



Escaping Short-termism: Managing for the Long Term

In October 2015, the Chartered Institute of Management Accountants (CIMA) and St Paul's Institute hosted a seminar with panel members **Anders Bouvin** (UK Chief Executive, Handelsbanken), **Jane Fuller** (Co-Director, Centre for the Study of Financial Innovation), and **Edward Houghton** (Research Advisor, Chartered Institute of Personnel and Development).

An emphasis on short-term measures of success has widely been judged as a significant cause of the global financial crisis and other business failures. When the notion of success is linked only to quarterly shareholder reporting timeframes, the likelihood of poor decision-making and ineffective incentive structures is greatly increased. This can lead to actions that maximize short-term profit at the expense of long-term sustainability, and compromised behaviours.

This seminar explored:

- What a long-term culture looks like and how it can be instigated and communicated
- How to balance short- and long-term concerns
- How investors factor in the long term view
- The influence of and impact on the individual in the organisation

“There should not be a conflict between creating wealth for shareholders and making a good business model that creates sustainable profits over the long-term. This is achieved by managing for the long-term.”

Key themes and points of discussion included:

CULTURE & ACCOUNTABILITY

- There is an increasing demand for ethical management information and other areas of non-financials that can be provided through integrated reporting.
- In mid-2016, the Financial Reporting Council (FRC) will publish a report about activity, best practice and market-led advice to help boards take effective action on culture.
- Encouraging greater local autonomy and flattening the traditional organisational pyramid can help promote long-term, supportive management behaviour. Such an approach is particularly effective within the context of a strong values-driven culture.
- Whilst short-termism has been rightly identified as a problem, much reform work has been done to mitigate the worst concerns. The complex relationship between companies and investors needs to be better understood to continue moving forwards.
- The use of automation and algorithms in many different roles is increasing dramatically. Corporate culture and employee structuring will be impacted as certain roles become obsolete.
- We must leave behind the notion that managing cycles of boom and bust is a productive and successful strategy over the long term.
- Sustainable organisations last much longer than any one employee, and culture reflects the institutional memory that goes beyond individuals and senior management turnover.

CUSTOMER & EMPLOYEE SATISFACTION

- Primacy of customer service and localism, and the importance of behaving as a responsible member of society, has proven to be a reliable route to sustainable commercial success.
- Workforces are changing, and the manner in which careers are formulated is becoming more transitory and focused on transferable skills. Younger staff speak of 'tours of duty' within professions, where individuals move between jobs and career paths.
- When we think about sustainability and long-termism, one key principle that applies is the idea of 'handing down'. We need to consider leadership, the structure of the organisation, and the planning around our workforce.
- Acting according to what is best for the customer, not maximizing short-term profits, helps to embed the business within the wider community, and aids client retention, building longer-term profitability.

- Long-term profit sharing with staff can help promote strong and cohesive values, as well as more prudent and discerning decision-making.
- Technology is rapidly changing how we relate to one another, both as customers and staff, and the sharing of information is unprecedented. The reputational consequences of mistreatment are growing accordingly.
- Human capital is often seen as a derogatory and dehumanising term, but it can also be empowering when seen from the perspective of the individual and the skills and value they have the power to distribute.

TARGETS & INCENTIVES

- Removing central product and volume targets as well as related bonuses help focus on good customer outcomes and long-term relationships. Short-term targets and incentives are not compatible with running a customer-focused and sustainable business.
- The financial crisis showed that the combination of cash bonuses and crude sales targets can be a recipe for mis-selling, misleading and misuse of shareholder's funds. Deferred bonuses, part payment in shares and allowing claw backs have been widely introduced as a response.
- Recognition based on overall merit and behaviours, not only performance figures, is one of the most important measures that have been applied by successful organisations in terms of management.
- We need to think about the capability to develop and deliver workflows according to both short-term and long-term timeframes. Respond quickly to new information, but understand where such a response fits into the overall vision.

INVESTOR INTERESTS & BEHAVIOUR

- In managing long-term savings, there should be less concern about relative or quarterly performance. Nervousness causes too much attention to short-term price changes, and a more forthright case for patience needs to be made to savers.
- When companies explain themselves well at AGMs, investors listen. There is a lot of information available to investors, but it could be better communicated and presented to highlight long term interests.
- CFA findings in a recent survey showed that 55% of respondents had an investment horizon of 3 years or more. Companies need to do a better job of explaining long-term investment plans; and not assume investors have a short-term bias.

“Wouldn't it be preferable to have long term sustainability in the performance of the business rather than self-inflicted volatility?”

**A full video of this event is available to view online at:
stpaulsinstitute.org.uk / cimaglobal.com**