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Who creates short-term pressure? An analysis of firms with different ownership structures

ABSTRACT

Several papers report evidence on corporate short-term value maximization e.g. in the form of earnings management, or reluctance to undertake profitable investments, if such investments hurt the result in the short run. We provide new evidence on who causes such short-term behavior, and what kind of effect is has on companies. We find significant differences in the perceived short-term pressure (i.e. pressure that may compromise long-term goals) caused by different shareholder and stakeholder categories such as families, activist owners, or market forces (financial analysts). In firms with allegedly more short-term owners, such pressure felt is significantly higher, and its sources include not only the current owner categories, but also perceived marginal investors. Firms also show cross-sectional variation across different ownership backgrounds in their actions to cope with such pressure.

Keywords: *ownership, corporate governance, executive compensation, share repurchases, ownership management, stakeholders, short-termism*

JEL Classification: *G31, G34, L21, M51, M52*

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1 INTRODUCTION

Several papers report that different owner types have different investment horizons and focus. Such differences may lead to differences in corporate actions and performance. For example, Koh and Hsu (2005) identify transient and long-term oriented institutions, and observe different views on earnings management between the two groups. Short-term investors may also avoid dividends and prefer share repurchases (Gaspar et al., 2005, and Marquardt et al., 2009), and weaken the governance mechanisms of a firm, thereby leading e.g. to higher levels of managerial compensation (e.g., Clay, 2000). Bushee (1998) indicates that due to the frequent trading and short-term focus of institutional investors, they may encourage managers to sacrifice long-term investments such as R&D to meet current earnings targets.[1] Graham et al. (2006) also find evidence of pervasive value destruction due to short-term focus of managers. According to their survey findings, managers seem to engage in short-term actions which may be value destroying (such as reducing R&D, advertisement, maintenance and delaying the start of a new project) in order to meet performance targets. Finally, Liljeblom and Vaihekoski (2009) find that companies' ownership structure affects e.g. their investment behavior.

However, very little evidence exists on the identity of the shareholder and stakeholder groups, which are causing such short-term pressure. Cescon (2002) reports that while in U.K. the pressure for short-termism (as studied in e.g. Demirag, 1996) is perceived to come from the market and financial institutions, in Italy its is perceived to come from the firm owners themselves. Typically, above all institutional investors and analysts are pointed out as a potential source of pressure.[2] We contribute by studying this question using a unique dataset with much broader set of owner types than in earlier studies, which mainly have separated between institutional vs. other owners, and furthermore been performed on markets such as the U.S. or U.K., where the ownership of large firms is highly diversified. Using data from Finland with very heterogeneous ownership types among the 500 largest firms, we are able to study both the origins of short-term pressure, and its impact on different corporate actions. We combine novel data from a survey on perceived pressure for short-term decisions, and corporate reactions to it, with data on detailed ownership structures (see Liljeblom and Vaihekoski, 2009, for details on the data).

Corporate governance mechanisms should be set to alleviate the agency problems between the owners and the management. Thus, information about the shareholders' time horizons is of importance in setting the right incentives (such as management compensation plans) in place. For the individual investor, on the other hand, it is important to know what type of focus and behav-

1 See also Suto and Toshino (2005) who find a short-term bias in fund managers' investment time horizons.
2 Graham et al. (2006), among others, also study the question of who is the marginal shareholder. They asked the CEOs about the perceived marginal price-setter for the stock, and the clearly largest groups pointed out are institutional investors (chosen by close to 60% of the respondents) and analysts (chosen by close to 40%).

ior to expect from a firm, given that the firm is controlled by a certain type of influential owner such as an activist, the government, or by institutional owners.

We contribute to the previous literature in several ways. First, the sources of short-term pressure have received very limited empirical research interest. Our sources of pressure are also not restricted to shareholders, but also include important stakeholders such as workers and their unions, as well as politicians, media, and financial analysts. Secondly, we study the effects of short-term pressure on multiple different corporate key decisions, including executive compensation (criteria and horizon), share repurchases, and active ownership structure management. Thirdly, our data set includes both widely held stock listed companies, foreign subsidiaries, state and municipal-owned firms, as well as firms owned by their customers such as mutual insurance companies and co-operatives, which allows consideration of the effects of varying organizational types.

Liljeblom and Vaihekoski (2009) find that the companies in general feel moderate pressure for such short-term actions, which may compromise the company's long-term goals, with a reasonable dispersion around the mean of 2.84 (on a scale from one to five). Such pressure felt by firms categorized as owned by long-term investors (such as family, government, or firms operating as co-operatives) is significantly lower than that in firms owned by more short-term owners (such as listed firms or firms owned by activist owners). This study analyses the issue further and focuses on the stakeholders' effect on such short-term pressure across firms. Firms owned by more long-term owner types acknowledge such pressure above all from their relevant owner types, whereas firms with more short-term oriented investors experience pressure both from current and potential / marginal owners (capital market sources). The highest source of short-term pressure compromising long-term goals comes from foreign owners (average response 3.46), then from analysts (3.13).

Here we also analyze the effect of short-term pressure compromising long-term goals on the management compensation, active ownership management and dividend policy / share repurchases in more detail. The results suggest that companies that are under more short-term pressure are more actively trying to manage their ownership structure by e.g. dividend policy, investor meetings, and public information releases. Firms subject to higher pressure also conduct more often share repurchases. However, for compensation design the results were less clear. Even though firms with a compensation horizon of one year feel somewhat higher short-term pressure compared to companies with longer horizons, the difference is not statistically significant.

The remainder of this paper proceeds as follows. In the next section, we discuss testable hypotheses. Section 3 presents the research design and methodology. Section 4 presents the main empirical results together with discussion of their implications. The final section summarizes the conclusions.

2 HYPOTHESES DEVELOPMENT

What determines the degree of short-term pressure compromising long-term goals that a firm is facing? Theoretically, if agency problems can be alleviated through corporate governance mechanisms, managers' incentives should be aligned with the goals of the owners, which may or may not face short-term pressure themselves. Since different owners in turn may have different investment horizons, the trade-off between the overall short-run and long-run goals may be determined by the dominating owner groups. Therefore, we take the ownership perspective as our starting point, and study short-run pressure among firms whose owners are divided into seven ownership categories, which *a priori* are expected to have different investment horizons.

If the ownership is not permanent, for example, due to the likelihood of takeovers or sell-offs, the management of the firm may take into consideration also other owner groups and the marginal owners. On the other hand, firms with more "permanent" ownership structures may be more closely in-line with the incentives of the current shareholders. In the next subsections, we will discuss potential implications of the conflict between permanent and transient owners using the different ownership types, and the hypotheses stemming out from their differences, and after that other forces that may influence the degree of short-term pressure felt.

2.1 Ownership types

Earlier studies have identified ownership categories that may be associated with specific investment horizons. Several papers report evidence on shareholder activism (e.g., Gillian and Stark, 2007). Such activist are typically either certain types of hedge funds (e.g., Briggs, 2007; Klein and Zur, 2009), or private equity investors. Owner activism often leads to actions such as corporate divestitures, increased share repurchases, employee layoffs, and CEO changes (Bethel et al., 1998). It has often been argued that activists have a short-term focus. We use activists as one ownership category in our study, and expect that companies controlled by activists may experience a higher pressure for short-term actions even though such actions may compromise long-term goals.

Compared to privately held firms, listed firms may in general be subject to higher short-term pressure due to relatively high ownership stakes by short-term investors such as mutual funds, and activist owners. In the Graham et al. (2006) survey, institutional investors were pointed out by the managers as the main category of shareholders causing short-term behavior. Managers saw the compensation of fund managers as a cause for short-term focus. Since fund managers are compensated on the basis of how their funds have done relatively to peer managers, a "bandwagon" effect can easily be created, where all funds start to sell out (to protect their compensation) of stocks of firms that have missed an earnings target (Graham et al., 2006). We therefore expect that widely held firms, typically having institutional investors as their largest owner types, experience a higher pressure to perform well in the short-term.

At the other end of the spectrum, family ownership is often seen as a more patient type of ownership and favorable for the firm in the long term (e.g., Bøhren et al., 2004; Maury and Pajuste, 2005). We include family ownership as an ownership category expected to have a more long-term focus. Other ownership types that are likely to have a more long-tem focus are government / municipality owned companies, and co-operatives. They are likely to have various other objectives besides profit maximization (such as maintaining a competitive environment, providing a broad and stable supply of good or services, competitive prices or fees in the long-run for the owners, employment and environmental aspects), and we expect them to be less prone to give up long-term targets in favor of short-term gains. Their ownership structure is also more stable, with a low probability for corporate takeovers partly because of organizational structures, which further motivates a reduced likelihood for short-term pressure of a negative kind.

Our study is based on a survey conducted in 2006, directed to the 500 largest companies (by turnover) in Finland in 2005. As in Liljeblom and Vaihekoski (2009), we classify the responding firms (148 that can be identified through the questionnaire number, plus one anonymous) into one of seven categories based on their ownership structure. These are: i) co-operatives and other firms owned by their owners such as mutual insurance companies, ii) fully state or municipality owned firms, iii) family firms (50 per cent or more of equity being owned by one family), iv) fully-owned subsidiaries, v) firms fully owned by a handful of industrial companies, vi) unlisted firms with large private equity owners (controlling more than 40% of equity), and vii) publicly listed firms.[3]

All responding firms fall into one of these seven categories, and do not fulfill the requirements for any other category than the one in which they are included in. In light of the above discussion, we furthermore divide the firms into categories with potentially more long-term (labeled henceforth as LT) and short-term (ST) owners. The category of short-term owners (ST) will include firms in categories iv) to vii), i.e., fully owned subsidiaries, industrially owned firms, firms with an private equity (activist) owner, and listed firms.[4] The category of long-term (LT) owners

3 Our category of "private equity" is rather broad, including many different private equity (venture capital) firms, which of course may differ from each other in their average holding periods and exit strategies. The behavior described above in the text is above all typical to one specific type of private minority investor, sometimes called an "activist owner" (who often operates through an investment company or fund, and attracts private equity investors to joint actions). See e.g. Bethel et al. (1998) for corporate actions followed by block share purchases by activists versus other investors.

4 The subsidiaries in the Talouselämä 500 list are often owned by foreign owners. Several studies, such as Bøhren et al. (2004), point at foreign owners as a more short-term oriented owner category. Landier et al. (2009) report that geographically dispersed firms are less employee friendly, and that dismissing divisional employees is more common in divisions located further from corporate headquarters. Their results also support the view that foreign / out-of-state subsidiaries are often the first ones to be shut down when firms are consolidating their activities.

will then include the rest, i.e. categories i) to iii), family firms, government / municipality owned firms, and co-operatives.[5]

Based on the discussion above, we form our first hypothesis on the general perceptions of short-term pressure compromising long-term goals. Since it is not only the current ownership, but also the potential future ownership that may matter, we also consider the expected permanency of the current ownership. When characterizing our ownership types according to that dimension, we expect that the ownership is more permanent for the firms in our LT category: family firms, government / municipality owned firms, and (especially) co-operatives. Of the firms in the ST category, the activist owned and listed firms stand out as the extremes in the other dimension, activist owned because they typically plan an exit within some years, and listed because of the high institutional (especially mutual fund) ownership.[6]

We expect that firms with a more permanent ownership structure are more inclined to acknowledge potential pressure above all from their own ownership types, whereas firms with more transient ownership structures are more observant to pressure from *perceived* marginal investors. But who is then the *perceived* marginal investor? Graham et al. (2006) report that most CFOs believe in a hierarchy, where institutional investors set the stock price on the buy-side in the long-run, analysts affect short-term prices, and retail investors are not often important price-setters.[7] In Finland, foreign ownership levels are high, and foreign investors are often considered as dominating "marginal" investors on the exchange. This leads to our first hypothesis:

> *H1: ST firms are more subject to pressure compromising long-term goals from market (analysts) and well diversified "marginal" investor sources (Finnish institutional owners, foreign owners), whereas LT firms are relatively more subject to pressure from their relevant owner type (such as family and the government).*

2.2 Other factors contributing to short-term focus

Besides owners, and perceived marginal owners, firm management may be facing pressure for short-term behavior from other stakeholders or other sources. We already mentioned financial analysts as an important group, producing services for investors. Other stakeholder groups include

5 Liljeblom and Vaihekoski (2009) found that these categories succeed well in identifying firms with lower (LT) or higher (ST) level of short-term pressure. The average short-term pressure in the seven ownership categories were, from low to high, co-operatives (1.875), family-owned firms (2.300), joint companies (2.500), government-owned companies (2.600), 100% owned subsidiaries (3.051), firms owned by private equity investors (3.067), and publicly listed companies (3.226). When grouped into LT and ST firms, the averages were 2.289 (LT) and 3.077 (ST). The difference is significant at the 1% level (a t-value of 3.74). For further details, see Liljeblom and Vaihekoski (2009).

6 The average holding period for funds has been shrinking over time. Bogle (2003) reports that mutual funds in the U.S. were around 2003 holding a stock in their portfolio for an average holding period of roughly a year, whereas the average holding period was six years in the early seventies.

7 Graham et al. (2006) also report that at least some CEOs consider analysts as young and inexperienced, therefore more short-term.

e.g. workers and their unions, politicians, and media. We expect that companies of public interest such as state and municipal-owned companies are more subject to pressure from such sources. This leads to our second hypothesis.

> *H2: Government and municipal-owned firms are more subject to short-term pressure compromising long-term goals from media, politicians, and workers and their unions than other firms.*

Other factors influencing the degree of short-term pressure facing management of the firm include managerial labor market, and corporate governance mechanisms of the firm, among them management compensation systems (e.g. Groot, 1998; Graham et al., 2006). Graham et al. (2006) investigated both of these as factors affecting the desire to meet an earnings benchmark. They report that three-fourths of the respondents agree, or strongly agree, that a manager's concern about her external reputation helps explain the desire to meet the benchmark. The desire to meet the earnings target appeared more driven by career concerns than by compensation motives.

Our survey does not include any career questions, but we ask questions concerning the compensation design. We hypothesize that LT firms favor management compensation plans that emphasize long-horizon development instead of short-term results. Furthermore, LT firms pick their compensation criteria to match the long-term focus. Finally, if the compensation has a strong short-term focus (e.g., managers are evaluated yearly on their current year's result), we expect that the firm experiences more pressure to perform well in the short-term. Out hypotheses are thus:

> *H3a: LT firms' management compensation plans are based on evaluation over longer horizons (than ST firms').*
> *H3b: Furthermore, LT firms focus their plan more on long-term profitability and growth than on current valuation or operational cash flow.*
> *H3c: Finally, the short-term pressure compromising long-term goals is lower among firms using plans with longer horizons.*

2.3 Potential actions related to short-term pressure

Next, we discuss actions that may be undertaken due to short-term pressure compromising long-term goals. Liljeblom and Vaihekoski (2009) found that ST owners have a higher probability to undertake actions due to pressure for good financial result in the short-term. The actions undertaken may e.g. be adjusting the horizon of executive compensation systems, share repurchases, and long-term investments.

In this study, we study in more detailed questions concerning share repurchases, and active ownership management. Based on prior evidence (Gaspar et al., 2005), we expect that LT firms are less likely to use share repurchases because of lower tax incentives as well as lower incentives to boost financial report figures (EPS). Finally, we expect that ST firms, i.e. firms suffering from short-term pressure, are more prone to improve the situation by active ownership development. Our last hypotheses are thus:

H4: ST firms are more likely to undertake share repurchases.

H5: ST firms are more prone to develop actively their ownership structure.

3. RESEARCH METHODOLOGY AND DATA

We conducted a survey using a mailed questionnaire. The questions in the survey focus on two main areas. First, what is the respondent's opinion (perception) of the short-term financial pressure compromising long-term goals faced by the company? Second, what actions has the company undertaken to alleviate the short-term pressure? In addition, we asked more detailed questions regarding some actual decisions variables for the company, such as payout policy (share repurchases), and executive compensation. To maximize the response rate, the questionnaire was designed to fit on a single page. Similarly, the questions were designed to be easy and fast to answer with an option to provide additional explanations if the respondent felt that the reply needed clarification (see Liljeblom and Vaihekoski, 2007, for more details).[8] The survey questions used in this study are listed in the Appendix (the full survey is available from the authors upon request).

The survey was directed to the 500 largest companies registered in Finland, as listed by the Finnish weekly business magazine Talouselämä in May 2006. Talouselämä selected companies on the list on the basis of their turnover during year 2005. The company with the lowest turnover that made it on the list had annual turnover of 67 million euros.

The questionnaire was mailed to companies' financial manager (CFO) in early June 2006. If the financial manager could not be identified, the questionnaire was sent to the managing director (CEO). Respondents were guaranteed total anonymity. The information on the identity of the respondent was used to match respondents with ownership characteristics for the firm, collected from the Kock (Pörssitieto) annual publications and annual reports for the firm.

We received 149 responses. The response rate is approximately 29.8 per cent of the total sample, and the response rate can be considered high for this kind studies. For example, Poterba and Summers (1995) had a response rate of 22.8 per cent in a study among 1000 US companies,

8 We undertook several steps to ensure that the questionnaire would have an appropriate design and e.g. minimize misconceptions. First, we were in contact with researchers from other disciplines where survey method is more often used, to get feedback on our questionnaire. We also familiarized ourselves with relevant literature on survey design. Finally, the questionnaire was tested on fellow research colleagues as well as persons from the industry.

and Graham et al. (2006) had a response rate of 10.4 per cent in their recent study. One of the companies chose not to identify itself and was therefore removed from the analyses where responses are matched with background information such as ownership.

The responding firms represent the full population fairly well, as the average turnover, size, and the number of employees are in line with the population average. Furthermore, all deciles of the top 500 companies are rather evenly represented in the sample (see Liljeblom and Vaihekoski 2009). [9]

Based on the type of the main owner(s), or the organizational structure of the company, each responding company was given one of the following ownership types (relative respondent frequencies in parenthesis): i) co-operatives or mutual insurance companies (7.4%), ii) fully government or municipal-owned companies (6.7%), iii) companies with a family holding the majority of the shares (18.8%), iv) fully owned subsidiaries (28.9%), v) companies owned by several industrial and/or financial owners[10] (joint companies, 4.7%), vi) companies where at least 40% of the equity is owned by (one or many) private equity investors or venture capitalists (10.1%), and vii) publicly listed firms (22.8%).[11]

Fully owned subsidiaries are thus the most common companies in the sample, followed by publicly listed firms. Together theses two groups stand for 51.7% of the respondents. This result differs from what Faccio and Lang (2002) found as the ultimate owner for the Finnish publicly listed firms in their study of European firms. Namely, they found almost half of the firms to be family owned and close to 16 percent to be state-owned. The difference is due to various reasons. First, many publicly listed firms do not have enough turnover to make the list of largest firms. Second, our definition of family owned firm differs from theirs as we consider family-owned publicly listed firms to behave foremost in a manner consistent with other publicly listed firms. Finally, their sample period is the end of 1990s.

As noted earlier, we group companies into categories based on their ownership structure. Categories i)–iii) are assigned into the group of long-term oriented firms (LT) and all other owner-

9 This is not to say that there might be some self-selection bias in the sample. Assume e.g. that CFOs feel pressure for short-termism, and the pressure is coming from the company's current owners. Would such CFOs be more, or less, inclined to participate in the survey? One could argue both ways. If they feel that there is a risk that they will be identified, they may be more likely not to participate. On the other hand, they may be more inclined to participate than others if they feel that they can give anonymous feedback in this way. This means that we e.g. cannot say anything about the overall level of short-term pressure among all the 500 firms, since the firms in our sample can either over- or under-represent the population. However, since our sample is very similar to the overall population in terms of firm characteristics, and we do have a reasonable variation in the level of pressure felt as well as the ownership categories from which the respondents come from, we feel that a potential self-selection bias is not a major concern.

10 Many of these companies are 50%–50% owned joint ventures by two industrial firms.

11 Category number 5, jointly owned companies, includes a few cases with approximately equal ownership shares by industrial firm(s) on one hand, and the government and / or municipalities on the other hand. Category number 1, co-operatives, includes a few cases where the company is not organized as a co-operative, but is owned by a group of owners, which are co-operatives, or behave as such (and are e.g. suppliers / customers of the firm).

ship categories are defined as short-term (ST). The LT-category includes 49 companies (32.9% of all companies), and the ST-category 99 companies (66.4%). One respondent (0.7% of our sample) was anonymous and could therefore not be assigned any owner type. It is included in the analysis that follows only in the overall average, but not in the analysis where information on the owner type is required.

4. EMPIRICAL RESULTS

4.1 Sources of short-term pressure compromising long-term goals

Liljeblom and Vaihekoski (2009) study the responses given by companies to the question of what degree of short-term pressure compromising the company's long-term goals they feel. The average reply, on a Likert-type scale from one to five (one being very little, five being a lot), was 2.838 with standard deviation of 1.176.[12] We explore this observed pressure further in the remainder of our study.

We asked the respondents to indicate sources of such short-term pressure among certain key stakeholders and interested parties. Respondents were given a list of different actors and again they could choose a value from 1 (very little) and 5 (very much), or 0 (not relevant for the company) for each one. In a few cases, more than one answer was marked. In these cases, the answer was excluded from the analysis. The results are reported in Table 1 for each stakeholder separately, first for the full sample in Panel A, and then for LT and ST categories in Panel B, finally followed by a more detailed analysis for each stakeholder type in Panels C to K. Percentage not relevant is the number of answers for the response alternative called "not relevant", divided by the total number of answers (*N*) for the particular question.

The results in Panel A show that the biggest source of short-term pressure is foreign owners (average response 3.463), then from the analysts (average response 3.129). Somewhat surprisingly, media is not reported as a major source of short-term pressure (average response 2.505), even though corporate executives often have voiced their concern that the quarterly reporting of the companies in the media is a major reason for the short-term bias in the companies' decision-making.[13] On the other hand, media has the lowest percentage of "not relevant" answers (14.4%) i.e. only a few companies consider that the media is not at all guilty of creating short-term pressure.

Governmental / municipal owners, and the workers and their unions, are not found to be major ownership / stakeholder groups behind the short-termism. The average responses for the

12 One should be cautious in calculating the average and standard deviation for a variable measured on an ordinal scale. However, reporting averages is a commonly used approach in comparable studies, and it is only used here to suggest potential differences in different sub-samples. The standard deviation is mainly used to show the dispersion in the responses.

13 Somewhat paradoxically, the media has started to call this reporting cycle as "quarter-to-quarter capitalism".

TABLE 1. Sources of short-term pressure
Respondents were asked to reply how much short-term pressure certain stakeholders (listed in Panel A) cause for the company. Answers were given on a Likert-type scale ranging from 1 (very weak) to 5 (very strong), with an option to answer 0 (not relevant). Panel A reports the results for the full sample, and Panel B the responses separately for respondent firms from the two ownership categories of ST (Short-Term owners) and LT (Long-Term owners), and well as the difference in the means together with a t-value testing for equal means. Values significant at the 5% level are in boldface. Panels C to K report separately for each stakeholder type, how much pressure respondents from seven different ownership categories experience coming from the stakeholder source in question. N ***indicates the number of responses. Not relevant (%) column reports the number of responses with an answer indicating that the question is not relevant for the company. Reported means, medians and standard deviations have been calculated from the responses where a value between 1 to 5 was given.***

	N	Mean	Median	Std. dev.	Not relevant (%)
Panel A: Full sample					
Media	125	2.505	2.000	1.152	14.40 %
Analysts	124	3.129	4.000	1.312	25.00 %
Politicians	123	1.838	1.000	1.111	39.84 %
Workers and their unions	124	1.798	2.000	0.923	24.19 %
Government (as owner)	122	1.600	1.000	0.955	67.21 %
Family owners	125	2.694	3.000	1.370	42.40 %
Finnish institutional owners	124	2.523	2.000	1.226	47.58 %
Other Finnish owners	124	2.878	3.000	1.182	40.32 %
Foreign owners	125	3.463	4.000	1.167	34.40 %

TABLE 1. Continued

	Long-term (LT) owners			Short-term (ST) owners			Diff. in means LT-ST (t-val.)	Diff. in "Not relevant (%)", LT-ST
	N	Mean (Std.dev.)	Not relevant (%)	N	Mean (Std.dev.)	Not relevant (%)		
Panel B. LT vs. ST								
Media	38	2.556 (1.188)	28.95 %	86	2.494 (1.153)	8.14 %	0.062 (0.27)	20.81 %
Analysts	38	1.950 (1.234)	47.37 %	85	3.458 (1.150)	15.29 %	–1.508 (–6.39)	32.08 %
Politicians	37	1.944 (1.056)	51.35 %	85	1.818 (1.140)	35.29 %	0.126 (0.59)	16.06 %
Workers and their unions	37	1.952 (1.071)	43.24 %	86	1.736 (0.872)	16.28 %	0.216 (1.08)	26.96 %
Government (as owner)	38	2.000 (1.333)	73.68 %	83	1.483 (0.785)	65.06 %	0.517 (2.22)	8.62 %
Family owners	38	3.120 (1.364)	34.21 %	86	2.435 (1.328)	46.51 %	0.685 (2.60)	–12.30 %
Finnish ins-titutional owners	37	2.500 (1.434)	72.97 %	86	2.556 (1.192)	37.21 %	–0.056 (–0.21)	35.76 %
Other Finnish owners	37	3.071 (1.207)	62.16 %	86	2.847 (1.186)	31.40 %	0.224 (0.95)	30.76 %
Foreign owners	37	2.375 (1.302)	78.38 %	87	3.616 (1.062)	16.09 %	–1.241 (–5.12)	62.29 %

TABLE 1. Continued

	N	Mean	Median	Std. dev.	Not relevant (%)
Panel C: Media					
1 – Co-operative	6	3.000	3.000	1.000	50.00 %
2 – Government-owned	10	2.778	3.000	1.093	10.00 %
3 – Family-owned	22	2.333	2.000	1.291	31.82 %
4 – 100 % owned subsidiary	36	2.515	2.000	1.253	8.33 %
5 – Joint company	6	3.000	3.000	1.581	16.67 %
6 – Private equity investor	13	1.900	2.000	0.876	23.08 %
7 – Publicly listed	31	2.581	2.000	1.025	0.00 %
Panel D: Analysts					
1 – Co-operative	6	2.500	2.500	0.707	66.67 %
2 – Government-owned	10	2.143	1.000	1.464	30.00 %
3 – Family-owned	22	1.727	1.000	1.191	50.00 %
4 – 100 % owned subsidiary	36	3.267	4.000	1.413	16.67 %
5 – Joint company	6	2.667	2.000	2.082	50.00 %
6 – Private equity investor	13	3.222	4.000	1.093	30.77 %
7 – Publicly listed	30	3.800	4.000	0.610	0.00 %
Panel E: Politicians					
1 – Co-operative	6	3.000	3.000	1.000	50.00 %
2 – Government-owned	9	2.286	2.000	1.113	22.22 %
3 – Family-owned	22	1.250	1.000	0.463	63.64 %
4 – 100 % owned subsidiary	35	2.045	2.000	1.253	37.14 %
5 – Joint company	6	2.600	3.000	1.517	16.67 %
6 – Private equity investor	13	1.857	2.000	1.069	46.15 %
7 – Publicly listed	31	1.381	1.000	0.805	32.26 %
Panel F: Workers and their unions					
1 – Co-operative	6	2.000	1.500	1.414	33.33 %
2 – Government-owned	9	2.000	2.000	0.894	33.33 %
3 – Family-owned	22	1.909	1.000	1.136	50.00 %
4 – 100 % owned subsidiary	36	1.933	2.000	1.015	16.67 %
5 – Joint company	6	1.833	1.500	0.983	0.00 %
6 – Private equity investor	13	1.600	2.000	0.516	23.08 %
7 – Publicly listed	31	1.538	1.000	0.761	16.13 %
Panel G: Government as an owner					
1 – Co-operative	6	2.000	2.000	n/a	83.33 %
2 – Government-owned	10	2.600	3.000	1.673	50.00 %
3 – Family-owned	22	1.250	1.000	0.500	81.82 %
4 – 100 % owned subsidiary	35	1.600	1.000	1.075	71.43 %
5 – Joint company	6	1.667	2.000	0.577	50.00 %
6 – Private equity investor	13	1.333	1.000	0.577	76.92 %
7 – Publicly listed	29	1.385	1.000	0.650	55.17 %

TABLE 1. Continued

	N	Mean	Median	Std. dev.	Not relevant (%)
Panel H: Family owners					
1 – Co-operative	6	2.000	2.000	n/a	83.33 %
2 – Government-owned	9	2.667	3.000	1.528	66.67 %
3 – Family-owned	23	3.238	4.000	1.375	8.70 %
4 – 100 % owned subsidiary	36	2.250	2.000	1.390	55.56 %
5 – Joint company	6	1.000	1.000	n/a	83.33 %
6 – Private equity investor	13	2.286	2.000	1.254	46.15 %
7 – Publicly listed	31	2.682	3.000	1.323	29.03 %
Panel I: Finnish institutional owners					
1 – Co-operative	6	3.333	4.000	1.155	50.00 %
2 – Government-owned	10	2.667	3.000	1.528	70.00 %
3 – Family-owned	21	1.750	1.000	1.500	80.95 %
4 – 100 % owned subsidiary	36	1.643	1.000	0.929	61.11 %
5 – Joint company	6	2.500	2.500	0.707	66.67 %
6 – Private equity investor	13	3.375	4.000	1.598	38.46 %
7 – Publicly listed	31	2.767	3.000	0.971	3.23 %
Panel J: Other Finnish owners					
1 – Co-operative	6	3.000	3.000	1.225	16.67 %
2 – Government-owned	9	3.000	3.000	1.000	66.67 %
3 – Family-owned	22	3.167	3.500	1.472	72.73 %
4 – 100 % owned subsidiary	35	1.933	1.000	1.280	57.14 %
5 – Joint company	6	3.600	4.000	0.548	16.67 %
6 – Private equity investor	14	3.333	3.000	1.225	35.71 %
7 – Publicly listed	31	3.033	3.000	0.964	3.23 %
Panel K: Foreign owners					
1 – Co-operative	6	3.000	3.000	n/a	83.33 %
2 – Government-owned	10	2.500	2.500	2.121	80.00 %
3 – Family-owned	21	2.200	2.000	1.304	76.19 %
4 – 100 % owned subsidiary	37	3.848	4.000	1.093	10.81 %
5 – Joint company	6	4.333	4.000	0.577	50.00 %
6 – Private equity investor	14	3.500	4.000	1.069	42.86 %
7 – Publicly listed	30	3.310	4.000	1.004	3.33 %

government and unions are 1.699 and 1.798, respectively. This is not surprising, given that long-term viability and employment should be more important than profitability for the unions, and maybe for the government as an owner as well.[14]

14 Since lay-offs create tax income losses and unemployment costs for governmental / municipal owners, the net effect of a lay-off induced improvement in corporate profitability is ambiguous for these owners.

Next, we analyze the sources of pressure separately for the ST and LT firm groups in order to test our first hypothesis. It suggests that ST firms are more subject to short-term pressure from market (analysts) and well diversified "marginal" investor sources (Finnish institutional owners and foreign owners) as compared to LT firms, while LT firms are relatively more subject to pressure from their specific owner types. Tests are done using standard parametric tests of equality of means in two unpaired groups with heteroscedastic variance. The same test is employed throughout the paper unless otherwise stated. Results are reported in Panel B in Table 1.

As expected, LT firms are – relative to ST firms – significantly more sensitive to pressure from owner categories such as the government (an average of 2.000 as compared to 1.483, t-value of 2.22 for the difference) and family (3.120 vs. 2.435, t-value of 2.60), and less sensitive to market-based forces such as analysts (1.950 vs. 3.458, t-value of –6.39), and foreign owners (2.375 vs. 3.616, t-value of –5.12).[15] Finnish institutional owners also provide less pressure to LT firms, but this difference is statistically insignificant. Overall, our results indicate that the main owner type matters, especially if it is more permanent. Moreover, ST firms seem to be subject to more pressure also from market forces (analysts) and perceived marginal owners (foreign investors).

Panels C to K in Table 1 report results for each stakeholder type, in each case divided into responses by firms from seven ownership categories. Of these, panels C, E and F deal with pressure from media, politicians, and workers and their unions. Our hypothesis 2 addresses these other stakeholders. More explicitly, we expect that government / municipality owned firms face more pressure from media, politicians, and workers and their unions than other firms. This hypothesis receives some support. The pressure felt by government / municipality owned firms from media is 2.778 (vs. the overall average for other firms 2.485), from politicians 2.286 (vs. other firms 1.803, and from workers and their unions 2.000 (vs. other firms 1.770). Thus, the differences are in line with the expectations. However, none of the values is statistically different at any meaningful level of significance (results are not reported). Therefore, we do not find statistically significant support for our hypothesis 2.

Further analysis of each type of stakeholder reveals some interesting details. Of the categories not representing direct owners or marginal owners, short-term pressure created by both *Media* (Panel C) and *Politicians* (Panel E) are found to be the highest for the co-operatives and jointly owned companies. Possible explanations for this are that there may be politicians in the boards (or supervisory boards) of co-operatives, and that joint companies are in industries with high public interest, e.g. utilities. As expected, *Analysts* (Panel D) create mostly short-term pressure for publicly listed companies (3.800) and 100 per cent owned subsidiaries (3.267) whose owners are typically listed. *Workers and their unions* (Panel F) generally do not cause particularly

15 Note that the anonymous respondent is excluded from the tests and thus the sum of ST and LT sample sizes equals the full sample size minus one.

high short-term pressure on companies. This result is also as expected, as maximizing the financial result in the short-run even at the cost of long-term viability would be against their interest.

In actual ownership categories (Panels G to K), results are broadly in line with the position that the main owner or the marginal owner category puts the highest pressure on firms in that same category. E.g., *Government* (Panel G) seems to be causing highest short-term pressure on government-owned companies (2.600), and *Family owners* (panel H) are the biggest source of short-term pressure on family-owned companies (3.238). *Finnish institutional owners* (Panel I) put surprisingly high short-term pressure on both venture capitalist owned companies (3.375), and co-operatives and mutual insurance companies (3.333). In the first case, this may be explained by the fact that it is common in Finland for institutional investors to invest in private equity funds, or are at least be the marginal investors of such firms. *Other Finnish* (Panel J) and *Foreign owners* (Panel K) put highest short-term pressure on jointly owned companies (3.600 and 4.333, respectively). However, samples are small in these two categories.

In summary, we report strong support for our hypothesis 1, i.e. that main and marginal owners are the main source of short-term pressure. Our hypothesis 2, that the pressure from other external forces such as media and politicians are stronger for companies of public interest, does not obtain statistically significant support.

4.2 Management compensation and short-term pressure compromising long-term goals

Besides ownership, other factors influencing the degree of short-term pressure facing the management include the degree of corporate governance in the firm in general, and specifically the management's compensation system. Our hypothesis 3 concerns the relationship between the time horizon of the compensation system, and the degree of short-term pressure felt. We expect that LT firms use management compensation plans with longer horizons, and focus more on long-term profitability and growth, instead of current valuation or operational cash flow. Moreover, we expect that the short-term pressure felt is lower in firms whose management compensation systems have longer horizons.

The respondents in our survey were asked "What time horizon is emphasized in the compensation plan for your top management?". They were given four alternatives to choose from (one, two, or 'three years or longer') over which the executives are evaluated in their compensation plans. If the respondent marked more than one period length, both were included. In these cases the response was often accompanied with an explanation indicating that the compensation is based on, e.g., both on one and three year performance.

Table 2 reports the results. The results in Panel A show that in vast majority of the responses (114 out of 146) the horizon of management's performance evaluation is mainly based on results

TABLE 2. Horizon of the management compensation plan
Respondents were asked what is the time horizon on which the company's compensation plan for the top management is mostly based on. Available alternatives included 1 year, 2 years, 3 years, or more than three years. Panel A reports the number of responses for each alternative together with their relative share of the total number of responses for the full sample as well as long and short-term investors. Panel B reports the number of responses for each alternative, separately for seven different ownership categories. *N* ***indicates the number of responses.***

	N	1 year	2 years	3 years	> 3 years
Panel A: All respondents					
All	146	114	8	18	6
(% of responses)		78.08 %	5.48 %	12.33 %	4.11 %
Long-term owners	42	34	1	4	3
(% of responses)		80.95 %	2.38 %	9.52 %	7.14 %
Short-term owners	104	80	7	14	3
(% of responses)		76.92 %	6.73 %	13.46 %	2.88 %
Proportion of LT responses in answer category	28.77%	29.82%	12.5%	22.22%	50.00%
Panel B: Categorized with respect to ownership type					
1 – Co-operative	11	11	0	0	0
2 – Government-owned	8	6	0	2	0
3 – Family-owned	23	17	1	2	3
4 – 100 % owned subsidiary	45	40	0	4	1
5 – Joint company	6	5	0	1	0
6 – Private equity investor	16	14	1	1	0
7 – Publicly listed	37	21	6	8	2

calculated over one year. In only about sixteen per cent of the companies, evaluation of performance over three years or more is used. These results are somewhat worrying, as they indicate that management compensation tends to favors actions that lead to short-term result improvements.

Panel A of Table 2 also reports the results for LT and ST sub-samples. The differences are generally small. LT firms are slightly more commonly represented among the respondents both in the short end (1 year) and long end (more than 3 years) categories. Panel B shows the results categorized according to the ownership type. The results do not offer any major surprises. Publicly listed and family-owned companies use slightly more often performance calculated over a couple of years. The better possibility to use options and share based payments in these firms (as compared to e.g. co-operatives) can be one reason for the result. In general, these results fail to support the idea that LT firms use compensation plans with significantly longer horizons.

The respondents were also asked to indicate the most important measures used to evaluate management's performance. A list of five different measures was given, with an option to provide a sixth one. Available alternatives included i) relative profitability (e.g., ROI, ROCE), ii) profit level (e.g., EBITDA, EPS), iii) stock price or company market value, iv) growth, and v) operational cash flow. Besides indicating whether a particular measure was used, the respondents were also asked to rank the measures used (one being most important, two being next most important etc.). If the respondent marked his or her choices with an 'x' instead of indicating their rank, all marked items where given the same priority (one). Furthermore, if the respondent gave an additional criterion and it was clearly related to one of the provided criteria, manual correction was made.[16]

Since market-based measures should be more forward-looking due to their stock price component than historical profit figures, we expect that LT firms use them more frequently. In addition, the growth rather than immediate profits may be more acceptable as an (intermediate) target in firms with a long-term (ultimately market value maximizing) strategy.

Results are reported in Table 3. Panel A shows that an "absolute" profit variable (unrelated to capital invested) such as EBITDA or EPS is the most commonly used measure (123 companies report that it is used in their company) followed by relative profitability (105 companies) and growth (91 companies). For the majority of the firms, profit was also ranked as the most important one (obtaining an average rank of 1.336 among the 123 firms using it as one of the measures, with 72 per cent raking it as the highest), followed by relative profitability (an average rank of 1.924, with 41 per cent out of firms using it ranking it as the most important). Five firms use "other" measures such as customer satisfaction, or Balanced Scorecard.

Results in Panel B report the frequency of inclusion of the different performance measures in executive compensation schemes of firms with different ownership structures. There are no major surprises. A valuation-based measure (stock price / market value) occurs often in listed firms (with 53 per cent of listed firms using it as one of the measures). Operational cash flow is most common among family firms and private equity firms, perhaps because these are most financially constrained – family firms because of unwillingness to dilute ownership to outside owners, and private equity firms because of high leverage. Co-operatives in turn seem to be least interested in using cash flow as a criterion. Growth is also less seldom used in co-operatives, whereas it is most often included as a criterion in joint companies and firms with significant private equity ownership.

In Panel C, we report which performance measure is ranked as the most important one by each firm type. In terms of the relative weight put on the different criteria, and when looking only at measures used more often than four times per group, all firms independent of ownership type

16 Typical cases included EVA (changed to answer number 2), options (changed to answer number 3), and sales growth (changed to answer number 4). EVA could have been assigned also to category 1 since it is based on the company's profit. However, it utilizes information of a rate-of-return requirement i.e. is also a measure of relative profitability, which supports the choice made here. There were altogether four "EVA"-answers, two among listed firms, one for a firm owned by private equity investors, and one for a 100% owned subsidiary.

TABLE 3. Key criteria in management compensation plan
Respondents were asked to indicate the performance measures are used in the top management compensation plan as well as to indicate their importance from one (most important) to six (least important). Five different alternatives (listed in Panel A) were provided with an option to provide additional measures. Panel A reports the results for the full sample. N indicates the number of responses that include the measure in question. Priority (N) indicates the number of responses giving particular priority for the measure in question (smallest given priority was five). Mean reports the average priority given. Panel B reports the mean separately for seven different ownership types (1 = Co-operatives; 2 = Government-owned; 3 = Family-owned; 4 = 100% owned subsidiary; 5 = Joint company; 6 = Private equity investor owned; 7 = Publicly listed). Panel C reports the average rank of the measure according to owner type.

		Priority (N)					
	N	1	2	3	4	5	Mean
Panel A: All respondents	142						
Relative profitability (ROI etc.)	105	43	37	17	6	2	1.924
Profit (EBITDA, EPS etc.)	123	89	27	4	2	0	1.336
Stock price / market value	51	6	4	14	5	22	3.647
Growth	91	9	31	27	20	4	2.769
Operational cash flow	76	11	12	29	20	4	2.921
Other	5	4	1	0	0	0	1.200

Panel B: Numbers and percentages of respondents in ownership category using a performance measure

	Ownership type						
	1	2	3	4	5	6	7
Relative profitability (ROI etc.)	8 (73%)	5 (56%)	18 (78%)	34 (79%)	5 (71%)	9 (60%)	25 (74%)
Profit (EBITDA, EPS etc.)	9 (82%)	9 (100%)	20 (87%)	35 (81%)	7 (100%)	15 (100%)	27 (79%)
Stock price / market value	3 (27%)	1 (11%)	8 (35%)	15 (35%)	1 (14%)	4 (27%)	18 (53%)
Growth	7 (64%)	4 (44%)	17 (74%)	26 (60%)	6 (86%)	12 (80%)	19 (56%)
Operational cash flow	6 (55%)	2 (22%)	16 (70%)	23 (53%)	4 (57%)	10 (67%)	15 (44%)
Other	2 (18%)	0 (0%)	0 (0%)	1 (2%)	0 (0%)	1 (7%)	1 (3%)
N	11	9	23	43	7	15	34

Panel C: Mean ranking with respect to ownership type

	Ownership type*)						
	1	2	3	4	5	6	7
Relative profitability (ROI etc.)	1.875	2.400	1.778	1.853	1.400	3.111	1.720
Profit (EBITDA, EPS etc.)	1.333	1.111	1.300	1.514	1.429	1.133	1.296
Stock price / market value	*5.000*	*3.000*	4.375	3.667	*4.000*	*3.750*	3.111
Growth	2.714	*2.500*	3.059	2.500	3.167	2.583	2.947
Operational cash flow	2.833	*1.000*	3.438	2.696	*3.500*	2.400	3.200
Other	1.500	n/a	n/a	1.000	n/a	1.000	1.000

*) Measures used less than five times per group are in italics.

on average rank profit as the highest.[17] Most firms also rank relative profit as number two, with the exception of private equity firms, who rank both growth and cash flow higher, and relative profitability and market valuation lower. This goes partly against our expectations, since we had categorized private equity firms as ST firms. The rankings of cash flow high, and relative profitability low, are in line with our expectation, whereas the rankings for growth (high) and market valuation (low) are not.

Finally, we perform tests of our hypothesis 3 by calculating the average for the short-run pressure felt first by firms with compensation horizons of one year versus the rest of the firms, and then by firms using growth of market value as a criteria versus the others. The results show that, even though firms with compensation horizon of one-year feel higher short-term pressure (2.870) compared companies with longer horizon (2.690), the difference is not statistically significant. The difference in the short-term pressure between those companies using the stock price (market value) as one of their compensation criteria, and those not using it, is in turn statistically significant (4.250 vs. 2.663 with a p-value of 0.3 per cent from the t-test).

In general, the results in this section indicate that there is little variation in management compensation systems, and no significant relationship between the level of short-run pressure felt, and the horizon of the compensation system. The results are in contrast to our hypothesis 3, but they support Graham et al. (2006) who find that management compensation was not the main driver (not as important as e.g. career concerns) of the management's short-run focus.

4.3 Actions taken to adjust to short-term pressure compromising long-term goals

Liljeblom and Vaihekoski (2009) asked the respondents to indicate what actions have they taken to alleviate the short-term pressure. A list of alternatives was given. Their results show that short-term pressure affects most strongly decisions concerning the required rate of return (or payback period) for the investments (average response was 3.022 on a scale from 1 very little to 5 very much). Management compensation design (2.676) and financial reporting (2.667) obtained the second and third highest average scores as items influenced by the short-term pressure. Here we analyze the responses in more detail with respect to owner types.

We find some interesting cross-sectional variation.[18] Compared to other firms, government-owned companies report much stronger pressure to accommodate their dividend policy (average 3.375, as compared to averages between 2.000 and 2.714 for the others), long-term investments (3.000, as compared to values between 1.833 and 2.448), and corporate governance (3.333, as

17 It is motivated to look at measures used relatively more often, since a high average rank for an infrequently used measure can e.g. be produced by only one firm who uses it, and ranking it as the measure number one.
18 The detailed results are not reported here but can be obtained from the authors.

compared to values from 2.088 to 2.800). Government owned firms also have the highest average score for the required rate of return (3.500). One can only speculate the reasons behind these results, but it seems likely that they are at least partly driven by the official guidelines set by the government for its companies.

Private equity investors, in turn, deviate to some extent more from the others in terms of a high score of 3.200 for compensation design (as compared to values between 2.100 and 2.912 for the others) and financial reporting (3.400 as compared to 1.700 to 3.000). They also have the highest average scores for capital structure (2.667), and personnel hiring / firing decisions (2.867). Again, one can only speculate on the reasons, but it seems that private investors emphasize the role of the compensation design and financial reporting in the management as a means to reduce the agency conflict. They have also more leeway in deciding the appropriate capital structure.

Concerning corporate actions, share repurchases have more recently been much in focus when studying earnings management methods used to improve EPS in the short-term (see, e.g., Gaspar et al., 2005; Hribar et al., 2006; Marquardt et al., 2009). We asked separately the respondents whether the company had done share repurchases or not. Respondents were given three choices: often, occasionally, and no. Furthermore, they were asked to indicate what kind of reasons they had for the repurchases, in case they had done some. Again, they were given a list of alternatives, with an opportunity to add their own method(s). The results are reported in Table 4.

The results show that only 40 companies (27.40 per cent) out of 146 companies who responded to this question have done share repurchases at least occasionally. Share repurchases have been more common for the companies in the ST category as 33.34 % of the ST companies gave a non-negative answer as opposed to 16.33 per cent of the LT companies. We use Pearson's chi-square test to test for the null hypothesis that the frequency of at least occasional share repurchases is equal between LT and ST companies. The test statistic shows that the difference is statistically significant (a p-value of 3.2 per cent). Thus the result support our fourth hypothesis, although one has to remember that this results is likely to be driven by the fact that all listed firms are included in the ST category.

The most common reasons for repurchases include development of the company's ownership structure (16 companies, 40 per cent), development of the company's capital structure (13 companies, 32.50 per cent), and company stock undervaluation (10 companies, 25 per cent). Surprisingly, only two companies quote tax reasons as a motivation for repurchases. In the academic literature share repurchases has been mostly explained by tax advantages over dividend payouts.

None of the companies indicates that share repurchases have been the wish of domestic investors and only three companies quote foreign owners' wishes as the reason for the repur-

TABLE 4. Share repurchases
Respondents were asked to indicate whether the company has repurchased its shares. Available alternatives included often, occasionally, and no. If the answer was often or occasionally, the respondents were asked to indicate what were the main justifications for the repurchases. Eight different alternatives were provided with an option to provide additional justifications. Panel A reports the results for the first question. Reported values indicate the number of responses together with their percentage share first for all respondents and then for LT and ST groups. Panel B reports frequency of a justification being marked as a reason for repurchases. Percentage value indicates the popularity of each justification among companies who have done share repurchases.

	N	Often	Occasionally	No
Panel A: Has the company done share repurchases?				
All	**146**	**4**	**36**	**106**
		2.74 %	**24.66 %**	**72.60 %**
LT	**49**	**0**	**8**	**41**
		0.00 %	**16.33 %**	**83.67 %**
ST	**96**	**4**	**28**	**64**
		4.17 %	**29.17 %**	**66.67 %**
Panel B: Justifications for repurchases	**N (all)**	**% (all)**	**N (LT)**	**N (ST)**
Wish of foreign investors	**3**	**7.50 %**	**0**	**3**
Stock undervalued	**10**	**25.00 %**	**0**	**10**
To improve accounting ratios	**1**	**2.50 %**	**0**	**1**
Wish of domestic investors	**0**	**0.00 %**	**0**	**0**
Tax reasons	**2**	**5.00 %**	**0**	**2**
Development of the capital structure	**13**	**32.50 %**	**0**	**13**
More flexible than dividends	**9**	**22.50 %**	**0**	**9**
Development of the ownership structure	**16**	**40.00 %**	**7**	**9**
Other	**5**	**12.50 %**	**0**	**5**

chases. Similarly, the aim to improve company's accounting ratios was quoted only in one case. Other reasons for the share repurchases included acquisitions, a generation shift, and acquisition of shares to be used in executive compensation plans.

The results also show that LT firms use share repurchases only to develop their ownership structure (seven responses, one company did not indicate the justification for share repurchases), whereas ST companies had more diverse reasons for the repurchases.

4.4 Active management of company ownership structure

Our last hypotheses 4 and 5 concerns active company ownership management. We want to study whether ownership structure in LT firms is driven by active ownership structure management on the behalf of management of the firm.

There can be several reasons behind active ownership management. If certain owners are more patient i.e. willing to hold on to their investments longer, attracting such patient investors may be in the company's interest. This can be motivated e.g. by lower costs (due to the stability of ownership). However, alternative motives for active ownership management may also exist. Namely, that management may prefer stability in ownership as it may remove part of the principal-agent pressure.

To study the extent of ongoing ownership management, and its potential determinants, we asked the respondents if the company had actively tried to influence its ownership structure.[19] Respondents were given three choices: yes, to some degree, or no. Furthermore, they were asked to indicate what kind of methods they had used. Again, a list of alternatives was given, with an opportunity to add additional method(s). The respondents could choose multiple alternatives from the list. The results are reported in Table 5.

Somewhat surprisingly, the results show that 58 companies representing 39.46 per cent of respondents (147 for this question) had been involved in management of their ownership structure at least to some degree. As expected, active ownership management is clearly more common for the companies in the ST category, as almost half of them gave a non-negative answer to the question (47.96 % vs. 20.84 %).[20] The results is consistent with the intuition as one would expect some of the firms in the LT category to already have such an ownership structure (family firms and government owned) or firm type (co-operatives), that rapid changes in it are unlikely, and the firms therefore have lower incentives to use active ownership management.

The difference in LT and ST categories' responses is statistically significant (a p-value of 0.2 per cent from a Chi-square test), supporting our hypothesis that firms suffering more from short-term pressure have a higher need to attract longer term investors. However, one should be cautious when analyzing this issue since firms with different ownership structures may have different possibilities to influence their ownership structures. [21] We also find that, those companies that have tried to influence their ownership structure experience higher short-term pressure (3.093 vs. 2.645). The difference is statistically significant (a p-value 3.0 per cent).

The most commonly used method has been dividend policy (used in 55.17 per cent of the companies using active ownership management) followed by investor meetings (48.28 per cent),

19 The exact phrasing of the question was "Has your company actively tried to influence the development of its ownership structure over long-term?"

20 Some of the long-term firms can already e.g. have such an ownership structure (family firms and government owned) / firm type (co-operatives), that rapid changes in it are unlikely, and the firms therefore have lower incentives to use active ownership management.

21 E.g., many of the firms in our LT category (such as government owned and 100% owned subsidiaries) totally lack such possibilities as long as the main owner is unwilling to sell off. On the other hand, also firms in the other end of the spectrum of our classification, publicly listed (ST) firms, may have limited opportunities to influence their ownership structure, since they are always subject to at least some takeover threat.

Table 5. Active ownership structure management
Respondents were asked to indicate whether the company has actively been involved in developing the company's ownership structure. Available alternatives includes yes, to some degree, and no. If the answer was 'yes' or 'to some degree', the respondents were asked to indicate what kind of method(s) they had used. Nine different alternatives (listed below in Panel B) were provided, with an option to provide additional methods. Panel A reports the results for the first question. Reported values indicate the number of responses together with their percentage share first for all respondents and then for LT and ST groups. Panel B reports frequency of each method being used among those who did not answer 'no'. Percentage values indicate the popularity of each method among companies actively managing their ownership structure.

	N	Yes	To some degree	No
Panel A: Has the company tried to influence ownership structure				
All	147	18	40	89
		12.24 %	27.21 %	60.54 %
LT	48	2	8	38
		4.17 %	16.67 %	79.17 %
ST	98	16	31	51
		16.33 %	31.63 %	52.04 %
Panel B: Method of management	**N (all)**	**% (all)**	**N (LT)**	**N (ST)**
Dividend policy	32	55.17 %	8	24
Various certificates	9	15.52 %	0	9
Investor meetings	28	48.28 %	2	26
Public information releases	27	46.55 %	2	24
Stock issues	9	15.52 %	1	8
Marketing / customer benefits	3	5.17 %	1	2
Financial reporting	23	39.66 %	3	19
IPO	10	17.24 %	1	9
Development of Corporate Governance	13	22.41 %	2	10
Other	5	8.62 %	1	4

and reporting practices (37.93 per cent). The least used methods are marketing and customer benefits[22] (5.17 per cent), various certificates, and stock issues (both at 15.52 per cent). Other methods provided by the respondents included generation shift (in a family firm), exit from the private equity investor (no exit method mentioned), and potential trade sale.

We also report the methods separately for the LT and ST categories. Dividend policy is clearly the main method of active ownership management for the LT companies, whereas investor meetings, public information releases, as well as the dividend policy are the most common methods for ST companies.

22 These could include, e.g., issuing stocks or options to customers with purchases in excess of certain limit. Alternatively, company could offer rebates or cash-back bonuses to its owners.

5. CONCLUSIONS

Evidence on earnings management and value destroying short-term decisions has been reported in several studies (e.g. by Graham et al., 2006). We contribute to that literature by studying the actual forces driving managers to short-sighted decisions which may compromise the company's long-term goals. Using a unique set of survey data for Finland, where ownership characteristics exhibit a wide variation among the 500 largest (but not necessarily listed) firms, we provide detailed evidence on ownership and stakeholder categories that are causing such short-term pressure for the management of the firm.

The overall pressure for short-term profitability compromising long-term goals is significantly lower among firms with allegedly more long-term owners, and where the ownership structure can be expected to be more permanent (see Liljeblom and Vaihekoski, 2009). In such firms, the relevant categories influencing the firm are also more clearly the current main owner categories (such as family, and the government/municipalities). In the other extreme, in firms where owners represent owner types often claimed to have a more short-term focus (such as institutional investors in listed firms, or activists), the pressure is higher, and the relevant categories influencing the firm include not only the current investor categories, but also marginal / potential owners, as well as financial analysts from the capital markets.

Besides ownership, factors such as management compensation systems can influence the length of the decision horizon of the firm. We find that there is very little variation in compensation systems, and no significant relationship between its horizon and the magnitude of the short-term pressure felt. Our results are thus in line with Graham et al. (2006), who find that management compensation has a smaller impact on managers interest than e.g. career concerns.

Finally, we also analyze the degree to which companies use share repurchases and active ownership management to adjust to short-term pressure compromising long-term goals. We find that firms experiencing higher short-term pressure have more often engaged in share repurchases and active ownership management. The most commonly used methods in ownership management are dividend policy, investor meetings, and public information releases.

This study brings new evidence on how the management perceives and adjusts to short-term pressure compromising long-term goals, coming from different sources. Understanding how different shareholders and stakeholders influence corporate actions is important when designing corporate governance mechanisms for the firm. In addition, the investors gain better understanding of firms' behavior if they know what to expect from a firm, given that the firm is controlled by a certain type of influential owner such as an activist, the government, or by institutional owners. From a practical point of view, the results may also help companies to focus their actions and their active ownership management towards the marginal shareholders that are considered best fitted for the firm. ■

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APPENDIX

1. Have you felt that short-term expectations coming from outside the company for frequent improvements in the company's profitability has created a conflict with your company's long-term goals?

a little 1	2	--- 3	4	a lot 5	not relevant 0

2. If yes, how much the following stakeholders have caused your company short-term pressure?

	a little 1	2	--- 3	4	a lot 5	not relevant 0
Media						
Analysts						
Politicians						
Government-owner						
Family owners						
Finnish institutional owners						
Finnish owners (other)						
Foreign owners						
Workers and their unions						

3. Largest weight in you top managements compensation plan is based on measures calculated over …

1 year	2 years	3 years	>3 years	Additional explanation, if required

4. Has your company actively tried to influence the development of its ownership structure over long-term?

Yes	To some degree	No

If yes or to some degree, used methods:

Dividend policy	**Different certificates**	**Investor meetings**	**Other methods, what?**
Tiedottaminen	**Issues**	**Advertizing**	
Reporting	**Public listing**	**CG development**	

5. Have you done share repurchases?

Often	Occasionally	No

If often or occasionally, the main reasons are:

Wish of foreign owners	**Stock under-valued**	**To improve financial ratios**	**Other reasons, what?**
Wish of Finnish owners	**Tax reasons**	**Development of capital structure**	
Flexibility if compared to dividens		**Development of ownership structure**	