Value destruction and financial reporting decisions

The survey interviewed 401 US executive officials about what they think are the best courses of action in order to be able to reflect expected earnings. As a preliminary parameter, however, the survey disclaims that the results only show what the subjects think about the matter but not necessarily how they act on it. The survey showed that the attitude of these executives towards earnings is that they are willing to sacrifice shareholder value just to meet expected earnings.

This means that it is alright for the actual value of the shares, in terms value of the assets of the company, to go down as long the figures in the stock exchange will show that there is earnings per share. To do this, they will hold off the implementation of certain projects and decrease discretionary spending in research and development, advertising and maintenance just so that earnings will be reflected.

As a corollary conclusion, they are willing to suppress long-term value just to comply with the current market demand. Comments Graham appropriately described his results as " startling". These executive who are supposed to be the visionaries are myopic and decide on the basis of short-term market satisfaction. They do not act or decide on a long-term basis. This should not be the case.

As raised by Graham, the results are ironic because even though there are earnings reflected, the company will still suffer because holding off expansion and minimizing discretionary spending will hurt the company in the long run. It seems to me that they are willing to please people for now even if the economic status of the company will be hurt. This attitude will make it more and more difficult to reflect earnings for every succeeding period because investments in terms of expansion, research and development, advertising and maintenance are not being made.