McKinsey&Company

Report
McKinsey Global Institute
February 2017

Where companies with a long-term view outperform their peers

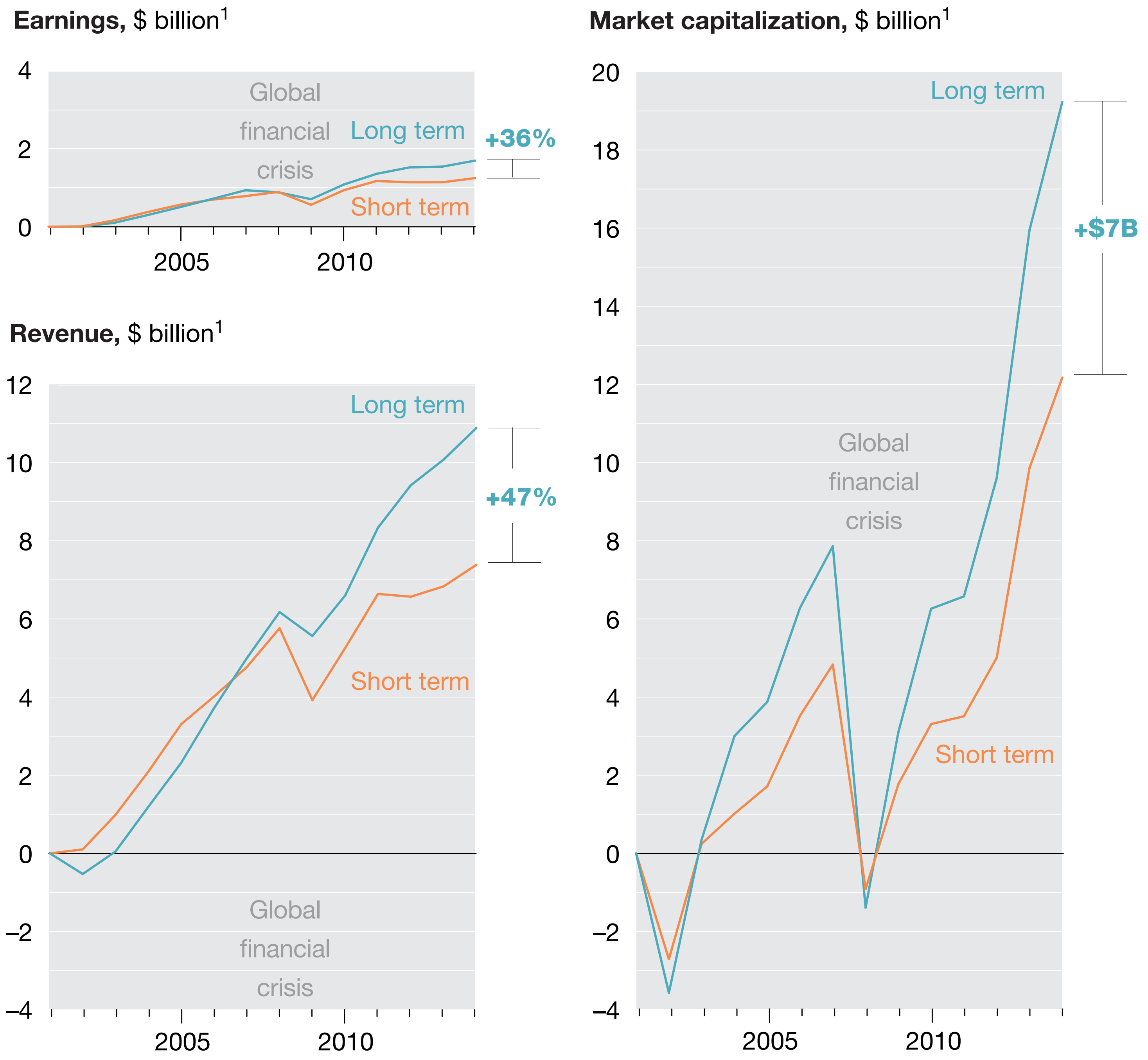
By Dominic Barton, James Manyika, Tim Koller, Robert Palter, Jonathan Godsall, and Josh Zoffer

Our new Corporate Horizon Index provides systematic evidence that a long-term approach can lead to superior performance for revenue and earnings, investment, market capitalization, and job creation.

Corporate short-termism has been the subject of ongoing debate among leaders in business, government, and academia for more than 30 years, but hard evidence that short-termism genuinely detracts from company performance and economic growth has remained scarce. To fill this gap and better understand capitalism for the long term, we have created a systematic measurement of long- and short-termism at the company level. Our findings show that companies we classify as "long term" outperform their shorter-term peers on a range of key economic and financial metrics (exhibit).

Exhibit

Long-term firms exhibited stronger fundamentals and performance than all others in the last 15 years.



[1]Indexed to 2001.

Source: Corporate Performance Analytics by McKinsey; S&P Capital IQ; McKinsey Global Institute analysis

McKinsey&Company

Our five-factor Corporate Horizon Index uses a data set of 615 large and mid-cap US publicly listed companies from 2001 to 2015 and is based on patterns of investment, growth, earnings quality, and earnings management. It enables us to separate long-term companies from others and to compare their relative performance, after controlling for industry characteristics and company size.

We've drawn several findings from this index:

- From 2001 to 2014, the revenue of long-term firms cumulatively grew on average 47 percent more than the revenue of other firms, and with less volatility. Cumulatively the earnings of long-term firms grew 36 percent more on average over this period than those of other firms, and their economic profit grew 81 percent more on average.

- Long-term firms invested more than other firms from 2001 to 2014. Although they started this period with slightly lower research-and-development spending, cumulatively by 2014, long-term companies on average spent almost 50 percent more on R&D than other companies. More important, they continued to increase their R&D spending during the financial crisis, while other companies cut R&D expenditure; from 2007 to 2014, R&D spending for long-term companies grew at an annualized rate of 8.5 percent versus 3.7 percent for other companies.

- Long-term companies exhibit stronger financial performance over time. On average, their market capitalization grew $7 billion more than that of other firms between 2001 and 2014. Their total return to shareholders was also superior, with a 50 percent greater likelihood that they would be in the top decile or top quartile by 2014. Although long-term firms took bigger hits to their market capitalization during the financial crisis than other firms, their share prices recovered more quickly after the crisis.

- Long-term firms added nearly 12,000 more jobs on average than other firms from 2001 to 2015. Had all firms created as many jobs as the long-term firms, the US economy would have added more than five million additional jobs over this period. On the basis of this potential job creation, this suggests, on a preliminary basis, that the potential value unlocked by companies taking a longer-term approach was worth more than $1 trillion in forgone US GDP over the last decade; if these trends continue, it could be worth nearly $3 trillion through 2025.

Download the full report on which this article is based, Measuring the economic impact of short-termism (PDF–258KB). *For more on this topic, see "Finally, proof that managing for the long term pays off," on HBR.org.*

About the author(s)

Dominic Barton is McKinsey's global managing partner; **James Manyika** is a director of the McKinsey Global Institute; **Tim Koller** is a partner in McKinsey's New York office, where **Jonathan Godsall** is an associate partner and **Josh Zoffer** is a consultant; and **Robert Palter** is a senior partner in the Toronto office.