



long-term thinking in a short-term world

A Guide for Executives



Network for
Business Sustainability
Canada

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Prepared by NBS

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This guide relies on a [comprehensive review](#) conducted by researchers Dr. David Souder, Dr. Greg Reilly, and Rebecca Ranucci, at the University of Connecticut (United States). They scanned 6,000 sources to draw on the best articles, reports and books by academics, industry, government and NGOs. Members of NBS Canada's Leadership Council, representing companies leading on sustainability, advised the process throughout.

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1. introduction

Managers often ask: Should I act for short-term results, or think long-term? Short-term actions seek a fast payback. Long-term actions are investments that may not pay off for five or more years.

Choosing the right mix of short- and long-term action maximizes firm value.

This guide will help you find the right combination. A three-step process will assist you in identifying the right decisions and how to achieve them. You will create value in the short term and long term, for your company and society.

How to Use This Guide

Section 2 describes the value of short- and long-term approaches, and why most companies choose the short-term.

Section 3 introduces the three-step process to guide your action and help you achieve your company's goals.

1. **Analyze** the needs of your company and its stakeholders
2. **Choose** actions that meet those needs
3. **Execute** those actions, by making the best business case and building support

Case studies show how other companies balanced between short and long term — and their results.

The Best Available Guidance

This guide relies on a [comprehensive review](#) conducted by researchers Dr. David Souder, Dr. Greg Reilly, and Rebecca Ranucci, at the University of Connecticut (United States). They scanned 6,000 sources to draw on the best articles, reports and books by academics, industry, government and NGOs. Members of NBS Canada's [Leadership Council](#), representing companies leading on sustainability, advised the process throughout.

What are Short and Long Term?

Businesses usually define long term as five years and beyond.¹ But industries differ. A mining company or utility builds infrastructure that lasts for decades; for them, five years is short.² Other industries have much faster product life cycles.

¹ The Aspen Institute. 2007. *Long-term value creation: Guiding principles for corporations and investors*.

² Friedman, Y., & Segev, E. 1976. Horizons for strategic planning. *Long Range Planning*, 9(5): 84–89.

2. why short and long term matter

Both Short and Long Term Have Value

Every firm needs short- and long-term actions.

Short-term tactics help a firm deal quickly with crisis or rapid change. Because these actions are quick and often low cost, their effect tends to be incremental: for example, refining a product rather than developing something entirely new. Usually the benefits and costs appear quickly and are easy to measure.

Through **long-term** actions, firms seek to achieve more significant, even transformational changes that will enable durable success. They may invest in new infrastructure or business areas. These investments take longer to pay off, and can be difficult to quantify in advance — but can act as game changers for a firm.

Table 1 describes each type of action in terms of its goals, required investment, expected return and outcomes.

“The key is to think creatively about the challenge of juggling short- and long-term goals.”

GILLIAN LEES AND ROGER MALONE,
CHARTERED INSTITUTE OF
MANAGEMENT ACCOUNTANTS, 2011

TABLE 1: QUALITIES OF SHORT- AND LONG-TERM ACTIONS











	Short-term action		Long-term action	
• Goal		Respond to rapidly changing environment or crisis; create quick wins		Build lasting success and stability
Investment required		Smaller		Larger
Flexibility (ability to adjust)		High (quick changes possible)		Low (long-term plan)
Expected return		Smaller, quicker, easy to estimate		Larger, slower, harder to estimate
Expected outcome		Incremental (e.g. better product)		Transformative (e.g. new business area)

Figure 1 shows the value of short- and long-term actions over time. Ultimately, the value (the area under the curve) is much greater for the long-term action — but it takes longer to develop.

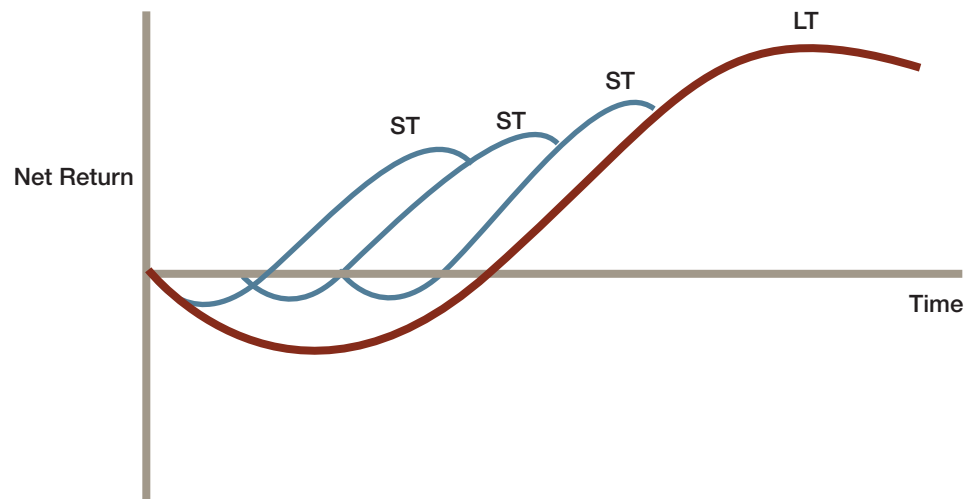
Research doesn't clearly state how firms should balance the short and long term, but it does show that **tipping too far in one direction can be a problem.**

APPLICATION TO SUSTAINABILITY

How do time horizons relate to sustainability? In sustainability, many actions are short-term wins: e.g. waste reduction. But realizing other investments in stakeholder relationships or environmental stewardship takes time.

For sustainability, it's also important to consider the needs of different stakeholders, as they affect the firm. In Section 3, you'll choose actions to benefit your firm and its stakeholders.

FIGURE 1: RETURN FROM SHORT- AND LONG-TERM ACTIONS OVER TIME³



³ Adapted from Lavery, K. J. 1996. Economic "short-termism": The debate, the unresolved issues, and the implications for management practice and research. *Academy of Management Review*, 21(3): 825–860.

Short Term Dominates

Even though short-term and long-term actions are necessary, most firms emphasize the short term. For example, 80% of CFOs have turned down projects expected to produce positive net present value in the long run because the projects would lower the firms' quarterly earnings.⁵

These pressures tip managers toward the short term:



Desire for sure returns. We manage what we can measure. Managers discount the value of projected costs and benefits on long-term projects because the future is uncertain.



Investor pressure. Investors overwhelmingly focus on short-term returns.



Organizational incentives. In part because of investor pressures, bonuses and job evaluations often push people toward short-term action. Stock options haven't worked: they encourage future thinking only before their exercise dates.



Human nature. People, including managers, naturally focus on the shorter term. We value the satisfaction of quickly addressing a problem.

Section 3 shows ways to push back on these pressures.

“Pressure for short-term results comes from annual performance measures, shareholder expectations, markets, and a company's public commitments.”

**TIM FAVERI,
TIM HORTONS, INC.**

⁵ Graham, J. R., Harvey, C. R., & Rajgopal, S. 2005. The economic implications of corporate financial reporting. *Journal of Accounting and Economics*, 40(1): 3–73.

Case Study

Long-term investment based on values: 3M Canada

As the official supplier of [Large Format Graphics](#) for the 2010 Olympic and Paralympic Winter Games in Vancouver, 3M Canada developed adhesive graphics that changed the way the world saw Vancouver. The large-scale adhesive graphics covered stadiums and facilities throughout the city with images. Beyond buildings, the graphics wrapped more than 5000 vehicles, and even ferries! While the graphics transformed the city throughout February 2010 for the Games, once the world's visitors returned home, virtually all of the graphics were to be taken down. As a result, approximately 200,000 square feet of used graphic materials could have ended up in landfills.

While the recycling of the materials was not 3M Canada's responsibility, the company decided to take on the challenge through a partnership with Mannington, a flooring manufacturer with recycling technology. Turning graphics into flooring products required extensive research, planning and resources, especially around logistics to transfer the removed materials.

The short-term economic benefits of the project were not clear. Even the customer — the Vancouver Organizing Committee — would no longer exist after the games. But 3M knew that from a long-term perspective, recycling was the right decision. The project would shape employee capabilities, foster learning and strengthen firm identity. It might also facilitate future contracts. The initial cost was thus a long-term investment.

3M debated the project internally. The decision to go ahead was rooted in 3M's value system, which aligns financial practices with sustainability. 3M reinforces its value system with open communications throughout the company, recognizing that people at all levels make decisions that must reflect organizational values.

Lesson: Measuring an action's up-front costs can be easy. Long-term payoffs exist, but can be more challenging to quantify. A strong organizational culture can enable that long-term perspective.



Flooring tiles with a high percentage of post-consumer waste materials.

Photo courtesy of 3M Canada

3. how to create short-term and long-term value

This guide will take you through three key steps.

1. **Analyze** the needs of your company and its stakeholders, to identify the right blend of short- and long-term actions.
2. **Choose** actions that meet those needs, using our matrix of possibilities
3. **Execute** those actions, by making the best business case and building support.

Step 1: Analyze the Needs of Your Company and Its Stakeholders

Evaluate what your company and its **stakeholders** need in terms of short- and long-term actions.







Section 2 identified the typical value of short- and long-term action. Table 2 provides a quick review of the key points to consider.

Note that you may be forced to take short-term action, while still recognizing the value of long-term action. You may face rapid change, but seek long-term stability.

Think of a portfolio of actions. In this situation, tip the balance toward the short term, but keep long-term action as a goal, and seek to move toward it as circumstances allow.

If your current situation is relatively stable, tip more toward the long term: You have space to think more broadly.

TABLE 2: WHEN TO TAKE SHORT- OR LONG-TERM ACTION

Short-term action is important:		Long-term action is important:	
	If you face crisis or rapid change		If you want to build long-term stability
	If you seek incremental changes: quick, limited wins		If you want transformative changes
	If you have only limited funds		If you have funds for more substantial investment

STAKEHOLDER NEEDS

In every business, different units face different pressures. As a result, the appropriateness of short- and long-term action is likely to vary across your organization.

You can consider this variation in terms of your business's **stakeholders**: the organizations and individuals who can affect its survival. Key stakeholders are investors, customers, suppliers, employees and community (often linked to environment).

Consider the state of relationships with different stakeholders as you plan short- or long-term actions. The same rule of thumb applies: **short-term actions with a stakeholder may be necessary for survival, but long-term actions are necessary to thrive.**

For example: if your company has a poor image in the community, short-term actions can provide a temporary improvement. But a longer-term engagement effort is necessary to fundamentally change relationships.

Step 2 provides more examples of options along different time horizons.

Step 2: Choose Actions that Meet Your Needs

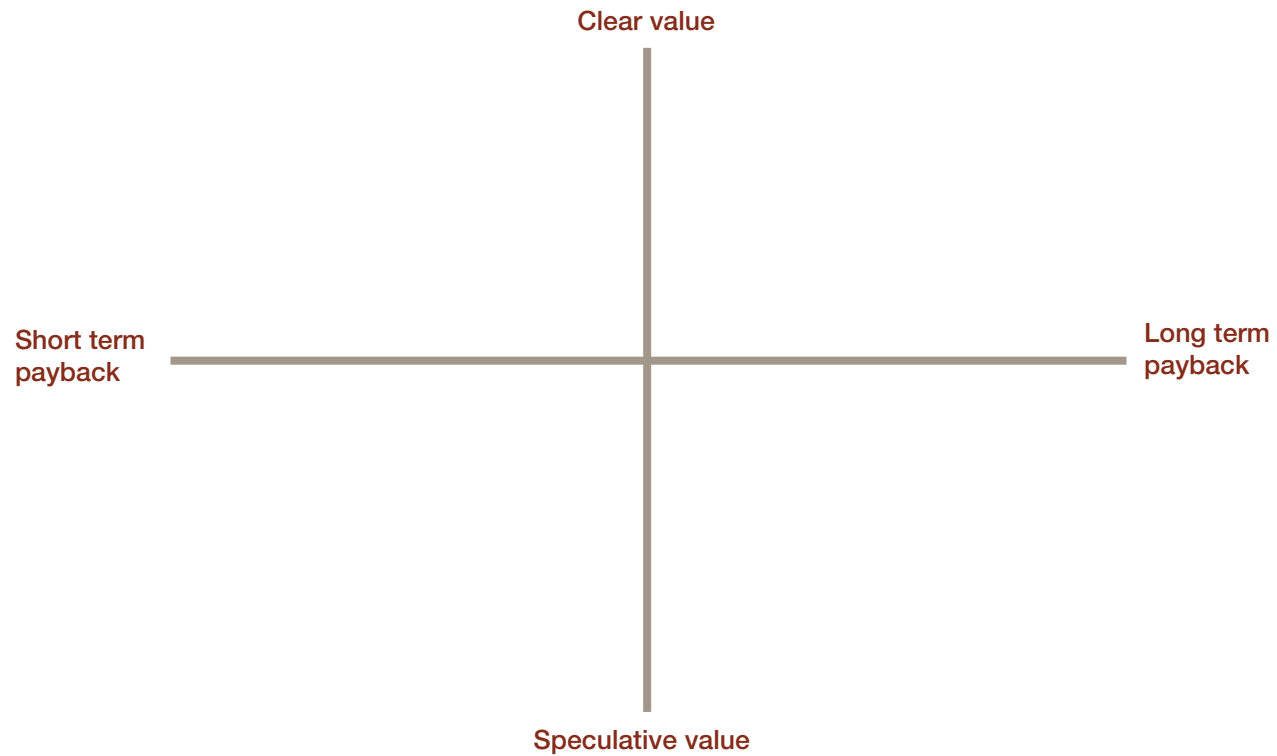
Step 1 equipped you with an understanding of whether you are emphasizing short- or long-term investments with stakeholders. Next, you can **explore specific options**.

For a given stakeholder: identify possible actions in terms of their short- or long-term value. Consider the issues material to the stakeholders, and the different ways of addressing them.

Figure 2 provides a matrix on which to chart your actions. The horizontal axis shows short and long term (the further left, the shorter the payback; the further right, the longer the payback).

The vertical axis shows the certainty of the the action's value, from clear value (easily measurable) to speculative value. Especially with long-term actions, the returns aren't always clear. Focusing on actions with certain value is tempting, but can lead you to overlook significant opportunities.

FIGURE 2: CHARTING POTENTIAL ACTIONS



After charting the possible actions, choose a mix that's appropriate given your current relationship with the stakeholder (see Section 2).

EXAMPLES OF HOW SUSTAINABILITY ACTIONS FIT ON THE MATRIX

The following two examples provide perspectives from senior managers in different industries. (Note that actions' place on the matrix will vary according to the specific situation; **you will need to assess your initiatives in order to place them correctly.**)

Figure 3 focuses on environmental issues, looking at three material issues: pollution, energy, and productivity. In each area, short-term and longer-term actions are possible.

For example: In the energy area, a short-term view keeps firms focused on compliance: meeting regulatory requirements and avoiding fines. A longer-term view considers pollution prevention actions, which require an investment but can lead to more efficient resource use and improved reputation.

FIGURE 3: A PERSPECTIVE ON LONG- AND SHORT-TERM ENVIRONMENTAL ACTIONS

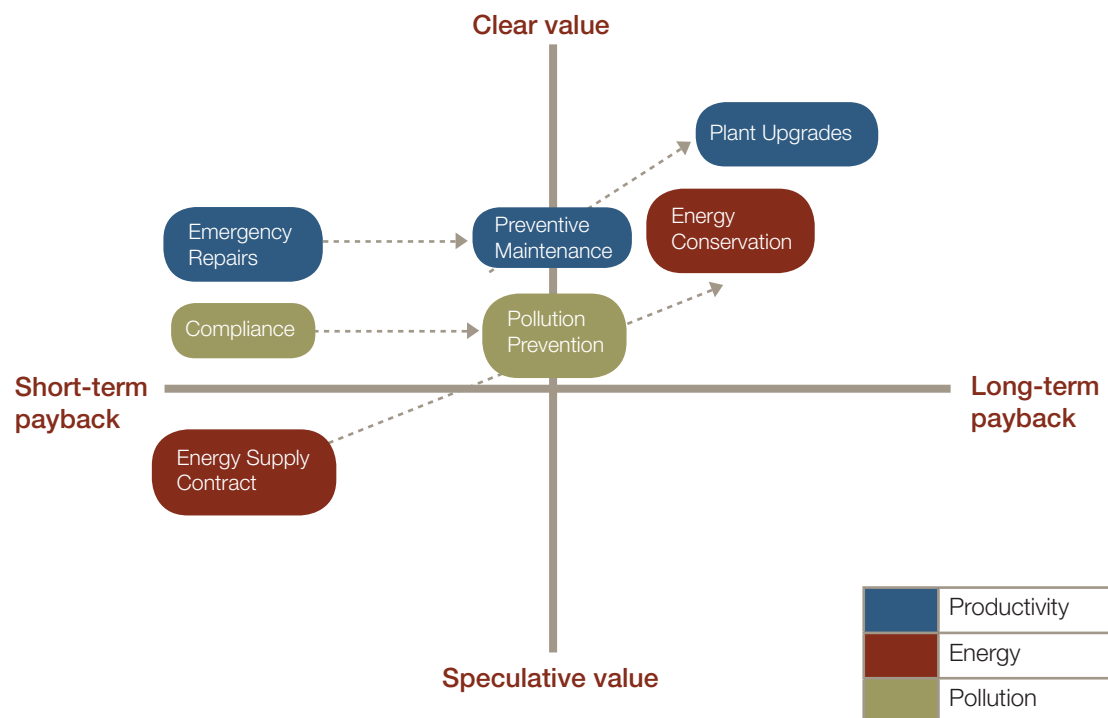


Figure 4 provides a senior manager's view of another topic: community engagement. It looks at these material areas: community investment, impacts to land, and community employment.

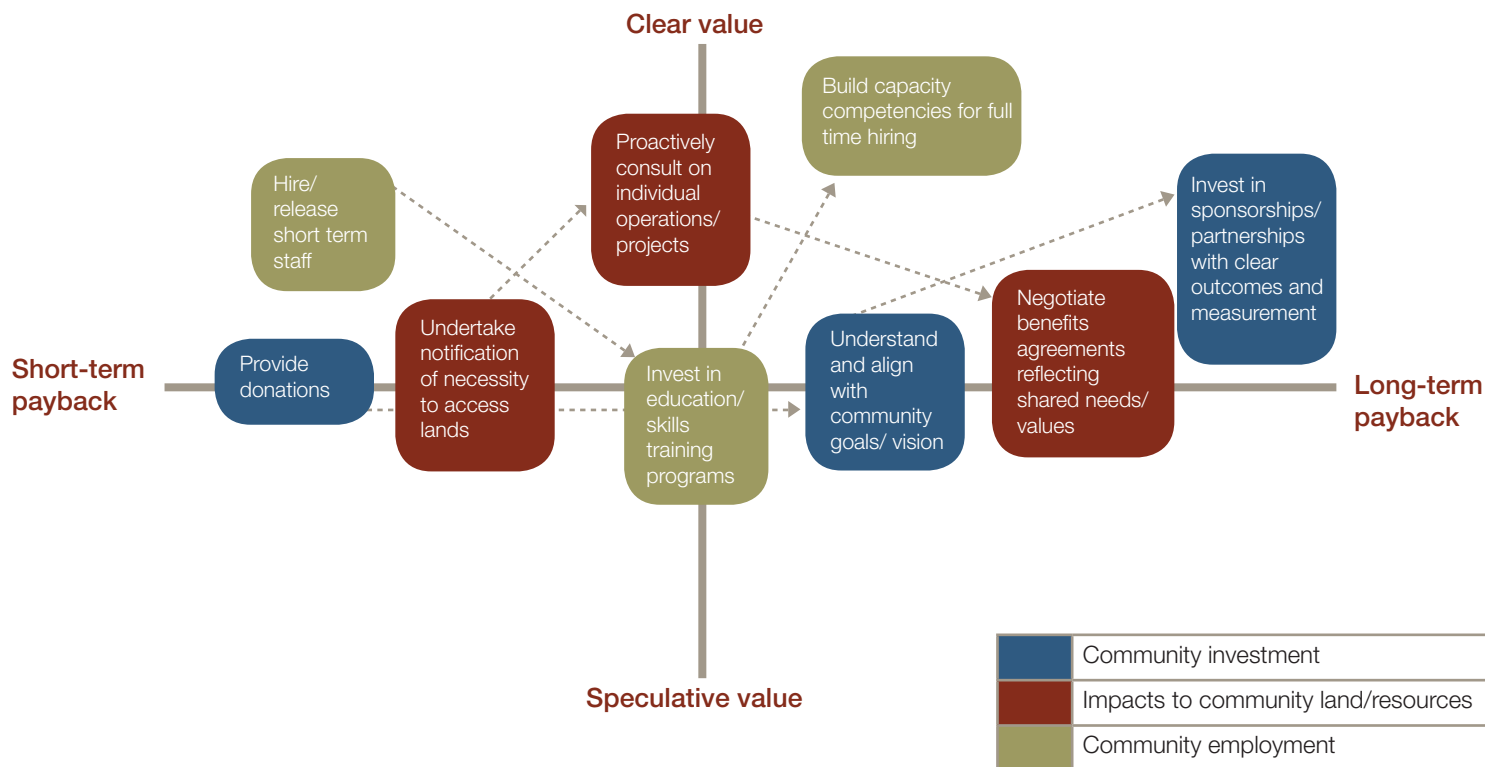
For example: If a firm is interested in employing community members, a short-term action is to hire temporary staff. For more significant impact, firms can make a longer-term investment: e.g. training programs that lead to full-time positions.

CONSIDER YOUR POSITION

The appropriate time horizon for your actions **depends on aspects of your role:**

- **Industry:** Resource-based industries think more long-term than consumer product companies.
- **Level:** People in junior positions are often expected to focus on the short term, executing tasks on a daily basis. As rank rises, expectations increase to think about the short and long terms and weigh them appropriately.

FIGURE 4: A PERSPECTIVE ON LONG- AND SHORT-TERM COMMUNITY ENGAGEMENT ACTIONS



Case Study

Easing the Transition to Sustainability: BASF

In the early 1990's, chemical company BASF decided to stop producing several plastic products. The products contained a type of flame retardant that, when incinerated, was suspected to cause the formation of toxic dioxins. The products were highly successful and the decision to remove them from the marketplace left a thriving market open for competitors. But BASF was determined.

Carles Navarro, president of BASF Canada, was then in sales and his job included recommending those products to customers for different applications. Navarro vividly remembers his shock at the company's decision to stop production and sales: "Less than six months after receiving an initial heads-up from management, the product was completely pulled from the market. There was literally nothing to offer our customers and we had lots of internal debate over our competitors' ongoing use of similar flame retardants. We also received several complaints from customers who were expecting us to continue to supply the product."

BASF counseled the sales team on how to explain the decision to customers and emphasized that substitute products were in development. And after two years BASF did in fact return to the market with alternative solutions, using a different chemistry.

Today, BASF maintains the same commitment to sustainable products, but has worked to improve customer experience during these types of transitions and minimize any short-term impacts to business.

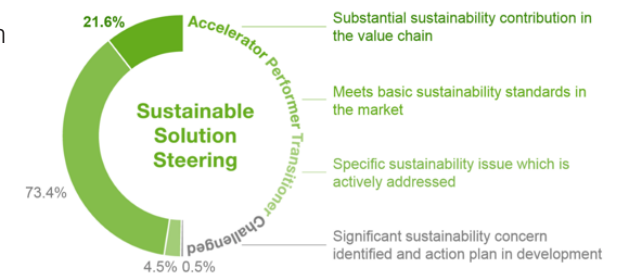
BASF recently announced its 'Sustainable Solutions Steering' program, which classifies products by their sustainability profile (Figure 5) and then uses this categorization to steer its product portfolio. Less sustainable "challenged" products must be removed or substantially improved, ideally to become "accelerators" or market-leading products with substantial contributions to sustainability. Accelerators include lightweight plastics for the auto industry and water-based resins to reduce volatile organic compound emissions in packaging materials. Substitutions might have short-term costs, but they guarantee business sustainability in the long run.

BASF analyzes and proactively monitors the products in its portfolio. It communicates the categories and any changes to its customers, so that they are aware of potential changes in availability.

Lesson: Prioritizing sustainability can cause disruption if long-term investments haven't yet shown results. Careful strategy and open communication can protect a company's interests in the short term and through its transition.

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FIGURE 5: BASF'S PRODUCT CATEGORIZATION



BASF's Sustainable Solution Steering is described in more detail at <https://www.basf.com/en/company/sustainability/management-and-instruments/sustainable-solution-steering.html>.

Step 3: Execute Actions

Once you have decided which actions to take, implementing them can surface new challenges. Section 2 described reasons why acting long term can be difficult. Here, we address those barriers head on.



ADDRESS: DESIRE FOR SURE RETURNS

Managers discount the value of projected costs and benefits on long-term projects because the future is uncertain. To build the business case, try alternative approaches (suggestions below). Most importantly:

- Explain the logic, even if you don't have supporting numbers.
- Explicitly incorporate different horizons into your decisions. If nobody has discussed long-term implications, raise them during an appropriate conversation.
- Include interim indicators to help assess progress. But make sure those indicators recognize expected timelines for payoffs.

“When we were considering renewable energy, we sat down with a leading provider in this space, Bullfrog Power. This partnership has helped us create healthier environments in the communities that we live and work in, and has contributed to LoyaltyOne being recognized as a leading green employer.”

JEREMIAH BRENNER,
LOYALTYONE

Tools for Valuing the Long Term

- **The Balanced Scorecard** adds strategic non-financial performance measures to traditional financial metrics. (<http://balancedscorecard.org/Resources/About-the-Balanced-Scorecard>)
- **Corporate performance statements** replace traditional income statements. Key enhancements include: identical treatment for capital expenditures and R&D, distinct reporting of medium- and high-uncertainty accruals, and estimates of the value of each under most likely, optimistic, and pessimistic scenarios. (<https://hbr.org/2006/09/ten-ways-to-create-shareholder-value/ar/1>)
- **“Pricing the un-priced.”** This approach converts qualitative assessments into quantitative forms that can be compared alongside traditional numerical analyses. (<https://hbr.org/2014/04/resilience-in-a-hotter-world>)
- **Research quotient (RQ).** This approach includes R&D spending in the formula for predicting output from capital and labor. (The formula can be challenging to calculate.) (<https://hbr.org/2012/05/the-trillion-dollar-rd-fix/ar/1>)



ADDRESS: ORGANIZATIONAL INCENTIVES

Company structures often push people toward short-term action. Advocate for:

- **Performance evaluations** that reflect the long-term and are used to compensate executives.
- Better designed **stock options**. If vesting and exercisability of options are separate, and exercisability conditions are longer, managers can't cash out after just a few years.
- A **flatter company**. Companies with fewer levels have less pressure for short-term growth.⁶

"Our top management's stock incentive program requires their shares be subject to a holding period of four years. I think this helps encourage and reward long-term thinking by creating personal accountability."

CARLES NAVARRO, BASF



ADDRESS: HUMAN NATURE

People, including managers, naturally focus on the short-term. But companies can act to reinforce long-term perspectives.

- Through **communication**, help others understand the long-term approach. Provide a vision and specifics. Be open about success and failure. Listen and debate alternatives: discussion leads to a better sense of future opportunities and threats and improves decision-making.
- Provide **training and workshops** in areas such as backcasting that help leaders focus on truly long-term goals.

"A hundred decisions are made every day, and people make them based on their gut according to the culture."

RICHARD CHARTRAND, 3M



ADDRESS: INVESTOR PRESSURE (AND OTHER STAKEHOLDERS)

Investors often receive the blame for short-term pressures. However, companies can work with investors and other stakeholders to change the time horizon.

- Educate **stock analysts** about metrics for assessing the organization's long-term health as well as the next quarter's earnings. Advocate for a requirement that earnings guidance predict profits for the next quarter, year and five year period.
- Develop trust with **customers**. They will identify desired product improvements and may demonstrate greater patience in waiting for the organization to provide them.
- Develop a lasting relationship with **suppliers** through trust and an emphasis on mutual benefits.
- Consider working with **other businesses and regulators**. Regulations may be necessary to help everyone adopt the longer horizons that would have eventual performance benefits.

On 26 November 2010, Unilever announced that in the future it would release its earnings figures semiannually, not quarterly. The company's share price fell with this announcement, but two years later the share price was 35% higher than its pre-announcement level. Through this measure and several others, Unilever reduced the percentage ownership of short-term hedge funds from 15% in 2010 to 5% in 2012 and attracted more patient capital.⁷

⁶ Barton, H., Brown, D., Cound, J., Marsh, P., & Willey, K. 1992. Does top management add value to investment decisions? *Long Range Planning*, 25(5): 43–58.

⁷ Bansal, P., & DesJardine, M.R. 2014. Business sustainability: It is about time. *Strategic Organization*, 12(1): 70–78.

Case Study

Understanding Tradeoffs through Structured Decision Making: BC Hydro

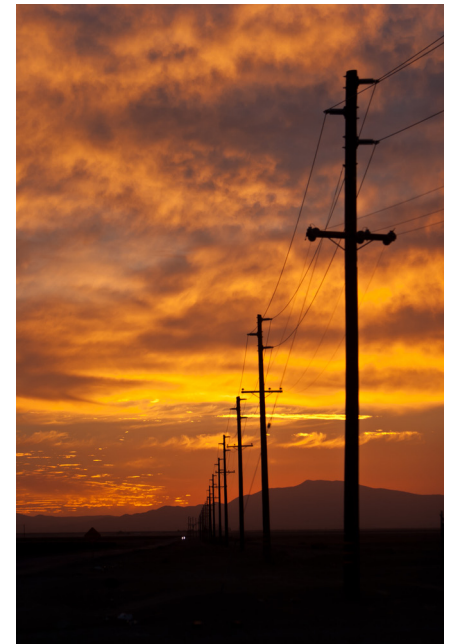
Power poles are a core part of the distribution infrastructure for BC Hydro, the electric utility serving the province of British Columbia, Canada. When BC Hydro considered shifting to cedar from pine poles, the decision was significant given the number of assets impacted. The estimated financial value of the switch: BC Hydro could save \$110 million dollars over the next 60 years.

BC Hydro arrived at this decision through the process of Structured Decision-Making (SDM) — a business planning tool implemented by BC Hydro in 2008 to deal with complex problems. This tool helps the organization systematically embed different aspects of the Triple Bottom Line into management accounting procedures (case study details at http://www.ic.gc.ca/eic/site/csr-rse.nsf/eng/h_rs00564.html).

SDM highlights short- and long-term consequences, allowing equal evaluation of tradeoffs. In this case, the process helped discern hidden costs of pine poles. Pine poles are susceptible to rot and so are treated heavily with chemicals; the poles thus cannot be recycled. Such hidden costs, common in the long run, are often neglected in decision-making. Pine poles also have quality issues, reducing their service reliability by as much as 50% compared to cedar.

The electricity industry operates in a long time horizon, but decision-makers still face short-term pressures. As a utility service provider committed to low rates, BC Hydro must also address social expectations. Consequently, BC Hydro emphasizes the need for ongoing communication with the public. The company involves experts but also invites community input on its choices. This practice enhances BC Hydro's understanding of tradeoffs while fostering long-term thinking across society.

Lesson: Anticipating consequences of long-term investments can be challenging. Better understanding of trade-offs can come through using tools like Structured Decision Making and through public involvement in the process.



BC Hydro carefully considered consequences in deciding what type of wood to use for power poles.

conclusion

Both long- and short-term thinking are essential to firm success. In times of crisis and rapid change, short-term thinking can help your firm survive. But to prosper over the long term, the transformational impact of long-term action is also necessary.

This guide identifies the value of each type of action and draws on leading research from across disciplines to help you:

- **Analyze** the needs of your company and its stakeholders
- **Choose** actions that meet those needs
- **Execute** those actions, by making the best business case and building support

By understanding and effectively addressing stakeholder needs, firms can thrive in an increasingly connected world.

This guide draws on the best available research — but research doesn't have all the answers. Please share your insights and experiences with us (info@nbs.net); together, we can find the best approach to maximizing benefit over the short and long term.

about the research

This report was inspired by the NBS Canada Leadership Council, which gathers annually to identify the top sustainability challenges for business. The report is an extension of a larger [systematic review](#) authored by Dr. David Souder, Dr. Greg Reilly, and Rebecca Ranucci, at the University of Connecticut (United States). With guidance from members of the NBS Leadership Council and an academic advisor, the research team scanned 6,000 sources to draw on the best articles, reports and books by academics, industry, government and NGOs. They conducted detailed analysis and synthesis of these sources to identify best practices for long-term thinking.

About the researchers: Dr. Souder and Dr. Reilly are associate and assistant professors, respectively, in the Management department at the University of Connecticut School of Business. Dr. Souder's research focuses on tradeoffs between short- and long-term priorities in firm investments; Dr. Reilly's research focuses on strategic risk taking, team goals and incentive compensation, and strategic human resource management. Both have extensive consulting and executive education experience. Ms. Ranucci is a PhD candidate at the University of Connecticut School of Business, writing her dissertation on interaction between managers and securities analysts in communicating firm information.

NBS gratefully acknowledges the contribution of the Guidance Committee to the original research and this executive report: Eli Angen (Pembina Institute), Paula Brand (Environment Canada), Grete Bridgewater (Canadian Pacific Railway), Philip Bromiley (University of California, Irvine), Richard Chartrand (3M Canada), Luc Robitaille (ex-Holcim Canada), Brenda Goehring (BC Hydro) and Kim Rapagna (Target Canada). NBS staff Rick Bunch and Maya Fischhoff facilitated the project and report. Case studies were created by Hadi Chapardar and Tima Bansal at the Ivey Business School (Western University).

Join the Conversation!

We welcome feedback on the guide. Please tell us what you like about it and what would make it more useful. Post a comment on NBS's website or email us directly at info@nbs.net. Share this report with colleagues at your organization, your partners, leaders in your industry association and anyone else interested in creating sustainable business models.

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About NBS Canada

The Network for Business Sustainability Canada produces authoritative resources on important sustainability issues with the goal of changing management practice. We unite thousands of researchers and professionals worldwide who believe passionately in research-based practice and practice-based research.

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NBS Canada Leadership Council

NBS's Leadership Council is a group of Canadian sustainability leaders from diverse sectors. At an annual meeting, these leaders identify their top priorities in business sustainability – the issues on which their organizations need authoritative answers and reliable insights. Their sustainability priorities prompt NBS research projects.



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