



Long-Term Thinking in a Short-Term World

A Guide for Managers

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 actions maximizes firm value.

This guide will help you find the right mix, through a three-step process:

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

You will create value in the short term and long term, for your company and society.

This primer draws on the best available research on long- and short-term action. For additional information, see the [original report](#).

Both Short and Long Term Have Value ... But Short Term Dominates

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.

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.¹

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

How to Create Short-Term and Long-Term Value







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. Stakeholders are the organizations and individuals who affect the company's survival. Key stakeholders are investors, customers, suppliers, employees and community (often linked to environment).

¹ 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.

Table 1 shows the key points to consider.

Table 1: **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

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.

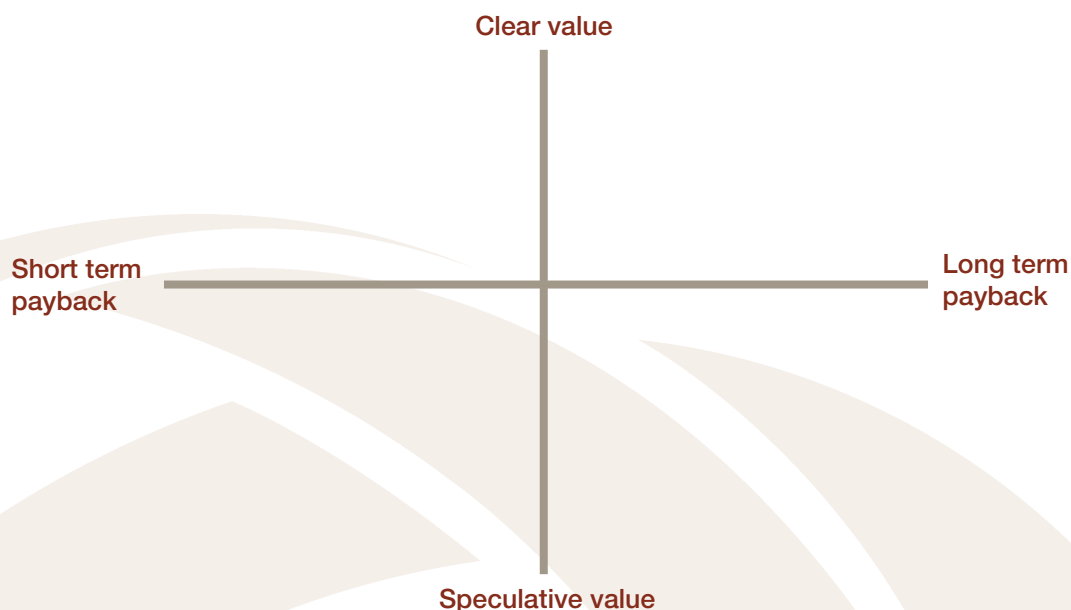
With stakeholders, the same rule applies: **short-term actions may be necessary for survival, but long-term actions are necessary to thrive.** Step 2 shows examples.

Step 2: Choose Actions that Meet Your Needs

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 1 provides a matrix on which to chart your actions. Short and long term are represented on the horizontal axis. The vertical axis represents the certainty of the action's value. Especially with long-term actions, the returns aren't always clear.

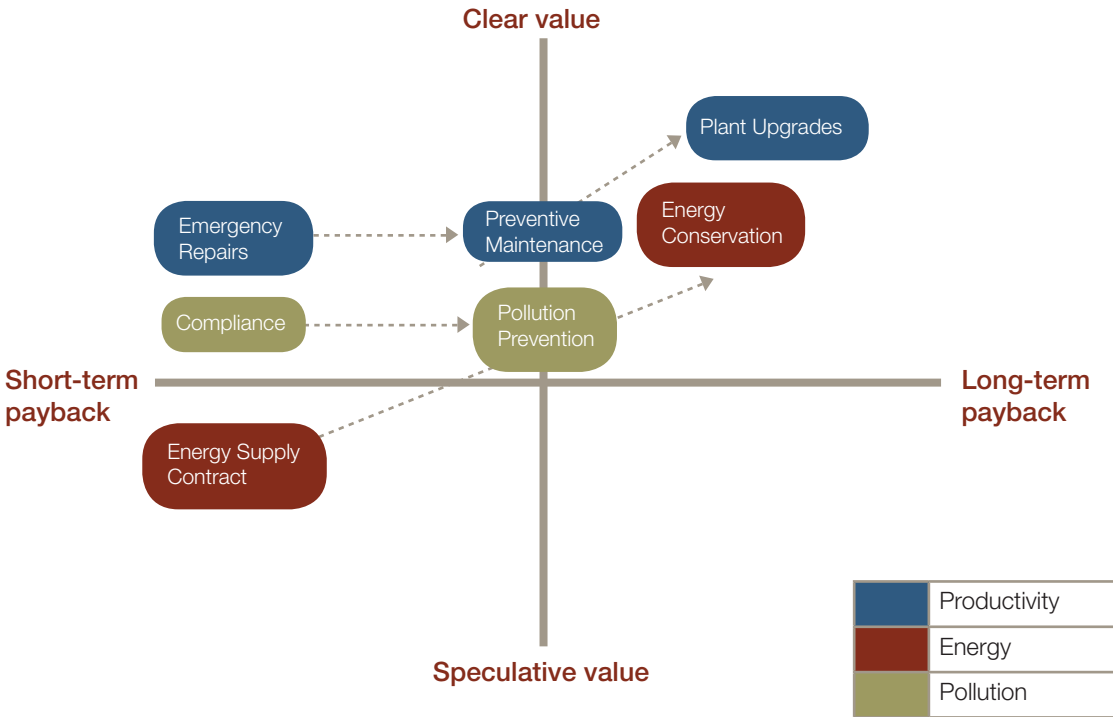
Figure 1: **CHARTING POTENTIAL ACTIONS**



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

Figure 2 shows how one senior manager used this matrix to identify choices for environmental actions. (You may place actions differently.) The manager identified three material areas: pollution, energy and productivity.

Figure 2: A PERSPECTIVE ON LONG- AND SHORT TERM ENVIRONMENTAL ACTIONS



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.

Step 3: Execute Actions

Once you have decided which actions to take, implementing them can surface new challenges. Here are common obstacles to long-term action and ways around them.



Obstacle #1: 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.

Solution: Build the business case by:

- **Using alternative approaches**, such as the **Balanced Scorecard**, **Corporate performance statements**, and **pricing the un-priced**.
- **Explaining the logic**, even if you don't have supporting numbers.



Obstacle #2: Organizational incentives. 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.

Solution: Advocate for policies shown to support long-term thinking, such as:

- **Performance evaluations** that reflect the long-term and are used to compensate executives,
- **Better designed stock options**, that separate vesting and exercisability of options and make exercisability conditions longer.



Obstacle #3: Human nature. People, including managers, naturally focus on the shorter term. We value the satisfaction of quickly addressing a problem.

Solution: Companies can enhance employees' ability to think long-term through:

- **Communication** that provides vision and specifics on the long-term approach — and encourages feedback.
- **Training and workshops** in long-term techniques such as **backcasting**.



Obstacle #4: Investor pressure. Investors overwhelmingly focus on short-term returns.

Solution: Companies can change this dynamic by:

- **Educating stock analysts** about metrics for assessing the organization's long-term health as well as the next quarter's earnings.
- **Working with other businesses and regulators** to create a regulatory environment that helps everyone adopt longer horizons.

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.

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

Conclusion

All firms need long- and short-term thinking. In times of crisis and rapid change, short-term thinking can help your firm survive. But prospering into the future requires the transformational impact of long-term action.

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 guide was inspired by the Network for Business Sustainability Canada Leadership Council, which gathers annually to identify the top sustainability challenges for business. The report is an extension of a larger review authored by Dr. David Souder, Dr. Greg Reilly, and Rebecca Ranucci, at the University of Connecticut (United States). The research team scanned 6,000 sources to draw on the best articles, reports and books by academics, industry, government and NGOs. **The larger report is available [here](#).**

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