Roundtable Summary: Overcoming Short-Termism

tomorrow's company

How can we overcome short-termism in UK business?

This is the summary of a roundtable that Tomorrow's Company held on how we can overcome short-termism in UK business. Tomorrow's Company is a business-led non-profit think tank with the purpose of inspiring and enabling companies to be a force for good, see more detail at the end. This discussion forms part of the Futures Project, which is a research programme looking at progress over the last 20 years in order to identify the key obstacles and drivers for change; and in this context present a renewed vision for business. See here for more detail.

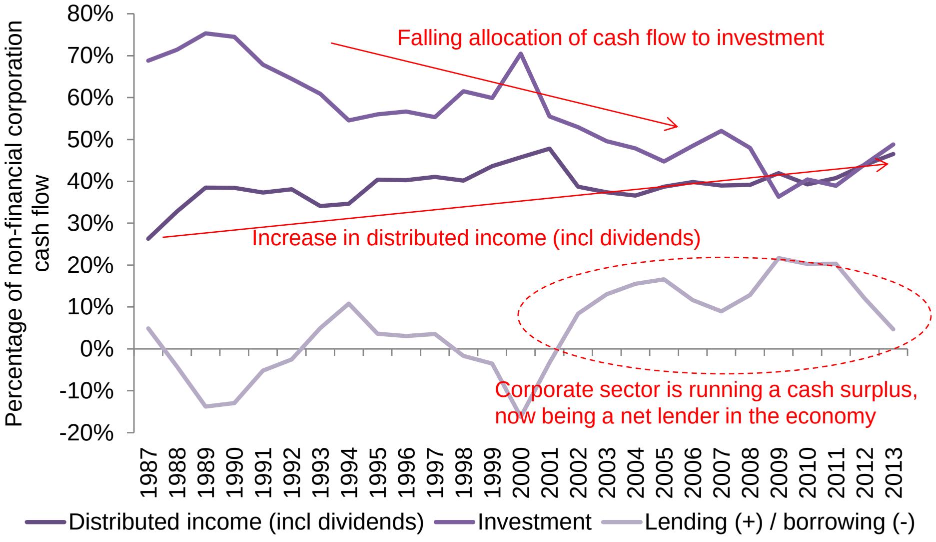
In our assessment of progress, short-termism was the most widely cited barrier to further adoption of an inclusive business approach. We therefore held a roundtable to discuss practical solutions to overcoming this barrier. The following summary is of the broad consensus of opinion, rather than conclusions that all participants agreed to.

1. Context for discussion

The UK has a low and falling level of investment in both fixed assets and R&D. This is being partly caused by an increase in cash redistributed to shareholders in dividends and buybacks. In addition to this companies have now, in aggregate, become net savers in the UK economy. Rather than acting as conduits for investment, they lend money to consumers and the government to buy the goods and services the companies themselves produce.

In our research this short-term focus was cited regularly as a key barrier to further adoption of an inclusive business approach. This is because an inclusive approach typically involves lower profit in the short-term, before the benefits accrue in the long-term. The resulting risk is that the short-term focus prevents companies taking action that would create more value long-term for all stakeholders, including shareholders.

Proportion of UK non-financial corporation cash flow allocated to investment, distributed to shareholders or lent/borrowed from other sectors



Source: ONS Blue Book

2. Structures vs behaviours

The discussion started with a focus on the recent VW emissions testing scandal. It was highlighted that 20 years since the Barings scandal, regulation had increased significantly, but scandals and short-termism remained a problem. Regulation may be imperfect, especially where it diminishes a sense of individual responsibility to 'do the right thing' but it does have an important role to play.

Concentration or the spreading of power was felt to be an important issue. A greater dispersal of power might reduce individual temptation to commit abuses. On the other hand, fragmentation of power carries with it the risk that no one takes a lead in influencing the company towards the long-term. It was acknowledged that problems can be caused by both extremes, and hence it is difficult to generalise on an ideal degree of power concentration in governance structures.

There was greater agreement on the role that industry structures play. If an industry is an oligopoly with high profit margins, and where people can make excess returns, then individuals will inevitably cut corners for a short-term return. If excess returns are available, power will often corrupt, leading to short-term decisions and scandals. The answer to this would be more rigorous competition policy by the government.

It was also recognised that scandals and short-term behaviour are in some ways inevitable. Through history when power has been concentrated in organisations it has often led to corruption and short-term behaviour for personal gain. We have also seen wilful blindness across whole nations – for example in Germany during the Nazi regime. We should therefore not be surprised when the same thing happens occasionally in companies.

Alongside the importance of ownership and governance structures, it was also recognised that leadership, values and behaviours have an important role to play. The two are in the end closely linked. The right structures often in time influence values and then behaviours. For example the best family companies are often imbued with a more long-term and ethical approach. This is even the case after the family has sold most of its stake, but the culture remains. This is often reflected in a culture that favours stability and continuity rather that always trying to do something new to capture a short-term gain.

It was agreed that even in the most demanding circumstances of a listed company operating under capital market pressures there are CEOs who insist on upholding a long-term approach and carrying their investors and boards with them. While stock markets are often blamed for taking a short-term view, institutional investors will support a long-term view when the case is made for it. Therefore while ownership and governance structures are important, leadership also has an important role to play.

Therefore there was broad agreement that all concentrations of power, no matter how they are structured will often create incentives for short-term decisions. Refining these structures to reduce these conflicts of interest is important, but at some point we need good leadership grounded in strong values. Structures need to be reformed, while keeping in mind what set of values they will reinforce.

3. Transparency and an opportunity for change

Although there are pressures and constraints that may encourage short term behaviours, encouragingly, there was broad agreement for a more optimistic outlook, with a number of recent trends and developments providing an opportunity to break out of the cycle of short-termism and scandals.

Transparency – The question was asked, what is different about concentrations of power today, than at any other time in history? The broad answer was much higher transparency. This is being enabled by technology such as social media and demanded by a generation who has grown up with this technology. Greater transparency has the potential to expose individuals who attempt to make a short-term gain at the expense of the long-term or by breaching ethical expectations.

Another key part of this is the move towards integrated reporting and its ability to reinforce integrated thinking. This could be a key way to challenge the notion that companies only exist for short-term profit. By presenting the impact of a company on all stakeholder groups together, this style of reporting could help change the conversation.

The next generation and the 'war for talent' – The shifting attitudes of the millennial generation also presents an opportunity for change. Surveys show that the younger generation have a greater desire for purpose and values from their employer. Companies that suffer from repeated scandals find recruiting the top talent more difficult. When we combine this trend with the shift in value of companies from tangible assets to intangible assets such as its people, we can see that the need for strong values to help recruitment will become increasingly important.

It was also recognised that this opportunity was not just about millennials, but also people in their 40s who may look to leave the corporate world to become entrepreneurs. This could help drive change as it is easier for a new company to start with a strong set of values, rather to change the values of a large existing company.

The need for fast, interconnected decisions – Companies are increasingly finding they need a way to make interconnected decisions quickly. Companies need to be able to devolve decisions down the hierarchy in order to respond quickly to a faster paced world. This is only possible if a company can trust its employees to act in the best interests of the long-term success of the company. A strong set of values for 'doing the right thing', rather than what makes a quick profit will become increasingly important.

4. Part of a cultural shift

Lastly, it was acknowledged that 'business is just a reflection of society'. Companies are ultimately collections of individuals, and as such are driven by the aggregation of employees' values. Therefore a shift in the values of companies cannot happen without a shift in the values of society. There was broad agreement that to solve the problem of short-termism, as a society we need to shift away from a culture where money is the measure of success and status.

Therefore we cannot view the problem of short-termism in business in isolation. The problem of short-termism may be accentuated by current ownership and governance structures. This runs from pension fund mandates, executive pay structures and dispersed shareholdings. Reforming these structures is an important part of the solution. But irrespective of these structures it is often values that determine behaviours.

We see this already from inspirational leaders who exist within current structures. Or family companies that hold onto their culture even after family ownership has ended. Therefore to solve the problem of short-termism we need an equal focus on leadership and its ability to encourage a shift in values and priorities, as on reforming the structures.