

THE LONG CLOCK · CHAPTER FIVE

When the Clock Lengthens

Chapter Five of The Long Clock

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Chapter Five of The Long Clock. The whole book, with every chapter, is at business.hautelumiere.life/library/the-long-clock (DOI https://doi.org/10.5281/zenodo.23989072).

A NOTE BEFORE YOU READ

This work is offered for education and leadership development. It is not legal, financial, accounting, investment, medical or psychological advice; take the advice of a qualified professional who knows your circumstances. Companies and events are described from the public record as the author understands it; characterisations are the author's analysis. Examples are illustrative, and no particular outcome is promised to any reader.

ABSTRACT

In 2017 Caroline Flammer, then at Boston University, and Pratima Bansal, at Western University in Canada, published a paper in the Strategic Management Journal that asked a question most of the debate about short-termism had only asserted an answer to. If a company's executives are made to think longer, does the company become more valuable? The question is hard to answer because companies that choose long-term pay differ from companies that do not, and the difference, rather than the pay, may explain how they perform. Flammer and Bansal found a way round it. They studied shareholder proposals asking for long-term executive compensation that passed or failed by a very small margin of votes.

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HAUTE LUMIÈRE · THE LONG CLOCK · CHAPTER FIVE

A precise question

In 2017 Caroline Flammer, then at Boston University, and Pratima Bansal, at Western University in Canada, published a paper in the *Strategic Management Journal* that asked a question most of the debate

about short-termism had only asserted an answer to. If a company's executives are made to think longer, does the company become more valuable?[36]

The question is hard to answer because companies that choose long-term pay differ from companies that do not, and the difference, rather than the pay, may explain how they perform. Flammer and Bansal found a way round it. They studied shareholder proposals asking for long-term executive compensation that passed or failed by a very small margin of votes. Whether such a proposal passes with fifty-one per cent or fails with forty-nine is close to chance, so the companies on either side of the line are otherwise alike; in the authors' words, the passage of these close-call proposals "is akin to a random assignment of long-term incentives."[36] They found that adopting such a proposal led to an increase in firm value and in operating performance, together with more investment in innovation and in relationships with stakeholders. Their conclusion was that short-termism is a cost companies pay, not a neutral habit.

Chapters 2 to 4 made an argument: that a company's purpose and owners set its time horizon, that the serious objections to purpose are each answered by a structure, and that short-termism is a mismatch between the clock a decision runs on and the clock its assets renew on. This chapter asks what happens when the clock is lengthened in practice. The claim, stated plainly: the best evidence available suggests that longer horizons, whether set by pay or by ownership, are associated with more long-cycle investment and greater durability, and the evidence is strongest exactly where it is narrowest. It then reads two public cases briefly, since chapters 6 and 7 take them in depth, and works one composite through line by line.

Five studies and their limits

Each study below supports part of the argument and cannot show the rest. The house gives both, because a reader who will put her own company's future on a reading of the evidence deserves its edges as well as its centre.

Long-term pay, tested causally. Flammer and Bansal's design is the strongest in this list, because the close votes approximate a random assignment.[36] Its limit is scope. It concerns large listed American companies, shareholder proposals on pay, and one period. It shows that lengthening executives' horizons through pay can create value. It does not show that every route to a longer horizon does, or that the effect holds for private firms, or for firms outside the United States.

Foundation owners, observed. Steen Thomsen, Thomas Poulsen, Christa Børsting and Johan Kuhn studied Danish companies owned by industrial foundations, publishing in *Corporate Governance: An International Review* in 2018.[37] They report foundation ownership as highly stable compared with other ownership structures, and associate it with long-term governance and behaviour in the companies it owns: managers replaced less often, less financial leverage, and companies that survive longer. The limit is that the study is observational and Danish. Foundations may hold companies that would have been long-lived anyway, and Denmark's legal and tax setting is particular. Hansmann and Thomsen's earlier work, discussed in chapter

3, records that previous studies found foundation-owned firms to be, on average, about as profitable as conventionally owned ones, which is a weaker claim than outperformance and a more useful one: patience, in that setting, did not cost the owners their return.[38]

Listing and investment, compared. John Asker, Joan Farre-Mensa and Alexander Ljungqvist compared listed American companies with observably similar private ones, using a panel of private firms that the authors describe as covering more than four hundred thousand firm-years between 2001 and 2011.[39] Their abstract states the finding exactly: "compared with private firms, public firms invest substantially less and are less responsive to changes in investment opportunities, especially in industries in which stock prices are most sensitive to earnings news." In their own summary for a general audience they put the responsiveness gap at around four times. They read the result as consistent with short-termist pressure from public markets. Its limit, which later work has debated, is the identifying assumption the authors name themselves: that closely held private firms face fewer short-term pressures. Private and public firms differ in ways no matching method fully captures.

Executives' own answers. John Graham, Campbell Harvey and Shiva Rajgopal surveyed financial executives, as chapter 3 described, and found that a majority would give up economic value to deliver smooth earnings, and that many would delay a project with a positive net present value to avoid missing an earnings target.[40] The limit is that it measures what executives say they would do, not what they did.

Slow prices for slow assets. Alex Edmans studied the companies named among the hundred best places to work in America and found that, over the following years, their shares earned returns above those of comparable benchmarks.[41] He read this as evidence that the market did not fully value employee satisfaction even when it was publicly observable. The finding matters to this book because it shows a long-clock asset, the trust and commitment of a workforce, being recognised by the market only slowly. Its limit is that it concerns one list, one market and one period, and that a reader cannot tell from it whether satisfaction produced the returns or whether well-run firms produced both.

Read together, the studies point one way and leave gaps. None of them shows that patience is always wise; a patient owner of a dying business is still the owner of a dying business. What they show is that, on average and in the settings studied, the clock matters, and that it can be changed by pay and by ownership. The rest of this book builds on that much and no more.

What the evidence cannot yet tell you

There is a second set of limits, and they concern the reader rather than the studies.

The evidence is almost entirely about large companies. The firms most readers run, own or advise are smaller, and in smaller firms the clocks are set less by markets than by a handful of people: a founder, a lender,

a buyer in the wings. The mechanism this book describes is the same. The size of the effect, for any one firm, is unknown.

The evidence is about averages. A board deciding what to do with its own apprenticeship programme is not deciding for an average firm. It is deciding for itself, with its own sector, its own people and its own debts. The studies tell it that the direction of the argument is sound. They cannot tell it the answer.

And the evidence is about one kind of horizon at a time: pay in one study, ownership in another, listing in a third. Real companies change several clocks at once or none. Chapter 10 returns to this, because it is the reason a firm that lengthens its clock should write down in advance what it expects to see, so that it can learn from its own case rather than borrowing a conclusion from someone else's.

One more limit is worth naming because it cuts in the reader's favour. Almost every study here measures a horizon that was lengthened by somebody else: shareholders voting on a proposal, a foundation inheriting a stake, a firm deciding to list or stay private. None measures what happens when the people running a company decide, of their own accord, to read their accounts on two clocks. That is the change this book asks for first, and it costs nothing but attention. The evidence cannot vouch for it. It also gives no reason to wait for permission before trying it.

Two public cases, briefly

Two companies have become the standard illustrations of patient ownership, and both are taken in depth later in the book. Here they serve only to show that the structures the studies measure exist at scale.

Bosch. Robert Bosch GmbH describes its ownership on its own pages in a few figures.[42] The Robert Bosch Stiftung, a not-for-profit foundation, "holds roughly 94 percent of the share capital." Of the voting rights, "some 93 percent are held by Robert Bosch Industrietreuhand KG," an industrial trust that carries out the owner's role. The founder's descendants hold the remaining votes and, through a family company, about five per cent of the capital; the company itself holds about one per cent. The foundation receives most of the dividends and spends them on its charitable work; the company says it has no say in the group's strategy. Nobody who controls the company stands to sell it for personal gain, and the body that takes most of its dividends does not control it. Santa Anna's governance manuscript points to firms of this kind as evidence that such structures are not marginal: "These are not small firms — they are global market leaders in their respective categories — and their governance structures are directly implicated in their capacity for long-horizon innovation."[43] The house adds one caution, which chapter 6 develops. The claim that the structure causes the innovation is plausible and consistent with the Danish evidence, but no study cited here isolates it for Bosch.

Patagonia. On 14 September 2022 Patagonia announced that its founding family had transferred their ownership to two new entities.[44] The Patagonia Purpose Trust "owns all the voting stock of the company (two

percent of the total stock)," and the Holdfast Collective, a nonprofit, "owns all the nonvoting stock (98 percent of the total stock)." The company said it expected to "pay out an annual dividend of roughly $100 million, depending on the health of the business," to be spent on the environmental crisis. The press release's headline was "Earth is Now Our Only Shareholder." *Ecstatic Economics* names the problem this kind of transfer solves. Under steward ownership, Santa Anna writes, a company "belongs to itself — held in trust for its purpose, like a cathedral or a national park," and "No matter how successful the company becomes, no individual can cash out by selling it."[45] The arrangement is young, and the dividend is a projection the company tied to its own results. Chapter 7 reads it beside the oldest employee trust in Britain.

A composite: the cut before the sale

The public cases are large. Most readers run something smaller, and the decision they meet is usually more ordinary than a transfer of ownership. The case below is a composite built for teaching; the company is not real, and its figures were set by the writer to show the arithmetic.

A family-owned precision manufacturer employs about one hundred and forty people. Its annual revenue is twenty-eight million dollars and its operating profit one million nine hundred thousand dollars. Two lines in its costs run on long clocks. It spends two hundred and forty thousand dollars a year on an apprenticeship programme for machinists, which takes four years to produce a fully skilled worker. It spends four hundred and ten thousand dollars a year developing its next product line, which takes about six years from first prototype to sale.

The second generation of the family is considering a sale. An adviser points out that buyers in this sector often price companies at a multiple of operating profit, and suggests, for illustration only, a multiple of eight. At the current profit, that values the company at fifteen million two hundred thousand dollars.

The adviser then shows what happens if both long-clock lines are cut the year before the sale. Operating profit rises by six hundred and fifty thousand dollars, to two million five hundred and fifty thousand. At the same multiple, the company is valued at twenty million four hundred thousand dollars. The cut is worth five million two hundred thousand dollars to the sellers, provided the buyer treats the higher profit as permanent.

Read with two clocks, the same figures say something else. The apprenticeship renews the firm's skilled workforce on a four-year cycle; stopping it now leaves a gap that appears four years from now and takes four more to close. The product line renews the firm's revenue on a six-year cycle; stopping it means that in six years the company has nothing new to sell. The additional profit is not new value. It is the aquifer of chapter 4, drawn down and counted as yield. The buyer pays for it, and the employees and the town pay again when the gap arrives.

The family in this composite chooses differently, and the choice is structural rather than heroic. They write a purpose clause into the articles naming the region's skilled manufacturing jobs as part of what the company is for. They move control into a trust whose deed requires the apprenticeship and development spending to continue at no less than a set share of revenue unless the trustees record why. They lengthen the managers' bonus period from one year to five. They do not sell this year. Whether they are better off in money depends on things no worked example can settle: the sector's future, their own needs, what a buyer would have done. What the arithmetic makes plain is that the five million two hundred thousand dollars was never a gain. It was a transfer from the company's future to its present owners, and every party on the long clock would have paid for it.

Santa Anna's book names the moment this composite turns on. "Even the most mission-driven founder eventually retires," he writes, "and if the company's ownership can be sold to the highest bidder, years of vitality-centered culture can be dismantled overnight by a new owner with different priorities."[46] The composite family did not refuse to sell because selling is wrong. They refused to sell a drawn-down company at a price that counted the draw-down as earnings.

Lengthening pay without changing owners

Most leaders cannot change who owns their company. Many can change how its managers are paid, and the Flammer and Bansal result suggests that this alone moves the clock. Four design questions decide whether a pay plan is long or merely long-dated.

Over what period is the result measured? A share award that vests after three years but is measured on one year's earnings is a one-year plan with a delay. Measure the result over the period the asset needs.

What is measured? A plan that pays on profit pays for draw-downs, as the composite shows. A plan that pays on profit together with a measure of the long-clock asset, apprentices qualified, products in development, customer retention, pays for renewal as well as yield.

What happens after the person leaves? Deferred pay that is forfeited on departure keeps people; deferred pay that continues to vest against later results keeps their decisions honest. The second is rarer and more useful.

Who can change the plan? A plan the remuneration committee can redraw in a bad year has a clock as short as the committee's nerve. Write the rule for changing it into the plan.

None of this is a recommendation about any particular scheme, and nothing here is tax or legal advice. The point is that the clock a manager is judged on is a design choice, and it can be read and changed.

The household version of the cut

The same arithmetic appears in households, usually without a multiple and without an adviser to draw it. Chapter 12 works a household through a full year; this is the shape in brief.

Consider a second composite, again built for teaching: a household whose two adults earn between them a steady income and set aside each month a sum for one adult to finish a professional qualification over three years. In a tight year the course is paused and the monthly sum goes to the card balance. The month's accounts improve at once. The cost arrives later and quietly: the qualification that would have raised the household's earnings in year four now arrives in year six, if at all, and the two missing years of higher income are never counted anywhere as a loss.

Nothing here is advice, and some tight years leave no choice. The point is the shape. A household, like the manufacturer, has lines that run on long clocks, and in a bad month those are the lines that look most like savings. The two-clock reading does not tell a family what to do. It asks them to write down, before they cut, which future they are drawing on and how long it will take to refill, so that the decision is taken as a decision and not discovered as a gap.

The book makes the institutional point with a household's tenderness. Of the worker who owns a share of the firm, Santa Anna writes that what changes is what the body watches for: "The worker-owner's neuroception is scanning for threats *to* the organization — and mobilizing creative energy to address them."[46] A household that owns its long-clock lines, rather than treating them as the first expense to go, watches for the same thing. The house's book on employee ownership, *Owning the Work*, follows that change through the research on firms where it has been measured.

The finer points of reading a case

Four habits make a case useful rather than merely persuasive.

Separate the yield from the draw-down. In any profit improvement, ask which part came from new value and which from not renewing a long-clock asset. In the composite, all of it was draw-down.

Find the multiple in the room. Whenever a valuation multiplies this year's profit, every cut to a long-clock line is multiplied too. The larger the multiple, the stronger the incentive to cut before a sale, which is when the clock is shortest.

Write the counterfactual honestly. Public cases show what a structure made possible; they rarely show what would have happened without it. Say which you are claiming.

Ask what the study measured, not what it is cited for. Every study in this chapter is cited more widely than it reaches. Before relying on one, read its abstract and its sample, and write one sentence on what it cannot show about you. The Tool below has a line for it.

The Tool: The Owner's Horizon Review

Fill this in for a company you own, run or advise, or for a household's largest asset. Figures in your own currency, written out.

1 · The two lines on long clocks

LINE	ANNUAL SPEND	REGENERATION TIME (YEARS)	WHAT IS LOST IF STOPPED, AND WHEN IT SHOWS

2 · The cut arithmetic

- Current operating profit (or household surplus): _____
- Profit if both lines are stopped: _____
- Any multiple applied by a buyer, lender or valuer: _____
- Value at current profit: __ · value after the cut: _ · *difference:* ___
- Who receives the difference: __ · who pays it, and in which year: ____

3 · The structure

QUESTION	TODAY	ONE CHANGE THAT WOULD LENGTHEN THE CLOCK
Is the purpose written where it binds?		
Who controls the company, and could they sell it for personal gain?		
Who receives the profits, and do they control it?		
Over what period are managers paid for results, and on what measure?		
Is there a rule protecting the long-clock lines?		

4 · The evidence you are relying on

- The study or case closest to your situation: _____
- What it shows: _____
- What it cannot show about you: _____

5 · The decision

- Keep both lines / cut one / cut both: __ · reason in one sentence: ____
- Date to read this page again: _____

Ink on a ledger

In the composite, the decision is recorded in the trust deed in one line: the apprenticeship continues unless the trustees write down why it should not. It is an unremarkable sentence in a legal document. Four years later it is the reason there are machinists in the building.

Chapters 6 and 7 take the two public cases in depth, and chapter 8 turns to the clock most listed companies set for themselves, the quarterly guidance. *Ecstatic Economics* is kept at ; the history of how workforces have shared in the gains they build is in *The Gain Was Always Shared*.

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