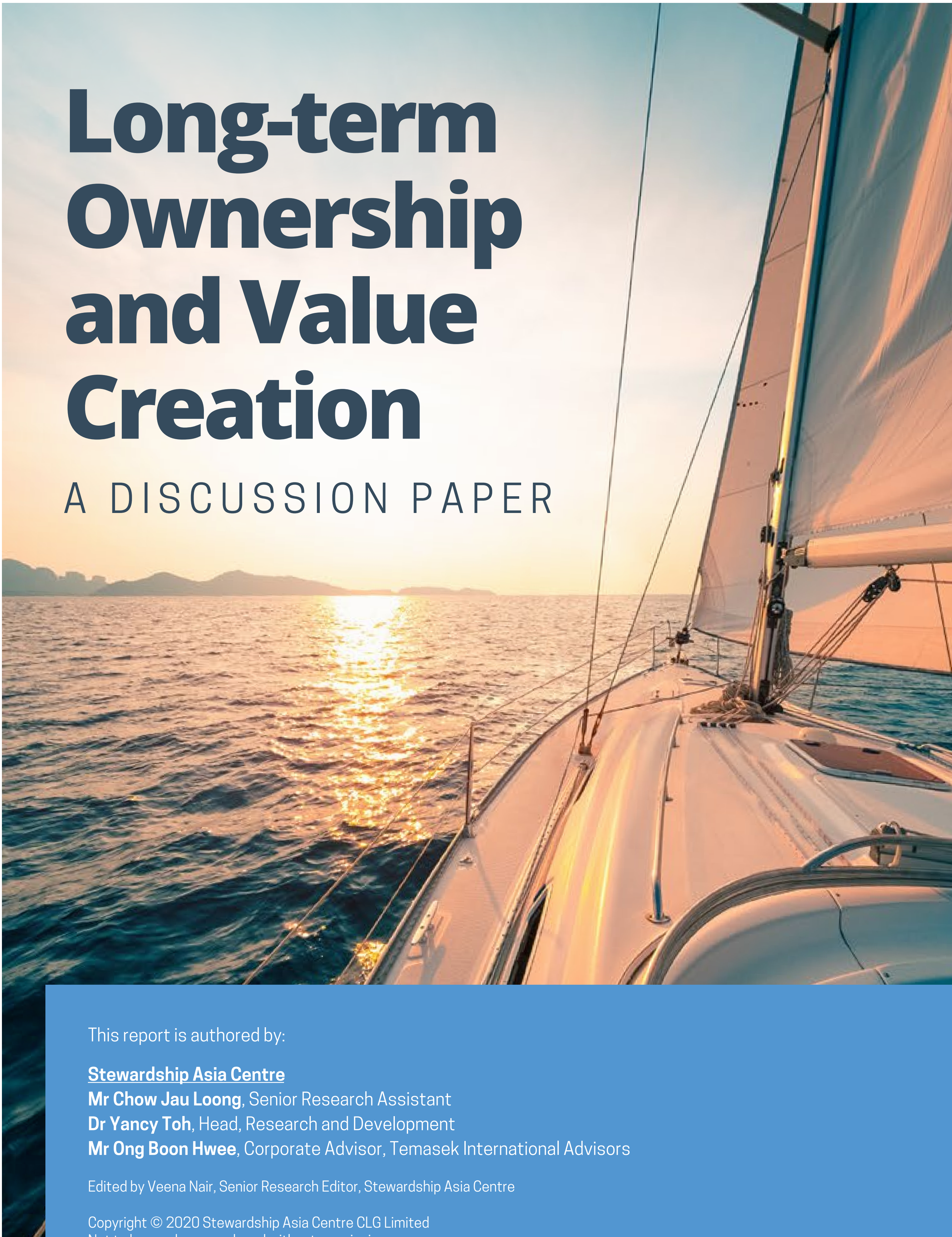
STEWARDSHIP ASIA
RESEARCH PAPER SERIES

Long-term Ownership and Value Creation

A DISCUSSION PAPER



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About Stewardship Asia Centre

Fostering Effective Stewardship and Governance Across Asia

Stewardship Asia Centre is a thought leadership centre promoting effective stewardship and governance across Asia and beyond. Positioned to inspire and lead change, SAC builds awareness and capabilities through research, education and engagement platforms that enable organisations to foster enduring success and responsible value creation, and in doing so, benefit the wider community and safeguard the needs of future generations.

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Executive Summary

The corporate world has long revolved around shareholder primacy. This has contributed towards short-term thinking in the bid to outperform the market and secure quick investment gains. We are now seeing more evidence of the negative consequences of such a mindset — undervalued human capital and investment, diminished Gross Domestic Product, wealth inequality, political tensions as well as diminished innovation and brand equity. Cognisant of these issues, enlightened business and asset owners need to realise that they must think and act long-term to create value for stakeholders of today and tomorrow to achieve sustainable returns.

All actors in the business ecosystem have a part to play in achieving this ideal state of long-term value creation. Amongst them, we posit that owners with a long-term view have more propensity to invest for the future. In this paper, we put the spotlight on three long-term ownership groups: family businesses, state-owned entities and institutional investors. These long-term owners wield the power to influence and moderate the behaviours of stakeholders. They provide the security and sustained support for endeavours that can only pay off in the long run. However, it is fallacious to assume that long-term ownership alone can guarantee responsible wealth creation. This leads to our key assertion that long-term ownership has to be rooted in a stewardship mindset, which focuses on the collective well-being of all stakeholders and intergenerational empathy. Such a mindset is integral to the responsible and whole-hearted management of entrusted assets so that they can be handed over to successors in a better shape.

Long-term ownership can be defined along three main dimensions: legal, psychological and temporal. Putting all three dimensions together, we define long-term ownership as **the longitudinal commitment of owners with stakes in the organisation to fulfil their legal and psychological obligations, driven by an intrinsic sense of responsibility and solidarity, to enable long-term transformation for value creation.**

Long-term owners with a stewardship mindset should and would embody certain qualities, which we summarise as: a stabilising anchor that mitigates perturbations; a cultural architect who aligns values; a pro-social integrator who looks beyond profit maximisation; a passionate nurturer devoted to sustainable wealth creation; and an enlightened changemaker with long-term orientation.

Without romanticising the notion of long-termism, we acknowledge that the current reality paints a different picture when it comes to implementation. The impediments to long-termism are multi-fold and cut across four scales: individual, organisation, industry and economy. They can be cognitive, affective, socio-cultural and political in nature. Similarly, the pitfalls to long-term ownership — exploitation and extraction of resources; intransigence, conservatism and inefficiencies; as well as perpetuation of a closed system — can undermine the gains of long-term ownership significantly.

After delineating these impediments and pitfalls, which we have drawn from literature and focus group discussion with business leaders, investors, academics and professional associations, we mapped them to a list of five stewardship-oriented recommendations for generating long-term value creation. These recommendations reflect our responses to the problems we have identified above. The central question we want to address is: **How can long-term owners steward their organisations for long-term value creation?**

The five distinct but interconnected recommendations are:

1. **Act as a stabilising force**
   Be part of a stable shareholder base that helps create value for both company and its stakeholders.

2. **Strive for strategic alignment**
   Promote sustained coherence between purpose, goals and strategies for long-term value creation.

3. **Build long-term capacity**
   Develop capacity and capabilities for the shift from short-termism to long-termism.

4. **Create a culture of ownership**
   Forge a culture that fosters co-ownership and shared growth.

5. **Engage and communicate with stakeholders**
   Harness engagement as a mechanism to fulfil ownership obligations and stewardship responsibilities.

These broad recommendations are then contextualised according to the distinctive characteristics of the three ownership groups and further translated into how they may look like in practice. Owners can consider these recommendations and apply the practice guidance in their own context to achieve long-term value.

We hope this paper will inspire long-term owners to cultivate a stewardship mindset that is quintessential for the continued success of businesses and the holistic well-being of the society. While primarily targeted at business and asset owners, the guidance provided in this paper can also be useful for boards, asset managers and service providers when interacting with their clients and beneficiaries towards the cultivation of well-stewarded organisations.

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Preamble

The shareholder primacy system, lauded for its benefits to corporations and the economy over the past few decades, has become increasingly challenged as the world faces daunting social and environmental challenges today. Advanced by economist Milton Friedman, the shareholder theory states that the sole responsibility of business is to maximise profits for its shareholders (Friedman 1970). However, the pursuit for profit maximisation has led to short-term thinking and emboldened managerial myopia which in turn has culminated in shorter shareholding periods, a reduced strategic planning horizon, excessive risk-taking and less emphasis on sustainable growth in the bid to outperform the market and secure quick investment gains. Notwithstanding the fact that short-termism has proven to create value for investors and stave off complacency (Tucker 2018), it has begun to hurt innovation and brand equity in the long run (Tucker 2018; Martin 2015). Additionally, at a broader level, short-term profit maximisation can result in undervalued human capital and investment, diminished Gross Domestic Product, wealth inequality and political tensions (Lipton 2016).

Cognisant of these issues, enlightened businesses and asset owners understand that they cannot function as they used to. In order to achieve long-term shareholder value, they need to think beyond short-term interests and act responsibly to create value for stakeholders of today and tomorrow. In a recent study conducted by the McKinsey Global Institute, firms that focused on the long-term enjoyed 47 per cent higher revenue and 36 per cent greater earnings on average than their short-term peers based on the data collected over a period of fourteen years between 2001 and 2014 (Barton et al. 2017). Although there is mounting appeal for long-term value creation, it can be difficult to implement in reality, especially for listed companies with dispersed shareholding. For these companies, unifying the voices of fragmented shareholders can be challenging due to differing agendas. Many of them are transient owners who are likely to set their sights on short-term trading, the next dividend payment or divesting their businesses at the early sight of impending difficulties (Mayer 2018).

All actors in the business ecosystem, including but not restricted to investors, board, management, employees, suppliers, civil society and the state, have a part to play in creating long-term value. Amongst them, we posit that owners with a long-term view have more propensity to invest for the future to enhance the company's future value. In this paper, we take an expansive view of who an owner is and define owners as those with: i) tangible stakes in the company, either in the form of voting rights and share ownership such that they have the ability to hold influence over the company; or ii) the autonomy to outsource asset management duties to other asset managers or financial intermediaries. As a conceptual position paper, we focus on three long-term ownership groups: family businesses, state-owned entities and institutional investors. Family businesses and offices are considered (natural) long-term owners because they have strong motivation to ensure intergenerational growth. They assert significant influence over strategic business decisions and often demonstrate long-term orientation that enables them to be more resilient compared to non-family businesses (Klerk et al. 2018; Chrisman, Chua & Steier 2011).[1]

Likewise, state-owned entities should conceptually be expected to have a long-term orientation as they ought to have the interest and welfare of the citizenry at heart — now and for future generations. State-owned entities, which include sovereign wealth funds, state pension funds, state holding companies and state-owned enterprises are established with the aim of "attaining long-term savings to guard against future liabilities, for fiscal stabilisation to cushion economic shocks or for economic development purposes" (Ong & Goyder 2020). Institutional investors, by definition, comprise a (relatively) mixed bag of entities, but they do include long-term asset owners such as endowments, pension funds, foundations and insurance companies. Many, across the categories, have long-term liabilities and build funds for perpetuity. Those who see themselves as long-term owners have actively incorporated the philosophy of sustainability into their investing practices by placing less emphasis on quarterly results and more focus on evaluating the long-term fundamentals of equity.

These three groups of long-term owners can deliver beyond financial returns and shape societal outcomes. Being primary sources of business capital, they possess the most incentive to effect sound corporate behaviour and governance structure. They are also catalysts who can effect cogent changes for long-term value creation, and can create the incisive impact to curb the trend of short-termism by influencing and moderating the behaviours of managers if the latter are predominantly focused on achieving short-term returns. The stable nature of such ownership also provides the security and sustained support for endeavours that can only pay off in the long run (Sjögren 2006). These owners can become stabilising forces in the market and help finance long-term productive activity (Neal & Warren 2015). This allows boards to focus on dealing with tough corporate decisions without being influenced by parties who do not have a long-term interest in the company (Haarmeyer 2007). As such, long-term ownership can mitigate sustainability-related risks and help to build well-functioning markets, buttressed by strong governance and a sense of social responsibility. It means being clear with objectives, staying true to the company's values and withstanding the temptation of immediate gratification in favour of sustainable returns. The will of such long-term owners to spearhead change will set the direction (mandate), and influence other stakeholders such as asset managers, corporate boards and the company management to do likewise (Barton & Wiseman 2014).

However, it is fallacious to assume that long-term ownership can guarantee responsible wealth creation. Bearing in mind that long-termism may also encourage a lack of accountability, it can create conditions for long-term owners to reduce, rather than increase the value generated by a firm over time. They can extract private benefits; allow public policy objectives to hijack the agenda of societal value creation; or remain reluctant to act quickly to arrest ineffective governance polices and navigate changing market conditions. They may also be driven by compliance, rather than the spirit of stewardship when it comes to disclosure. When long-term owners become too complacent, they can be prone to intransigence, conservatism and inefficiencies.

As a corollary, long-term ownership is vital but not necessarily sufficient for enabling sustainable wealth creation. It is important to ensure that long-term ownership is rooted in a stewardship mindset. Here, stewardship is defined as **the responsible and wholehearted management of entrusted assets so that they can be handed over in a better condition to the next generation** (Ong & Goyder 2020). It is underpinned by the will to safeguard and enhance value over time. It is also rooted in the understanding of interdependence where the success of businesses cannot be divorced from the well-being of stakeholders and the broader environment in which they are embedded in. Organisations that are well-stewarded not only perform well financially, they are also socially responsible institutions that lead with impact and strive to be future-proof — important prerequisites towards responsible ownership and the establishment of a more sustainable global (corporate) environment (Cossin & Ong 2016).

That said, what really defines long-term ownership, and what distinguishes long-term owners? Do all companies from the three aforementioned ownership groups embrace and practise long-term ownership? What traits should owners possess to be considered as long-term owners with a stewardship mentality? Or even more so, are companies that label themselves as long-term owners (in their statements and reports) really so? We will address these in the following segments of the paper.

KEY POINTS

- Focus on short-term profit maximisation can result in undervalued human capital and investment, diminished Gross Domestic Product, wealth inequality and political tensions as well as diminished innovation and brand equity.
- Three long-term ownership groups — family businesses, state-owned entities and institutional investors have distinguishing traits of companies that practise long-term ownership that translate into greater propensity for them to invest for the future.
- Long-term ownership must be rooted in a stewardship mindset to enable responsible and sustainable wealth creation.

3

Defining Long-term Ownership for Value Creation

Ownership can be defined along three main dimensions: legal, psychological and temporal.

3.1 Legal Dimension

The legal dimension deals with the ownership rights that an owner is entitled to. This criteria of being an owner is fulfilled when an individual or corporation has legal (de facto) status of holding control of an organisation, through share (or equity) ownership. Borrowing ideas from Mintzberg, ownership can be divided into two constructs, encompassing both "concentration" and "involvement" (Mintzberg 1983).

Concentration refers to the degree of ownership dispersion of a company. This can range from entities with a single owner to widely-held corporations with multiple shareholders. Owners can gain legitimacy and support among stakeholders to influence and provide advice on the strategic direction of the company.

Involvement refers to the level of interaction these owners have with their companies. This can range from indirect to direct involvement. A long-term owner who oversees the operations of the company or actively engages with stakeholders is considered highly involved.

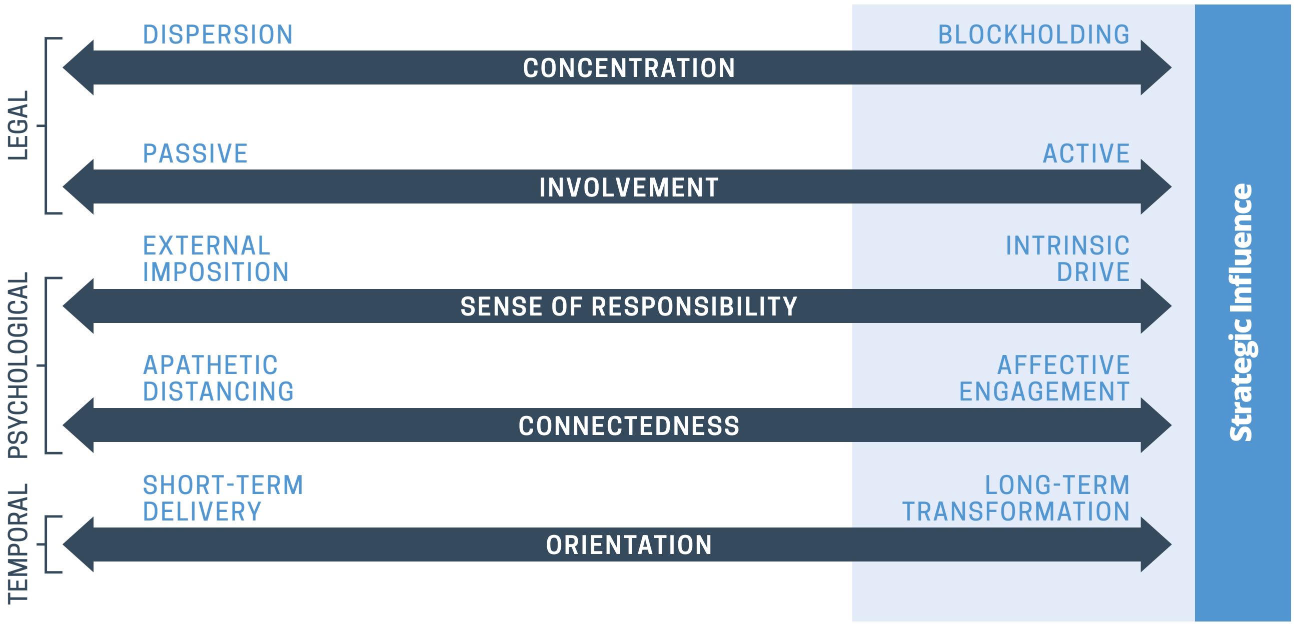
3.2 Psychological Dimension

Besides these tangible aspects of ownership, there is another intangible aspect of ownership known as psychological ownership. It signals an individual's identification, responsibility and attachment towards the organisation (Pickford, Joy & Roll 2016). This state of mind can be influenced through cognitive (thoughts and perceptions) and affective (emotional) mechanisms, on top of contextual and structural factors. Owners with this psychological sense of ownership are emotionally connected to the well-being of the company and will channel more energy towards stewarding the company. Based on the inputs of our focus group participants, convened during a consultation session held during Stewardship Asia Centre's Annual Roundtable,[2] we further divide this psychological domain into two constructs: "sense of responsibility" and "connectedness".

Sense of responsibility refers to the type of motivation that direct owners' behaviours. This can range from 'external impositions' to meet baseline requirements required by corporate governance regulations, to an 'intrinsic drive' of responsibility to steward a company based on will and genuine concern for the long-term welfare of the organisation.

Connectedness is the owners' sense of relatedness and perception of compatibility towards the purpose of value creation. It can range from 'apathetic distancing' to 'affective solidarity'. A long-term owner who identifies with the purpose demonstrates sustained passion and solidarity in creating long-term value for those they serve and are accountable to the company's future, as opposed to an opportunist who is distant and apathetic over the fate of the company and will most likely opt for an early exit. Here, it is important to note that affective solidarity is not analogous to irrational attachment or passion, but a persistent willingness to look beyond personal gains and work in unison with other actors in the ecosystem to unlock long-term value.

Figure 1: The Three Dimensions and Five Continuums of Ownership



3.3 Temporal Dimension

In addition to legal and psychological ownership, we have included a third dimension of ***orientation*** to highlight the focus of value creation. Orientation refers to owners' outlook. It can range from just focusing on 'short-term delivery' to integrating both the short and 'long-term' imperatives coherently for 'transformational change'. It does not just literally entail the temporal dimension, but also includes normative practices such as taking excessive risks for quick returns (short-term) or frugality for delayed economic gratification (long-term).

All five constructs have an impact on the degree of control (or influence) owners exert over time. A long-term owner who is a blockholder with direct involvement, possesses intrinsic responsibility and affective solidarity, and maintains a long-term outlook over a sustained period of time, is said to be better poised to influence the strategic decisions of the company.

Putting all dimensions together, we define long-term ownership as **the longitudinal commitment of owners with stakes in the organisation to fulfil their legal and psychological obligations, driven by an intrinsic sense of responsibility and solidarity, to enable long-term transformation for value creation.** Those that hold substantial stakes should exercise long-term ownership to align their interests with broader objectives of other stakeholders and society.

KEY POINTS

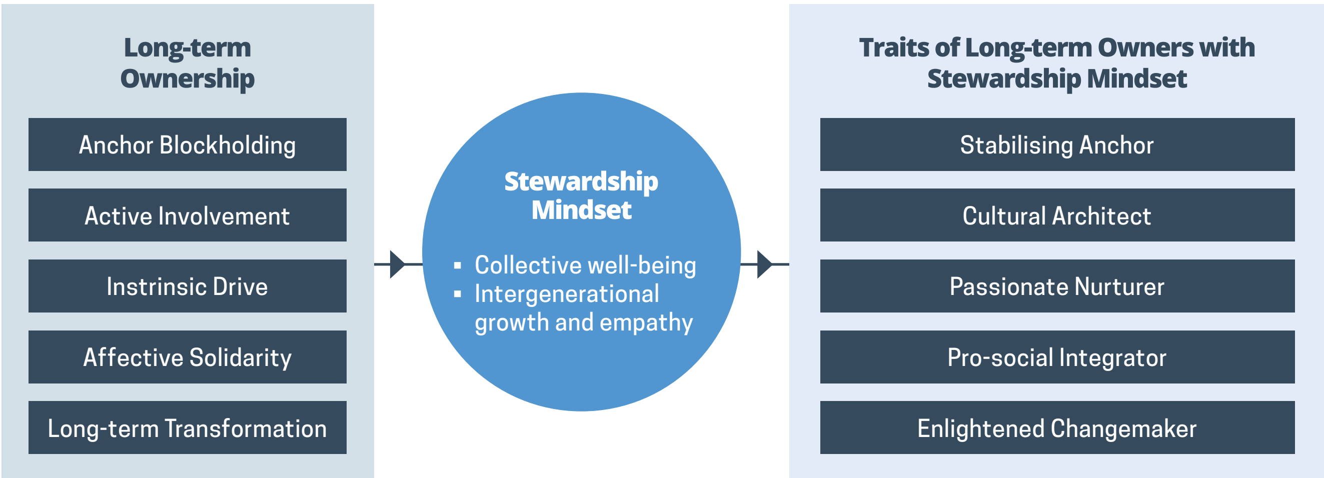
- Ownership can be defined along three main dimensions: legal, psychological and temporal.
- Legal ownership can be concentrated and/or involved where the owner has a high degree of share ownership and involvement in company decisions.
- Psychological ownership engenders a sense of responsibility and connectedness to the organisation — which is influenced by cognitive and affective mechanisms as well as contextual and structural factors.
- Temporal ownership engenders fulfilling legal and psychological obligations by adopting an orientation that enables long-term transformation.

4

Traits of Long-term Owners with a Stewardship Mindset

Long-term ownership, in particular, psychological ownership has a synergistic relationship with stewardship (Hernandez 2012). As mentioned earlier in the paper, stewardship involves handing over entrusted assets in a better shape to the next generation. This can only be achieved if a steward is motivated by the higher purpose of enabling intergenerational growth and considers the broader implications of their business actions on the society and environment. In short, a stewardship mindset focuses on collective well-being, and is predisposed to ensure that this collective well-being is long-lived, as manifested in embodying intergenerational empathy (Hernandez 2012).

Figure 2: Traits of Long-term Owners with a Stewardship Mindset



In putting the constructs of long-term ownership and stewardship behaviours together, long-term owners with a stewardship mindset should and would likely embody certain qualities which are exemplified when they interface with internal and external stakeholders. We summarise them as:

i) A stabilising anchor who mitigates perturbations;
ii) A cultural architect who aligns values;
iii) A pro-social integrator who looks beyond profit maximisation;
iv) A passionate nurturer devoted to sustainable wealth creation; and
v) An enlightened changemaker with long-term orientation.

A stabilising anchor mitigates perturbations stemming from short-term fluctuations and hostile takeovers, as well as provides the vision and values for the board and management to act on (Mayer 2018). A stable base of long-term shareholders also breeds confidence to businesses and investors — a foundational pillar towards greater economic and social development.

A cultural architect is actively involved in working with the board and management to build a climate that is conducive for stewardship to flourish. This includes promoting intrinsic motivation, organisational identification, use of personal (instead of hierarchical) form of power, collectivism, low power distance and involvement orientation (Neubaum et al. 2017).

A pro-social integrator looks beyond profit maximisation. Being pro-organisation and pro-social, the integrator mediates the needs of business and stakeholders (Hernandez 2012), recognising that companies are a part of society, not apart from society, and will establish closer and trustworthy long-term relationships with their stakeholders. Premised on a sense of community, the integrator champions social responsibility and acts in the interest of stakeholders, beyond shareholders, and are firmly rooted in the fundamental values of care and compassion.

A passionate nurturer emphasises sustainable wealth creation by nurturing both tangible and intangible assets — financial, social, intellectual, human and natural capital (Neubaum et al. 2017). Long-term owners with a stewardship mindset have farsightedness in ensuring agility and adaptiveness, building patient capital to endure downturns (building resilience). They also ensure that the founding philosophy of the company continues to be inscribed as it grows. The cultivation of these forms of capital will enhance the organisation's capacity for sustained growth to benefit both the current and future generations. Driven by an innate sense of responsibility, such a mindset of creating intergenerational equity cannot be regulated or legislated and needs to be nurtured patiently by a core group of owners and leaders who have the desire to work towards the long-term success of the organisation.

An enlightened changemaker encourages the use of governance mechanisms not to penalise, but to transmit value systems to address stakeholder concerns and organisational reform for the long term. Where there are deviations from stewardship behaviours, mechanisms such as education, coaching and dialogues are used to re-align and internalise mindset and behaviour (Viswanathan et al. 2020).

KEY POINTS

- Stewardship mindset focuses on sustained collective well-being and manifests as long-term growth for succeeding generations.
- Traits of long-term owners with a stewardship mindset include being:
  - **A stabilising anchor** who promotes long-term vision and values;
  - **A cultural architect** who builds a stewardship culture by promoting intrinsic motivation, organisational identification, use of personal (instead of hierarchical) form of power, collectivism, low power distance and involvement orientation;
  - **A passionate nurturer** who nurtures tangible and intangible assets and builds a culture of resilience;
  - **A pro-social integrator** who acts in the interest of stakeholders beyond shareholders; and
  - **An enlightened changemaker** who uses internal governance mechanisms to transmit value systems for the long term.

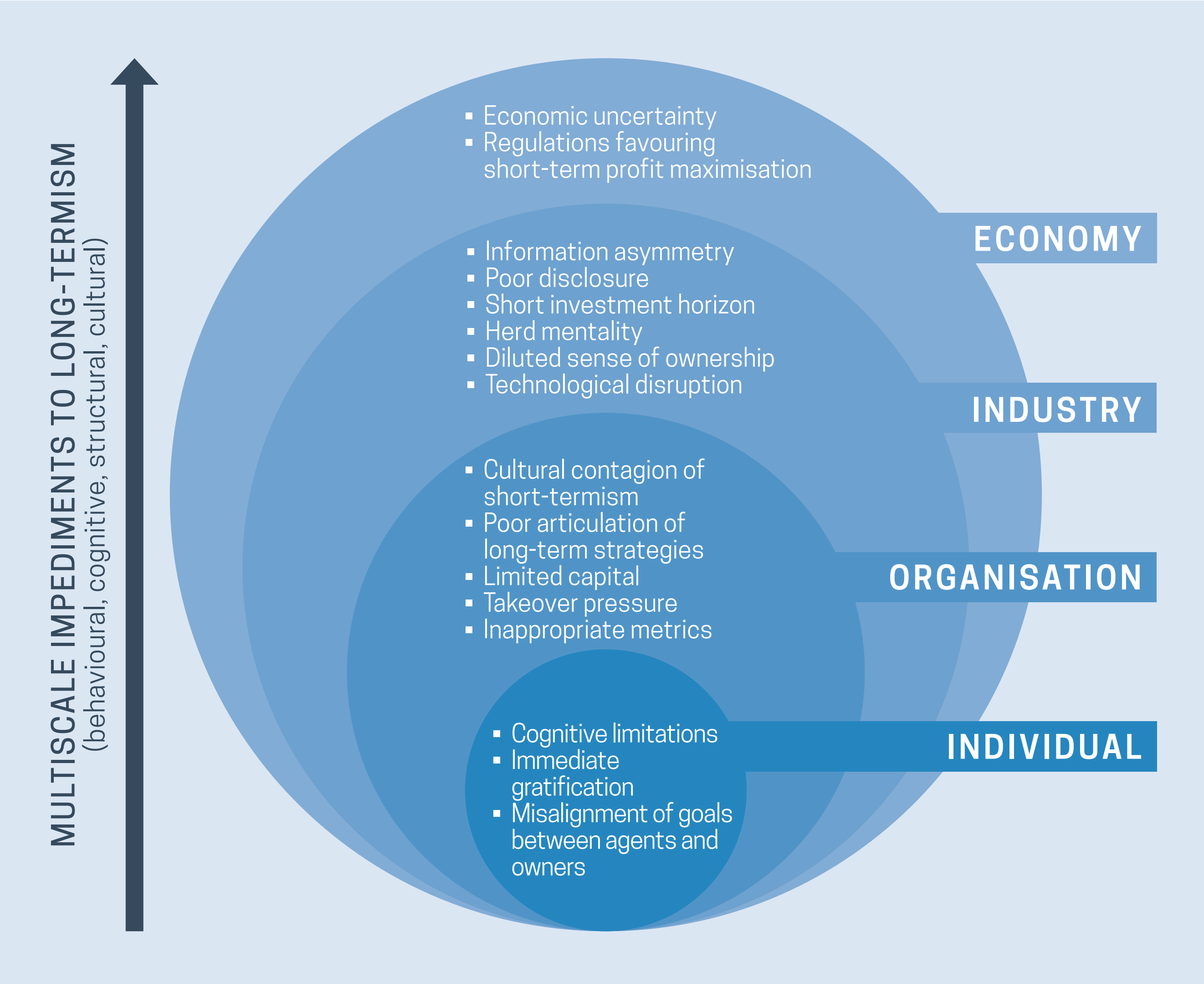
5

Impediments to Long-termism

To get buy-in to the concept of long-term culture in a climate of short-termism is challenging, largely due to multi-fold impediments in the business ecosystem. Distilling from a wide array of studies, these impediments cut across four scales: individual, organisation, industry and economy.

At the individual level, cognitive limitations to recognise alternative long-term mechanisms, behavioural biasness towards instant gratification and misalignment of intention between agents and owners can undermine long-termism.

Figure 3: Impediments to Long-termism



So do certain negative organisational attributes, such as the cultural contagion of short-termism, poor codification of long-term strategies, limited capital, takeover pressure and inappropriate metrics that perpetuate short-term thinking.

Industry-level quandaries such as information asymmetry, poor disclosure, short investment horizon, herd mentality, diluted sense of ownership and technological disruptions often result in limited data that can render long-term planning futile.

Macro influences such as economic uncertainties and regulations favouring short-term profit maximisation can also act as countervailing forces against long-term outlook. To address the impediments of long-termism, we have crafted five stewardship-oriented recommendations for long-term owners. In contrast to conventional governance structures that rely on the use of a combination of controls, policies and monitoring mechanisms, stewardship aims to change behaviour and culture by nurturing the intangible aspects of the company to advance collective welfare.

KEY POINTS

- Short-termism that cuts across the levels including individual, organisation, industry and economy is the antithesis of long-term ownership and we have to be mindful of the multi-fold impediments that contribute towards this phenomenon.
- Stewardship aims to change behaviour and culture by nurturing the intangible aspects of the company to advance collective welfare.

6

Stewardship-oriented Recommendations for Long-term Owners

We recognise that the contexts of long-term owners and organisations vary widely. Notwithstanding that, based on our literature review, and a consultation session with a group of thought leaders, asset owners, as well as practitioners, we have drawn up a logic model of our argument (see Figure 4) and five broad stewardship-oriented recommendations for long-term owners. The recommendations are:

1. Act as a stabilising force

Be part of a stable shareholder base that helps create value for both company and its stakeholders.

2. Strive for strategic alignment

Promote sustained coherence between purpose, goals and strategies for long-term value creation.

3. Build long-term capacity

Build capacity and capabilities for the shift from short-termism to long-termism.

4. Create a culture of ownership

Forge a culture that fosters co-ownership and shared growth.

5. Engage and communicate with stakeholders

Harness engagement as a mechanism to fulfil ownership obligations and stewardship responsibilities.

We encourage long-term owners to utilise and internalise these principles as well as to apply them according to the context and needs of their organisation.

Figure 4: Conceptual Development of Stewardship Principles for Long-term Ownership

Traits of long-term owners with a stewardship mindset	Stewardship-oriented recommendations for long-term value creation	Addressing impediments
Stabilising Anchor	**Be part of a stable long-term shareholder base to that helps create value for both the company and its stakeholders** ▪ Look for stewardship alignment between owners, board and management ▪ Provide support for companies as they transition into different phases of development ▪ Play an active role in shaping positive structural changes, while ensuring that the perspectives of minority shareholders and other stakeholders are taken into consideration	▪ Economic uncertainty ▪ Takeover pressure ▪ Limited capital ▪ Short investment horizon
Cultural Architect	**Promote sustained coherence between purpose, goals and strategies for long-term value creation** ▪ Implement a mandate that is aligned to long-term goals ▪ Integrate statement of purpose, vision and mission ▪ Be mindful of the inter-relationship between short-term and long-term goals, strategies and implementations	▪ Poor articulation of long-term strategies ▪ Cultural contagion ▪ Misalignment of goals between agents and owners
Passionate Nurturer	**Develop capacity and capabilities for the shift from short-termism to long-termism** ▪ Invest time in understanding organisational context and readiness ▪ Develop a strong capability for internal benchmarking ▪ See disruption as an opportunity for growth and build momentum for organisational transformation	▪ Cognitive limitations ▪ Herd mentality ▪ Inappropriate metrics ▪ Technological disruption
Pro-social Integrator	**Forge a culture that fosters co-ownership and shared growth** ▪ Promote a caring culture ▪ Adopt the mindset of a responsible business owner ▪ Foster collective acountability	▪ Regulations favouring short-term profit maximisation ▪ Dilution of a sense of ownership over time
Enlightened Changemaker	**Harness engagement as a mechanism to fulfil ownership obligations and stewardship responsibilities** ▪ Educate and propagate the importance of long-term value creation ▪ Build and manage long-term relationships with stakeholders ▪ Ensure the accessibility of language in engagement reports	▪ Information asymmetry ▪ Poor disclosure ▪ Immediate gratification

6.1 Recommendation 1: Act as a Stabilising Force

Be part of a stable shareholder base that helps create value for both company and its stakeholders

Recommendation 1 aims to address problems relating to economic uncertainty, takeover pressure, limited capital and short investment horizon. There are compelling reasons why building a stable shareholder base is important. If the company has a stable pool of anchor shareholders with a stewardship mindset, they can work in unison with the company to prevent hostile takeovers or inject timely capital when the company needs it. A stable shareholder base is also associated with high long-term commitment from shareholders, which helps reduce the agency costs of the company (Aguilera & Crespi-Cladera 2016). This helps build a shareholder base that is premised on reciprocal respect and benefits. As significant shareholders hold large equity stakes, many are concerned about the long-term prospects of their investments and are more likely to engage with the company and its management rather than contemplate exit strategies. A robust relationship between companies and their long-term shareholders (owners) helps stimulate the growth of patient capital, which is integral in delivering long-term benefits for companies and their stakeholders (including shareholders).

Having a stable shareholder base is also critical for capitalising opportunities and dealing with challenges. It allows companies to weather crisis and counter threats by adapting quickly. It also enables companies to be decisive and have first-mover advantage to establish strong brand recognition and market share. In times of uncertainty, blockholders can be steady anchors of the company, by helping the board and management to isolate from external disturbances of the market and building on strategic attributes that can accentuate its competitive advantage (Tetrault Sirsly & Lamertz 2008).

For family businesses that are publicly listed, forming a stable long-term shareholder base means that they have to be selective when seeking anchor investors. These investors should share the company's philosophy so that they will stick with the company for a longer time horizon.

In the context of state-owned entities, state investment firms can provide the stability and stewardship as an enlightened anchor shareholder. Well-stewarded state-owned entities that have substantial capital, low liabilities and a long-term mindset can weather the volatile market conditions without having to resort to knee-jerk reactions, thus realising sustainable yields and intergenerational wealth (Ong & Goyder 2020). Another way to introduce stability to the shareholder composition is to consolidate several government-owned enterprises under a single portfolio of a state holding company, as practised by some countries. This can mitigate inter-agency conflicts between different ministries and departments (Sim, Thomsen & Yeong 2014).

For any institutional investor, stewardship has to be continually practiced throughout the entire holding period of its investments. While it is understandable that institutional investors tend to rebalance their portfolios from time to time, they should (re)invest in companies with the long-term in mind. Prior to becoming a stable shareholder, institutional investors should do their due diligence and stay committed with their investments in companies that can thrive and deliver both long-term shareholder and stakeholder value. They ought to assess whether these companies are willing to work on investor relations and truly welcome investors to share their insights and concerns regarding the long-term health of the companies, thereby enabling these portfolio companies to use such feedback to improve their corporate performance.

In practice

a. Look for stewardship alignment between owners, board and management

A long-term oriented company tends to attract investors seeking to achieve sustainable returns. By the same token, shareholders who invest based on the company's potential for sustainable value creation are more likely to invest in a company that shares the same ideals as them. Boards and managements who receive support from such a stable base of long-term shareowners are likely to feel more incentivised to embark on long-term corporate strategies (The British Academy 2019). By electing an independent board that acts in the interest of the company, long-term owners can perpetuate a virtuous circle of stewardship over generations.

b. Provide support for companies as they transit into different phases of development

Businesses that are at its infancy stage may be more concerned with survival than thinking about handing over their tangible and intangible assets in a better condition in the long run. On the other hand, established companies that are already doing financially well tend to have the economies of scale that allows them the flexibility to look beyond just being financially successful. Although the stage of a company's life cycle may be a proxy indicator of its readiness to redefine success in broader terms, it should not, in any way, preclude owners from practising stewardship. Working together with the board, a stable shareholder base with long-term owners can help provide support and shape priorities as a company transits into the different phases of development.

c. Play an active role in shaping positive structural changes, while ensuring that the perspectives of minority shareholders and other stakeholders are taken into consideration

Those long-term shareowners who show aptitude and commitment towards long-term value creation should be proactive in influencing the company to drive positive changes. Frequent participation by long-term owners will enhance the quality of engagement between shareowners and other stakeholders, thus reducing misalignment, disruption and instability to the company. However, to prevent the expropriation of benefits of minority shareholders and excessive dominance of anchor owners, the voices of minority shareholders should also be heard and represented on the board.

6.2 Recommendation 2: Strive for Strategic Alignment

Promote sustained coherence between purpose, goals and strategies for long-term value creation

Recommendation 2 attempts to address the impediments of poor articulation of long-term strategies, cultural contagion of short-termism, as well as misalignment of goals between agents and owners. Since long-term owners have the competitive advantage of stable ownership, they are better poised to tackle these difficulties by following through the reform cycle for long-term value creation. After all, as mentioned earlier, long-term owners are more likely to be around long enough to give them lead time to transform organisational culture and ethos to attain corporate value; as well as to sustain the fidelity of policy implementation.

For family business owners, this could mean the articulation of the company's purpose story and leveraging the "founder's mentality" (Zook & Allen 2016). It would also mean placing emphasis on succession planning to preserve organisational ethos and culture amidst the pursuit for growth.

For state-owned entities, this could mean understanding the state's long-term development imperatives and strategies, and aligning its organisational goals and strategies with its macro blueprint accordingly.

For institutional investors, it could mean having an aligned investment philosophy, strategy and governance model that is focused on investing for the long-term, reducing the emphasis on quarterly results and leveraging indicators beyond that of financial performance by taking into account the social and environmental value of their investments when screening and adjusting their portfolio.

In practice

a. *Implement a mandate that is aligned to long-term goals*

First and foremost, long-term owners need to establish a mandate, which spells out what the company strives to achieve over time. The mandate should clearly articulate the company's purpose and beliefs, which will enable (asset) owners to use it as a tool to guide and monitor the progress of the management. This will require having a coherent narrative that can connect all stakeholders and help align managers' behaviour and owners' objectives. The value-creating stories told by asset owners have to be credible to filter external distractions and channel concerted efforts to fulfil corporate purpose (Ambachtsheer 2019). This narrative can then become a self-referencing norm that accentuates corporate identity, and which can help attract and retain talent who are aligned with the values and practices of the company.

b. *Integrate statement of purpose, vision and mission*

In relation to the establishment of mandate and narrative, long-term owners should encourage companies to translate their philosophies into a clear statement of purpose, vision and mission that will lead to long-term wealth creation. This transcendental purpose and values should be integrated into corporate strategies and behaviours.

c. *Be mindful of the inter-relationship between short-term and long-term goals, strategies and implementations*

To promote sustained coherence, long-term owners need to provide support for the board and management to be ambidextrous, taking care of both the organisation's short-term needs and long-term developments. Long-term owners, the board and management cannot talk about the future without acknowledging current reality or historical legacy. They need to understand the organisation's developmental trajectory to connect the dots. However, long-term owners need to be mindful of excessive activism as it may lead to undesirable interference in daily managerial and operational matters. Long-term owners should aim to provide autonomy and support to the board and management for the pursuit of long-term goals; and provide constructive feedback on long-term value alignment.

6.3 Recommendation 3: Build Long-term Capacity

Develop capacity and capabilities for the shift from short-termism to long-termism

Recommendation 3 is a response to the impediments of cognitive limitations, herd mentality, use of inappropriate metrics and technological disruptions. As mentioned in the preamble, while short-termism has hefty opportunity costs in the long run, endogenous and exogenous factors inhibiting long-termism mean that, the shift from short-termism to long-termism is not seamless nor easy. It requires a deliberate shift towards long-term capacity and capability building. Responsible long-term owners have incentives to not only ensure strong corporate governance of the company, but also become catalysts in demanding and initiating changes that boost company value in the long run. As long-term owners would be inclined to know their organisational contexts better, they should take ownership in leading capacity building initiatives and work alongside other stakeholders to distil relevant and critical competencies. Being vested in long-term ownership means taking the vital step to protect their investments and businesses and ensure that potential business threats can be anticipated and responded to quickly. Long-term owners also support the sustainable growth strategies of investee companies, especially for research and development that can help increase long-term corporate value and realise sustainable returns. Long-term owners must avoid complacency and continue to grow their capacity for further progression.

Specifically, for family businesses, if succession planning is not done in a meritocratic manner, it may perpetuate a closed system. Professionalising the company by building a larger pool of talent to overcome groupthink and cognitive limitations that stem from nepotism is therefore essential. It also means having the know-how to achieve the balance between exploring new frontiers and extracting from current resources.

For state-owned entities, it means understanding macro trends and the dynamic development of geopolitical situations. At a more tactical level, it would mean reconfiguring resources, transferring technology and filling competency gaps across the constituencies of its portfolio. As state-owned entities are often criticised for their inefficiencies, developing the acumen to know where to concentrate to attain maximum impact would be illuminating (Budiman, Lin & Singham 2009).

For institutional investors, it means acquiring the know-how to go beyond private dialogue for shareholder activism (Ivanova 2017). Institutional investors and managers need to find ways to participate in positive sum opportunities. These enable them to achieve sustainable returns while building and sharing value with all stakeholders in their investments (Alexander 2017). The research to attain knowledge in distinguishing promising companies that have yet to reach steady state and companies that are simply languishing would be critical in order to create positive societal impact from investments (Greenfield 2011). It also means a shift in mindset from shareholder primacy to stewardship priorities. This mindset change could perhaps mitigate the issue of negative feedback loop, where interactions between short-term minded savers and short-term oriented asset managers can accelerate value destruction (Barton 2017). When a cultural shift towards long-termism has taken place, such negative amplifying effects will most likely be muted and reduced.

In practice

a. Invest time in understanding organisational context and readiness

Long-term owners should take time to understand the context of the companies they are stewarding. They need to nurture the following critical competencies: 1) nuanced understanding of pertinent contexts; 2) identification of existing competency gaps; and 3) distillation of evidence-based information. This can be done by reviewing risks and opportunities of the company periodically.

b. Develop a strong capability for internal benchmarking

For companies to prosper in the long haul, developing the capacity for conducting internal benchmarking is key. Owners, the board and management should jointly demonstrate clarity in articulating their stewardship intent and its mechanics, as well as make evidence-informed decisions based on quality data. The metrics should be relevant to the company's long-term growth, which entails looking beyond financial performance to better reflect costs and opportunities. For example, with an increasing focus on Environmental, Social and Governance (ESG) factors, many owners are now more concerned about sustainable supply-chain practices and brand equity rather than the quarterly earnings guidance which was conventionally favoured by short-term oriented investors (Darr & Koller 2017). Such factors should be incorporated into the benchmarking metrics, which can be devised with guidance from third party consultants who understand the nuances of the organisational context.

c. See disruption as an opportunity for growth and build momentum for organisational transformation

It is crucial that long-term owners support companies in their upgrading efforts to make business operations more relevant, efficient and cost effective. They should encourage companies to devise a framework for corporate sustainability, which includes cultivating the mindset of viewing disruptions as opportunities. With such support, companies can formulate forward-looking strategies to tackle potential disruptions that are relevant to their context. For instance, the advent of technology such as Artificial Intelligence, Internet of Things, Fintech and Blockchain will undoubtedly have an immense impact on the long-term ownership of any company. Long-term owners should support the board and management to leverage technology to meet the new demands of a changing consumer base. It also means the use of nudging policies for stepping up on data protection and reducing privacy risk; practising conservative financing to maintain low leverage; and investing in people as well as research and development to push for the exploration of new frontiers. These are essential steps for deepening human, intellectual and financial capital.

6.4 Recommendation 4: Create a Culture of Ownership

Forge a culture that fosters co-ownership and shared growth

Recommendation 4 aims to address the problem associated with regulations favouring short-term profit maximisation and the dilution of the sense of ownership over time. These factors inhibit the progressive growth towards long-term wealth creation. Long-term owners can create a culture that fosters co-ownership amongst key stakeholders. The philosophy underpinning co-ownership is shared growth where benefits accrued from businesses will be cascaded down to uplift those who have contributed to the wealth creation process. More importantly, ownership mentality and shared growth can overcome organisational inertia for change (Milano 2018). This also paves the way for a more compassionate society that thrives — not based on exploitation but equitable progress.

For family businesses, co-ownership and shared growth may take the form of creating a meritocratic environment where non-family employees can have equal opportunities to be successful. In some cases, family businesses may consider employee ownership through share incentive schemes, family holding companies, trusts or even direct succession (Thomsen et al. 2018). Such strategies eliminate agency costs and build a loyal workforce base that can tide through business cycles. Family relationships often determine and impact the stewardship culture of the business. It is therefore a key priority to manage interpersonal conflicts.

Whilst the ownership mentality tends to be more evident in family businesses, it may be lacking in investment firms. Institutional investors need to be instilled with this ownership mentality. They can lead the change by seeing the value of long-term investments and acting in the best interests of their clients accordingly. In the context of long-term investors, including institutional and sovereign investors, they exhibit ownership mentality when they defend investee companies from hostile takeovers, lowering the probability of value-reducing acquisitions (Gaspar, Massa & Matos 2005), and by ensuring their investee companies are delivering both financial and non-financial value to their stakeholders. In this way, they are also enhancing the investee company's capacity for shared growth between generations.

For state-owned entities, the co-owner relationship they have with the government and the private sector is often intricate and as such, there is no homogenous blueprint that can be applied across geographies and contexts. The ownership of state-owned entities can range from centralised, decentralised to hybrid models and each approach has its strengths and drawbacks (The World Bank 2006). Notwithstanding the heterogeneity of the ownership models, state-owned entities can promote shared growth by co-creating value with other stakeholders in society. This is most prominent when it comes to fostering a productive collaboration with the private sector. Through the vehicle of creating an incubator environment, state-owned entities can support entrepreneurs by helping them scale their proof-of-concepts (PwC 2015).

In practice

a. Promote a caring culture

Long-term owners should support companies in promoting a culture where owners and stakeholders demonstrate care and concern towards fellow co-workers, partners and the wider community they serve, as well as contribute actively within their loci of influence towards the betterment of the company and society. This will enhance a company's social license to operate, reinforcing its legitimacy by gaining more trust and acceptance from the public in the process.

b. Adopt the mindset of a responsible business owner

As owners, it is important to view businesses and investments based on long-term fundamentals and focus on building quality assets in the economy (CDPQ 2015). This can be done by instilling an ownership mindset amongst key stakeholders. At the organisational level, cultivating a responsible ownership mentality within the company can transform corporate culture to make boards, management and employees more motivated to make decisions integral towards the success of the company. On a macro level, co-ownership models may come in the form of private-public collaborations or multi-stakeholder partnerships to pool like-minded investors in committing towards long-term value creation. Co-ownership allows all stakeholders to feel that they have a stake in the fate of the company and see it as an extension of themselves, thus making them feel more empowered and loyal to the company. With this ownership mentality, there will be less temptation to dismiss low-probability catastrophic risks in pursuit of high-probability short-term gains and less tendency to sell shares for quick gains (Dallas 2012).

c. Foster collective accountability

Long-term owners should foster collective accountability. This can be achieved by encouraging the company to prioritise initiatives where teams take charge and contribute towards improving the organisational performance of the company and allowing key stakeholders such as employee representatives to be represented on the board. This facilitates the understanding of ground reality and allows employees to have a formal avenue to contribute towards the stewardship of the company. Additionally, instead of merely outsourcing their fiduciary obligations, long-term owners should also look at collaborating with other partners to build an ecosystem to safeguard the current and future benefits of their ultimate beneficiaries.

6.5 Recommendation 5: Engage and Communicate with Stakeholders

Harness engagement as a mechanism to fulfil ownership obligations and stewardship responsibilities

A common problem that confronts many owners is the lack of (real) engagement with the other stakeholders (especially the board and management) in the company. Even for family businesses, owners may lose sight of their businesses' direction, especially when the succeeding generations are less involved in the operations. This issue is even more prevalent among institutional investors, where many of them have no or little interaction with their investee companies as they rely on financial intermediaries to monitor the performance of their investments. Sovereign investors, particularly those who invest in foreign assets, also face this problem due to its small shareholding and the host state's concerns regarding national security, discouraging them from being active in engaging with their portfolio companies. Such lack of engagement will hinder long-term owners' ability and volition to exercise stewardship responsibilities. In view of this, we put forth Recommendation 5, which is to harness engagement to circumvent industry issues such as information asymmetry, poor disclosure as well as individual dispositions such as the need for immediate gratification.

For family businesses, it is about managing relationships between controlling family owners and their family members, non-family shareholders (if any) and the management. An organisational culture premised on trust will encourage open lines of communication, where feedback can be easily received and acted upon. A wide array of informal and formal engagement mechanisms can be used by family businesses. Examples include family meetings and family councils to ensure everyone is aligned with the future direction of the business. Coaching and mentoring the next generation of leaders is another way to engage internal stakeholders. Such a support system enhances the communication of values through long-term enculturation.

In the case of institutional investors, many invest on behalf of the ultimate beneficiaries — which are savers. All actors along the investment chain need to recognise that they have a fiduciary duty to understand the expectations of the institutional investors and their beneficiaries, and not embark on rent-seeking behaviour which runs contrary to the intention of capturing long-term returns. This may mean understanding the risk appetite, and stating clearly upfront the investment philosophy, so asset managers and asset owners have a clear alignment of goals and expected returns. As trustees of investment assets, the onus is also on institutional investors to outline their expectations to investee companies, while explaining to their beneficiaries how long-term value creation is imbued in the firm's operations. With the rise of stewardship engagement among stakeholders in the investment chain, there is growing recognition regarding the limits of quarterly reporting and thus, the rationale to switch to a longer time frame and employ other mechanisms to engage stakeholders.

For state-owned entities, engagement may be more intricate as their operations intersect with the state, market and companies. (Here, it is important to make the point that the engagement referred to is from the perspective of asset-owner and shareholders, and not to be confused with or construed as state interference or intervention into the company's day-to-day operations or business decisions.) Across different jurisdictions, state-owned entities' upward engagement with the state varies vastly. Some states advocate an arms-length approach to allow state-owned entities to maintain autonomy so that they can be run on a commercial basis based on the principle of separation of ownership and management. While there is no uniform engagement model between state and state-owned entities, state-owned entities should engage the market actively, and should be responsible active investors. This will allow them to understand ground realities and access market signals. Such market intelligence can improve the efficiencies of state-owned entities, resulting in less reliance on state subsidies for their viability. This means having a dialogue platform among the owners, the state and the management of state-owned entities. In terms of engaging investee companies, state-owned entities may engage them directly or indirectly. An example of indirect engagement would be to promote sound corporate governance by giving guidance to the formation of an independent board (Tan, Puchniak & Varottil 2015). An example of direct engagement would be the lobbying of environmental issues — exerting top-down pressure for state-owned entities to incorporate wider non-economic considerations (Hse, Liang & Matos 2017). By being accountable owners through active engagement with its stakeholders, state owned entities can help fortify trust between the government and its citizens to achieve positive social and economic objectives.

In practice

a. Educate and propagate the importance of long-term value creation

Education has been a neglected but crucial factor in propelling long-term owners and their stakeholders into further action. The entire business value chain, spearheaded by asset owners and leadership management, needs to support education initiatives that encourage and build capacity that facilitates the shift in mindset. A critical mass of educated long-term owners will help gain traction in recognising the importance and benefits of engendering long-term value creation.

b. Build and manage long-term relationships with stakeholders

Build relations based on trust and respect. This is more effective in promoting value creation in companies rather than through transactional relationships that predominantly focus on costs and returns. Trust and respect can be fostered by actively encouraging constructive feedback and transparent discussions among stakeholders to help facilitate the execution of robust and sustainable corporate policies. Long-term owners, boards as well as CEOs and management can jointly institute changes that help influence the company's direction and improve its performance. The desirable outcome is to create a productive partnership to collectively steer the organisations in a unified direction. This can help foster better and sustained returns in the long run.

c. Ensure the accessibility of language in engagement reports

Translate the essence of long-term value creation into plain language that is easily comprehensible to all stakeholders of the company. Hitherto, many of the company reports are written in a way that is only read and understood by a small group of accounting and legal professionals, and not to the shareowners at large. Long-term owners should encourage companies to publish reports in a shared language relatable to stakeholders and enhance other communication channels to help improve the accessibility of information pertaining to the company's health and attract like-minded partners for future collaboration.

KEY POINTS

There are five stewardship-oriented recommendations that long-term owners can consider incorporating to engender long-term value creation. They are:

- Be part of a stable shareholder base that helps create value for both company and its stakeholders.
- Promote sustained coherence between purpose, goals and strategies for long-term value creation.
- Develop capacity and capabilities for the shift from short-termism to long-termism.
- Forge a culture that fosters co-ownership and shared growth.
- Harness engagement as a mechanism to fulfil ownership obligations and stewardship responsibilities.

7

Conclusion

In a climate of dwindling trust for businesses, it is important that long-term owners display a stewardship mentality to build enduring value. Long-term ownership is not just a process. It is a stewardship mindset and culture, a vital building block which enables corporate longevity and realises sustainable returns. It is certainly not a panacea to the problems businesses face but it can enhance a firm's manoeuvrability when crisis strikes. With the support from long-term owners, firms need not resort to knee-jerk reactions as they can concentrate on configuring and harnessing its accumulated resources and build capacity over time instead of being concerned about short-term shareholder value. In this sense, long-term ownership can enhance a firm's resilience and agility.

To ensure long-termism can take root, long-term owners have to build bridges — linking stewardship mindsets, short-term and long-term interests, organisational capabilities, operational strategies and systemic resources across the value chain. As we have alluded to the above, the internalisation of stewardship principles takes time. Patient and committed owners with a steel will and moral courage are better positioned to be changemakers. The route towards long-term ownership is not a lofty mission, but a necessary journey in order to engender long-term value creation that will benefit present and future generations.

This paper is written with the intention to outline the significance and merits of long-term ownership, and is an attempt to stimulate further discussion with regard to definition, traits and principles for long-term ownership. This effort hopes to create critical connections in the ecosystem so as to seed and deepen interdependent changes within and across long-term owners and their organisations. By pursuing these principles, long-term owners are taking the mantle to gradually shift away from a rent-seeking mentality and towards a stewardship mindset which is vital for long-term value creation. To further operationalise these principles, we provide in the Annex section a list of reflective questions to help long-term owners frame their inquiry on stewardship matters.

In this paper, we argued for the need to cultivate a stewardship mindset among long-term (share)owners, stated our normative position on what long-term owners should do and how they can internalise the principles to become responsible owners. We would like to end off by posing a question to current and aspiring long-term owners: **Will you strive to become a steward?**

KEY POINTS

- Long-term owners should effect behavioural changes and promote an ownership mentality across the company and value chain.
- Long-term owners should promote a culture where stakeholders such as the board, management and employees take initiative and accountability for their actions, as it adds value to the company while lowering unnecessary transactional and agency costs.
- Long-term ownership when implemented in spirit and form can enhance a firm's resilience and agility.

8

Annex

Reflective Questions for Long-term Owners

Recommendation 1: Act as a Stabilising Force
Be a part of a stable shareholder base that helps create value for both company and its stakeholders.

1. How do we define shareholder value? What are our expectations on shareholder returns? Are they in line with the spirit of stewardship?
2. How can we build a shareholder base that embraces long-termism? How can we steward our companies along the different phases of a business cycle?
3. How can we build a shareholder base that is inclusive?
4. How can we build a regulatory framework that promotes value alignment between owners, board and management?

Recommendation 2: Strive for Strategic Alignment
Promote sustained coherence between purpose, goals and strategies for long-term value creation.

1. What values do we subscribe to? What kind of legacies do we want our business to leave for our future generations? How will these lead to societal value creation?
2. How can we as (share)owners drive value across the company? How can we formulate and implement an internal mandate that embeds the spirit of stewardship?
3. How can we ensure that these aspirations are translated into organisational purpose, goals and strategies in a coherent manner? How can we ensure that they are internalised and inscribed over time?
4. How do we address the misalignment between organisational purpose, goals and strategies?

Recommendation 3: Build Long-term Capacity
Develop capacity and capabilities for the shift from short-termism to long-termism.

1. How do we evaluate the strengths, weaknesses, opportunities and threats of our business?
2. How relevant is our current evaluative system in terms of helping us understand the existing capacity, externalities and future needs of our business? How do we promote a benchmarking system that will encourage our business to focus on long-term concerns?
3. How do we strike a balance between financial prudence for self-preservation and financial expenditure for innovation and scaling?
4. How can we work alongside the board and management to nurture a stewardship culture that will help develop the tangible and intangible assets of our business? How do we show support to those who plan corporate strategies and investment decisions for the long term?

Recommendation 4: Forge an Ownership Culture
Create a culture that fosters co-ownership and shared growth.

1. How do we define stakeholders? Why do we define them in this way? Is this definition still relevant in today's climate?
2. What are the barriers to instilling an ownership mentality? How can we overcome them? How can we instil a sense of ownership amongst our stakeholders?
3. Do we practice shared growth? If yes, how? What are the benefits of such practices? If no, what is stopping us from doing so? How can we tap on the resources and knowledge from other stakeholders to enable a shift towards shared growth and collaboration?
4. What criteria do we use to decide when to relinquish ownership and "let go" of the attachments that accompany long-term ownership?

Recommendation 5: Engage and Communicate with Stakeholders
Harness engagement as a mechanism to fulfil ownership obligations and stewardship responsibilities.

1. What is our philosophy of stakeholder engagement?
2. What are our current mechanisms for stakeholder engagement?
3. In what ways have we engaged stakeholders to promote value alignment across our value chain? How can we challenge ourselves to do better?
4. Have we demonstrated leadership by actively educating stakeholders regarding the importance of a stewardship mindset? How can we leverage stakeholders in the ecosystem to exercise our fiduciary duties as long-term owners and stewards?

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[1] Research by Credit Suisse (2018) finds that the emphasis on long-termism, driven by the "family effect" has helped family businesses outperform their non-family peers by 700 basis points. In another study, conducted by Chrisman, Chua and Steier (2011), the authors state that family businesses are more resilient as they are able to infuse managerial talent in the firm without losing control and balance economic and noneconomic goals over varying time frames.

[2] The consultation session is an important feature of Stewardship Asia Centre's annual Roundtable, where a group of professionals representing the investor community, family owners, state-owned entities, institutional investors and academics come together to share their thoughts and provide useful recommendations that were helpful during the drafting stage of this paper. For more details, please refer to https://www.stewardshipasia.com.sg/

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