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Why Business Is About Both The Short-Term *And* The Long-Term

By Gregory Milano

It seems almost every day I see companies take actions that prioritize near-term earnings over future performance. These take the form of discounts that pull sales into the current quarter, reductions in research and development and the postponement of training initiatives—all to juice current earnings and meet arbitrary street estimates.

What many might not realize is that short-termism is a slippery slope. Management that cut valuable investment to meet last year's goal is likely to find itself again falling short of estimates, thus creating a vicious cycle. And, indeed, it's clear that short-termism can be a large drain on not only corporate growth but also in aggregate, overall economic growth and employment.

As I wrote in my book on short-termism, focusing only on the short-term is not good. But neither is focusing solely on the long-term. In more recent times, I have seen a push toward "long-termism." While on the surface this might seem refreshing, I've observed that critics have embraced the term to deride companies that have questionable discipline around capital use and that invest heavily in long-term ventures without any reasonable certainty they will pay off.

So, fully leaning into long-termism isn't much better. Companies I have worked with over the past decades with an almost exclusive long-term outlook tend to execute poorly, never really produced results and suffered from a lack of accountability. Every underperforming period was met with explanations and rationalizations to explain away the problem. There was never a sense of urgency to make things happen.

When engaging with clients where the founder-owners were still leading the company, I have seen a distinct difference in how managers approach this balance. They overemphasize neither the short- nor the long-term. They realize it is not a case of choosing one or the other; it's about both. They push the organization to maximize near-term performance, but they would never cut investment to meet short-term expectations.

Indeed, I believe this balanced outlook results from "ownership culture," a mindset that occurs from the strong alignment of management and owner interests. Far too often, initiatives aimed at reforming company culture rely on slogans and platitudes, which rarely create lasting change. But when culture is underpinned by a focus on value-based management and hard processes around planning, resource allocation and incentives, I have seen the management of our public-company clients effectively emulate ownership behaviors and motivations.

While every company is different, there are common areas in which most companies can improve. For example, performance measures can be designed that treat investment in marketing, innovation and employee training as just that: investments, rather than as period expenses. This removes some of the pressure to cut such initiatives in the short-term.

Next, measure performance versus the prior year rather than against variances to a plan or budget. While most companies link performance measurement to their plan forecasts, this tends to lead to time-consuming bonus target negotiations, lack of transparency when building out forecasts and other undesirable bureaucratic behaviors.

A multi-year aspirational goal-setting process can also foster a better balance of short- and long-term performance. As part of this, managers should ask, “What will it take to deliver top-quartile performance for shareholders and other stakeholders?” Establishing stretch goals tends to make everyone a bit uncomfortable, but they can help uncover promising new investment ideas. When you can’t get where you want to be five years from now by extrapolating the past, new ventures and strategies tend to bubble up.

The actual path will vary by company depending on the industry, business model and organizational obstacles and pressures facing your executive team. But there is a tremendous amount of value at stake in companies that find the right balance of short- and long-term performance. What does your company need to change to better balance short- and long-term objectives?

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