

Is It Time to Get Rid of Earnings-per-Share (EPS)?

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Abstract

This paper discusses recent empirical evidence showing that the presence of earnings-per-share (EPS) targets is associated with short-termist behavior. EPS targets affect stock repurchases, R&D investments, capital expenditures, employment, and the structure of M&A deals. The practice of chasing EPS with changes in real investments appears to lead to long-term underperformance and can significantly affect economic growth and welfare. This discussion suggests that analysts, investors, and companies should stop focusing on EPS as a measure of performance. I also discuss how to break the link between performance targets and short-termism.

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