

OWNERS' WAY OR THE HIGHWAY: SHORT-TERM EXPECTATIONS AND OWNER IMPATIENCE

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2007

Comments are welcome.

ABSTRACT

Increased media exposure to layoffs and corporate quarterly financial reporting have created arguable a common perception – especially favored by the media itself – that the companies have been forced to improve their financial performance from quarter to quarter. Academically the relevant question is whether the companies themselves feel that they are exposed to short-term pressure to perform even if it means that they have to compromise company's long-term future. This paper studies this issue using results from a survey conducted among the 500 largest companies in Finland. The results show that companies in general feel moderate short-term pressure, with reasonable dispersion across firms. There seems to be a link between the degree of pressure felt, and the firm's ownership structure, i.e. we find support for the existence of short-term versus long-term owners. We also find significant ownership related differences, in line with expectations, in how such short-term pressure is reflected in actual decision variables such as the investment criteria used.

KEYWORDS: impatience, short-termism, investment, compensation, share repurchases, ownership, Finland

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

EFM Classification: 110, 150, 220

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1 INTRODUCTION

The importance of institutional owners has increased considerably over the last years.¹ Institutional owners, such as pension funds and mutual funds, share many characteristics that set them apart from individual investors. They often have strict guidelines for the portfolio weights for individuals stocks, bias their portfolios towards highly liquid stocks², and tend to rather vote with their feet (sell off their shares) than try to influence corporate strategy through proxy voting at the annual general meeting. It has often been suggested that such behavior leads to managerial myopia, i.e. shortsighted corporate decision making. Fragmented evidence of owner myopia has also been produced in several studies. Earlier research findings indicate that frequent trading and short-term focus of institutional investors may (1) encourage managers to sacrifice long-term investments such as R&D to meet current earnings targets (Bushee 1998), lead to (2) dividend avoidance / a preference for share repurchases (Gaspar et al. 2005a), (3) excess volatility (Sias 1996, Bushee and Noe 2000), and a weaker bargaining power in corporate acquisitions (Gaspar et al. 2005b). Finally, shortsighted investment behavior can weaken governance mechanisms of a firm and thereby lead to e.g. higher levels of managerial compensation (Clay 2000). Whereas these results are typically obtained using U.S. data, Segelod (2000) finds in a survey of Swedish firms, support for much less pressure for short-term behavior as compared to the U.S.

Contrary to the earlier studies, focusing on one consequence of owner myopia at a time, and separating between institutional and other owners, we study both the origins of such short-term pressure, and its consequences with respect to several corporate decisions, in a sample of firms with several different forms of ownership. We combine three sources of data: (1) survey data on perceived pressure for short-term decisions, and corporate reactions to it, (2) financial data on actual firm characteristics and performance, and (3)

¹ For example, Gompers and Metrick (2001) document that institutional investors have nearly doubled their holdings in U.S. stocks since 1980. Puttonen (2004) reports, that in Finland the domestic household investors' share of the market capitalization has decreased from about 40% in 1985 to less than 20% today.

² For the determinants of such portfolio investments, see e.g. Dahlquist and Robertson (2001), and Liljeblom and Löflund (2005).

data on detailed ownership structures. Our data set is the respondents (149 firms) in a survey, directed the 500 largest companies in Finland conducted in June 2006.³

We contribute to the previous literature in several ways. First, we report combined results on both perceptions as well as actions. Second, we study multiple different corporate decisions in a much richer ownership setting as is customary, since our data set includes both widely held stock listed companies, foreign subsidiaries, state and municipality owned firms, as well as firms owned by their customers such as mutual insurance companies and co-operatives. Third, to the body of literature on U.S. markets, we bring some complementing evidence from a small Nordic country, which may have experienced the pressures for short-term behavior with a lag and hence may show more variation in the results. Finally, some of the questions studied are ones on which there is little prior evidence, such as the question of the various sources, also the ones related to media and society and not the owners themselves, of perceived pressure for short-term behavior.

We find that companies in general feel moderate short-term pressure, with reasonable dispersion across firms. We analyze the effect of ownership on pressure felt, both using seven different ownership types, as well as only two broader groups: short-term and long-term owners. There are significant links between the degree of pressure felt, and the firm's ownership structure, i.e. we find support for the existence of shorter and long-term owners. We also find significant ownership related differences, in line with expectations, in how such short-term pressure is reflected in actual decision variables of the firm. When it comes to adjusting to pressure, the most active ones are firms owned by private equity investors, whereas co-operatives feel the lowest need to do so. The decision most affected by short-term pressure seems to be the choice of the rate of return required in investment decisions. For this decision variable, there is a significant difference between the averages used by short-term firm (17.1 per cent) versus long-term firms (12.8 per cent).

The remainder of this paper proceeds as follows. In section 2, we discuss the related literature in more detail as well as develop testable hypotheses. The research design and methodology is presented in section 3. Section 4 presents the main empirical results

³ The 500 largest firms were selected on the basis of their turnover in 2005. These firms are annually analyzed by Talouselämä, a leading Finnish financial weekly magazine.

together with discussion of their implications. The final section concludes and offers some suggestions for further research.

2 PREVIOUS RESEARCH AND HYPOTHESES DEVELOPMENT

When investigating the relationship between short-term owners and corporate behavior, it is crucial to know which owner categories can be viewed as short-term ones. In prior literature, researchers have often studied the effects of institutional owners versus others. However, as noted by Gaspar et al. (2005b), institutional ownership is a mixed category as such, and may include both short-term mutual funds as well as long-term owners.⁴ Not surprisingly, there are two contrary views of the nature of institutional ownership. One view posits that a higher degree of institutional ownership leads to more efficient monitoring, and therefore to better governance (see e.g. Dobrzynski 1993, Monks and Minow 1995). The other view maintains that institutional ownership can also have several disadvantages such as a higher probability to manipulate earnings and preference for short-term projects.

When looking at institutional ownership as such, conflicting evidence of their monitoring ability has been detected. For example, Clay (2002) found evidence of higher salary levels, but also higher performance-to-pay sensitivities in firms with high institutional ownership, whereas Hartzell and Starks (2003) found that institutional ownership was positively associated to performance-to-pay sensitivities but negatively to the level of compensation. Similarly, whereas Sias (1996) found a positive relationship between institutional ownership and stock volatility, Bushee and Noe (2000) found that while higher disclosure firms had higher institutional ownership, the particular type of institutional investor attracted to greater disclosure had no net impact on volatility. However, when controlling for the trading behavior of the investor, increasing ownership by more ‘transient’ institutions seem to be followed by increases in stock return volatility.

Therefore, more recent studies have often used more sophisticated measures for investor short-termism than just the investor type. Using cluster analysis, Bushee (1998) developed a method to classify institutional investors into shorter and longer-term investors based on characteristics of their portfolio such as its concentration and turnover, and the trading

⁴ Moreover, the horizon of certain investor types can change 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.

sensitivity to current earnings. Using an indicator for short-termism, he found that high turnover and momentum trading by institutional investors encourages myopic investment behavior (lower corporate R&D investments) when such investors have extremely high ownership levels in a firm. Otherwise, institutional ownership rather reduces the pressures on managers' myopic investment behavior.

Later, the method of Bushee has been used in several studies of short-term behavior such as in the Bushee and Noe (2000) study of institutional ownership and volatility. Using the Bushee (1998) methodology, Dikolli et al. (2003) found that when investor horizons are short, the contracting weight of returns in executive compensation is positively associated with CEO horizon. This means that forward-looking measures are used in contracting to overcome the potential negative long-term effects of a misalignment of interests, when the CEO's and investors' horizons differ.

Other ways to identify 'transient' investors is to use either more straightforward portfolio turnover measures, or measures of holding periods. Using data on the turnover of the institutional investors' asset portfolios, Gaspar et al. (2005a) found that US short-term institutional investors have a higher propensity to buybacks i.e. a preference for them instead of cash dividends. Similar method was also used in Gaspar et al. (2005b). They found that target firms with short-term shareholders are more likely to receive an acquisition bid but get lower premiums, i.e. they have a weaker bargaining power in corporate acquisitions.

Holding period measures were in turn used by Bøhren et al. (2004), who studied ownership duration on the Norwegian market. They found e.g. that financial institutions and foreign owners had the shortest ownership durations, while industrial companies and the state stayed the longest. They actually found that firm performance generally decreased as ownership duration increased, but the results were sensitive to the type of owner. Whereas long-term ownership by financial institutions and industrial owners tended to hurt firm performance, the opposite was true for private ownership. Also controlling for the length of the holding period, Chen et al. (2005) in turn found evidence on institutional investor monitoring in acquisition decisions being value enhancing only when large stakes were held by a long-term or independent institutional investor.

Whereas these results are typically obtained using U.S. data, Segelod (2000) finds in a survey of Swedish firms, support for much less pressure for short-term behavior as compared to the U.S.

In this paper, we will first study the degree to which companies owned by different investor categories perceive that they are pressed to constantly, in the short-term, report increasingly good results. Using categories somewhat similar to those in Bøhren et al. (2004), we classify the firms into seven categories based on their ownership structure: fully-owned subsidiaries, co-operatives and other firms owned by their owners such as mutual insurance companies, state or municipality owned firms, family firms, firms owned by several industrial companies, firms with large private equity owners (controlling more than 40% of equity), as well as publicly listed firms.

Based on the expected transitory / more permanent nature of the ownership as well as prior research findings, we also divide the firms into firms with potentially more long-term (LT) and short-term (ST) owners. Family ownership is often pointed out as a more patient form of ownership / a type of ownership, which is favorable for the firm in the long term (e.g. Bøhren et al. 2004, Maury and Pajuste 2005). We therefore include family firms in the category of LT firms. Since government owned firms as well as co-operatives are likely to have multiple objectives i.e. objectives other than profit maximization (such as competitive prices in the long-run for the owners), we expect these firms to be less likely to sacrifice long-term goals for short-term profits, and therefore include them as well in the category of LT firms. Their ownership structure is also more permanently defined (the likelihood for corporate takeovers is low or nonexistent in this category), also motivating a lower expected likelihood for short-term pressure in this category.⁵

The category of ST firms will include firms with higher institutional ownership such as private equity firms and listed firms. Private equity investors have typically plans to exit

⁵ These firms may, however, suffer from corporate governance problems, so their inclusion in the category of LT firms does not in itself mean that they necessarily are expected to perform better. However, since in the first stage of study we are above all investigating perceptions of short-term behavior, not actual ex-post performance, this classification serves its purpose, since such firms may be expected to experience less pressure from their owners also because of weaker corporate governance.

within a rather short horizon such as within the next 2-3 years. We therefore expect that such firms have a strong focus on short-term restructuring activities and immediate performance improvements. Listed firms, in turn, are subject to short-term pressure due to a high ownership by mainly other types of short-term investors such as mutual funds, and other institutional investors (often foreign ones). We expect that such firms are more likely to forward this pressure also to their associated non-listed companies. We therefore include subsidiaries⁶ as well as firms owned by several industrial firms into the category of ST firms.

Concerning the general perceptions of short-term pressure, we expect these pressures to be higher for ST firms. Since ST firms are more transparent and owned by a larger investor base, we also expect that the sources for the pressure are to a higher degree purely market (well-diversified investor) related sources such as foreign investors and financial analysts. For LT firms, more pressure can be expected from the relevant (often less diversified) investor, and other influential stakeholder categories (political sources as well as media and unions for government owned firms, family for family firms, etc.). Our hypotheses are thus:

Hypothesis 1: ST firms are more subject to short-term pressure than LT firms.

Hypothesis 2: ST firms are relatively more subject to pressure from market and well diversified investor sources (analysts, Finnish institutional and other owners, foreign owners) whereas LT firms are relatively more subject to pressure from the relevant large investor and other influential stakeholder categories (media, politicians, government, family, workers and their unions).

Next, we analyze the actual actions undertaken because of short-term pressure. We expect that ST owners have in general undertaken more actions as compared to LT owners. Private equity controlled firms may represent one extreme in this sense, since they are likely to be the most exit-oriented in the short-term, and therefore most likely to restructure the firm (pay out excess cash, sell out off-spins, increase the leverage, retain from long-term

⁶ Many subsidiaries in the Talouselämä 500 list are owned by foreign owners, an owner category observed to be especially short-term oriented e.g. in Bøhren et al. (2004). Foreign subsidiaries are often the first ones to be shut down when firms are consolidating their activities. Therefore, the short-term pressure can be expected to be high in our sample for the subsidiaries.

investments, and more aggressively fire workers).⁷ Another interesting subquestion is the actions undertaken in government-controlled firm. For these firms, layoff decisions may be more difficult, and compensation design more subject to public criticism and therefore more conservative.

Hypothesis 3: ST firms have undertaken more actions to accommodate for short-term pressure.

Hypothesis 4: Private equity firms are expected to be the most aggressive ones when it comes to accommodate for short-term pressure.

Hypothesis 5: Government and municipally controlled firms are less likely to undertake aggressive layoff or compensation decisions based on pressures for good performance in the short-term.

Finally, we investigate questions relating to the horizon of executive compensation systems, share repurchases, and long-term investments including the discount rate used in the firm. We expect that LT firms use in general more forward-looking systems based on long-term profitability rather than immediate cash flow. We also expect that they 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 they have better possibilities for active ownership development, and that they have longer investment horizons with potentially lower required rates of return.⁸ Our hypotheses are thus:

Hypothesis 6: LT firms are using management compensation plans with longer horizons, and more focus on long-term profitability and growth, as compared to current valuation or operational cash flow.

⁷ 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.

⁸ A lower discount rate for LT firms can also be the result of potentially lower risks for these firms, since they may be operating in more protected sectors of the economy. For co-operatives, a lower required return can be the conscious result of a trade-off between higher profitability on one hand, and better offerings e.g. in the form of lower selling prices / higher purchasing prices for the customer- or supplier-owners of such firms on the other hand. The co-operatives among the Talouselämä 500 list include mutual insurance companies and banks, co-operative retail chains, as well as agricultural co-operative producers owned by their suppliers.

Hypothesis 7: LT firms are less likely to use share repurchases.

Hypothesis 8: LT firms are more likely to be able to develop actively their ownership structures i.e. the resulting ownership structure is at least partly the result of an active ownership policy.

Hypothesis 9: LT firms have longer investment horizons, longer payback periods and lower discount rates.

3 RESEARCH METHODOLOGY

To study the questions, we decided to conduct a survey using a mailed questionnaire (see Appendix). The questions in the questionnaire focus on three main areas: 1) respondents' opinion (perception) of the short-term financial pressure that the company faces, 2) what actions have the companies done to alleviate these pressures, and 3) questions concerning some actual decisions variables for the company such as payout policy (share repurchases), executive compensation, and investment practices. For comparison to earlier studies and to provide diagnostic variables, we also ask few additional questions concerning the companies' investment practices. To maximize the response rate, the questionnaire was designed to fit on one page only. 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 so warranted.

The survey was conducted among the 500 largest companies registered in Finland as listed by the Finnish weekly business magazine *Talouselämä* in May 2006. *Talouselämä* ranks companies on the list according to their turnover during year 2005. To make it to the list, the turnover had to be larger than 67 million euros. The largest company on the list was Nokia Corporation with a turnover of 34.2 billion euros.

The questionnaire was sent using the regular mail to companies' financial manager in early June 2006. If the financial manager could not be identified, the questionnaire was sent to the managing director. Respondents were promised total anonymity, i.e., their names or the company cannot be identified from the study although the company and the corresponding response were identifiable. However, this information was kept only to the authors of this study and the responses were recoded before giving the responses to the research assistant.

After the responses were collected into a database, it was matched with hand-collected corresponding information of the respondents' ownership type. Each responding company was given ownership-type category from the following list: 1) co-operative or mutual insurance companies, 2) 100 per cent government-owned companies (includes both state and municipal-owned companies), 3) family-owned companies, 4) 100 per cent owned subsidiaries, 5) companies owned jointly by several industrial and/or financial owners

(joint companies)⁹, 6) companies where at least 40% of the equity is owned by (one or many) private equity investors (or venture capitalists), and 7) publicly listed companies.¹⁰

Figure 1 shows the distribution of the companies on the basis of the ownership. Fully owned subsidiaries are most common companies in the sample representing 28.9 per cent of the companies. Publicly listed companies are the second most popular form of ownership in our sample representing 22.8 per cent of the sample. Publicly listed companies are slightly over-represented in our sample as only 16 per cent of the top 500 companies are publicly listed. Companies owned jointly by several firms represent the smallest ownership type in the sample with a presentation of 4.7 per cent of all respondents.

As noted earlier, we group companies into LT and ST categories on the bases of their ownership category. As a result, categories 1-3 are assigned into the long-term focus group (labeled henceforth as LT) and all other ownership categories as short-term owners (ST). LT-category includes 49 companies (32.9 % of all companies), and ST-category 99 companies (66.4 %). One company could not be assigned to either category. LT and ST-groups are used to analyze our hypothesis that companies' ownership and owners' patience has an effect on the results.

Finally, companies are also matched with their financial information to get some kind of insights into how the sample compares with the population. Financial information data is taken from ETLA's financial database for the 500 largest companies. It includes industry classification for all companies and over fifty financial figures for the companies collected from publicly available financial statements for year 2005. In many cases, however, certain financial information is either missing or not applicable.

⁹ Many of these companies are 50%-50% owned joint ventures by two industrial firms.

¹⁰ Category 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 1, co-operatives, includes a few cases where the company is not in itself 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).

4 EMPIRICAL RESULTS

4.1 Descriptive statistics

Descriptive statistics of the full population and our sample (respondents) can be found from Table 1. We received 149 responses in time for this study. They represent approximately 29.8 per cent of the total sample, and the response rate can be considered to be fairly high for this kind of studies.¹¹ One of the companies chose not to identify itself and therefore, it is removed from analysis where responses are matched with background information such as ownership.

Panel A reports the distribution of the ranking in the population and in our sample within one hundred company size quintiles. All quintiles represent twenty per cent of the companies in the population. In our sample, the second population size quintile (companies ranked 101–200) has the smallest representation of 18 firms. On the other hand, the maximum representation in our sample is 44 firms from the first population quintile. As a result, the largest one hundred companies may be slightly overrepresented in the sample (30.1 per cent vs. population 20 per cent) and the companies in the second quintile may be slightly underrepresented (12.1 per cent), but overall the populations can be said to be fairly well covered.

Panel B reports the averages of a few key financial statistics for the 500 largest companies as well as our respondents.¹² The average turnover for the top 500 companies is 591.2 million euros, whereas the average turnover for the companies in the sample is slightly larger, 741.2 million euros. Similarly, companies in the sample invested slightly more during 2005 than the top 500 companies on average (40.2 vs. 32.0 million euros) and they had more employees (2787 vs. 1920), but on the other hand they were slightly less profitable (13.6 vs. 28.4 million euros). The average market value of the responding

¹¹ Poterba and Summers (1995) had a response rate of 22.8 per cent in a similar study among 1000 US companies. Segelod (2000) had a response rate of 45 per cent with a sample of 130 Swedish companies. Graham and Harvey (2001) had a response rate of 9 per cent in their study among largest 500 companies in the USA. Liljeblom and Vaihekoski (2005) had a response rate of 32 per cent with a sample of 144 Finnish publicly listed companies.

¹² Note that not all financial items are available for all companies. In some cases, all financial information is missing due to the publication lag.

publicly listed companies (not reported) was at the end of 2005 slightly more than one billion euros.

4.2 Perceived financial short-term pressure

The first question in the questionnaire asked the companies to indicate the degree to which they have experienced financial short-term pressure, a pressure such that it is causing some conflict with the company's long-term goals. Respondents could choose between a value of 1 (very little) through to 5 (very much), or 0 (not relevant for the company).

Panel A of Table 2 reports the results first for the full sample and then for the two sub-samples, namely for those companies belonging to the long-term (LT) or the short-term (ST) ownership category. Altogether, we received 148 responses to this question. The great majority of the respondents felt that they have felt at least some short-term pressure even though 18 responses (12.16 per cent) answered that the question is not relevant for them. The average score given by companies who did not choose this question to be irrelevant was in the middle of the scale, i.e. 2.838. The median value of 3 shows that half of the companies experienced medium or higher short-term pressure, i.e. the question of short-term pressure among Finnish firms is not irrelevant.¹³ This average, together with a reasonable dispersion among the answers, thus offers a good starting point for further analysis.

As expected, the results for the LT and ST categories differ considerably. First, companies belonging to the long-term category were much more likely to answer that this question is not relevant for them (20.83 % vs. 8.03 %). Second, companies belonging to the LT category seem to be experiencing expectedly much lower short-term pressure (average response 2.289 with median value of 2) than those in the ST category (3.077, median 3).¹⁴ The average values differ statistically significantly from each other when tested using a *t*-

¹³ It is well known fact that one should be cautious in calculating the average and standard deviation for a variable measured on an ordinal scale. However, average is commonly used approach in similar studies and it is only used to suggest potential differences in different sub-samples. Similarly, standard deviation is mainly used to show the dispersion in the responses.

¹⁴ Note that 148 companies answered this question, but for one of them we could not identify ownership category leaving us with 147 responses for the ownership analysis.

test for two samples with unequal variances (a t-value of 3.74, significant at the 1% level).¹⁵ This also indicates that our grouping of the firms by ownership into ST and LT categories successfully partitions the sample in terms of pressure felt.

Panel B reports the results separately for each one of the seven ownership categories. We expected to see publicly listed, by private equity owned, and joint companies as well as 100% owned subsidiaries to show higher than average short-term pressure and respectively co-operatives, government-owned, and family-owned companies to show below average figures. As expected, co-operatives and family-owned companies show the lowest values, whereas listed firms, firms owned by private equity, as well as the subsidiaries show the highest values. Surprisingly, joint-owned companies show relatively low average short-term pressure, but the sample is small and the dispersion of the responses is high.

4.3 Sources of short-term pressure

Next we asked the respondents to indicate how much certain key stakeholders and interested parties are causing short-term pressure. Respondents were given a list of different actors and again they could choose a value between 1 (very little) and 5 (very much), or 0 (not relevant for the company) for each one. In few cases more than one answer were marked (typically a value between one and five and 'not relevant' option). In these cases the answer was excluded from the analysis. The results are reported in Table 3 for each stakeholder separately, first for the full sample and then for LT and ST categories followed by more detailed analysis for each ownership type. Percentage not relevant is the number of answers indicating not relevant divided by the total number of answers (N) for the particular question.

The results in Panel A show that the highest source of short-term pressure comes from the foreign owners (average response 3.463), then from the analysts (average response 3.129). Somewhat surprisingly, the media is not a major reason behind short-term pressure (average response 2.505) even though many people have voiced their concern that the quarterly reporting of the companies in the media is a major reason for the short-term bias

¹⁵ All later t-tests between means are calculated assuming for two samples with unequal variances.

in the companies' decision-making.¹⁶ On the other hand, media has the lowest percentage of “not relevant”- answers (14.4 per cent), i.e. few companies consider that the media is not at all guilty of creating short-term pressure.

Expectedly, the government (as an owner) and workers (and their unions) are not found to be major cause behind the short-termism. The average responses for the government and workers are 1.699 and 1.798, respectively. Indeed, it is in the best interest of both these stakeholder groups to advance companies' long-term viability and employment over short-term profitability even though these interests may not be compatible in all circumstances.

Next, we analyze the sources of pressure separately for the ST and LT firm groups (Table 2, panels B and C). As expected, LT firms are – relative to ST firms – more sensitive to pressure from special influential owner categories such as the government (an average of 2.000 as compared to 1.483, t-value of 2.36 for the difference) and family (3.120 vs. 2.435, t-value of 2.28), and less sensitive to external market / diversified investor forces such as analysts (1.950 vs. 3.458, t-value of -3.79), and foreign owners (2.375 vs. 3.616, t-value of -3.01). The results are also in line with our expectations of a higher pressure among LT firms from media (scores of 2.556 and 2.494 for LT and ST firms, respectively), politicians (1.944 vs. 1.818), and the unions (1.952 vs. 1.736), and lower for Finnish institutional owners (2.500 vs. 2.556), although these differences are marginal. Only concerning other Finnish owners, the results are contradictory to our Hypothesis 2, since we get a higher score for this ownership category within the group of LT owners (3.071 vs. 2.847), perhaps because of problems in categorizing owners.¹⁷

Next we analyze the responses with respect to the owner type. Results are reported in Panels D–L of Table 3. The short-term pressure created by media is found to be the highest for the co-operatives and jointly-owned companies (both with an average response of 3.000). Analysts, on the other hand, are expectedly found to create mostly short-term pressure for publicly listed companies (3.800) and 100 per cent owned subsidiaries (3.267).

¹⁶ Somewhat paradoxically, the media has started to call this reporting cycle as quarter-to-quarter capitalism.

¹⁷ Co-operatives may refer to their customer-owners by this category, whereas the other LT firm categories (government owned and family firms) may partly include ownership by other private Finnish owners including firm management.

Politicians are seen to put highest short-term pressure on co-operatives (3.000). Also for jointly and government owned companies, the pressures from politicians are higher than for other firms, perhaps because there can be politicians in the boards (or supervisory boards). Government seems to be causing highest short-term pressure on government-owned companies (2.600), as well as on co-operatives and mutual insurance companies (2.000). One additional factor behind both politician and government induced pressure may be that such firms can have a significant market power in their sectors, thus being to a higher degree controlled by authorities.

Expectedly, family owners are the biggest source of short-term pressure on family-owned companies (3.238). Finnish institutional owners put surprisingly high short-term pressure on venture capitalist owned companies (3.375) and co-operatives and mutual insurance companies (3.333). In the first case, this could be caused by the fact that in Finland many institutional investors have invested in private equity funds.

Other Finnish and foreign owners put short-term pressure on jointly owned companies (3.600 and 4.333, respectively). However, samples are small in both categories. Workers and their unions are generally not experience to cause short-term pressure on companies. This result is as expected maximizing financial result in the short-run is against their interest.

4.4 Actions taken to alleviate the short-term pressure

Next the companies were asked, how they have modified their company's actions in response to the short-term pressure. Respondents were given a list of actions and they could respond 1 (not at all) through to 5 (to great extent) as well as 0 (not a relevant question). Respondents were also given a chance to explain how a certain action has been carried out. Results are reported in Table 4.

Panel A shows the results for the full sample. The number of companies providing an answer to each action varied between 144 and 147. When we calculate an average of the degree of action taken for each company, and relate it to the level of short-term pressure

felt (as reported in Table 2), we obtain a significantly positive coefficient (a t-value of 3.12 in a simple OLS regression), suggesting that firms experiencing pressure are more prone to take actual actions. The short-term pressure had affected most strongly decisions concerning the required rate of return (or payback period) for the investments (average score is 3.022). Management compensation design (2.676) and financial reporting (2.667) obtain the second and third highest average scores when it comes to being influenced by short-term pressure.

Panels B and C of Table 4 show the results for LT and ST ownership categories. Comparing the results, we can see that the scores are as expected (i.e. in line with our hypothesis 3), generally on a higher level for ST firms. LT firms obtain higher scores only for dividend policy, long-term investments, and corporate governance, and in these cases with a marginal difference. The highest differences between the scores for ST and LT firms are obtained for compensation design, financial reporting, and payback period, each higher for ST firms. The fraction of “not relevant” answers is also always much lower for ST firms (ranging between 0 and 16.49 per cent, with an average of 6.27 across the action categories), as compared to LT firms (ranging between 10.42 to 25 per cent, with an average of 15.72). Using a χ^2 -test for group independent “not relevant” frequencies, we can reject the null hypothesis (at the 1% level) for compensation design, capital structure, corporate governance and the required rate of return, i.e. the question of short-term pressure affecting these variables is significantly less often “not relevant” among the ST firms.

We also analyze the responses in more detail with respect to the owner type. Panels D–K report the result for each stakeholder broken down to every ownership category. None of the actions appears to be overwhelmingly commonly applied in any category. However, government-owned companies feel much stronger than all the other firms that they have been forced 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 compared to values from 2.088 to 2.800). Government owned firms also produce the highest average score for the required rate of return (3.500). 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).

Next, we rank, for each action, the average scores in the 7 ownership categories (as reported in panels D to L in table 4) from the highest to the lowest (a rank of 1 indicates that an ownership category has produced the highest average score for this action, whereas 7 indicates a lowest average score). These ranks as well as their averages are reported in Panel M of Table 4. We see that, not surprising, the lowest average rank (1.88, indicating that these firms are leading when it comes to accommodate short-term pressure) has been obtained for firms controlled by private equity investors. More surprising is the placement of government owned firms (an average rank of 2.00). Subsidiaries and listed firms rank on average as third or fourth (with average ranks of 3.33 and 4.00). Last in terms of ranking (the lowest pressure felt) are co-operatives (6.44), joint companies (5.22), and family firms (5.11). In general, these results are in line with our hypothesis concerning private equity, but go against our expectations for government owned firms.

4.5 Horizon of the management compensation scheme

The next two questions deal with the companies' executive management compensation scheme. First, the respondents were asked to indicate over what time horizon are the executives evaluated as far as their compensation goes. In practice, the respondents were asked to indicate whether the compensation is based mainly on performance measured over one, two, three years, or longer periods. If the respondent marked two answers, both were included. In these cases the response are often accompanied with an explanation indicating that the compensation is based on, e.g., one and three year performance.

Table 5 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 calculated over one year. In only slightly more than sixteen per cent of the companies, evaluation of performance over three years or more is used. These results are somewhat worrying, indicating that management compensation favors above all actions, which lead to immediate result improvements.

Panel A of Table 5 reports also the results for LT and ST sub-samples. The results show that the differences are small, the two largest differences being found for compensation systems of 2 and over 3 years, where ST firms dominate for the first alternative and LT firms for the second. However, the frequencies of firms in the combined groups of 1-2 years, versus 3 years or more, are roughly identical for ST and LT firms. 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 report that they 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.

4.6 Performance criteria for the management compensation scheme

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 1) relative profitability (e.g., ROI, ROCE), 2) profit level (e.g., EBITDA, EPS), 3) stock price or company market value, 4) growth, and 5) 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 were 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.¹⁸

Since market-based measures should be more forward-looking as compared to historical profit figures, we expect that LT firms might use them more frequently, i.e. use measures like the stock price or firm value. Also growth as compared to immediate profit may be

¹⁸ 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.

more acceptable as an (intermediate) target in firms with a long-term (ultimately market value maximizing) strategy.

Results are reported in Table 6. 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 ranking 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). However, five firms use “other” measures, and when such measures are used, these other measures actually even clearer obtain the rank of one (giving these “other” measures an average rank of 1.200).¹⁹ Such other measures mentioned include customer benefits, customer satisfaction, as well as 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 the problems of losing family control with outside owners, and private equity firms because of a 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 4 times per group, all firms independent of

¹⁹ This case shows that one should be cautious in interpreting the average rank, as the number of responses for each measure differs, and the companies were not asked to rank all of the measures.

ownership type on average rank profit as the highest.²⁰ 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.

4.7 Active company ownership structure management

Another major goal of our survey was to find out if companies try to affect their ownership base. There can be several reasons behind active ownership management. As surveyed in section two of this paper, empirical research suggests that certain owners are more patient than others, i.e. willing to hold on to their investment longer. If this is the case, it may be in the company's interest to try to attract patient investors, if it leads to lower costs (e.g., due to stability of ownership) or if it maximizes company's value due to properly balanced short- and long-term investments. However, there could be alternative motives for the active ownership management that are not in the company's best interest. Namely, the management may find stability in the ownership to work in their favor 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 they the company had actively tried to influence its ownership structure. Respondents were given three choices: yes, to some degree, or no. Furthermore, if they had used some methods, they were asked to indicate what kind of methods they had used. Again, they were given a list of alternatives with an opportunity to add freely their own method(s). The respondents could choose multiple alternatives from the list. The results are reported in Table 7.

Somewhat surprisingly, the results show that 58 companies representing 39.46 per cent of respondents (147 for this question) have been involved in management of their ownership

²⁰ 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.

structure at least to some degree. As expected, active ownership management seems to be 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 %).²¹

The most common used method has been the dividend policy (used in 55.17 per cent of the companies using active ownership management) followed by investor meetings (48.28 per cent), and reporting practices (37.93 per cent). The least used methods (except for the additional answers under the generic headline “other”) are marketing and customer benefits²² (5.17 per cent), various certificates, and stock issues (both at 15.52 per cent). Other methods provided by the respondents included e.g. 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 used in both LT and ST categories. Dividend policy seems to be 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.

4.8 Share repurchases

We also asked 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 freely their own method(s). Multiple choices were again allowed. The results are reported in Table 8.

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

²¹ 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.

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.

companies. This most likely relates to the fact that listed firms are included in the ST category.

Had the repurchases been done, the most common reasons for them were 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), followed by 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 and encouraged by tax advantages.

None of the companies indicates that it has been the wish of domestic investors and only three companies quote foreign owners' wishes as the reason for the repurchases. Similarly, the aim to improve company's accounting ratios was quoted only in one case. Other quoted the reasons for the share repurchases included acquisitions, a generation shift, and to acquire shares that can 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.

4.9 Long-term R&D investments

The last three questions in the questionnaire deal with the companies' investment. They are used to test for potential links between a short-term focus on one hand, and lower willingness to invest in very long-term projects, a higher required rate of return, or a shorter payback period on the other. Furthermore, the questions are similar to the ones used in earlier studies, and can thus be used to compare results. The first question is "how much of their R&D expenditure is aimed at projects on which you expect no profit during the next five years?" This questions is similar to Segelod (2000) and Poterba and Summers (1995). The results are reported in Table 9.

We received 109 non-empty responses to this question. The results indicate that Finnish companies direct only on average 9.065 per cent of their investments into this kind of

projects. This is surprisingly low number as Poterba and Summers (1995) report using their sample of 139 U.S. companies an average of 22.6 per cent. Segelod (2000) report even higher average for Swedish companies, namely 25.4 per cent. Somewhat surprisingly, ST firms seem to invest somewhat more (9.7 per cent) than LT firms (7.8 per cent). However, the standard deviations are large, and the difference is not statistically significant in a t-test assuming unequal variances (a t-value of 0.66).

Panel B shows that publicly listed companies seem to have the highest R&D expenditures in long-term investments (12.796 %) followed by co-operatives (10.600 %). Somewhat surprisingly, family-owned companies do not seem to invest heavily in long-term project without any hope of immediate profits. Their average is among the lowest (6.545 %).

Next we asked how much more the company would invest in long term investments if the stock market would value your company correctly. The results are reported in Table 10. We received 68 responses to this question. The results show that on average companies would invest 9.963 per cent more. This is surprisingly high percentage if compared to Segelod (2000), who report an average of 5.8 per cent for the Swedish companies. Poterba and Summers (1995) on the other hand report an average of 20.7 per cent.²³

There is a large difference between ST and LT firms, ST firms (which include listed firms) reporting a much higher percentage of 12.074 as compared to 5.238 for LT firms. This is in line with our expectations, but difference is not statistically significant (a t-value of 1.05). We also have to keep in mind that this question is above all directed towards publicly listed companies (or firms potentially considering a listing). Co-operatives show the highest percentage, but the response rate is only two. The categories with five or more answers are firms owned by private equity investors (who report a percentage of 17.5), publicly listed firms (16.8), subsidiaries (7.2), joint companies (4.0) and family firms (0.67), and these

²³ All the firms reporting a non-zero percentage for this question, i.e. indicating that they would invest more if they would be properly valued, also reported a rather high number for questions concerning the short-term pressures felt (questions I.1. and I.2., summarized in Tables 2 and 3). For question I.1, the answers were a pressure level of 3 or higher (with four exemptions at 2), while for question I.2., the answers were at least a pressure level of 4 (with two exemptions at 2) for at least one ownership category. This indicates that the questions I.1 and I.2 were properly understood by these recipients, i.e. that they report on “negative” short-term pressure, a pressure that they feel is in conflict with the long-term optimal goals of the company.

answers rank according to prior expectations, the ST firms (the first four groups) having higher percentages i.e. suffering more from the market's perceived short-term focus, and family firms suffering the least.²⁴

Finally, the respondents were asked to indicate the payback period (in years) for the company's investments as well as their nominal hurdle rate for investments. We received answers for the first part of the question from 110 companies and for the second part from 99 companies. The descriptive statistics of the answers are reported in Table 11. Note that if the respondents gave a range, the average of the range was used in the analysis. If the range of was open-ended (such as >11 per cent), it was excluded from the analysis.

Panel A shows that the average payback period for the full sample is 5.009 years (median 3.500 years). This is somewhat higher than in Sweden as Segelod (2000) reports payback years to vary between 3.0 years for replacement investments and 4.9 years for the investments in new areas.

On the other hand, the average required rate of return, 15.485 per cent (median 15.000 %), is close to Segelod (2000) results for Sweden. Liljeblom and Vaihekoski (2004) reported an average of 15.19 percent for the Finnish publicly listed companies in 2004, as did Keloharju and Puttonen (1995) ten years earlier. Poterba and Summers (1995) also report similar results (average rate of 15.5 %). This indicates that collectively the average required rate of return (hurdle rate) does not vary especially much, either over time or across countries.

It is somewhat surprising to see that the required rate of return for investments seem to stay at the 15 per cent level year in, year out despite the fact that interest rate level has significantly changed e.g. from the mid-1990s. Moreover, its level seems surprisingly high,

²⁴ This result is supported by an analysis of the ST and LT groups when excluding two "outliers" of 100 per cent or more, one among the co-operatives, and one among the listed firms. Excluding these two observations produces new ST and LT averages of 7.99 and 0.50 per cent (with standard deviations of 11.83 and 2.24), and a t-value of 4.13, significant at the 1% level.

as it can easily be shown that with the current interest rate levels and expectations for the market risk premium²⁵, the WACC for most companies is likely to be below ten per cent.

Panel B and C shows the payback period and required rate of return for LT & ST subsamples. The results show that LT firms are, as expected (our hypothesis 9), using longer payback periods (5.3 as compared to 4.8 for ST firms) as well as a lower discount rate (12.8 per cent as compared to 17.07). The difference between the payback periods (ST minus LT) is not statistically significant (a t-value of -0.59), whereas the difference between the rates of return is (a t-value of 2.22, significant at the 5% level).

Panel D of table 11 shows the results for seven ownership categories. The average payback periods and discount rates are, as expected, negatively correlated (a correlation of -0.26 for the 80 firms answering both questions, a correlation of -0.62 between the seven group averages). The clearly highest average required rates of return (25.1 per cent) are asked by private equity investors, followed by listed firms (17.0 per cent) and subsidiaries (14.3 per cent), all classified as ST firms.²⁶ In this analysis, government owned firms seem to be among the most patient, with the lowest rate of return requirement of 9.833 per cent, and the second longest payback period of 7.714 years. Also joint companies reflect modest discount periods and the longest payback periods, most likely reflecting that such firms have been set up to serve some industry group on a more long term, and not purely profit maximizing basis (such as common equipment producers, distribution channels, or service providers for several separate firms in a related industry).

²⁵ For Finnish data, see e.g. the results from the most recent survey by PriceWaterhouseCoopers (2005) on the market risk premium. Based on the results from a questionnaire to central Finnish market actors, they report average values between 5.5% and 4.3% for 1 and 30 year expected risk premiums in Finland in 2005.

²⁶ We asked for the required rate of return for the investment, not the ROE, so these high rates in private equity firms should not as such reflect the higher than average leverage in such firms.

5 CONCLUSIONS

Increased media exposure to layoffs and corporate quarterly financial reporting have created arguable a common perception – especially favored by the media itself – that the companies have been forced to improve their financial performance from quarter to quarter. Academically the relevant question is whether companies themselves feel that are exposed short-term pressure to perform even if it means that they have to compromise company's long-term future. This paper studies this issue using results from a survey conducted among the 500 largest companies in Finland. This study updates and to some extent extends earlier studies by Poterba and Summers (1995) and Segelod (2000).

The results show that companies in general feel moderate short-term pressure, with a reasonable dispersion around the mean of 2.8 (on a scale from 1 to 5). There are also clear relationships between the company's ownership structure and the short-term pressure that the company faces, and accommodates for in its actions. The aspect of ownership was included in the analysis by sorting the 148 identifiable respondents into seven ownership groups (subsidiaries, co-operatives, government firms, family firms, joint companies, private equity owned firms, and listed firms). Furthermore, we analyzed results for two larger subgroups, expectedly more short-term oriented firms (ST firms) and more longer term oriented firms (LT firms).

The results indicate that our classification was at least partly successful. ST firms were found to experience significantly more short-term pressure. The source of this pressure varied across firm types, but in general ST firms experienced significantly more pressure from external market / diversified investor sources such as financial analysts and foreign owners, whereas LT firms were significantly more subject to pressure from the government and family owners.

There were also differences between how the firms feel that they have to accommodate for short-term pressure when determining firm policies. For several corporate actions (compensation design, capital structure, corporate governance, and the required rate of return), ST firms significantly less often considered the question of the need to

accommodate for short-term pressure in corporate actions to be irrelevant. Across all actions, the highest average rank in terms of the degree to which short-term pressure is accommodated for, was not surprisingly obtained by firms with significant private equity ownership. Government owned firms, more surprisingly, ranked as number two.

We also asked specific questions concerning management compensation plans, dividend policy / share repurchases, as well as the amount of long-term investments and investment selection criteria, in order to test for whether a higher pressure for short-termism in fact is reflected in these variables. Whereas there were small differences between the management compensation plans for ST and LT firms (most being surprisingly short-term), or the actual variables in these plans, there were differences between how much more the ST and LT firms would invest if the market would value such investments more properly. ST firms seemed in this respect more constrained by the experienced short-term focus of the market. Finally, the ST and LT firms differed in terms of the investment criteria used. The average pay-back period was shorter, and the discount rate longer, the latter more significantly so, in ST firms as compared to LT firms.

This study contributes by studying a scientifically relatively novel, but topical question of whether firms actually feel pressure to compromise long-term goals in favor of short-term ones because of outside pressures. We also investigate the sources and consequences of such pressure. We find support for the existence of differences between ownership categories in terms of the short-term pressure they put on the firm. We also find that these pressures seem to cause company specific differences in e.g. the amount of long-term investments, and the investment criteria used. Thus these seems to be some substance, at least in terms of experienced pressure at the firm level, in the popular journalist view of at least some firms suffering under the “quarter economy”.

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Figure 1. Distribution of ownership categories

Figure shows the breakdown of the companies' ownership background in the sample of 149 companies. The ownership category could not be determined for one company.

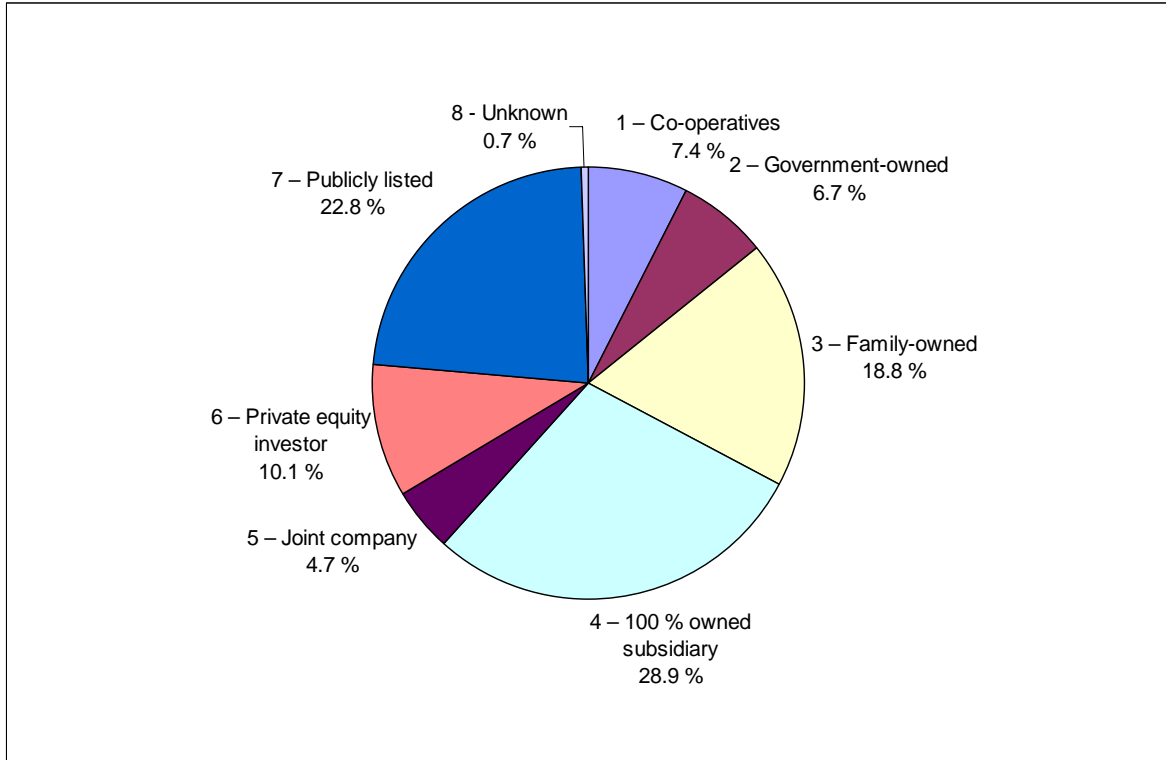


Table 1. Descriptive statistics

Descriptive statistics are reported for the 500 largest companies in Finland (TOP500) and for the companies that responded to the survey (respondents). Panel A reports the number of responses categorized on the basis of TOP500-ranking. Panel B reports key financial ratios for the 500 largest companies and respondents. For individual statistics, the number of companies could vary according if the information is unknown or unavailable.

	TOP 500		Respondents	
PANEL A: Number of responses				
N	500	100.0 %	149	29.8 %
TOP500 ranking: 001-100	100	20.0 %	44	30.1 %
101-200	100	20.0 %	18	12.1 %
201-300	100	20.0 %	26	17.8 %
301-400	100	20.0 %	29	19.9 %
401-500	100	20.0 %	30	20.5 %
PANEL B: Financial statistics				
Mean turnover (mill. €)	500	591.2	147	741.2
Mean net profit (mill. €)	500	28.4	121	13.6
Mean investments	500	32.0	132	40.2
Mean number of employees	500	1920.0	146	2787.0

Table 2. Pressure on compromising long-term goals in favor of short-term goals

Respondents were asked to reply how much pressure they feel towards compromising company's long-term goals in favor of short-term goals. Answers were given on a 1 (very weak) to 5 (very strong) scale with an option to answer 0 (not relevant). Panel A reports the results for the full sample as well as long and short-term investors, and Panel B separately for seven different ownership categories. *N* indicates the number of respondents, with the response rate in parenthesis. 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 1–5 responses.

	N	Mean	Median	Std. dev.	Not relevant (%)
Panel A: Full sample					
All	148	2.838	3.000	1.176	12.16 %
Long-term owners	48	2.289	2.000	1.250	20.83 %
Short-term owners	99	3.077	3.000	1.088	8.08 %
Panel B: Ownership categories					
1 – Co-operative	11	1.875	2.000	0.835	27.27 %
2 – Government-owned	10	2.600	3.000	1.265	0.00 %
3 – Family-owned	27	2.300	2.000	1.380	25.93 %
4 – 100 % owned subsidiary	43	3.051	3.000	1.075	9.30 %
5 – Joint company	7	2.500	2.500	1.789	14.29 %
6 – Private equity investor	15	3.067	3.000	1.163	0.00 %
7 – Publicly listed	34	3.226	4.000	1.087	8.82 %

Table 3. Sources of short-term pressure

Respondents were asked to reply how much short-term pressure certain stakeholders cause for the company. Answers were given on a 1 (very weak) to 5 (very strong) scale with an option to answer 0 (not relevant). Panel A reports the results for the full sample, and Panels B-C for long- and short-term owners. Panels D–L report the results separately for seven different ownership categories. *N* indicates the number of respondents, with the response rate in parenthesis. 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 1–5 responses.

	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 %
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 %
Workers and their unions	124	1.798	2.000	0.923	24.19 %
Panel B: Long-term owners					
Media	38	2.556	2.000	1.188	28.95 %
Analysts	38	1.950	1.000	1.234	47.37 %
Politicians	37	1.944	2.000	1.056	51.35 %
Government (as owner)	38	2.000	1.500	1.333	73.68 %
Family owners	38	3.120	4.000	1.364	34.21 %
Finnish institutional owners	37	2.500	2.500	1.434	72.97 %
Other Finnish owners	37	3.071	3.000	1.207	62.16 %
Foreign owners	37	2.375	2.500	1.302	78.38 %
Workers and their unions	37	1.952	2.000	1.071	43.24 %

Table 3 Continued

	N	Mean	Median	Std. dev.	Not relevant (%)
Panel C: Short-term owners					
Media	86	2.494	2.000	1.153	8.14 %
Analysts	85	3.458	4.000	1.150	15.29 %
Politicians	85	1.818	1.000	1.140	35.29 %
Government (as owner)	83	1.483	1.000	0.785	65.06 %
Family owners	86	2.435	2.000	1.328	46.51 %
Finnish institutional owners	86	2.556	2.500	1.192	37.21 %
Other Finnish owners	86	2.847	3.000	1.186	31.40 %
Foreign owners	87	3.616	4.000	1.062	16.09 %
Workers and their unions	86	1.736	2.000	0.872	16.28 %
Panel D: 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 E: 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 %

Table 3 Continued

	N	Mean	Median	Std. dev.	Not relevant (%)
Panel F: 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 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 %
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 %

Table 3 Continued

	N	Mean	Median	Std. dev.	Not relevant (%)
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 %
Panel L: 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 %

Table 4. Actions to accommodate short-term pressure

Respondents were asked if they had accommodated their actions in respond to the short-term pressure. Respondents were given a list of actions and asked to indicate whether the short-term pressure had had an effect while making decisions on that particular action. Answers were given on a 1 (very little) to 5 (very much) scale with an option to answer 0 (not relevant). Panel A reports the results for the full sample, and Panels B-C for long- and short-term owners. Panels D–L report the results separately for seven different ownership categories. *N* indicates the number of respondents, with the response rate in parenthesis. Not relevant (%) column reports the number of responses with an answer indicating that the question is not relevant for the company. Reported mean, median and standard deviation are calculated from valid responses between one and five. Finally, panel M ranks, for each of the actions, the average scores obtained in each of the seven ownership categories (with a value of 1 for the ownership category producing the highest average score, and 7 for the one producing the lowest score, for the action in question).

	N	Mean	Median	Std. dev.	Not relevant (%)
Panel A: Full sample					
Compensation design	146	2.676	3.000	1.205	4.79 %
Dividend policy	146	2.436	2.000	1.228	19.86 %
Capital structure	144	2.271	2.000	1.004	10.42 %
Long-term investments	146	2.250	2.000	1.088	17.81 %
Hiring / layoff decisions	146	2.522	3.000	1.112	5.48 %
R&D expenditure	146	2.115	2.000	1.006	10.96 %
Financial reporting	147	2.667	3.000	1.264	6.12 %
Corporate Governance	147	2.429	2.000	1.205	4.76 %
Required rate / Payback period	144	3.022	3.000	1.086	4.86 %
Panel B: Long-term owners					
Compensation design	48	2.310	2.000	1.093	12.50 %
Dividend policy	48	2.444	2.000	1.403	25.00 %
Capital structure	47	2.081	2.000	1.064	21.28 %
Long-term investments	47	2.324	2.000	1.248	21.28 %
Hiring / layoff decisions	47	2.333	2.000	1.203	10.64 %
R&D expenditure	47	1.846	2.000	0.933	17.02 %
Financial reporting	48	2.372	2.000	1.254	10.42 %
Corporate Governance	48	2.429	2.000	1.252	12.50 %
Required rate / Payback period	46	2.732	3.000	1.162	10.87 %

Table 4 Continued

	N	Mean	Median	Std. dev.	Not relevant (%)
Panel C: Short-term owners					
Compensation design	97	2.835	3.000	1.272	0.00 %
Dividend policy	97	2.432	2.000	1.234	16.49 %
Capital structure	96	2.330	2.000	1.096	5.21 %
Long-term investments	98	2.207	2.000	1.130	16.33 %
Hiring / layoff decisions	98	2.600	3.000	1.143	3.06 %
R&D expenditure	98	2.233	2.000	1.092	8.16 %
Financial reporting	98	2.787	3.000	1.286	4.08 %
Corporate Governance	98	2.412	2.000	1.231	1.02 %
Required rate / Payback period	97	3.137	3.000	1.107	2.06 %
Panel D: Management compensation design					
1 – Co-operative	11	2.100	2.000	0.876	9.09 %
2 – Government-owned	9	2.875	3.000	1.126	11.11 %
3 – Family-owned	28	2.208	2.000	1.141	14.29 %
4 – 100 % owned subsidiary	41	2.732	3.000	1.323	0.00 %
5 – Joint company	7	2.286	2.000	1.113	0.00 %
6 – Private equity investor	15	3.200	4.000	1.207	0.00 %
7 – Publicly listed	34	2.912	3.000	1.264	0.00 %
Panel E: Dividend policy					
1 – Co-operative	11	2.000	1.500	1.265	45.45 %
2 – Government-owned	9	3.375	4.000	1.188	11.11 %
3 – Family-owned	28	2.227	2.000	1.412	21.43 %
4 – 100 % owned subsidiary	41	2.233	2.000	1.431	26.83 %
5 – Joint company	7	2.714	3.000	1.380	0.00 %
6 – Private equity investor	15	2.636	3.000	1.362	26.67 %
7 – Publicly listed	34	2.485	3.000	0.972	2.94 %

Table 4 Continued

	N	Mean	Median	Std. dev.	Not relevant (%)
Panel F: Company's capital structure					
1 – Co-operative	11	1.667	1.000	0.866	18.18 %
2 – Government-owned	8	2.500	2.500	0.535	0.00 %
3 – Family-owned	28	2.100	2.000	1.252	28.57 %
4 – 100 % owned subsidiary	41	2.351	2.000	1.086	9.76 %
5 – Joint company	7	1.500	1.000	0.837	14.29 %
6 – Private equity investor	15	2.667	2.000	1.397	0.00 %
7 – Publicly listed	33	2.303	2.000	0.951	0.00 %
Panel G: Long-term investments					
1 – Co-operative	11	1.900	1.500	1.287	9.09 %
2 – Government-owned	8	3.000	3.000	1.000	12.50 %
3 – Family-owned	28	2.300	2.000	1.261	28.57 %
4 – 100 % owned subsidiary	42	2.030	2.000	1.045	21.43 %
5 – Joint company	7	1.833	1.500	0.983	14.29 %
6 – Private equity investor	15	2.286	2.000	1.437	6.67 %
7 – Publicly listed	34	2.448	2.000	1.088	14.71 %
Panel H: Personnel hiring / layoff decisions					
1 – Co-operative	10	1.625	1.000	1.061	20.00 %
2 – Government-owned	9	2.556	2.000	0.726	0.00 %
3 – Family-owned	28	2.480	3.000	1.327	10.71 %
4 – 100 % owned subsidiary	42	2.675	3.000	1.185	4.76 %
5 – Joint company	7	2.286	2.000	1.113	0.00 %
6 – Private equity investor	15	2.867	3.000	1.125	0.00 %
7 – Publicly listed	34	2.455	3.000	1.121	2.94 %
Panel I: R&D expenditure					
1 – Co-operative	11	1.800	1.000	1.135	9.09 %
2 – Government-owned	8	2.000	2.000	0.535	0.00 %
3 – Family-owned	28	1.810	1.000	0.981	25.00 %
4 – 100 % owned subsidiary	42	2.378	2.000	1.277	11.90 %
5 – Joint company	7	1.333	1.000	0.516	14.29 %
6 – Private equity investor	15	2.357	2.000	0.929	6.67 %
7 – Publicly listed	34	2.182	2.000	0.950	2.94 %

Table 4 Continued

	N	Mean	Median	Std. dev.	Not relevant (%)
Panel J: Financial reporting					
1 – Co-operative	11	1.700	1.500	0.823	9.09 %
2 – Government-owned	9	3.000	3.000	0.866	0.00 %
3 – Family-owned	28	2.417	2.000	1.412	14.29 %
4 – 100 % owned subsidiary	42	2.872	3.000	1.418	7.14 %
5 – Joint company	7	2.333	1.500	1.751	14.29 %
6 – Private equity investor	15	3.400	4.000	1.183	0.00 %
7 – Publicly listed	34	2.500	2.500	0.992	0.00 %
Panel K: Corporate Governance					
1 – Co-operative	11	2.300	2.000	1.337	9.09 %
2 – Government-owned	9	3.333	3.000	0.707	0.00 %
3 – Family-owned	28	2.130	2.000	1.254	17.86 %
4 – 100 % owned subsidiary	42	2.512	2.000	1.306	2.38 %
5 – Joint company	7	2.571	3.000	1.618	0.00 %
6 – Private equity investor	15	2.800	2.000	1.320	0.00 %
7 – Publicly listed	34	2.088	2.000	0.965	0.00 %
Panel L: Required rate of return / payback period					
1 – Co-operative	11	2.200	2.000	1.229	9.09 %
2 – Government-owned	8	3.500	3.500	0.926	0.00 %
3 – Family-owned	27	2.696	3.000	1.105	14.81 %
4 – 100 % owned subsidiary	41	3.300	4.000	1.159	2.44 %
5 – Joint company	7	3.000	4.000	1.633	0.00 %
6 – Private equity investor	15	3.400	3.000	0.910	0.00 %
7 – Publicly listed	34	2.848	3.000	0.972	2.94 %

Table 4 Continued

Panel M: Ranks of average scores for each action (1= highest score, 7 = lowest)										
<i>Corporate action^{*)}</i> <i>(as reported in Panels D to L)</i>	D	E	F	G	H	I	J	K	L	Average rank
1 – Co-operative	7	7	6	6	7	6	7	5	7	6.44
2 – Government-owned	3	1	2	1	3	4	2	1	1	2.00
3 – Family-owned	6	6	5	3	4	5	5	6	6	5.11
4 – 100 % owned subsidiary	4	5	3	5	2	1	3	4	3	3.33
5 – Joint company	5	2	7	7	6	7	6	3	4	5.22
6 – Private equity investor	1	3	1	4	1	2	1	2	2	1.88
7 – Publicly listed	2	4	4	2	5	3	4	7	5	4.00

^{*)} The actions are: D = management compensation design, E = dividend policy, F = company's capital structure, G = long-term investments, H = personnel hiring / layoff decisions, I = R&D expenditure, J = financial reporting, K= corporate governance, and L = required rate of return / payback period.

Table 5. 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 1–3 years, or more than three years. Panel A reports the number of replies 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 replies 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 %
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

Table 6. 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 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 have included mentioned measure. 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.

	N	Priority (N)					Mean
		1	2	3	4	5	
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

Table 6. Continued

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

Table 6. Continued

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	<i>5.000</i>	<i>3.000</i>	4.375	3.667	<i>4.000</i>	<i>3.750</i>	3.111
Growth	2.714	<i>2.500</i>	3.059	2.500	3.167	2.583	2.947
Operational cash flow	2.833	<i>1.000</i>	3.438	2.696	<i>3.500</i>	2.400	3.200
Other	<i>1.500</i>	<i>n/a</i>	<i>n/a</i>	<i>1.000</i>	<i>n/a</i>	<i>1.000</i>	<i>1.000</i>

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

Table 7. 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 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 12.24 %	40 27.21 %	89 60.54 %
LT	48	2 4.17 %	8 16.67 %	38 79.17 %
ST	98	16 16.33 %	31 31.63 %	51 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

Table 8. Share repurchases

Respondents were asked to indicate whether the company has repurchased its shares. Available alternatives included yes, occasionally, and no. If the answer was yes 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	Yes	Occasionally	No
Panel A: Has the company done share repurchases?				
All	146	4 2.74 %	36 24.66 %	106 72.60 %
LT	49	0 0.00 %	8 16.33 %	41 83.67 %
ST	96	4 4.17 %	28 29.17 %	64 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

Table 9. Long-term R&D investments

The respondents were asked to estimate the proportion of company's R&D expenditure is aimed to projects that are not expected to provide profits in the next five years (%). Panel A reports the results for the full sample as well as long and short-term investors, and Panel B separately for seven different ownership categories. *N* indicates the number of responses. Reported mean, median and standard deviation are calculated from non-empty responses.

	N	Average	Median	Std. dev.
Panel A: All respondents				
All	109	9.065	0.000	17.143
Long-term owners	33	7.788	0.000	11.255
Short-term owners	75	9.748	0.000	19.283
Panel B: Categorized with respect to ownership type				
1 – Co-operative	5	10.600	0.000	15.225
2 – Government-owned	6	10.000	7.500	11.402
3 – Family-owned	22	6.545	0.000	10.631
4 – 100 % owned subsidiary	30	9.850	0.000	21.277
5 – Joint company	7	2.857	0.000	4.880
6 – Private equity investor	11	6.373	0.100	8.963
7 – Publicly listed	27	12.796	3.000	22.129

Table 10. Stock market valuation and investments

The respondents were asked to estimate how much more the company would invest if the stock market would value these long-term investments correctly. Panel A reports the results for the full sample as well as long and short-term investors, and Panel B separately for seven different ownership categories. N indicates the number of responses. Reported mean, median and standard deviation are calculated from non-empty responses.

	N	Average	Median	Std. dev.
Panel A: All respondents				
All	68	9.963	0.000	28.014
Long-term owners	21	5.238	0.000	21.822
Short-term owners	47	12.074	0.000	30.353
Panel B: Categorized with respect to ownership type				
1 – Co-operative	2	50.000	50.000	70.711
2 – Government-owned	4	0.000	0.000	0.000
3 – Family-owned	15	0.667	0.000	2.582
4 – 100 % owned subsidiary	17	7.206	5.000	8.922
5 – Joint company	5	4.000	0.000	8.944
6 – Private equity investor	8	17.500	15.000	19.086
7 – Publicly listed	17	16.765	0.000	48.022

Table 11. Payback period and required rate of return

The respondents were asked to give the payback period (years) and nominal required rate of return for the investments (%). Panel A reports the results for the full sample, Panels B and C for long- and short-term owners, and Panel D separately for seven different ownership categories. *N* indicates the number of responses. Reported mean, median and standard deviation are calculated from given responses.

	N	Average	Median	Std. dev.
Panel A: All respondents				
Payback period (years)	110	5.009	3.500	4.737
Required rate of return (%)	99	15.485	15.000	10.787
Panel B: Long-term owners				
Payback period (years)	39	5.308	5.000	3.585
Required rate of return (%)	37	12.824	10.000	6.579
Panel C: Short-term owners				
Payback period (years)	70	4.800	3.000	5.305
Required rate of return (%)	62	17.073	15.000	12.432
Panel D: Categorized with respect to ownership type				
(payback period first row, required rate of return in <i>italics</i> on the second row)				
1 – Co-operative	8	6.500	5.500	3.196
	7	<i>11.357</i>	<i>10.000</i>	<i>3.805</i>
2 – Government-owned	7	7.714	5.000	6.020
	6	<i>9.833</i>	<i>9.500</i>	<i>1.835</i>
3 – Family-owned	24	4.208	3.250	2.269
	24	<i>14.000</i>	<i>13.250</i>	<i>7.668</i>
4 - 100 % owned subsidiary	32	3.656	3.000	3.171
	20	<i>14.300</i>	<i>15.000</i>	<i>5.190</i>
5 – Joint company	6	12.333	7.500	14.010
	5	<i>11.000</i>	<i>10.000</i>	<i>8.718</i>
6 – Private equity investor	11	3.318	3.000	1.250
	11	<i>25.136</i>	<i>20.000</i>	<i>25.575</i>
7 – Publicly listed	21	5.167	5.000	3.344
	26	<i>16.962</i>	<i>17.750</i>	<i>6.380</i>

APPENDIX

The Questionnaire (original)



Kaikkia vastauksia käsitellään luottamuksellisesti.



TULOS TAI ULOS – omistajuus kvartaalitaloudessa -tutkimus

I MIELIPIDE-KYSYMYKSET

1. Oletteko kokeneet, että yrityksen ulkopuolelta tulevat odotukset lyhyen aikavälin jatkuvista tulosparannuksista luovat ristiriitaa pitkän tähtäimen tavoitteiden kanssa?

vähän		---	paljon		ei relevantti
1	2	3	4	5	0
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. Jos kyllä, kuinka paljon seuraavat tahot aiheuttavat yrityksellenne suurinta lyhyen aikavälin menestymispainetta:

	vähän		---	paljon		ei relevantti
	1	2	3	4	5	0
Media	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Analytiikot	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Polittiset vaikuttajat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Valtio-omistaja	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Perheomistajat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Kotim. institutionaaliset omistajat (eläkeyhtiöt tmv.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Kotimaiset omistajat, muut	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ulkomaiset omistajat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Työntekijät / ammattiyhdistysliikkeet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

II KÄYTÄNNÖT

1. Onko yrityksenne sopeuttanut toimintaansa / ottanut lyhyen aikavälin menestymispaineet huomioon muotoillessaan/päätteessään yhtiön ...

	ei lainkaan		---	paljon		ei relevantti	Miten?
	1	2	3	4	5	0	
a. johdon palkitsemisjärjestelmiä	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<hr/>
b. osinkopolitiikkaa	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<hr/>
c. pääomarakennetta	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<hr/>
d. pitkäaikaisia sijoituksia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<hr/>
e. työllistämispäätöksiä / irtisanomisia	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<hr/>
f. T&K-menojen suuruutta	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<hr/>
g. taloudellista raportointipolitiikkaa	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<hr/>
h. yrityksen hyvää hallintotapaa (CG)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<hr/>
i. investointien tuottovaatimusta / takaisinmaksuaikaa	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<hr/>

2. Painottuuko yrityksenne ylimmän johdon palkitsemisjärjestelmissä eniten yhden, kahden, kolmen vai yli kolmen vuoden tulosmittarit?

1 v	2 v	3 v	>3 vuoden	Lisäselvitys, jos tarpeen:
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<hr/>

3. Aseta seuraavat tulosmittarit tärkeysjärjestykseen yrityksenne ylimmän johdon palkitsemisjärjestelmässä (1. tärkein jne., tyhjä = ei käytössä):

<input type="checkbox"/> Kannattavuus (ROI, ROCE tms.)	<input type="checkbox"/> Kasvu	<input type="checkbox"/>	Muu, mikä? Tärkeysjärjestys? <hr/>
<input type="checkbox"/> Tulostaso (EBITDA, EPS, tms.)	<input type="checkbox"/> Operatiivinen kassavirta	<input type="checkbox"/>	
<input type="checkbox"/> Yrityksen pörssikurssi / markkina-arvo	<input type="checkbox"/>	<input type="checkbox"/>	

4. Pyritäänkö yrityksen päätöksenteossa aktiivisesti vaikuttamaan omistusrakenteen kehitykseen pitkällä aikavälillä?

Kyllä	Jossain määrin	Ei	Muut keinot, mitkä?
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<input type="checkbox"/> Osinkopolitiikka	<input type="checkbox"/> Erilaiset toiminnan sertifiointit	<input type="checkbox"/> Sijoittajatapaamiset	
<input type="checkbox"/> Tiedottaminen	<input type="checkbox"/> Osakeannit	<input type="checkbox"/> Mainonta/asiakasedut	
<input type="checkbox"/> Raportointi	<input type="checkbox"/> Listautuminen	<input type="checkbox"/> CG kehitys	<hr/>

5. Onko yrityksenne tehnyt osakkeiden takaisinostoja?

Usein

Satunnaisesti

Ei lainkaan

Jos usein tai satunnaisesti, keskeiset perustelut takaisinostoille:

Ulkom. sijoit-
tajien toive

Osake ali-
arvostettu

Tunnuslukujen
parantaminen

Kotim. sijoit-
tajien toive

Verosyyt

Pääomarakenteen
tehostaminen

Joustavuus verrattuna
osingonjakoon

Omistusrakenteen
kehittäminen

Muu syyt, mitkä?

6. Mikä osuus arviolta yrityksen T&K-menoista on arviolta suunnattu projekteihin, joista ei odoteta tuottoja/voittoja seuraaviin viiteen vuoteen?

_____ %

7. Jos osakemarkkinat hinnoittelisivat yrityksenne pitkän aikavälin investointinne oikein kuinka paljon arviolta yrityksenne lisäisi investointeja?

_____ %

8. Keskimääräinen takaisinmaksuaika- ja tuottovaatimus investoillenne on _____ vuotta _____ % (nimellinen tuottovaade)

The Questionnaire (translated)



Confidential



PROFIT! OR YOU'RE OUT! – ownership in quarterly economy research project

I OPINIONS

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		---			a lot		not relevant
1	2	3	4	5			0
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>

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

	a little		---			a lot		not relevant
	1	2	3	4	5			0
Media	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
Analysts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
Politicians	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
Government-owner	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
Family owners	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
Finnish institutional owners	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
Finnish owners (other)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
Foreign owners	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>
Workers and their unions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>

II PRACTICES

1. Has your company changed their activities / taken the short-term pressure into account when making decisions on ...

	not at all		---			a lot		not relevant	How?
	1	2	3	4	5			0	
a. management compensation policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	_____
b. dividend policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	_____
c. capital structure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	_____
d. long-term investments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	_____
e. hiring / layoff decisions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	_____
f. R&D-expenditures	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	_____
g. financial reporting policy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	_____
h. CG	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	_____
i. required rate of return / payback period	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	_____

2. 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
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	_____

3. Put the following potential criteria in your top management's compensation plan in order of importance (1. = most important, etc.; empty = not used):

Profitability (ROI, ROCE etc.)	<input type="checkbox"/>	Growth	<input type="checkbox"/>	Other, what? _____
Profit (EBITDA, EPS etc.)	<input type="checkbox"/>	Operative cash flow	<input type="checkbox"/>	
Stock price / market value	<input type="checkbox"/>			

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

	Yes	To some degree	No	Other methods, what? _____
If <u>yes or to some degree</u> , used methods:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Dividend policy	<input type="checkbox"/>	Different certificates	<input type="checkbox"/>	Investor meetings
Tiedottaminen	<input type="checkbox"/>	Issues	<input type="checkbox"/>	Advertizing
Reporting	<input type="checkbox"/>	Public listing	<input type="checkbox"/>	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

Wish of
Finnish owners

Tax reasons

Development
of capital structure

Other reasons, what?
.....

Flexibility if
compared to dividends

Development
of ownership structure

6. What proportion of your R&D-expenditures is aimed at project from which you do not expect profit/income within the next five years?

_____ %

7. If the stock market would value your long-term investments correctly, how much would you increase your investments?

_____ %

8. Average payback and hurdle rate for your investments is

_____ years _____ % (nominal)

If needed, please continue on the other side.