CAPEX? What is the plan for excess cash?

- **Example:** BD outlined their capital allocation framework, including investing in the business, increasing dividends, being on track for 3x gross leverage by March 2017, evaluating M&A opportunities, and returning cash to shareholders. Their FY 2016-2019 figures demonstrated the break-down of the $11 billion operating cashflow: $3 billion capital expenditures, $2.6 billion dividends, $1.4 billion debt paydown, and $4 billion remaining cash. In addition, BD disclosed that they invest $700 million annually in capacity, new technologies, quality and driving efficiencies.

## Trends:

These disclosures are split into market and mega-trends. The market trends involve projections of the future market place and sources of competitive advantage in the new market place (so-called "traditional" trends). Mega-trends are those affecting people and operations (e.g. automation, climate related risks, transition to a low carbon economy).

- **Example:** UPS provided extensive discussion and metrics around the market trends – explaining the shift of deliveries to residences being 10% 20 years ago and 50% today; international logistics market expected to grow twice as fast as global GDP over the next 5 years; emerging markets, with China in particular as 17 of the 50 largest cities in the world will be there by 2030; business used to be conducted five days a week, now UPS has the largest network in the country for picking up packages on a Saturday and delivering on Monday but they predict that this trend will shift to a seven day week.

## Competitive Positioning:

These issues are disclosure on value drivers and how actions are linked to key milestones and goals. The value drivers are broken down further to include long-term value drivers (more than 7 years' time horizon, relating to strategic health), medium-term value drivers (between 2-7 years' time horizon, relating to commercial/cost structure and asset health), and short-term value drivers (less than 2 years' time horizon, relating to sales, operating cost, or capital productivity).

- **Example:** GSK mentioned their new vaccine SHINGRIX and how it is expected to drive significant growth for the company – in the US alone 100 million people are eligible to receive it. The forecast for the adjuvant used in the SHINGRIX vaccine was upgraded for this year to £600-£650 million in its first year of launch.

## Risks & Opportunities:

Our analysis finds that the assessment of financially material ESG issues and frameworks for managing risks and opportunities are important. Investors have identified material ESG issues as a potential source for long-term performance. As such, disclosures on whether a materiality assessment has been conducted (e.g. based on SASB/relevant to business and not philanthropic) is a key element in a long-term plan. Likewise, how financially material risks and opportunities are managed and overseen is valuable information.

- **Example:** 3M stated that they have conducted two materiality assessments to date and show their 2016 materiality matrix with highlighted focus areas. The CEO discloses that they adhere to GRI requirements and SASB, and that their materiality assessment helps to inform their long-term sustainability goals.

- **Example:** PG&E provided a diagram outlining their strategic planning process and risk management with 15-year strategic scenarios to set the vision, 5-year executive guidance with strategic focus areas, and annual risk-informed resource allocation.

## Corporate Governance:

The issues here include whether executive compensation is aligned with the long-term strategy, how the composition of the board will guide the long-term strategic goals, the role of the board in setting corporate strategy, incentives for and overseeing management, and the CEOs plan for shareholder engagement.

- **Example:** NRG Energy's CEO was one of the few who openly discussed the executive team's compensation, saying that being transparent about these strategies brings trust and encourages an honest dialogue. Incentives drive behaviour, and the CEO stated that 80% of executive management compensation is tied to long-term performance.

## Corporate Purpose:

Gartenberg, Prat and Serafeim (2016) show that corporate purpose is linked to financial performance when purpose is defined as the employees' beliefs in the purpose of the organisation. Therefore, good disclosure on this issue is not what the company's purpose is, but rather how it is aligned with the long-term strategy and goals and whether the employees feel like the work they do has a purpose.

- **Example:** Humana stated that their engagement score stayed at 90% during a prolonged merger. Their Well-Being Index measures how employees perceive their job across social, financial, and health dimensions. The CEO mentioned that their health-focused business model is what informs and drives its corporate purpose.

- **Example:** Aetna stated their purpose and discussed how investing in people is a key priority. The CEO outlined how the introduction of wellness programs and engagement with front-line employees created shareholder value, and provided more specificity by mentioning that since the introduction of the wellness programs, their engagement scores increased by 1,400 basis points

## Human Capital:

How does the company plan to manage its human capital management over the long-term?

- **Example:** The CEO of Becton Dickinson discussed their Leadership Development Programs (from early career all the way to executives) and mentioned that they have a new set of associate resource groups that are contributing to building a better company. The CEO stated that they have laid out metrics and have a goal to be in the top tier in terms of diversity in 5 years' time with managers monitoring this progress on a quarterly basis. The CEO also presented their diversity and inclusion strategy.

## Long-Term Value Creation:

The issues underlying long-term value creation include the value of the company's strategic partnerships and how the company is improving its operational ecosystem?

- **Example:** GSK outlined several partnerships in their presentation and how these can improve their operational ecosystem. Specific metrics were provided on e.g. how their partnerships can help them reach an additional 12 million people by 2025 in developing countries, a goal which will help drive core business performance through increased access to products. The CEO mentioned that they have implemented new models of engagement with health care professionals to understand their needs and ensure transparency. Additionally, GSK discussed how its support programs in developing countries drive disease prevention, awareness and improve access to health services through HIV programs and in partnership with Save the Children.

## Scoring companies

We developed a scoring method to be able to assess the quality of the disclosure on each issue. This is based on SASB's method of scoring existing disclosures on material sustainability topics: no disclosure, boilerplate and metrics. We split metrics into backward metrics (MB) which cover information about the past right up until the present, and forward-looking metrics (MF) to reward companies that provided specific, actionable disclosures with a future time-horizon. Much corporate reporting is backward looking, consisting of lagging indicators. A long-term plan presentation is an opportunity to disclose specific and actionable forward-looking information on key long-term value topics.

This scoring method acts as the infrastructure for assessing the quality of current and future long-term strategic plans. Perhaps more importantly, the analysis provides better guidance for companies on the type of information that can be the most value relevant and of particular interest to their long-term investors.

## Scoring Method

**ND** – No Disclosure (0). The company does not mention the issue at all.

**B** – Boilerplate (1). The company mentions this issue and provides basic narrative around it.

**MB** – Metrics Backward (2). The company discusses issue and provides metrics on performance, processes or frameworks, but these are past/current metrics and do not mention the future.

**MF** – Metrics Forward (3). The company discusses the issue and provides metrics on performance, processes or frameworks, and these are forward-looking.

## Evaluating CEO long-term plans

**Our analysis finds that there is variation in the quality of disclosure around the issues that are important for a long-term plan.** For instance, Beckton Dickinson, Medtronic and PG&E are amongst the companies that provide most forward-looking and specific metrics in our framework of 9 themes and 22 issues.

We also find variation across themes and issues. Companies seem to find it easier to disclose forward-looking information on issues involving trends, financial performance, and competitive positioning, whereas disclosure around plans for corporate governance and assessments of financially material issues were in general missing or only descriptive. Several companies were discussing their corporate purpose and employee engagement but failed to reach the top score because the disclosure was not forward-looking or specific (*see Appendix 1 for complete distribution of scores across issues*).

Companies have for long assessed and provided metrics around future trends, financial performance and competitive positioning elsewhere in their corporate reporting. As such, it is not surprising that these are the themes on which companies seem to be disclosing more forward-looking and specific information.

On the contrary, companies seem to struggle with gaining top scores on the corporate governance theme. No company managed to provide forward-looking metrics on the following issues:

- **Executive compensation:** alignment with long-term strategy: Although CEOs may feel uncomfortable discussing their compensation plans, it could be valuable for them to provide detail on the processes in place that determine how they and other senior executives are paid. This point was brought up by NRG Energy's CEO Mauricio Gutierrez during his long-term plan presentation, when he discussed how unusual it is for a CEO to discuss their own compensation, but that it is increasingly important for transparency, building trust and open dialogue. CEOs can also provide information about whether remuneration is linked to sustainability performance, and if so, the extent to which this affects overall compensation.

- **How will composition of board guide long-term strategic goals:** Disclosure on how the composition of the board can guide long-term strategic goals is still uncommon, despite growing investor interest for information about how board members can bring the right mix of relevant skills and experience to enhance long-term value. One key area where investors have been asking boards to improve is building their competence on climate change, as this is necessary to effectively address climate-related risks and opportunities. However, a recent analysis by Ceres and KKS Advisors (2018) shows that although 62% of Forbes 500 companies oversee sustainability at the board level, only 17% have any demonstrable expertise in environmental, social and governance – meaning that there is a skills gap.

- **Role of board in setting corporate strategy, setting incentives for and overseeing management:** It is important that the role of the board in overseeing long-term strategy is well defined. Some CEOs provided metrics on the oversight responsibilities of the board in relation to long-term value and sustainability (e.g. relevant committees set up) and the amount of time spent on strategic issues versus short-term tactical issues. These disclosures could be forward-looking if they discussed topics the board expects to oversee in the future or the process for aligning strategy development with sustainability.

- **Plan for shareholder engagement:** Investor engagement on environmental, social and governance issues is on the rise, with boards increasingly being sought after for dialogue on long-term strategic issues. Although several CEOs mentioned shareholder engagement in their long-term plans, only a couple managed to provide metrics – and these were backward looking. It may be that more guidance is needed on best practices for communicating engagement responsibilities and activities. Notwithstanding the actual approach, providing clarity on the plan for shareholder engagement gives investors the opportunity to coordinate and align their efforts accordingly (Tomlinson, 2018). Going forward, we expect companies to improve their ability to talk about shareholder engagement plans, for example by discussing the profile and key concerns of their investor-base, the extent to which the board and management will be made available for dialogue with investors, and the issues that are or will be prioritized for engagement. CEOs could also discuss their motivations for participating in forums that seek to improve the effectiveness of corporate-investor dialogue.

In general, CEOs appear to be struggling most with the corporate governance theme when it comes to providing forward-looking information.

## TABLE 1. FREQUENCY OF COMPANIES' DISCLOSURE PER SCORE: LACK OF FORWARD-LOOKING METRICS EXAMPLE

| Theme | Issues | MF | MB | B | ND |
|---|---|---|---|---|---|
| **Corporate Governance** | Executive compensation: alignment with long-term strategy | 0 | 7 | 2 | 13 |
| **Corporate Governance** | How will composition of board guide long-term strategic goals | 0 | 7 | 3 | 12 |
| **Corporate Governance** | Role of board in setting corporate strategy, setting incentives for and overseeing management | 0 | 5 | 6 | 11 |
| **Corporate Governance** | Plan for shareholder engagement | 0 | 2 | 8 | 12 |

**MF** – Forward-looking metrics **MB** – Backward-looking metrics **B** – Boilerplate description **ND** – No disclosure

There are also some issues that companies are not discussing very much at all. The following issues had extremely high levels of non-disclosure:

- **How leveraged will company be in years ahead?** Integrating financial performance metrics into long-term strategy plans is an advanced step, showing that long-term sustainability is deeply integrated in the core business model. It may be the case that CEOs are struggling to connect issues such as leverage to the long-term as it atypical to do so. They may also be hesitant to talk to investors about leverage during their long-term plans so that they can maintain financial flexibility and adjust their plans depending on circumstances that arise, for example a new acquisition opportunity. Nevertheless, signalling the degree of financial leverage that will be employed to support the long-term strategy can bring valuable insights on the long-term sustainability of the business model, and transformational changes in the business model that may occur over the long-term are likely to have implications for corporate debt levels.

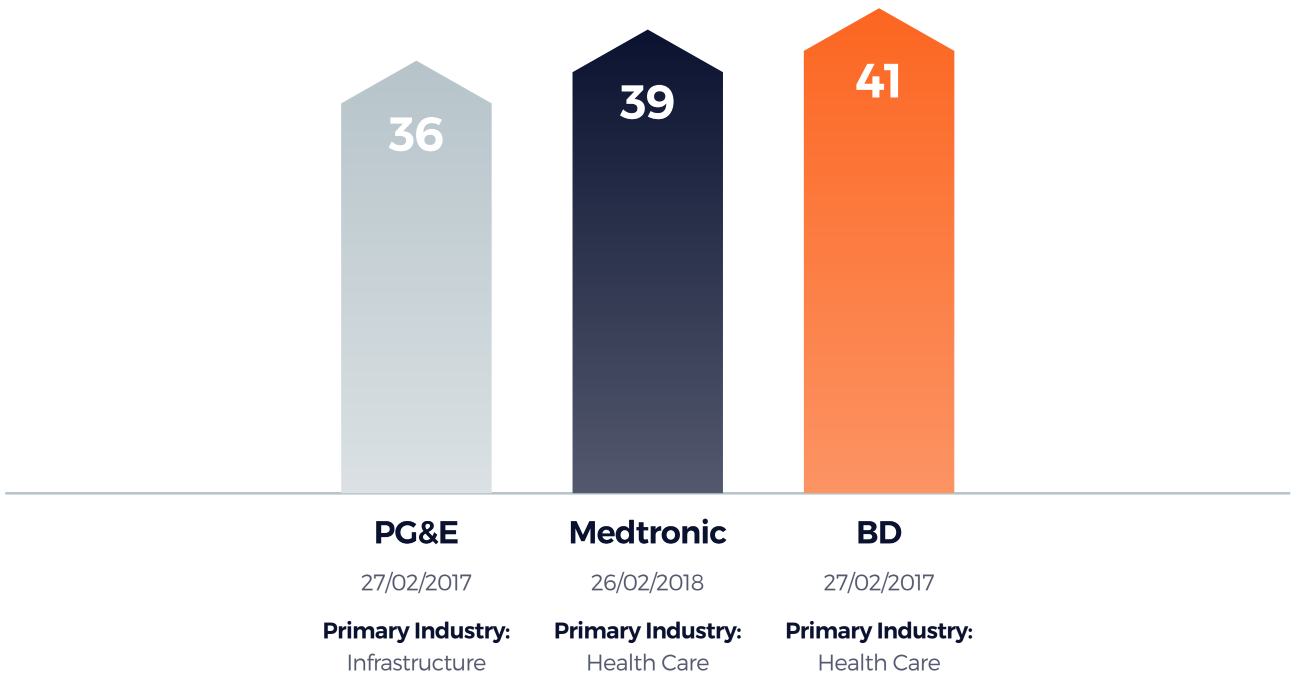
- **Risks & Opportunities – Assessments of financially material ESG issues:** Materiality is a relatively new concept for companies to consider and put in practice. As such, forward-looking information may not be as readily available or well understood. Nevertheless, an overwhelming body of research has shown that good performance on financially material ESG issues are linked to higher returns (Khan, Serafeim & Yoon, 2016). SASB is paving the way to encourage companies to consult their internal and external stakeholders and integrate financially material sustainability issues into their reporting.

## TABLE 2. FREQUENCY OF COMPANIES' DISCLOSURE PER SCORE: NO DISCLOSURE EXAMPLE

| Theme | Issues | MF | MB | B | ND |
|---|---|---|---|---|---|
| **Financial Performance** | How leveraged will company be in years ahead? | 1 | 0 | 0 | 21 |
| **Risks & Opportunities** | Assessment of financially material ESG issues | 1 | 4 | 0 | 17 |

**MF** – Forward-looking metrics **MB** – Backward-looking metrics **B** – Boilerplate description **ND** – No disclosure

Notably, those companies with the higher scores and more advanced long-term plans also proved to be harder to score against the separate issues in the content framework. It appears as though the leading companies embedded the long-term thinking throughout the presentation and across all themes. The disclosure was not provided in isolation, but rather how all separate issues link together in an overarching long-term strategy – highlighting the interdependence and whole-firm concept of sustainable value creation. The presentations scoring at the lower end of our range were relatively easier to assess, and the information was often purely narrative.



## Capital market reactions to better quality plans

To take the analysis further, we explore whether there is any correlation between better quality disclosures on specific themes and the size of the abnormal market reaction. We therefore looked at disclosure per theme and compared the market reactions of the five companies with the highest scores to the market reaction of the five companies with the lowest scores. If the difference is positive it suggests that good disclosure on that specific theme is correlated with a higher market reaction.

Interestingly, we do find a connection between better quality plans and higher market reactions. More specifically, our results show that the companies that provide more specific and actionable information on the themes of Corporate Purpose and Competitive Positioning also experience a larger market reaction. The diagrams below summarise this difference in the size of the market reaction. For example, better disclosure on Competitive Positioning is correlated with a larger market reaction of approximately 1% in abnormal returns, and an increase in turnover of 23.8% compared to the median turnover over the past sixty days before the event[2].

**TABLE 3.** DIFFERENCES IN SIZE OF MARKET REACTION BETWEEN TOP FIVE AND BOTTOM FIVE COMPANIES IN TERMS OF QUALITY OF DISCLOSURE ON THESE ISSUES:

| Corporate Purpose: | | |
|---|---|---|
| **Abnormal return**<br>1.9% | **Adjusted abnormal return**<br>1.2% | **Turnover**<br>26.8% |

| Corporate Positioning: | | |
|---|---|---|
| **Abnormal return**<br>1.1% | **Adjusted abnormal return**<br>0.9% | **Turnover**<br>23.8% |

Our results also suggest that good disclosure on financial performance, trends and human capital are associated with higher volume reactions but not price reactions. On the contrary, companies that score high on long-term value creation also experience a larger price reaction but not volume reaction. These findings provide a first signal that investors do find the forward-looking disclosures value-relevant as higher content scores on certain issues also mean a larger reaction in the market.

[2] The median turnover for the whole sample over the past 60 days is found to be 0.51%. During the event the turnover increases by 7.6%, to 0.55%.

# Implications of Our Research

**Our results contribute to the growing literature examining the significance of voluntary disclosures. Although we consider our findings preliminary, they do provide meaningful early evidence on the market reaction to long-term plan disclosures and suggest that investors do trade on long-term information.** Together with the existing literature showing the limitations of earnings guidance and the value of changing the overall mix of information available, our results give further emphasis to the value of providing high quality, actionable, specific long-term information.

We have found that the best long-term plans do not consider issues in isolation, but rather embed the long-term thinking throughout and across all themes and issues. In addition, our results suggest that these plans do provide value relevant information to investors – but not all: although there are stock price and turnover reactions, the sell side analysts do not seem to revise their forecasts in response to the information provided by the CEOs in their long-term plan presentations. Nevertheless, this information is important for investors with longer time horizons, who value long-term focused disclosure on themes such as a company's competitive positioning, mega-trends and long-term capital allocation.

It follows that the CEO Investor Forums can be a valuable addition to the investor relations' toolkit and can enable CEOs to effectively communicate with long-term investors. We encourage companies to reflect on their current communications practices. The most effective corporate communication around long-term strategy is when companies are providing specificity in their discussions with an emphasis on projections into the future. CEOs can themselves help attract the desired capital and investor base by providing the kind of information that those investors are making decisions on. Our framework provides guidance on the issues that are value relevant and how disclosure on these can be the most effective.

We will continue with the analysis of long-term plan disclosures and create a database of the content that can act as a resource for companies, investors and researchers to create the maximum impact in reframing the corporate communications landscape. The scoring and content frameworks can be used to guide the long-term plan presentation towards including the kind of information that benefits all parties.

We believe that as the infrastructure is being built for analysing long-term strategy disclosures, and as more companies present their plans, we will be able to understand more about the relationships with the capital market, assist companies in creating better long-term plans and communicating them effectively, and thereby reorient our capital markets toward the long-term.

# Appendix

## APPENDIX 1: DISTRIBUTION OF COMPANY DISCLOSURES PER THEMES AND ISSUES.

**Key:** No Disclosure (**ND**), Boilerplate (**B**), Metrics Backward (**MB**), Metrics Forward (**MF**).

**1.** Table shows frequency of scoring per issue.

| Theme | Issues | MF | MB | B | ND |
|---|---|---|---|---|---|
| **Financial Performance** | Capital efficiency and profitability | 9 | 7 | 3 | 3 |
| | How leveraged will company be in years ahead? | 1 | 0 | 0 | 21 |
| | Revenue growth | 2 | 4 | 5 | 11 |
| **Capital Allocation** | Capital allocation plan/framework underlying the long-term strategy | 3 | 7 | 8 | 4 |
| | M&A discipline | 0 | 7 | 5 | 10 |
| | Investments in R&D and CAPEX | 1 | 4 | 3 | 14 |
| | Plan for excess cash | 4 | 7 | 5 | 6 |
| **Trends** | Market trends | 12 | 7 | 2 | 1 |
| | Mega-trends | 4 | 3 | 10 | 5 |
| **Competitive Positioning** | Long-term value drivers (>7 years) | 9 | 0 | 13 | 0 |
| | Medium-term value drivers (2-7 years) | 9 | 0 | 6 | 7 |
| | Short-term value drivers (<=2 years) | 9 | 9 | 3 | 1 |
| **Risks & Opportunities** | Assessment of financially material ESG issues | 1 | 4 | 0 | 17 |
| | Risks: how are financially material risks managed/overseen? | 1 | 7 | 3 | 11 |
| | Opportunities: how are financially material opportunities seized? | 6 | 7 | 9 | 0 |
| **Corporate Governance** | Executive compensation: alignment with long-term strategy | 0 | 7 | 2 | 13 |
| | How will composition of board guide long-term strategic goals | 0 | 7 | 3 | 12 |
| | Role of board in setting corporate strategy, setting incentives for and overseeing management | 0 | 5 | 6 | 11 |
| | Plan for shareholder engagement | 0 | 2 | 8 | 12 |
| **Corporate Purpose** | What is the corporation's purpose/is it aligned with LT strategy and goals? | 2 | 3 | 14 | 3 |
| **Human Capital** | How is human capital managed over the long term? | 5 | 7 | 7 | 3 |
| **LT Value Creation** | Value of strategic partnerships / improving operational ecosystem | 3 | 5 | 12 | 2 |

# Technical Documentation

## Quantitative Analysis – An Event Study

**Our quantitative analysis seeks to assess the capital market reaction to the long-term plans presented at the CEO Investor Forums.** There is a vast literature examining market reactions to earnings calls and other company announcements or presentations at conferences. We base our methodology on Fama (1969) and are in line with Bushee et al (2011) when creating our abnormal return and turnover variables.

Our analysis excludes the companies that presented on the 20th of September and does not include Telia or Welltower. CECP SII has held five CEO-Investor Forums to date, with the following CEO presentations:

**27th February 2017**
- Becton Dickinson
- Humana
- IBM
- Nielsen
- PG&E
- Welltower

**19th September 2017**
- 3M
- Aetna
- Allstate
- CA Technologies
- Delphi
- Telia
- Voya

**26th February 2018**
- Medtronic
- Merck
- Unilever
- UPS

**19th April 2018**
- PG&E
- Wells Fargo

**20th September 2018**
- GSK
- NRG Energy
- IBM

Because the CEO presentations cover several topics and (should) include specific metrics on all of these, it is hard to isolate which of the announcements the market is reacting to, e.g. if it was because the CEO discussed their M&A discipline in detail, or if it was because of their vision for their current and future partnerships. This type of assessment could be made when the sample size becomes large enough.

Further, what is a “good” or “bad” plan for a specific issue is hard to define – e.g. is announcing a plan to invest $200 million or $500 million in R&D over the next five years better? Is the plan to introduce one type of employee training programme better than another one? As such, we cannot assess whether the actual information on a specific issue presented by the CEO is good or bad. This assessment is up to the analyst to make. We can however analyse whether the movements in the capital markets are abnormal or not – i.e. if the presentations contained some new and valuable information that is being reflected in the market.

**We build our event analysis around 4 key metrics:**

- **Absolute Abnormal Return (ABNRET):** The average absolute abnormal return across the sample of 17 companies. Absolute abnormal return is defined by the difference in cumulative company returns in the event window minus cumulative market returns in the event window.

- **Adjusted Absolute Abnormal Return (Adjusted ABNRET):** Accounts for the companies' past ABNRET by comparing the ABNRET in the event window to the median ABNRET in past event windows. We compute this metric for both -60 and -120 days pre-event.

- **Turnover (%):** The percentage of shares traded within the event window compared to the median percentage of shares traded within 60 days before the event. Percentage of shares traded is measured by (Volume/(Shares Outstanding*1000))*1000.

- **Analyst Forecast (AFOR):** The difference in number of EPS analyst forecasts revised within the event period compared to the past -60 days.

We compute **ABNRET**, **Adjusted ABNRET** and **Turnover** for four different event windows: [-1,5], [0], [0-3], [0-5]. The first event window takes into account the day before the event and is computed to see whether there is any leakage of information before the event. We then compute market reactions for the same-day, same day +3 days, and same day +5 days. For **AFOR** we look at same day +5 days and same day +10 days windows as the revisions of forecasts take a bit longer time.

We check for potential contaminations from the news around the dates of the event (specifically earnings calls, new launches, mergers and acquisitions, regulations, and lawsuits). No company has its earnings announcement within the event window, but all companies had an earnings call within 60 or 120 days before the event. Because of this, our control is the median abnormal market movement rather than the average abnormal market movement, as this could skew the results.

When combining the size of the market reaction with the quality of the plan, we compare the market reactions of the five companies with the highest content quality score with the bottom five. This is done on the whole, as well as by looking specifically at the issue level where the top five and bottom five companies may vary.