

AN EDITED TRANSCRIPT FROM A ROUND-TABLE CONFERENCE ON SHORT-TERMISM

A NEW GLASSHOUSE FORUM PUBLICATION
ON THE QUESTION WHETHER DECISION MAKERS
ARE NEGLECTING LONG TERM VALUE CREATION

What proof is there that short-termism really exists? What drives the development? Can we see a convergence on an Anglo-Saxon model of shareholder value? What consequences does short-termism have for businesses, employees and society at large?

The general perception is that short-termism has gained ground and become increasingly dominant in the world of business as well as in society as a whole. But we need empirical evidence. Which is why Glasshouse Forum, within the framework of the project “Short-termism in the long run”, brought together a group of researchers from different disciplines and countries for a round-table discussion in Stockholm on June 16-17, 2008.

General conclusions from the discussion are:
1. The definition of short-termism is unclear; the concept needs to be defined more precisely. What is, for example, a short or long time horizon respectively?
2. The problems of measurement are many and in part major. It is, for example, difficult for an outsider to prove value destruction as a result of short-termism. But if one wishes to influence business one has to be able to quantify.
3. Short-termism is a multidimensional phenomenon created in an interaction between a large number of actors, for example owners, managers, the media, analysts, professional valuers and rating institutions. What the interaction between them looks like, however, remains to be studied.

A number of themes of significance for the spread of short-termism and its causes crystallised out:
1. The significance of the institutions in different eras and models of capitalism.
2. Cyclical changes.
3. Types of owners and change of ownership.
4. The rapid tempo of the media.
5. Paradigms, the dissemination of dominant ideas and herd behaviour.

Lennart Schön began with an economic-historical perspective relating short-termism to two important processes: globalisation and the ICT

revolution, which have both involved major changes as regards capital, labour and natural resources. An important similarity between the 19th and 20th century globalisation processes is that both saw industrial revolutions as tending to recur with a certain regularity, 80 or 90 years apart. One can distinguish two phases, an initial phase characterised by intensive technological and economic innovation, and a subsequent phase dominated by the formation of institutions. An industrial revolution sets off many processes of technological, economic and social change, but they take a long time to mature and the rapidity of today is somewhat illusory. We see cyclical change today with the credit crunch. Such a crisis on a global scale may turn trends into new directions, but the outcome of such a crisis is not

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& Johanna Laurin

Glasshouse Forum

automatic. Historical experience indicates that the tide may turn towards longer term perspectives within the next decade. But we need new institutions which provide greater security on the global market and reduce the uncertainty which causes a rise in the price of long-term investments leading to a shortening of time horizons.

Paul Windolf, who is also interested in the significance of the institutions, tested the hypothesis that explanations of short-termism are to be found in the deregulation and deinstitutionalisation in all markets (labour, financial, products) on a global level. Institutions create path dependency, which reduces uncertainty and makes it easier to forecast the future. When institutions are destroyed, the volatility of the markets increases, and one would assume that a rational reaction of the risk-averse investor is to prefer short-term investments. But a comparative study of the volatility of the Dow Jones Index, with its basis in the deregulated liberal American market economy, and DAX in the German coordinated economy, shows that this connection is weak. Xavier Ragot pointed out nevertheless that you can understand short-termism as the economic outcome of excessive volatility of financial markets according to the simple logic that, when the music is playing fast, you have to dance fast.

Paul Windolf instead pointed to another possible explanation: the type of owner and change of ownership. What we see today is a "financialisation", a gradual shift towards an increasing proportion of institutional owners, and a parallel increase in turnover rates; today it is only one year, that is to say an institutional owner retains his shares on average for a year before he sells them. The reason is that the market is segmented

and there can be considerable competition between owners for higher rates of return.

Lars Magnusson, who has studied the role of pension funds in short-termism, did not fully agree. There are different theories and views as to whether pension funds act in the short term, but a considerable proportion of the literature says that it is not necessary that these institutions should be more short-term than other investors. Without a long-term perspective they would ruin their owners. On the other hand strong incentive systems for managers might encourage short-term behaviour, just as may certain irrational and herd-like behaviours on the part of financial analysts and professional valuers. Shivaram Rajgopal presented a survey of American CFOs, aiming to provide credible evidence on whether short-term concerns cause value destruction. The survey showed that CFOs will give up some long-term value just to be able to meet an analyst consensus earning forecast. This is ultimately a career concern problem; CFOs are expected to stay in the job for only four years, and will therefore make decisions with a short-term focus.

But Lars Magnusson reminded us, the relationship between managers and owners is very complex, and a discussion that has been carried on over the last 15 years about returns for the owners, the decline of managerial capitalism and the rise of shareholder capitalism, is often oversimplified.

Xavier Ragot also emphasised different types of owner as an important explanation for why the time horizons are shifting, and introduced two dimensions of shareholder: time horizon and control. French capitalism is moving from passive shareholders towards more active ones. The ques-

tion one is now asking oneself is: Will this change in the strategy of shareholders continue after the financial crisis? It is clear that French capitalism is going to evolve towards a new model. But will it be a German, a US or a UK model?

Gregory Jackson underlined the fact that shareholders are not a heterogeneous group with the same motives and time horizons. Shareholder value is, therefore, a myth. For example, private equity, pension funds and hedge funds acquire completely different values when one measures the short-term versus long-term portfolio turnover of investors. What is more, a discussion on the consequences of short-termism for businesses, employees and society must take into account "varieties of capitalism", that there are different models of capitalism. A cluster analysis of the effects of different forms of ownership on the labour market and for employees produces two major clusters: the first includes all of the English-speaking countries with market-oriented capital markets and market-oriented employment systems. The second cluster is the rest of the world and that is heterogeneous.

The causes of short-termism may also exist in the dominant ideas created in the interplay between the media, PR consultants, analysts and businesses. The greater tempo in journalism helps create and reinforce short-term economic behaviour (Maria Grafström). Media reporting of quarterly reports is an institutionalised production of news, providing little scope for new angles of approach and contextual or long-term perspectives. The analysts are producers of a message which is in tune with, or beyond, expectations, and is being produced extremely fast (Jaan Grünberg). Public debate helps create and diffuse

ideas, but it also spreads information about the strategies adopted by other actors, which also influences the willingness to conform and to follow what others are doing. Geny Piotti's research shows, for example, that public debate encourages off-shoring by emphasizing short-term arguments (e.g. cutting costs).

The following people participated in the discussion:

Rachel Briggs, Moderator, Director of the charity Hostage UK, freelance researcher and writer and Member of the Glasshouse Forum Advisory Board, UK. **Kay Glans**, Editorial Coordinator of Glasshouse Forum, Sweden. **Maria Grafström**, Dr., Department of Business Studies, Uppsala University, and analyst at the media intelligence company Cision, Sweden. **Jaan Grünberg**, Dr., Department of Business Studies, Uppsala University, Sweden. **Gregory Jackson**, Professor of Business and Society, School of Management, University of Bath, UK. **Johanna Laurin**, Head of Glasshouse Forum, Sweden. **Lars Magnusson**, Professor in Economic History, Vice-Rector of Uppsala University, Sweden. **Geny Piotti**, Dr., Researcher at the Max-Planck-Institut für Gesellschaftsforschung, Germany. **Xavier Ragot**, Associate Professor, Paris School of Economics, France. **Shivaram Rajgopal**, Professor in Accounting, Michael G. Foster School of Business, University of Washington, Seattle, USA. **Daniel Sachs**, CEO of Proventus and Chairman of the Concerned Capitalists Foundation, Sweden. **Lennart Schön**, Professor of Economic History, Lund University, Sweden. **Paul Windolf**, Professor in Sociology, University of Trier, Department of Social Sciences, Germany.