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

Researchers have reported 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. Using survey data for a sample of large firms in Finland, we provide new evidence on who causes such short-term behavior, and what effects it has on companies.

We find significant differences in the perceived short-term pressure (i.e. pressure that may compromise company's long-term goals) caused by different shareholder and stakeholder categories such as families, activist owners, or market forces (financial analysts). The highest source of short-term pressure compromising long-term goals comes from foreign owners, then from 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. In particular, we analyze in more detail the effects of short-term pressure compromising long-term goals on management compensation, active ownership management and dividend policy / share repurchases. 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, the results were less clear regarding the compensation design. 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.