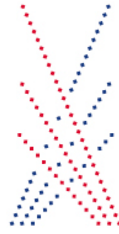

BRITISH ACADEMY OF MANAGEMENT

BAM CONFERENCE

3RD-5TH SEPTEMBER

ASTON UNIVERSITY BIRMINGHAM UNITED KINGDOM

This paper is from the BAM2019 Conference Proceedings

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From intertemporal trade-offs to ambitemporality: A model of financial-market stakeholder support

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Abstract

In this constantly shifting and uncertain new world, managers of publicly-traded firms are often portrayed as being torn between delivering short-term results and creating long-term value. Encouraged by examples of firms which are successful at achieving both concurrently, we adopt a paradoxical lens. We argue that firms can and should be ambitemporal, and attempt to fill a critical gap in the strategic literature. Specifically, we attempt to identify the barriers to ambitemporality, and, in turn, uncover the mechanisms that could help firms manage and potentially lift these barriers. The short-term pressures received by financial-market stakeholders have been traditionally portrayed as the main barriers to ambitemporality, and appear to stem from the lack of trust between firms and these stakeholders. Our model focuses on the development of trust through the validation of previously-given trust and the impactful communication between firms and financial-market stakeholders, and highlights the active role managers must assume.

Word Count: 1,570

Introduction

Top executives of publicly-traded firms are often portrayed as feeling forced to make a tough trade-off between short-term results and long-term value (e.g., Laverty, 1996; Marginson and McAulay, 2008). This presents a fundamental problem because, in this rapidly changing and uncertain new world, pursuing short-term results and making plans to create long-term value are both important for a firm to achieve a competitive advantage (Fredberg, 2014). In fact, the excessive focus on short-term results, widely known as short-termism, has been empirically found to have detrimental consequences for both firm value and the broader economy (e.g., Rahmandad, Henderson and Repenning, 2016; Brochet, Loumioti and Serafeim, 2015). While this might make pursuing long-term value appear as the way to go, overfocusing on it has also been found to have a negative impact on firm performance (Souder *et al.*, 2016).

Encouraged by positive examples such as Amazon, Google, Microsoft or Facebook, which are concurrently delivering stellar short-term results and making plans to create long-term value, we adopt a paradoxical lens. Paradox scholars support that tensions and contradicting demands are inherent in complex and dynamic environments and that a firm's ability to embrace these and come up with a higher level solution, is decisive of its future (e.g., Eisenhardt, 2000; Smith and Lewis, 2011). In the same vein, we argue that firms can and should be ambitemporal[1]. Specifically, we take the perspective that ambitemporality is a paradoxical dynamic capability that is ambidextrous in nature (see O'Reilly III and Tushman, 2008) and offers firms a competitive edge by allowing them to simultaneously attend to both short and long-term issues. The question that inevitably arises from this, is: if it is in a firm's best interest to be ambitemporal, what keeps certain firms from being so? Motivated by this question, we attempt to identify the barriers to ambitemporality, and, in turn, uncover the mechanisms that could help firms manage and potentially lift these barriers.

Researchers have been presenting the pressures received by key stakeholders in firms' environments as the main barriers to ambitemporality. Specifically, financial-market stakeholders such as investors and financial analysts have been traditionally portrayed as creating paradoxical tensions that force managers to adopt a focus on short-term results (e.g., Porter, 1992; Davies *et al.*, 2014). Interestingly, however, while extant literature has extensively addressed the root and consequences of these pressures, researchers seem to have been considering them as inevitable and have done little with regard to proposing a way to manage them. Our study attempts to fill this critical gap in the literature by theorizing how firms can manage the short-term pressures received by financial-market stakeholders, and potentially lift the barriers to ambitemporality. Over the next two paragraphs, we: (i) discuss the root cause of these pressures, which seems to be the lack of trust between firms and financial-market stakeholders, and (ii) present an overview of our conceptual model, which revolves around establishing this missing ingredient.

Regarding the root cause of short-term pressures, extant literature has been taking an agentic perspective. Specifically, researchers have been supporting that investors (i.e., principals) attempt to control for the information imbalance and potential goal conflicts between themselves and managers (i.e., agents) by setting in place outcome-based contracts that solemnly rely on short-term performance measurement systems (e.g., Eisenhardt, 1989). However, viewing short-term results in isolation from a long-term plan, holds the caveat of interpreting information out of context. As a result, a temporary decline to short-term

[1] The term ambitemporality was first coined by Reinecke and Ansari (2015: 620) who define it as the accommodation of "seemingly contradictory temporal orientations".

performance due to a substantial investment that aims to create long-term value might make the latter look unattractive and encourage managerial short-termism (Porter, 1992; Roychowdhury, 2006; Laverty, 1996). Similarly, a stellar short-term performance that is not accompanied by a long-term plan, may present an ideal situation that is misleading. Critics of agency theory, argue that these issues created by outcome-based contracts essentially stem from the lack of trust between firms and financial-market stakeholders (e.g., Shankman, 1999; Bromiley and Cummings, 1995). Interestingly, though, research on the trade-off between short-term results and long-term value has largely neglected this important variable. With our conceptual model we contradict this agentic perspective because we believe that, by neglecting the importance of trust, it presents: (i) financial-market stakeholders as irrational, while industry examples confirm that they are perfectly capable to understand and reward complex strategies that attend to firms' both short and long-term needs, and (ii) managers as defenseless, while in reality they are both able and responsible to defend their decisions.

Conceptual model

Our conceptual model revolves around establishing trust as a means of managing the short-term pressures received by financial-market stakeholders and lifting the barriers to ambitemporality. Specifically, our model of financial-market stakeholder support (see figure 1) focuses on issues of either short or long-term interest that, from an agentic perspective, would justify financial-market stakeholders' overreliance on short-term performance measurement systems. We hypothesize that trust can turn this situation around and help managers secure financial-market stakeholders' support, by establishing a new balance between the importance attached to short-term results and long-term value. In particular, we identify two types of trust, namely issue-specific calculus-based trust and firm-level knowledge-based trust[2] which can complement one another to achieve positive stakeholder reactions. Additionally, we identify two trust-building mechanisms, namely communication (see Shepherd and Zacharakis, 2001) and validation of previously-given trust (see Lewicki and Bunker, 1996), and hypothesize that they are key in establishing the two aforementioned types of trust. Impactful communication, which we define as the provision of adequate and accurate information relating to issues of either short or long-term interest, can help investors and other important stakeholders put short-term results and long-term prospects into perspective. This way, impactful communication builds calculus-based trust in the firm's ability to handle the issue at hand in a way that generates benefits greater to costs, and may in turn lead to positive stock-market reactions. Outcomes that validate previously-given trust, on the other hand, build knowledge-based trust in the firm as a whole, which may in turn enhance impactful communication's effect on calculus-based trust.

[2] In their seminal work, Lewicki and Bunker (1996) argue that calculus-based trust occurs during the first stages of a relationship and is determined by deriving potential rewards of being trusting (and trustworthy) relative to the costs of violating trust. On the other hand, knowledge-based trust occurs later in a relationship and allows the parties involved to make predictions based on the history they share. While extant literature presents these two types of trust as occurring sequentially (i.e., knowledge-based trust replacing calculus-based trust), we support that in our context these two types of trust co-exist.

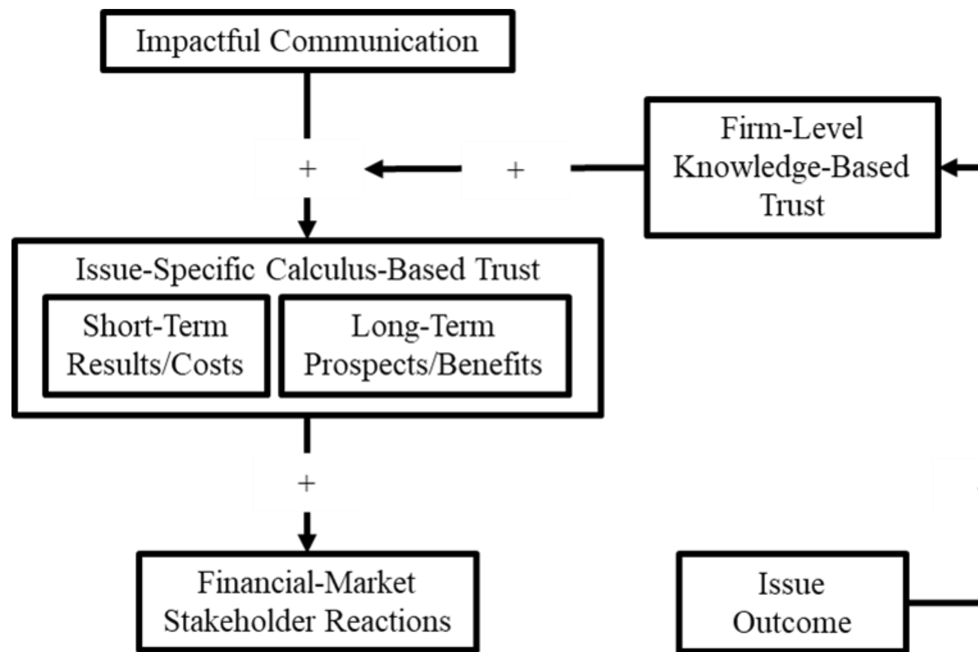

Figure 1: Model of financial-market stakeholder support

Contribution
Our study is the first to systematically address a critical gap in the strategic literature. Specifically, to the best of our knowledge, this study is the first that attempts to theorize how the short-term pressures received by financial-market stakeholders can be managed, and the barriers to ambitemporality lifted. Our conceptual model contradicts the traditional agentic perspective researchers in this area have been taking, and emphasizes the responsibility managers have to communicate impactfully and build trust with key stakeholders in their environments. Thus, our contribution to theory and practice is twofold: (i) we propose a mechanism through which managers can be assisted in securing financial-market stakeholders' support in being ambitemporal, and (ii) we put the spotlight on variables that have proven powerful in managing stakeholders in other contexts, but have been largely neglected in ours. As such, this study provides the theoretical foundation for further discussion in the area and opens up promising new research avenues.

Current stage and next steps
This study is part of a broader ongoing project. Specifically, it focuses on theorizing how firms can manage the short-term pressures received by financial-market stakeholders, and lift the barriers to ambitemporality. By the time the conference takes place, we expect it to have turned into a full conceptual paper. In later stages of our broader project, we plan to empirically test/explore the conceptual model developed by this study. In particular, we plan to utilize Toulmin's (1958) framework of argumentation, which can be of great assistance in understanding the underlying structure of communication (Harmon, Green and Goodnight, 2015), and empirically test/explore: (i) whether there are structural elements in the communication between firms and financial-market stakeholders that can indeed make the difference in building issue-specific calculus-based trust, and thus lead to favorable financial-market stakeholder reactions, (ii) what these structural elements are, and (iii) whether the validation (violation) of previously-given trust can build (destroy) film-level knowledge-based trust, thus enhancing (weakening) communication's effect on issue-specific calculus-based trust.

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