'ACCOUNTING CONTROLS CAUSE SHORT-TERMISM': (EMPIRICAL) FACT OR (CONCEPTUAL) FICTION?

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ABSTRACT

This paper considers the following question: to what extent is the standard assumption in accounting literature that accounting-based controls cause short-termism an empirically established fact or is it simply conceptual fiction? The question is addressed by considering: (1) the nature of short-termism vis-à-vis myopia, (2) the tone of conceptual debate and the status of empirical evidence concerning the claimed (economic) causes of short-termism, and (3) the challenges facing researchers interested in examining this important topic. The paper concludes by suggesting that, unless and until evidence emerges to corroborate what seems at present an accusation without empirical foundation, we should, perhaps, as an academic community, be a little less accepting of the standard assumption that accounting controls cause short-termism.

INTRODUCTION

Short-termism, the favouring of the short term to the detriment of the long term (Mullins, 1991), is seen as an issue of significant concern for organisations. An obsession with short-term performance (Rappaport, 2005) stifles organisational competitiveness and damages firm value (Porter, 1992). Short-termism is blamed for economic under-investment, including the restriction of research and development (R&D) spending (Laverty, 1996). Given the seriousness of the problems associated with short-termism, understanding why firms and their managers might trade the long term for the short term is considered an important research agenda (Laverty, 2004).

Within the accounting literature, there is a considerable set of arguments that suggest that accounting-based controls cause short-termism (see, for example, Hayes and Abernathy, 1980; Johnson and Kaplan, 1987; Merchant, 1990; Ittner, Larker and Meyer, 2003).[1, 2] Kaplan (1984), for instance, has argued that 'the ability of the firm and the division to increase profits while sacrificing the long-term

economic health of the firm is the fundamental weakness in the accounting model' (Kaplan, 1984, p. 411). For Johnson and Kaplan, accounting information attempts to measure performance over 'too brief a period, before the long-term consequences from making short-term decisions become apparent' (1987, p. 203). Dearden observed that 'the major problem with setting profit objectives and evaluating performance against those objectives is that one year is often too short a period to evaluate a task as complex as managing a profit center' (1969, p. 133). Ittner, Larcker and Meyer argue that financial measures encourage managers 'to sacrifice long-run performance to increase short-term financial results' (2003, pp. 725–726). Finally, Merchant and Van der Stede reason that '…one of the most significant problems accounting performance measures cause' is 'a tendency to make managers excessively short-term orientated, or myopic' (2007, p. 436).

The above quotations reflect or make explicit what appears to have become a standard assumption in accounting literature: accounting controls encourage a short-term orientation. The period covered by the quotations (1969–2007) demonstrates the enduring nature of this assumption. Moreover, as is often the case with orthodoxies, it is an assumption that has thus far largely been tacitly or even unquestioningly accepted rather than subject to scrutiny and analysis. The aim of the present paper is to assess the merits of the often implicit view that accounting-based controls cause a short-term orientation. The basic approach is to set extant conceptual argument alongside available empirical evidence. By adjudging the extent to which the former is substantiated by the latter, further insight may be gained into the nature and extent of the interplay between accounting controls and managers' time orientation. The analysis encompasses, in the sections to follow, consideration of: (1) the clarity of the extant conceptual argument regarding what it is accounting controls are being accused of – encouraging myopia or short-termism or both, (2) the tone and focus of the debate on short-termism (hereafter 'the debate'), (3) what the empirical research suggests in regard to the effects of capital markets and financial controls on short-termism, and (4) the problems facing researchers interested in advancing our understanding of how and why accounting controls might affect managers' time orientation. The fundamental question to be explored can be presented in the following terms: to what extent is the argument that accounting-based controls cause short-termism an empirically established fact or is it simply conceptual fiction?

FINANCIAL CONTROLS, SHORT-TERMISM AND MYOPIA

Analysis of the interplay between accounting controls and managers' temporal orientations requires, in the first instance, closer consideration of the terms 'short-termism' and 'myopia'. Within the accounting literature, these two terms tend to be used interchangeably to denote an emphasis on the near term; while the near term is commonly viewed as a one-year orientation normally consistent with the budgeting cycle (Van der Stede, 2000). Both terms may thus be considered to have a common temporal reference point. At the same time, it is possible to

differentiate between 'short-termism' and 'myopia', particularly regarding how each may manifest in practice.

Generally accepted definitions of 'short-termism' focus on the notion of an inter-temporal trade-off: short-termism arises when potential long-term gains are sacrificed for the achievement of short-term results (see, for example, Laverty, 1996; Mullins, 1991). By contrast, we can conceive 'myopia' as meaning limitations of foresight which, however motivated, may nonetheless extrapolate into long-term value creation (Marginson and McAulay, 2008). In essence, therefore, whereas short-termism damages firm value in the long run, myopia need not do so.

Given the above, accusing accounting controls of encouraging short-termism makes for a more significant and more serious criticism than to accuse the same controls of simply promoting a near-term emphasis but not actions that favour the short-term to the detriment of the long-term. As suggested, definitive action to *forgo* the long term in favour of the short term does, it is argued, represent a dysfunctional 'temporal trap' (see, for example, Laverty, 1996, 2004; Mullins, 1991; Platt, 1973). A temporal trap occurs when choices that are best for the short term are not the same as those that are best for the long term (Platt, 1973). On the other hand, as 'there is no long-term without the short-term' (Van der Stede, 2000, p. 431), there may be occasions when an emphasis on the short term is required. For instance, recovery from poor performance may necessitate decisive short-term actions to ensure long-term survival. In this instance, limitations of foresight, or myopic behaviour, may actually benefit the firm. Generally, however, it seems self-evident that managers should take actions to secure both long-term value (Porter, 1992) and short-term results if the firm is to survive (Merchant, 1990; Simons, 1995, 2005). There is a need to balance concerns for long-term positioning, growth and change with concerns for short-term performance, profitability and survival (Laverty, 2004).

The points set out above suggest a need for conceptual clarity in terms of what accounting controls are being accused of encouraging. Is it short-termism or myopia or both? The more serious criticism implies that there may be a need to redesign the firm's management control system so that the potential for accounting controls to cause short-termism is minimised. The less serious criticism does not imply the need for such major change. Unfortunately, however, the literature in this area is currently unclear as to what accounting controls are indeed being accused of causing. The problem arises primarily because the term 'myopia' has sometimes been used to indicate both the concept of inter-temporal trade-off and limitations in the ability of individuals to foresee the future. Samuel, for instance, defines shareholder myopia as 'the tendency of shareholders to focus on the behavior of stock prices in the short-term as opposed to the long-term' and defines managerial myopia as 'improving earnings in the short-term at the expense of long-term growth' (2000, p. 494). On the other hand, Miller (2002) uses the phrase 'managerial myopia' to indicate cognitive limitations in relation to the temporal dimension of decision making, and, at the extreme, analyses the implications that arise when decision makers find themselves without the necessary information to assess even the present state (Marginson and McAulay, 2008). Merchant and Van der Stede suggest that myopia is 'when managers' orientations to the short-term

become excessive – that is when they are more concerned with short-term profits or returns rather than with long-term value creation' (2007, p. 443). Undoubtedly, such a definition denotes an emphasis on the near term. At the same time, however, it fails to separate myopia from short-termism. Laverty, on the other hand, does attempt such a separation. He defines myopia as 'a characteristic of a decision that overvalues short-term rewards and undervalues long-term consequences' (2004, p. 950). Short-termism is defined as 'a systematic characteristic of an organisation that overvalues short-term rewards and undervalues long-term consequences' (Laverty, 2004, p. 950). These descriptions differentiate between the possible causes of a myopic vis-à-vis short-term orientation (decision characteristic versus systematic characteristic); but again, distinctions between how short-termism and myopia may become manifest in behavioural terms are not made clear.

Of course, short-termism and myopia are related phenomena (Marginson and McAulay, 2008). For instance, myopia may be a determinant of short-termism. Difficulties will thus undoubtedly arise at both a conceptual level and empirically whenever attempts are made to differentiate between these aspects of managers' temporally informed behaviours. The point is that, Laverty (2004) and Marginson and McAulay (2008) apart, such attempts have generally *not* been made. The resulting lack of nuance in the way the terms 'short-termism' and 'myopia' are generally treated in the literature is problematic in two respects. First, it is difficult to disentangle extant argument in order to compare and contrast the various criticisms levelled at accounting controls. This may not be so troubling, except that a second problem arises from the first: a lack of refinement in how the arguments are presented is likely to feed into research design and methodology. We will return to this point in subsequent sections. The section that follows reviews the conceptual arguments further in terms of the wider debate that has arisen about the causes and consequences of short-termism. Performance measurement and financial controls have often formed part of this wider 'economic debate' (Laverty, 1996). In an attempt to avoid confusion, it will be assumed that short-termism was meant wherever and whenever the literature refers to myopia.

FINANCIAL CONTROLS, SHORT-TERMISM AND THE WIDER 'ECONOMIC DEBATE'

Debate on the causes and consequences of short-termism has been particularly strong in the USA (see, for example, the work of Rappaport, 2005, 2006). The focus of this debate has been on capital market pressures and quarterly earnings targets (an accounting-based control) as the two main factors that cause managers to prioritise the short term to the detriment of the long term. Both are accused of fuelling what Laverty (1996) describes as economic short-termism.

Regarding accounting-based controls, contributors to the debate appear to apply several related lines of reasoning. First, the intrinsic nature of accounting is to measure the short term; managers take actions to maximise results shown by accounting information, ergo short-termism is the result (Marginson and

McAulay, 2008). Second, as accounting rules are generally conservative, performance reported by accounting metrics is thus negatively biased, and this provides an incentive to focus on the short term (i.e. be cautious) because long-term (i.e. more risky) gains are recognised late (e.g. Bushee, 1998, p. 306; van Rinsum and Hartmann, 2007, p. 8). Third, because accounting measures are typically aggregated, they provide incomplete or noisy signals of managerial effort (i.e. managerial actions are imperfectly reflected in accounting measures of performance (e.g. Fisher, 1992)). The result is short-termism because aggregated, incomplete measures allow managers to engage in behaviours that increase accounting numbers without adding value (Merchant, 1998).[3]

Implicit within these lines of reasoning is the well-known adage, 'what gets measured gets done': the short term is being measured by accounting controls, and thus the short term is the focus. Not surprisingly, therefore, the main response to the generally accepted orthodoxy has been not to dispute received wisdom or question its logic; rather, it has been to propose using additional, non-financial measures as a means of countering the potential for financial measures to cause short-termism (see, for example, Ittner and Larcker, 1997; Merchant and Van der Stede, 2007; Sliwka, 2002). The balanced scorecard philosophy in particular has spurred interest in the notion of combining *leading* non-financial measures and *lagging* financial performance indicators to optimise firm performance in the longer term (Kaplan and Norton, 1996; van Rinsum and Hartmann, 2007).[4] The basic argument is that as non-financial measures reflect investment in the longer term (e.g. in training, learning and growth), their use as leading indicators of performance will encourage a longer-term orientation and therefore counterbalance the short-termism caused by accounting-based controls (Ittner, Larcker and Randall, 2003; Merchant and Van der Stede, 2003).

The capital market is the other main 'culprit'. Two central arguments in this regard may be discerned from the literature. The first suggests that chief executives of listed companies are pressured into trading long-term performance for short-term results in order to meet capital market expectations, and especially in order to secure 'fluid and impatient capital' (Jacobs, 1991, p. 143; Porter, 1992). Following on from the first, the second argument is that, even if capital markets are not short-termist (i.e. they pursue long-term value), the problem remains because managers *believe* that they are under pressure from capital markets to achieve short-term performance results (Jacobs, 1991; Porter, 1992). As Rappaport argues, 'when executives destroy the [long-term] value they are supposed to be creating, they almost always claim that stock market pressure made them do it' (2006, p. 2).

This second argument continues to implicate capital markets but at the same time it changes the nature of the problem: from one of stock market myopia to *managerial* short-termism (Bushee, 1998; David, Hitt and Gimeno, 2001). Managers are short-termist because perceptions about capital market pressures encourage the trading of long-term performance for short-term results. In any case, by focusing on short-term results, senior executives can indicate to owners and investors that the firms' assets are being managed to maximum value (Laverty, 1996, p. 834). Such behaviour is helped by the fact that, because of information

asymmetry, investors do not and cannot have complete information regarding a firm's long-term prospects. There is evidence of managers, particularly US managers, acting upon these information limitations (see, for example, Jacobsen and Aaker, 1993; Stein, 1989).

A cursory analysis of the business press reveals a seemingly unending interest in how to 'solve' the problem of short-termism.[5] In fact, the problem is viewed as getting worse; and getting worse because of recent firm-level and capital market developments. The developments include 'shrinking chief executive officer (CEO) tenure' (CEOs, fearing quick dismissal, need to show short-term improvements) and declining average stock-holding periods (now apparently less than one year), as well as the rise of hedge funds and private equity firms. These are deemed responsible for exacerbating the short-termism problem by introducing more short-term focus into the capital markets (see The Aspen Institute Business and Society Program, 2008, <http://www.aspeninstitute.org/policy-work/business-society/>, for a discussion).

There are other reports and commentaries and professional surveys, all of which focus on examining various facets of economic short-termism. One report, for example, attributes the problem in the UK to the effects of both taxation and takeovers (Moore, 1998). Another reports on the results of a survey into the 'practices and preferences of investment professionals' (CFA Institute, 2008). Taken together, they help to further illustrate the continuing tone of the debate: that economic factors related to capital markets and accounting-based controls cause managers to sacrifice potential long-term benefits for short-term gain. But what of the empirical evidence?

ACCOUNTING CONTROLS, CAPITAL MARKETS AND SHORT-TERMISM: THE EVIDENCE

This paper argues that extant empirical research contradicts rather than supports the accumulated conceptual argument. Regarding capital markets, for instance, several studies have sought to examine the extent to which firms may sacrifice 'sustained growth for short-term financial gain' (Rappaport, 2006, p. 44). Examples of such studies include Bizjak, Brickley and Coles (1993), Jarrell, Lehn and Marr (1985), Hansen and Hill (1991), Woolridge (1988) and Woolridge and Snow (1990). While the studies vary in how short-termism is operationalised, results are broadly consistent in suggesting significant positive returns are associated with the announcement of research and development projects. To this end, markets are rewarding management decisions that are consistent with long-term value creation (Marginson and McAulay, 2008). Overall, empirical research is consistent in suggesting that capital markets are *not* short-termist (Merchant and Van der Stede, 2007).

More importantly for this discussion, results relating to accounting controls are similarly contradictory. There is some evidence to support the idea that financial measures cause short-termism. Merchant, for instance, found a short-term orientation that 'was positively associated with the felt impact of financial

controls' (1990, pp. 307–308). But Merchant also reports that 'the correlation between the impact-of-financial-controls variables and the long-term orientation variable are negative (*but barely statistically significant*)' (1990, p. 311, emphasis added). But Merchant's research is the exception: other studies report either a non-significant association involving accounting-based controls and the short term or indeed suggest that financial measures may be used to encourage managers to adopt at least a 'medium-term', if not a longer-term perspective (Abernethy, Bouwens and van Lent, 2007). Van der Stede found no support for a direct effect of financial control on short-termism and reported that 'the budgetary control style does not directly affect the business unit managers' time-orientation' (2000, p. 619). Marginson and McAulay (2008) found no evidence to suggest that reliance on accounting information as a performance indicator is associated with a short-term orientation. Marginson, McAulay, Roush and Van Zjl (mimeo) found no evidence to suggest that either the diagnostic or interactive use of financial controls causes short-termism.

Evidence presented by a few other studies suggests that the relationship between financial controls and short-termism may be complex and in need of careful interpretation. Building upon the modelling of the short-term effects of budget use proposed by Hopwood (1972), Otley (1978) reported that managers who adopted a mixed evaluation style that balanced budget and efficiency criteria 'tended to spend a greater proportion of their time on long-term planning (12 per cent as against 7.5 per cent; p = .05)' (1978, p. 131). This implies that managers who avoid a sole reliance upon accounting performance measures avoid short-termism. There may even be a cultural basis to short-termism. Based on their cross-national research findings, Chow, Kato and Merchant (1996) concluded that Japanese managers are not as short-termist as US managers when confronted with the same level of financial control. The authors' findings are consistent with the study by Coates, Davis and Stacy (1995) of UK, US and German companies. Culture, rather than financial controls, may thus provide an explanation for the origins of short-termism. Indeed, Chow et al.'s (1996) study may imply that, far from creating short-termism, financial controls may encourage actions that have long-term consequences in certain cultures. Visual inspection of the tables provided by Chow et al. (1996) shows that, relative to US managers: (1) Japanese managers' discretionary expenditure decisions are affected to a greater extent by financial controls; and yet (2) controls provide greater encouragement of new ideas for Japanese managers. In a study involving business unit managers from a 'West European country', Abernethy et al. (2007) found that top management use accounting return measures to shift managers' attention away from short-term activities to long-term activities.

Some evidence exists to suggest that firms use more non-financial measures when they have adopted more long-term-orientated strategies (i.e. innovator or prospector; Ittner, Larcker and Rajan, 1997; Said, HassabElnaby and Wier, 2003). Firms with a longer product life cycle also appear to make more use of non-financial measures (Said et al., 2003). However, what is not clear from these studies is how the use of non-financial measures might affect managers' inter-temporal choices. Furthermore, perhaps in keeping with the standard assumption of the

literature, the argument that the use of non-financial measures helps to mitigate the short-termism caused by financial measures has yet to be examined empirically.

A STUBBORN ORTHODOXY OR DIFFICULTIES OF ANALYSIS?

Based on the research summarised above, what should we make of the argument that capital markets and financial controls are responsible for creating a short-term orientation? Basically, the empirics *do not* support the view that financial controls, or indeed capital markets, cause short-termism. To date, only Merchant (1990) has found any sort of association between financial controls and short-termism, but even this was, to use his words, 'barely statistically significant' (Merchant, 1990, p. 311).

Despite the force of evidence, however, it is clear that perceptions that economic factors (capital markets and accounting-based controls) *are* responsible for creating the short-term performance obsession (Rappaport, 2005) remain as strong as ever (see, for example, Bhojraj and Libby, 2005; Merchant and Van der Stede, 2007). The standard arguments have been re-affirmed on a number of occasions (see Jensen, 1986; Hansen and Hill, 1991; Rappaport, 1992, 2006). Indeed, the perception seems to be such that, rather than, say, finding better ways to undertake research in this area (we shall return to the significance of this point later), a not inconsiderable effort has been put into explaining how the contrary evidence still actually preserves the notion that economic factors are to blame, but in a more indirect way rather than directly.

Given the continuing tone of (conceptual) argument presented in both the professional and academic literatures, it seems almost heretical to suggest that economic factors do not cause short-termism. But, this heresy is supported by a crucial point: it really is only conceptual argument and anecdotal evidence that is proffered by the literature to support what Lundstrum describes as a 'stylized fact' (2002, p. 363). The conceptual arguments and lines of reasoning may be persuasive, but the arguments contrast sharply with the accumulating body of empirical evidence which, as pointed out above, challenges the notion that economic factors are to blame.

This leads us to an interesting question: how is it, as it seems to be, that predominant views can develop within fields of academic enquiry and possibly do so without empirical support? The current contrast between conceptual argument and empirical evidence also raises questions about what it may take to achieve a paradigm shift; in the present case at least towards some recognition that accounting based controls may not necessarily cause short-termism.

Interestingly, the current situation in accounting literature regarding the subject of financial controls and short-termism appears similar to what seems to have been happening of late in the field of economics regarding the subject of people's economic motives. Despite growing and significant evidence to the contrary, mainstream economics continues to hold on to a view that emphasises rationality, selfishness and independence of action as the basis of people's economic

decision-making. Such a view stands in contrast to both experimental and empirical evidence, which suggests, for instance, that people tend to avoid immeasurable uncertainty, shift preferences over time, follow social signals, reciprocate generosity and forgo monetary rewards in punishing uncooperative behaviour (see Lunn, 2008 for a discussion). In other words, people are not necessarily as rational, or as 'utility maximising', as neo-classical economics would suggest; and neither are they, as a growing body of evidence discussed here seems to suggest, likely to adopt a short-term orientation because of the presence of accounting-based controls.

In light of the above, it seems imperative that the accounting literature at least considers the possibility that extant conceptual argument may be somewhat narrow in focus. It may also be even unhelpfully blinkered in its consideration as to what may cause inter-temporal bias in favour of the short-term. Further debate and research is required into what can be described as a ubiquitous and critical aspect of human endeavour. While the present paper confines itself to short-termism as manifest in a business context, the issue of inter-temporal choice and how such choices are made has implications far and beyond this rather narrow field of academic enquiry. But, turning back to a business context, it is, perhaps, important to recognise that research into the causes and consequences of short-termism is not easy; there are difficulties confronting those interested in contributing to our understanding in this area, and it is to a brief discussion of one key issue in particular – the operationalisation of short-termism itself – that we now turn.

Difficulties of Analysis?

A plausible and potentially legitimate response to the thesis of this study is to suggest that empirical research has thus far failed to properly capture the 'true' nature and extent of the relationship between accounting-based controls and short-termism. In other words, it could be argued that, to put it colloquially, the relationship is there; it just needs to be found.

Of course, it is incumbent on researchers to develop ways of analysis and research instruments that most faithfully represent the (latent) constructs of interest (see, for example, Bisbe, Batista-Foguet and Chenhall (2007) for a discussion). Regarding research into the phenomenon of short-termism, there could well be merit in the criticism that extant research does indeed fail to reveal how accounting based controls influence managers' inter-temporal choices. Laverty notes that 'the most far-reaching challenge to advancing the debate [on short-termism] consists in research approaches to observation and measurement of inter-temporal choice' (1996, p. 851). Inter-temporal choice reflects decision-makers' reference points in relation to time. However, time has rarely been adopted as a direct theoretical variable in studies of short-termism.

The lack of supporting evidence might thus be explained by what has been the use of proxies to measure short-termism. Two measures of short-term orientation have traditionally been adopted. The first uses Lawrence and Lorsch's (1967) instrument, which asks managers to assess the percentage of time devoted

to working on issues that would impact the profit and loss statement within specified time periods. The second measure, adopted by Merchant (1990), is based upon a variable that measures the discouragement of new ideas, as represented by the effect of financial controls on expenditure for a range of discretionary items. Merchant (1990) adopted both measures and reported different results, with the measure of discouragement of new ideas supporting a statistical association with a short-term orientation whilst the results based upon the Lawrence and Lorsch (1967) measure did not. These different results for the different proxies suggest the possibility that the two instruments are measuring different phenomena (Laverty, 1996), with neither measuring short-termism directly. For instance, the instrument devised by Lawrence and Lorsch (1967) could be regarded as more likely to capture myopic behaviour rather than short-termism; the focus is on measuring the extent to which the short-term is emphasised rather than prioritised as an inter-temporal trade-off. Similarly, without evidence as to whether inter-temporal trade-off is the intention, it is difficult to determine, using Merchant's (1990) instrument, the extent to which potential curtailment of expenditure on discretionary items represents 'stealing from tomorrow' (Hodak, 2005, p. 118).

Recent measures of short-termism have either continued to adopt proxies or have sought to develop a more direct measure of short-termism. For example, Gibbs, Merchant, Van der Stede and Vargus (2004) used two separate single item measures to assess different aspects of short-termism: (1) the extent to which formula based performance measurement systems encouraged managers to focus on the short term; and (2) the amount spent on training. Laverty uses what he calls 'items suggested by non-survey-based-strategy literature' (2004, p. 953) dealing with 'problems similar to "underinvestment in the long-term"' (Laverty, 2004, p. 954) to develop instruments for measuring 'undervaluing the long-term' and 'temporal traps'. However, few details are provided as to the nature of these measures. Marginson and McAulay (2008) developed an instrument that asked managers to reveal the extent to which they were prepared to sacrifice long-term benefits in order to meet short-term performance targets. Marginson et al. (mimeo) have taken this approach further and developed a broader research instrument based on the notion of inter-temporal trade-offs to examine the relationship between performance measures and short-termism.

Of the various instruments that have thus far been used to measure short-termism, those which seek to capture decision trade-offs and temporal traps seem to offer a potentially more faithful representation of the notion of short-termism, as discussed above. This is because the instruments developed by Marginson and McAulay (2008) and Marginson et al. (mimeo) are at least designed to try to capture the extent to which the long term may be sacrificed for the short term (and vice versa). At the same time, however, neither these new instruments nor the more established measures (e.g. that designed by Lawrence and Lorsch, 1967) attempt to assess managers' time horizons. This is potentially limiting as, according to Jaques (1990), managers' time horizons vary with the responsibility time span of the role. 'Responsibility time span of the role' is the time required to complete the longest project or task assigned to the role. This time period is considered

to increase with hierarchical level (Jaques, 1990), such that senior managers need to possess a different (longer) level of foresight than more junior managers. Jaques' (1990) argument may thus far lack empirical support. Nonetheless, the point is significant, in that it highlights how issues such as responsibility time spans and time horizons more generally serve to complicate the task of operationalising short-termism. The same may be said of the nature and extent of the interplay between myopia and short-termism.

As already suggested, short-termism and myopia can be clearly differentiated, and yet they are undoubtedly inter-linked. Complexities such as these serve to emphasise the point that, while it is undoubtedly important to investigate the subject of short-termism, doing so raises non-trivial issues concerning data collection and analysis. In turn, such difficulties of analysis raise an important point: empirical research to date may or may not be good enough to be convincing in the sense that anecdotal evidence and (conceptual) argument can and should be discarded in favour of empirical results. Undoubtedly, more needs to done. Accepting that short-termism, in itself, is an empirical fact (there seems little reason to doubt the existence of short-termism), one issue that appears ready for much more attention is the question as to what might cause a short-term orientation. Arguably, the evident contradiction between conceptual argument and empirical evidence concerning accounting-based controls as highlighted above reinforces the need to expand the search for the causes of short-termism beyond the oft-blamed economic factors.

EXPANDING THE SEARCH FOR THE CAUSES OF SHORT-TERMISM

In seeking to expand research in this area, a natural question arises: as the causes of short-termism may well be many and varied, where to begin? As it is, in terms of a business context at least, Laverty's (1996) analysis provides a potentially useful framework or starting point for interested researchers. Laverty (1996) advocates the inclusion of individual and organisational dimensions to the debate. Moreover, Laverty (2004) follows up his earlier conceptual analysis with evidence to suggest that management systems and organisational factors may 'play a role in the degree to which an organisation undervalues the long-term' (Laverty, 2004, p. 957). Specifically, his research suggests that temporal traps can be inherent in an organisation's 'culture, routines and processes' (Laverty, 2004, p. 958); to the extent that such aspects of organisational functioning may be more important than stock market pressures, perceived or otherwise, in causing short-termism (Laverty, 2004, p. 950). Marginson and McAulay (2008) provide evidence to suggest that individual and organisational factors in the form of role ambiguity (Kahn, Wolfe, Quinn, Snoek and Rosenthal, 1964) and the effects of social influence respectively may encourage a short-term orientation. An extensive review of how people make choices where there are short-term vis-à-vis long-term trade-offs (Frederick, Loewenstein and O'Donoghue, 2002) provides 'compelling evidence that human decision-makers' may considerably undervalue the long term in a 'wide variety of situations' (Laverty, 2004, p. 950). Given the

results of these studies, future research may wish to expand the range of individual and organisational level factors that may contribute to a short-term orientation.

There are even alternative explanations for the short-termism that is associated with financial performance measures that might be examined. These include: (1) that organisational processes are implicated in the roles played by accounting performance measures (Burchell, Clubb, Hopwood, Hughes and Nahapiet, 1980); (2) that remuneration systems encourage 'managers to sacrifice long-run performance to increase short-term financial results, and thereby maximise their bonuses' (Ittner, Larcker and Meyer, 2003, pp. 725–726); and (3) that the ways in which accounting systems are used can give rise to differing and not necessarily negative outcomes (Bisbe and Otley, 2004). In short, taking account of both extant conceptual argument and empirical evidence as discussed above, there appears to be much that could and perhaps should be done to advance understanding as to: (1) the causes and consequences of short-termism, and (2) the nature and extent of accounting's role in shaping managers' inter-temporal choices. Short-termism is an issue of significant concern to both organisations and societies more generally.

CONCLUDING COMMENTS

The aim of this paper was to consider the following basic question: whether the standard assumption that financial controls cause short-termism represents an empirically established fact or whether it is little more than conceptual fiction. In presenting the arguments and analysis, the hope is that the present discussion will stimulate, not so much further debate and enquiry, but a much broader base to this debate and enquiry. The issue of short-termism remains topical and important. However, as Laverty suggests, despite the duration and prominence of the debate on short-termism, '… research conclusions that would guide managers are few and far between' (2004, p. 950).

One reason for this appears to be the focus of extant research. Extant analysis is overwhelmingly focused on the role of financial controls and capital markets in causing a short-term orientation. The lines of reasoning that underpin this focus appear, on the face of it, compelling and persuasive. At the same time, however, it seems that extant conceptual argument may be misplaced or lacking in some respect. I say this because empirical results provide little if any support for the established orthodoxy that economic factors, including accounting controls, cause short-termism. Whatever way short-termism has been operationalised, the results have largely been the same: no evident relationship between financial controls and managers' temporal orientations.

Given this, it seems that we may need to revisit the arguments and perhaps cogitate further on how accounting-based controls might relate to, and possibly affect, managers' temporal orientations. From the evidence to date, it seems particularly important that we move away from narrow explanations of short-termism defined in terms of 'the usual suspects', and towards broader explanations which consider that short-termism may originate from individual

and organisational factors at least as much as from accounting-based controls and capital markets (Laverty, 1996; Marginson and McAulay, 2008). At the very least and to conclude, it may be argued that, unless and until evidence emerges to corroborate what seems at present an accusation without empirical foundation, we should, perhaps, as an academic community, be a little less accepting of the standard assumption that accounting controls cause short-termism. The enduring if often implicit argument that accounting-based controls cause short-termism seems, at present, more conceptual fiction than empirical fact.

NOTES

1 For the purposes of this paper, the term 'accounting-based controls' refers to financially orientated measures by which either or both managerial and organisational performance may be assessed. Examples of the types of accounting-based controls considered in this study include accounting ratios such as return on investment, as well as responsibility centre budgetary targets.

2 The criticism by Hayes and Abernathy (1980) is perhaps one of the sharpest and most widely publicised (Merchant and Van der Stede, 2007).

3 A further common line of reasoning lays the blame on the reward systems and financial bonuses that are often attached to accounting-based controls and the achievement of financial results as contributing factors in causing managers to be short-termist (see, for example, Ittner et al., 2003). Whilst acknowledging this point, the present analysis focuses on the role of accounting controls, of themselves, in shaping managers' temporal orientations.

4 According to Kaplan and Norton (1996), leading performance indicators are non-financial metrics that have predictive value for future lagging accounting results. For example, customer satisfaction metrics should help managers to identify future profit effects of current (investment in) customer satisfaction (van Rinsum and Hartmann, 2007).

5 See, for example, Martin Wolf, Why Regulators Should Intervene in Bankers' Pay, *Financial Times*, p. 11, 16 January 2008; Robert Bruce, Short-Termism: Short-Sighted Solution, *Accountancy Age*, p. 4, 12 February 2009.

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