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OPINION | COMMENTARY

Short-Termism Is Harming the Economy

Public companies should reduce or eliminate the practice of estimating quarterly earnings.

By Jamie Dimon and Warren E. Buffett
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Every generation of Americans has a responsibility to leave behind a stronger, more prosperous society than the one it found. The nation's greatest achievements have always derived from long-term investments. In both national policy and business, effective long-term strategy drives economic growth and job creation.

For public companies, these same principles are true. That's why today, together with Business Roundtable, an association of nearly 200 chief executive officers from major U.S. companies, we are encouraging all public companies to consider moving away from providing quarterly earnings-per-share guidance. In our experience, quarterly earnings guidance often leads to an unhealthy focus on short-term profits at the expense of long-term strategy, growth and sustainability.

Because well-managed and well-governed businesses are the engine of the U.S. economy, good corporate governance is imperative. Though publicly owned companies account for only about 4,300 of America's 28 million businesses, they are responsible for a third of all private-sector employment and half of all business capital spending. America's public companies drive job creation, opportunity and economic growth.

This announcement today builds on the Commonsense Corporate Governance Principles that business leaders developed in 2016. These principles acknowledge that the financial markets


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have become too focused on the short term. Quarterly earnings-per-share guidance is a major driver of this trend and contributes to a shift away from long-term investments. Companies frequently hold back on technology spending, hiring, and research and development to meet quarterly earnings forecasts that may be affected by factors outside the company's control, such as commodity-price fluctuations, stock-market volatility and even the weather.

The pressure to meet short-term earnings estimates has contributed to the decline in the number of public companies in America over the past two decades. Short-term-oriented capital markets have discouraged companies with a longer term view from going public at all, depriving the economy of innovation and opportunity. Fewer public companies has also meant fewer opportunities for retail investors to create wealth through their 401ks and individual retirement accounts.

Even as the overall number of public companies declines, more than 100 million Americans invest in them directly or through mutual funds. Millions more do so through their participation in corporate, public and union pension plans. Many of these people are veterans, retirees, teachers, nurses, firefighters, and city, state and federal workers. Public companies owe it to all of them to get this right.

Our views on quarterly earnings forecasts should not be misconstrued as opposition to quarterly and annual reporting. Transparency about financial and operating results is an essential aspect of U.S. public markets, and we support being open with shareholders about actual financial and operational metrics. U.S. public companies will continue to provide annual and quarterly reporting that offers a retrospective look at actual performance so that the public, including shareholders and other stakeholders, can reliably assess real progress.

Clear communication of a company's strategic goals—along with metrics that can be evaluated over time—will always be critical to shareholders. But this information, which may include nonfinancial operational performance, should be provided on a timeline deemed appropriate for the needs of each specific company and its investors, whether annual or otherwise.

Ken Bertsch, executive director of the Council of Institutional Investors, the leading voice for strong shareholder rights, supports this premise: "America's current and future retirees deserve to know that their savings are being invested based on reliable metrics and accurate reporting. Practices that encourage long-term thinking and investment create value for millions of Americans without sacrificing the transparency and accountability that investors deserve."

Reducing or even eliminating quarterly earnings guidance won't, by itself, eliminate all short-term performance pressures that U.S. public companies currently face, but it would be a step in the right direction. Anything America—and America's public markets—can do to focus on the future and build long-term wealth and opportunity will make the country stronger, more resilient and more competitive. Over the long run this will strengthen the U.S. economy, benefit America's workers, shareholders and investors, and leave a generational legacy we can be proud of.

Mr. Dimon is chairman and CEO of JPMorgan Chase & Co. and chairman of Business Roundtable. Mr. Buffett is chairman of Berkshire Hathaway Inc.