

## OUTPERFORMING SMALLCAP STOCKS

# Business Line

### The horizon vocabulary

D. MURALI

Corporate short-termism is negatively associated with the extent to which long-term investors hold a firm's stock, report Francois Brochet, Maria Loumioti and George Serafeim of Harvard Business School in **Short-termism, Investor Clientele, and Firm Risk** ([www.ssrn.com](http://www.ssrn.com)). The authors use conference call transcripts to assess the horizon over which firms communicate with investors. They create a measure of short-termism based on the ratio of keywords referring to the short-term scaled by keywords referring to the long-term.

Of interest in the paper is the 'list of words referring to time horizon.'

While the short-term horizon is characterised by words and phrases such as day, week, month, quarter, short-run, and latter half, the long-term horizon comes forth through reference to years, long-run, looking forward, going forward, trend, expect, anticipate, outlook, and intend.

Examples of industries with short-term focus include computers, business services, trading, energy, banking, insurance, and shipbuilding. And industries in the long-term category include pharma, construction, medical equipment, apparel, beverages, utilities, and recreation. In the list of 'long-term oriented companies' are names such as Coca-Cola, Colgate-Palmolive, Dell, Ford Motor, General Electric, Goodyear, Johnson & Johnson, Microsoft, Nike, PepsiCo, and Procter & Gamble, while Chevron, Cisco, Goldman Sachs, Netopia, Urologix, and Skyworks make it to the 'short-term' list.

The paper wraps up with questions for further research, such as whether massive shift towards leverage (for example, LBOs, acquisitions from private equity funds) promoted short-term thinking; whether managerial short-termism is detrimental to firms' innovation; and whether pervasive short-term thinking discouraged international companies from cross-listing in the US stock markets. Valuable read for the finance researchers.

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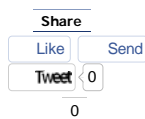
### Investment opportunities in Germany

In a significant contrast to their Chinese counterparts, Indian firms have so far tended to prefer developed Western countries for their investments, notes Rajnish Tiwari, Head of the German-Indian Round Table (GIRT) in Hamburg. Germany, along with the US and the UK, has emerged as a primary target for Indian FDI, he adds, in **Investment destination Germany: Chances & challenges for Indian firms** ([www.ssrn.com](http://www.ssrn.com)). "With its established technological prowess, high-quality **infrastructure** and reliable institutional set-up, Germany is regarded as an excellent investment target by many Indian firms in their pursuit of newest technologies and commercially viable cutting-edge innovations," Tiwari reasons.

The paper concedes that, since many Indian companies prefer to channelise their FDI projects to Germany through their existing domestic subsidiaries or through their daughter concerns in other European countries, the official data fail to capture the true extent of Indian engagement in Germany.

Tiwari urges Indian firms, therefore, to take advantage of Germany's excellent physical infrastructure and technological know-how, including in the eastern part, while combining it with their own strengths in production, marketing, low-cost engineering, and business model innovations. Provides pointers that you may like to explore in detail.

Keywords: [Harvard Business School](#), [Short-termism](#), [Investor Clientele](#), [Firm Risk](#), [Investment destination Germany: Chances & challenges for Indian firms](#)



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