

**UNIVERSITY OF READING**



**An Exploratory Study of Honesty in Managerial Performance Reporting: Evidence from Ghana**

A Thesis submitted in fulfilment of the requirements for the Degree of

**DOCTOR OF PHILOSOPHY**

BY

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## **DECLARATION**

I Randolph Nsor - Ambala confirm that

1. This is my own work and the use of all material from other sources has been properly and fully acknowledged.
2. Except where due acknowledgement has been made, the work is entirely my own.
3. The work has not been submitted previously, in whole or in part, to qualify for any academic award.
4. The content of the thesis is the result of work which has been carried out since the official commencement date of the approved research program.
5. Any editorial work, paid or unpaid, carried out by a third party is acknowledged.
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**Randolph Nsor-Ambala**

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## ABSTRACT

This exploratory study examines the concept of Honesty (H) in Managerial Performance Reporting (MPR) developing the concept of Honest Managerial Performance Reporting (HPR). It identifies the level of honesty in manager's performance reporting behaviour and how HPR influences aspects of Firm Performance (FP). The work of Yang (2009) and Evans et al. (2001) provide academic consideration of this area, including insights into how this area may be studied. Practical, real-world examples of such issues are numerous, but the 'Enron case' is probably the most well-known (Ndofor et al. 2015). The study utilises datasets of managers, managerial performance reports and companies (Ghana Club 100) in its work and applies a mixed method approach using a variety of research instruments.

Several theoretical approaches provide the bedrock for this study and a lens for examining different dimensions of the concept of honesty in MPR. These are Classical agency theory (Jenson & Meckling, 1976), a multi-actor stakeholders model that emanates from Stakeholder theory (Freeman 1984, Yang, 2009), Impression Management (Goffman, 1959), Legitimacy (Deegan, 2002) and Institutional (DiMaggio & Powell, 1983) theories.

The thesis explores the level of and factors that influence honesty in managerial performance reporting (HPR). It also determines if HPR has any implication on Firm Performance (FP). From this, four areas of endeavour are formulated, and hypotheses developed to address the issues in each area, and the quest for answers and conclusions to these specifications are pursued. Specifically, the study uses

- 1) Four experimental constructs to test manager's voluntary preference for HPR.
- 2) 265 structured questionnaires to explore the variables affecting HPR.
- 3) Statistical analysis to examine the relationships between HPR and FP.
- 4) Vignettes to document HPR practices among Ghana Club 100 companies.

The results are the outcomes of the hypotheses and in turn, address the research issues that answer the primary research question leading to conclusions such as: -

- a) Regarding levels of honesty, managers are partially honest in MPR.
- b) HPR is affected by a range of factors that include environmental, organisational, economic and individual variables.
- c) The nature and level of relationship of HPR on FP is that HPR has a significant positive relationship with FP.

The clear contribution of this study is that: -

- a) It uses managers rather than students in HPR studies confirming that managers voluntarily prefer HPR.
- b) It confirms that HPR is mainly influenced by factors within the control of 'decision-active' stakeholders.
- c) It demonstrates that HPR can be improved if the pay-off for performance related bonuses is deferred rather than paid immediately.
- d) It provides evidence that HPR has a significant and positive effect on FP.

These contributions provide new insight into Managerial Performance, MPR, HPR and the relationship with firm performance, while recognising some limitations. It also makes worthy contributions to our understanding of new contexts.

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## LIST OF ABBREVIATIONS

Acronyms	Full Meaning
ANOVA	Analysis of Variance
CAT	Classical Agency Theory
CEO	Chief Executive Officer
CFA	Confirmatory Factor Analysis
CFO	Chief Financial Officer
Df	Degrees of Freedom
ENV	A Favourable External Environment
ETC.	Et cetera
FP	Firm Performance
GC100	Ghana Club 100
GIPC	Ghana Investment Promotion Centre
H	Honesty
HI	Historical Institutionalism
HPR	Honest Managerial Performance Reporting
IM	Impression Management Theory
INC	A fair economic incentive within an organisation
IND	A predominant set of collectivists within an organisation
INNOVATE	A high innovative performance culture within an organisation
IT	Institutional Theory
KPI	Key Performance Indicator
LT	Legitimacy Theory
MCS	A well communicated belief and boundary system within an organisation (i.e. Management Control System)
MNCs	Multinational Companies
MNO	Multi-National Organisations
MP	Managerial Performance
MPR	Managerial Performance Reporting
PCA	Principal Component Analysis
PERF	Stakeholder participation in performance measurement within an organisation
PI	Political Institutionalism
POLITICS	Non-Hostile internal politics within an organisation
ROA	Return on Assets
ROCE	Return on Capital Employed
SEM	Structural Equation Modelling
SI	Sociological Institutionalism
ST	Stakeholder Theory

## **CHAPTER ONE**

### **AN INTRODUCTION AND OVERVIEW OF THE STUDY**

This chapter provides an introduction and overview of the study which is an exploratory study of the concept of Honesty (H) in Managerial Performance Reporting (MPR) among Ghana Club 100 companies (GC100). The objectives/aims of this study are to examine the nature of honesty of managers in relation to Managerial Performance Reporting (MPR), it considers the factors that influence Honest Managerial Performance Reporting (HPR) and the nature of HPR's relationship with Firm Performance (FP). This chapter identifies areas for academic and conceptual development, by identifying gaps in the literature which allows potential improvement of our understanding by formulating research questions, operationalised by the formulation of relevant hypotheses. Key concepts and terms used in this thesis are Honesty (H), Managerial Performance (MP), Managerial Performance Reporting (MPR), Honest Managerial Performance Reporting (HPR) and Firm Performance (FP). The concept of Honest Managerial Performance Reporting (HPR) is a conceptual development of Honesty in MPR seeking to operationalise a concept which may be considered in the broader context of Managerial Performance (MP) and Firm Performance (FP). A fuller exposition of such concepts and their frameworks is considered in chapter two.

#### **1.0. OPERATIONALISING KEY TERMS AND ABBREVIATIONS.**

Honesty (H) is defined as the degree to which a report accurately reflects the underlying private information. Honesty, in this study, is categorised as accuracy rather than an ethical perspective (the intention to be “good”) and is perceived as a continuum construct with the possibility of differentiating more honest reports from less honest reports rather than a mere dichotomy between true or false (Hannan, Rankin & Towry, 2006).

The term Managerial Performance Reporting (MPR) comprises the process leading to supply and disclosure of all information (financial and non-financial), as well as appraisal systems generated within the organisation for effective decision making and resource allocation as well as assess the performance of managers against set targets by those with authority to do so. It is premise on the assumption that in situations where ownership is divorced from management, managers self-report their performance vis-a-vis set targets and processes. Therefore, discussions of Managerial Performance Reporting (MPR) in this study are based on scenarios where managers self-report their performance.

Performance is a broad word term and will be explored and explained in chapter two. Managerial Performance (MP) is a subset of this broad concept and is defined to include all measurable outputs of managers over a specified period and the extent to which such outputs support the achievement of set goals and encompasses the metrics of Firm Performance (FP).

Honest Managerial Performance Reporting (HPR) for purposes of this study occurs when managers of an organisation purposefully report performance results to stakeholders

truthfully, responsibly and promptly vis-à-vis the underlying private information in their possession. Misreporting of managerial performance is considered as opposite to Honest Managerial Performance Reporting (HPR). Yang (2009), as well as Evans et al. (2001), apply similar conceptualisations. In this sense, misreporting of managerial performance covers all purposeful actions, whether legal or illegal, that are undertaken by managers of firms with 'low values' to mimic the performance of firms with 'high value' (Bar-Gill & Bebchuk, 2003 a & b).

Yang (2009) explores the factors that affect HPR among public institutions using a dataset from Taipei. Yang (2009) applies SEM to eleven hypotheses and confirms a set of factors that interact to influence HPR. Data was collected using a questionnaire instrument with 165 respondents. Evan et al. (2001) apply an experimental approach to retest the empirical evidence of managers preference for honesty and find confirmation that managers usually prefer to be partially honest than totally dishonest in MPR. Based on their findings, Evan et al. (2001) provide a theoretical hypothesis of the likely effect of HPR on FP (but do not test the hypothesis) and suggest an empirical test of this hypothesis by future researchers. However, even though Evans et al. (2001) focus on managerial behaviour, their dataset is from 28 university students rather than managers. Yang (2009) on the other hand measures perception about MPR and HPR using data set from employees rather than managers. Yang (2009) justifies this action because employee perception about managerial action is close to actual (Chun, 2004). Other scholars have used a similar approach and justified it because using employees avoids SDB as employees' job security are not as closely tied to MPR as it is for managers (see for example Chun, 2004).

The definition of Firm Performance (FP) in this study is grounded in Stakeholder Theory (Freeman, 1984) and based on multidimensional indicators (Glick, Washburn, & Miller, 2005). Firm performance (FP) is also considered as a subset of organisational effectiveness and covers operational and financial outcomes of managerial action on a business entity (Venkatraman & Ramanujan, 1986). Organisational effectiveness is broader in that it covers other aspects of performance that relate to the functioning of the organisation as engagement in legitimate activities, resources acquisition, and accomplishment of stated goals (Cameron, 1986). The link between Managerial Performance (MP) and Firm Performance (FP) is hypothesised as being a significant contributor to the aim of achieving organisational effectiveness.

The term GC100 will imply companies within the Ghana Club 100 for the year 2014. GC100 ranks organisations in Ghana based on a set of criteria (this will be explained in chapter two) and usually connotes the top companies within Ghana.

In this exploratory study, the honesty of managers is assessed using experimental constructs with the propensity of managers to be Honest in Managerial Performance Reporting (HPR) being considered in Research Question One and operationalised and measured by hypotheses H<sub>1</sub>-H<sub>4</sub>. The assessment analysis uses an HPR score constructed based on data from experimental constructs. For each respondent, HPR<sub>IND</sub> = 1 - (actual pay-off claimed/ maximum possible pay-off) such that when a respondent

misreports to gain the maximum pay-off possible the answer is zero and when a manager reports the answer truthfully HPR will be one. For each experimental construct,  $HPR = \sum HPR_{IND}$ . This formula is mainly a weighted average of individual HPR scores (using maximum pay-off as weights) and allows for a perspective consideration of the magnitude of any specific misreporting (Evans et al., 2001).

The factors that affect Honest Managerial Performance Reporting (HPR) are explored in two steps. First, hypotheses are used to confirm associational relationship (correlation) with HPR ( $H_5 - H_{15}$ ). This is achieved through parametric and non-parametric correlation test. Specifically, results from Pearson, Kendall and Spearman correlation tests are analysed. The use of parametric (Pearson Correlation) and non-parametric tests (Kendall and Spearman's correlation tests) address the two school of thoughts about whether Likert Scale responses meet the requirement for an assumption of continuum. The two tailed P values are used to confirm the extent of the significance of the hypothesised association between Honest Managerial Performance Reporting (HPR) and another variable. Following that structural equation modelling (SEM) is used to test how the hypothesised variables confluence to affect Honest Managerial Performance Reporting (HPR). Structural equation modelling (SEM) is therefore used to propose a model of a directional relationship between variables and HPR. In substance, HPR becomes the dependent variable in a multiple regression. Values for HPR and the proposed influencing variables are computed using principal component analysis (PCA). In performing the PCA, the extraction technique with varimax rotation is used and the latent root criterion that required that the eigenvalues are greater than one applied to select the appropriate number of factors.

HPR's relationship with Firm Performance (FP) is tested using various regression types (that control for halo effect) to confirm several proposed hypotheses ( $H_{16}-H_{19}$ ). The theoretical basis for these hypotheses is explained in chapter three. In this relationship, HPR becomes the independent variable, and the measure of FP becomes the dependent variable. The choice of regression method is based on the nature of the dependent variable. Based on the nature of the dependent variable, Ordered Probit (i.e., marginal effects) or Logistic Binary (HPR coded as 0 or 1) regression methods are applied to measure the effect of HPR on employee satisfaction and employee perception of firm performance (FP).

These two dimensions (employee satisfaction and employee perception of firm performance) are considered as measures of Firm Performance (FP). This is because empirical evidence abounds of their direct and positive correlation with 'objective' measures of FP. Regarding 'objective measures' of Firm Performance (FP), Linear Regression with HPR coded in a Binary Form 0 or 1, and Robust Stepwise OLS at the respondent and organisational level are used to regress HPR on Return on Assets (ROA) and Return on Capital Employed (ROCE). P values at a 5% significance level are used to analyse the strength of the tested relationships. HPR aside Principal Component Analysis (PCA) was also computed based on the sum of scores on the Likert scale (for each respondent) and regressed to reveal the nature of the relationship.

## 1.1. BACKGROUND AND MOTIVATION

The Guardian Newspaper (23.10.14), reported that the Tesco CEO (Dave Lewis), barely three months into his new role, discovered a significant overstatement in accounting profits (for multiple prior years), more than £263 million. In the same edition, a retail analyst from Shore Capital (Darren Shirley) expressed concern about Delloite & Touche's admission that the accounting misreporting goes beyond one financial year raising 'all sorts of questions to our minds as to what has gone wrong in prior years' (*Guardian*, 23<sup>rd</sup> October 2014, p.7).

The trend of purposeful misreporting of performance by managers has gained significant notoriety in recent periods with Chief Executive Officers (CEOs) of renowned companies such as WorldCom (Farzad, 2005), Tyco International (Eichenwald, 2005) and Adelphia Communications (Bishop, 2015; Fabrikant, 2005) convicted of accounting fraud. Other CEOs such as Calisto Tanzi of Italy's Parmalat (Ndofor, Wesley & Priem, 2015) and Ramalinga Raju of India's Satyam Computer services (Bhasin, 2015; Niazi, & Ali, 2015; Timmons & Wassener, 2009) have admitted to fraudulent misreporting of performance information during their tenure of organizational oversight.

These recent spectacular corporate scandals have drawn stakeholders' attention to the managerial performance reporting (MPR hereafter) behaviour and decisions of business leaders (Mittendorf 2006; Birnberg 2011) in part because of the actual and perceived impacts of such business failures on national economies and individual lives. The resulting curiosity about managerial behaviour choices in performance reporting dilemmas has resulted in an increased interest in research on honest managerial performance reporting (HPR hereafter) by business managers. Ndofor, Wesley & Priem (2015) and Rankin, Schwartz & Yong (2008) provide examples of studies that explore managerial choices in MPR.

Agency theory predicts managerial action when there is a conflict between the interest of managers and shareholders (Jensen & Meckling, 1976) and for many, it provides a fundamental framework for studying and interpreting managerial ethical behaviour. In recent times agency theory has evolved into many streams (see Fig. 2.2 in chapter two) but is still predominantly defined by the classical approach which is often referred to as the Classical Agency Theory (CAT). CAT suggests that managerial action is predominantly self-serving.

Positive Accounting Theory (PAT) as expounded by Watts & Zimmerman (1978) is concerned with explaining and predicting actual accounting practices in contrast to a normative approach that seeks to prescribe what such accounting practices should be. Based on PAT, managerial action reflects in accounting and financial outcomes within financial statements.

HPR is a relevant phenomenon that requires more attention due to the empirical confirmation of bonded rationality in decision making by most stakeholders (Simon, 1989). Yang (2009), Gneezy (2002, 2004, and 2012), Gino & Pierce (2012) and Evan et

al. (2001) have been leading authors on HPR albeit from different perspectives. Evan et al. (2001) have focused on understanding managers preferred orientation about HPR hypothesising that managers voluntarily prefer HPR. Yang (2009) develops on Evan et al. (2001) and argues that even where managers prefer HPR, conducive conditions must exist for HPR to occur. Yang (2009) proceeds to develop and test a model about how selected variables confluence to affect HPR in public organisations. Gneezy (2002) focuses his studies on individual lying behaviour and predicts conditions that cause individuals to lie arguing that since organisations are made up of individuals, then understanding individual lying behaviour helps to understand HPR. Both Yang (2009) and Evan et al. (2001) request for replication studies within different geographical and cultural context.

Gino & Pierce (2012) focus on theoretical dispositions for observed HPR behaviour applying economic, social and psychological theories to explain empirical findings of HPR, especially partial HPR. They evaluate concept such as 'positive self-maintenance', 'lying aversion' etc. as possible explanations for observed behaviour. Recently, Gino & Pierce (2014) have argued that unfettered managerial discretion could lead to misreporting MPR and propose that in situations where there are strong possibilities and opportunities for managerial discretion to be used arbitrarily, such discretion should be constrained or a requirement imposed for multiple redundancies or diverse assessment from other managers.

As stated earlier, Evans et al. (2001) develop a hypothesis about the likely effect of HPR on FP based on their experimental study. However, they did not proceed to test it and request further study of this phenomenon empirically. Even though the literature abounds with empirical studies of the influence of ethics (See Cameron et al., 2002 and Chun, 2004) on 'objective' and 'perceived' measures of FP, there is no direct study of the effect of HPR on FP. Merkl-Davies (2011) summarises various studies that explore the effect of accounting fraud on FP. In most of these studies, the definition of accounting fraud is not clear. In this study, I provide a theoretical basis to test the relationship between HPR and FP (in chapter three). Evans et al. (2001) argue that if empirical evidence can establish a relationship between HPR and FP, then MPR may receive more attention.

In an MPR process, managers may have the opportunity to formulate their own reports on their performance. Positive accounting research relies on agency theory (Ndofor, Wesley & Priem, 2015) to explain and predict managerial choices (Peltier-Rivest & Swisky, 2000). Hence the Classical Agency Theory (CAT hereafter) underpins most empirical studies on HPR. CAT holds that agents (business managers) in possession of privileged private information (due to information asymmetry) are likely to use such information to their advantage even if it disadvantages the principal (Bowen, Rajgopal & Venkatathalan, 2008; Birnberg 2011). This study also adopts a positive approach but explores other theoretical depositions other than CAT.

MPR is an organisational communication tool that is critical for accountability, reward and quality decision making about efficient resources allocation (Waterman, Rouse & Wright, 2004; Bohte & Meier, 2000). However recent corporate failures and organisational

scandals have raised questions concerning the value of such performance reports on both theoretical and empirical grounds (Yang, 2009). If CAT is held to be true, for instance, then managers' opportunistic behaviour may limit the value of MPR (Evans, Hannan, Krishnan & Moser, 2001) requiring a reconsideration of efforts to encourage HPR.

Research has categorised the challenge with MPR into two areas or dimensions. The first concern is with the extent of honesty, quality, credibility, and truthfulness of such performance information, and the second matter relates to the insufficient use, misuse, gaming and creaming of managerial performance reports by crucial decision actors (Kettle, 2005). Yang (2009), attempts to link the two schools of argument by suggesting that, a likely cause for the misuse and non-use of managerial performance information may be the inability of stakeholders to trust the credibility of the performance information reported by agents (and hence one factor causes the other). In other words, the critical issue to deal with is to improve the relevance, credibility and 'honesty' of managerial performance information. Arguments like this, underscore the relevance of studies on HPR.

Literature abounds with various strategies used by managers to obfuscate, hide, temper with and falsely communicate managerial performance information in a self-reporting scenario. See for example Merkl-Davies & Brennan (2011). The strategies used can be grouped into five broad categories that include:-

- 1) Assigning wrong reasons for performance gaps or sterling performance
- 2) Purposeful hiding or delaying of information
- 3) Falsifying information
- 4) Conscious use of technical jargons and complexity to hide performance gaps
- 5) Tempering with conventional performance reporting policies and accounting standards.

Based on this synthesis that emanates from literature, the concept of HPR, as developed in this study, captures a scenario of honest managerial performance reporting where managers consciously avoid the strategies enumerated above. In this regard, HPR captures a scenario of honest managerial performance reporting where (from the perspective of stakeholders) managers are truthful, 'responsible' and prompt in reporting managerial performance (explained further in chapter two). My approach has empirical backing. Yang (2009) and Hanson & White, (2003) used a similar approach.

Studies about the factors influencing HPR must consider the individual attributes of agents as well as the organisational constructs that influence group dynamics in the workplace (Seeger & Ulmer, 2003). That is, while admitting that honesty as a concept emanates at the individual level, it is imperative to appreciate that information asymmetry entrenches the trend of managerial self-reporting of performance and honesty as a concept extends to the organisational level in managerial performance reporting. Indeed, critical learning from the various spectacular corporate failures has been the need to shift focus in management studies from individual morality and ethics to how organisational

environment and practices influence organisational communication (Seeger & Ulmer, 2003). From an organisational theory perspective, it is necessary to consider HPR as a general organisational tendency or behaviour rather than just the sum of individual moral and ethical thresholds and preferences. A study of HPR as an organisational concept highlights the reality that HPR is often a decision made by a collection of organisational actors in senior management positions (Yang, 2009). The focus on organisational variables does not in any way suggest a diminished role for individual moral and ethical practices in scholarly discussions around HPR. Instead, it indicates that, at the very minimum, discussions around organisational communication should include considerations of organisational attributes, environmental variables and agent's characteristics, rather than a mere extension of the summation of individual morality thresholds. This study (will be explained later) combines organisational and environmental variables (Flannery & May 2000; Schweitzer & Croson, 1999; Weaver et al., 1999) with individual characteristics of agents (Ford & Richardson, 1994; Leo et al., 2000) in predicting HPR. Specifically, following on from Yang (2009), I test a model that postulates that HPR is dependent on an organisations environment (internal and external), organisational practices (stakeholder participation and organisational culture) as well as an individual's level of moral development. My approach is supported by Devine (1966 p. 26) who claims that "The common core of scientific methods is the interworking of observation and deduction, and it should be clear that one can construct a predictive social theory only in conjunction with empirical and behavioural assumptions."

## 1.2. LITERATURE GAP(S)

Study of the key areas (honesty, managerial performance reporting (MPR) and honest managerial performance reporting-(HPR) has identified some gaps in understanding of the theory and practice. Such 'gaps' of theory and practice were first identified by Scapens (1983) and has been a motivator of research to develop our understanding of the area. Literature gaps with HPR studies are summarised below and explained in detail in the remainder of this section. These gaps include: -

1. Limited understanding from existing literature of the nature of honesty in MPR and its subsequent development into the area of HPR.
2. Conflicting scholarly findings and mixed results which affects the ability to improve predictive value about HPR.
3. Limited, minimal and inconclusive studies on the relationship between HPR and Firm Performance which affects stakeholder interest in HPR.
4. Incomplete identification and assessment of the confluence of factors that affect HPR.
5. Significant methodological difficulties with existing studies including the over-reliance on CAT, the focus on individual rather than organisational constructs of HPR and the extrapolation of student ethical behaviour to explain organisational HPR.
6. Limited studies on HPR in Africa, especially how agent's ethical behaviour varies according to cultural background.

### 1.2.1. Methodological Difficulties

Various methodological challenges have affected the predictive value of studies on MPR and HPR. In this sub section, I discuss three such challenges which are by no means exhaustive.

The first issue is the conflation of individual morality thresholds with organisational HPR. As can be deduced from the earlier section, studies have focused on agents' attributes, by assuming that, the individual preferences of managers or agents with regards to ethics, morality, and honesty provide an appropriate guide for the propensity for HPR. The current focus of studies on individual ethical thresholds to predict HPR may be problematic. In my opinion, what is relevant from an organisational growth perspective is HPR within an organisational setting rather than the mere honest orientation of individuals. Most studies have, in their construct of experiments focused on individual propensities and sought to generalise any findings onto organisational settings. While some studies have looked at this subject area from a cognitive view (Kohlberg 1969, 1981), other studies have focused on behaviours. For instance, Kohlberg (1969), proposes three stages of moral development to explain the propensity of individuals to exhibit high moral or ethical considerations in their actions. Xian, Roy & Chen (2006) follow other researchers to conceptualise cognitive orientation as the interplay between individualism (own or personal benefit) and collectivism (group benefit) by combining cognitive orientation (attitudes) with behavioural preferences. They suggest that incentives and control systems designed to encourage HPR can only be effective if they consider the unique cognitive orientation of agents. Drach-Zahavy, (2004); Ramamoorthy & Flood (2004); Clugston, Howell & Darfman (2000); Triandis (1995); Hofstede (1991); Earley (1994) also conflate individual and organisational honesty and confirm Xian et al. (2006) assertion. Without any prior research, it may be difficult to disagree with this methodology. However, it may be more appropriate to design a research method that focuses on HPR as an organisational rather than an individual issue.

Luft & Sheild (2010) agree with this approach and attribute the inconsistency in research findings to this anomaly. HPR, as conceptualised in this study, is an organisational phenomenon. This distinction is important because evidence exists to support the assertion that the dynamics of organisational action can mediate and temper various behavioural and cognitive orientation of agents (Yang, 2009). Luft & Shields (2010) call for additional research to identify these organisational relevant factors and to understand how people "trade-off."

Recent empirical studies, even though scanty, have attempted to introduce elements of organisational constructs into HPR studies (see for example Yang, 2009; Weaver et al., 1991). However, these studies are limited in the generality of their conclusions due to an arbitrary selection of organisational constructs as study variables, or entirely focusing on organisational constructs without the inclusion of other relevant variables such as individual attributes (Flannery & May 2000).

Secondly and related to the above, the research approach establishing agents' preference for HPR or otherwise has often been through laboratory experiments (Gibson, Tanner & Wagner, 2013) that uses students (Charness & Rabin, 2002) as respondents. The validity of such subject to population homogeneity assumptions has been questioned and supported in equal measure with no consensus. Increasingly, however, it is becoming apparent that students may react differently in scenarios of ethical dilemma compared to employees (Alpert, 1967; Van Loo, 1993; Brownell 1995). Considering the significant implications of such subject surrogation assumptions, Birberg & Nath (1963) advice that, at the very least a control sample (of the appropriate group from the 'real world') be used in a pilot study or the real experiment. Most studies that use students as surrogates do not test on a control group and this affects the generalisation of their findings. There is a detailed discussion of the population to subject homogeneity in chapter three.

Thirdly, the debate on the efficacy of the CAT, or any other theory for that matter, to issues of HPR, is by no means conclusive. For instance, whereas CAT confirms that misreporting of managerial performance by agents is deliberate and has adverse side effects, other theories, such as the stakeholder theory suggest that such distortion of performance reports is mostly not intentional and is mainly driven by the desire of agents to satisfy various stakeholders who have varied interest and focus. Stakeholder theory also suggests that multiple stakeholders inevitably result in information leakage that reduces any potential side effects of misreporting especially in an efficient market. The empirical evidence to support any of these theories is thin but evolving. As an indication, the failure of organisations such as Enron, and the reaction of stock markets do not suggest that multiple principals and stakeholders adequately 'discount' for misreporting in managerial self-reported performance information (Barefoot, 2002) nor do they confirm that agents get an adequate reward for HPR. Indeed, the costly attempt to align the interest of agents has not been successful in guaranteeing HPR as evidenced in the recent scandals in financial institutions (Berlau, 2015).

The CAT is based on standard economic models of self-interested utility maximisation and emphasises the role of consequences in determining agent's actions (Jensen & Meckling, 1976; Simons 1995). The theory assumes that principals and agents all act in a manner to maximise their wealth or gain, often at the expense of the value and interest of other agents or the principal (Christensen & Feltham, 2005, 2012; Salterio & Webb, 2006). Therefore agents will purposefully misreport performance for cogent reasons especially under conditions of complete anonymity, with no reputation effects and no interpersonal accountability (James Jr. 2002; Fumham & Taylor, 2004; Daley, Gigler, & Kanodia, 1990). Following from this, most models of HPR assume that managers' report performance in a manner to maximise their utility for wealth because agents experience little or no disutility from lying. Therefore, managers with privileged information will lie to any extent possible to gain the maximum payoff possible from performance reporting.

If the CAT is assumed to hold, then principals, aside from constant monitoring, must also seek to design contracts that rewards agents for HPR and reduces the reward for dishonesty, which can be costly (McColgan, 2001; Ndofor, Wesley & Priem, 2015). Ndofor, Wesley & Priem (2015) for instance suggest that: -

*'Thus incentive-aligning stock option compensation intended to reduce agency monitoring costs and improve firm performance may when taken to the extremes, instead promote financial reporting fraud.'*

The scholarly contentions with Ndofor et al. (2015) assertion confirm the need for further studies on HPR. As an example, Hogan & Wilkins (2006) have previously expressed similar sentiments, but Jagolinzer & Larcker (2010) disagree with this assertion.

Jagolinzer & Larcker (2010) disagreements notwithstanding, in recent times, the CAT model has faced criticisms due to its inability to adequately explain HPR (Miller & Whitford 2006; Waterman & Meier 1998; Waterman, Rouse & Wright 2004). Indeed, the CAT that has guided most research in this area has been challenged and supported in equal measure (Peltier-Rivest & Swisky, 2000; DeAngelo et al., 1994). The controversy constitutes a broad debate in academia, with no consensus. The consequences of these counter positions are apparent in empirical studies that analyse HPR. For instance, there is a growing stream of studies that show that firms can benefit from considering a broader range of preferences than assumed by CAT (Church, Lynn & Kuang 2014). Waterman et al. (2004) for instance suggest that the CAT is dyadic and static resulting in a limited value for explaining and (or) predicting HPR. They suggest that new studies should explore creating a scenario of multiple principals and multiple agents in a continually evolving relationship where principals or agents may have superior information or seek to be opportunistic. If this view is accepted, then it significantly changes initial theoretical predictions about agent behaviour. Bohte & Meier (2000), also demonstrate that the existence of multiple principals is critical to the study of HPR because many principals compete for the attention of the agent and this, coupled with the scarcity of resources could results in goal displacement and hence misreporting.

No study has attempted the use of a multi-actor principal-agent model in HPR studies in profit-oriented businesses. Yang (2009) applied a multi-actor principal-agent model in evaluating the factors that affect HPR in public organisations. It will seem from the developing literature that HPR decisions are guided instead by an equilibrium model that at all occasions weighs the perceived utility of any gains from HPR with the disutility of lying. Considering that the study of HPR is in part a study of human behaviour, it is logical to argue that agent's utility functions will be a function of different variables that will evolve. If this is the case, then a close to the real situation in determining the factors that affect HPR is, in fact, a study of complex variables that interplay between agent's preferences, the external environment, and the organisation. This approach to the study of the causes and effects of HPR has received scant attention in the literature. Instead, complex models and experiments designed to measure student morality have been generalised to explain HPR with little predictive and empirical value to organisations. Whereas most principals and regulatory bodies have not spared effort in ensuring HPR (Abrahamson & Park, 1994) they have not been helped by the inconclusiveness, and sometimes, contradiction, of studies on HPR.

### **1.2.2. The Inconclusiveness Of Findings & Scholarly Contestation**

Whatever the approach adopted for HPR studies, what is remarkable is the general non-conclusiveness of various studies in the academic literature concerning HPR. Current studies on HPR are scattered, incomprehensible and inconclusive. These disagreements affect the quest to build a theoretical foundation on HPR to guide future research and drive an agenda towards resolving critical and pertinent issues that are relevant to social development (Lindsay, 1995).

Multiple studies have disagreed on methodology (discussed above), interpretation of results, as well as conclusiveness of findings. There is even disagreement on the effects, if any, of HPR. This non-conclusiveness that has characterised HPR studies is probably because often the theoretical construct used in these studies are incomplete and do not appropriately measure the reality imposed by multi-person and multi-period equilibriums. The theoretical constructs also exclude considerations of game theory solutions as well as strategic factors that are relevant in the formulation of a formal theory (Lev & Ohlson, 1982; Flannery & May 2000). The inconsistencies that impose limitations with existing studies are discussed in chapter two.

As an example, experimental constructs have resulted in contestations about the validity of findings and conclusions. For instance, Battigalli, Charness, & Dufwenberg, (2013) disagree with Gneezy (2005) conclusions and argue that: -

*“the sender is similarly forced to move the receiver’s beliefs, and through anticipation, this shapes the sender’s behaviour in line with the observed treatment effects.”*

Evans et al., (2001), also disagree with Baiman & Lewis (1989) methodology and are of the view that the attempt to guide subjects to use the expected monetary value maximisation approach may have saliently influenced subjects in their choice of options. Also, Evans et al. (2001) question whether Baiman and Lewis (1989) empirical findings are consistent with their assertion that there is no significant benefit from exploiting an agent’s reluctance to lie. Baiman & Lewis (1989) identify methodological difficulties with Hegarty and Sims (1978) experiment that examined a cost-benefit approach to ethical behaviour. According to Baiman & Lewis (1989), the experiment did not control or measure relevant variables in a cost-benefit model such as risk preference, penalties, and rewards (further discussions of the various contestations is in Chapter Two).

Aside from the contestations and despite the increasing number of studies on HPR, the critical questions remain unanswered. These include the following.

### **1.2.3. Limited Evidence About Factors That Affect HPR**

The empirical evidence on agents’ preference for HPR and the underlying reason(s) is still inconclusive. Evidence of agents predisposition or otherwise to HPR is at the heart of the CAT that has provided the bedrock for most studies in HPR as well as the construct of employment contracts, albeit with inconclusive findings. While there is a distinct appeal

to explain managerial choice with the agency theory and contractual relationships, the empirical validity to back this approach is complicated to substantiate (Glinkowska & Kaczmarek 2015; Lev and Ohlson 1982). That is, is HPR guided by the moral development theory of Kohlberg; the threshold model of Baiman and Lewis (1989); the types model of Koford and Pennon (1992); the trade-off model of Brickley et al (1997); the threshold hurdle model of Evans et al (2001); the heterogeneous preference for truthfulness model of Gibson et al (2013); or a varied combination of the various models enumerated above? Resolving issues around the theoretical framework for HPR is critical in the advancement of social development and the prescription of solutions. As an example, if empirical evidence suggests a general preference for HPR, thereby challenging the CAT, then most employment contracts that reward HPR reporting from managers are costly but ineffective.

Secondly, empirical research still disagrees on the general factors that can influence HPR. Various factors, including but not limited to, cultural differences, level of sophistication of information systems, management maturity, contracts constructs, owner knowledge and involvement, the extent of national development, extent of market efficiency etc., have been suggested to influence HPR (Church, Lynn, & Kuang 2014; Mass & van Rinsum 2011). Empirical evidence on the causes of HPR is critical to mitigating any potential adverse effects from deliberate obfuscation by managers in self-reporting underlying private information on performance.

#### **1.2.4. Limited Exploration Of The Relationship Between HPR & FP**

Studies on the relationship between HPR and firm performance are still inconclusive and have received little attention. Waterman, Rouse & Wright (2004), suggest that where markets are efficient, stakeholders can effectively discount for information asymmetry in performance reports. Also, in the long run, in a multi-actor principal-agent relationship, information leakage will reduce information asymmetry. If deliberate obfuscation by managers in self-reporting underlying private information on performance indeed has no bearing on capital allocation decisions and hence firm performance, then it may be unwarranted to dedicate significant resources to mitigate it. Cameron et al. (2004) argue that studies on virtues and ethics will receive more scholarships and organisational support if a positive relationship with firm performance is empirically confirmed. Clifton (2003) explains that perhaps the limited attention paid by practising managers to HPR could be because managers assume very little association between HPR and economic outcomes for which they are responsible (Walsh, 2002; Baumeister, Bratslavsky, Finkenauer, & Vohs, 2001).

#### **1.2.5. Limited Studies In Africa**

Due to globalisation, developing countries have attracted significant participation in their private sector mainly due to the success of market reforms and the publicised success of global companies that have dared to invest in developing countries (Agtmael, 2007). Developing countries are no more as a “small and yet risky niche” that is only relevant as a spice of investment but rather have assumed a more central and mainstream role in

investment decisions. This view is because of the suggestions of over-saturation of investments opportunities in major industrial countries. Developing countries in recent times have experienced reducing risk (both market and political), lower market volatility, and sound economic policies. Additionally, corporate enterprises are becoming globally competitive (an example is the recent acquisition of Range Rover by the Tata Group with phenomenal success) and more transparent with comparably sound financial quality. The increase in transparency has allowed for improvement in business valuations (an example is the recent inclusion of business enterprises in Africa in the Forbes various valuation matrixes).

Developing countries are also exhibiting signs of impressive economic growth and recovery due to improved macroeconomic discipline, increasing foreign reserves and improving the financial health of corporate enterprises (Agtmael, 2007). These improvements have made developing countries less prone and perhaps more resilient to economic crisis and economic shocks as evident in the recent global downturn. Indeed, many developing countries now have relatively small state participation in the economy than some major industrial countries (Agtmael, 2007). Corporate governance, transparency, and disclosures while still inferior to the developed world are also rapidly improving with more companies adopting international benchmarks and practices such as internationally recognised accounting practices.

The 'corporate sector is increasingly becoming the main conduit of development finance, with the risks of rapid reversals of financial flows when corporate performance does not meet market expectations' (Litan et al., 2003; page 449). Therefore, it is becoming ever more important for key stakeholders, including policymakers, to be aware of the scope of credibility of performance reports and hence HPR (the next chapter provides a detailed discussion of the likely implications of HPR studies on strengthening capital markets). That this is difficult to achieve has been duly underscored by the recent corporate scandals in major industrial countries and calls for further empirical studies on the phenomenon of HPR within developing countries.

Despite this glaring need, however, studies on HPR, where they have occurred, have mostly been in developed Western Countries. In contrast, the phenomenon of HPR in developing countries remains largely unexplored. Even when research has occurred, the focus has been on HPR of Multinational Companies (MNCs') to the neglect of local companies. No clear empirical findings exist to explain why and how local firms in developing countries engage in HPR. There is a growing body of research evidence that highlights the distinctive nature of ethical issues in developing countries and the fact that moral behaviour varies cross-culturally, as well as, based on national characteristics (Wiig & Kolstad, 2010, Huang & Wu, 1994; Thorne & Saunders; 2002). Hence there is a need for careful consideration in decisions that attempt to extrapolate HPR constructs (including practices) developed in the literature so far to in emerging economies.

Given the above arguments, the current study seeks to answer the following question:

### 1.3. RESEARCH QUESTION

***“Should stakeholders be concerned about managers’ honesty in managerial performance reporting (MPR) and if so what are the factors that influence this behaviour?”***

Answering the research question will require answers to the following sub-questions.

- RSQ1<sup>1</sup>** In a self-reporting MPR environment do managers have a preference for being honest?
- RSQ2** Are there implications for HPR?
- RSQ3** Can we identify the factors that influence HPR?
- RSQ4** Is there a relationship between HPR and FP?
- RSQ5** Can we identify the main features of managerial behaviour in HPR?

### 1.4. RESEARCH AIM AND OBJECTIVES

The research aims, and objectives are to identify the level of honesty in MPR conceptualised in the concept of HPR, the factors that influence HPR, the relationship with FP and HPR practice and behaviour amongst managerial groups. Specifically, the thesis seeks to achieve the following aims and objectives by answering the research questions RQ1, 2, 3, 4 and 5.

- OBJ1<sup>2</sup>** To reassess the empirical evidence of managers’ preferences for being honest in reporting their performance.
- OBJ2** To identify and evaluate, from a stakeholder perspective, the implications of HPR.
- OBJ3** To identify factors that influence HPR.
- OBJ4** To provide evidence of the relationship between HPR and FP.
- OBJ5** To identify the main features of managerial behaviour in HPR among managerial groups within the Ghana Club 100.

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<sup>1</sup> RSQ means Research Sub Question

<sup>2</sup> OBJ means Objective

Also, suggestions and recommendations will be made to guide research, policy and practice on HPR.

## **1.5. SIGNIFICANCE AND IMPORTANCE OF THE RESEARCH**

The broad contributions of this thesis are outlined below and discussed in the subsequent paragraphs of this section. Points One to Four enumerate on how this study adds to the existing literature while Points Five and Six discuss other relevance of this study.

This study will contribute to improving the existing literature about MPR and HPR through confirming existing findings and adding new findings. Specifically, this study adds to existing literature because

- 1) The study provides an operational definition of honesty of managers (within an organisational context) in their MPR and HPR practice which is helpful for standardised comparison and synthesis of various researches as well as meaningful interpretations of findings.
- 2) This study identifies and provides clarity on the relevant organisation factors/variables that influence HPR. In this regard, the study helps to address the challenge of scanty literature about variables that affect HPR.
- 3) The study also explores the relationship between HPR and FP. Findings from this study are therefore relevant in decision making about organisational effectiveness.
- 4) Also, considering that existing studies have had mixed results and been fraught with methodological difficulties, this study makes an additional contribution to literature because it studies HPR from a new and different perspective. Specifically, the study utilises new methods and explores new areas within a different cultural context and hence the findings from this study are essential for the critical mass required to support theorisation of HPR and answers the call for new studies about MPR and HPR to focus on different cultural context.
- 5) Findings from this study will also contribute to policy and practice on whether performance related bonus schemes align the interest of agents (i.e., managers) with principals (i.e. Shareholders).
- 6) The findings from this research can also be useful to guide multinational organisations (MNCs) with insights on inculcating 'standardised' core ethical values throughout the organisation (Desai & Rittenburg, 1997). This contribution is because invariably this study explores, by replication, an 'ethical phenomenon (i.e., HPR)' within a different cultural context (Ghana in Africa) and the results may provide partial evidence on the implication of culture on decisions regarding ethical dilemmas.

### 1.5.1. Adding To Existing Literature

Considering the mixed results regarding studies on HPR, further research is required to establish relevant theories on HPR that can guide policy and business decisions, particularly for efficient resource allocation. Granted that HPR is critical to managerial learning, business decisions and performance-based accountability very little exist in the literature on the determinants of HPR, and no research exists on the effect of HPR on firm performance. This study adds to existing literature on HPR by performing extensive studies on various variables of HPR, while improving on identified methodological difficulties in existing studies (See chapter three). Therefore, aside from providing new perspectives and evidence on existing empirical findings, I explore previously unexplored areas to enrich the academic literature on HPR.

Regarding new perspectives, using data from a developing country called Ghana, this study tests the efficacy of CAT in predicting the propensity of managers for HPR by investigating if employees are willing to manipulate private information in their possession to gain a performance-based monetary reward. Ghana offers the opportunity to test HPR within a different culture as well as a national boundary. This study will be the first to reassess the empirical evidence of agents' preference for HPR in Africa using experiments. In doing so, the research will attempt to mitigate the methodological challenges identified with previous research. Admittedly, nations and national boundaries are not equivalent to culture (Hofstede, 1991) but they offer an appropriate unit for comparison even if on a general level and have been 'implicitly accepted as operational definitions of culturally distinct units (Adler, 1997, page 40). Compared to Western Europe and the USA, Ghana is a relatively conservative society (Hofstede, 1991) with 'high taboos' about anti-social behaviour. I expect that individuals within Ghanaian culture will exhibit relatively higher thresholds of honesty compared to Western Europe.

This new perspective is essential because a new approach to research methodology argues that the cultural context of Africa requires a new approach to developing a methodology to guide research enquiry (Asante 1987; 1990; Reviere 2001). Following on from Asante's (1990) principles of *Ma'am* and *Nommo*, Reviere (2001) proposes five cannons of *ukweli*, *utuliva*, *uhaki*, *ujamaa* and *Kujitoa* as a new criterion for research studies into human behaviour. While most of these cannons may be considered ambiguous and arbitrary, there lies within this assertion of Afro-centrism the fact that Africa as a place of inquiry presents an intriguing set of challenges and opportunities. Africa offers an opportunity for new knowledge that, perhaps, may have a more significant positive correlation with social development than in advanced countries.

In line with Afro-centrism, if the purpose of research is to promote social development and human progress, then a compelling case arises for continuous empirical studies in Africa. Hopper, Tsamenyi, Uddin, & Wickramasinghe (2009) argue that even though many contextual factors and issues are not unique to developing countries, developing countries are still relatively distinctive and it will be wrong to categorise research on developing countries as 'exotic and irrelevant' to mainstream accounting studies (p. 514)

Various researchers agree on the need for replication and new studies in Africa. For instance, Hopper et al. (2009) suggest that research in accounting in developing countries must be encouraged and such research should aim at fostering the understanding that promotes local solutions to local challenges rather than the wholesale adoption of western proposed solutions influenced by 'alien values.' Needles (1976) argues that scholarships in accounting must take into consideration the social, political and economic environment, particularly in developing countries. Mirghani (1982) argues for wider studies in accounting that incorporate indigenous models to mitigate uncertainty in planning. Yang (2009) suggests caution in the application of 'foreign theories' to developing countries that have different political and social systems. Considering the relevance of scholarships in accounting on developmental issues such as governance, planning, employment and quality of life (Hopper et al., 2009); studies in accounting could contribute to the general debate about how governance and control can better serve the humanitarian development. Without more studies in accounting in developing countries, Hopper et al. (2009) argue that 'local politics and culture' can transform accounting systems into mechanistic 'tools of cohesion or external legitimacy rather than rational control' and accountability.

Also, in investigating the factors that affect and the effects of HPR, I propose and apply a new perspective of a multi-actor principal-agent model to test various hypotheses on HPR developed from theoretical models derived from social sciences. The findings from this approach vis-à-vis the traditional principal-agent model enrich the literature.

Additionally, and regarding previously unexplored areas, studies on the extent and strength of any relationship between firm performance and HPR is still in its early stages of development requiring more studies that apply different methods and uses different variables. This study contributes to the literature by providing further evidence of the extent of the relationship between HPR and various indices of firm performance. Methodologically, unlike prior studies this study controls for the halo effect, and other variables that have been established to affect actual or perceived firm performance. This is the first study that attempts to determine the extent of the relationship between firm performance and HPR.

The current level of our understanding on critical variables about HPR is not clear, and my study seeks to provide a better understanding, identify relationships and develop the area using improved and relatively larger datasets and better subjects, i.e., managers. Particularly, the operational definitions of managerial honesty, MPR and HPR provided in this study are helpful for comparison of various studies and their results. This provides a useful contextual view.

### **1.5.2. Guide On Inculcating Global Ethical Policies Across Nations (and Cultures).**

While variation in ethical behaviour based on culture and national characteristics has received scholarly attention; scant attention has been given to 'understanding how culture affects the ethical reasoning process that predicates individual' ethical actions (Thorne and Saunders). The understanding of how agent's ethical behaviour varies according to the cultural background is important to guide MNCs in their continuous challenge to balance the desires for standardised global policies with appropriate considerations of specific norms of various cultural context (Bartlett and Ghoshal, 1998). It is also helpful in MNCs drive to inculcate core values throughout the organisation (Desai & Rittenburg, 1997). Since different cultures lead to different ways of perceiving the world (MacDonald, 2002), it is logical to expect that culturally differences will affect ethical reasoning and hence ethical behaviour. Indeed, research has confirmed that individuals from different cultures differ in their sensitivity to ethical situations (Cohen, Pant, & Sharp, 1992), perception (Dubinsky, Jolson, Kotabe, & Lim, 1991), ethical values (Izraeli, 1998) and ethical behaviour (Lysonski & Gaidis, 1991). Most experimental studies on HPR have however been within European countries and the USA. Even in Europe, various cultures have provided different findings. As an example, Hurkens & Kartik (2006) attempted to replicate, in Spain, Gneezy's (2005) experiment (conducted in Israel) and discovered substantial differences in behaviour between their subjects and Gneezy's subjects regarding the interpretation and use of privileged private information. Also, Hobson et al. (2011) contend that individual personal beliefs and ethical values influence HPR. Since personal values and ethical values are influenced by many variables including culture (Gibson et al., 2013; Gino & Pierce, 2010), then, an empirical study of HPR within a different cultural context such as Ghana enriches the literature. Hopper et al. (2009) argue that behaviour is governed not just by economics but as well, by a combination of knowledge, belief, art, morals, law, and custom known as culture.

### **1.5.3. Contribution To Accounting Policy And Practice**

This thesis also contributes to policy and practice by studying the efficacy of the CAT vis-à-vis managers' disposition for HPR. By doing so, it addresses critical issues regarding the effectiveness of expensive but widely used employment contracts that seeks to align the interests of agents with principals as well as the efficacy of various performance-related bonuses. The findings (discussed in chapter four) will contribute immensely to business practice and policy. Ndofor et al., (2015) argue that misreporting of managerial performance information is a qualitatively different and potentially more egregious form of opportunism compared to simple shirking or manipulation of strategic actions because HPR is 'fundamental to robust and efficient equity markets' (page 1789).

Considering that this study explores the relationship between HPR and FP, confirms the factors that influence HPR and identifies managerial behaviour in HPR, it provides empirical evidence to improve managerial performance and hence overall organisational effectiveness.

In exploring the above-mentioned objectives, this study applies a variety of methods including replication studies. Chenhall (2003) argues that variations in findings limit the coherent accumulation of conclusions and proposes that new studies, as well as replication studies (perhaps in other cultures), are required to develop sufficient 'critical mass' to confirm existing findings, acquire new knowledge and to enhance confidence. Lindsay (1995) agrees with Chenhall's (2003) assertion that replication studies are relevant to improve "*the validity and reliability of findings and thereby provide a strong base to move forward by way of model development*", Chenhall (2003, page 166).

## 1.6. STRUCTURE OF THE RESEARCH

The structure of the study is outlined below and depicted by the diagram beneath (Figure 1.1). There are five chapters in this research: -

Chapter one introduces the background to the study, identifying the research question(s), research objectives, the significance of the research and overview of the study.

Chapter two considers existing literature of the key concepts in this study and provides a theoretical framework for the study discussing CAT, Stakeholder theory, Legitimacy theory, Impression management theory and Institutional theory and how they are utilised in this study.

Chapter three provides a rationale for the research approach, design and methodology as well as highlights the individuality of Ghana as a research location. In this research, I adopt different methods for each of the objectives (mixed method), as such, I discussed the relative benefits and limitations of each method in detail. I attempt to improve on the methods used by various researchers in this area of study and show how and why I do so.

Chapter four reports the analysis and the results/findings of the study in relation to the objectives of the study. It addresses RSO1 & OBJ1 by analysing the findings of experimental constructs to understand manager's preference for being honest in reporting their performance. It assesses the implications of HPR from a stakeholder perspective (RSO2 & OBJ2) and discusses the results of the factors that influence HPR to address RSO3 & OBJ3. It confirms the relationship between HPR and FP (RSO4 & OBJ4) and identifies the main features of managerial behaviour in HPR among managerial groups in GC100 (RSO5 & OBJ5). Specifically, the chapter discusses the results of: -

- 5) A group of managers, who are tested under four experimental constructs on their honesty in MPR and resulting in their propensity to practice HPR. By implication, the results of these experiments provide a partial test of the efficacy of the CAT in predicting managerial self-reporting performance behaviour.
- 6) A dataset of 265 managers through closed ended structured questionnaires used to explore variables affecting HPR.
- 7) The relationships between HPR and FP examined using statistical regression.

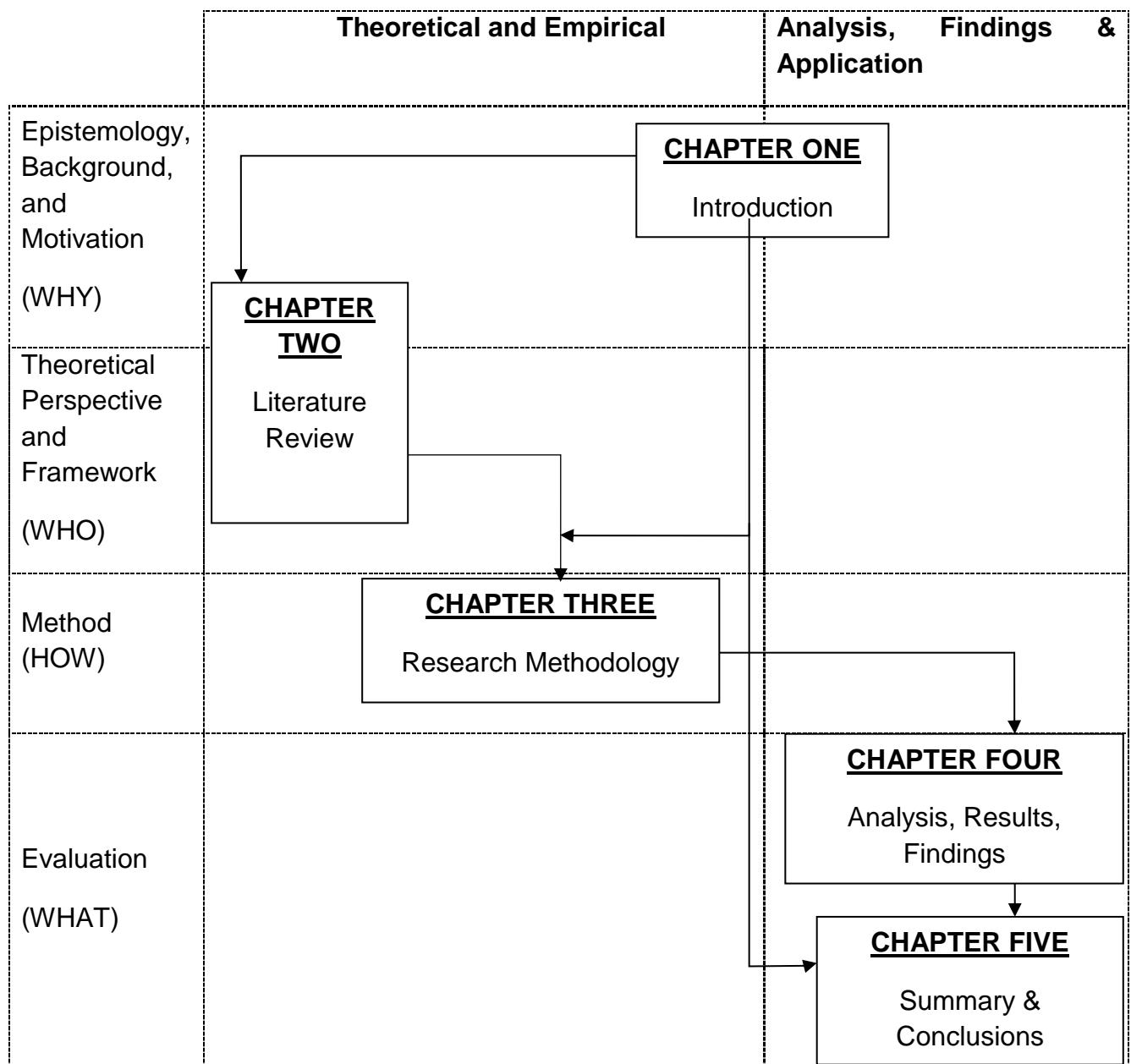
- 8) Five vignettes used to document HPR practices among managerial groups in GC100 companies.

Chapter five presents the conclusions of the research providing answers to the research questions posed, meeting the stated aims and objectives of the study. It highlights the research's contributions, its limitations, where further research may be directed and where my research endeavours will be focussed.

Table 1.1 depicts the linkages between research question, research objectives, methods, matrices and hypotheses while Figure 1.1 illustrates the overall structure of this study.

Table 1.1: Linkages Between Research Questions, Research Objectives, Methods, And Hypothesis					
Research Question		Research Objective		Method/Approach	Metrics & Hypothesis
RSQ1	In a self-reporting MPR environment do managers have a preference for being honest?	OBJ1	To reassess the empirical evidence of managers' preferences for being honest in reporting their performance.	Experiments (Four constructs)	Compute an HPR Score to test $H_1 - H_4$
RSQ2	Are there implications for HPR?	OBJ2	To identify and evaluate, from a stakeholder perspective, the implications of HPR.	Questionnaire & Limited Interviews	Aggregate Likert Scale scores for analysis. No Hypothesis
RSQ3	Can we identify the factors that influence HPR?	OBJ3	To identify factors that influence HPR.	Questionnaire & Limited Interviews	Use 5% two tailed P Values to test $H_5 - H_{15}$
RSQ4	Is there a relationship between HPR and FP?	OBJ4	To provide evidence of the relationship between HPR and FP.	Questionnaire + Statistical Analysis	Use 5% two tailed P Values to test $H_{16} - H_{19}$
RSQ5	Can we identify the main features of managerial behaviour in HPR?	OBJ5	To identify the main features of managerial behaviour in HPR among managerial groups within the Ghana Club 100.	Questionnaire & Limited Interviews	Data analysis and aggregation using Vignettes with Four Scenarios

Figure 1.1: Diagrammatic Depiction Of The Structure Of The Thesis



## **1.7. CHAPTER SUMMARY**

This chapter provides an introduction to the nature of the study, the operational definitions of key terms and the managerial content. The background provided in this section emphasises challenges with studies on HPR. This has relevance to developing countries and those in Africa. This chapter identifies theory –practice gaps where this study seeks to provide a better understanding of the key concepts. The research questions identify the objectives of the research. I proceed to highlight the significance of this study and presents the chapter layout of the thesis (depicted graphically) briefly outlining the contents of each chapter. The study considers the current level of the concepts of honesty, MPR and HPR reflected in the academic debate, characterised by contestations among scholars about methodology, contradicting views and the range of findings, which provides my motivation to develop a clearer understanding of this area.

## **CHAPTER TWO**

### **HONESTY IN MANAGERIAL PERFORMANCE REPORTING: – A LITERATURE REVIEW**

#### **2.0. INTRODUCTION**

This chapter discusses the operational definitions for Performance, Honesty (H), MPR, and HPR. It also reviews existing empirical studies on MPR and HPR, revealing the contradictions, methodological difficulties and gaps. A theoretical framework and contextual literature about Ghana is also discussed to provide context for the ensuing study.

#### **2.1. DEFINITION OF KEY TERMS AND CONCEPTS**

##### **2.1.1. Defining Honesty (H).**

The empirical literature on managerial performance disclosure use the words truthfulness, truth-telling, honesty, and ethical interchangeably, and as opposite concepts to the words lying, deception, misreporting, dishonesty and unethical behaviour.

Mitchell (1986) defines deception, as “a false communication that tends to benefit the communicator.” Therefore humans, plants and animals practice deception. Cozzolino & Widmer (2005) suggest deception by orchids and Szamado (1999) studies deception in animals. Mitchell (1986) definition implies that lies increase the liars’ payoff. Gneezy (2005) disagrees with this definition due to its limited scope, particularly because by Mitchell (1986) definition ‘innocent lies’ such as unconsciously and mistakenly misleading others will be classified as deception.

Krauss (1981) defines deception as “an act that is intended to foster in another person a belief or understanding which the deceiver considers to be false.” However, Ekman (1992) disagrees with this definition and argues that an appropriate definition of deception should exclude the provision of prior notice of the intention to lie. Ekman (1992) offers an alternative definition suggesting that deception is “a deliberate choice to mislead a target without giving any notification of the intent to do so.” Vrij (2001) argues that liars are not always successful at misleading others, and hence a proper definition of deception will be “a successful or unsuccessful deliberate attempt, without forewarning, to create in another a belief, which the communicator considers to be untrue.”

Sutter (2009) argues that truth telling should be considered as deception if the sender chooses the true message with the expectation that the receiver would not follow the sender’s true message.

Mazar et al. (2008) interpret honesty as the compliance with a given rule where there is an opportunity to cheat. Therefore, honest behaviour must have a costly effect, and this is referred to as the ‘Handicap Principle’ (Szamado; 2011; Zahavi 1975; Zahavi 1977; Grafen 1990).

The empirical definition of honesty includes “a tendency not to lie, cheat or steal.” (Grover 2005, page 148) and “the refusal to fake reality or pretend that facts are other than they are, whether to himself or others.” (Smith 2003, page 518). In this study, I follow Hannan, Rankin & Towry (2006) and define honesty as accuracy rather than an ethical perspective (the intention to be “good”). Honesty is the degree to which a report accurately reflects the underlying private information. ***Honesty is perceived as a continuum with the possibility of differentiating more honest reports from less honest reports rather than a mere dichotomy between true or false.***

### **2.1.2. Honest Managerial Performance Reporting (HPR).**

Hannan et al., (2006) suggest that in decentralised organisations, managers often possess private information (such as local business environment, competitor positioning and resource cost) that could be valuable to their principals. Following on from the CAT, if goals are misaligned, managers may withhold or misrepresent such information to maximise their self-interest. HPR studies are relevant in accounting because in an accountability setting where managers’ report private information upwards, managers often trade off the benefits of appearing honest with the benefits of misrepresentation.

From the perspective of organisational theory, HPR exists when an organisation or its leaders purposefully report performance results to stakeholders truthfully, responsibly and promptly (Yang, 2009). Yang (2009), offers a comprehensive definition for HPR. I adopt Yang (2009) view as a conceptualisation of honest managerial performance reporting (HPR) and suggest that

***HPR occurs when managers of an organisation purposefully report performance results to stakeholders truthfully, responsibly and in a timely manner vis-à-vis the underlying private information in their possession.***

Purposefulness involves avoiding the intentional or deliberate, misstatement or omission of material facts, or performance data (when there is an opportunity to lie, i.e. the handicap principle), which is misleading and when considered with all the other information made available would cause the user to change or alter his or her judgment or decision. Usually, the objective is to mislead stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on disclosed managerial performance.

Truthfulness measures the extent of accuracy in the disclosure of unobservable managerial behaviour as well as underlying private information. It involves avoiding deliberate obfuscation, lying or wrongly attributing performance results.

Responsible reporting involves the extent of understandability of performance reports and covers situations where performance reports are presented clearly and concisely and complies with relevant organisational and regulatory policies, rules, laws and practices.

Timeliness relates to decision usefulness and refers to the time it takes to provide performance information. Timely MPR occurs when managers make information

available to decision makers before it loses its capacity to influence decisions (IASB, 2008).

According to Yang (2009), although truthfulness is central to the definition of HPR, being timely and responsible is equally relevant, because what matters is not “objective” or “absolute honesty” but stakeholder’s perception of the agent’s honesty. He recognises that stakeholder perspectives and judgments are always subjective.

While the term “honesty” may be considered strong, the conceptualisation and measurement in this research work focus on the operational definition re “honest managerial performance reporting” and only attempts to capture the potential serious consequence of the possibility that top management may deliberately not appropriately report performance problems. Bohte & Meier (2000) used “cheating” to capture managerial practices that political principals do not desire. In the opinion of this researcher, the word “cheating” seems inappropriate for this study mainly because it encompasses activities outside managerial performance reporting (Yang; 2009) and hence may lead to conflation and confounding. Hosmer (1995) confirms that it is not uncommon for organisational theory scholars to treat “honesty” and “integrity” as synonymous and opposite to dishonesty, lying or misreporting. However, Murphy (1993) argues that encouraging HPR and deterring misreporting of managerial performance in an organisation represent two different managerial challenges that must not be approached in the same way.

Hannan, Rankin & Towry (2006) follow the literature in categorising HPR as accuracy rather than an ethical perspective (the intention to be “good”) and define HPR as the degree to which MPR accurately reflects the underlying private information. Additionally, they perceive HPR as continuum construct with the possibility of differentiating more honest reports from the less honest report rather than a mere dichotomy between true or false.

Taking cognisance of the above definition, misreporting underlying private information in performance reports (misreported MPR) goes beyond direct lying and often encompasses other techniques to hide information purposefully. This may include knowingly attributing managerial failures and other corporate failures to the wrong reasons such as “unforeseen or uncontrollable events”, deliberately delaying the submission of reports with the intention to shift stakeholder interest, as well as, the conscious use of technical jargons, sophisticated numbers etc., to confuse stakeholders. Bohte & Meier (2000), confirm that agents consider direct lying as extremely risky and therefore expectations around dishonest MPR will often involve very little direct lying and more of other deliberate strategies to mislead, withhold information to, or confuse the stakeholders. I use honest reporting, honest performance reporting and honest managerial performance reporting interchangeably. I considered HPR and misreported MPR as opposite concepts in this study. In this sense, ***misreporting covers all purposeful actions, whether legal or illegal, that are undertaken by managers of firms with ‘low values’ to mimic the performance of firms with ‘high value’*** (Bar-Gill & Bebchuk, 2003 a).

### **2.1.3. Managerial Performance (MP) And Managerial Performance Reporting (MPR).**

Stakeholder effort at measuring performance is perhaps as old as the origins of commerce (Raisinghani & Nugent, 2001). In the late 1800s Fredrick Taylor, propose metrics to determine “a better way of doing things” and a basis for relating pay to performance. The 1960s saw the advent of “Short Interval” that resulted in improvement of on-time performance in process oriented, repetitive type tasks. While these early metrics measured the efficiency of non-managerial workers, it provides useful insight into original thoughts about performance measurement in general.

Recently, executive tools such as the “digital dashboard”, cockpit chart” and “balanced scorecard” have evolved (Raisinghani & Nugent, 2001), and used not only to improve and measure the efficiency of the organisation for strategic purposes, but to objectively measure the performance of highly compensated managers as well as non-managerial employees (Hammer & Champy, 1993; Kaplan & Norton, 1996). In current performance measurement various evaluation metrics (often called “Key Performance Indicator - KPI) are assigned to an event, result, or activity which management believes provides insight into how “well” the business is performing. KPIs are usually measured and reported on at the “end of the period,” whether that “end of period” is a month, quarter, annual or another period. Traditional managerial performance reporting systems usually involve a process of “filtering,” “shaping” or “conditioning” performance information before it is reported to assessors.

Stakeholders require a sound analytical basis derived from accurate, valid, and timely information for short- and long-term planning and for allocating scarce resources.

Managerial performance is different from organisational performance and is difficult to measure due to various dimensions. Raggad, (1988) defines managerial performance based on managerial potential and ability. Chenguang, Yanli & Yingjun (2011) define managerial performance in terms of managerial efficiency and propose that the evaluation of managerial performance should be based on equitable and objective measuring methods that can avoid penalising good managers who manage within an unfavourable ‘existing condition’ as well as avoid rewarding poor managers who manage in a favourable ‘existing condition’. They operationalise managerial performance as behaviour attributes that reflect the efficiency produced purely by management activities with the influence of the ‘objectively basic condition element’. They operationalise ‘objectively basic conditions’ to include the external environment and strength of an organisation and acknowledge that such objective variables affect managerial performance.

***In this study, managerial performance is operationalised to measure managerial ability, know-how and potential for achievement vis-à-vis a set organisational goal.***

Performance reporting at its best should enable an organisation to link its operational activity and decision making with the attainment of strategy (KPMG, 2015). If done correctly, it should give the essential information for effective decision-making.

Atkinson, Banker, Kaplan & Young (2000) suggest that providing information on financial performance and other (non-financial) indicators is a function of accounting. Even though Managerial Performance Reporting (MPR hereafter) is an integral and expansive part of an organisations performance measurement system, Kreps (1997) argues that it is often incomplete, hard to contract and ineffective because there is general difficulty in measuring all relevant dimensions of managerial performance with equal precision since specific tasks or aspects thereof are difficult to measure, monitor or verify. Merchant (1998) argues that performance reporting of any form serves both an informational and motivational role. Gellatly, Paunonen, Meyer, Jackson & Goffin (1991) note that 'predicting managerial performance remains a tricky and complex problem facing employers'. This is especially true given the diversity of role requirements and behaviours across different levels of management and highlights the need to consider performance from a 'multi-variable perspective'.

***This study conceptualises managerial performance reporting (MPR hereafter) as the process leading to the supply and disclosure of all information, financial and non-financial, as well as appraisal systems generated within an organisation for effective decision making and resource allocation and to assess the performance of business leaders against set targets by those with the authority and/or interest to do so.***

It is premised on the assumption that in situations where ownership is divorced from management, managers self-report their performance vis-à-vis set targets and processes. Therefore, MPR is part of a performance management process, and the resulting reports (i.e. managerial performance reports) include information for evaluating managers against set targets. Often these targets are pre-communicated to managers (i.e. business leaders) even though this is not a rule of thumb. MPR must be differentiated from overall organisational performance assessment. To be able to do this, it is essential to understand that the managerial performance system is not just restricted to top level business leaders or top management. Often it is a top down approach that acknowledges every employees' contribution to the achievement of overall business targets. In that regard, every employee within an organisation plays some role in the compilation of a managerial performance report. Considering the top down approach to managerial performance management, it is possible for an organisation to be performing well, according to a given set of targets, whereas specific managers or personnel may be performing poorly. Therefore, it is not farfetched for the CEO of an organisation to be 'fired' for poor performance even when the organisation achieves impressive financial results. MPR, performance reporting, performance management, and managerial reporting are used interchangeably in this study. Even though almost all organisational employees have set targets and contribute to overall performance reporting, the focus of this empirical work is on managers (i.e. business leaders) rather than lower level employees and how they report their performance. The reason is that the relative influence of senior management including business leaders on the MPR process is significant. In other words, evidently, managers (i.e. business leaders) than mere employees can significantly influence the inputs into, and outcome of the performance reports. This is perhaps because the fortunes of managers (i.e. business leaders) are more directly correlated with MPR than ordinary employees (Yang, 2009). Therefore, managers (i.e. business leaders) have more interest in the MPR process. Managers (i.e. business leaders) are defined to include CEOs, CFO and other senior executives who report

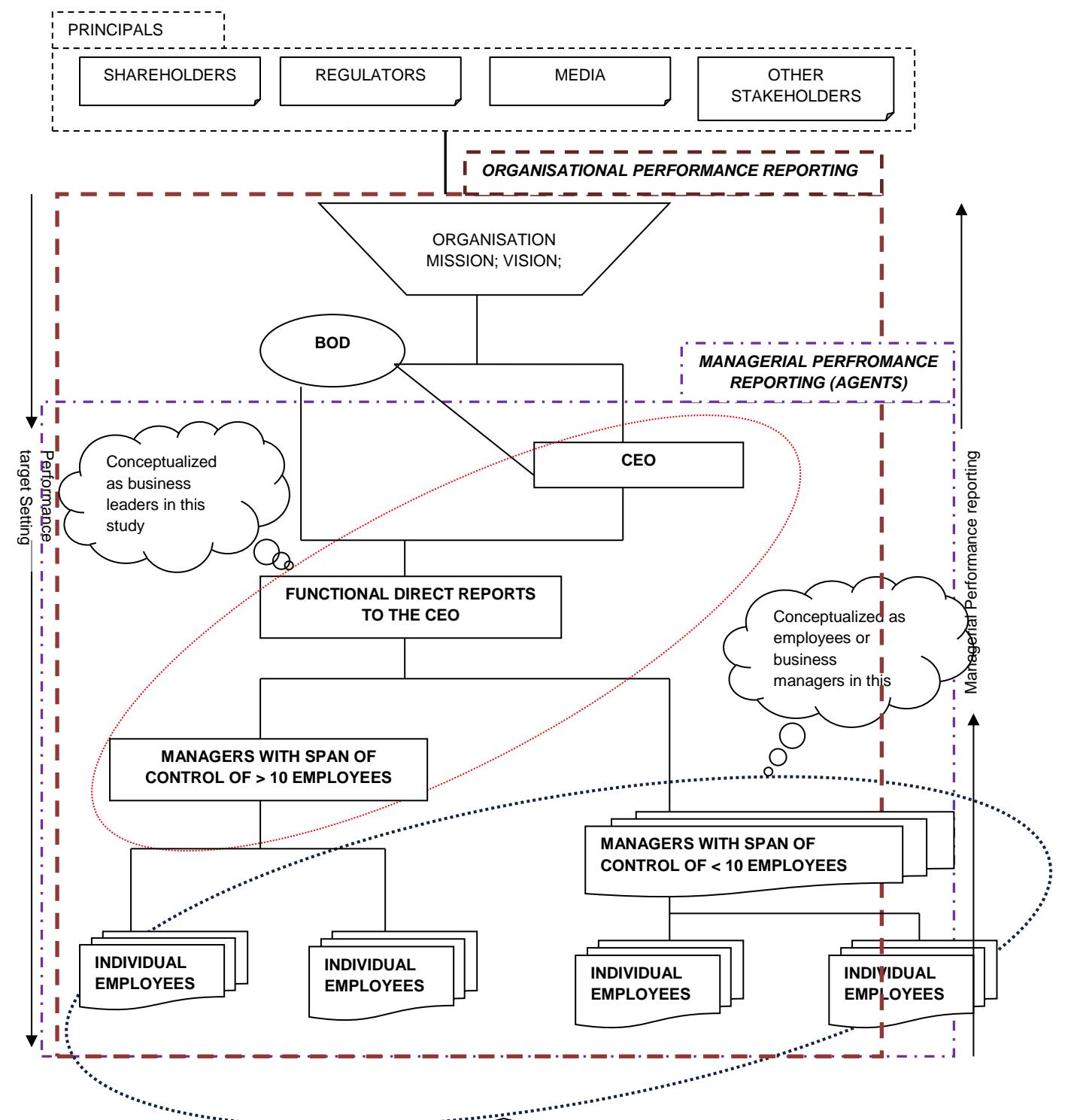
directly to the CEO or the BOD as well as departmental and divisional heads and managers directly responsible for supervising more than ten employees.

The Royal Society of Arts, Manufacturers and Commerce (RSA, 1994) suggest that managerial performance measurement is critical to achieving business success in a demanding world market place. Neely (1999) argues that MPR is not a new concept because most of the basic principles applied in recent times, even by large corporations, have existed since 1909. Even then, Chandler (1977) hypothesises that most organisations are likely to have a developed and functioning MPR systems in place for years by now. Ashton (2010), Parida et al. (2015), and Neely et al. (1995) confirm that MPR systems in most organisations are still in the development stages and are not entirely credible or reliable. MPR systems may still be characterised by and criticised to include deliberate false information (Ashton, 2010); heavy reliance on historical data (Dixon et al, 1990), 'short termism' (Baysinger & Hoskisson, 1989; Banks & Wheel Wright 1979, Hayes & Abernathy 1980), and redundant information resulting in information overload (Lynch and Cross 1991). Church (1908) had earlier argued that the lack of proper definitions for performance measures introduce ambiguity into measurements and the interpretation of results.

Neely (1999) proposes that the surge in research on MPR is due to seven factors which are (1) the changing nature of work (2) increasing competition (3) specific improvement initiatives (4) increased national and international quality awards (5) the changing organisational roles (6) changing external demands as well as (7) the power of information technology. The recent spectacular corporate scandals may have also contributed to the increased interest in MPR and managerial behaviour.

The hierarchical diagram (figure 2.1 below) shows no directional arrows because there is an upward and downward relationship for each connected relationship. Performance target setting is typically top down (re from BOD to CEO through to low level employees), and MPR (encircled with the red line) is typically down –up (re from employees, through managers to CEO to BOD). The conceptualisation of managers (i.e. business leaders), as well as employees, is depicted graphically as well as the distinction between organisational performance and managerial performance (this has been explained earlier). Whereas managerial performance typically includes all performance reporting relationships from the CEO downwards, organisational performance includes the performance of the BOD and most critically is based on an assessment of total organisational performance vis-à-vis the organisational mission, vision and values. Therefore, often the assessment of overall organisational performance is with a long-term perspective and may not be subjected to an annual performance review as will be for managerial performance. Admittedly, however, managerial performance has some direct correlation with overall organisational performance, in most cases over the medium to long term. It is also worth noting, the dual responsibility of the CEO to the BOD and stakeholders as well as the dual responsibilities between direct functional managers to the BOD and the CEO. This relationship is typical in most privately-owned organisations where ownership is divorced from management. The distinction between principals and agents in a multi actor principal agent relationship has also been graphically depicted (the essence of this distinction will be explained in a later chapter).

**Figure 2.1: Hierarchical Relationship Of Managerial Performance Reporting Process**



Functional direct reports (FDR) to the CEO are classified as business leaders irrespective of the size of their span of control. Managers reporting to FDRs are only classified as business leaders if the span of control (direct and indirect) exceeds ten personnel.

Raggad (1988) proposes an analytical tool for testing managerial performance by hypothesising a relationship that links managerial ability to the firm's capacity to grow and the external environment. Moran (2005) contends that the structural and relational constituents of social capital have unique effects on managerial performance. More specifically, relational embeddedness influences managerial performance even while holding constant any possible benefits from network structure and hence it is not just whom one knows but also the quality of those relationships that matter to managerial performance. During uncertain and potentially risky contexts being able to draw on well-established and faithful relationships is valuable in improving managerial performance.

Staw & Barsade (1993) use a comparative test of two psychological theories to hypothesise that managers' affect may influence both the decision-making and interpersonal aspects of managerial performance. Simulations are used to test whether people who are positive in disposition perform better or worse on both decisional and interpersonal tasks of managerial performance and find results consistent in supporting the happier-and-smarter as opposed to the sadder-but-wiser hypothesis. Their findings show positive relationships between dispositional affect and performance.

Lawler III & Porter (1967) develop a theoretical model that specifies the kinds of attitudes that are assumed to lead to effective managerial performance. The basic components of the model are attitudes toward the values of rewards, attitudes toward the perceived probability that rewards depend upon effort, role perceptions, abilities, and job behaviour. Testing the theoretical model, they find that (a) managers' role perceptions were related to their rated job performance effectiveness (b) there is a definite relationship between the degree to which effective job behaviour is seen as leading to rewards, and measures of job performance. (c) the relationship was increased by considering the relative importance of monetary rewards.

Shipper & Davy (2002) develop a model of effective managerial performance based on criticism of prior two-factor models to identify six specific skills and explore their theoretical contributions. Their model incorporated both self and others' evaluations of skills and tested using both employees' attitudes and performance as measures of managerial effectiveness. They find that others' evaluations of skills are better indicators of employees' attitudes than self-evaluations. Also, they find support for the preposition that a complex set of relationships exists among self- and others' evaluations, employee attitudes, and managerial performance.

Abraham, Karns, Shaw, & Mena, (2001) use a survey approach to investigate (a) managerial competencies used by organisations to describe successful managers (b) and whether organisations are appraising these same competencies as part of their managerial performance appraisal processes. They find that even though organisations accurately identified competencies relevant to managerial performance, many of these same organisations fail to appraise these competencies properly

Rodan & Galunic (2004) investigate the relationship between knowledge heterogeneity and network structure in social networks on both overall managerial and innovation performance. They achieve this by exploring several micro-social processes that account for differences in managerial performance. Their work finds evidence that, while network structure matters, access to heterogeneous knowledge is of equal importance for overall managerial performance and greater importance for innovation performance. Their study provides more unequivocal evidence of the mechanisms of a relationship between network structure and managerial performance in general. They find evidence of two distinct micro-social processes: one arising from the exploitation of network structure, the other based on exposure to diverse knowledge and its recombination as a well-spring of innovation.

Brownell & McInnes (1986) find a strong positive relationship between managerial participation in the setting of performance measures and managerial performance.

#### **2.1.4. Defining Performance (P).**

Studies that incorporate performance grapple with two main issues. These are,

- a) The selection of a conceptual framework from which to define performance and
- b) The identification of accurate and available measures to operationalise performance.

Performance is neither a unitary concept nor is it unambiguous (Siegel & Summermatter, 2008) and can be subject to multiple definitions (De Bruijn, 2002). Even though definitions are essential (Gaster, 1995) operationalising the concept of performance is inherently difficult (Dess & Robinson Jr. 1984). Indeed '*few people agree on what performance really means: it can mean anything from efficiency to robustness or resistance or return on investment, or plenty of other definitions never fully specified*' (Lebas, 1995). Therefore, to be able to proceed with a conceptual framework, I attempt a conceptualisation of performance based on a synthesis of the literature.

Performance has been defined 'as the ability of an entity, such as a person, group or organisation, to make results in relation to specific and determined objectives' (Laitinen, 2002; Lebas & Euske, 2004). Harbour (1997) also defines performance as an actual work or output produced by a specific unit or entity whereas Phillips, Davies & Moutinho, (1999) suggest that performance is the measurable achievements produced. Hatry (1999, p. 3) defined performance as 'the results (outcomes) and efficiency of services or programs'. The OECD (1994) have suggested performance measures economy, efficiency, effectiveness, service quality and financial performance.

Performance for purposes of this study focuses on managerial performance and is defined as the measurable outputs of managers over a specified period and the extent to which such output supports the achievement of set goals. This output can involve a process, activity, system or result.

### **2.1.5. Performance Measurement (PM).**

MPR and HPR are critical elements within the performance measurement (PM) system of organisations. Therefore, section 2.1.5 discusses relevant aspects of the Performance Measurement (PM) literature that are relevant to the MPR process. Measurement 'indicates the ability and processes used to quantify and control specific activities and events (Morgan, 2004) whereas measures are the metrics used to quantify and compute an action's efficiency and effectiveness (Bourne, Neely, Mills & Platts, 2003).

The field of Performance Measurement (PM hereafter) lacks a cohesive body of knowledge (Marr & Schiuma, 2003) which, limits conceptualisation and the potential for generalisability and comparability of research in this area. Ford & Schellenberg (1982) previously categorised three frameworks for conceptualising PM.

- a) The Goal Approach (Etzion, 1964) operationalises PM based on an explicit set of goals. As a traditional approach, it relies on the organisational vision in the setting of standards against which performance can be measured (Goodman et al. 1977). This traditional view of PM derives from the cybernetic model of control and views PM as a tool to facilitate choice between alternative actions. Based on the goal approach, PM is associated with control or accomplishment of organisational objectives and strategy implementation and is, therefore, a diagnostic control system that provides formal feedback, monitors outcomes to correct for deviations from set standards.
- b) The system approach (Yuchtman & Seashore, 1967) defines PM based on the internal and external factors that facilitate organisational survival. It is grounded in the open system approach where inputs, processes and outputs are considered as part of the whole. The systems approach focuses on the means needed for the achievement of specific ends and suggests a relevant role for performance measurement in signalling managerial cues, strategy formulation, as well as organisational learning. In so doing it brings to the fore the interactive relevance of PM in focusing managerial attention on critical issues.
- c) The Constituency approach defines PM based on the needs and views of the numerous 'constituents' both internal and external to an organisation. It broadens the scope of the two previous approaches by suggesting a relevance of the expectations of various interest groups that affect and are affected by the organisation (Connolly et al. 1980). In such a circumstance, the organisation is perceived to have a set of internal and external stakeholders that bring bearing on the organisational goals and activities (Goodman et al., 1977). This study bedrocks on the constituency approach of PM.

In recent times, however, and due to the complex and multi-disciplinary research on PM (Dess & Robinson Jr. 1984), definitions of PM have mainly been from three perspectives; operational, strategic control and accounting (Franco Santos et al. 2007). From an operational perspective, the most quoted performance measurement definition is Neely et al.'s. (2002, p. 80) "the process of quantifying the efficiency and effectiveness of past actions"; whilst Bititci et al., (1997) suggest that it is the reporting process that gives feedback to employees on the outcome of actions.

From a strategic control perspective, Gates (1999) argues that performance measurement (PM) reflects the procedures used to cascade down performance metrics during strategy implementation within the organisation. Ittner et al., (2003) also argue that PM is the system that provides an organisation with the information necessary to challenge the content and validity of strategy.

From an accounting perspective, a PM system is synonymous with management planning and budgeting (Otley, 1999). I acknowledge, Hofer (1983) assertion that "...it seems clear that different fields of study will and should use different measures of organisational performance because of the differences in their research questions" and I offer a conceptualisation of PM from the strategic and accounting perspective. I follow Moullin (2002) who defines Performance Measurement as "evaluating how well organisations are managed and the value they deliver for customers and other stakeholders" (p. 188). This definition encourages managers to consider the extent to which organisations measure the value they deliver to other stakeholders (beyond shareholders and investors) and covers the main aspects of how performance is managed. Moullin, (2005) argues that an organisation needs to know how critical stakeholders perceive it and being explicit about this in the definition will encourage organisations to measure stakeholder perceptions.

Moullin (2007) argues that Neely et al. (2002) definition emphasises effectiveness as well as efficiency but does not help managers stop and challenge their performance measurement systems and gives little indication as to what they should quantify or why. The idea here is that 'performance is always a performance for someone' (Bouckaert & Peters, 2002, p. 361). In that sense, performance depends on stakeholder perceptions (Berg, 2007). Bouckaert & Peters (2002, p. 361) for instance, suggest that 'performance needs to be related to satisfaction, and satisfaction needs to be related to trust of actors and stakeholders'. Zigan, Macfarlane, & Desombre (2007) use the satisfaction of patients as an indicator of high performance, and for Paalberg (2007) organisational performance can be improved 'by creating greater value for customers'. It is worthy of note that a critical condition for stakeholder satisfaction is responsiveness (Boyne et al., 2005; Crook, 1994; Yang & Hsieh, 2007) to their needs and expectations.

In a critique of Moullin (2007) definition of PM, Bocci (2004) indicates a preference for Neely's definition, and in particular, prefers "quantifying" to "evaluating" because the latter referred to more than measuring. Pratt (2005) and Moulin (2005) however argue that an extreme focus on quantification (i.e. financial numbers) may be limiting and instead evaluating was much better than quantifying as it encompasses qualitative as well as quantitative measures.

Neely himself commented that "in essence I find myself agreeing with Moullin and Pratt [because] delivering value to stakeholders is clearly essential to an organisation's success" (Neely, 2005, p. 14). However, later in the article, he stresses that "the concept of stakeholder adds no clarity to the definition because the question of which stakeholder matters is, so context dependent."

In my opinion, Moullin's definition highlights the critical role of Performance Measurement in providing the information needed to assess the extent to which an organisation delivers value and achieves excellence. This definition highlights the perceptual nature of performance measurement and consequently evaluation as well as the usefulness of both quantitative and qualitative measures in the PM process. Additionally, the definition covers all the dimensions of the balanced scorecard. The financial aspects are included in "delivering value", customers and stakeholders are vital to the definition, while internal processes, innovation and learning are central to the way organisations are managed.

Admittedly, performance is difficult to define and measure because, stakeholders often disagree about which elements of performance are most important, and some elements are difficult to measure. Moreover, tinkering with agency performance also has strong political implications (Brewer & Selden, 2000). Nevertheless, numerous scholars have focused on developing the best way to define and measure organisational performance with mixed results. Because of this difficulty, several and different methods, perspectives, and models have been developed to enable organisations to measure and manage their performance effectively.

#### **2.1.5.1. Performance Measures.**

Pun & White (2005) define performance measures as the numerical or quantitative indicators that show how well organisational objectives are being met. Neely et al. (2005) define a performance measure as: "a metric used to quantify the efficiency and/or effectiveness of an action". The discussion of quantification is not inclusive of softer, qualitative measures and the term 'metric' alludes to quantitative scales.

Neely et al. (2005) definition, even though widely used has been criticised to be mechanistic and overly operational. Besides, it seems to exclude 'softer' and more qualitative measures of performance (Skevington 1999, Teece 1992). Moreover, Neely et al. (2005) view that performance measures are objective criteria for assessment, evaluation or comparison has been contested due to the involvement of judgment in the choice of measures (Johnson & Kaplan 1987).

Quite recently various studies have confirmed the value of applying qualitative measures of performance as well as the financial measures. This balanced or integrated approach (Burgess, Ong & Shaw, 2007) attempts to offer a broader perspective of performance from various stakeholder viewpoints.

In this study, performance measures are defined as the indicators, values and metrics that help in the evaluation of performance vis-à-vis a previously set benchmark. The 'metrics' from which performance measures usually emanate are briefly discussed below.

##### **(a) Inputs**

Input is often used as an element of performance (Radnor, 2008) and usually measures cost savings, keeping within budget (Amirkhanyan, Kim, & Lambright, 2007) and economic gains (Yang & Rho, 2007) by increasing revenue and decreasing expenditure

(Gurd & Gao, 2008). Regarding performance, the idea is to improve 'economy' and make better use of resources (Barrett, 1997).

**(b) Process & Throughput**

According Siegel & Summermatter (2008), 'throughput' refers to organisational processes, (Boschken, 1992) and includes elements such as activities (Berman, 2002), capacities (Hendrick, 2003), operations (Smith, 2007), volume of work (Daut Mohmud & Sackett, 2007), or workload (Smith, 2007). Workload indicators, for instance, are output orientated and measure the amount of work done, (such as the number of applications processed, or the number of letters delivered).

There have been various contentions about the use of input and process measures. For instance, Propper & Wilson's (2003) argue that "inputs and process measures provide no information on the effectiveness of programmes. That is, using costs as a performance measure also biases activity towards shorter and less intensive programmes".

**(c) Output**

Melkers & Willoughby (2005, p. 183) define outputs as 'the quantity of services that meets a certain quality requirement, such as, the number of lane miles repaired'. Therefore, outputs are the results of the production process (Arellano-Gault & Gil-García, 2004) and measure quantity and quality of outputs. Output measures or indicators refer to 'direct results' produced from the transformation of inputs (Ristic & Balaban, 2006).

**(d) Outcome /Results**

Outcome variables are unique in their sensitivity to the strategic interests and success of the firm (Moran, 2005). Outcomes or results measure the effects, results, or impacts of an activity or process (Goerdel, 2006) including the consequences arising from outputs (Thompson, 1999). Outcomes also measure the usefulness and value of an action, and most performance measures differentiate between initial, intermediate, or long-term outcomes. Behn (2003) contends that outcomes are not necessarily the best measure for all purposes. Moreover, the choice of a measure depends on whether this measure possesses the characteristics required for the manager's purpose. This is particularly so because organisations do not produce outcomes but rather produce outputs. Consequently, although managers want to use outcome data to evaluate their performance, they need output data to motivate better performance.

**(e) Efficiency**

Neely, Greggory & Platts (2005) argue that the level of performance a business attains is a function of the efficiency and effectiveness of its actions. Based on these, Neely et al. (2005) proceed to a definition based on a marketing perspective. They argue that, from a marketing perspective, organisations achieve their performance goals by satisfying their customers with greater efficiency and effectiveness relative to competitors (Kotler, 1984). Hence effectiveness measures the extent to which an organisation satisfies customer requirements, while efficiency is a measure of how economically the firm utilises its resources to provide a given level of customer satisfaction. Their definition highlights the fact that there can be internal as well as external reasons for pursuing specific courses of

action (Slack, 1991). This definition is not surprising. Neely (1994), for instance, had previously defined a performance measurement system (PMS) 'as the set of metrics used to quantify both the efficiency and effectiveness of actions'.

Efficiency measures how well an organisation uses its resources. (Dunsire, Hartley, & Parker, 1991), and is often operationalised as the relation of 'efforts to outputs' (Smith, 2004, p. 23), or 'the relationship between outputs and the resources used to produce them' (Ammons, 1995).

**(f) Effectiveness**

Hall & Rimmer (1994) as well as Ammons (1995), relate effectiveness to the quality of services and meeting several objectives. Effectiveness is based on the notion of the appropriateness of the outputs of the process and focuses on a broader set of measures (Radnor & Barnes, 2007). It measures how well services or programs meet their objectives" (Wall & Martin, 2003) and hence is a measure of outcome that illustrates the result or impact of a service (Hall & Rimmer, 1994). Boschken (1992) offers a deeper understanding of effectiveness by distinguishing between organisational, social, or reciprocal effectiveness based on the dynamic interplay of different units (organisation or program) and levels (strategic or operational).

**(g) Non-Financial and Qualitative Measures**

Financial measures are more susceptible to 'higher levels of data manipulation, distrust, rivalry, and dysfunctional decision making vis-à-vis cost, customer service and innovation' (Vagnieur & Peiperl, 2000). This can derail innovation and creativity, due to the rigidity it introduces (Balsam et al., 2011), and also lead to 'short termism' as well as adversely affect HPR. However, compared to non-financial measures, financial measures are usually objective with a standardised or uniformity in measurement that allows for effective comparability. Non-financial measures such as customer satisfaction and brand equity may be subject to varied interpretations and computations and may be perceptual rather than objective. Davila & Enkatachalam (2004) suggest that non-financial measures of performance are not comparable across industries. Ijiri (1975) considers hard measures as reducing the opportunity for disputes over a measure while 'soft' measures can be easily 'pushed in one direction or another'. In the empirical literature, financial measures are usually considered as hard measures. The debate about the efficacy of financial versus non-financial measures seems to have settled on the relevance and complimentary relationship between both measures in the PMS.

Compared to financial measures of performance, non-financial measures can capture broader aspects of performance (Abernethy et al., 2013, Lau & Moser, 2008) as well as focus on long-strategic implications of managerial actions and activities (Marginson, McAulay, Roush & van Zijl, 2014; O' Connell & O' Sullivan, 2014). Additionally, non-financial measures of performance enhance organisational communication (Simons, 1995) and are forward looking and related to long-term success rather than 'short termism' (Ittner & Larcker, 1998; Kaplan, 1984; Smith & Wright, 2004). The use of non-financial measures of performance has been linked in recent literature to improvement in

managerial performance through the enhancement of desirable behaviours and attitudes (Atkinson et al., 1997; Ittner & Larcker, 2003).

Amir & Lev (1996) highlights the complementarity between financial and nonfinancial data in performance management in a study that examines the value-relevance to investors of financial and nonfinancial information of independent cellular companies. Their study concludes that, on a stand-alone basis, financial information (earnings, book values, and cash flows) is mostly irrelevant for security valuation while nonfinancial indicators, such as POPS (a growth proxy) and Market Penetration (an operating performance measure), are highly value-relevant. However, combined with nonfinancial information, earnings contribute to the explanation of share value.

Davila & Venkatachalam (2004) investigate the role of non-financial performance measures in executive compensation in the airline industry and find that non-financial performance measures are positively associated with CEO cash compensation. This association is significant after controlling for traditional accounting performance measures (return on assets) and financial performance measures (stock returns) and is consistent with the hypothesis that non-financial measures provide incremental information about CEO's actions over financial measures and hence, receive a positive weight in compensation contracts. They further explore cross-sectional differences in the importance of non-financial performance measures and find weak evidence that CEO power and the noise of financial performance measures impact the relationship between non-financial performance measures and cash compensation.

Ahmad & Zabri (2016) examine the application of non-financial performance measurement system among manufacturing companies in Malaysia and find that the use of non-financial performance measures is contingent on several variables including size of the firm, the involvement of owner/manager, and application of modern technology. They discover that non-financial performance measures related to internal processes and customers are more widely used compared to quality control.

Huang, Liang, Lobo & Zhang (2016) examine the relation between innovation (a non-financial performance measure), and CEO compensation for high-technology firms and find that CEO compensation is positively associated with corporate innovation performance, (i.e., innovation output as measured by patent count) and innovation output value (measured by patent citations). Their study also finds evidence that CEO equity compensation, particularly option compensation, is more sensitive to these measures of innovation performance than is cash compensation. They argue based on their findings that board of director's view patent performance as an essential non-financial performance measure for innovation and incorporate this information when determining CEO compensation. They also explore cross-sectional differences in the compensation relevance of patent performance and find the relevance varies according to firm characteristics (noise in financial performance and R&D intensity) and CEO characteristics (CEO tenure and CEO age).

Graham, Cannice, & Sayre (2001) assesses the extent to which non-financial measures of internet usage are incrementally value-relevant above basic financial information across four Internet industry sectors. Specifically, they explore the extent to which net income, book value, unique users, page views, and hours per user can explain stock prices and find evidence that net income cannot explain market values. Concerning the non-financial variables, they find that for retailers and content/community firms, page views have the most significant explanatory power. Notably, for service companies, unique users have the highest ability to explain market values, and for infrastructure companies, non-financial variables are not significant.

While admitting the general value relevance of both financial and non-financial measures, Wyatt (2008) evaluates the relevance and reliability of financial and non-financial information on intangible assets. Wyatt's (2008) study finds supporting evidence that research and development (R&D), purchased goodwill and measures of brands and customer loyalty are not reliably measured and may be less relevant in some contexts (e.g. established versus growth firms). Wyatt (2008) suggests that giving management discretion, with regulatory guidance, to report intangibles might facilitate more value - relevant information on intangibles and hence HPR.

The choice of a measure should be preceded by a clarity of purpose (Behn, 2003). Kravchuk & Schack (1996) note that no one measure or even one collection of measures is appropriate for all circumstances and therefore 'the search for a single array of measures for all needs should be abandoned, especially where there are divergent needs and interests among key users of performance information'. They advocate "an explicit measurement strategy" that will "provide for the needs of all important users of performance information" (page 350).

### **2.1.5.2. The Performance Management Process And System**

Radin (2006) argues that the performance vocabulary emphasises the rigor of following a logical process, focuses on the ultimate outcomes, and relies on the collection and interpretation of data. This process is summarised below. A detailed discussion of the PM process or system can be found in Aguinis (2009), Armstrong & Baron (1998), and Bititci, Carrie, & McDevitt (1997). The process is iterative and includes

#### **2.1.5.2.1. Setting Measures, Targets And Indices And Matrices**

Pun & White (2004) argue that measuring performance involves a process to determine how successful organisations have been in attaining their objectives. This implies that performance relates to some requirement and whether or to what extent it is met (Radnor, 2008). These are often referred to as measures, targets, benchmarks, goals or objectives (Arellano-Gault & Gil-García, 2004; Askim, 2004). Such targets can include benchmarks on service standards (Awortwi & Vondee, 2007), timeliness (Berman, 2002), or more generally, the overall mission accomplishment (Karkatsoulis, Michalopoulos, & Moustakatou, 2005). Targets, or benchmarks are parameters that provide the basis for a comparative analysis (Smith, 2007, p. 1624). According to Courty, Heinrich, & Marschke (2005), 'the establishment of appropriate benchmark levels (or standards) is a key

element to guide the evaluation of outcomes' and hence any performance measure will be useless if it appears as an isolated, disconnected or abstract number (Siegel & Summermatter, 2008).

Richter (2004) argues for ambitious but realistically achievable targets and suggests that "to be truly effective, standards should be set at a level of performance well above average, but within the bounds of what has been achieved with current best practices and technologies". This will require organisations to strive for excellence without setting a goal that cannot be achieved.

Neely et al. (2005) argue that even though measurement is the "process of quantification" performance measures that are used to evaluate performance must be positioned in a strategic context, as they influence what people do and can stimulate action. Mintzberg (1978) proposes that it is only through consistency of action that strategies are realised.

Leong et al. (1990) suggest the critical dimensions of manufacturing's performance, as quality, delivery speed, delivery reliability, price (cost), and flexibility. However, the conceptualisation of these terms is fluid. For instance, Wheelwright (1984) uses flexibility in the context of varying production volumes, while Tunälv (1992) uses it to refer to a firm's ability to introduce new products rapidly. Scholars such as Garvin (1987), Schonberger (1990), Stalk (1988), Gerwin (1987), and Slack (1987) have measured quality, time, cost and flexibility from different dimensions (Neely & Wilson, 1992). Neely et al (2005) argue that, in the manufacturing sector, the most important measures relate to quality, time, cost and flexibility.

Behn (2003) suggests serious consideration of the number of performance measures used because, if managers have too many performance measures, they may be unable to learn anything. Neves et al (1999) agree and argue that "in many agencies, because of the proliferation of performance measures, there is more confusion or 'noise' than useful data and managers lack the time or simply find it too difficult to try to identify good signals from the mass of numbers". Poister & Streib (1986) call this the "DRIP" syndrome—Data Rich but Information Poor".

#### **2.1.5.2.2. *Measurement (Collecting Data And Analysing By 'Agents')***

Measurement is the process of quantification and can be used to (1) evaluate; (2) control; (3) budget; (4) motivate; (5) promote; (6) celebrate; (7) learn; and (8) improve (Hatr 1999; Behn, 2003). Theurer (1998) comments that performance measures are intended to provide reliable and valid information on performance.

A central stakeholder dilemma is how to measure managerial performance (Reichelstein, 1997). Traditionally, activity-based measures such as Economic Value Added (EVA) have been used and proven to overcome the drawbacks of ROI. However, minimal formal models have attempted to delineate the exact incentive properties of such residual income measures. Reichelstein (1997) explores for a performance measure that creates goal congruence without considering moral hazard and concludes that EVA in several aspects creates goal congruence.

Charnes, Cooper & Rhodes (1978) propose the DEA (Data Envelopment Analysis) to measure managerial performance. Golany & Roll (1993) develop a one-stage model based on DEA. Chenguang et al. (2011) contest because it excludes environmental factors. Bhattacharyya et al. (1997) propose a two-staged model, but their model does not entirely account for measurement errors. Fried et al. (2001) propose a three-staged and later a four-staged model which does not account for statistic noise.

Chenguang et al. (2011) argue that a fair measurement of managerial performance should focus on the subjectively efficient efforts of managers that exclude 'objective basic conditions'. In furtherance of their argument, they propose a two-stage model of relative efficiency analysis to measure manager's performance. Chenguang et al. (2011) contend that organisational performance is different from and must be measured separately from the managerial performance. They admit however that an effective measurement of managerial performance must reference organisational performance. Specifically, they propose that organisational performance is measured with the Efficacy Coefficient Method (ECM) whereas the Data Envelopment Method is used to measure managerial performance. Two performance scores are needed to analyse their two-staged relative efficiency. The performance score in the previous year is used as a measure of intrinsic strength for the next year's operations and is considered as a reference index (RI). The performance score in the current year is defined as the current index (CI). In the first stage, performance measurement techniques such as Analytical Hierarchical Process (AHP) or ECM are used to measure organisational performance. In the second stage, the RI is considered as an input and the CI as the output and applied in the DEA to measure managerial performance.

#### **2.1.5.2.3. *Reporting Performance: Self-Reporting Of Performance By Agents.***

Performance reporting is a fundamental accountability and communication function that has generated significant research interest. Pintelon & Puyvelde (1997) suggests that performance reporting is the first step towards benchmarking and argue that sound performance reporting is indispensable for every management function. They contend that efficient performance reporting systems support continuous improvements and are the basic 'stepping stone' for quality control in each management function. Prior studies have focused on how the characteristics of reporting and reward systems jointly and separately impact agent's propensity to misreport underlying private information. This focus is justified as the integrity of self-reported performance information is vital for decision making. Self-reporting of performance by agents occurs and is relevant for two main reasons;

- a) Agent's efforts are mostly unobservable, and hence performance measures are only a noisy indicator of 'objective performance' (Holmstrom, 1979).
- b) Performance information may be unavailable in some instances.

For these reasons, assessors mainly rely on self-reported performance from managers for monitoring, evaluation and decision-making.

Thornton (1980, p. 269) advocates for the use of self-reports in measuring performance due to the involvement of cognitive considerations in the process. He comments that "cognitions are an intervening variable between motivational force and objective performance and should be studied". The debate regarding the efficacy of self-reports has no consensus. Some authors have claimed that self-ratings of performance result in leniency bias compared with, say, superior ratings (Parker et al., 1959; Prien & Liske, 1962; and Heneman, 1974); while others disagree (Nealey & Owen, 1970).

Heneman (1974) compares self and superior ratings of performance on nine dimensions and found that self-ratings possessed less leniency, restriction of range, and halo error than did superior ratings.

Gul & Chia (1994) use a questionnaire survey to investigate the interaction effects of perceived environmental uncertainty (PEU), decentralisation and design of Management Accounting Systems (MAS) on managerial performance in Singapore Companies. MAS design was defined in terms of perceived availability of two characteristics of information, (scope and level of aggregation). The results indicated that decentralisation and the availability of MAS information characteristics of broad scope and aggregation were associated with higher managerial performance under conditions of high PEU. Under conditions of low PEU, decentralisation and the availability of MAS broad scope and aggregated information were associated with lower managerial performance.

Robertson & Sadri (1993) use a field study to explore the importance Bandura's self-efficacy concept to organisations and managerial performance. They achieve this by developing a parallel version of Bandura's scale to assess that is reliable and independent of social desirability. The second part of their study provided evidence of the relationships between scores on the managerial self-efficacy scale and supervisors' ratings of managers' performance and indicated that managerial self-efficacy correlates with managerial performance ratings.

Empirical literature supports self-reported managerial performance (including delegation of the choice of measurement method) when such reported can be verified (Demski et al., 1984) or not (Verrecchia, 1986) especially under conditions where the manager is sufficiently risk averse (Ozbilgin & Penno, 2008). This is because allowing managerial performance reporting flexibility reduces the manager's compensation risk. Demski (1998) considers a multi-period model where the manager has private information and can manipulate earnings information. He shows that the expected cost of compensation when the manager is motivated to manipulate earnings can be lower than in a situation where he has no private information so that earnings can only be reported truthfully. The underlying reason is that the manager can only manipulate the performance signal in case the desirable effort level is delivered, and allowing for manipulation reduces the manager's risk. This view is however contestable if other wider social and organisational cost implications, aside contractual compensation cost are considered.

Waegenaere & Wielhouwer (2011) explore the implications of managerial reporting flexibility (or discretion) by considering a principal-agent setting in which a manager's

compensation depends on a noisy performance signal, and the manager is granted the right to choose an accounting method to determine the value of the performance signal. They measure managerial reporting flexibility as the number of acceptable methods, on the optimal contract, the expected cost of compensation, and the manager's expected utility and find that a minimal degree of discretion may be necessary for successful contracting. Particularly while an increase in reporting discretion never harms the manager, the effect on the expected cost of compensation is subtle. When reporting discretion induces costly effort on the part of the manager, the optimal degree of discretion can be higher than when it is costless. Therefore, it may be optimal to grant managerial self-reporting flexibility, even when his compensation depends on performance measures derived from such self-reported performance.

Managerial reporting flexibility involves the application of different noisy performance signals, each resulting from equally acceptable measurement methods. Based on Waegenaere & Wielhouwer (2011) if a manager cannot be motivated to deliver high effort by increasing the level of the bonus, increasing the level of reporting discretion may be an alternative means to resolve incentive conflicts. This view is based on a 'hard agency problem' where (1) an unfavourable signal carries little information regarding the manager's action choice and (2) the level of utility that the manager derives from compensation cannot be made arbitrarily high by increasing the level of the bonus in case of a favourable signal, and does not consider the view of other stakeholders. Inherently their study suggests that inherent in the self-reporting mechanism is a risk of substantial misreporting of underlying private information.

Reporting managerial performance should have variable considerations of both effectiveness and efficiency but most importantly should evaluate the exercise of discretion (Jaques, 1961). Indeed, because the managerial task involves the exercise of discretion and judgment, performance reporting and hence evaluation is a fundamentally judgmental activity (Vickers, 1965). Therefore, the evaluation of managerial performance is, in itself, a managerial task which cannot be precisely predetermined, and which different stakeholders will carry out in different ways.

Sabac & Tian (2017) differentiate between positively biased and negatively bias information in examining the impact of biases in managerial judgment and performance reports on the voluntary disclosure of private managerial information. Their study considers the cost of voluntary performance disclosure as endogenous and does not disentangle intentional from unintentional biases. They show that negatively biased performance reporting, reduces timely voluntary disclosure by firms. Only positively biased reporting increases voluntary disclosure by firms. Negative biases, act to reduce voluntary disclosure and thus the supply of timely information to capital markets (Gigler & Hemmer, 2001). Similar to Watts (2003), they find that freedom from bias, both in managerial judgment and in accounting, is desirable in that it makes firms more likely to make timely voluntary disclosures.

Negative bias may arise because auditors, incentivised by audit standards and legal liability, would allow low accounting earnings reports to pass but challenge high earnings.

This would shift the probability of low accounting earnings upwards. Positive bias may arise because managers, incentivised by their compensation contract, would leave high reported accounting earnings to pass but challenge low reported earnings. This would shift the probability of high accounting earnings upwards.

Bucur (2013) study the relationship between managerial competence and managerial performance using Campbell's Model of Competence and find that competence is significantly linked with managerial performance. However, the hierarchy of these competencies was different across managerial levels. For instance, core competences were more critical to high managers and line managers in determining managerial performance.

#### **2.1.5.2.4. *Evaluation And Analysis (By Principals)***

Evaluating performance helps to recognise achievements and guides future remedial action when required especially if evaluations are based on transparent and equitable analysis (Capko, 2003). Evaluation in this context is broader than mere assessment and implies a 'systematic judging/determination of intrinsic (primary) and extrinsic (secondary) values' (Ristic & Balaban, 2006) of managerial action reported through achieved performance matrices.' In this sense, evaluation is a comparison of perceived attained managerial value against the pre-determined standard of performance and judgment becomes a quotient of the perceived and the standard (Stake, 1980). Weilenman (1980) confirms the contextual nature of evaluations and evaluation criteria and highlights that the exercise of judgement by evaluators has no consensual approach.

#### **2.1.5.2.5. *Action And Feedback***

Hatry (1999) argues the fundamental purpose of performance information is to make improvements. Managers should receive feedback on the results of their activities because this is intuitively necessary for decisions about future activities (Halachmi & Bouckaert, 1996). As measurement alone does not bring about performance improvement, performance data should be part of a continuous feedback loop that is used to report on value and accomplishment and identify areas where performance is weak so that steps can be taken to promote improvements.

## 2.2. THEORETICAL FRAMEWORK FOR HPR.

The quality of MPR has varied temporally, spatially and across sectors. These variations have attracted research into motivations behind managerial performance reporting decisions. Despite the growing empirical interest in MPR, there is still no comprehensive theoretical framework that will adequately identify the factors that affect MPR. Perhaps this is because studies on MPR have been approached based on different theoretical frameworks and consequently different methodological constructs thus hindering the development of coherent literature (Wangombe, 2013).

A single theory cannot fully explain the motivations, determinants and effects of HPR (Linsley & Shrives, 2000; Ntim & Soobaroyen, 2013). Adrem (1999) and later Cormier et al. (2005) highlight that managerial disclosures (including MPR) are a complex phenomenon not explainable by a single theory. Theories are complementary and yet are not equal in their interpretation of a particular phenomenon (Van der Laan, 2009). Freedman & Stagliano (1992) admit that there is no single motivation for managerial performance disclosure practices. Deegan (2000) agrees and comments that since theories are an abstraction of reality, a particular theory cannot be expected to provide a full account or description of managerial behaviour. As a result, several researchers have advocated for a theoretical lens that encompasses various perspectives (Gray et al. 1995; Cormier et al. 2005; Islam & Deegan, 2008; Martin & Hadley, 2008). MPR is multi-faceted, and therefore more than one theory will be applied in explaining the findings of this study. Although the theoretical concepts discussed in this section have been presented as different and competing, they have many conceptual overlaps (Wangombe, 2013).

While admitting that the dominant views of theory in accounting research are interpretative, normative and positive, there are several conceptions of theory, each of them, different regarding nature and scope. Stan (2010) defines theory as a 'systematic representation' of a valid problem expressed as far as possible, or logically in life and social sciences. Harlow (2009) argues that the word theory cannot be subject to a single definition because the discipline of study influences it. He argues that natural scientists see theory as a decisive law or a system of laws and for other disciplines theory is a construct or set of constructs for comprehending a phenomenon. While Gay & Weaver, (2011) agree, Wacker (1998, 2008) goes further and proposes that theory is 'an explained set of conceptual relationships' while Corley & Gioia (2011) define theory as a statement of concepts that shows interrelationships between concepts as well as offer explanations about how and why such relationships exist.

Theories help to define a research problem, describe the peculiar features of a phenomenon and have predictive value. Theories are ultimately tested and become an uncontested fact (Gelso, 2006) but retain the characteristic of refutability (Wacker, 1998). Admittedly, most of the theories adopted in accounting are adopted from other disciplines (Malmi & Granlund, 2009). An, Davey & Eggleton (2011) argue for the adoption of a multi-theory approach in the explanation of observed phenomena in accounting as well as the application of CAT, ST, LT and Signalling theory in the study of managerial performance disclosure decisions.

Legitimacy theory (LT), Stakeholder theory (ST) Institutional theory (IT) and Impression Management (IM) derived from political economy theory and are often categorised as system-based theories. These theories substantially propose that information and disclosure (such as MPR) play a relevant role in the relationship between organisations, employees (agents) and the broader society including external groups. Therefore, organisations and managers within the organisations are perceived to be influenced by and influence the society in which economic activity occurs.

The political economy is the 'social, political and economic framework within which human activity takes place (Gray, Owen & Adams, 1996, page 47) implying that economic activity cannot be fully understood without consideration of political, social, institutional and other relevant context that define such economic activity. Political economy recognises the power of conflicts and the struggles that occur between various groups within society (Marcuccio & Steccolini, 2009) and recognises the effect of MPR on the distribution of income, power and wealth (Cooper & Sherer, 1984). Guthrie & Parker (1990) argue that disclosures can transmit social, political and economic meanings for a pluralistic set of report recipients. It embraces the perspective that society, politics and economics are inseparable and hence managerial action cannot meaningfully be investigated in the absence of these considerations. Essentially, MPR is not a neutral and unbiased process and is influenced by the continuous and evolving interchange between organisations, employees and the environment.

Political economy has two dimensions. The classical theory of political economy emanates from Marxism and views information disclosure (MPR) within the context of classical struggles, class interest, structural and society conflicts, inequity and the role of the state. Predominantly it argues that MPR are only a means to maintain the favoured position of influential persons in society who want to control scarce resources.

The Bourgeois stream of Political Economy Theory does not consider class struggles and structural conflicts. Instead, it explains MPR based on the interaction between groups in a pluralistic society. LT and ST emanate from this stream of political economy theory.

In this study, LT, ST, IT & IM provide a partial explanation for observed findings regarding HPR and suggest that MPR and the extent of the extent of honesty in disclosing underlying private information are used as a strategy by actors (i.e. managers) to manipulate the relationship between self, organisation and society. In the subsequent sections below, I explain these theories and their underpinning concept to provide a theoretical basis for my hypothesis, adopted methodology and explanation of findings. It is worthy of note that even though these theories are the fundamental theories underpinning this study, other theories are also used albeit spatially in this study.

### 2.2.1. Classical Agency Theory (CAT) And The Propensity To Report Dishonestly.

Classical Agency theory analyses the relationship within an economic exchange (Kostova, Nell, & Hoenen, 2016) where an individual (the principal) delegates authority to another person (the agent) to act on his/her behalf to maximise the principal's wealth (Jenson & Meckling, 1976; Cuevas-Rodriguez, Gomez-Mejia & Wiseman, 2012).

Evidence exists to suggest that occasionally people trade monetary gains for moral cost and engage in dishonest behaviour (Schindler & Pfattheicher, 2017). Even though many types of research refer to CAT, only in rare instances do they discuss the model and how its assumptions fit the problem to be studied. In this subsection, we review the model as well as its basic assumptions. The CAT is applied in various academic disciplines and is a theory about contractual relationships between buyers and sellers (Waterman & Meier, 1998; Pratt & Zeckhauser 1985). Perrow (1986) for instance states that:

*"In its simplest form, agency theory assumes that social life is a series of contracts. Conventionally, one member, the 'buyer' of goods or services is designated the 'principal,' and the other, who provides the goods or service is the 'agent'-hence the term 'agency theory.' The principal-agent relationship is governed by a contract specifying what the agent should do and what the principal must do in return". (page 14).*

Classical Agency theory is theoretically appropriate for studying relations where (a) decision making is delegated (b) principals are unable to observe whether the delegated power is properly exercised fully and (c) there is divergent motivation(s) between the principal and agent (Hoenen & Kostova, 2015). Due to this, CAT has become the dominant institutional logic of corporate governance and studies of human behaviour and ethics in social sciences (Zajac & Westphal 2004; Ross 1973; Jensen & Meckling 1976; Shapiro 2005) making it a 'general social theory of relationships'. White (1985) and later Mitnick (1998) concede that the ultimate imperative by actors when confronted with an agency problem is gaining and maintaining control.

Therefore, classical agency theory is "perhaps the dominant paradigm in management accounting research" (Steinberg & Kunisch, 2016; Salterio & Webb 2006; Gomez-Mejia, Berrone & Franco-Santos, 2010). Cuevas-Rodriguez et al (2012, page 526) buttress this point further by suggesting that "*Because the use of incentives to create alignment of interest between principals and agency is a primary mechanism proposed by the theory to reduce agency cost, the theory is, without doubt, one of the main (if not the main) theoretical frameworks in the area of compensation management (particularly at the top management level)*".

The theoretical underpinning of CAT emerged from the theory of the firm (Coase, 1937) and had been used in financial economics literature since the 1960s (Hoenen & Kostova, 2015).

CAT defines a bilateral principal – agent relationship (Arrow, 1985) where, under conditions of information asymmetry (the situation where one party, often assumed to be

the agent, has more or better information than the other party in a relationship) and uncertainty, the principal attempts to design a contractual relationship with an agent that optimises the economics of information and incentive (Hoenen & Kostova, 2015). This principal agent relationship mimics the relationship between owners and professional managers, or employers and employees. The principals' effort at designing a 'perfect contract' is because, the separation of ownership from control results in agency costs that require costly mechanisms for control and monitoring (Cuevas-Rodriguez et al., 2012).

Agency cost arises because both parties to the relationship have self-serving interest and the contractual mechanisms used to align the interests are imperfect and costly (Cuevas-Rodriguez et al., 2012). This is because both parties are rational rent seekers with different utility functions (Jensen & Meckling, 1972) who will act opportunistically to maximise their self-interest or utility. This causes a conflict of interest resulting in market failure problems of adverse selection and moral hazard (Holmstrom, 1979; Moe, 1979). That is, whereas principals seek to maximise personal wealth subject to minimal risk constraints, agents seek to maximise personal wealth while minimising personal effort and risk. Arrow (1985) refers to the adverse selection problem as 'hidden information' and moral hazard as 'hidden actions'. Due to this hidden information, classical agency theory assumes that principals are unable to know the true 'type' of the varied agents, making it easy for agents to take advantage of this imbalance in information and shirk (Shapiro, 2005), skive (Cuevas-Rodriguez et al, 2012) and become 'opportunistic', pursing self-interest with 'guile' (Williamson 1975; Kolev, Wiseman, & Gomez-Mejia, 2012).

Adverse selection occurs because the principal misjudges abilities and willingness to perform satisfactorily. It could also arise because principals lack adequate information or cannot analyse such information about agents' characteristics, skills competence, etc. (Akerlof, 1970). Moral hazard occurs because of the 'inherent incongruence' between the motivations of the principal and the agent. This is heightened by the principals' inability to observe the actions of the agents fully. This causes behaviours such as lack of effort, shirking, skiving etc. (Kolev et al., 2012).

Perrow (1986) suggests the possibility of principals also behaving opportunistically with no consideration for the agents' welfare. Therefore, under CAT the opportunistic behaviour can be by both the principal and the agent. Despite the wide literature on CAT that suggests that such opportunistic behaviour is driven mainly by self-interest, Hendry (2002) disagrees and proposes an alternative explanation for observed dysfunctional behaviour by agents. He argues that rather than pure self-interest and opportunism, the dysfunctional behaviour is inherent in the bilateral agency relationship. According to him, due to imperfect rationality, principals are unable to adequately specify their expectations and agents also lack the competence to interpret principal's actions to take the appropriate steps. Shapiro (2005) argues that this variation of the bilateral agency model is overly simplistic and not adequately supported empirically.

To mitigate against agency cost, attempts have been made to achieve congruence in the motivation of agents and principals to align their interest. This has mostly been through performance related compensation. That is to say, agency theory guides decisions about

the most efficient contract for aligning the interest of an agent with a principal (Fama & Jensen, 1983). However, such performance related contractual arrangements are often imperfect and incomplete (Cuevas-Rodriguez et al., 2012).

The roots of agency theory are therefore linked to economic utilitarianism and has been applied in management studies to (1) examine incentive alignment, particularly compensation policies (Shapiro, 2005), evaluate the types and relationships between behaviour oriented and outcome oriented compensation (Eisenhardt 1989), (2) analyse corporate governance and control systems (3) estimate agency cost resulting from the challenges of adverse selection and (4) enhance the debate between classical agency theory versus scholars with 'other-regarding' behaviours of humans (Donaldson & Davis 1991; Wright and Mukherji 1999).

Most of the studies on HPR have been grounded in some context of the agency theory, especially the classical agency model (CAT). This is because CAT provides a parsimonious prediction of how rational individuals will behave in a bilateral relationship.

CAT is built on an assumption of incompatible goals (Shapiro, 2005), suggesting that market failures introduced by information asymmetry can be mitigated by efforts at monitoring, communication and information systems, as well as incentives (outcome oriented contracts rather than behaviour oriented contracts) that encourage behaviours aligned to the interest of the principal. Often this theory assumes a single principal agent relationship with perverse behaviour always by the agent. Perrow (1986) argues that the agency theory even in its classical form will make more sense if the possibilities of the perverse behaviour of principals are considered as well.

Principals are assumed to be risk neutral with an adequately diversified portfolio, whereas agents are risk adverse because they have not adequately diversified their risk. In the classical agency model, Jensen & Meckling (1976) suggesting a dyadic relationship between individuals, argue that most organisations are merely legal fictions serving as a nexus for a set of contractual relationships among individuals. Shapiro (2005) asserts that the assumption of methodological individualism makes this transformation process seamless. Therefore, in organisations, agency relationships are contracts, and the incentives and control systems are the elements of the contract.

Applying the classical agency theory to the context of HPR will imply that agents will use superior information at their disposal to maximise their utility and therefore have no aversion to reporting dishonestly in the process. An agents' choices are influenced by his utility function, which is entirely dependent on his consumption aspirations (Sen 1997). This is referred to as the pursuit of selfish self-interest that may or may not be congruent with organisational goals (Ouchi 1979). This behaviour by agents' to be self-seeking is referred to as opportunistic (Chua 1986) and is consistent with Williamson et al. (1975) definition of opportunism as 'self-interest seeking with guile':... an effort to realise individual gains through a lack of candour or honesty in transactions'. Research in accounting has mostly focused on situations where agent's goals are at variance with organisational goals (Church et al., 2014). This implies that without interventions from the

principal, agents are likely to report dishonestly than honestly once they can maximise their wealth from such behaviour.

Yang (2009) challenges the assumption that complex organisational structures or networks (Shapiro 2005) can be reduced to dyadic relationships between individuals and suggests that organisations are more practically a loose network of relationships. Kiser (1999) suggests that the dyadic relationship between individuals in the classical agency model makes the model 'an organisational theory without an organisation'.

Social scientists often find the simplification of principal - agency relationships as problematic (Shapiro, 2005; Cuevas-Rodriguez et al., 2012) and have attempted to relax the rigid dichotomies into more complex variables with a more practical understanding of what an organisation is or stands for. Shapiro (2005), for instance, argues that actors in any relationship are more than just principals or agents and often operate in a dual role of principals and agent. In other words, an actor may be an agent to one person but a principal to another agent in the same transaction and /or in a hierarchical structure. If that be the case, then it is inappropriate, from a value maximising perspective, to model contracts from the view-point that only one individual has a perverse behaviour. Perrow (1986) argues that agency problems on the side of the agent are mirrored on the principal side as well. He indicates that the problem of adverse selection can also cause agents to self-select themselves into contracts with principals who shirk, cheat, are opportunistic and lie about hazardous work environments etc. Donaldson & Davies (1994) also contend that the actions of principals can create self-fulfilling actions and behaviours by agents. Other critics have argued that CAT includes simplistic assumptions about individual risk preferences (Wiseman et al., 1998) and does not acknowledge the social context within which these relationships occur; primarily on how the context could influence the relationship between principals and agents (Wiseman, Cuevas-Rodriguez, & Gomez-Mejia, 2012); the role of trust; the importance of other interest groups and; the possibility of enlightened self-interest on the part of the agent.

Yang (2009) proposes that the assumption of solitary principal and agent must be extended in organisational studies to include multiple principals and agents because that is more practical. Adams (1996) refers to this as the 'Hydra factor' and contends that the possibility of a multiplicity of principals and agents in a single contract or organisation presents a scenario of a collation of teams (principal and agents) having conflicting interest and competing for attention over their unique goals and interest (Espeland & Stevens, 1998). In such a scenario, the challenge for agents could become choosing between incommensurable interests that 'do not share a common metric along which competing demands can be ranked, costs and benefits weighed, trade-offs evaluated, or rational choices modelled' (Shapiro, 2005). Shapiro (2005) suggests that, in a multi-actor principal agent relationship, some agents may be more risk averse than others, or have more goal congruence with certain principals than others arguing that this can increase information asymmetry and introduce difficulty in monitoring. However, Waterman and Meier (1998) argue that in the long run, information leakage from competing agents will reduce information asymmetry and its attendant adverse effects.

Central to the classical agency model is the economic assumptions that all individuals are rational and seeking maximum utility (wealth) in an equilibrium position. Because principals are risk neutral in all situations, agents are singled out to be to self-seeking utility 'maximisers' (maximum wealth) prone to opportunism. Heimer & Staffen (1998), as well as Sharma (1997), also disagree with the assumption of a superior principal in the classical agency theory. In the classical agency theory, a superior principal that is risk neutral always, specifies preferences, defines goals and creates incentives for the agent to follow. Heimer & Staffen (1998) indicate that the asymmetry of power can shift to the agent in scenarios where the agent was recruited for his expert knowledge or in circumstances where the agent has prior experience, and the principal has no experience or knowledge of the relevant subject matter. The assumptions of superior principal are particularly stretched when principals seek out agents with specialised knowledge (referred to as professionals). Sharma (1997) suggests that in such a situation, information asymmetry (not knowing what the agent does) can be compounded by knowledge asymmetry (not knowing how the agent does his job). Therefore, adverse selection is even more pronounced because the principals are unable to evaluate the skills of professional agents, have difficulty in specifying a contract and difficulty evaluating the quality of work done as well as the appropriate limit to impose on agent discretion. Regarding this, Shapiro (2005) argues the opportunity for self-regulation makes professions a social device against agency cost. Larson (1997) however disagrees and suggests that professions increase agency cost by securing a monopoly.

Perrow (1986) rejects the assumption that agents are risk averse, self-serving utility maximisers (Anthony et al., 1998) and argue that, in line with Simons (2000), in given situations, humans can be altruistic, other-regarding and hardworking. Perrow (1986) suggests that the classical agency theory is limited because it ignores cooperative aspects of social life and precludes considerations of trust and cooperation between principals and agents (Fehr & Falk, 2002). Critics of CAT suggest that viewing agents as "Stewards" motivated to act responsibly may result in desirable outcomes for both parties (Davis, Schoorman & Donaldson, 1997). Stewardship theory (Donaldson & Davis 1991) proposes that agents are often good stewards and team players rather than opportunistic and align with the interest of principals through a process of cooperation and coordination rather than a scenario of perverse conflict of interest.

Mitnick (1992) suggests that the 'a-contextual', 'a-historical' and static principal agency relationship must be abandoned. Shapiro (2005) proposes that agency relationship must be viewed from a broader social context and buffeted by other variables (such as other agency relationships, competitors, regulators etc.) to reduce informational imbalances, offer or constrain incentives as appropriate, emphasize the risk of adverse selection or moral hazards, mitigate or enhance opportunism etc.

Moe (1984, page 763) confronts the limitations in applying the classical agency model, which is grounded in profit seeking and sharing (the theory of the market), to non-profit organisations and observes that "*the more general principal-agent model of hierarchical control have shown that, under a range of conditions, the principals optimal incentive structure for the agent is one in which the latter receives some share of the residual in*

*payment for his efforts; thus giving him a direct stake in the outcome....for public bureaucracy, however, there is no residual in the ordinary sense of the term”.*

Waterman and Meier (1998) suggest that the incentives at play for public organisations revolve around policy rather than profit. Evidently, if the market setting is removed, a range of diverse strategies is available to mitigate information asymmetry and can be applied in different quantum and extent (Worshan et al., 1997; Sharma 1997; Banfield 1975).

In summary, there seems to be a growing suggestion in the literature of the inadequacy of the classical agency theory for studies in social science and accountancy. Interestingly however, rather than refute the theory, empirical studies have instead requested for an adaptation of the theory to suit “realism” in social sciences, proposing the relaxation of some of the assumptions grounded in economics, replacing dichotomies with continuous variables, reducing abstract categorisations and placing all analysis of the agency theory within a relevant context. Tirole (2002) for instance calls for the widening of agency theory to include behavioural perspectives. Arrow (1994) asserts that ‘economic theories require social elements as well even under the strictest acceptance of standard economic assumptions. Rabin (1998) agrees and argues that ‘some important psychological findings seem tractable and parsimonious enough that we should begin the process of integrating them into economics’ (page 13). Cuevas-Rodriguez et al. (2012) concur and suggest that we may be able to benefit from the evidence of human behaviour as well as organisational theory without necessarily losing out on the virtues of economic analysis. Cuevas-Rodriguez et al. (2012) also argue for the inclusion of other theoretical perspectives to extend and strengthen agency predictions. Shapiro (2005) confirms the invalidity of the assumption of a single agent to single principal assumption that underpins CAT and provides evidence that agents are increasingly buffeted by conflicting and legitimate interests for multiple principals. He further concedes that so called ‘perfect incentive to align the interest of corporate executives and shareholders’ only results in these executives contriving illicit schemes and preferably a more nuanced understanding of principals, agents and organisations when fashioning complex incentive.

Attempts have been made, even though still at nascent stages, to progress agency theory beyond the classical perspective. These developments are still in their early stages and have not obtained the critical mass to support theorisation. This has led to the categorisation of several streams of agency theory (Hoenen & Kostova, 2015; Bolton & Dewatripont, 2005) into static bilateral, static multilateral, dynamic, social and contextual. These categorisations are guided by theoretical considerations about how each stream adds a specific aspect of complexity by relaxing some of the assumptions or changing some of the boundary conditions of CAT.

Jensen & Meckling (1976) attempt to extend the boundary of CAT to a multilateral scenario that involves multiple principals and agents. They perceive an organisation as a ‘nexus of contracts’ (Coase 1937) that results in complexities emanating from ‘multilateral asymmetric information’ (Milgrom & Weber, 1982). Bolton & Dewatripont (2005) differentiate between multilateral and bilateral agency relationship by suggesting that ‘in

the one sided private information case the contract designing problem reduces to a problem of controlling the informed party's response, while in the multilateral situation the contracting problem becomes one of controlling the strategic behaviour of several parties interacting with each other' (page 25). Therefore, the multilateral agency relationship highlights the importance of monitoring agents in addition to providing incentives to alleviate 'moral hazard in teams' (Holmstrom, 1982). Even though monitoring is relevant, it can be costly, and principals sometimes adopt team-based compensation or risk sharing to minimise the cost of monitoring.

The static multilateral scenario does not negate CAT. Instead, it highlights additional agency problems (Hoennen & Kostova, 2015). This is because multiple principals and agents only complicate further the issues of loss of control (Williamson, 1967) primarily as multiple agents could result in collusion against the principal (Tirole, 1986; Holmstrom & Milgrom, 1990).

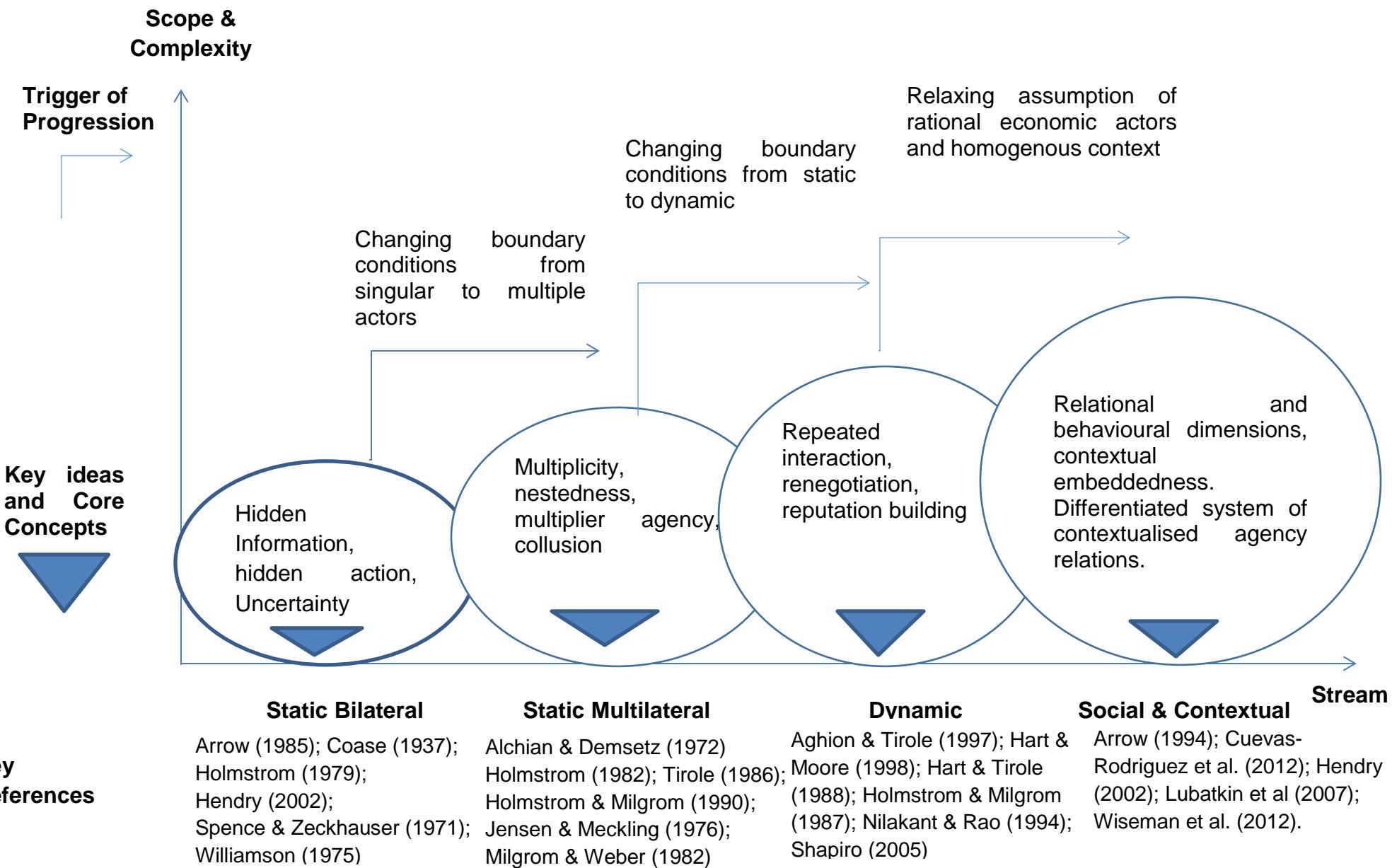
Holmstrom & Milgrom (1987) have proposed a relaxation of the dyadic relationship espouse in CAT in favour of a dynamic relationship that evolves over the medium to long term. By relaxing the CAT assumption of persistent and stable information asymmetry, they argue that, due to repeated interactions, mutual learning may change the nature of the agency relationship. This is because parties learn more about each other (Shapiro, 2005) and could result in contract renegotiation and reputation building (Hart & Tirole, 1988). Aside from the fact that agency relationships are usually not long term focused, the dynamic perspective of agency further highlights that agency problems are evolving based on new information that parties obtain from each other. It highlights the perspective of gaming that could be introduced into the agency relationship.

In recent times, scholars have attempted to align agency theory with stakeholder theory (Shankman, 1999) by introducing a social view of agency. This recognises that agents and principals 'have socially derived interests that may or may not coincide, nor must they automatically reflect wealth maximisation' (Wiseman et al., 2012). It argues that principals or agents are not merely economic actors driven by self-interest but are influenced by the firms' social context and hence consider social elements in their relationships with others (Cueva-Rodriguez et al. 2012; Hendry, 2002). Arrow (1985,) admits that professional responsibility can be enforced by considerations of other '*rewards and penalties that take social rather than monetary forms*' such as ethics educations, formal punishments and considerations of reputation. Therefore, such considerations should be merged with the structure of economic analyses.

Also, even though still at its nascent stage, recent studies have also attempted to place agency relationship within an institutional environment and cultural context. Fidrmuc & Jacob (2010) for instance argue that cultural values affect agency relationships because cultural values affect how actors use information, make decisions and explain actions. This stream of literature argues that the cultural embedding of agency relationships must be considered a relevant variable.

I assume a multi actor principal agency relationship in organisations that are a loose network of relationships. This construct of an organisation with multi-actor principal agent relationship allows relationships to endure over time (as parties develop histories, and personal relationships and become a complex social network) affording agents and principals an opportunity to understand each other better. Therefore, over time, agents understand the interest of varied principals, and principals appreciate how to reward agents if need be (Granovetter 1985) appropriately. More importantly, the locus of power continually shifts in this relationship. Overtime, agents, acquire constituencies and power bases, aside from that with the principals and this provides them with a cushion against contract and sanction threats from the principal. Also, perhaps as agents outlast the principals, the balance of power between agents and principals may shift (Shapiro, 2005). I use the terms managers, business executives, business leaders and agents interchangeably. Figure 2.2 is adapted from Bolton & Dewatripont (2005); Hoenen & Kostova (2015) and presents the evolution of research streams from the agency perspective.

**FIG 2.2: Research Streams In Agency Theory**



Source: Adapted from Bolton & Dewatripont (2005); Hoenen & Kostova (2015).

### **2.2.2. Stakeholder Theory (ST).**

Since Freeman's (1984) pioneering work, Stakeholder Theory (ST) has become a dominant theory to identify and examine the impact of managerial actions (Weiss, 1995) and is approaching a paradigm status. It has been used to inform discussions about corporate governance, business ethics, managerial behaviour, strategic management and organisational effectiveness.

Freeman (1984) defended the empirical relevance of ST on the basis that 'current approaches to understanding the business environment fail to take account of a wider range of groups who can affect or are affected by the corporations; its stakeholders'. Therefore, understanding organisational dynamics, including MPR requires an understanding of the influence of different groups that have legitimate stakes of varying degree in the organisation. Applying ST to MPR will imply that manager's decisions on performance reporting are shaped by an awareness of a managerial responsibility to a broader constituency than shareholders and investors.

ST has also been employed to hypothesise the consequence of HPR or otherwise albeit with mixed results. Waterman, Rouse & Wright (2004) argue that, in a multi-actor setting, users of MPR (in the long run) can adequately discount for misreported managerial performance because of the inherent likelihood of information leakage attributable to competing interest. Yang (2009) as well as (Heclo, 1977), contest this based on bounded rationality in decision making and suggest that misreported managerial performance has real and perceived effects.

The basic preposition of ST is that an organisation's (and the managers who manage it) success is dependent on the successful management of all relationships with stakeholders and hence a manager's primary job is to ensure a sustainable balance between the varying and sometimes conflicting interest of stakeholders. Stakeholder theory differs from CAT based on differences in the value perception of the firm. CAT assumes that the ultimate purpose of a company should be serving the interests of its shareholders (Cragg, 2002). Stakeholder theory is driven by a desire for more equitable distribution of organisational benefits (Maitland, 2001) and hence makes serving the interests of all those identified as "stakeholders" in a company the ultimate purpose (Evan & Freeman, 1993, p. 255; Cragg, 2002, pp. 132–133). These include shareholders but also, and most significantly regarding contra distinctiveness from the CAT, non-shareholders such as employees, customers, suppliers, local communities, and so on. It is worthy of note however that ST does not suggest a less than equal status for shareholder interests relative to any non-shareholder interest (Kaler, 2003, 2006). Based on ST, MPR becomes a source of information that can be employed by managers to manage (or manipulate) stakeholders to gain their support and approval or distract their opposition or disapproval (Gray et al. 1996).

With ST, organisations are influenced towards a more extensive serving of non-shareholder interests relative to those of shareholders than under CAT (Orts & Strudler, 2002; Kaler, 2002). Kaler (2003, 2006), Evan & Freeman (1993), and Maitland (2001) contend that ST involves a reformist stance toward capitalism, seeking to move it in the direction of greater equity and a less single-minded concentration on owner's interests rather than replacing it entirely.

The various definitions of stakeholder within the empirical literature can be categorised into two broad groups (Kaler, 2002). The first set covers definitions from a normative perspective in which being a stakeholder derives from being someone for whom a business is morally responsible. The second set of definitions are non-normative and depend on how capable a person can have or affect a causal interaction with a business. The normative core imposes a responsibility-based definition of stakeholders as “persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity” (Donaldson & Preston, 1995, p. 67). In contrast, in a non-normative sense, the legitimacy of the interest is irrelevant and all that matters are the causal interaction. In such a case, stakeholders are “any group or individual who can affect or is affected by the achievement of the firm’s objectives” (Freeman, 1984, p. 46).

Kaler (2002) prefers the normative definition and is of the view that empirical studies on organisational ethics (like HPR) must adopt the normative definition. From a normative perspective, stakeholders are ‘groups without whose support the organisation would cease to exist’ (Freeman, 1983). In this context, organisations are perceived as a nexus of implicit and explicit relationships (Elijido-Ten et al., 2010, Mahadeo, 2011); a complex network of constituencies (Clarkson, 1995); and a coalition of individuals and organised sub coalitions (Cyert & March, 1963). ST differs from Institutional Theory (IT) in that whereas IT assumes that firms impose norms, ST assumes that firms and their managers are at the centre of a web of relationships and can influence such relationships.

The categorisation of stakeholders is often assumed to be homogenous within groups but heterogeneous across groups. Indeed, the stream of ST that an author ascribes heavily influences the classification of stakeholders. For instance, the ethical branch of ST posits a model of an enterprise in which ‘all persons or groups with legitimate interest participating in an enterprise do so to obtain benefits, and there is no *prima facie* priority of one set of interests and benefits over another (Donaldson & Preston, 1995).

Even though there are different typologies of ST, these differences have not been clearly established in the empirical literature. A synthesis of the literature suggests two broad areas of differences (i.e. typologies) in ST (Kaler, 2003). These are

- 1) Differences in identification and categorisation of stakeholder grouping. Kaler (2003) argues that how stakeholders are identified is ‘fundamental to stakeholder theory’ in all aspects. Clarkson (1995) acknowledges that the interests and impact of stakeholders are not equal and hence stakeholder management does not imply that managers must direct equal attention to all constituents (Dentchev & Heene, 2003 a & b). Rowley (1997) also contends that stakeholders vary in power and influence and the density of interconnections. Mitchell et. al, (1997, p.854) propose the concept of stakeholder salience and define ‘salience’ as ‘the degree to which managers give priority to competing stakeholder claims’. Mitchel et al. (1997) see stakeholders as a matter of multiple perceptions while Neville et al. (2004, 2011) see a constructed reality rather than an ‘objective one’. In relation to this typology, a categorisation often flaunted in the literature is the distinction between primary and secondary stakeholders. Clarkson (1995) describes primary stakeholders are those who control resources critical to the survival of

the firm whereas secondary stakeholders are those with the power to mobilise public opinion for or against a firm. This categorisation is predominantly driven by a view of stakeholder homogeneity (Fassin, 2010, 2012), which 'focuses on heterogeneity across rather than within stakeholder groups' (Wolfe & Putler, 2002). Fassin (2009, 2010) contests the lack of focus on stakeholder heterogeneity and suggests stakeholders within each category or 'constituency' are not homogenous. Winn (2001), as well as Argenti (1997), take this argument further by indicating that stakeholder groups are not monolithic but differ in interest, the extent of involvement as well as influence capacity. Therefore, stakeholders are likely to have various appurtenances belonging to more than one constituency set at the same time (Jansson, 2005; Campbell, 1997) occupying several roles. Based on this, Pesqueux & Damak-Ayadi (2005) suggest that analysis of stakeholders should be based on the role played at any given time. This confusion has been compounded by the recent introduction into the ST literature of 'derivative shareholders'. This categorises stakeholders whose legitimacy is derived from the ability to affect the organisation based on obligations owed to others (Phillips, 2003; Phillips, Freeman, & Wicks, 2003). Pressure groups, for instance, represent 'institutional structures that serve the function of monitoring and enforcing the terms of the implicit or tacit contracts' and may fit into this categorisation (Hill & Jones, 1992). However, it is difficult to appreciate a clear distinction between derivative shareholders and secondary stakeholders. Post et al. (2002) have proposed a categorisation of stakeholders into a resource based, industry structure and social-political arena with massive contestation from other authors (Kaler, 2003).

- 2) Differences in the extent to which stakeholders are morally required to have their interests served relative to the extent to which those of shareholders must be served. Kaler (2003) argues that this differences in identification fundamentally divides different versions of stakeholder theory because the most advantageous basis for constructing a typology of stakeholder theories is the extent to which different non-shareholder interests are morally required to be served relative to those of shareholder

Donaldson & Preston, (1995) propose a tripartite division of stakeholder into 'aspects' based on different 'uses' of ST and proposes descriptive, instrumental and normative typologies of the theory even though they argue that ST is effectively normative. It has "become customary to distinguish three kinds of stakeholder theory" regarding Donaldson & Preston's categorisation (Hendry, 2001a, p. 163, 2001b). Freeman adds 'metaphorical' to these distinctions (Kaler, 2003).

Even though stakeholder theory has been advanced and justified by its descriptive accuracy, instrumental power and normative validity, these three aspects of the theory although interrelated are quite distinct. This is because they involve different types of evidence and arguments and have different implications (Donaldson & Preston, 1995). The descriptive aspect to stakeholder theory discusses the use of ST to "describe, and sometimes to explain" the nature and operations of companies (p. 70) 'as a constellation of cooperative and competitive interest possessing intrinsic value' (Donaldson & Preston, 1995). Wangombe (2013) states that descriptive stakeholder research seeks to describe organisations within 'their environment' and hence descriptive ST attempts a description of reality (i.e. the reality of business thinking,

business practice or, even more fundamentally, the nature of business itself). The purpose is to describe how managers confronted by stakeholder conflicts manage and represent their interest. Therefore being “descriptive” is about making a factual claim about a theory (Kayler, 2003). The contention is that, in some form or other, ‘stakeholding’ has been incorporated into business thinking or practice or is intrinsic to the nature of the business. Van der Laan (2009) contends that this descriptive aspect, when it is organisation centered is referred to as the managerial branch of stakeholder theory.

The instrumental discusses the use of ST in arguing that the adoption of a stakeholder approach to running companies is an equally good or better way of achieving “conventional corporate objectives” “such as profitability as “rival approaches” (p. 71). In essence, it assesses the extent to which managing stakeholders is conducive to the achievement of commonly asserted organisational goals (Wangombe, 2013). With the instrumental approach, the factual claim relates to what will happen to businesses if they adhere to the theory (i.e. commercial success). The contention is that adopting some form or other of ‘stakeholding’ is conducive to, or at least compatible with, commercial success

The normative aspects of ST suggest what the “function” of companies should be and the “moral or philosophical guidelines” they should follow about their “operation and management” (p. 71). However, the empirical tests of normative prepositions may be difficult (Deegan, 2014) because in normative uses, *‘the correspondence between the theory and the observed facts of corporate life is not a significant issue, nor is the association between stakeholder management and conventional performance measures a critical test. Instead, a normative theory attempts to interpret the function of, and offer guidance about, the investor-owned corporation on the basis of some underlying moral or philosophical principles’* (Donaldson & Preston, 1995, page 67). Wangombe (2013) ties the normative approach to the ethical branch of ST, which holds that all shareholders have intrinsic value and hence no shareholder has priority of interest over shareholders. Therefore, there is no reason to treat shareholders specially compared to others (Boatright, 1994).

These categorisations have empirical backing. For instance, Brenner & Cochran (1991; page 452) use ST to ‘describe how organisations operate and to help predict organisational behaviour’, while Freeman (1994) used ST to develop an instrumental approach to managerial and strategic practice. Indeed, its established status is demonstrated by its interpretation into an encyclopedia account of stakeholder theory (Freeman, 1997). These three aspects are not entirely discrete (Kaler, 2003) but “nested within each other”, with descriptive uses being “supported” by instrumental ones and normative uses providing a “central core” to the other two uses (p. 74) as well as a “foundation” for stakeholder theory as a whole (p. 85).

Hendry (2001) even though accepts this tripartite distinction of ST derives what he recognises as a distinct class of “normative” theories regarding the degree to which organisations accept responsibilities towards stakeholders. He proposes a categorisation into “modest”, “intermediate”, and “demanding” degrees of responsibility. Based on that he attempts a parallel division of stakeholder theories regarding how far differing degrees of responsibility towards stakeholders challenge the existing institutional, legal, and moral basis of society but includes a combination

of the implementation measures demanded with the moral justifications offered. Kaler (2003) considers Hendry (2001) groupings as a theoretical supplement that must be offered in support of earlier stakeholder theories distinguished without being intrinsic to that classificatory scheme.

Kaler (2003) contests Donaldson & Preston's (1995) categorisation and propose that stakeholder theories must be categorised based on the extent to which serving the interests of non-shareholders relative to those of shareholders is accepted as a responsibility of companies. Kaler (2003) prefers differentiation between theories to be based on its 'content' rather than its 'use' because 'uses' derive from 'content' (therefore uses have secondary relative status to content). He conceptualises content to mean the way a theory describes and explains the nature of a given phenomenon and 'uses' to mean what the theory says about the phenomenon it is a theory of. Kaler (2003) argues the supposed descriptive, and instrumental streams of ST refer to second order theories rather than divisions within stakeholder theory and therefore, cannot, except in a suitably indirect way, feature in a typology of stakeholder theories. Since the crucial distinction between stockholder and stakeholder theory is their respective rejection and acceptance of role-specific responsibilities toward non-shareholders that are "ultimate objective fulfilling", then any typology should be based on the division of stakeholder theories into those which (a) do and do not give priority to the interests of shareholders over those of non-shareholders, (b) do and do not posit perfect duties towards non-shareholders as well as shareholders, (c) do and do not accept accountability to non-shareholders as well as shareholders.

Based on her assertion, Kaler (2003) derives two versions ST of qualified" and "unqualified". Qualified versions of ST qualify the degree of opposition to CAT and accept that serving of non-shareholder interests should join the serving of shareholder interests as part of the defining purpose of corporate activity rather than, relegated to an incidental by-product of serving shareholder interests. Qualified versions of ST recognise role-specific responsibilities towards non-shareholders as well as shareholders as ultimate objective fulfilling. However qualified versions of ST are similar to CAT and accept some degree of priority for shareholder interests. Unqualified versions of ST reject this compromise as well as any *sui generis* status for shareholder interests relative to those of non-shareholders. Thus, there has to be at least one grouping of stakeholders whose interests are given equal priority with those of shareholders.

Considering that role-specific responsibilities are either perfect or imperfect, Kaler (2003) identifies two versions of qualified ST theory; weak and strong versions. The strong version posits perfect duties towards stakeholders and corresponding rights. The strong version derives from a moral perspective and imposes an obligation for fulfilment. The weak version presumes that duties to stakeholders are imperfect based more on an act of benevolence towards stakeholders rather than, something which stakeholders can demand "as of right". What emerges from his work is a spectrum of stakeholder theories ranging from (a) a qualified and weak version contrasting the least with a CAT to (b) an unqualified and strong version with accountability to non-shareholders as the one contrasting the most with CAT.

The link between ST and managerial action can be explained by the Resource Dependence Theory where organisations and their managers are dependent on

stakeholders for critical resources. Based on Resource Dependence Theory, Frooman (1999) explains stakeholder's direct and indirect use of withholding (discontinuing provision of the resource) or usage (providing the resource with conditions attached) strategies to force managerial action. Nue et al. (1998) show that organisations are responsive to powerful 'relevant publics'. Therefore, variations in HPR are partly explained by managerial effort to satisfy influential stakeholders whose interest may vary over time (Tang & Luo, 2011).

Additionally, ST implicitly assumes the existence of a social contract between businesses and society that provides a moral basis for the social control of business activities. Therefore, the actions of organisations (and the managers that lead them) can be legally and morally constrained by society. Moral and not merely legal obligations can be placed on productive organisations because business is a creature of society.

#### **2.2.2.1. Application Of Stakeholder Theory (ST) To MPR & Disclosure Studies.**

Considering that the expectation and power relativities of several stakeholders change over time managers must continually adapt operating and disclosure strategies in a delicate balancing act among stakeholders (Deegan, 2014). Information disclosure (into MPR) in an accountability process is a major tool used by managers in this balancing act to gain legitimacy, support or approval and to distract stakeholder's opposition or a section of them (Gray et al., 1995).

The accountability process obligates managers of organisations to disclose information regarding performance and compliance to intended and sometimes unintended parties. Two branches of ST drive a manager's approach to accountability. These are the ethical (moral) branch and the positivist (managerial) branch (Gray et al., 1995).

The ethical branch does not differentiate between stakeholders (i.e. primary or secondary etc.). It accepts the view that all stakeholders have certain intrinsic rights and hence the disclosure of performance information must give equal consideration to all stakeholder interest even if a particular stakeholder is not interested in using such information. (Deegan & Samkin, 2009). The positivist (managerial) branch is of the view that it is the selective focus on influential stakeholders that benefits managers and organisations (Mitchell et al., 1997). Therefore, in disclosing MPR, managers need to focus on the expectations of 'powerful stakeholders' (Roberts, 1992; Watts & Zimmerman, 1986). Figure 2.3 below is adapted from Deegan (2014) and itemises the distinction between the ethical and managerial branches of ST during accountability and managerial information disclosure.

The application of ST in accounting has mostly been to explore pertinent issues within social and environmental accounting (CSR) as well as voluntary performance disclosure. Roberts (1992) for instance, confirms that measures of stakeholder power and the related information needs provide some explanation of levels and types of corporate social disclosures. Neu, Warsame & Pedwell (1998) suggest that firms are more responsive (regarding corporate environmental disclosure) to the concerns of financial stakeholders and government regulators than to environmentalists. Islam &

Deegan (2008) study garment suppliers in Bangladesh and find a responsiveness to the expectations of multinational buying companies, with the multinational buying companies, in turn, being responsive to the expectations of Western consumers (whose expectations about working conditions, child labour, and so on - i.e. unobtrusive events - are influenced by the Western media). Owing to the mixed findings from the application of ST to CSR, Ullman (1985) developed a conceptual framework from the stakeholder theory of management. Ullman (1985) explained the linkage between disclosure, and firm performance through the variables of stakeholder power, firm's strategic posture, and firm economic performance. Stakeholder power is a function of the degree of control over resources required by the organisation, and this determines stakeholder influence. Ullman's (1985) work can be interpreted to mean that performance disclosure is used by managers to manipulate relationships with stakeholders and the external environment. Dierkes & Antal (1985, 1986) argued that disclosures of performance information provide an opportunity for dialogue with various stakeholder constituencies. Strategic posture explains how stakeholders respond to the call for an organisations request for resources. Economic performance is based on the premise that given certain levels of stakeholder power and firm posture, sound economic performance can determine the extent of HPR.

Frost (1999) and Craswell & Taylor (1992) confirm that broader stakeholder dispersion increases the likelihood of HPR. Elijido-Ten et al. (2010) applies Ullman's (1985) three-dimensional framework to analyse managerial disclosures and finds evidence that the level of ownership dispersions, the industry sensitivity (characterised by the increased regulatory sanctions), as well as managers conviction (a measure of strategic posture), are the main determinants affecting MPR. Considerations of past and current economic performance had no direct effect on HPR.

Phillips (2003) confirms that competitors and the media usually have a significant influence on managerial action.

#### **2.2.2.2. The Multi-Actor Principal-Agent Relationship.**

The multi-actor principal agent relationship is a crucial feature of stakeholder theory. In a multi-actor principal-agent setting, agents may be dishonest to a principal if the perceived utility of dishonesty exceeds the perceived utility of truthfulness relative to the reporting relationships with other principals or agents. Yang (2009) suggests that in such a setting, dishonest MPR is likely to occur when (1) there is a perceived benefit (material or otherwise) from the dishonesty (such as getting a reward or avoiding punishment) and (2) the dishonesty cannot be detected due to information asymmetry. The critical difference between a multi-actor principal-agent relationship and the classical agency model lies in the perception of utility. Under the multi-actor model, the principle of relativity (between principals and other agents) plays a critical role in the evaluation of utility.

Even though Waterman, Rouse & Wright (2004) argue that in a multi-actor setting the opportunities for dishonest MPR based on reasons of information asymmetry are minimal due to the possibility of information leakage, Yang (2009) suggests that in public organisations, the long run is hardly considered. Since the constructs of contracts and performance measurements systems in business organisations currently reward short-term efforts over long run efforts (Hecko, 1977), business

managers (agents) hardly consider the long run in decision-making. Moreover, the principle of bounded rationality (Simon, 1991) may reduce the likelihood of information leakage as well as the probability that any such leakage will influence stakeholder action. Additionally, information asymmetry is still likely to exist regardless of information leakage as principals cannot always keep track of all activities within multiple relationships. As well, the definition of a long run can be ambiguous. Keynes (1923) argues that 'in the long run we're all dead'.

Figure 2.3 below is adapted from Deegan (2014) and itemises the distinction between the ethical and managerial branches of ST during accountability and managerial information disclosure.

**FIGURE 2.3: Differences Between Ethical And Managerial Branch Of Stakeholder Theory**

Stakeholder Theory		
Key Issues	Ethical Branch	Managerial Branch
Positive or Normative in orientation?	Normative in orientation.	Positive in orientation.
Which stakeholders are considered?	Concerned with stakeholders who can affect the organisation as well as with those who are affected by the organisation.	Concerned with stakeholders who can affect the organisation.
What is the role of the organisation?	Manage the organisation for the benefit of all stakeholders.	Manage the organisation for the benefit of the owners and powerful stakeholders.
What is the relevance of stakeholder power?	Stakeholder power is not relevant as all stakeholders deserve consideration in their own right.	Stakeholder power is relevant, and stakeholders will be identified based on the extent to which their needs must be managed to further the interest of the organisation.
What is the role of MPR and corporate reporting?	MPR is responsibility driven and linked to considerations such as 'rights to know'. MPR will inform stakeholders about the extent to which the actions for which the organisation is deemed to be responsible have been fulfilled.	MPR is used as a strategy to manage the interest and influence of powerful stakeholders to further the interest of the organisation.

Researchers still questioned the theoretical foundation and clarity of ST arguing that it merely states a strategic management technique than developing a viable alternative theory of the prevailing norms of profit maximisation. Apart from identifying internal and external parties to a firm, ST, it has been argued, fails to explain the dynamics existing within these relationships.

Donaldson & Dunfee (1994) and Jones (1995) subsequently tried to link ST with contract theory and the theory of property rights arguing that managers engage with society to gain certain rights (i.e. right to own and use natural resources and to hire employees). Donaldson (1982) argues that these needs of 'productive organisations' require 'special status' and hence makes organisations morally obligated to serve the public interest. This effort at retrospective sense making and rationalisation does not convince Weiss (1995), especially since in capitalist society individuals already have such rights. Therefore, the argument of societal imposed constraints because faulty.

Most of the criticisms of ST have centred on the underlying assumptions of the normative approach to ST, which in many respects does not lend itself to sound empirical testing. Key (1999) contends that ST suffers from a delimitation problem and inadequately addresses the environment surrounding the firm. Fassin (2007) goes further and argues that most advocates of ST conflate the immediate business environment of the firm with the broader external environment. While acknowledging the dynamism of the variables in the immediate business environment, most ST is either silent on the broader external environment or in some cases assumes synonymy between the two, or in extreme cases, assume that organisations fully control its wider environment. Quite obviously, the empirical evidence to back these approaches is thin. As a fact, a firm's environment is not limited to its stakeholders as assumed by ST (DiMaggio & Powell, 1983). Tang & Luo (2011) see the changing pattern of the external environment as requiring agility from managers in the art of balancing short-term needs with long-term needs and contend environmental changes could affect power in stakeholder hierarchy necessitating adjustment of manager's response to stakeholder demands.

Weiss (1995) expresses massive scepticism about ST and suggests that ST is based on a limited study of the relationship of business activity to the institutional structure of modern capitalist society and fails to answer the principal question of in whose interest should an organisation be run and whom managers should serve. He suggests that ST inability to answer this principal, question results from a confusing and interchangeable use in ST empirical literature about the terms 'enterprise' and 'corporation'. This obscures differences in the range of ways in which business activities can be governed and makes the control of enterprises seem more problematic than it actually is.

Weiss (1995) also contests the ST view of an enterprise as 'an entity through which numerous and diverse participants accomplish multiple and not always congruent purposes (Donaldson & Preston, 1995, page 70). He argues that an appropriate view of an enterprise is a 'permanent commercial establishment that takes various inputs and transforms them into outputs'. The ST view of the enterprise, he argues, confuses the enterprise and the interest of the owners with those parties with whom it interacts directly

and indirectly. In other words, the assumption of an enterprise as a ‘web of private agreements’ (Brummer, 1991; page 16) obscures the fact that it is the owners of the enterprise and not the enterprise itself who are at the centre of the web. Managers, who represent shareholders, are the ones responsible for entering a contractual relationship with other stakeholders (Jansson, 2005) placing them at the ‘centre of the nexus of contracts’ (Hill & Jones, 1992). Due to agency problems, the manager becomes both the ‘identifier and interpreter’ and hence the crucial mediator of stakeholder influence (Winn, 2001). The manager becomes responsible for reconciling divergent interests (through strategic decisions and resources allocation) in a manner that is consistent with claims of all stakeholder groups. Few studies have explored the multiple relationships that exist between stakeholders forming an interconnected web of relationships (Radin, 2004).

### **2.2.3. Legitimacy Theory (LT).**

Hurst (1970) suggests that one of the functions of accounting reports is to legitimise the existence of an organisation and its continuous stewardship by managers. Legitimacy is a resource on which an organisation is dependent for survival. Consistent with the notion of Legitimacy theory (LT) companies seek to gain, maintain or repair their legitimacy by using MPR (Mousa & Hassan, 2015). Evolving from resource dependence theory, (Dowling & Pfeffer, 1975) if managers consider that they need a resource to improve prospects of organisational survival they will pursue strategies to ensure continued supply of the resources. MPR and by extension HPR becomes part of the strategies to gain, maintain and repair legitimacy (Marcuccio & Steccolini, 2009). Deegan & Rankin (1996) as well as Deegan, Rankin, & Tobin (2002) report that managers of a company will provide information to stakeholders to justify or legitimise the organisations continued existence and by extension their stewardship. In essence, MPR represents a response to society expectations (Hogner, 1982).

Legitimacy theory posits that organisations, through their managers, continually seek to ensure that they operate in a socially acceptable manner (by acting within the bounds and norms of society- see Deegan, 2002) to gain access to resources, gain approval of their goals and place in society, and guarantee continued existence (Wangombe, 2013). Parsons (1960, page 175) defines legitimacy as ‘the appraisal of action regarding shared or common values in the context of the involvement of the action in the social society’. Suchman (1995, page 574) and later Deephouse, & Suchman (2008) consider legitimacy as ‘a generalised perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions. Maurer’s (1971, page 361) definition is wider and suggests that legitimisation is the process of an organisation justifying to a peer or superordinate system its right to exist to enhance both resource supply assurance and credibility of organisational activities (see also Habermas, 2018).

LT derives from the concept of organisational legitimacy which implies a ‘condition or status, which exists when an entity’s value system is congruent with the value system of the large societal system of which the entity is part (Dowling & Pfeffer, 1975, page 122). To this end, managers of an organisation, acting on behalf of the organisation, attempt to

establish congruence between 'the social values associated with or implied by their activities and the norms of acceptable behaviour in the larger society social systems of which they are part (Dowling & Pfeffer, 1975; page 122). When there is a disparity, actual, perceived or potential, between the two value systems, then there is a threat to the organisation's legitimacy. Companies achieve legitimacy by demonstrating to society that its activities are concordant to social values. Preston et al. (1995) attempts a differentiation between legitimacy and legitimisation and proposes that legitimacy measures the congruence between institutional actions and social values whereas legitimisation involves actions that an institution takes either to signal value congruence or to change social values.

Richardson (1987; page 352) confirms that concerns about HPR have arisen because of recent accounting scandals as well as concerns about the 'ethical' impacts of economic activities of organisations. However, disclosure practices are still focused on the managerial dimension (Marcuccio & Steccolini, 2009).

LT concentrates on the concept of social contracts and posits that the survival of organisations is dependent on the extent to which the organisation operates within the bounds and norms of society (Brown & Deegan, 1998). Shocker & Sethi (1974) suggest that any institution and business without exception, operates in society via a social contract, expressed or implied, whereby its survival and growth are based on 'the delivery of some socially desirable ends to society in general and the distribution of economic, social or political benefits to groups from which it derives its power'. Mathews (1993) and Mousa & Hassan (2014) contend that society provides organisations with their legal standing, attributes the authority to own and use natural resources and to hire employees (Weiss, 2009 & 2014 contests this assertion) which organisations have no inherent rights to. Therefore, organisations must continually meet the tests of relevance and legitimacy by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval. Without this, the society may revoke the organisation's contract to continue to operate. In essence, the existence of organisations depends on society's willingness to allow them to operate (Reich, 1998). Therefore, managers engage in the process of legitimisation to extend, maintain or defend the organisational legitimacy and hence survival (Milne & Patten, 2002). In this regard, disclosures, including MPR, are used by managers to justify their continued existence and to affect public perception of the company. Magness (2006) confirms that MPR is a means of 'explaining what, why, when and how' certain items are addressed by corporate management in their communication with outside audiences. Some parties in society such as employees, investors, customers etc. may refuse to deal with organisations that renege on their obligations within a social contract (Coopers & Lybrand, 1993). Herremans et al. (1993) have previously established a positive relationship between social reputation and firm profit.

According to legitimacy theory (LT hereafter), HPR is affected by visibility, political and social issues as well as organisation performance (Edwards, 1998 & 2014; Roberts, 1992; Hackston & Milne, 1996). Marcuccio & Steccolini, (2009) demonstrate how managerial performance reporting practices are a response to both performance and legitimacy gaps

caused by the search for efficiency, effectiveness and accountability. LT predicts that during periods of 'bad' performance, MPR may be obfuscated (Roberts, 1992). However, Marcuccio & Steccolini, (2009) find no relationship between 'bad' performance and extent of HPR. Rather, their study confirms that, the higher the visibility of an organisation, the greater the attention to HPR. Therefore, the higher the number of 'constituents' the higher the degree of HPR.

Marcuccio & Steccolini, (2009) contend that LT is irrelevant in influencing the extent of HPR but can be useful in understanding why and if an organisation adopts HPR. In this sense, HPR responds to the need for legitimising not by conforming to a 'generic' set of externally developed models of performance reporting but by interpreting it according to specific needs through making certain results and activities more visible to specific constituents. Therefore, legitimacy seeking behaviour rather than pushing for conformity in performance disclosure practices contributes to a 'diffused differentiated' approach to performance reporting.

In a dynamic society, the bounds and norms are not fixed but change across time. Hence organisational legitimacy is variable temporally, spatially, and across stakeholder and cultural groups. Managers must, therefore, be responsive and adopt 'legitimation strategies' (Lindblom, 1993) to construct and enhance social acceptance and 'public image' especially in periods of legitimacy gaps. A legitimacy gap occurs when organisational performance does not match the expectations of 'relevant public' or stakeholders (Van der Laan, 2009). Managers, acting on behalf of their respective organisations, seek legitimacy through either substantive disclosure (which involves real, material change in managerial practices) or symbolic disclosure. Symbolic disclosure involves a choice of ways that make the organisation appear consistent with social values and expectations (Ashforth & Gibbs, 1990). The approach adopted depends on whether management seeks to extend, maintain or defend its legitimacy (Wangombe, 2013). For instance, symbolic management is frequently applied when organisations seek to defend its legitimacy. Extending or defending legitimacy is more problematic for organisations that are highly dependent on external others for resources (Ashforth & Gibbs, 1990). Often in such a case, the level of legitimisation depends on whether managers want a passive acquiescence or active support from relevant publics (DiMaggio, 1998).

Lindblom (1993) and Dowling & Pfeffer (1975) suggest means by which a company facing legitimacy threats may legitimise its activities. These are

- 1) Adapt its output, methods or goals to conform to prevailing conditions of legitimacy
- 2) Demonstrate the appropriateness of its output, methods or goals through education and information.
- 3) Try to alter the perception of relevant publics by associating itself with symbols, values and institutions that have a higher legitimate status
- 4) Try to alter societal expectations by aligning them with the organisation's output, goals or methods.

The intensity applied with each of these strategies depends on factors such as the need for speed, the availability of resources, extent of managerial flexibility, level of organisational stigmatisation etc. (Ashforth & Gibbs, 1990). Points two to four above involve symbolic management where socially acceptable goals are espoused and may involve 'anti-social strategies' such as denial and concealment and ceremonial conformity.

Since communication is a strategy for legitimisation (Buhr, 1998), Suchman, (1995) argues that managerial initiatives in MPR can make a substantial difference in the extent to which organisational activities are perceived as desirable, proper and appropriate within any given social and cultural context. Buhr (1998) states that 'the annual report is the most commonly accepted and recognised corporate communication vehicle'. Abrahamson & Park (1994) see the annual report as a legitimating device that projects selective impressions about managerial activities. O'Donovan (1999, 2002), as well as Guthrie & Parker (1989), confirm that managers believe that MPR is a useful educational and informative tool for changing public perception. MPR has been confirmed as a corporate communication instrument (Hoogheimstra, 2000); a public relations vehicle (Elkington, 1997) and used to reduce the effects of unfavourable events (Deegan et al. 2000); construct preferred imagery and relationships (Gray et al. 1995) and improve reputation (Adams et al. 1998).

Suchman (1995) identifies three forms of legitimacy based on managerial action. These are Pragmatic legitimacy, Moral legitimacy and Cognitive Legitimacy.

Pragmatic legitimacy occurs when managers overtly try to win societal support and may involve substantive action or mere symbolism. Moral legitimacy is conferred by 'relevant publics' without overt managerial action. It results from a positive assessment of an organisation's activities by its stakeholders. Suchman (1995) concedes that moral legitimacy involves consequential legitimacy (where stakeholders confer legitimacy by evaluating outcomes of actual organisational activities) and procedural legitimacy (where legitimacy is conferred based on how organisation results are achieved). Based on this, Hrasky (2012) contends that MPR should disclose both outputs and processes. In essence, managers derive pragmatic and moral legitimacy from a two-way discursive interaction with relevant publics. Managerial disclosures including MPR are effective in attaining pragmatic and moral legitimacy. Deegan et al. (2002) provide confirmation that when there is growing public concern and public pressure through media reports, MPR is used as means of demonstrating their legitimacy. Cognitive legitimacy, an extension of socio-political legitimacy (Suddaby, Bitektine, & Haack, 2017), occurs when there is such a high degree of congruence or acceptance between the normative expectations of the organisation and its environment that they are unquestioned or taken-for-granted (see also Hannan & Freeman, 1986). Therefore, the organisational characteristic or practice becomes so normatively acceptable within its environment that it is considered to be 'natural'. Implicit in this argument is the assumption that legitimacy is an elemental property (Zelner, Henisz, & Holburn, 2009) or quantity that ranges in strength along a continuum from being so legitimate, as to be taken-for-granted (Hannan & Freeman,

1984) to being so illegitimate that the organisation is stigmatised (Elsbach & Sutton, 1992, Hudson, 2008).

MPR practices used to gain legitimacy vary in type. Hrasky (2012) discusses that these variations reflect the nature of legitimisation responses, which is contextual and is usually a mix of symbolism and substance. Soobaroyen & Ntim (2013) find that 'corporations adopt a combination of substantive and symbolic disclosures in a bid to achieve specific types of organisational forms of legitimacy, and this mix of substantive and symbolic disclosures is altered as a result of changes in contextual events, stakeholder salience and the corporation's current state of legitimacy'. Stanny (2013), as well as Cho & Patten, (2007) posit that managers in an MPR process only disclose the minimum required information to gain the appropriate type of legitimacy. Hopwood (2009) suggest that MPR is used by managers as a form of corporate veil simultaneously providing a new face to the outsiders while hiding the actual picture.

As the number of researchers adopting LT as the theoretical basis for MPR has increased so too has the sophistication and understanding of its application been refined (Van der Laan, 2009). Many studies have positively linked MPR to legitimising motive. Recently, studies have attempted to 'test for' LT (e.g. Adams et al. 1998; O'Dwyer, 2002; Wilmshurst & Frost, 2000) as a motivation for disclosure with inconclusive results (Van der Laan, 2009). Campell et al. (2003) contend that LT can be demonstrated or rebutted depending on the degree of association found between disclosure patterns and changes in societal opinions. Hearit (1995) however is of the view that a measure of legitimacy is only subjective and hence studies should instead infer legitimacy from the fact that being legitimate enables organisations to attract resources necessary for survival. Studies have confirmed that HPR is influenced by industrial sensitivity (Deegan et al. 1996), regulation and prosecution (Deegan & Rankin, 1996), media attention (Brown & Deegan, 1998) and contextual environmental issues (Deegan et al. 2000).

Wangombe (2013) classifies LT into two broad approaches. These are strategic legitimacy and institutional legitimacy. Strategic legitimacy uses a managerial perspective and hence emphasise how managers instrumentally manipulate and deploy symbols to gain societal acceptance. Institutional legitimacy emphasises how structural dynamics generate cultural pressures that organisations are obligated to follow.

ST and LT focus attention on the nexus between the organisation and its operating environment (Neu et al. 1998). When this environment is at the micro level, then ST is suggested as the appropriate theoretical framework (Van der Laan, 2009). This is because LT operates at the conceptual level and hence accommodates more appropriately notions of power relationships and discourses at the global level (Moerman & Van der Laan, 2005).

Patten (1992) examined the change in the extent of environmental disclosures of US oil firms around the Exxon Valdez oil spill in Alaska. He posited that Legitimacy Theory suggested that they would increase disclosure in the annual report after the spill and found confirmation for his hypothesis.

Deegan & Rankin (1996) used Legitimacy Theory to explain changes in the annual report, and environmental disclosure policies around proven environmental prosecutions. They found that prosecuted firms disclosed significantly more environmental information in the year of prosecution than any other year. They also found that prosecuted firms disclosed more 'positive' information than a matched sample of non-prosecuted firms.

The media has been confirmed as a critical influencer of societal expectations, and hence HPR responds to media attention (Brown & Deegan, 1998; Carpenter & Feroz, 1992).

Like any other social theory, there have been scholarly contestations of this theory. Archel et al. (2009) suggest that LT focuses predominantly on organisational level legitimacy and does not comprehensively consider actions that are aimed at legitimising the broader social system. They state that ... '*researchers should also consider whether the disclosures might have a broader impact in terms of efforts to legitimise particular economic, social and political systems that potentially undermine the interests of particular stakeholders*'.

Owen (2008) and Luft Mobus, (2005) contend that LT is underdeveloped and lacks predictive value especially as it predominately relies on managerial perception. Moerman & Van der Laan (2005) also argue that legitimacy theory operates at the abstract level dealing with 'perceptions and the processes involved in redefining or sustaining those perception'.

Deegan (2002), as well as Owen (2008), take issue with the vagueness in explaining how managers become adequately aware of the community concerns and the terms of the so-called 'social contract'. Even though Gray et al. (1996) suggest that the explicit terms of the social contract can be specified by legal requirements, Deegan (2002) focus seems to be on the implicit aspects of the social contract, which are difficult to specify and may be a subject of managerial instinct. Even then, it is not clear how managers determine if they are receiving the required legitimacy.

Even critical is the recent introduction of the term 'relevant publics' into the LT literature. This emphasis on 'relevant publics' seems to shift discussions of LT from entire societal perceptions to a focus on particular sections or constituency of society. This approach metamorphosis's LT into ST with all the consequential criticisms. These include issues with the assumption of a 'homogeneous society'. Nue et al. (1998) correctly point out that some stakeholders are useful in demanding HPR than others (Laine, 2009).

With specific reference to HPR, LT has produced mixed and unclear findings on how social contracts promote HPR. Deegan & Rankin (1996) argue that LT provides confirmation for HPR and misreported MPR in equal measure. Additionally, empirical evidence on what disclosures are useful in a legitimating process is thin.

Despite these criticisms, Deegan (2002) still considers LT a relevant theory for explaining managerial actions in performance reporting.

## **2.2.4. Institutional Theory (IT).**

Institutional Theory (IT hereafter) explains the causes of changes in the features and practices of organisations and the processes by which organisations secure legitimacy endorsement through conformity with norms and expectations of the institutional environment (Scott 1987; Oliver 1991).

Institutional theory is based on the foundational works of Zucker (1977, 1987) and is premised on the assumption that organisations respond to pressures from institutional environments by adopting structures/procedures that are deemed socially appropriate. Zucker (1977, 1987) explored how authority is institutionalised within organisations. Meyer & Rowan (1977) built on Zucker (1977) explaining that managerial behaviour choices are often not a reflection of efficiency but rather an attempt to act in the generally accepted manner to defend against the perception of irrationality.

The nature of institutions, how they operate and are controlled has never been clear or consensual. Theories to explain institutional phenomenon range from economic through social to political. The modern Institutional theory emphasises the dependence of modern organisations and the managers charged with stewardship on society and environment and highlights the influence of history, custom and force of habit within the organisation in establishing value congruence based on recurring routine. These re-enacted activities eventually attain a rule-like status that becomes resistant to change (Berger & Luckmann 1967; Zucker 1983). Various external and internal actors exert institutional influence for organisational conformity, to ensure observance of legitimised organisational routine (Scott 1987; Oliver 1992).

Before the advent of contemporary IT (often referred to as neo institutionalism) earlier theories of the embeddedness of organisations in social, cultural context (old institutionalism) had received attention and still retain substantial measures of vigour (Meyer, 2008; Hirsch & Lounsbury, 1997; Stinchcombe, 1997). In many respects old institutionalism has been marginalised by a new schema that argues that actors within institutions are purposeful, bounded, reasonably rational and drive social, cultural and custom changes. That is to say; society is made up of interested, purposeful and rational actors.

Meyer & Rowan (1977) and DiMaggio & Powell (1983) have been key proponents of modern institutionalism. Neo institutionalism is underpinned by the tested presumption that the formal structures of the organisation reflect the rationalised myths of institutional environments rather than the demands of work activities (Meyer & Rowan, 1977). Neo institutionalism proposes three processes that generate rationalised myths of organisational structure. These three variables significantly influence organisations to develop and implement myth-based structures and routinised behaviour. As such, the impact of these elements on organisations and organising is significant.

First, the elaboration of complex relational networks (and not just norms) drives structure formation among organisations. In specific reference to MPR and HPR, network relationships among different organisations, managers and stakeholders, influence and shape the type of structures employed by these firms. Next, the degree of collective organisation of the operating environment would influence structural orientation. Therefore, the extent to which the operating environment required collaboration among competing organisations would directly impact the types of structures utilised. Finally, managers within organisations belong to the same social class hence will implement, similar ideas concerning the structural orientation, practices and processes of the firm (such as HPR).

I adopt the sociological institutionalism strand of IT to explain why organisations take on similar characteristics, practices, forms, processes and reporting practices. It is premised on the argument that actors (i.e. managers) adopt reporting practices to bring legitimacy to their stewardship and the organisation. Scott (1987) for instance contends that 'organisations conform because they are rewarded for doing so through increased legitimacy, resources and survival capabilities' (p. 498). This view, in substance, provides complimentary perspective to both LT and ST.

The underlying similarity in all institutional theory is that something identified at a higher level is used to explain processes and outcomes at a lower level of analysis (Amenta & Ramsey, 2010; Clemens & Cook, 1999). However various types of institutional theory focus on different types of higher order determinants and differ in how they matter. Zucker's (1987) contends that the two defining institutional elements are:

- a. A rule-like, and organised pattern of action (exterior), and
- b. An embedding in formal structures, such as formal aspects of organisations that are not tied to specific actors or situations (non-personal/objective).

Meyer & Rowen (1977, page 341) agree and state that 'institutionalisation involves the processes by which social processes, obligations, or actualities come to take on a rule like status in social thought and action'. IFRS is an example of such institutionalisation, where normative approaches to financial reporting are solidified in a set of guidance rules about the reporting of financial performance.

Amenta & Ramsy (2010) identify four streams of institutional theory. These are sociological, historical, political and rational choice streams. Historical institutionalism (HI hereafter) reject functionalist explanations for why institutions emerge and focus on determinants at the macro political or macro-economic level expecting causation to be multiple, conjunctural and involving a time order and path dependence (Pierson & Skocpol, 2002). HI is in part a response to rational choice theory and behaviourism and holds that institutions are not typically created for functional reasons. Therefore, historical research is required to trace the processes behind the creation and persistence of institutions and policies.

Political institutionalism (PI hereafter) focuses on macro political determinants. PI came in response to formerly dominant pluralist and Marxism that provided a one-dimensional view of organisations. Political institutionalism does not focus on convergence across organisations but rather long-standing institutional differences among companies and argues that organisational level political institutions mediate the influence of internal political actors (e.g. managers). PI & HI define institutions to include formal and informal procedures, routines, norms and conventions in the organisational structure of the political economy.

Sociological institutionalism (such as Powell & DiMaggio, 1991, 2012; Meyer et al., 1997 a & b) focuses on cultural and ideational causes that are posited to exert influence either at the supra-societal or supra state level for states or at the societal level for organisations. Sociological institutionalism (SI hereafter) perceives institutions as a complex and coherent mixture of cultural and organisational material. Stakeholders within this context are substantially empowered and controlled by institutional context, and these contexts go beyond norms and networks. Often the context has prior and exogenous historical origins. Granovetter (1985) argues that SI goes beyond norms and focus on networks and relations. SI originated in part, in response to traditional views of organisations (such as resource dependence model) that neglect cultural structures and processes in explanations. The focus of SI is on the quests for legitimisation in political organisations and tends to focus on the process of policy imitation and diffusion and especially on the surprising convergence in forms of institutions and policies.

In this section, I justify the use of sociological perspective of institutional theory as an appropriate theoretical lens for examining HPR and proceed to establish a foundation for hypothesising how environmental and organisational factors can influence HPR through the process of institutionalisation.

The notion that both macro and micro variables shape managerial choices and behaviour has gained intuitive appeal among scholars. Indeed, there is enormous literature on the application of organisation-focused theories, (with varying conceptions of what constitutes an organisation and how organisations interact with their competitive environments) to explain managerial behaviour choices when confronted with ethical dilemmas in periods of performance gaps. For instance, Structural Contingency Theory explores the effect of environmental variables and structural differentiation, on MPR (Lawrence & Lorsch, 1967) by assuming a single organisation as the unit of analysis. 'Transaction cost economists' also claim that the boundaries and structure of a firm are influenced by considerations of transaction cost (Williamson, 1975, 2000). Resource dependency theorists examine organisation as a coalition of groups and interests juggling to benefit from their membership (Pfeffer & Salancik, 1978, 2003). In all these studies, the organisation is examined as a single unit in the examination of interdependencies and power dynamics.

Neo-institutional (modern institutional theory) theorists differentiate themselves from the aforementioned organisational theories in that they examine organisational fields rather than individual organisations as the primary unit of analysis. An organisational field is a

group of organisations that combine to form a recognised area of institutional life and can include suppliers, consumers and regulatory agencies (DiMaggio & Powell, 1983). Therefore, even though all the theories above focus on macro phenomena, only IT is appropriate for analysing a group of similar organisations operating under the constraints of environmental and social constraints.

Suddaby (2010) suggests that empirical studies should focus on the organisational level of analysis to understand how institutions are comprehended and interpreted by organisations themselves. Davis & Marquis (2005) insist that organisational research utilising an entire field of organisations is helpful for further developing the literature on institutional theory especially about the drivers of action in the constantly evolving environment that affects managers and the organisations they manage.

Since this study examines components of a particular field as the unit of analysis (GC100 companies), the application of institutional theory is appropriate. SI argues that common cultural institutions and cognitive or normative constructs that define the conceivable and appropriate forms of political organisations play a significant role in policy and structural isomorphism (Hall & Taylor, 1996). In that respect, the institutions of interest are not the organisations that mirror culture in themselves, rather the 'codified cultural constructions' (Strang & Chang, 1993). SI conceptualise the process of policy adoption as a matter of emulation and diffusing emphasising system-level and relational level causes that are exogenous to actors. This implies that managerial behaviour within organisations is explained based on the extent of conformity to new, emerging or existing cultural institutions.

Across all conceptual approaches and despite differences between the various schools of thought, notions of recurrence, typification, solidified patterns and relative durability are at the core of what institutions are (Meyer & Hollerer, 2014). Hughes (1936) notes 'the only idea common to all usages of the term 'institution' is that some sort of establishment of relative permanence of a distinctly social sort' exists.

I use IT (specifically the Sociological perspective of neo institutionalism) to explore managerial performance reporting behaviour and the extent to which managers are impacted by processes and practices, norms, beliefs from actors within their organisation to engage in HPR. To set the stage for my hypothesis, I highlight and summarise relevant literature on institutional theory to establish a foundation for my assertion that institutional logics of action serve to moderate managerial self-seeking behaviour in MPR. The definition of the institution is varied and depends on the stream of IT that authors align with. DiMaggio & Powell (1991) attribute this ambiguity to scholars' casual definitions of institutionalism, institutionalist researchers' diverse emphasis on micro and macro features, the level of cognitive and normative aspects of institutions, and the importance they place on relational networks in the creation and diffusion of institutions.

Scott (2008) defines institutions to comprise of 'regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide

stability and meaning to social life'. This definition emanates from the sociological perspective of IT and is the subject of subsequent discussion in this section. Meyer et al. (1987) define institutions as 'cultural rules giving collective meaning and value to particular entities and activities, integrating them into larger schemes'.

Unlike CAT, the Institutional theory does not rely on the aggregation of individual action or on patterned reaction games between individuals but rather on 'institutions that structure action' (Clemens & Cook, 1999; page 442). Therefore, institutions are 'higher-order' factors above the individual level constraining or constituting the interest and political participation of actors 'without requiring repeated collective mobilisation or authoritative intervention to achieve these regularities' (Jepperson 1991, page 145). Essentially, Institutions are the rules and the predetermined patterns of conduct that are generally accepted by individuals in society (Berger & Luckmann 1967; Rutherford 1996). There are informal rules, such as norms, habits and customs, or formal rules, such as written laws, regulations and standards. Managers, therefore, abide by the rules set out in institutions by devising strategies to survive or win in society (North 1993, 2003, 2016).

SI defines institutions to include cognitive scripts, moral templates and symbol systems (Hall & Taylor, 1996) that may reside at the supra organisational levels. Therefore, the extent of influence and durability of institutions becomes a function of the extent to which they are inculcated in political actors at the individual and organisational level, and the extent to which they tie up material resources and networks (Clemens & Cook, 1999). In SI theory, organisational structures constitute the medium through which normative, cognitive and dependence mechanisms exert their influence, even though other explanations have relied on an organisations network of communication and monitoring.

In substance, SI links organisational practices to societal values and argues that organisational forms tend towards some form of homogeneity to preserve legitimacy. Therefore, the status of organisations legitimacy reflects the 'social fit' of the organisation with society and environmental context. Society seems to associate legitimacy with formal organisational structures and practices. However, these formal structures do not necessarily result in technical efficiency. Managers choose an MPR approach that gives a perception of conformance to institutional myths by building 'buffers' between the formal structures which people see (to maintain legitimacy) and the actual work processes that create internal functional and technical efficiency (Meyer & Rowan, 1977). The formal structures are the observable practices of managers, which are visible to others. These formal structures and processes reflect the rationalised institutional rules of the broader institutional environments in which organisations operate.

SI contests the CAT assumption of the purposeful pursuit of self-interest. Firstly, SI argues that the individualist assumption of interest driven behaviour implies a variety of actions, policies and behaviours as well as functional forms among organisations. However, the reality is that most organisations, exposed to similar environmental variables display not a variety but instead isomorphism despite the supposed differences in relevant interest (Meyer et al. 1997). Second, the ambiguity of the linkage between observed reality and organisational goals renders impracticable a well-informed pursuit

of self-interest (DiMaggio & Powell, 1983). Third, interest driven theories prematurely dismiss the constitutive role of culture in organisational dynamics or conceptualise culture as being an artefact of political structures or economic relations (Boli & Thomas, 1999).

Institutional theory attends to the manner by which rules, norms, and beliefs gain traction as standards for social behaviour while impacting the structural orientation of organisations (DiMaggio & Powell, 1983; Selznick, 1996). This theory is typically applied as a mechanism for explaining organisational stability and similarity amongst organisational fields (Greenwood & Hinings, 1996). The emphasis on how activities become rule-like or become social facts renders institutional theory plausible for understanding MPR practices (Meyer & Rowan 1977; Zucker 1987). Institutional theory is useful for describing how organisational activities may over time come to contribute to performance reporting behaviour because of its focus on the process by which these activities become embedded in institutions or accepted practices.

SI, however, vary in the mechanism by which organisational structures maintain stability and exert causal influence. Two central mechanisms of SI are isomorphism and decoupling. With decoupling, managers tend to use MPR to construct an image of responsiveness to various stakeholders when in fact the managerial imperative is the maximisation of self and shareholder wealth. Decoupling allows managers to give a perception of compliance while adopting different structures and policies. Isomorphism is a 'constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions (DiMaggio & Powell, 1983).

One view is that norms, rituals, models and conventions establish what is appropriate within a given circumstance (Meyer & Rowan, 1977) and hence managers within an organisation, who act on behalf of the organisation, are motivated by status concerns and the need for legitimacy especially among peers. Therefore, they adopt and maintain the characteristics and form of their parent company or of those peers they consider as legitimate. Meyer (2007) defines norms as rules with some degree of binding authority over actors. One argument is that norms are created by the actors involved and have binding power over the actor in so much as the actor continues to support it. Another argument is that, norms may have been created by forces in the past and may have binding power irrespective of the actor's support. In such situations, actors through a sort of socialisation process internalise norms. Meyer (2007) refers to this as compromised realism where actors are partly creatures of rules and not only creators of them.

A second view is that cognitive schemas, scripts & paradigms establish what is conceivable. Managers are motivated by substantive policy concerns but the linkage between available means and desired ends are inherently ambiguous, and therefore managers select available means based on imperfect bounded rationality (Cohen et al. 1972). Consequently, they address policy either by working from a shared available stock of professional expertise (Hall, 1993) or by emulating peers that they perceive as being more successful. Emulating peers may derive from competitive motivations (Dobbin et al. 2007) or be part of a bounded, heuristic learning process (Weyland, 2005) though such a mechanism is difficult to disaggregate (Burt, 1987). This results in normative and mimic

isomorphism. DiMaggio & Powell (1983) argue that isomorphism can occur due to the fear of uncertainty because 'uncertainty is a powerful force that encourages imitation' (page 151). This leads to mimetic isomorphism where managers copy the managerial reporting practices of other managers to reduce uncertainty. Normatively this can lead to the adopting of group norms such as from professional bodies.

A third view is that managers are epistemologically dependent on other stakeholders to develop and demonstrate the cognitive or normative feasibility of policy rationales and prescriptions. Therefore, managers delegate technical authority to 'expert bodies' and hence create policy by enacting the recommendations of such 'technical communities' (Haas, 1992) or by defaulting to the standard and regulations of 'global governance' (Dingwerth & Pattberg, 2006).

Coercive explanations of organisational policy have also received attention in the literature. Coercive Isomorphism arises when managers change their institutional practices because of pressure, force or the fear of it, from stakeholders upon which it depends for resources. Neu & Ocampo (2007) indicate that powerful stakeholders may have similar expectations of managers within an organisation and hence the likelihood of conformity in MPR.

Several studies describe how institutional characteristics become articulated, enduring, and resistant to change over time (Tolbert, 1985; Tolbert & Zucker, 1983). Indeed, the general theme of the SI perspective is that an organisation's survival requires it to conform to social norms of acceptable behaviour" (Covaleski & Dirsmith, 1988). An objective theoretical approach to institutionalisation in organisations has been described by Zucker (1987) as well as Berger & Luckmann (1967). They contend that IT provides a basic source of stability and integration in the creation of social commitments or entanglements. For instance, through external actions (externalisation), institutionalism make managers conscious of social expectation using language to interpret their actions as having an external reality separate from themselves ('objectivation' of the idea). These interpretations or "typifications" are attempts to label the behaviour into categories that will enable managers to respond to it on the same wavelength. Thus, "institutionalisation occurs whenever there is a reciprocal typification of 'habitualised' actions by types of actors" (Berger & Luckmann 1967, page 54).

A fundamental requisite of on-going conformity to institutional practices must then be the consensus or "reciprocal typifications" among participants about the meaning, value and validity of an organisational form or activity (Berger & Luckmann, 1967; Meyer & Rowan, 1977; Scott 1987). The main theme emanating out of these institutionalisation definitions thus far, tend to focus on the "social process by which individuals come to accept a shared definition of social reality – a conception whose validity is seen as independent of the actor's own views or actions but is taken for granted as defining the 'way things are' and/or the 'way things are to be done'" (Scott 1987, p.496). The key focus is based on institutionalisation as a distinctive process, be it the infusion with value or with 'taken- for-granted' meaning.

#### 2.2.4.1. Institutional Constraints

Inherent in the definition of sociological perspective of Institutional theory is emphasises on the pressure and constraints of the institutional environment. Recently, SI has considered perspectives where actors (managers and the organisations they serve) are not merely influenced by the societal perceptions and the environment but are also constrained in and by it (Jepperson, 2002). Often referred to as ‘constructivism’ it argues that institutional practices can emanate from law, ideology, culture and a variety of organisational constraints and opportunities.

Organisational participants can be constrained by institutional arrangements that limit the choices available, restraining specific patterns of resources allocation and prohibiting courses of actions (Powell & DiMaggio, 1991). Regarding institutional structures such as regulatory structures, educational systems, laws, courts, governmental agencies and professions, public opinion and interest groups exert pressures and expectations on organisational actors (Scott, 1987, DiMaggio & Powell, 1983).

SI suggests that interests tend to be institutionally or socially defined (Hinings & Greenwood, 1988; Hinings & Greenwood 1988). Therefore, the need for legitimacy can temper the self-interested behaviour of managers through abiding by ‘obvious’ and ‘proper’ norms that have achieved the status of a social fact (Rowe, 2013). Thus, preconscious acceptance of institutionalised values or practices induces organisational behaviour rather than the processes of self-serving advantages (DiMaggio, 1988). However, DiMaggio (1988: 9) suggests, “self-interested behaviour tends to be smuggled into institutional arguments rather than theorised explicitly.”

Such constraints elicit varied responses from actors (i.e. managers) which in many respects is dependent on the variant of IT a person subscribes to. SI suggests that institutional expectation imposes a constraint on managers and results in imitation or reproduction of organisational structures, activities, and routines (DiMaggio & Powell, 1983; Zucker, 1977: 728) to ensure stability and overcome uncertainty.

Selznick (1992: 232) insists that “when actions touch important interests and salient values or when they are embedded in networks of interdependence, options are more limited. Institutionalisation constraints conduct in two main ways: by bringing it within a normative order, and by making it hostage to its own history.”

Rowe (2013) confirms earlier empirical findings of an inverse relationship between formal institutional constraints imposing a price on decision makers for acting according to their convictions and the willingness of these decision makers to follow their beliefs (Scott 1987; North 1992). Rowe (2013) argues that managers are unlikely to reveal and act on their convictions if formal institutions impose a costly implication of such action. He uses the theory of cognitive dissonance (Festinger, 1962; Rowe & Wehrmeyer, 2001) to provide a reason for this revelation.

Rowe (2013) describes Cognitive Dissonance as expressing the inconsistency between individual decision makers' predilection (i.e., policies they think *should* guide decisions) and operating assumptions (i.e., policies they think *will* guide decisions).

Powell & DiMaggio (1991) provide a similar explanation when there is a conflict between the espoused values of an individual and the values of the institutions from which the participant operates. Cognition conceptualises both reasoning and the preconscious ground of reasoning. The theory of cognitive dissonance predicts that when individuals perceive the consequences as too high, the individual will reduce the dissonance by not acting on his/her professional beliefs. This compels the individual to obey the prevailing institutional rules (North 1992; Hosking & Morley 1991).

Hukkinen (1999, 2012) uses cognitive dissonance theory to develop an exciting perspective of short termism by managers in their performance reporting decisions. He suggests that the current dominance of the institutional framework by profit oriented operating assumptions makes this action a high likelihood.

#### **2.2.4.2. Institutional Isomorphism**

The preceding section portrays the sociological perspective of institutional theory as a system of constraints, which creates expectations and impede the organisation's ability to fully utilise the strict rationality of its realm (Meyer & Rowan 1977). Therefore, in response to societal expectations, a particular form of social change occurs (Lincoln, 1990) driven by institutional elements that are external to the organisation. This externally endorsed social change generates constraints preventing organisational development in another course of action (Fogarty, 1992, page 333) even though the impetus for action is unclear as the organisation is in an "iron cage" (Zucker, 1987).

Therefore, Isomorphism is a constraining process that compels a unit in the population to resemble other units that encounter the same set of environmental conditions (Hawley, 1968). It encompasses a process through which 'similar' organisations become homogeneous (DiMaggio & Powell, 1983). Hannan & Freeman (1977) assert that isomorphism is attributable to the selection of non-optimal forms of organisation or as a consequence of organisational decision-makers adjusting their actions upon learning the appropriate responses.

DiMaggio & Powell (1983) discuss the isomorphic tendencies resulting from institutionalised action and suggests that organisations competing in a singular field are pushed towards structural similarity via isomorphic pressures. Based on Hawley (1968) definition of isomorphism, then organisations are structured by phenomena in their environments and tend to become isomorphic with them to structurally reflect socially constructed realities. Meyer & Rowan (1977) discuss three consequences of isomorphism. First, isomorphism causes organisations to incorporate elements, which are legitimated externally, rather than in terms of efficiency. Also, because of isomorphic pressures, organisations often decouple and employ external or ceremonial assessment

criteria to define the value of structural elements. Also, dependence on externally fixed institutions often reduces turbulence and maintains stability.

DiMaggio & Powell (1983) discusses how institutions affect manager's decisions. On a realistic side, they argue that institutional structures affect managers through a coercive process including legal action. This is often referred to as Coercive Isomorphism and occurs when powerful stakeholders exert pressure. In the middle ground, they envision normative controls of the environment over managers' decisions emphasising the influence of professional standards. On the phenomenological perspective, they suppose that environments create standards that managers adopt 'mimetically' reflecting taken-for-granted standards. At this point, managers are no more well bounded entities but may become built up cultural and organisational material from the environment.

Several studies have examined how isomorphism as a process potentially impacts organisational actions and why these pressures may directly impact organisations competing in the same environment (Rowe, 2013). The consensus seems to be that isomorphism and structural change in organisations competing in the same field are less driven by competition or efficiency improvement concerns than by the need for conformity and similarity to other firms operating in the organisational field.

Recently, and emanating from isomorphism, the empirical focus has been on how institutional 'logics' define the meaning and content of institutions (Rowe, 2013). Friedland & Alford (1991) defined institutional logics as ideas and beliefs that drive the behaviours of individuals within the context of interpersonal relationships, organisations, and society as a whole. Concerning organisations, 'logics' serve as the basis for structures, actions, and individual behaviours in a given institutional environment (Rowe, 2013; Thornton & Ocasio, 1999). At the individual level, logics of action serve as precursors to subsequent institutional logics (Thornton & Ocasio, 2008). Thornton (2002) proposes that institutional logics influence managerial action because norms, rules and beliefs act as the predominant logic that drives decision-making in organisational fields.

Fligstein (1987, 1990) examined competing conceptions of control related to corporate governance and found that intra-organisational power struggles and field-level struggle shape logics of action. Applying this to the present research, considering that managers are the primary carriers of the contending conceptions of control (Fligstein, 1990) it can be theorised that the logics of action guiding the behaviours of managers during inter and intra organisational competition will affect performance-reporting behaviour.

Marquis & Lounsbury (2007) study how competing logics interact in shaping the relationship between the organisation and its employees concerning the adoption of or resistance to change in the banking industry. They found that banking acquisition influenced the local rate of banks. Therefore, managers can be impacted by both the frequency and intensity of predominant logics of action related to performance reporting decision-making. As suggested by Oliver (1991), organisations are unlikely to resist institutional pressures when they emanate from key entities occupying prominent positions within its field. This means that smaller, less powerful organisations are likely to

succumb to pressures exerted by dominant organisations or governing bodies in a given field.

Recently 'institutional logic' has become the new buzzword for IT (Meyer & Hollerer, 2014). Societies are inter-institutional systems, with each of the institutional orders having their own central logic (Thornton et al. 2012). Therefore, in any society, at any given point in time, different 'Leitideen' (Lepsius, 1997) or substances (Friedland, 2009) provide value orientation and criteria of rationality (Weber, 1978) with complex interdependencies and overlapping domains of jurisdiction (Meyer & Hollerer, 2014). The logics perspective currently provides a viable framework within institutional theory especially when it examines 'institutional imperialism' associating its spread to other spheres (Meyer & Hollerer, 2014).

Several researchers have criticised IT. The emphasis on the evolution of organisations towards isomorphism and hence imitative action is contentious and has not always received empirical support. When this is stretched, it assumes that organisations are passive recipients of environmental variables (Suddaby, 2010) ignoring the potential of entrepreneurial action in influencing the environment. Indeed, evidence exists that managers are not merely prisoners of their environment. (Meyer et al., 2009).

Further to this, IT overly focuses on external influences to the neglect of the internal organisational dynamics as well as individual managerial attributes. Lewis et al., (2014) for instance confirm that personal managerial attributes are critical to managerial actions and behavior. Rao & Giorgi (2006) explain the consequence of this grave neglect stating that organisations are interpretive mechanisms that filter, decode and translate semiotic social systems. Therefore, considering that institutions can only act through managerial persons, this neglect affects the predictive ability of IT.

Meyer & Hollerer (2014) express worry about the casual use of the word institutions in the empirical literature. They argue that the use of Institutional terminology seems to be a prefix to signal membership in a particular research community, rather than indicating the actual study of institutions. Added to this, Greenwood et al. (2014) contest the presumption of similarity and sameness often associated with IT and call instead for a study of differences and comparative research. Berger & Luckmann (1967) have earlier suggested that the possibility for homogenous institutions is untenable because variations is a given and order is fragile. Meyer & Hollerer (2014) admit that even in the most ritualised institutions, 'no act can be performed twice in exactly the same manner, and no two enactments of one and the same institutions are at close sight identical'. Therefore, there will always be differences in setting, context, time or actors involved (Drori et al. 2014). This makes 'sameness illusionary and homogeneity and similarity precarious'.

Greenwood et al. (2014) also expressed concern that most institutional theorist, rather than focus on the study of organisations, pursue scholarships on field level institutions and processes. They argue that IT studies should focus on the organisation as dependent variables and explore organisational arrangements in different institutional spheres to be relevant to organisation theory. This is because a central objective of IT is to understand

how 'collective purposes could be achieved through the panoply of structures and processes of organisation'. Additionally, they contest the assumption of homogenous organisations. King et al. (2010) expresses a similar concern and argue that IT scholarships have largely ignored the 'enduring and distinctive' qualities of organisations as actors.

King et al. (2010) agree with the current trend of analysing organisations as actors because 'the features that distinguish humans as actors are functionally equivalent to the features common to organisational actors'. Meyer & Hollerer (2014) severely contest this assertion and expose its flaws by asserting that organisations are not natural entities or natural persons and therefore overemphasising the 'personhood' of organisations reifies and conceals the distinguishing fact that organisations are more malleable. In that sense, it conflates managerial action with organisational action and forces discussions about non-existent 'ideological structure of organisations', which are in fact non-existent.

Despite these criticisms, however, empirical evidence exists of mimetic, coercive, and normative forces influence on MPR (Lewis et al., 2014). Scot (1995) finds evidence that, within a certain context, MPR becomes institutionalised over time. Cormier et al. (2004) find evidence that MPR practices can be a product of symbolical or genuine isomorphism rather than economic consideration. Reid & Toffel (2009) find that firms in the same institutional field react similarly to external pressures in HPR while Cho & Patten (2007), note that firms operating in high-risk industries are more likely to engage in HPR. Cormier et al. (2004) test the influence of institutional pressures and find that imitation and routinised action influence MPR. Their results also indicated that MPR has a converging pattern over time. Sampaio et al. (2011, 2012) also find evidence of peer influences on MPR.

### **2.2.5. Impression Management Theory (IM).**

Using Goffman's (1959) concept of impression management, this section explores MPR as part of a process of managerial impression management as well as 'organisational audiences' responses to it.

The concept of impression management emanates from social psychology (Merkl-Davies & Brennan 2011) and explores how individuals 'present themselves to others to be perceived favourably by others' (Hoogheimstra, 2000; page 60). Goffman (1959) uses a dramaturgical metaphor to explain impression management as the performance of 'self-vis-à-vis' an audience (Merkl-Davies & Brennan 2011). In general, impression management involves the use of varied techniques to influence an 'audience' impression of self, another person, an event, an idea, or an object (Schlenker, 1980) with the intention of appealing to the audiences' perception (Gioia et al., 2000). Schlenker et al. (1994) propose that impression management occurs because accountability is expected from the 'performer' to the 'audience'. Merkl-Davies & Brennan (2011) define accountability as entailing 'the obligation of one party to provide explanations and justifications of its conduct to another party' and involves 'the first party being subjected to scrutiny, judgement and sanctioning of the second party (page 425). Schlenker et al. (1994) and

Christopher & Schlenker (2005) define accountability regarding being answerable to another party in fulfilment of some responsibility, duty or expectation and suggest that accountability involves three stages of inquiry, accounting and verdict. The inquiry process involves submitting to an enquiry by an audience who will evaluate your actions and decisions based on set criteria; the accounting stage involves the presenter 'presenting' his version of events (Merkl-Davies & Brennan 2011) and describing, explaining, interpreting events to the audience. The verdict stage involves the audience reviewing the various submissions by the presenter and passing judgement on the presenters' performance and the implementation of rewards or sanctions.

Corporate reports, notably the annual report, serve as an accountability mechanism that addresses the concerns of external parties (Merkl-Davies & Brennan 2011, page 425). However, 'extensive impression management could destroy this occasion of accountability rendering it a weak or impotent accountability mechanism' (Solomon et al., 2013, page 197) and may also result in misallocation of resources as well as well as unwarranted approval of organisational activities (hegemony).

Goffman alludes that, when persons are given the opportunity to account for their stewardship, often the whole process is similar to a theatrical act, characterised by process of a mutual attempt to impress by both the assessor and the assessed. While admitting that this attempt at managing and controlling the impression that others have about one's capability is inherent and unavoidable, various studies have confirmed that, without deliberate and conscious interventions, these theatrical acts could render a performance monitoring process as superficial and a staged myth creating exercise that does little to render genuine accountability. Goffman alludes to the fact that both assessors and the assessed contribute (sometimes mutually) to the process of superficial impressions and refers to that as a dual myth of mutual impression management.

Goffman (1959) contends that persons (assessor and assessed) stage their performance through impression management, 'fronting', concealment, fabrication, framing and interactive ritual.

Even though Goffman's initial work was focused on face-to-face interaction, various studies (including Goffman at a later date) have extended the theories of impression management to cover all forms of social interaction and communication. As performance management is a form of communication (Miller, 1987), Goffman's model becomes a useful basis for analysing social interactions that take place during the performance management process.

If Goffman's assessments of social interactions as being characterised by mutual impression management and a dual myth are appropriate representations of social reality, it is reasonable to expect some element of concealment and fabrication in performance reporting and monitoring. Indeed, Goffman asserts that 'it seems that we spend most of our time not engaging in giving information but in giving shows' (page 108).

Goffman's theories around impression management have been vertically borrowed and extensively applied to accounting research to explore the efficacy of accounting as a communication medium; the mechanism used and attempts to influence stakeholder's perception of an organisation, as well as the likely effects of impression management on varied interest groups. In defining audience within an organisational performance context, the scope has varied between shareholders and financial intermediaries on one side and stakeholders and broader society on the other side. Merkl-Davies & Brennan (2011), contend that, within accounting literature, impression management has often been applied in a corporate reporting context especially, to explain the discretionary narrative disclosures. Godfrey et al., (2003) argue that, in line with impression management, management of an organisation often deliberately display and present various corporate narrative disclosures 'in a manner that is intended to distort readers' perception of corporate achievements (page 96). Following from Goffman's theory, research has confirmed, for instance, that executives (1) apply varied methods to conceal underperformance such as language, narratives, graphs etc. (Beattie, Dhanani & Jones, 2008), (2) manipulate and fabricate organisational performance results (Solomon et al 2013), (3) deliberately and strategically highlight good news and obfuscate bad news in a performance report (Adelberg, 1979; Kohut & Sears, 1992), (4) deliberately attribute performance outcomes to the wrong reasons depending on the reaction they hope to achieve from their 'audience' (Bettman & Weitz, 1983, Aerts, 2005). Li (2008) uses the 'incomplete revelation hypothesis to confirm that managers may choose to manipulate the syntactic features to make a performance report of a poorly performing firm difficult to read to increase the time and effort needed to extract information. Baird & Zelin (2000) test the 'primacy effect' and 'recency effect' using the belief-adjustment model and find that the ordering of good and bad news can influence stakeholder perception of performance.

#### **2.2.5.1. Why Does Impression Management Occur During Performance Reporting?**

There is extensive literature on the possible causes of impression management. Using alternative rationality assumptions Merkl-Davies & Brennan (2011) categorised the various motivations for impression management into four main perspectives of economic, psychological, sociological and critical perspectives.

Goffman (1959) alludes to self-interest or private economic gain as a possible motive for impression management. Indeed 'it is not assumed, of course' that all cynical performers are interested in deluding their audience for purposes of what is called 'self-interest' or 'private gain' (page 11). Following on from agency theory, Rutherford (2003) suggests that reporting bias, such as obfuscation of negative organisational outcomes will occur when management stands to benefit personally and directly because 'in an environment in which their remuneration and wealth is linked to the financial performance of the companies that employ them, management has economic incentives to disclose messages that convey good performance more clearly than those conveying bad performance' (page 189).

While admitting personal economic self-interest has a critical motivation to report organisational performance biasedly, various authors have proposed that the agency theory is not comprehensive enough to encompass other considerations for performance reporting irregularity. Merkl-Davies & Brennan (2011) contend that the agency theory does not adequately provide for the motivation to misreport in social and environmental performance as well has the growing evidence of misreporting even when no direct economic benefit can be envisaged.

Again, using attribution theory, Merkl-Davies & Brennan (2011) argue that psychological and other behavioural reasons could also account for managers' desire to control and/or influence the perception of an actual, imagined or implied presence of an audience about their performance. Goffman (1959) proposes that managers may engage in self-serving bias to avoid embarrassment and/or avoid sanctions and win appreciation (popularity). Often executives want to appear as competent, trustworthy, authoritative and honest (Hyland, 1998). By attributing performance to the wrong reasons 'executives often project an air of competency and general grasp of the situation, blinding themselves and others to the fact that they hold their jobs partly because they look like executives, not because they can work like executives.... give the impression that their present poise and proficiency are something they have always had and that they have never had to fumble their way through a learning period (Goffman, 1959, page 55). Goffman (1959) suggest that to maintain 'an impression of infallibility' (page 27) managers have a motivation to conceal 'dirty work', errors and mistakes made, and the effort involved in achieving a target. As an example, evidence exists of the use of complex technical jargons, accounting rhetoric (Hanson and White, 2003) or accounting logic (Broadbent, 1998), taking credit for success by attributing good performance to deliberate, reasoned and conscious behaviour (Knee and Zuckerman, 1996; Mumby and Putnam, 1992) whilst obscuring bad performance to 'external factors beyond their control' by most executives (Merkl-Davies & Brennan 2011, page 426; Adelberg, 1979), as well as retrospective sense making (Aerts, 2005; Merkl-Davies et al, 2011).

Using a social psychological perspective, Merkl-Davies & Brennan (2011) also suggest that impression management can be based on 'egocentric bias' or overconfidence bias where managers provide bias performance results to enhance self-esteem as well as to protect, maintain or extend their beliefs about themselves or the environment. Goffman, (1959) identifies, two opposite extreme type of performers; 'an individual taken in by his own act or be cynical about it' (page 11). Merkl-Davies & Brennan (2011) suggest that impression management can occur in performance reporting because some managers are prone to cognitive and social biases. In such a circumstance 'managers may assess their own abilities in a biased manner manifesting itself in hubris (page 420). Hayward and Hambrick, (1997) define Hubris as 'exaggerated pride or self-confidence (page 106). Hubris manifests itself through extreme managerial optimism (Liu and Taffler, 2008; Conroy, 2015; Wray, 2016; Spraggon & Bodilica, 2015).

Using stakeholder theory, legitimacy theory (Ng and Tseng, 2008) and institutional theory, Merkl-Davies & Brennan (2011) suggest that managers are motivated to 'playing a role' in order to give an impression of being balanced among various stakeholders (referred to

as symbolic management; Boland & Pondy, 1983) and congruent with societal norms, societal expectations and the 'common official values of the society' even though very biased in favour of shareholders. The motivation to present a performance that gives an impression of conformity to official societal norms is to gain 'unwarranted' social approval and 'forestall the interference of external agencies in the operations of the organisation (Merkl-Davies & Brennan 2011, page 420; Hines & Groves, 1989). In a way, this constitutes one way in which a 'performance is 'socialised, moulded and modified to fit into the understanding and expectations of the society' by offering observers or audiences 'an impression that is idealised in several different ways' (Goffman, 1959, page 23). Goffman (1959) refers to it as sacred compatibility between executives and their jobs where executives try to give the impression that 'they have ideal motives for acquiring the role in which they are performing, that they have ideal qualifications for the role, and that it was not necessary for them to suffer any indignities, insults and humiliations or make any tacitly-understood 'deals' in order to acquire their role' (page 29). Goffman (1959) identifies that 'performers' sustain idealised standards whose 'inadequate application could not be concealed' 'in public by the private sacrifice' of some other standards whose 'lose can be concealed'.

Therefore, aside personal self-interest related issues, as stated above, executives also use impression management to help restore organisational reputation, image and legitimacy especially after performance gaps (Abrahamson & Park, 1994; Courtis, 2004), organisational scandals (Linsley & Kajuter, 2008) environmental disasters (Hooghiemstra, 2000) and controversial decisions such as reorganisations or privatisation (Craig and Amernic, 2008; Arndt & Bigelow, 2000; Odgen & Clarke, 2005). In such circumstances, Merkl-Davies & Koller (2012) argue that impression management is effective at explaining off the unwarranted event or disaster as an exceptional one-off incident that is unlikely to happen again. Impression management is also often applied to shape perception on controversial issues among various stakeholders, such as mergers (Arndt & Bigelow, 2000; Craig & Amernic, 2008). Because reputation and image focus on the external evaluation of an organisation whilst legitimacy deals with a measure of the acceptability of an organisational and its practices with respect to a set of social norms (Deephouse & Suchman, 2008); Brennan & Merkl-Davies (2013) argue that impression management entails 'constructing an impression of the quality or normative appropriateness of organisational structures, processes, practices, or outcomes' (page 7).

Using critical theory and theories from political economy, Merkl-Davies & Brennan (2011) suggest that impression management is a political tool used in ideological power struggles between management and various sections of stakeholders (such as when an influential leader wants to impose his choices on an organisation emanating from ideological biases). This is achieved in the way organisational performance is presented, and the other key stakeholders are presented in a performance report (Amernic & Craig, 2004). Merkl-Davies & Brennan (2011) assert that organisational managers are powerful organisational actors who attempt to establish and/or maintain an unequal power relationship by providing 'a hegemonic account of organisational outcome, often by means of using dominant discourses' (page 428). In gaining an ideological advantage,

the company maintains a 'privileged position regarding information by keeping society unaware of alternative avenues of consumption, or systems of organisation or [of] its present and future performance' (Simpson, 2000; page 245).

### **2.2.5.2. Consequences Of Impression Management**

Following from Goffman's (1959) theory, both the audience and the performer engage in impression management. In an extreme scenario, the whole theoretical process of inquiry, accounting and verdict can be reduced to a game theoretic process where audiences and performers are trying to control and/or influence each other's perception. In the other extreme, audiences and performers can collude to delude other stakeholders.

Goffman (1959) identifies concealment of information, misrepresentation, as well as fabrication as acts of impression management. In the accounting literature, often the discussion about the consequences of impression management focuses on the discussions about deliberate and conscious acts of concealment, misreporting or fabrication on stakeholders, particularly shareholders in their resource allocation decisions. Evidence exists to support the assertion that, for both performers and the audience, assuming a semi strong capital market, rational actors can identify and control for bias information when they can verify such information from other independent sources (Demers and Vega, 2010). However, due to the concept of bounded rationality in decision-making, as well as other cognitive and affective biases (Kahneman and Tversky, 1979), this process is not immediate and is relatively turbulent. Bounded rationality assumes that individuals make decisions to achieve a satisfactory rather than an optimal result, are affected by the external environment and base their decisions on information available to them at a point in time. Therefore the quality of decisions can be affected by time constraints, the cost of verifying the credibility of the information, the capacity of the person to understand the information as well as by other cognitive, affective and socially influenced biases such as hindsight bias, primacy and recency bias, herd effect as well as the bandwagon effect.

Therefore, in reality, where the individual does not have the benefit of alternative sources to verify information, has a time constraint on when he has to make a decision, does not have the resources and or expertise to extract the correct information or is influenced by other social biases, his decisions on resource allocation may be adversely affected by misreported information.

Using the incomplete revelation hypothesis, Bloomfield (2002); Bowen et al. (2005) confirm that when investors are constraint by time, they are unable to control appropriately for deception in performance reports. Krische (2005), Fredrickson and Miller (2004) as well as Elliot (2006) provide evidence that unintentional cognitive biases arising from lack of expertise and memory loses can make unsophisticated investors susceptible to impression management in performance reporting. MacGregor (2002) confirms that stakeholder decision making is not always based on accurate technical details but can be affected by affective factors such as the image associated to a particular company (such that image evaluations correlate with financial judgements) and even the language used

in a performance report. Courtis (2004) find evidence that stakeholder judgements can be influenced by colour in annual reports, preferring certain colours to others.

Gouldner (1970), Burns (1992) as well as Macintyre, (1992) have criticised the over reliance on 'the world of appearance' in IM theory. Garfinkel (1967) exposes the limited viability of IM for mundane behaviour, and Habermas (1991) points out an irrational cynicism about the motives of other people at the heart of Goffman's theory. Habermas (1991) based on his criticism suggests an alternative interactional theory.

### **2.2.6. A Multi-Theoretical Approach.**

Prior studies have attempted to identify the causes and effects of HPR. Reasons have ranged from economic, through social and political considerations. Recently considerations of personal managerial attributes, perceptions and convictions have also found space in the evolving literature. Beyond selfish economic needs of managers, most of the theories seem to link managerial performance reporting action to a need for organisation and managerial survival through legitimacy in a resource dependent scenario.

Most of the motivations are discussed within the context of various theoretical frameworks that give useful insight into why despite being motivated by same reasons the extent of HPR differs among managers.

I adopt a multi-theoretical approach in line with empirical trends (Ntim & Soobaroyen, 2013; Chen & Roberts, 2010). This is a viable option especially considering that the notion of legitimacy cuts across most of the theories discussed above. Chen & Roberts (2010;) suggest that these theories share same 'ontological worldview in that they see reality/structures are continually created, reproduced and reoriented by the interactions among social organisations'. In explaining my findings, therefore, joint consideration of the various theories will be applied since in my view the concepts underlying the theories are not distinct but overlapping and complimentary and hence can co-exist. Islam & Deegan (2008) argue that the joint consideration of IT and LT 'provides a richer basis for understanding and explaining reporting behavior than will be possible from considering one of the theories alone'.

The overarching assumption in these theories is the fact that organisations are influenced by their societies and in turn through their actions organisations can influence their societies or operating environment (Gray et al. 1995a; Thomson, 1967). While all the theories discussed above argue that there are 'external pressures' that affect managerial performance reporting behaviour, the way such external pressures are identified, managed or satisfied differ among theories (Wangombe, 2013). CAT identifies shareholders as primary recipients of manager's attention and satisfying them involves pursuing wealth maximisation. The management perspective of stakeholder theory (which is predominant in recent empirical literature) focuses on stakeholders with power and salience over the organisation. LT focuses on wider society in general (and not just those who influence the organisation), and IT identifies external pressures as the

institutional pressures of conformity. CAT posits that managers respond to external pressures through the pursuit of wealth maximisation either for self or principals, while ST suggests that managers will pursue a balance of interest among multiple shareholders. LT argues that organisations will respond to external pressure through strategies aimed at reducing legitimacy gaps. Such strategies include changing perceptions, deflecting attention and altering perception. IM suggests similar approaches as LT except that under IM legitimacy is achieved through managing impressions rather than external pressures. The sociological perspective of IT argues that managers respond to external pressures through mechanisms of isomorphism. There is an obvious overlap between 'relevant public' of LT and stakeholders of LT and Suchman (1995) propose that legitimacy and institutionalisation are synonymous. However, IT can only explain or describe the existence of a legitimacy condition but cannot explain the dynamic nature of legitimacy (Chen & Roberts, 2010). The application of symbolism in LT, IT and ST involve the use of impression management strategies. Whereas Investors base assessments of a firm's legitimacy on its passive conformance to social structures, firm's managers can shape the way stakeholders view the firm (Bansal & Clelland, 2004). MPR can be used to influence perceptions of the firm (Elsbach & Sulton, 1992) by applying IM tactics such as excuses, justifications, concessions, apologies and denials. These IM strategies inevitably influence unsystematic risks and legitimacy (Bansal & Clelland, 2014). Table 2.1. provides a tabular depiction of the link between the research question and theoretical frameworks based on a multi theory approach. It is worthy of note that, all five theories have a bearing on the primary and every secondary research question. Therefore table 2.1 only highlights the predominant theories at play for answering each question. Section 4.7 in chapter four discusses how these theories interact to explain the findings of this study vis-à-vis specific research questions.

**Table 2.1: Link between Research Question and Theoretical Framework Utilised in this Study**

<b>RQ Number &amp; Reference</b>	<b>Description</b>	<b>Theoretical Framework</b>
Primary Research Question	Should stakeholders be concerned about managers' honesty in managerial performance reporting (MPR) and if so what are the factors that influence this behaviour?	Stakeholder Theory, Institutional Theory, Legitimacy Theory, Impression Management Theory & CAT
Secondary RQ1	In a self-reporting MPR environment do managers have a preference for being honest?	Stakeholder Theory, Institutional Theory, Legitimacy Theory
Secondary RQ2	Are there implications for HPR?	Stakeholder Theory, Institutional Theory, Legitimacy Theory
Secondary RQ3	Can we identify the factors that influence HPR?	Stakeholder Theory & Legitimacy Theory
Secondary RQ4	Is there a relationship between HPR and FP?	Stakeholder Theory & Legitimacy Theory,
Secondary RQ5	Can we identify the main features of managerial behaviour in HPR?	Impression Management, Institutional Theory, Legitimacy Theory & Stakeholder Theory

## **2.3. PRIOR RESEARCH OVERVIEW: EMPIRICAL STUDIES ON MANAGERS BEHAVIOURAL CHOICE DECISIONS WHEN THERE ARE PERFORMANCE GAPS.**

Dye & Magee (1991) use a single period agency model and apply a mathematical approach to study discretion in reporting managerial performance. They offer solutions on how to mitigate the moral hazard problem in scenarios where a manager has some discretion in 'choosing what to report to the principal about his output'. Dye & Magee (1991) assume conditions for conservative monotone reporting and argue that where such managerial discretion exists, principals should influence and possibly contract managerial performance based on reporting procedures and reporting technology (since these are observable). Dye (1988) argues that misreporting managerial performance distorts equilibrium, which can only be mitigated when communication is costly and limited. Green & Laffont (1986) in a general setting provide a necessary and sufficient condition under which all equilibria can be produced with 'truthful disclosures' (i.e. HPR). This condition is termed the Nested Range Condition (NRC). Arya, Young & Woodluck (1992) focus on a narrower setting than Green & Laffont (1986) to identify conditions under which equilibrium behaviour necessarily requires truthful disclosure. They attempt an answer to the question of whether the optimal principal agent contract can be achieved via HPR. In their study Arya, Young & Woodluck (1992) conceptualise HPR as reports consistent

- 1) With external auditor's view (hence focus on accounting reports) which guarantees 'honest disclosure' only up to a materiality threshold and
- 2) Internal control systems that detect 'gross exaggerations of performance'.

Specifically, their work explores a single period agency model and provides conditions under which the agent must be permitted to misreport performance if MPR will be valuable to optimal contracting. Their findings are mixed and based on the premise that the principal's objective is to minimise the expected cost of inducing HPR, taking into consideration the agent's self-interested behaviour concerning MPR.

Fields et al. (2001) provide a comprehensive review of recent research on HPR including the contracting, political and other factors that explain HPR decisions (see also Watts & Zimmerman, 1978, 1986). Quite often, the discussions of political considerations include management's concern about attracting explicit or implicit taxes or regulatory actions. However, like other empirical studies, Fields et al. (2001) review does not directly discuss HPR and instead focuses on deliberate misreporting of private information in MPR. In general, very little studies exist on HPR in particular. Considering Murphy's (1993) assertion that encouraging HPR and deterring misreporting of managerial performance represent two different managerial challenges that must not be approached in the same way, specific studies on HPR need to be encouraged (Palepu, 1987). Zahra, Priem & Rasheed (2005) discuss prior research on the antecedents and consequences of HPR and conclude that most studies on HPR adopt a governance perspective and rely on the CAT including the imperfection of market systems that create information asymmetry.

Their analysis suggests that HPR studies focus on proximate indicators, rather than attempting to establish underlying causes or antecedents.

Skinner (1993) argues that the use of managerial performance information in compensation contracts should be viewed as endogenous. Moreover, contracts are not the only mechanisms for dealing with information asymmetry and Watts & Zimmerman (1983, 1986), for instance, discuss the role of reputation as a mechanism for resolving information problems in the context of auditing.

Even though prior research discusses several factors that constitute deliberate misreporting (i.e. wilfully undertaking actions to mislead others, lying about facts, failing to disclose significant events, cover-ups, etc.), there is ambiguity about how to interpret empirical evidence on HPR and MPR (see reviews by Holthausen & Leftwich, 1983; Watts & Zimmerman, 1990).

The rest of the section is organised to discuss empirical literature that relates to each secondary research question to provide a basis for hypothesis formulation (in chapter four) and highlight the relevance of this study vis-à-vis the existing empirical gaps about MPR and HPR.

### **2.3.1. Managerial Voluntary Preference For HPR**

Even though this study focuses on conflicts that arise in decisions on managerial behavioural choices in situations involving performance gaps, research on traditional organisational conflicts are not recent (see for example Laffont & Martimort, 2002; Antle & Eppen, 1985; Fandel & Trockel, 2011). The surge in the application of the experimental methodology to accounting has mostly been in the studies of human behaviour especially on MPR (Brown et al., 2009; Sprinkle, 2007; Covaleski et al., 2007; Arnold, 2007).

Researchers have attempted to explore managers' voluntary propensity for HPR, and explain observed behaviour with existing theories, new theories and models. Experimental studies have dominated empirical research about managerial preference for HPR. Perhaps the application of experimental research methodology to studies in accounting has resulted in the most significant application of theories from other social disciplines, existing economic models as well as the proposal of new theories and models to the field of accounting studies.

Baiman & Lewis (1989) probably generated more scholarship interest in the study of voluntary managerial behavioural choices using experiments with their proposed 'threshold model' as an explanation of observed behaviour in HPR. Baiman & Lewis (1989) argued that managers or agents are predominantly self-interested individuals motivated by a desire, always, to maximise their wealth. Therefore, managers do not voluntarily prefer HPR. They suggest an honesty threshold for monetary rewards that guides decisions by managers in performance disclosure decisions such that when the expected monetary benefit is below the threshold, HPR will be high but beyond that threshold, managers are rational and will report dishonestly because it maximises their

wealth. Most important is their suggestion that the monetary threshold is significantly so low and hence almost non-existent such (therefore agents are often incentivised to lie for minimal amounts such as \$0.25) that a principal achieves very little value in attempting to incorporate the threshold into any decision model or contract.

Baiman & Lewis (1989) therefore confirm the effectiveness of the 'CAT' in predicting voluntary managerial behavioural choices regarding HPR. Essentially Baiman & Lewis (1989) suggest that agents have divergent and often opposing interest to their principal and are inherently driven to pursue their self-interest rather than the principals' interest. The singular objective of agents is to maximise their wealth (that is, agents are monetary incentive driven) and therefore principals can maximise firm value by designing contracts that provide monetary rewards to agents for HPR. Agents do not subscribe to the tenets of bounded rationality under Baiman & Lewis (1989).

Koford & Pennon (1992) also apply an experimental method to offer alternative evidence to predicting behavioural choices (when there is a performance gap) within the organisation with the 'type model'. According to the type model, managers or agents are either fully honest (called 'ethical') or fully dishonest ('called economic'). Therefore, the voluntary preference for HPR depends on whether the manager is an ethical type or an economic type. Ethical agents do not lie and will not be influenced by situational forces or other exogenous variables (therefore they will voluntarily prefer HPR). Economic agents will tell any lie necessary to maximise their wealth (therefore will not voluntarily prefer HPR). Koford & Pennon (1992) argue that the segregation of agents or managers into ethical or economic is based on the perceived utility or disutility from lying. Ethical persons engage in HPR because they experience an infinite disutility from lying whereas economic agents experience no disutility from lying. Koford & Pennon (1992) model, aside facing contestations in methodology (similar to Baiman & Lewis, 1989), is ambiguous about what determines a manager's 'type'. It also leaves unanswered if managers can cross between 'types'.

Recently, several studies such as Evans et al. (2001) have argued that a middle ground exists such that some agents are not fully honest or dishonest. Evans et al. (2001) and Mazar et al. (2008) refer to it as "partial honesty" whereas Fischbacher & Heusi (2008) refer to the phenomenon as 'incomplete lying'.

Brickley et al. (1997); Chow et al. (1988); Waller (1988) and Luft (1997) use an experimental study to propose a 'trade-off' model where individuals make decisions about HPR through a trade-off between the utility for wealth and the disutility for lying. Brickley et al. (1997) for instance argue that the level of HPR will decline as a manager's contract decreases the pay-off for HPR. Luft (1997) proposes that a managers' disutility for lying increases based on the size of the lie and therefore huge pay-offs for lying increases both the utility for lying (because of greater wealth) and the disutility from lying. Evans et al. (2001) contests Lufts' assertion and argue that there are limitations to the ability to test Lufts' (1997) preposition empirically.

In recent times, various social preference or ‘fairness models’ (Charness & Gneezy, 2008) have been proposed to explain the growing evidence of partially honest managerial performance report and to reconcile empirical observations that are inconsistent with conventional economic models (Evans et al., 2001). Fairness models propose that managerial preferences regarding HPR are contextual on social and other psychological considerations. In other words, whether a manager will voluntarily prefer HPR depends on the context. Fairness models are underpinned by an assumption (even though not always backed by empirical studies - such as Luft, 1997 - but rather inferring from existing theories and models in other social disciplines) that agents desire for maximization of wealth are tempered by other desires, other constraints, and other considerations such as reciprocity, equity and distributional effects.

Charness & Gneezy (2008) classifies the fairness models into two categories based on whether the behaviour is influenced by distributional concerns or by intentions. Distributional models such as Evans et al. (2001); Kirchsteiger (1994), Fehr & Kirchsteiger (1994); Fehr & Schmidt (1999) and Bolton & Ockenfels (2000) suggest that agents are motivated by a desire for inequality aversion, fairness, or a desire to match another persons’ behaviour. Therefore, agents are influenced by the final distribution of the pay-offs such that for a given pay-off an agents’ utility will decrease by a margin equal to the difference between the pay-off to the agent and that of the other counterpart. Evans et al. (2001) for instance disprove the findings of Antle & Eppen (1985) and find that the level of HPR under a ‘hurdle contract’ (that restricts rewards to a fixed ceiling thereby restricting pay-offs) was lower than under a ‘simple trust contract’ (where the agent received the full amount of pay-off based on his request and expectations). This implies that managers reporting behaviour is affected by how the managers’ report affects the distribution of the total surplus and hence HPR will increase when their share of the total surplus will increase proportionally and because of HPR. Ostermaier (2016) concludes from an experimental study that managers take capital rationing to signal distrust and spitefully reciprocates by misreporting their information to sabotage feasible investments and thus reciprocate owners’ distrust with sabotage. This reciprocity exacerbates the underinvestment that capital rationing brings about because spite permits low-cost investments only, and as the cost of the investment is low, the cost of lying to sabotage it is high. Hence high-cost investments, which offer little potential to create slack to compensate the manager’s spite and result in unequal payoffs, are particularly hit by sabotage. However, performance reporting curbs sabotage and inhibits spiteful reciprocity as it elicits the manager’s honesty. Honesty, therefore, spills over to suppress the effect of negative reciprocity on sabotage.

Other distributional models have suggested that the predisposition to HPR improves if it helps improve equity for other employees (Kajackaite & Gneezy, 2017; Jung et al., 2017; Gino & Pierce 2010a; Gino & Mogilner, 2014; Gino & Ariely, 2012; Ariely et al., 2009) or reduce organisational friction.

Voluntary preference for HPR is lower when managers perceive a situation as unfair or not equitable. Huseman et al (1987) suggests that managers measure fairness by continually comparing the relationship of the input to their output, with a similar effort-

reward relationship of their peers and are likely to feel emotionally distressed (Homans 1974) when they perceive inequity which can be a motivation for a misreporting (Gino & Pierce 2010) to correct the perceived inequity. Gino and Pierce (2010) admit that manager's perception of fairness is a subjective construct based on a complex interplay of "objective fairness", information, relativity and personal biases. The moral disengagement hypothesis (Bandura 1990, 2002; Kunda 1990) and elastic ethical justification hypothesis (Hsee 1995; 1996) support this reasoning by suggesting that managers are more likely to misreport the underlying private information if they can disengage moral responsibility from their actions by self-justifying their actions to make it compatible with moral standards. This happens in a setting where the benefits of misreporting are shared or benefit others. More recently social intuitionist theory (Haidt, 2001) has been proposed to explain this behaviour. According to the intuitionist theory, just like esthetical judgments, individuals have an immediate feeling of approval or disapproval of any action or inaction by others or themselves. These feelings are similar to affect based intuitions, are effortless in consciousness with an affective valence (good or bad) and are shaped by natural selection or culture (Greene & Haidt, 2002). Gino and Pierce (2010) propose that, *"People are motivated to maintain relationships and defend against threatening ideas (Chen et al., 1996; Tetlock et al., 2000), and they can also very easily construct post hoc reasons to justify their actions and judgments (Gazzaniga, 1985; Nisbett and Wilson, 1977). Individuals can more easily justify their behaviour when their actions are aimed at restoring equity. This argument is based on the idea that "people are likely to arrive to conclusions that they want to arrive at, but their ability to do so is constrained by their ability to construct seemingly reasonable justifications for these conclusions" (Kunda, 1990, p. 480), and that people's ethicality is rather elastic (Hsee, 1995, 1996)."*

Matuszewski (2010) examine whether changes in HPR can be influenced by the perception of horizontal equity such that preference for HPR will differ in a situation of changes in an individual's own salary than changes in the salary of his peers. The results showed that horizontal equity resulting from an increase in an individual's own salary (with peer salary held constant), produced a significantly different HPR behaviour from when horizontal equity was increased by decreasing peer salary (with participant salary held constant). However, when horizontal equity was decreased, the effect on HPR was about the same, whether the decrease was accomplished by decreasing participant salary or increasing peer salary. Also, after controlling for effects associated with participants' experience with the task and participants' own salary changes, perceived changes in the horizontal equity of participants' salaries were positively associated with changes in the degree of HPR implying that perceived inequity in pay structure motivates misreporting of performance information. In a similar study, Schindler & Pfattheicher (2017) use loss aversion theory in two experimental constructs (die-under-the cup paradigm and coin-toss task) to demonstrate the predicted effect of framing. Their study confirms that people misreport performance to avoid a loss compared to approaching an equivalent gain.

Gino & Pierce (2010) suggest that, as a mitigating factor, in situations where there is a strong possibility and opportunity for managerial discretion to be used arbitrarily, discretion should be constrained, or a requirement imposed for multiple redundancies' or

diverse assessments from other managers. Nickerson & Zengers' (2008) suggest that organisations must address the issue of perceived inequity through creating more consistent compensation schemes or by using technology to make individual contributions apparent.

Intention models proposed by Rabin (1993), and Dufwenberg & Kirchsteiger (2000 & 2004) argue that the principle of reciprocity guides agent's behavioural choices about HPR and therefore HPR is affected by the process that leads to the final decision and not just the outcome. Therefore, managers care about not only the outcome but also care about the effect of their choices on others, including the organisation. Therefore, managers' personal desire for maximum gratification will be mitigated by considerations about how to achieve the outcome as well as its effect on others. Recently theories such as the 'moral disengagement theory', 'Social deception theory' (Shalvi et al., 2011), moral hypocrisy theory' have been proposed to explain partial HPR along the lines of the intention of the agent. Following the intention models, empirical findings have suggested, for example, that the intrinsically motivated desire for social approval allows agents to be influenced by peers in decisions about HPR (Diekman et al., 2011).

Gino & Pierce (2009) suggest that managers prefer HPR if it helps to achieve a specified effect on peers or due to influence by peers: HPR can be contagious, but Paz et al. (2013) find dishonest norm violating behaviour to be more contagious than honest behaviour. According to Paz et al. (2013), managers will engage in HPR if they perceive it to be the social norm. This is perhaps driven by a desire for social acceptance (Quinn et al. 1999). Huddart & Qu (2013) postulate further that depending on the manager's moral type, peer influences can motivate HPR. Huddart & Qu (2013) tests, using Kohlberg's three stages of moral development, the reaction of individuals to positive ("sterling performance) or negative influences ("bad apples") of their peers and find results consistent with Kohlberg's expectation. They find that whereas 'pre-conventional types' respond to only "bad apples" who are dishonest, 'conventional types' respond more to "sterling performances" and 'post conventional types' are immune to any social influences. Maas & Rinsum (2013) argue that, in situations where managers have a clear monetary incentive to misreport, the behavioural choices are mitigated by the possible effects of their choices on the wealth of their peers (due to compensation system design) as well as on the perception of peers about their intentions. Maas & Rinsum (2013) find that, following social preference theory (Fehr & Schmidt, 1999; Charness & Rabin, 2002), managers are more likely to misreport if their action will increase the wealth of their peers than if it will result in a decrease in wealth of their peers. This is because managers find it easier to justify an increase in wealth of their peers as an act of kindness especially if they get to share in it. Using theories about social norms and lying aversion (Bicchieri, 2006, Erat & Gneezy, 2012), Maas & Rinsum (2013) find that, where there is no benefit to achieve a certain rank (i.e. where there is no competition and jostling for ranks) organisations with open information systems (Evans et al., 2001) where performance reports of managers are openly disclosed will exhibit more HPR. Remarkably, Maas & Rinsum (2013) conclude that perceived social pressures for HPR can mitigate the desire for monetary incentives even in situations where misreporting does not impose any direct monetary cost on other people within the organisation. In other words, managers are

willing to forego wealth to appear honest to their peers. Hannan, Rankin & Towry (2006) conclude that managers do not only care about being honest but also to appear honest to their superiors (Hao & Houser, 2013, Utikal & Fischbacher, 2013).

Gneezy (2005) contends however that a general limitation of intention models is that, it ignores a relevant variable that in a 'harm doing' environment, agents consider as well, the effect of their own intentions on the outcome and hence it is not only 'care' for others than motivates behaviour but also aversion to deliberate misreporting of managerial performance (i.e. lies). Andreoni (1995) agrees that there is no pure altruism but rather impure altruism where the utility of the act of 'doing good' motivates the behaviour.

Gneezy (2005) finds evidence to support an aversion to deliberate misreporting of managerial performance by a significant proportion of his respondents and proposes that managers continually balance 'process' against 'consequence' in a range of different ways in making choices about HPR. Similarly, Gibson, Tarnner & Wagner (2013) find evidence to support Gneezy's proposal of a continuous heterogeneity of preferences for HPR but find further evidence of heterogeneity both within and among individuals in their preference for HPR implying that preferences for truthfulness are 'non-separable in intrinsic preferences and economic incentives'.

Charness & Rabin (2002), and Falk & Fischbacher (1999) have attempted to combine intentions and distribution effects into a single model. Whatever the model and empirical evidence the willingness of managers to sacrifice some monetary payoff for the sake of a desire to be honest, does not persist unconditionally (Schreck, 2015)

Other studies have attempted to define boundaries for HPR by suggesting frameworks that encourage HPR. Fischbacher & Heusi (2008), for instance, find that learning and repetitive participation decreases HPR. Shalvi et al. (2011) adapt Fischbacher & Heusi (2008) model with some modifications to test 'ethical manoeuvring' and find that managers avoid major lies and minor lies and prefer moderate lies. They argue that this observed behaviour is because managers attempt to maintain a positive self-concept and therefore HPR is defined by a boundary that weighs the minimum gain that misreporting of managerial performance must generate to be effective viz-a-viz the maximally acceptable lie.

There are gaps in the literature about voluntary managerial preference for HPR. Section 2.3.6 discusses the contestations about the findings and methods applied in studies about managerial preferences for HPR. Chapter three (section 3.3.1) highlights the challenges with the experimental constructs used in such studies and its implications on the credibility of conclusions emanating from such studies. Beyond these methodological difficulties, there are no studies that explore if cultural influences affect the orientation of managers regarding HPR. Neelankavil et al. (2000) hypothesise that culture could affect managerial orientation and managerial performance. This is aggravated by the lack of studies about this question with a dataset from Africa as can be seen in the summary of literature provided in Table 2.2. In many respects, therefore, the fundamental question about whether managers voluntarily prefer HPR has no conclusive answer (Gneezy, 2015). This

study, therefore, answers the call for more studies about this phenomenon in different geographical and cultural settings (Evan et al. 2001).

### **2.3.2. Implications of HPR And Misreported MPR.**

Most studies have focused on the implications of misreported MPR rather than HPR. Even though mitigating misreported MPR requires a different set of techniques compared to improving HPR, empirical consideration of misreported MPR and HPR as opposite concepts is not new and has merit (Bar-Gill & Bebchuk, 2003 a & b). Researchers such as Waterman et al. (2004) and Wills (2008) have suggested that in the long run, when markets are efficient, and under a scenario of multiple stakeholders, HPR or misreported MPR has no implications because information leakage allows stakeholders to incorporate rational expectations about MPR practices in their decision making. Hurkens & Kartik (2009) however confirm that decision makers can ignore irrelevant information in their decision making. Therefore, Waterman et al. (2004), do not consider the growing evidence of bounded rationality (Heclo, 1977) in decision making that limits the ability for stakeholders to incorporate full information in their decision making. Secondly, proponents of this model presume that firms are listed on the secondary market and hence can be effectively influenced by market action. In essence, the extrapolation of this argument to cover unlisted firms (as is the case for some of the data set for this study) may be restrictive. Also, not all markets are efficient or remain efficient all the times (Dubey, Geanakoplos & Shubik, 2000; Shubik, 1988). Lastly, the consideration of a long run time frame may be ambiguous, and Keynes (1923) suggests that in the long run, we are all dead. Moreover, evidence exists that stakeholders do not always think in the long term (Heclo, 1977; Yang, 2009).

Empirical discussions about the implications of MPR have focused on misreported MPR (see for example Karpoff, Lee & Vendzyk, 1999; Karpoff, Lee & Martin, 2008 a & b; Murphy, Shrieves & Tibbs, 2009; and Dechow, Ge & Schrand, 2010). Few authors have identified positive implications of misreported MPR. Sadka (2006) contends that the positive implications of misreported MPR are often immediate and short-term and can be eroded by medium to long term adverse effects of misreported MPR. Bar-Gill & Bebchuk (2003) argue that misreported MPR can improve the terms under which a firm can raise new capital and improve employee motivation (with its attendant effects) if it results in increased pay-out to employees. Bar-Gill & Bebchuk (2003 b) show for instance that due to these motivations, even where managers cannot sell their shares in the short term, there is still an incentive to misreport MPR.

There is a dearth of literature on the probable negative implications of misreported MPR especially for the organisation in question. However, most of the literature focuses on the adverse implication of misreported MPR for listed firms from the perspective of the firm in question as well as the national economy. Few studies explore the adverse implication on related firms and internal stakeholders. No study explores the implication of misreported MPR from the perspective of employees. Recent literature focuses on how a firm's MPR quality affects its own investment efficiency (Biddle & Hilary, 2006; Biddle, Hilary & Verdi, 2008; Beatty, Liao & Weber, 2008). This literature, based on a PAT

approach, has resulted in a consensus that misreported MPR has real and potential negative consequences.

Bar-Gill & Bebchuk (2003 a & b) for instance, state that misreported MPR distort capital allocation decisions and hence '*has real economic cost and distorts financing and investment decisions with firms that misreport raising too much capital and firms that do not misreport raising too little*'. Ndofor et al. (2015) agree arguing further that MPR practices have real implications for the sustainability of secondary markets because the resulting misallocation of capital could result in externalities and promote inefficiency at the expense of efficiency with dire consequences. Sadka (2006) suggests that purposeful misreporting of MPR can deepen information asymmetry resulting in undervaluation of firms (due to the inefficient pricing of debt and equity because it generates unrealistic expectations), higher cost of capital for firms and makes it harder for good firms to access the market.

Often, studies about the adverse implication of misreported HPR focus on the economic consequences (on individual, firm and national wealth). Recently some researchers have explored changes in systematic risk, trading volume, firms' propensity to be sued, and industry spillover effects. For instance, Gande & Lewis (2009) confirm a large statistically significant negative stock price reaction to shareholder-initiated class action lawsuits and provide evidence of a spillover effect as investors anticipate similar lawsuits based on earlier lawsuits against other firms in the same industry.

The discussions above suggest that, misreported MPR has adverse consequence for the organisation in question. Karpoff & Lott (1993), Armour et al. (2010), Palmrose et al. (2004), Murphy et al. (2009) and Karpoff et al. (2008) confirm this and show that misreported MPR, when it is discovered, could result in negative returns, legal sanctions and reputational loss for the organisation. Reputation is the expectation of stakeholders of the benefits of doing business with the organisation in the future (Armour et al. 2010). Klien & Leffer (1981) confirm that reputation is related to a firm's reliance on an implicit social contract. Therefore reputation loss is a penalty imposed by the market due to a breach of trust and could result in significant increases in the cost of capital due to regulatory and legal sanctions, cancellation of contracts, inability to attract human and capital resources as well as changes to terms of trade and revision to existing contract including bank loans.

The costly reputation losses that result from misreported MPR has also receive attention (Beatty, Bunsis, & Hand, 1998; Alexander, 1999; Karpoff, Lee, & Vendryk, 1999; Karpoff, Lee, & Martin, 2008 a & b; Murphy, Shrieves, & Tibbs, 2009; and Dechow, Ge, & Schrand, 2010). Karpoff et al. (2008) work reveal that misreporting MPR is particularly costly, imposing a reputational penalty on the firm that is more than seven times the amount of the direct legal and regulatory penalties. The conclusions from Karpoff et al. (2008) are significant because it confirms the seriousness of reputation loss by suggesting that when misreporting occurs the highest penalties imposed are by the market rather than regulators. Jensen (2005) also finds that managers sometimes take steps to prop up overvalued shares that ultimately lead to value destruction. The total effect of this is that

misreported MPR could affect firm value through its effect on the required rate of returns that are influenced by the perception of beta risk. Another reason why misreported MPR can affect firm value is due to the growing evidence that managers expend significant resources to misreport MPR and to 'clean up' after detection. Wang et al. (2006) for instance, contend that manager's investment incentives can be distorted due to the incentive to manipulate the likelihood of being caught. Chou & Wang (2006) confirm that during misreporting, managers favor volatility-increasing investments (e.g., R&D vs CAPEX) even if the investments are negative NPV. Benmelech et al. (2010) also confirm that managers tend to overinvest to sustain the high investor impression and/or expectation due to misreported MPR. Kedia & Phillipon (2009) confirm that managers that misreport MPR increase investment and employment during the fraud period, and then shed assets and labor after revelation.

Recently, empirical literature has also explored the spillover and contagion effect of misreported MPR on related organisations. Earlier studies about the effect of MPR practices on peer firms, such as by Kellogg (1984), Francis, Philbrick, & Schipper (1994), Bizjack & Coles (1995), Beck & Bhagat (1997), Bhagat, Bizjack, & Coles (1998), Ali & Kallapur (2001), DuCharme, Malatesta, & Sefcik (2004), Griffin, Grundfest, & Perino (2004), and Karpoff, Lee & Martin (2008) investigate the conventional 'MPR on the market' hypothesis. This hypothesis posits that misreported MPR initially leads to positive abnormal returns during the period between the initial misreporting of MPR and the final corrective disclosure after revelation. These positive abnormal returns are followed by negative abnormal returns when a corrective action occurs.

Goldman et al. (2012) for instance, find that misreported MPR could result in an information spillover effect and an industry competition effect. Beatty, Liaob & Yu (2013) investigate how high-profile misreported MPR affect peer firms' investment. They conclude that in industries with higher investor sentiment, lower cost of capital and higher private benefits of control, peers react to misreported MPR by increasing investment during the related periods. They argue that this reaction by peers is not dependent on the likelihood of detection or the association between misreported MPR and investment booms. Their study suggests that this reaction occurs because when misreported MPR occurs equity analysts facilitate the information spillover effect.

A possible reason for this is because managers sometimes rely on the performance reports of other firms to distinguish between good and bad investment projects. Bushman & Smith, (2001) for instance find evidence that 'managers can identify promising new investment opportunities by the high profit margins reported by managers of other firms'. Therefore, misreported MPR of another firm can send a false signal about new investment opportunities and this can lead to sub optimal investment by other firms. A second possibility is that, misreported MPR affects other firm's investment decisions because of the distorted incentives provided by management compensation contracts that are based on misreported MPR by managers of other firms used as a benchmark for performance evaluation. Karaoglu, Sandino & Beatty (2006) argue that such 'inflated performance' may cause the competing firm to mimic investment decisions. Considering that Sadka, (2006), and Kedia & Philippon, (2005) find that to manage impressions, firms that misreport MPR

often invest aggressively during misreporting periods to appear as efficient as what they portray, then the heightened pressure to match the ‘inflated performance’ could also result in increased investment by competing firms. Sidak (2003) provides antidotal evidence in support of this and confirms that because WorldCom’s falsified internet traffic reports to the FCC, it encouraged widespread overinvestment in network capacity by industry rivals. Sadka’s (2006) work confirms that managers that engage in misreported MPR (such as by WorldCom) may use sub-optimal price cuts and output increases to match their reported superior MPR and ‘potentially bankrupt the entire industry’.

Durnev & Mangen (2008) investigate whether the announcement of accounting restatement causes a systematic change in peers’ investment activities and find that peer firms significantly lower their investment in the year after another firms’ restatement announcements and the reduction in investment growth is greater the more negative the competitor’s abnormal return after the restatement announcement (Beatty, Liaob & Yu, 2013). Durnev & Mangen (2008) interpret the results as peer firms learning from the news in the restatement. Therefore, misreported MPR has a negative externality on the investment efficiency of competing firms in the same industry because, distorted MPR generated by high-profile scandal firms on average lead to overinvestment by industry peers (Beatty, Liaob & Yu, 2013).

Bonini & Boraschi (2009) study the contagion effect of misreported MPR and confirm that misreported MPR generates a decrease in equity and debt offerings in the industry (for both peers and the firm in question) within the first year. Their study sheds light on the financing and security issuance behavior of firms engaged in misreported MPR. They conclude that independently from their intensity, misreported MPR affects the industry level by leading to a contraction in security offerings and a decrease in stock returns for all the industry constituents. Bonini & Boraschi (2009) also investigate the effect of purposefully misreported MPR on a competitor’s stock prices by testing the presence of a negative contagion effect on stock prices of the related industry and find evidence that corporate scandals have a negative impact on their industry. More interesting is the fact that, their study confirms that the purposefully misreported non-financial information (as part of MPR) has a relatively higher bearing on resulting negative stock price reaction of local firms. Comparatively, cases with misreported financial information in MPR do not show a statistically significant contagion effect in their industry. Palmrose et al. (2004) and Gleason et al. (2008) find similar evidence which is also aligned with Gande & Lewis (2009) who provided evidence on the price reaction to bankruptcy filing from misreported MPR. A reason for the above trend is provided by Giannetti & Wang, (2016) who argue that misreported MPR can affect household stock market participation. Merton (1987), terms it as the ‘shadow cost’ of limited stock market participation which includes, higher equity risk premium, and hence higher cost of capital for firms.

Chen & Goh (2010) study the contagion effect by examining whether corrections (‘restatements’) to misreported MPR, which adversely affect shareholder wealth at restating firms, induce negative stock price reactions among other firms that have directors who sit on the board of the restating firms. In studying the contagion effect of restatements through common directorships, they explore if any identified effect varies

with the MPR quality and the tainted directors' responsibility for MPR at the contagion firms. DeFond et al. (2005 a & b) and Farber (2005) contend that stakeholders infer MPR quality from the quality and diversity of directors. Therefore, corrections for misreported MPR ('restatements') can influence investors to perceive the directors of the restating firms as incompetent in monitoring MPR and hence affect the share price of other firms they serve as directors. Chen & Goh (2010) study confirms that corrected MPR at the restating firms induces negative stock price reactions at the contagion firms. The stock price reactions are more negative if the contagion firms have lower MPR quality or if the tainted directors serve on the audit committees of the contagion firms. Their results are consistent with a contagion effect of restatements through common directorships.

Even though most of the literature on the adverse implication of misreported MPR suggest that the adverse consequence result only after revelation and hence subsequent corrective action by managers of a firm (see for example Francis, Philbrick, & Schipper, 1994; Bizjack & Coles, 1995; Beck & Bhagat, 1997; Bhagat, Bizjack, & Coles, 1998; Ali & Kallapur, 2001), other studies have argued that the consequences on peer organisations and peer managers due to information spillover and contagion effect occur regardless of revelation (Dechow, Ge, Larson, & Sloan, 2011).

Karpoff et al. (2008) identify the significant adverse effect on managers who engage in misreported MPR. The personal penalties when misreporting is detected includes (a) lost of jobs (b) sanctions by regulators (c) criminal charges and penalties, including jail terms (4) financial loss through forfeiture of shares etc. Regarding other stakeholders, misreported MPR can result in misallocation of scarce resources by investors (Bar-Gill & Bebchuk, 2003 a & b) and can also create tensions due to false impressions to employees (Martins & Terblanche, 2003). The section on hypotheses in chapter three discusses this further.

Few studies have focused on the implication of misreported MPR on national economies. Sadka (2006) argues that misreported MPR can have a significant adverse impact on social welfare. Proponents of this hypothesis argue that misreporting to key state actors such as regulators and tax authorities can have adverse consequences on national development. Without HPR, regulators can be misguided in their actions, policies and guidance offered which can have a distorting effect on a specific industry and hence the nation. Such misguided policies could protect or create market imperfections (such as protecting monopolies) or affect consumer interest (Doidge, Karolyi & Stulz, 2010). Zhang (2007) argues that the economic consequences of misreporting MPR are the introduction of more regulation. More regulation imposes a significant cost on firms in their operations (Leuz, Trianitis, & Wang, 2008).

The implications of MPR behaviour on tax revenues is an ongoing debate without a consensus. In one perspective, misreported MPR could result in lower taxes paid by firms, and this could affect national development efforts. Richardson et al. (2002) find that growing firms may misreport to show consecutive earnings increases. Thus, overstatements of revenues and earnings are likely to distort expectations of growth by those unaware of the misstatement (McNichols & Stubben, 2008). This is particularly

relevant for developing economies (such as Ghana) that constantly engage in deficit spending to support social programs. Frank, Lynch, & Rego (2009) support this hypothesis and estimate a positive relation between misreported MPR and tax aggressiveness. They find that managers that intend to pay lower taxes concurrently report higher book income but comparatively lower taxable income. Desai (2005) and Desai & Dharmapala (2006) find similar evidence that confirms that managers exploit complex tax avoidance strategies (under the pretext that lowering taxes benefits shareholders) to divert corporate resources, which they later hide by distorting MPR. Other studies such as La Porta et al. (1998) and Dyck & Zingales (2004) also find similar evidence.

Erickson, Hanlon, & Maydew (2004) provide an alternative argument and perform an extensive analysis of 27 firms censured by the Securities and Exchange Commission (SEC) for misreporting MPR and find contrary evidence about lower taxes resulting from misreported MPR. They conclude that managers of these firms, on average, deliberately overpaid their taxes to legitimise their MPR behaviour. Therefore, some managers exaggerate their tax obligations to help disguise their deceit.

There are gaps in the literature about the implications of HPR. Most studies have attempted to answer this question from the perspective of investors (Bar-Gill & Bebchuk, 2003 a & b), regulators (Erickson et al. 2004) or managers (Karpoff et al. 2008) with little regard for the perspective of internal stakeholders such as employees. Indeed, during the period of this study, no study existed about the implication of HPR or misreported MPR from the perspective of employees. This is a critical void that needs to be filled. The perspective of employees has been confirmed to be valuable to organisational progress and success (Morrison & Milliken, 2000). Indeed, employees are a critical set of stakeholders whose opinions and perspectives must be considered in the bid to improve our understanding of the HPR phenomenon. There are many reasons for this. Firstly, quite often employees are closed to the MPR process (Yang, 2009) and may be active or passive participants in the process. Therefore, their opinion about the implications of HPR can be assumed to be relatively more insightful and/or credible. Secondly, considering that most approaches to study the MPR phenomena mitigate SDB by avoiding the use of managers as datasets, employees perhaps provide the closet proxy to the thinking and actions of managers (Yang, 2009). Therefore, effective solutions to the MPR process must necessarily include employee perspectives (Schneider, 1980).

### **2.3.3. Factors That Influence HPR**

Previous studies have mostly focused on the techniques used by agents to manage impressions and individual motives for committing financial reporting fraud (Ndofor, Wesley & Priem, 2015) rather than the causes and effects of HPR from an organisational perspective. Despite the focus of empirical studies on misreporting rather than HPR, the evidence on why managers may purposefully misreport the underlying private information about their performance is still scanty. This is notwithstanding the fact that it is relatively easy to identify environmental, organisational or individual attributes that are associated with the phenomenon. Perhaps the confusion arises because such attributes also exist in

many other organisational contexts that do not result in unethical choices. Also, beyond external or objectives characteristics, it is difficult to infer the interior motives, personalities or combinations of organisational context and individual attributes that drive managers to misreport private information. It is also not clear why managers, after initially misreporting managerial performance information, often willingly expand the scope and the scale of their performance report manipulations (Magnan, 2011).

In the limited literature that exists, various factors have been suggested to influence HPR. Indeed, various personal and situational factors have been suggested to influence the trade-off between the costs and benefits of HPR. For example, differences in payment schemes (Chow et al., 1988; Waller & Bishop, 1990), information asymmetry (Fisher et al., 2002a), reputation considerations (Webb, 2002), and the degree of participation in budgeting (Fisher et al., 2000; Rankin et al., 2008) have been suggested to influence HPR. The empirical causes of HPR can be broadly categorised under the following perspectives.

#### **(a) A Market And Economic Incentive Perspective For HPR**

Based on the CAT, perhaps the most reported influence on HPR is the opportunity to maximise monetary incentive (Baiman & Lewis, 1989). Gneezy (2005) agrees that considerations of economic pay-off are critical for HPR. Mazar et al. (2008) argue that the assumptions of the CAT are still relevant in discussions about HPR and that that all things being equal, all persons have the same marginal utility for money (Gibson et al., 2013, Fehr & Schmidt, 1999). Based on Baiman & Lewis (1989) threshold theory, and Brickley et al. (1997) trade off theory, managers, always weigh if the perceived benefits from the monetary reward exceed any projected costs of HPR.

Noe (1999) and Aboody & Kasznik (2000) attribute the extent of HPR to the nature of compensation contracts and find that firms delay reporting of good news and accelerate the release of 'bad' news before stock option award periods with the intention to increase stock-based compensation. Miller & Piotroski (2000) find that managers of firms in turnaround situations are more likely to ensure HPR if they have higher stock option compensation.

Jensen (2004, 2005); Efendi et al. (2007); Fogarty et al. (2009) argue that performance-based compensation contracts offer an incentive for misreporting performance information. Specifically, managers with extensive stock or option holdings are more likely to feel pressure to manipulate performance reports when a performance gap occurs. Povel, Singh & Winton (2007) show that misreporting of managerial performance peak toward the end of a boom.

Even though Jensen's model has the appeal of putting HPR into a context of a dynamic interplay between managers and investors, it does not integrate many individuals, intra-organisational or social factors. This is because it is overly reliant on CAT that holds that managers are solely, and rationally, driven by economic incentives. As such, it does not adequately cover for the empirical evidence of misreporting when there are no apparent economic incentives.

**(b) *Organisational Perspective Of HPR***

Recent studies have explored social referents and firm characteristics as crucial drivers of HPR or otherwise. Cullen et al., (1993); Schminke et al. (2005); Weber, (1995) argue that organisational structure (such as span of control by the agent) and organisational climate influence HPR. Yang (2009) finds evidence to confirm that, in public organisations, a hostile internal climate could adversely affect innovation, risk taking and stakeholder participation in performance management, which in turn will negatively affect HPR. Gino & Pierce (2009) argue that a hostile organisational climate can introduce stress on manager's, which can reduce HPR. Gino & Pierce (2010) suggest that aggressive competition among departmental units and Yang (2009) argues that the existence of cliques within an organisation reduces HPR (Wang & Rode 2010).

Healy & Palepu (1990), and DeAngelo et al. (1996) discuss HPR from the perspective of obtaining social approval and legitimacy for the manager and organisation and suggest, HPR by managers of highly leveraged firms in financial distress may in part reflect an attempt to improve organisational survival.

**(c) *A Cognitive & Behavioural Perspective For HPR***

Kidder (2005) attributes HPR to cognitive reasons and draws on trait theory, agency theory and psychological contracts theory to conclude that personality trait and perceived unfairness in the workplace helps predict HPR among workers. Drake et al. (2013) test Kidder (2005) theory and conclude that individuals with a preference for HPR (ethical persons) reported more honestly and that perceived fairness interacts with individual honesty preferences as well as relativism to affect HPR. Therefore, creating a perception of fairness in compensation policies can improve HPR. Studies on the characteristics of the perpetrators have spanned studies about manager's cognitive orientation, personality traits, development of moral reasoning (Kohlberg 1981) and ethical orientation (e.g., Beauchamp & Bowie, 2004; Beauchamp, Bowie, & Arnold, 2004; Kohlberg 1981; Rest, 1986; Reynolds, 2006a, 2006b). Paz et al. (2013) and Sánchez-Expósito & Naranjo-Gil (2012) argue that managers with an individualistic orientation are more likely to misreport than managers with a collective orientation. Munhall (1979) argue that managers with a low-level development of moral reasoning are likely to misreport than managers with a relatively higher level of moral development. Gibson et al. (2013) suggested that managers with a strong ethical orientation or 'protected value of truthfulness' are more amenable to HPR than managers with no 'protected value'. Baron & Spranca (1997); Tetlock (1992), Tetlock et al. (2000); Tanner, Medin and Iliev (2008); and Bernabou & Tirole (2011) argue that strong protected values and ethical orientation could result from culture as well as a desire by managers to invest in their identity. Gibson et al. (2013) argue that managers with highly protected values will experience a significant high intrinsic cost from deliberately misreporting performance information.

In recent times, however, behavioural reasons have dominated the literature regarding HPR. Quite recently, the reasoned action model (which predicts behavioural intentions and corresponding behaviours) has been tested in explaining managers behavioural choices when confronted with ethical dilemmas (see for example Gillett & Uddin; 2005, Carpenter & Reimers, 2005; Cohen, Ding, Lesage & Stolowy, 2008). Reasoned action'

hypotheses that humans are rational and use the information at their disposal in a systematic way, considering all the implications of their actions before deciding to behave in a given way (Magnan & Markarian, 2011; Ajzen & Fishbein, 1980).

Gillett & Uddin (2005) posit that individual attitudes (beliefs and need for achievement), compensation structure, firm size and the subjective norms derived from referent groups underlie a manager's intentions to misreport performance information and find that negative belief evaluations (managers' awareness of the magnitude of outcomes that can be injurious to them) may contribute to HPR. That is, a manager's referent groups (co-workers or others) strongly influence his/her subjective norms and can improve HPR. They find that managers of larger firms exhibit greater intentions to misreport performance information. Their study further confirms that manager's intentions are not affected by the need for achievement and positive belief evaluations as well as compensation structure.

Carpenter & Reimers (2005) also examine managers' decision to misreport performance information. They apply the theory of planned behaviour, which assumes that managers have control over behaviour. Hence, the key to explaining an individual's behaviour is intentions, which are driven by attitudes toward the behaviour, subjective norms and perceived control over the behaviour. Cohen et al. (2008), argue that the theory of planned behaviour highlights the role of managers' personality traits in HPR studies and enhances the explanatory power of the fraud triangle.

Carpenter & Reimers (2005) use a survey and experiment to (both with MBA students) provide strong support for the theory, with manager's attitude significantly influencing behavioural intent (with predictive value) whereas subjective norms (i.e., the influence of family, friends, or other close individuals) do affect behavioural intent. Surprisingly, the control that participants perceive to have over a decision seems to have little influence on their intention to engage or not in HPR. The application of an experimental methodology to behavioural studies in accounting is not new (Brown et al., 2009; Sprinkle & Williamson, 2007; Covaleski et al., 2007; Arnold, 2007; Libby, Bloomfield & Nelson, 2002). The increase studies about behavioural variables in HPR have made the phenomenon amenable to new approaches including experimental methods.

#### **(d) Environmental Perspective Of HPR**

Yang (2009) argues that a supportive external environment (less turbulent, less dynamic, and less complex) could improve HPR. An overly turbulent and complex external environment with varied stakeholders could encourage managers to want to hide information to protect their jobs, undo competition or avoid penalties from regulators. Also, when the environment is complex, principals may lose focus and not be effective at monitoring managers or agents with implications on HPR.

Shreck (2015) analyses the effect of competition on HPR proposing that different types of competition have varying effects on HPR and concludes that economic competition (one form of competition) affects the economic benefits of misreporting private information about managerial performance whereas rivalry (another form of competition) diminishes the moral cost of such misreporting.

Competition is defined as a social situation of negative goal interdependence such that the achievement of a goal by one or more members of a group necessarily implies that the other members do not achieve the same goal (Deutsch, 1949 a & b; Johnson & Johnson, 1989, Shreck, 2015). Bruggen & Luft (2011) confirm that competition reduces managers willingness to resist economic incentives (with implications on HPR) and confirm that across different competitive and non-competitive capital budgeting contexts, agents under competitive conditions (even in its modest form) were most likely to misrepresent their private information to superiors in order to increase the likelihood to win funding for their projects (Fisher et al., 2002; Young et al., 1993).

Competition involves “a combination of economic and psychological factors” (Fisher et al., 2002), and hence a set of “economic and behavioural factors” (Frederickson, 1992) is necessary to explain the effects of competition on HPR. Shreck (2015) for instance, finds that the effect of competition on HPR is affected by gender (under competitive conditions males misreport their underlying private information to a greater degree) and HPR decreases significantly with rivalry even when economic benefits of misreporting private information remain unchanged. Shreck’s (2015) work reveals that economic competition only reduces the salience of HPR preferences among male participants. Therefore, competition can have adverse effects on HPR.

Empirical studies suggest that the motivation for HPR is higher when there are no performance gaps. Bloomfield (2002) studies the reaction of markets to information that is less easily extracted from MPR and tests if managers have more incentive to obfuscate information when firm performance is poor. Using the “management obfuscation hypothesis”, he argues that the earnings quality is affected by HPR. Li (2008) tests the quality of text and syntax in annual reports and finds strong evidence consistent with the hypothesis that the ‘positive earnings’ of firms with more complex annual reports are less persistent and the ‘negative earnings’ of such firms are more persistent in the immediately following years.

Performance gaps exist when performance is measured against and falls below set targets or goals. Relying on Lewicki’s (1983 a & b) model of deception, Schweitzer et al., (2004) consider the role of goal setting in influencing the perception of the benefits of HPR and find that, irrespective of the existence of economic incentives, managers with unmet or unachieved goals or targets are more likely to misreport than managers who have no goals at all and are only attempting to do their best. Schweitzer et al. (2004) found that the motivation to misreport is stronger when managers fall short of the goals by a slim margin. This is backed by social cognition theory (Bandura 1991) which suggests that managers derive psychological rewards from attaining goals and the theory of deception (Lewicki 1983) that suggest that managers weigh the cost and benefits of unethical behaviour. Neely, Sutcliff & Heyns (2001) suggest that one of the key challenges with setting budgetary targets as a form of performance monitoring and reward allocation is that it encourages gaming and the perverse behaviour of lying (Hansen, Otley & Van der Stede 2003; Lowe & Shaw, 1968; Argyris 1952; Hope & Fraser 2003a,b & c).

Douthit, Schwartz, Stevens, & Young, (2017) and Cox (2004) argue that HPR, manager's behavioural choices and stakeholder reaction to reported performance information is endogenously determined by the same forces that shape firms' governance structures and management incentives. Shareholders, as primary stakeholders, have a vested interest in maximising firm value and hence will endogenously optimise HPR, corporate governance, and management incentives. Often this choice involves trading off the reduction in information asymmetry through HPR against the costs of reduced incentives (e.g., Evans & Sridhar, 1996), litigation costs (Skinner, 1994), and proprietary costs (Verrecchia, 1983). About this, Watts & Zimmerman (1986) argue that in the pursuit of firm value maximisation, shareholders do not pursue absolute HPR and accept that not all managerial performance manipulation will be eliminated because 'It may be too costly . . . to eliminate all such manipulation (p. 205).

Considering that it is too costly to eliminate all manipulation the opportunities for misreporting performance information increases because managers may be able to add some bias to MPR at a low personal cost (e.g., Dye, 1988; Fischer & Verrecchia, 2000). Watts & Zimmerman (1986) further suggest the irrelevance of a focus on HPR and suggest that 'In labour and capital markets characterised by rational expectations, managers will not, on average, gain from such manipulation'.

There are gaps in the literature about the causes of HPR. Most studies have focused on evaluating singular variables rather than a confluence of variables (see for example Gneezy, 2012). Pedhazur & Schmelkin (2013) argue that studies about managerial action and practices are more valuable if they consider the real live scenario of how a confluence of factors interact to affect the managerial action. As Pedhazur & Schmelkin (1991) note, the idea that multiple effects should be studied in research rather than the isolated effects of single variables is one of the important contributions of Sir Ronald Fisher (Vyas, 2015). Aside from the fact that there are limited studies about this phenomenon using a dataset from Africa (see table 2.2), the application of CAT in empirical studies to answer this question abound (see for example Baiman & Lewis 1989; Abrahamson & Park, 1994). Section 2.2.1 highlights the challenges of CAT and proposes the consideration of the predictors of HPR based on a confluence of factors that are bed-rocked on alternative theoretical philosophies (Ndofor et al. 2015). This study, therefore, answers this call.

#### **2.3.4. The Influence Of HPR On FP.**

Prior literature on MPR provides limited evidence on whether misreporting MPR to investor's results in resource misallocation (and hence adverse FP) or whether HPR improves resources allocation decisions (Healy & Wahlen, 1999). There are currently no studies on the influence of HPR on FP. However, there is a dearth of literature on the influence of other ethical dimensions on perceived and objective measures of FP (of the firm in question or other related firms). There is also scanty literature on the influence of accounting fraud on FP which provide an appropriate context for hypothesis formulation about HPR and FP (Yang, 2009).

Discussions about the effect of accounting fraud on FP have been based on impression management theory. It is premised on the hypothesis that managerial performance and actions must be consistent with each other. Therefore, misreported MPR that portrays managerial efficiency must be maintained (through real and visible actions) to sustain positive impression and avoid detection (Finnerty, Hedge, & Malone, 2016). This usually results in sub optimal decisions by managers with consequence on FP (Sadka, 2006). Malone, Finnerty & Hegde (2010), as well as Fich & Shivdasani (2005, 2007), suggest that fraudulently misrepresenting financial information affects the cash flows of the firm thus making it difficult for the firm to fulfil some of its obligations with negative consequences on FP.

McNichols & Stubben (2008), suggest that earnings management, which is largely viewed as targeting parties external to the firm, can also influence internal decisions. They arrived at this conclusion after examining whether firms manipulating their reported financial results make suboptimal investment decisions. Using fixed asset investments for a large sample of public companies during the 1978-2002 period they conclude that firms that manipulate their earnings (i.e. firms investigated by the SEC for accounting irregularities, firms sued by their shareholders for improper accounting, and firms that restated financial statements) over-invest substantially during the misreporting period. Furthermore, following the misreporting period, these firms no longer over-invest, consistent with corrected information leading to more efficient investment levels. Their study also confirms similar patterns for firms with high discretionary revenues or accruals.

Other studies have hypothesised about the relationship between accounting fraud and FP through the effect of accounting fraud on the cost of capital. Graham et al. (2008) for instance confirms that revelations of accounting fraud increase the perception of risk among investors which will affect the cost of capital. This is in line with Diamond's (1991a) preposition that debt maturity is a function of risk ratings (Diamond, 1991b). Palmrose et al. (2004), Palmrose & Scholz (2004) and Anderson & Yohn (2002) make a similar hypothesis and find evidence to confirm same.

Discussions about the consequence of MPR practices on FP in an efficient market is not clear especially as empirical findings have been subjected to varied interpretations and contestations. One stream of literature examines the implication of MPR on stock prices. For example, Teoh et al. (1998) reveal that misreported MPR can result in the mispricing of IPOs. Subsequently, Brav et al. (2000) find evidence that the long-run returns of IPOs are similar to those of seasoned firms with similar market capitalisation and hence contest Teoh et al. (1998) findings. Bra et al. (2000) argue that the discrepancy between their findings and Teoh et al. (1998) may be due to a more pervasive return pattern in the broader sample of public companies.

Another group of researchers, such as Foster (1979), Dechow et al. (1996), Beneish (1997), and Palmrose et al. (2004), suggest that markets react negatively to disclosure of misleading MPR with consequences on FP. This implies that investors are bounded in the rational choices and hence may not be completely aware of or can predict misreported MPR. McNichols & Stubben (2008) disagree that bounded rational decisions are the

reasons for this outcome because, to the extent equity investors have rational expectations of the amount of misreporting, even if they cannot identify the magnitude for specific companies, they could observe negative returns to announcements *ex post* that would not necessarily imply resources were misallocated *ex ante*.

Another stream of literature explores if sub optimal decisions by managers due to misreported MPR affects FP. That is to ask if real decisions are distorted because misreported MPR results in distorted information for internal decision makers. For example, Bushee (1998) explores how research and development (R&D) expenditure is affected by MPR and whether the resulting relationship is influenced by the composition of the firm's institutional investors. Within this stream of literature, there is a dearth of empirical studies about how misreported MPR affects managerial investment decisions. Dechow et al. (1996) for instance studies, firms targeted by SEC enforcement actions and contends that since the desire to attract appropriate external financing at low cost is an important motivation for misreported MPR, then misreported MPR has implications on FP through its effect on capital investment decisions. However, with their study, it is not clear why these managers would over-invest rather than invest optimally with the funds obtained (McNichols & Stubben, 2008).

Bar-Gill & Bebchuk (2003) postulate that managers who misreport MPR before undertaking an investment project will undertake inefficient investment projects due to the ability to obtain cheaper funding from misreported MPR. Investment decisions depend on expectations of the benefits of the investment, which in turn depend on expectations of future growth and product demand. Expectations of future growth are based on information that is usually reported as part of MPR (McNichols & Stubben, 2008). Wang (2006) finds complimentary evidence for Bar-Gill & Bebchuk (2003) hypothesis and argues that managers who misreport MPR are more likely to over-invest in R&D and stock-financed mergers and acquisitions. Over investing has a negative effect on FP.

Kedia & Philippon (2009) apply institutional perspectives to predict that managers who misreport MPR will usually associate with better performing firms to avoid detection. Such association could involve over-investing (with consequence on FP) to mimic firms with truthfully better performance. McNichols & Stubben (2008) reject this argument about a pooling effect because their study finds that 'sample firms' invest more than the 'matched control' firms.

Biddle & Hilary (2006) and Verdi (2006) predict and find that HPR reduces information asymmetry between managers and stakeholders, allowing for more efficient investment. Biddle & Hilary (2006) find that measures of MPR are negatively related to investment-cash-flow sensitivities, and hence the effect of financing constraints on investment is lower for firms with higher HPR. Bushman et al. (2006) argue that HPR induces *ex ante* positive net present value investment projects. Specifically, HPR reduces over-investment by managers faced with declining investment opportunities.

Therefore, MPR practices can affect FP of the organisation in question and other related firms (McNichols & Stubben, 2008) through its spill over and contagion effects (discussed earlier).

Chun (2005), Cameron et al. (2004) test the empirical relationship between some measures of ethics on employee and customer satisfaction as well as FP respectively and find a significant positive relationship. However, their ethical construct does not include HPR. Chun (2005) proposes a replication of his studies in non-western countries, applying other measures of ethics and virtuousness. Specifically, Cameron, Kim & Caza (2004) explore the relationships between virtuousness and performance in 18 organisations and find significant relationships between virtuousness and both perceived and objective measures of organisational performance. They explain their findings in terms of the two major functions played by virtuousness in organisations: an amplifying function that creates self-reinforcing positive spirals and a buffering function that strengthens and protects organisations from traumas such as downsizing.

Chun (2005) on the other hand argues that virtue ethics has often been regarded as complementary or laissez-faire ethics in solving business problems and explores conceptual and methodological improvements through proposing a virtue character scale that will enable assessment of the link between organisational level virtue and organisational performance, financial or non-financial. Chun (2005) conducts multiple studies based on three theoretical assumptions through a content analysis of 158 Fortune Global 500 firms' ethical values and a survey of 2548 customers and employees. Six dimensions of organisational virtue (Integrity, Empathy, Warmth, Courage, Conscientiousness and Zeal) are identified through confirmatory factor analysis and validated against employee satisfaction measure. Chun (2005) finds evidence that ethics affect employee satisfaction in a positive and direct relationship.

There are gaps in the literature about the manner and extent of influence of HPR on FP. There is no direct study of this relationship. Even though there are studies about the influence of ethics on FP, in those studies, the construct of ethics does not include HPR. It is not farfetched to estimate that different dimensions of ethical behaviour will affect FP differently (Ming-huei, 2013; Angle & Slote, 2013). In that regard, even if HPR is considered from an ethical and moral perspective, a distinct study about its influence on FP is in the right direction.

### **2.3.5. MPR Practices Within Organisations**

There is currently no literature on MPR practices of Ghanaian companies. However scanty literature exists on management accounting practices in Ghana with mixed results. Even in Western Europe and the USA, the majority of studies focus on MNOs to the neglect of local companies (Hopper et al., 2009).

Cho et al. (2012) confirm that different organisations adopt different MPR practices and confirm that the manner of impression management in MPR practices differs across companies facing different regulatory structures. McLane (2012) confirms the adoption of

unique MPR practices by executive bloggers. Applying Jones (1990) taxonomy of self-presentation strategies, McLane (2012) finds that executive bloggers frequently adopt MPR practices aimed at suggesting competency attributes (self-promotion), likeability (ingratiation), and moral worthiness (exemplification) to construct and shape a positive identity for themselves and their organisation to the public. Supplication strategies were used less frequently, while intimidation strategies were rarely used.

Michelon (2012) takes this argument further and proposes that considering that MPR seeks to bestow legitimacy, then MPR practices will differ at different stages of the legitimacy process, in particular during the legitimacy building and legitimacy repairing phases (Suchman, 1995). Specifically, the study explores if and how the disclosure tone adopted by a company in the two different moments is diverse and thus functional to the intrinsic objective of each phase. The empirical analysis focuses on the case of British Petroleum Plc. and the MPR strategies it adopts during the preparation of the rebranding operation, (i.e. a situation in which the company is trying to build legitimacy) and during the happenings of two legitimacy crises (like the explosion of the refinery in Texas City and the oil spill in the Gulf of Mexico). The evidence aligns with the theoretical prediction of legitimacy theory and shows that while the company applies privilege image enhancement techniques during the legitimacy-building phase, it uses more obfuscation techniques when managing a legitimacy-repairing process. Also, the company extensively applies impression management techniques in MPR disclosures to shareholders, investors and other market operators than in the MPR disclosures addressed to the wide range of other stakeholders.

Drory & Zaidman (2007) compare MPR practices between organic and mechanistic organisations. MPR in mechanistic systems is characterised by 'Ingratiation', and a relatively heavy dose of impression management directed more towards superiors than toward peers. On the other hand, MPR in the organic system is characterised by 'Initiation' and adopt less impression management directed equally toward superiors and peers. Drory & Zaidman (2007) explain the differences in MPR practices with the differences in the norms and structural characteristics of the two organisational systems. Crant (1996) concurs alluding to the fact that stakeholder perception of the appropriateness of MPR practices is influenced by the consistency of management tactics, actual performance outcomes, and observers' expectations. Therefore, MPR practices do not always achieve the intended objective for which they are adopted. During MPR, Bohte & Meier (2000) argue that managers avoid direct lying and cheating because they consider direct lying as extremely risky. Therefore, expectations around misreporting MPR usually involves other deliberate strategies to mislead, withhold information to, or confuse the stakeholders.

The literature on MPR practices is dominated by the application of impression management strategies to managerial performance disclosure. Cooper & Slack (2015), for instance, apply impression management to evaluate if MPR practices change when there are performance gaps. Using longitudinal data, Cooper & Slack (2015) assess changes in MPR when there is water leakage using seven-year data from all ten water and sewerage companies (WASCs) in England and Wales. Their study confirms that

MPR practices are influenced by regulator (OFWAT) targets, and when there is a performance gap vis-à-vis these targets, managers apply tactics and presentational methods consistent with impression management to obfuscate MPR.

Zhang & Aerts (2015) study the relationship between failure to meet earnings thresholds and causal language intensity and find a significant positive association between failure to meet earnings thresholds and causal language intensity. Further, firms that have performance gaps tend to use more causal language in a weaker information environment and experience a less volatile abnormal stock return. This confirms Ashraf & Uddin (2011) suggestion that a key criterion in MPR strategies is the technical capacity of external stakeholders to discover misreporting.

Falschlunger, Eisl, Losbichler & Greil (2015) study how large listed companies in Europe choose to use and misuse graphical representation and conclude that topics displayed, and how they are presented, significantly change over time and that graphs are much more likely to exaggerate positive trends than to underestimate them. Additionally, longer time sequences (greater than five years) almost exclusively depict favourable trends (86 per cent) and graphical measurement distortions are applied on purpose for both key financial variables (Kfv) as well as for non-Kfv (around 30 per cent in all years). This finding is confirmed by Laidroo (2016) who studies performance attributions to determine whether graphs in annual reports could be used for making performance attributions. Laidroo (2016) focuses on annual reports of 33 commercial banks from 7 Central and Eastern European countries during 2006 to 2013. The study finds evidence for the presence of negative performance attributions and attribution enhancements. Specifically, a decrease in a bank's profitability is associated with an increase in the use of external indicator graphs. If a bank's profitability increases simultaneously with deterioration in a graphed external indicator, the use of such external indicator graphs increases compared with when profitability increase occurs simultaneously with an improvement in a graphed external indicator. Also, negative performance attributions are intentional and potentially driven by impression management motives. An earlier study by Cho et al. (2012) also find evidence that graphs are used in MPR to enhance a positive image and to obfuscate negative trends.

There are gaps in the literature about MPR practices among managerial groups. Aside from the fact that studies are concentrated in Europe and USA, this study answers the call to explore this phenomenon in a different geographical and cultural context. As explained in an earlier paragraph, the evidence of the impact of culture on managerial action is not conclusive (Neelankavil et al. 2000).

### 2.3.6. Empirical Literature About Methods Used In MPR & HPR Studies

Aside from experiments, questionnaires have also been used in the explorative study of HPR. Yang (2009) proposes a theoretical model for HPR within public organisations in Taiwan and finds a significant positive correlation between all his variables and HPR within public organisations. Yang (2009) measures the perception of workers (employees and middle managers) in public organisations about HPR by business leaders, using closed ended questionnaires (seven points Likert scale ranging from “strongly agree” to “strongly disagree”) as a research instrument with multi item indices applied to proxy key variables. Yang finds evidence to support his hypothesis that stakeholder participation and innovative culture are positively associated with HPR, while hostile internal politics is negatively associated with HPR. Yang study provides the first evidence of measuring the confluence of factors that affect HPR, but this is based on a study within public organisations.

Experimental research on HPR has been characterised, for the most part, by disagreements on findings, challenges of methodology and inferences made from empirical findings. In this section, we highlight three central contradictions and contestations. The examples provided below are by no means exhaustive but serve the purpose of highlighting the relevance of continuous scholarships in this area of study in general and the significance of this empirical work.

Webb & Salterio (2006) critically evaluate Hannan et al. (2006) prediction, design and results and contest their approach and conclusion. Hannan et al. (2006) propose that because HPR is affected by a trade-off between the benefits of appearing credible versus the benefits of misrepresentation, information systems affect HPR by affecting manager's perception of the cost and benefits of HPR. Information systems do this by improving the principals' ability to make inferences regarding the managers' credibility. Therefore, if the information system improves the managers' appearance as credible, then it increases HPR and vice versa. However, as the information system gets more precise, the benefits of misrepresentation begin to outweigh the benefits of HPR because the manager must give up relatively more misrepresentation to achieve the same level of perceived HPR. Hannan et al. (2006) assume that HPR is driven by an intrinsically motivated desire for social approval (moral hypocrisy). Subsequent scholars have disproved this assumption and provided varied reasons for manager's desire for HPR (e.g., James Jr. 2002; Schulze & Frank 2003; Somanathan & Rubin 2004).

Webb & Salterio (2006) argue that Hannan et al (2006) created an experimental setting with conditions deliberately designed to promote lying, by (1) providing an assurance that there are no negative consequences to misreporting managerial performance such as reputation concerns (2) providing rewards that decrease HPR (3) allowing little interpersonal interaction between the manager and the principal such that managers merely handed over their budget form with no discussions between the principal and the agent. Therefore, Hannan et al. (2006) maximised the likelihood that participants will misreport private information to replicate the findings of Evans et al. (2001) as well as find a new structural variable that affects HPR.

Also, Webb & Salterio (2006) challenged the interpretation that Hannan et al. (2006) provide for their findings that a precise information system leading to less HPR implies that managers weigh the benefits of misreporting against the benefits of HPR. Rather Webb & Salterio (2006) argue that more precise information system highly correlating with misreporting private information implies that managers are making a trade-off between fairness of profit allocation between parties and the benefits of appearing credible. Webb & Salterio (2006) contend that Hannan et al. (2006) did not discover a new structural variable that decreases HPR; instead, their findings illustrate the joint effects of the interaction between perceived fairness of rewards systems and the precision of the information systems on HPR.

Salterio & Webb (2006) sum up their contention in the following words

*"We suggest, on the basis of our analysis of the experimental design, that it is an interaction between the reward system and the precision of the information systems, rather than fineness alone that causes the HRT (Hannan et al.) results. Hence, we do not believe that HRT have identified a new structural variable that increases lying (that is, the fineness of the information system). Rather, they illustrate the joint effects on honesty of a particular type of reward system and a structural variable (the information system)".*

Interestingly, Webb & Salterio (2006) contest of the methodology adopted by Hanna et al. (2006), as enumerated above, extends to contention with Evans et al. (2001) methodology as well. For instance, Evans et al. (2001) also use a budgetary process that involves no discussions between agent and principal, provide assurances of anonymity and increases the reward for lying. Indeed, most studies have adopted a similar methodological approach. An additional challenge arises with the assumption of subject homogeneity between the sample and the population with the use of students as surrogates for real business executives. The methodological difficulties with research into HPR are discussed in the next chapter but suffice to say that these methodological challenges probably affect the opportunity to generalise findings from several types of research into HPR.

Evans et al. (2001) have similar contentions with the work of Baiman & Lewis (1989) regarding methodology and interpretation of findings. Evans et al. (2001) states that '*The difference between our conclusions and those of Baiman and Lewis (1989) appear to reflect different experimental procedures and different interpretation of their experimental results*".

Evans et al. (2001) argue that the experimental procedures adopted by Baiman & Lewis (1989) suggest that experimental participants were encouraged to be self-seeking to the maximum extent possible and this may have affected the validity of the findings of the study. Secondly, Evans et al. (2001) argue that the assertion by Baiman & Lewis (1989) that 'any advantage from exploiting an agents' reluctance to lie explicitly is likely, on average, to be small or non-existent' does not relate to their reported results. Evans et al. (2001) make this argument because, according to them, even though Baiman & Lewis (2001) encouraged a self-seeking behaviour ('expected monetary value maximisation')

among participants, a relatively significant percentage (41.7%) of participants still engaged in HPR in Baiman & Lewis (1989) experiment.

Gneezy (2005) disproves Koford & Penno's (1992) 'type theory', contests Baiman & Lewis (1989) argument that decision makers merely make a cost benefit analysis of their monetary benefits, disagrees with Evans et al. (2001) distributional model and proposes instead a consequence model that guides the formulation of preferences. Gneezy (2005) suggests that consequence is critical to managers in decisions about behavioural choices (including HPR) and often managers even though are influenced by how much they gain from misreporting private information, also care about how much the 'other side' loses even though this unselfish motive diminishes with the size of the 'game'. Also, Gneezy (2005) establishes that managers are not indifferent to the process leading to an outcome and therefore managers and decision makers display 'non-consequentialism' preference in which they treat the same outcome differently depending on the process leading to it'. In other words, process matters beyond consequences (Amartya, 1997) and therefore how allocations and 'outcomes come to be' matters more than what the allocations are (Hurkens & Kartik, 2009, 2006).

Gneezy (2005) disagrees with the appropriateness of existing formal models on social preferences that have developed to support the accumulation of empirical evidence against complete selfishness. Gneezy (2005) argues against the reliability of the distributional model in predicting observed behaviour and suggest that 'a simple comparison of relative payoffs misses an important aspect of the HPR phenomenon problem, namely the distinction between doing harm and inequality aversion. In other words, people care not only about relative outcomes; they also care about the harm done by their choices'. Gneezy (2005) argues that the distributional models are ineffective in predicting HPR. In summary Gneezy (2005) confirms that not all agents are willing to lie to obtain a preferred outcome and that agents are likely to lie when they gain more, monetary or otherwise, and the other party loses less.

Hurkens & Kartik (2006) attempted to replicate Gneezy's (2005) experiment and discovered substantial differences in behaviour between their subjects and Gneezy's subjects. Hurkens & Kartik (2006) disagree with the findings of Gneezy (2005) and argue that Gneezy's data cannot disprove the evidence that people are of two kinds (ethical or economic) as proposed by Koford & Penno's (1992) 'type theory'. Therefore, so long as HPR induces a preferred outcome an agents' decision will be affected by induced outcomes such as personal monetary gains vis-s-vis how much the agent's action hurts an anonymous 'other person'.

Hurkens & Kartik (2006) further argue that Gneezy's (2005) conclusions are not supported empirically by findings from his data. They argue that '*that although Gneezy's main result suggests that some people possess a non-degenerate cost of lying,  $cs \in (0, \infty)$ , and perform a cost-benefit analysis in deciding whether to lie, this interpretation is not supported by his data*', rather Gneezy's findings support the hypothesis that '*conditional on preferring the outcome of lying over the outcome of truth-telling, a person is sensitive*

*to neither her own [monetary] gain from lying nor how much [monetary] harm she causes the other side'.*

In testing Gneezy's (2005) consequence preposition on a different group of subjects, Hurkens & Kartik (2006) find that unlike Gneezy's findings, their subjects care less about the consequence of misreporting private information as they do not expect their reports to be believed. Sutter (2008) however argues that the definition of HPR should be extended to include situations where agents deliberately choose HPR with a reasonable and rational expectation that stakeholders will not believe the performance report. Gibson et al. (2013) state that '*In particular, despite the intuitive appeal and real-world relevance of the strategic games employed in Gneezy (2005) and in Hurkens and Kartik (2006), these games come with some interpretational challenges. For instance, in sender-receiver games, even telling the truth can be deceptive, because the sender may hope that the receiver will not believe the true message that is sent (Sutter 2009). Additionally Rode (2010) found that decision makers are significantly less trusting in a competitive context than in a corporative context'.*

Gibson, Tanner & Wagner (2013) recently found evidence to reject the 'type model' but support Gneezy's (2005) suggestion of a continuous heterogeneity of preferences for HPR in which managers' balance 'process' against 'consequence' in a range of different ways in making decisions about reporting behaviour. However, Gibson et al. (2013) concede the limitation of the validity of the results for generalisation.

Despite the contradictions in theory to explain HPR, research seems to agree on some salient issues.

Firstly, researchers agree that in every organisation, honest, dishonest and partially honest MPR occurs (Serota, Levine & Boster, 2010) even though there is no consensus on why such behavioural patterns occur. Whereas some scholars suggest that this is due to individual cognitive orientation such that some individuals always report underlying private information honestly, dishonestly or partially honestly (Grubin 2005; Healy & Healy 1915; Levine et al 2010; Serota et al 2010; Gino & Margolis 2011; Fischbacher & Utikal 2013; Shalvi & Leiser 2013) others attribute it to a variety of stimulations or situational factors such that depending on the context and stimuli, any individual may report underlying private information honestly, or dishonestly or partially honestly (DePaulo et al 1996; Ariely 2012; Bazerman & Tenbrunsel 2011; Zhong, Bohns & Gino 2010; Lewis et al 2012; Gino, Ayal & Ariely 2009; Vohs & Schooler 2008; Gino, Schweitzer, Mead & Ariely 2011; Shalvi, Eldar & Bereby-Meyer, 2012). In making choices on HPR, individuals weigh the cost and benefits of misreporting against the cost and benefits of HPR, but empirical literature disagrees on what constitutes the cost and benefits and how individuals assess and/or evaluate these options. Gino & Pierce (2010b) suggest, for instance, that individuals downplay the cost of misreporting.

Also, researchers agree that studies about HPR are critical (Halevy et al. 2014) primarily as trust bias exists in human communication (Levine, Park and McCornack 1999). Empirical findings in human behaviour studies (such as HPR) are relevant to social

policies, contract designs, control systems, accountability, effective resource allocation, quality business decisions and value maximisation.

However, the disagreements among scholars on the phenomenon of HPR are numerous. Firstly, empirical evidence to support a general propensity for HPR among managers has been diverse and contradictory (see Mittendorf 2006; Antle & Eppen 1985). The most apparent disagreement is between empirical supports for Baiman & Lewis (1989) versus Evans et al. (2001) findings. Baiman & Lewis (1989) confirm a propensity to misreport underlying private information among managers and indicates that preferences for HPR are too small to be a relevant decision variable whereas Evans et al. (2001) confirm a propensity for HPR and ‘partial HPR’. These findings have significant and opposing effects on business decisions regarding contract negotiation. Following on from Baiman & Lewis (1989), a principal must invest heavily in monitoring, control systems and incentive schemes that align the agents’ interest with the principal’s interest. Evans et al. (2001) however argue that contracts based on Baiman & Lewis proposal of agent self-interest may not necessarily be the most optimal from a profit maximising perspective.

Also, there is currently no empirical study on the implications of HPR on firm performance and hence value. Cameron et al. (2004) find a significantly positive relationship between some dimensions of organisational virtues and morality with perceived and objective firm performance, but their dimensions on organisational virtues do not directly include HPR. Theoretically, certain performance misreporting behaviour such as budgetary slack affects firm value due to poor decision quality that leads to inefficient resource allocation and in-optimal compensation schemes (Anderson et al. 1994; and Jeanes, 1996 confirm that HPR improves customer satisfaction which can increase firm value). However, organisations may be motivated to create slack due to perceived advantages such as increasing organisation resilience to change, reducing managerial tension as well as making certain resources available that can be used to promote innovation (Merchant 1998; Merchant & Manzoni 1989). Cyert & March (1963) suggest that slack can protect an organisation against uncertainty in the environment. Evans et al. (2001) infer an adverse implication of hurdle contracts on firm profit, but this is at best a projection of his findings on managers’ preference for HPR. Simon (2010) suggests that HPR benefits franchisors and franchisees. Most of the studies have suggested an adverse effect of misreporting underlying private information in that it emanates from information asymmetry, which is considered to result in moral hazards and adverse selection. However, Waterman & Meier (1998) argue that in the long run, in a multi-actor principal agent relationship, information leakage from competing agents will reduce information asymmetry and its attendant adverse effects. If information asymmetry is irrelevant then perhaps, from an organisational perspective, HPR may be irrelevant.

Neely (1999) proposes the need for further research to establish the correlation between different dimensions of performance measurement such as HPR and firm performance. Neely (1999) states that

*‘Given the importance of this question, however, the implication, in terms of further research is clear-namely the need to explore if, and how, the relationship between*

*different dimensions of business performance can be mapped. Assuming this proves possible, then the benefits will be substantial-not least because this would begin to solve the taxing issue of how predictive performance measures or leading indicators can be identified.'*

McNichols & Stubben (2008), model the implication on real investment decisions within an organisation from manipulation of earnings (external reporting rather than internal management report) and find that earnings management to external investors can have a direct consequence on investors from inefficient resource allocation. Their study however and other studies (such as Dechow et al., 1996; Bar-Gill & Bebchuk, 2003; Wang, 2006) only study the implication of HPR in financial accounting (external reports) on internal capital allocation decisions. Even then Healy & Wahlen (1999) find that very little literature exists on the effect of HPR on internal decisions and the results of these studies are mixed.

Thirdly even though recent studies have sought to project the tendency for partial HPR, the reasons for these have been subjected to varied and sometimes conflicting explanations. Explanations have ranged from Evans et al. (2001) 'distributional model', to Brickley et al. (1997) 'threshold model', Luft (1997) 'trade off model', moral hypocrisy model (Bénabou & Tirole, 2003; Ellingsen & Johannesson, 2004), and 'self-concept maintenance' (Mazar, Amir & Ariely 2008).

Again, studies on the relationship between individual moral development or thinking and a predictable pattern of behavioural choices have mostly been inconclusive. In other words, is there a predictable relationship between the stage of moral development and thinking and HPR? Halevy, Shalvi, & Verschuere (2014) find evidence to suggest that a high level of moral development motivates HPR.

For instance, even though an implicit assumption in the literature suggests that persons at a higher level of moral reasoning are likely to act more "morally" than those at a lower moral development stage (Munhall 1979), research findings have been inconclusive. Ketefian (1981) indicates that such thinking perhaps emanates from the often-used categorisation of moral development stages into 'post conventional' or 'principled' rather than from a body of empirical evidence. Kohlberg (1975) proposes a correlation between moral reasoning (i.e. stage of moral development) and behavioural choices by suggesting that moral behaviour is likely to be more consistent, predictable and "responsible" at higher stages of moral development. Research has partially supported this hypothesis especially regarding cheating and dishonesty (Blasi 1980; Brown and Herrnstein 1975; Grim, Kohlberg and White 1968; Schwartz, Feldman, Brown & Heingartner 1969). Kohlberg (1975) suggests that moral thinking influences behavioural choices by providing a cognitive definition of a person's frame of rights and duties in any situation.

Huddart & Qu (2013) tests, using Kohlberg's three staged moral development, the reaction of individuals to positive ("sterling performance) or negative influences ("bad apples") of their peers and find results consistent with Kohlberg's expectation. They find that whereas 'pre-conventional types' respond to only "bad apples" who are dishonest,

‘conventional types’ respond more to “sterling performances” and ‘post conventional types’ are immune to any social influences.

Admittedly, even though previous studies have confirmed a form of relationship between moral reasoning and behavioural choices, the nature of the relationship is not clear. There is a general difficulty in understanding how behavioural choices on managerial performance reporting and moral reasoning relate at the different stages of moral development (Blasi, 1980).

Also, the relevance of the CAT to discussions on HPR has received varied approval. Baiman & Lewis (1989) argue for the continuous relevance of the CAT in the formulation of contracts and rewards schemes, Evans et al. (2001) suggest a limited relevance of the theory whereas Yang (2009) argues for a multi-actor principal agent relationship.

Neely (1999) argues that studies on HPR have focused on the current and short term rather than attempting to deal with resulting and likely evolution in scholarships in this area of study in the long term. Neely contends that a wide variety of academia has researched HPR with different perspectives (‘mental models’) on what constitutes good research. The result of this has been that scholarships in this area of study have often been contradictory and lack cohesion. Neely (1999) proposes that research in this area of study can be improved if different academics work together to develop a common language and shared research agenda.

A summarised tabular presentation of various studies on HPR is presented below (table 2.2). The essence of this is only to guide discussions of the main features of studies on HPR. This list is by no means exhaustive or comprehensive. Most studies on HPR have been focused on exploring the behavioural tendencies of managers regarding performance reporting and identifying factors that may influence reporting behaviour. However, these studies have often been based on hypotheses that are not based on theory modelling and explore factors as individual units rather than the interrelationships between them. No studies have explored the implication of HPR on firm value empirically. Various studies have offered varied and contradictory definitions of the phenomenon of HPR. Also, there is a significant application of laboratory and quasi laboratory experiments in studies on reporting behaviour. None of the studies listed below took place in the African continent and over 96% of the studies took place in Western Europe (UK, Netherland, Spain etc.) and the USA.

**Table 2.2: Tabular Representation Of Selected Scholarships Related To Honest Managerial Performance Reporting.**

Author(s)	Journal	Methodology	Research
Hannan, R. L., Rankin, F. W., & Towry, K. L. (2006).	The effect of information systems on honesty in managerial reporting: A behavioural perspective. <i>Contemporary Accounting Research</i> , 23(4), 885-918	Experiments	Using experiments examines the behavioural impact of information systems (IS) and how that impact varies in an internal reporting environment and find that although the existence of IS increases HPR, HPR is lower under a precise than a coarse IS. Therefore, unless an IS system is sufficiently precise, principals will profit more by not contracting on its outputs.
Matuszewski, L. J. (2010).	Honesty in managerial reporting: is it affected by perceptions of horizontal equity? <i>Journal of Management Accounting Research</i> , 22(1), 233-250.	Experiments	Examines if changes in salary and horizontal equity in pay structure affects the degree of HPR and find that increase horizontal equity resulting from increase in participants, salary (with peer salary constant) resulted in a different reporting behaviour from when increase horizontal equity resulted from a decrease in peer salary (with participant's salary constant). Often there was a strong positive correlation between perceived increases in horizontal equity result from own salary increase and HPR. However, decreases in horizontal equity had similar effects on honesty irrespective of whether the decrease in horizontal equity was driven by own salary reduction or peer salary increases. Therefore, a perceived inequity in pay structure influences HPR.
Schreck, P. (2015).	Honesty in managerial reporting: How competition affects the benefits and costs of lying. <i>Critical</i>	Experiments using participatory budgetary process.	a Analyses the effect of competition on HPR proposing that different types of competition have varying effects HPR. Concludes that economic competition (one form of competition) affects the economic benefits of misreporting private information about managerial performance whereas rivalry (another form of competition) diminishes

	<i>Perspectives on Accounting</i> , 27, 177-188.		the moral cost of such misreporting. Finds that the effect of competition on HPR is affected by gender and HPR decreases significantly with rivalry even when economic benefits of misreporting private information remain unchanged. Economic competition only reduced the salience of HPR preferences among male participants. Therefore, competition can have adverse effects on HPR.
Drake, A. R., Matuszewski, L. J., & Miller, F. (2014).	The effect of personality traits and fairness on honesty in managerial reporting. In <i>Advances in management accounting</i> (pp. 43-69). Emerald Group Publishing Limited.	Experiment and empirical analysis	Tests Kidder (2005) theory. Kidder draws on trait theory, agency theory and psychological contracts theory to conclude that personality trait and perceived unfairness in the workplace helps predict HPR among workers. Drake et al. conclude that individuals with a preference for HPR reported more honestly and that perceived fairness interacts with individual honesty preferences as well as relativism to affect HPR. Therefore, creating a perception of fairness in compensation policies can improve HPR.
Salterio, S., & Webb, A. (2006).	Honesty in Accounting & Control: A Discussion of Hannan, Rankin and Towry (2006). <i>Contemporary Accounting Research</i> , 23(4), 919-932.	Empirical Review	Evaluates Hannan et al's. (2006) prediction, design and results and question the validity of the methodology applied as well as the conclusions arrived at. Contest Hannan et al. (2006) proposal of a new structural variable affecting HPR and proposes an alternative explanation that managers arrive at their reporting behaviours through the interaction of perceived fairness of a reward system and information systems.
Cohn M (2004)	Honest reporting at Toys "R" Us <i>PC Magazine</i> , Vol. 23(4), 66-72	Case study	Explores the application of the Sarbanes Oxley Act in improving financial reporting practices at Toys R Us.
Feeney, O., & Pierce, B. (2007).	Honest Bean Counters and Savvy Business	Exploratory Study/ Survey	Summarises the findings of research studies in Ireland and find that management accountants are perceived to

	Advisors. <i>Accountancy Ireland</i> , 39(5), 16-21		be ethical, report private information about managerial performance honestly and possess important personal traits that reassure shareholders.
Takala, T., & Urpilainen, J. (1999).	Managerial work and lying: A conceptual framework and an explorative case study. <i>Journal of Business Ethics</i> , 20(3), 181-195.	Empirical review and an Explorative case study of interoperating paradigm using the ethnocentric method.	Study the decision-making process connected with HPR to stakeholders both within and outside of the organisation. Attempts to find out the kind of situations that create ethical dilemmas and how managers misreport underlying private information about performance.
Simon L. (2010)	Honest reporting benefits Franchisors and Franchisees; <i>NZ Business</i> ; <i>June</i> ; Vol. 24(5); 57-57	Survey	Surveys franchisors and franchisees in New Zealand and Australia and determines that HPR is critical to both franchisors and franchisees.
Sridhar, S. S. (1994).	Managerial reputation and internal reporting. <i>Accounting Review</i> , 343-363.	Experiments	Demonstrate how managers concern for reputation can affect HPR in investment projects and find that talented managers often prefer HPR while less talented managers often do not and that the magnitude of HPR for less talented managers is affected by the size of the difference in productivities between more and less talented managers. Therefore, capital investments decisions can be adversely affected by the level of competence of the reporting manager.
Mayhew, B. W., & Murphy, P. R. (2009).	The impact of ethics education on reporting behaviour. <i>Journal of</i>	Experiments	Examines the impact of ethic education on reporting behaviour by designing two social conditions of anonymity and public disclosure to examine what extent ethical behaviours are internalised by students. Find that when

	<i>Business Ethics</i> , 86(3), 397-416.		participants are anonymous HPR is the same regardless of whether students have benefited from ethics education or not. However, under scenarios of public disclosure, participants who undertook ethics education misreport at significantly lower rates. Therefore, ethics education does not necessarily result in internalised ethical values but can impact ethical behaviour.
Rankin, F. W., Schwartz, S. T., & Young, R. A. (2008).	The effect of honesty and superior authority on budget proposals. <i>The Accounting Review</i> , 83(4), 1083-1099.	Experiments	Find that less slack is created when budget communication requires a factual assertion in the subordinate authority treatment but not when the superior has final authority. The incremental effect of HPR occurs only when the subordinate has final authority.
Church, B. K., Hannan, R. L., & Kuang, X. J. (2012).	Shared interest and honesty in budget reporting. <i>Accounting, Organisations and Society</i> , 37(3), 155-167.	Experiments	Study HPR in managerial budgetary reports when the benefits of slack are shared by the manager with other non-reporting employees and find that managers' report less HPR when the benefits of slack is shared than when it is not shared regardless of whether others are aware of the misreporting. Also, managers prefer HPR when other employees have known preferences for honesty than others.
Maas, V. S., & Van Rinsum, M. (2013).	How control system design influences performance misreporting. <i>Journal of Accounting Research</i> , 51(5), 1159-1186.	Laboratory Experiments	Postulate that managers consider the effects of misreporting on their peers and this effect is determined by the control system, in particular, the reward system and the information policy regarding disclosure of individual performance report. Find that individuals are more likely to overstate performance if this increases monetary payoff of others than if misreporting decreases others monetary gain. Also, overstatements are lower under an

			open information policy compared to a closed information policy.
Fisher, A., & Heinkel, R. (2008).	Reputation and Managerial Truth-Telling as Self-Insurance. <i>Journal of economics &amp; management strategy</i> , 17(2), 489-540.	Experiments	Investigate truth telling by an informed insider (manager) and find that managers build a reputation in good times when HPR is affordable and exploits reputation in times of need, and hence endogenous reputation for HPR follows from self-insurance.
Bird, F., & Waters, J. A. (1987).	The nature of managerial moral standards. <i>Journal of Business Ethics</i> , 6(1), 1-13.	Survey method	Find that managers draw on various moral assumptions that include honest communication, in their thinking, but managers usually involve these normative standards as mostly private intuitions.
Mittendorf, B. (2006).	Capital budgeting when managers value both honesty and perquisites. <i>Journal of Management Accounting Research</i> , 18(1), 77-95.	Mathematical Modelling	Models, the confluence of padding and managerial preference for HPR and considers its implications on optimal budgeting policies and find that optimal contracts take the middle ground between “trust contracts” and “hurdle contracts”. Therefore, if honesty preferences are strong, enough then a firm may maximise profit from not using hurdle or trust contracts but rather fine-tune the sensitivities of transfers to reported amounts.
Quinn, J. K., Reed, J. D., Browne, M. N., & Hiers, W. J. (1997).	Honesty, individualism, and pragmatic business ethics: Implications for corporate hierarchy. <i>Journal of Business Ethics</i> , 16(12), 1419-1430.	Review of the empirical literature	Reviews empirical accounts of managerial struggles with ethical dilemmas and proposes a contextual precondition for encouraging the development of reflective moral agents within the organisation.

Apostolou (2010)	N.	Honesty is the best policy; <i>Charter April</i> , 81(3), 50-51	Article	Discusses the importance of HPR in ensuring equitable managerial decisions and proposes that honesty must begin with an open, ethical dialogue.
Grover, S. L. (2005).		The truth, the whole truth, and nothing but the truth: The causes and management of workplace lying. <i>The Academy of Management Executive</i> , 19(2), 148-157.	Empirical studies	Provides recommendations for improving HPR within the organisation.
Sarker, S., Storrud-Barnes, S. F., & Reed, R. (2008, August).		Managerial Ethics, performance pressure and governance: The case of misleading financial disclosures; In <i>Academy of Management Proceedings</i> (Vol. 2008, No. 1, pp. 1-6). Academy of Management	Experiments	Examines the effect of managers personal characteristics, organisational climate and governance drivers of misreporting and conclude that individuals with situational ethics are likely to engage in dishonest MPR.
Mastilak, C., Matuszewski, L., Miller, F., & Woods, A. (2011).		Designing honesty into your organisation. <i>Strategic Finance</i> , 93(6), 35-47	Article	Discusses dishonesty at the workplace and suggests that fairness in the treatment of employees can influence HPR. Therefore, organisations should ensure vertical and horizontal fairness in compensation policies, improve communication and reward HPR.
Erard, B., & Feinstein, J. S. (1994).		Honesty and evasion in the tax compliance game. <i>The RAND Journal of Economics</i> , 1-19.	Mathematical modelling	Build a game theoretic model of tax compliance that includes honest and dishonest taxpayers and improves empirical predictions and hence policy making.

Shu, L. L., Mazar, N., Gino, F., Ariely, D., & Bazerman, M. H. (2012).	Signing at the beginning makes ethics salient and decreases dishonest self-reports in comparison to signing at the end. <i>Proceedings of the National Academy of Sciences</i> , 109(38), 15197-15200.	Laboratory and Field experiments	Find that signing before rather than after the opportunity to cheat reduces dishonest MPR.
Matsushima, H. (2008).	Role of honesty in full implementation. <i>Journal of Economic Theory</i> , 139(1), 353-359.	Mathematical modelling	Proposes a new concept for full implementation based on agents' preferences for HPR that eliminates unwarranted equilibrium from a practical perspective.
Boadway, R., & Sato, M. (2000).	The optimality of punishing only the innocent: The case of tax evasion. <i>International Tax and Public Finance</i> , 7(6), 641-664.	Mathematical Modelling	Study the effects on tax enforcement and tax policy of unintentional compliance errors and administrative errors and suggest that without rewards for HPR, the revelation principle need not apply so intentional evasion can occur.
Mazar, N., Amir, O., & Ariely, D. (2008).	The dishonesty of honest people: A theory of self-concept maintenance. <i>Journal of marketing research</i> , 45(6), 633-644.	Experiments	Perform six experiments and find evidence to back the theory of self-maintenance and offer practical solutions for curbing dishonesty in everyday life.
Amaria, A. H., & Honest, P. K. E. (2012).	A Matter of Corporate Culture, Changes in Employee Lifestyle, or Greed. <i>International Journal of Business</i> ,	Experiments	Presents a study that examines the role of lifestyle changes, corporate culture and greed on HPR of an employee and shows that corporate culture and fraud risk awareness are critical motivators of misreporting

	<i>Accounting &amp; Finance</i> , 6(1), 92-123.		underlying private information about managerial performance.
Gneezy, U. (2005).	Deception: The role of consequences. <i>The American Economic Review</i> , 95(1), 384-394.	Experiment, Questionnaire and mathematical modelling	Alters relative and absolute pay-off (the consequence of lying) to empirically study the role of consequence in the decision to report dishonestly in a case where dishonesty increases the payoff to the manager.
Hurkens, S., & Kartik, N. (2006).	(When) Would i lie to you? Comment on? <i>Experimental Economics</i> 12, 180–192	Empirical Review	Considers the evidence of lying and deception presented by Gneezy (2005) and argues that Gneezy's data cannot reject the hypothesis that people are one of two kinds: either a person will never lie, or a person will lie whenever she prefers the outcome obtained by lying over the outcome obtained by telling the truth.
Gibson, R., Tanner, C., & Wagner, A. F. (2013).	Preferences for truthfulness: Heterogeneity among and within individuals. <i>The American Economic Review</i> , 103(1), 532-548.	Experiments and mathematical modelling	Find evidence to support Gneezy's (2005) proposal of manager's balance of 'process' against consequence in decision-making about HPR. Also finds evidence of heterogeneity among and within individuals.
Yang, K. (2008).	Examining perceived honest performance reporting by public organisations: Bureaucratic politics and organisational practice. <i>Journal of Public Administration Research and Theory</i> , 19(1), 81-105.	Survey and questionnaire	Used survey results from Taiwan to confirm that supportive external environments and harmonious internal environments enhance stakeholder participation and innovation culture, which in turn enhances HPR.

Evans III, J. H., Hannan, R. L., Krishnan, R., & Moser, D. V. (2001).	Honesty in managerial reporting. <i>The Accounting Review</i> , 76(4), 537-559.	Experiments	Find evidence to disprove the validity of the threshold, type and trade-off models and suggest a distributional model for explaining empirically observed behaviour of 'partially HPR' agents.
Baiman, S., & Lewis, B. L. (1989).	An experiment testing the behavioural equivalence of strategically equivalent employment contracts. <i>Journal of Accounting Research</i> , 1-20.	Experiments	Find evidence to support the classical agency model and proposes a threshold model for explaining agent's preference for HPR.

## 2.4. WHY IS THE STUDY OF HPR RELEVANT?

Modern business practices require profit-oriented businesses to separate ownership from management. In such a separation (Berle & Means, 1932), a critical element of accountability in the business relationship is regular communication of managerial performance (MP) to shareholders (Neely, 1999). MPR takes many forms (Hopper et al., 2009) but has been accepted as an effective accountability measure (Kreps, 1997), especially if done creditably. MPR is often conceptualised to include all the processes leading to the supply of information, financial and non-financial, as well as appraisal systems generated within an organisation for effective decision making and resource allocation (Demers & Vega, 2010), as well as to assess the performance of managers by those with the authority to do so.

Despite its usefulness, the effectiveness of MPR as a control, accountability and communication tool divides opinion in the literature. Goffman (1959), for instance, contends that impression management characterises accountability processes (especially in a face to face interaction) by both the assessor and the assessed leading to fabrications, distortions, etc. Kreps (1997) and Gellatly et al. (1991) also highlight the inherent limitations of MPR in measuring all relevant dimensions of MP or even the ability of assessors to verify performance claims by the assessed (i.e. managers).

Despite these challenges, however, Merchant (1998) and Neely (1998) still maintain that MPR serves a critical information and motivational role and hence needs to be improved rather than discarded. Chenhall (2003) also argues for further studies on MPR to achieve the critical mass necessary for theorisation. Such statements confirm the relevance of this study, which provides empirical insight into the efficacy of conventional thinking about MPR.

Further confirmation of the relevance of empirical studies about MPR and HPR phenomena is provided by Kahneman & Tversky (1979). They explain that MPR has implications on decision making about resource allocation even in an efficient market because of the concept of bounded rationality and the possibility of other cognitive, social and affective biases in decision making. The reason is that rational actors may not necessarily be able to immediately control for bias information, especially where such decision-makers have no alternative source to verify such information, are constrained by time or lack the expertise and resources to extract the correct information (Bloomfield, 2002; Krische, 2005). Arguably, misreported MP in a self-reporting scenario represents an escalation of detrimental behaviour when compared to managerial performance shirking or aggressive risk taking (Ndofor, Wesley & Priem, 2015), and hence studies about HPR require all the attention it is receiving from researchers.

Additionally, based on CAT, a primary prescription, offered to curb goal misalignment between agents and principals is the purposeful distribution of equity to top managers (Dalton et al., 2008) because managers are 'inherently oriented' to exploit private information and unobservable behaviour. Researchers who support this proposal argue that goal alignment between agents and principals increases with the distribution of equity to agents and consequently decreases managerial misconduct (Hall & Liebman, 2000) in MPR. The prevalent approach has been the issue of stock options to top management (Westphal & Zajac, 1995). However, empirical research

does not necessarily support a relationship with subsequent MPR behaviour (Rhoades & Rechner, 2005). Dasai et al., (2006) for instance argue that such 'costly' goal alignment practices can have the unintended effect of motivating managers to use overly aggressive accounting practices to misreport their performance (O'Connor et al., 2006; Zhang et al., 2008 and Harris & Bromiley, 2007). It is imperative therefore to confirm if managers voluntarily prefer HPR in which case HPR can be achieved without such 'costly' goal alignment measures.

In this study, I examine various dimensions of MPR with the view to improve HPR. Studies about HPR are relevant because since organisations are essentially a loose network of cliques and relationships with divergent interests (Yang 2009; Cyert & March 1963; Pfeffer 1981), understanding human behaviour is critical to ensuring that organisations achieve the desired outcome. Theoretically, even though no empirical studies exist, HPR could affect firm value or profit maximisation due to its effect on optimal contract structure as well as optimal decision making on effective resource allocation. Perhaps it is logical to infer that since HPR could affect the efficient allocation of resources, then it is a critical variable in firm valuation. Ndofor et al. (2015) argue that information asymmetry is a significant cause of opportunism and hence reduces HPR. However, Hurkens & Kartik (2009) find evidence to suggest that principals can ignore irrelevant information in their decision matrix. This could imply that business leaders, as well as principals, can mitigate the effect of misreported managerial performance information in their decision matrixes in which case HPR will make no difference. Indeed, according to the efficient market hypothesis, in an efficient market, information asymmetry is mitigated, and the associated cost of adverse selection and moral hazard does not exist. Waterman, Rouse & Wright (2004) argue that in a multi actor environment, competition among agents and principals can lead to information leakage such that in the long run, information asymmetry will be irrelevant. Considering however that bonded rationality suggests that not all relevant variables affect critical decisions as well as Yang (2009) and Heclo's (1977) argument that managers do not think in a long-term perspective, studies on HPR are still relevant.

Despite the ambiguity of the effect of HPR on firm value, empirical evidence exists to suggest that misreported private information in performance reports breaches organisational trust, which can affect organisation moral through heightened tensions. Empirical evidence on the benefits of organisational harmony is widely documented (Sutcliffe & Vogus, 2003; Fredrickson, 2003; Dienstbier & Zillig, 2002; Masten & Reed, 2002; Hatch, 1999; Seligman, Schulman, DeRubeis, & Hollon, 1999).

Similarly, HPR to external stakeholders could reduce tension with and suspicion from regulators and the media and improve any measure of public perception index. This could have a positive effect on brand imagery and perceptions of brand equity.

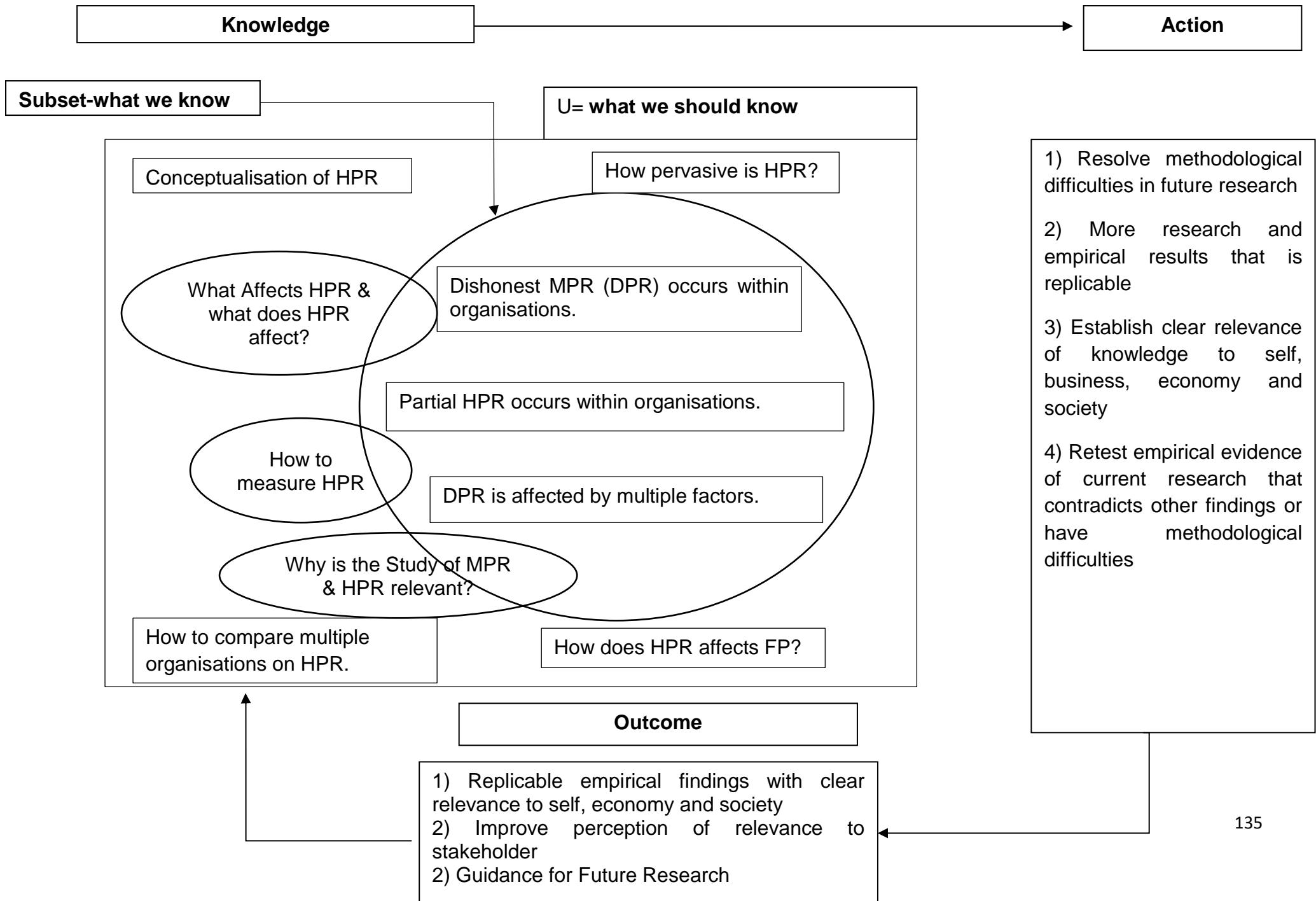
Lastly, the process of attempting to understand HPR can improve stakeholder knowledge on how to get the best out of workers for the mutual benefit of the organisation and society. Therefore, even without empirical evidence about the implication of HPR on firm value, there are clear benefits from studies about human behaviour within an organisational setting in general and on HPR in particular.

I propose a theoretical framework to guide the formulation of theory on HPR (figure 2.4). This provides a graphical presentation of the relevance of the objectives of this

research in enriching the literature on HPR. The study proposes four 'buckets' (figure 2.4) required for cohesion in future studies to ensure relevance and reduce contradictions in the quest for a thorough theoretical framework. The gaps with each bucket are identified, and a proposal is provided to guide actions required to mitigate knowledge gaps.

Figure 2.4: Depiction of Research Gap

<h3 style="text-align: center;">Towards A Theoretical Framework For Studies In Honesty In Performance Reporting (HPR) Within Organisations</h3>			
What is HPR?	How to Observe, Measure and Evaluate HPR	How does HPR Knowledge enhance self, Organisation Economy and Society	What Does HPR affect and how is HPR affected?
<p><b>Planned Outcome</b></p> <ol style="list-style-type: none"> <li>1) Concise conceptualisation and definition</li> <li>2) Research focus on HBR at the organisational level</li> <li>3) Confirmation of positional relationships with other disciplines</li> </ol> <p><b>Current Situation</b></p> <ol style="list-style-type: none"> <li>1) Varied and sometimes conflicting definitions of HPR</li> <li>2) Mixed focus on individual honesty and organizational HPR.</li> </ol>	<p><b>Planned Outcome</b></p> <ol style="list-style-type: none"> <li>1) Consistency in how to measure HBR in varied scenarios to ensure replicability re methodology, measured variables and interpretation of measurement.</li> </ol> <p><b>Current Situation</b></p> <ol style="list-style-type: none"> <li>1) Varied measurement methods and interpretation variations of measurements</li> </ol>	<p><b>Planned Outcome</b></p> <ol style="list-style-type: none"> <li>1) Determined relevance of study and knowledge of HPR to self, organizations, economy and societal development.</li> </ol> <p><b>Current Situation</b></p> <ol style="list-style-type: none"> <li>1) No empirical evidence of relevance of study even though a lot of positive implications are implied</li> </ol>	<p><b>Planned Outcome</b></p> <ol style="list-style-type: none"> <li>1) Replicable hypothesised relationships with determined variables grounded in logic and theoretical modelling rather than mere conjectures and experimentation with a mix of variables</li> <li>2) Determined implications of occurrence of and change in HPR</li> <li>3) Replicable determined relationship between cause-effect-outcome to guide recommendations.</li> <li>4) Established evidence of inter relationships with other disciplines in social science</li> </ol> <p><b>Current Situation</b></p> <ol style="list-style-type: none"> <li>1) No clear evidence on what HPR affects</li> <li>2) Contradictions in hypothesis formulation as well as findings on hypothesized relationships</li> <li>3) Hypothesis often based on trial and error rather than on theoretical modelling.</li> <li>4) Evidence of relationship with other social sciences not clearly established</li> </ol>



## 2.5. GHANA AS AN EFFECTIVE REPRESENTATION OF AFRICA AND THE OPPORTUNITY FOR GENERALISING RESEARCH FINDING.

Ghana is a developing country in Africa, south of the Saharan (see figure 2.5). Developing countries are often characterised by structural deficiencies (Rabelos & Vasconcelos, 2002) such as undeveloped and illiquid stock markets (Tsamenyi et al, 2007), volatile and unpredictable economic environment, ineffective and weak regulations; frequent government interventions in private enterprise, a predominance of concentrated ownership and shareholding (Ahunwan, 2002).

**Figure 2.5: World Map Depicting The Geographical Location Of Ghana.**



Source: [kcurtiss2012.wordpress.com](http://kcurtiss2012.wordpress.com)

Ghana has experienced tremendous changes over the last 50 years (Acquah 1957, AMA, 1999). Perhaps the most significant driver of change in Ghana was the successful introduction of liberalisation policies from 1983. Ghana is perhaps in the final stages of evolution in corporate governance and corporate management practices in Africa. Grant (2001) examines the extent of corporate activity in Ghana and finds evidence of inclusion in the world economy, increasing investment in the service sector rather than the extractive sector, and increasing participation of foreign organisations. Most organisations operating within the sub region have situated the headquarters in Accra Ghana (Grant 2001), and this was even more evident following the civil war in neighbouring Ivory Coast in 2008. Organisations such as Nestle relocated their West African head-office to Ghana from Ivory Coast during that period.

Ghana has gained notoriety as a beacon for positive change and development among the international community (World Bank 1994) and has benefited immensely from such a perception. Economically, Ghana is characterised by a modest market size of 24 million people (the second largest in West Africa after Nigeria), rapid urbanisation (Acquah, 1957; Habitat, 1999) and improving infrastructure. This has been made

possible by the relative political stability Ghana has enjoyed since 1981 and mainly from the advent of democracy in 1996.

Afriyie (1998) posits that besides its market size, the attraction of Ghana as a business location is because of the abundance of natural resources such as gold, bauxite, diamond, timber, and manganese, cocoa and recently the discovery of oil in commercial quantities.

Before liberalisation, government dominated the economy and was active in enterprise with a significant shareholding in over 400 organisations (Grayson, 1979; World Bank 1994). Policies, before liberalisation were designed to promote government domination of enterprise through the creation of government, owned and operated monopolies in key sectors (in line with a socialist agenda), the restriction of private participation in enterprise especially foreigners (Killick, 1978).

Following market reforms in 1983, and the adoption and implementation of the structural adjustment program, transparency was encouraged in national economic management through the involvement of civil society in governance, private sector participation in enterprise was stimulated through regulatory reforms (such as the introduction of the investment code of 1985), improvement in infrastructure, the creation of business parks and zones, and the deliberate mitigation of government participation in enterprise (most SOEs, were fully or partially privatized).

Ghana indeed stands apart from other developing countries within the sub-region because liberalisation policies have been initiated since 1983, without halting or backtracking (Grant, 2001). The government of Ghana has sought to portray Ghana as a friendly, competitive, and investor friendly location for business that provides unique access to the rest of Africa. Indeed, most of Africa is within six hours reach of Ghana by flight. Without location-specific research (Grant, 2001), critical information about African countries will be misrepresented or missing in international dialogue, and policy planning. Grant (2001) discovers for instance that as at 2001, Ghana had 655 foreign firms operating within the principal city of Accra, in Ghana alone, but this was woefully understated by international business directories on foreign business participation in Africa.

The growth in investment opportunities, as well as the economic stability, has made Ghana an emerging cosmopolitan country (Garlick 1960), with the influx of varied nationals and cultures from all over the world including African countries. Aside economic and political stability, Grant (2001) discovers that most organisations refer to the improving international transportation hubs (the Tema Harbour and Port, the Takoradi harbour and Port, as well as the Kotoka International airport), the availability of liberalised financial institutions (albeit properly regulated), as critical considerations for the choice of Ghana as a business location.

This point is critical, in the choice of Ghana as a location for this study. Firstly, considering Ghana's relatively advancement in liberation and improvement in the business and investment climate, the essence of this empirical study cannot be over emphasised. This research may be relevant in guiding government policy and business decisions to consolidate and enhance continuing private participation in enterprise. Secondly, the opportunities provided for generalisation (at least to south

Saharan Africa) of empirical findings of this study across other African countries are enormous. The influx of cultures from other African countries following liberalisation has positioned Ghana as a unique blend of varied cultures, especially from Africa. In any case, in most parts, the cultures across most African countries south of the Saharan are mostly similar, but Ghana presents a unique opportunity, probably to extend any empirical findings to french speaking west Africa (at least) as well, due to its proximity to three french speaking countries (Ghana shares a border on all its boundaries with three African countries except the south that is boarded by the sea). Lastly, the growing sophistication of business in Ghana lends itself to relevant research methodologies. Beyond the fact that studies in HPR are relevant in Africa, the growing sophistication in business in Ghana, the development of technology, the level of literacy etc., makes this study practically researchable in a manner that may not be possible in other African countries.

### **2.5.1. Reporting Practices In Ghana And Relevant Governance Framework: - Ghana Club 100 Ranking (GC 100)**

The Ghana Investment Promotion Centre (GIPC) in its bid to promote improved corporate performance and enterprise building initiated a yearly official ranking of top 100 Ghanaian companies in Ghana. Participation is voluntary and all companies that wish to participate need to provide the GIPC with information about the size (turnover), profitability (three-year average Return on Equity – ROE -, from two years before the year being ranked to the year being ranked), and growth (three year compounded average annual growth rate of turnover from two years before the year being ranked to the year being ranked). Weights are applied to the criteria of size, profitability and growth to arrive at the rankings. In the event of a tie, reference is made to the growth index. This annual compilation of Ghana's top 100 companies has been done annually since 1998 except in 2006 and 2007.

Ghanaian firms attach huge relevance to this ranking and publish their position in GC100 widely. To participate, a firm must be a limited liability company duly incorporated in Ghana, must have positive cumulated net profits for the most recent three years, and may have no more than 50% government ownership over the last three years except where the company is listed on the Ghana Stock Exchange.

Recently, specific sector rankings have been initiated for agriculture and agribusiness, education, financial services, health, ICT, Media, Petroleum and Mining as well as tourism. Often these rankings are based on an organisation's position within the overall ranking. Determination of an appropriate sector an organisation belongs to is based on the business objective as stated in the company's incorporation documents. Interestingly, almost always, most companies listed on the Ghana Stock Exchange are included in the GC 100 ranking.

## **2.6. CHAPTER SUMMARY**

The chapter has focused on MPR and HPR. It has reviewed the existing studies and their contribution to our understanding of the MPR & HPR phenomena. This was done to put the study in perspective. The chapter also provides a conceptualisation for HPR and MPR, highlights the empirical challenges with CAT, exposes the contradictions and contestations between scholarships on HPR and proposes a theoretical framework that emphasises the need for further empirical studies hence the relevance of this study. This provides a basis for developing testable hypotheses in chapter three. The review has also shown the high use of experiments in HPR studies and confirmed the over concentration of studies about MNOs and in Western Europe and the USA (with no studies currently undertaken in Africa). It has also revealed that the critical question of the relationship between HPR and FP remains unanswered.

## **CHAPTER THREE**

### **METHODOLOGICAL FRAMEWORK FOR THIS RESEARCH STUDY**

#### **3.1. INTRODUCTION**

This chapter explains the methodology used to achieve the research objectives enumerated in chapter one. The research strategy is to propose an approach that overcomes the limitations of previous research in this area of study and takes into consideration any constraints imposed by the research environment (i.e. Ghana). The limitations and strengths of all research tools are discussed to guide decisions around the generalisation of findings from this study.

#### **3.2. RESEARCH DESIGN**

This study uses multiple methods to address the enumerated objectives in chapter one. Evan et al. (2001) used a similar approach. Zeff (1983) encourages the use of multiple methodologies in accounting research and to design methodologies that can effectively answer a research question (“questions in search of methods rather than methods in search of questions”). Subotnik (1988) and Sterling (1971) argue for methodological tolerance in accounting research. Firestone (1987) and Denscombe (1998) argue that no research method is superior to others in an absolute sense and therefore the choice of a research method is more an issue of which method is more appropriate within a given context. Accounting research differs from research in other social disciplines because accounting research emphasises the institutional phenomena vis-à-vis the social discipline on which it draws (Ball & Foster 1982). In this sense, often, in its bid to fit the constructs of existing models with institutional data, accounting research must trade-off between integration of these institutional aspects with models from other social sciences. Therefore, special care must be taken in the methodological design to ensure ‘internal’ and ‘construct’ validity.

Asante (1990) proposes an Afro centric approach to research methodology that challenges the traditional “Eurocentric research criteria of objectivity, reliability and validity in the enquiry process” (Reviere 2001) and argues that research questions that possess “embedded assumptions about race and culture” must be approached and viewed differently. According to Asante (1987; 1990), any research methodology that fails to consider the peculiar cultural sensitivities in the design of methodology, especially in the study of human behaviour is inadequate and inevitably deceptive (Reviere 2001).

Afro centrism allows the researcher to assume the right and responsibility to describe reality from his/her own perspective (Reviere 2001; Oliver 1988; Banks 1992; Nobles 1986). Reviere (2001) proposes a new criterion for research studies that borders on five cannons of *ukweli; utuliva; uhaki; ujamaa; and kujitoa*. These cannons are based on Asante’s’ (1987; 1990) Afro centric principles of *Ma’am, and Nommo*. Whereas these cannons may be ambiguous or contradictory at best, there lies within this assertion a presumption that Africa as a place for research enquiry presents an intriguing set of challenges and opportunities that must be taken into consideration in evaluating the

validity of research findings and research methodologies. For a fact, the standards of objectivity and validity may not always hold in research in Africa. However, Africa presents a virgin opportunity for new knowledge that perhaps, have a greater positive effect on social development than in advanced economies. In line with Afro- centrism, if the purpose of research is to promote social development and human progress, then a compelling case arises for continuous empirical studies in Africa even in the face of methodological difficulties.

Table 3.1 summarises the research methodology adopted for each research objective. In the rest of the chapter, each research objective will be analysed in greater detail, specifying the research approach, the reasons, benefits and limitation of a chosen methodology.

<b>Table 3.1: Representation Of Varied Research Approach (es) Adopted For Each Objective</b>		
<b>Sub Objective</b>	<b>Research Approach</b>	<b>Theoretical Basis</b>
To reassess the empirical evidence of managers' preference for being honest in reporting their performance.	Multiple laboratory experiments using business managers as subjects, questionnaire and interviews.	Paz et al., 2013, Evans et al. 2001; Baiman & Lewis 1989; Young 1985; Waller 1988; Chow et al. 1988; Waller & Bishop 1990; Gibson et al., 2013.
To identify and evaluate, from a stakeholder perspective, the implications of HPR.	Survey method through questionnaire administration and interviews.	Chow et al. 1988
To identify factors that influence HPR.	Hypothesis testing using a survey method, through questionnaire administration, that pioneers a multi actor principal agent relationship and combines interplay on environmental, organisational and individual attributes. Following that, limited interviews used to confirm responses from the questionnaire.	Galliers (1999); Yang 2009
To provide evidence of the relationship between HPR and FP.	Multiple regression analysis with variable constructs as independent variables and measures of FP as dependent variables.	Evans et al. 2001; Cameron et al., 2004
To identify the main features of managerial behaviour in HPR among managerial groups within GC100.	Survey method based on a questionnaire and limited interviews applying Vignettes to test various scenarios of HPR.	Chow et al. (1999).

### 3.2.1. Triangulation

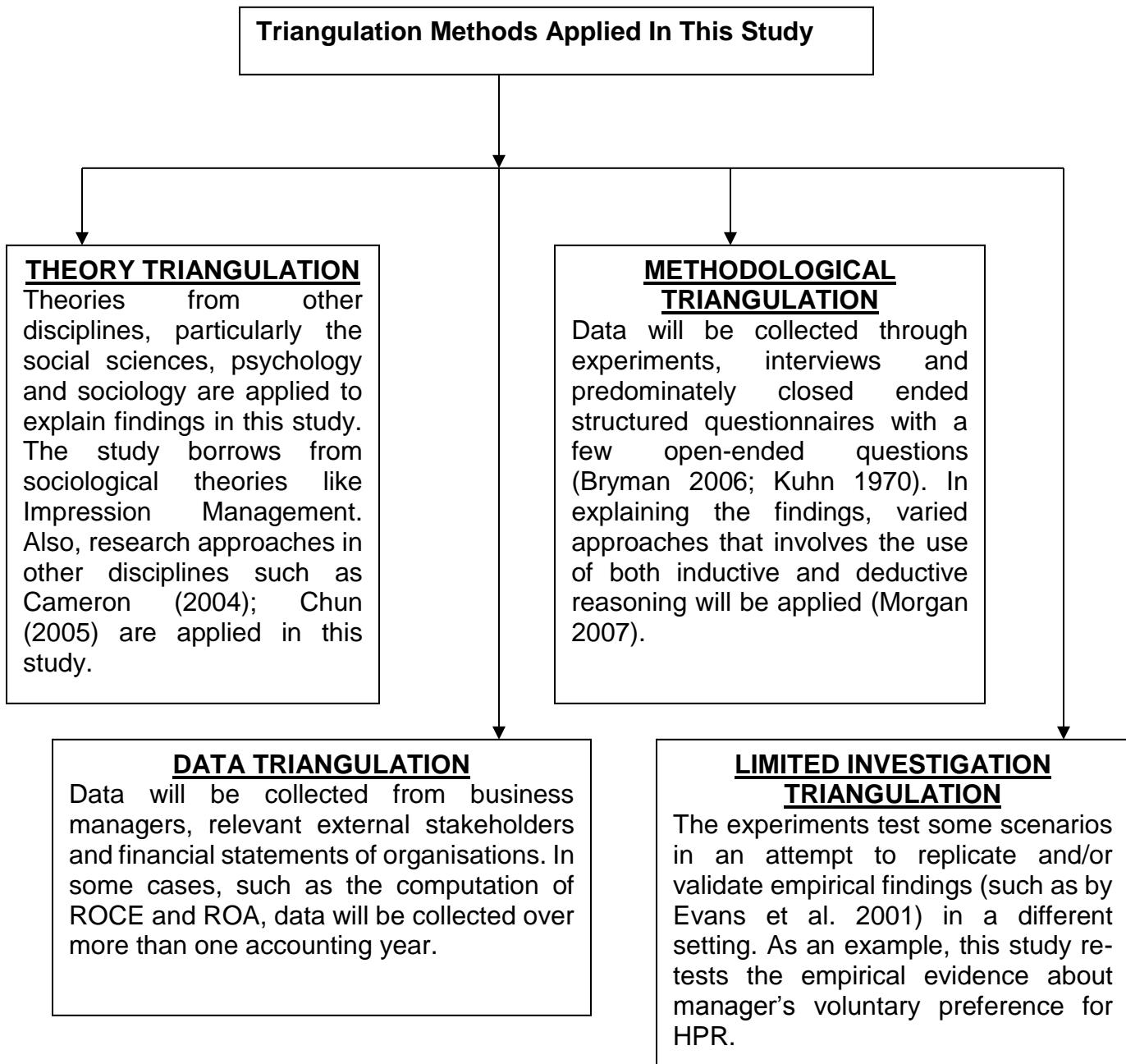
Denzin (1970) conceptualises triangulation as the combination of different research methodologies, methods and approaches in the study of a given phenomenon. It is important to appreciate that essentially, this study attempts to explore MPR behaviours within profit seeking organisations in Ghana, in a situation where ownership is divorced from management. I study MPR as a phenomenon, and hence the study adopts multiple methods and approaches to achieve its objectives. Jick (1979); Coombes (2001), Ghauri & Gronhaug (2002) as well as Collis & Hussey (2003) argue that the adoption of multiple approaches in a research study can be more effective than a single method approach. This is because multiple methods improve the overall credibility, validity and reliability of any research findings especially in a scenario where the conclusions from the various methods are the same (Denzin 1970). Even when varied methods result in different conclusions, it indicates further research areas and may bring other perspectives to bear in the explanation of a phenomenon (Denzin, 1970). Collins & Hussey (2003, page 78) state that

*'The use of different research approaches, methods and techniques in the same study is known as triangulation and can overcome the potential bias and sterility of a single-method approach.'*

Easterby-Smith, Thorpe & Lowe (1991) identify different types of triangulation. Data triangulation involves the collection of data either at different time periods about the same phenomenon or from different sources in the same study. Investigation triangulation occurs when different independent researchers collect data on a similar phenomenon in the same study and compare results. Methodological triangulation involves the use of a combination of data collection tools such as the collection and use of both quantitative and qualitative data. Finally, theoretical triangulation occurs when theories from a different discipline are borrowed and applied to studies in another discipline. This study applies all four types of triangulation even though the application of investigation triangulation is applied in a limited manner.

Figure 3.1 depicts the application of triangulation in this study.

Figure 3.1: Triangulation Methods Adopted In This Study



Rather than an absolute qualitative or quantitative approach, Morgan (2007) argues for a pragmatic approach that combines qualitative and quantitative research. Pragmatism does not involve an extreme commitment to any research philosophy or method and hence usually allows for mixed approaches. Morgan (2007, page 71) provides a comparison of a pragmatic research approach to a qualitative and quantitative approach that is reproduced below (see table 3.2).

**Table 3.2: Comparative Analysis Of Qualitative And Quantitative Methodology**

	<b>Qualitative Approach</b>	<b>Quantitative Approach</b>	<b>Pragmatic approach</b>
Connecting of theories and Data	Inductive	Deductive	Abduction
Relationship to the research process	Subjectivity	Objectivity	Inter-Subjectivity
Inference from Data	Context	Generality	Transferability

This study uses a pragmatic approach by adopting varied methods to achieve specific objectives and mitigate the limitations of other methods. This is done to improve the credibility of research findings and enhance the opportunities for generalisation.

### **3.3. RESEARCH APPROACHES FOR EACH RESEARCH OBJECTIVE**

The various approaches adopted for the varied objectives are explained below.

#### **3.3.1. Experiments: OBJ 1: Reassessing The Empirical Evidence Of Managers' Preference For Being Honest In Reporting Their Performance.**

Most studies on HPR exhibit the following characteristics;

Firstly, studies are usually based on laboratory experiments that rely on students as subjects. (See, for example, Baiman & Lewis 1989; Hegarty & Sims 1978; Evans et al. 2001; Berg et al. 1985). Experiments within a laboratory setting ensure a simpler and sharper empirical test of relevant variables (Young & Lewis 1995; Luft 1997) controlling for the confounding effects (Berg & Dickhaut 1986; Swieringa & Weick 1982) from intervening complications (Evans et al. 2001) and exogenous variables (Baiman & Lewis 1989). Also, most studies have relied on the assumption that the behaviour of a randomly selected group of students is not different in any apparent way from the behaviour of a random selection of the population. MBA students are particularly used as a proxy for business managers/executives because often no technical knowledge is required and because a key requirement for admission into an MBA program is for the student or applicant to have at least one-year work experience. MBA students are therefore used as a proxy for generalisation of experiment results in human behaviour within organisations. As well, since most experiments involve monetary incentives for the subjects (see Evans et al. 2001, Baiman & Lewis 1989), students present a relatively cheaper option than working business managers/executives earning corporate level salaries. Also, it is relatively difficult to achieve the relevant critical mass required for a relevant sense of power from statistical analysis (Siegel & Castellan, 1988) if managers are the sample.

Secondly, studies often use a budgeting scenario where subjects self-report performance and are requested to make a budget request to headquarters (based on self-reported performance). In such a hypothetical MPR process, subjects can benefit from misreporting MPR (Baiman & Lewis 1989, Evans et al. 2001, Huang & Wu 1994) under conditions where subjects are assured that headquarters will not detect the lie, and there

is no monitoring and hence no punishment or adverse reputation effect for deliberate misreporting of underlying private information about MP. This approach simplifies the research and reduces challenges from confounding (Swieringa & Weick 1982) by measuring HPR about a privately observed cost signal in a participatory budgeting process (Maas & Rinsum 2013). While this study considers the scenarios using budgets as overly simplistic, the approach is still relevant as the real objective of such studies is to measure the *propensity and orientation* of agents to cheat rather than an actual cheating scenario. Often, these studies are designed to measure agents' orientation and preferences and not necessarily how they cheat in an organisation setting. However, the constructs of such experiments do not reflect real scenarios in an organisation, and the budgeting process in most organisations are more complicated with varied variables. Maas & Rinsum (2013) argue that the use of budget settings to measure HPR may be problematic because

*"First, theoretically, it is not straightforward that individuals who are willing to lie about an exogenously determined, essentially random, cost figure are also willing to lie about their own performance. Second, a participatory budgeting context is different from a performance reporting context because budgeting can easily be framed as a strategic bargaining game in which dishonesty is not necessarily inappropriate."*

MBA students may not necessarily be an appropriate proxy for business managers/executives. In recent times, it is possible to pursue an MBA without previous work experience, and some MBA students may have misrepresented their work experience to get into a post graduate program. More so, the assumption that MBA students, even if they possess previous work experience, will bring it to bear on their behaviour within an experiment may not wholly be accurate (Brownell, 1995; Miller, 1966; Sears, 1986; Gordon, Slade, & Schmitt, 1986). Cole & Smith (1995), Stevens et al. (1993) as well as Glenn & Van Loo (1993) find evidence that students are significantly less ethical than business managers. Birnberg & Nath (1968) argue that considering the critical nature of subject variables in any laboratory research, the assumption of population homogeneity must not be taken casually. Recent studies have indicated that students do not behave or react similarly to business managers in a laboratory setting (Alpert 1967; Churchill & Cooper 1964). Business managers may differ from students in two ways; (1) a difference in skill sets and experience (Argyris, 1952) as well as (2) differences in personal traits (Lazarus 1963). The possibility of differences in experience between the subjects and the relevant non-experimental reference group is particularly important in this research because differences in experience could affect the outcome of the laboratory experiments. Prior experience, for instance, could lead to more flexibility as well as the development of additional skill sets. Secondly repeated exposure to a task could lead to a routinised pattern of behaviour. Birnberg & Nath (1968) suggest that a formal check on the validity of population homogeneity and subject surrogating in an experimental setting is to use a sample of the appropriate group from the real world as a form of control in a pilot study or during the real experiment.

This study argues that an agent's orientation or preference for HPR will be influenced by possibilities for monitoring, as well as the probability of punishments and reputational

effects from dishonesty in MPR. It is probable to expect that when an experiment is designed to include these variables the propensity for HPR will increase among agents. While a recent study by Paz et al. (2013) confirms that the possibility for adverse reputation reduces the propensity to lie in self-reported MPR, Evans et al. (2001) suggest that budget caps ("production hurdles"), a form of reputation effect, increases dishonesty in MPR. If agents' preference for HPR increases under scenarios of monitoring, punishments and reputational effects, which are real organisational scenarios, then it is possible that the preference for HPR among agents is higher than suggested by existing literature. In such a case, the resulting contract designs and other decisions based on the existing perception of the extent of HPR among agents may require reconsideration. In organisations, the reality is that MP monitoring and auditing occur except that, managers may be able to explain off any queries, or that monitoring systems may be ineffective. Maas & Rinsum (2013) find evidence to suggest that misreported MPR is affected by the design of the internal control systems.

Also, this study posits that previous studies seem to have conflated the effects of individual orientation with issues of individual behaviour. We assume that orientation may most likely be defined by cognition (Kohlberg 1969), but environmental and organisational settings shape issues of behaviour. Therefore, in measuring preference for HPR, this study focuses on assessing agents' behaviour rather than their cognition and attempts to design experiments that may be closer to such settings.

The actual constructs of experiments have varied among researchers'. While some researchers have focused their scenario constructs on issues that border on personal honesty thresholds and preferences, others have focused their scenarios on business and organisational related issues. For instance, Gibson et al. (2013) use a scenario that assesses truthfulness in announcing earnings per share (a business-related issue) and find a general preference for truthfulness within and among individuals. Evans et al. (2001) and Baiman & Lewis (1989), use a scenario construct that involves business budgeting (an organisational issue) and report varying results on agents' preference for HPR. Maas & Van Rinsum (2011) use a scenario that involves subjects self-reporting on an examination result (individual rather than an organisational related issue).

This study adopts a methodology that mitigates some of the challenges with previous methodologies. In reassessing the empirical evidence of managers' preference for HPR, this study follows other literature and uses experimental research to investigate if employees within an organisational setting will use private information for their selfish benefit at the expense of the principal. Using experiments allows the observation of employee behaviour in a simulated organisational environment while controlling for unwarranted exogenous variables. That way, experiments helps the focus of this research on the construct(s) or variable(s) of interest allowing for their segregation (that ordinarily will confound) and hence can provide deeper insights on behavioural issues if properly constructed. Laboratory experiments provide a practical way to measure relevant variables of human behaviour while controlling for other variables and construct not relevant to the research question (Ashton, 1982) to establish a more credible cause and effect relationship. Therefore, well-designed experiments provide an effective ability to

make strong causal inferences, to study research questions for which archival data is not available and to disentangle effects of factors that are often confounded (Nelson 1998). Ashton (1982) suggests that for findings to be credible, experiments should be designed and analysed with more rigor that ensures an appropriate balance between the benefits and challenges of “realism” and a controlled environment (“artificiality”). A well-designed laboratory experiment must begin with a deep understanding of theoretical issues. Since the experimental approach used in this study is descriptive, as it seeks to study organisational behaviour (Ashton, 1982), this study uses actual business employees as participants to achieve the required balance between “realism” and “artificiality”.

However, Maines (1995) enumerates various methodological difficulties that create ‘internal’ and ‘construct’ validity issues with the use of experiments in exploratory research highlighting the prohibitive cost involved in their use, as well as the difficulty in achieving an appropriate balance between ‘realism’ and a controlled environment. Indeed, experimental research in accounting has been suggested to have methodological difficulties (Gonedes & Dopuch 1974; Maines 1995; Berg, Dickhaut & McCabe 1995) emanating from

- 1) A focus on the study of individual behaviour that may not be relevant in a market setting due to competitive forces,
- 2) A general difficulty in matching research methods to research questions,
- 3) A lack of appropriate theory that predicts and explains findings,
- 4) A failure to capture, monitor and measure relevant variables and decisions of interest,
- 5) A growing concern that accounting experiments may not be tight enough (“artificial”) to test formal theories nor “loose” enough to capture naturally occurring settings - “realism” - (Ashton 1982).
- 6) A cost barrier that emanates from the relatively large sample size required to yield sufficient statistical power and the difficulty in controlling for exogenous variables in exploratory research.

Despite these challenges of internal and construct validity, Lev & Ohlson (1982) acknowledge that in recent times, significant methodological improvements have occurred in the use of experiments in accounting research. This is because most researchers have become aware of and addressed, adequately, experimental design and application problems such as those arising from sample non-randomisation and cross-sectional correlation of data; choice of appropriate statistical tools and recognising the limitations of the choice of model.

To ensure ‘internal’ and ‘construct’ validity, Ball & Foster (1982); Becker (2010) emphasise the need for experimental research in accounting to rely on more formal models or theories, employ better experimental controls and apply more precise measurements (Becker (1967, 1971, Jensen 2001, 1976; Hofstede 1975; Dyckman, Gibbins & Swieringa 1978). The internal validity of an experiment is enhanced if the experimental construct tests existing theories rather than unsupported hypothesis.

Cook & Campbell (1979) define internal validity as “the approximate validity with which we refer a relationship between two variables is causal or that the absence of a

relationship implies the absence of cause". This is the evaluation of a third variable alternative interpretation in any causal relationship. Cook & Campbell (1979) acknowledge that in a quasi-experimental setting, as is often applied in accounting research, the process of ensuring internal validity is more laborious because the researcher rather than relying on randomisation to mitigate most internal validity threats must make such threats explicit to rule them out one by one. As such quasi-experimental research is particularly exposed to internal threats through "selection" and "ambiguity about the direction of causal inference". As an example, a subject selection threat introduces a validity risk when results are due to the difference between the kinds of people in one experiment group as opposed to another (Cook & Campbell 1979).

Ambiguity about the direction of causal references often occurs in cross sectional experiments when there is no temporal test of the direction of causality such that the absence or near absence of prior beliefs concerning causality or chance relationships makes it difficult to rule out other predictions (Ball 1980). Cook & Campbell (1979) acknowledge that mitigating internal validity issues is a deductive process that may not be entirely successful and that researchers must appropriately acknowledge the possibility of other causality inferences when they are in doubt of absolute internal validity.

Construct validity measures the tightness of theoretical constructs and their operational proxies and refers to the possibility that the set of operations or scenarios that are meant to represent a process could be inexact or interpreted to represent another construct or scenario (Cook & Campbell 1979). As an example, the use of firm size to operationalise "political cost" may introduce 'construct validity' issues because it ignores other elements relevant in the determination of political cost such as industry membership (Ball & Foster 1982).

Einhorn (1976) criticises the use of experimental research in accounting and the effectiveness in generalising conclusions from such studies. He asserts that the general construct of such experiments allows for judgment tasks that are well defined, all information relevant for decision making are provided to the subjects, and such information is reliable, and the range of hypotheses considered are restricted. In the real world, Einhorn (1976) asserts that judgment task may not be well defined, information search may be necessary, information obtained may not be entirely reliable and hypothesis formation is within a range of possibilities. Previous experiments in accounting studies such as Ashton (1974); Joyce (1976); Gaumnitz et al. (1982); Mock & Turner (1979; 1981) have incorporated realism.

Table 3.3 summarises the evidence of methodological challenges in existing research and the mitigation methods adopted in this study.

**Table 3.3: Evidence Of Methodological Quality In Existing Research And Mitigation Methods Adopted In This Study**

<b>Methodological Difficulties In Existing Studies</b>	<b>Mitigation Strategy In This Research</b>	<b>Remarks</b>
Use of laboratory experiments	Adopted similar approach. The study tests the efficacy of existing models, rather than unsupported hypothesis, in managerial preference for HPR. This reduces the relevant issues to a manageable size and reduces the complexity of the experimental setting.	Ashton 1982; Joyce 1976
Use of students as subjects and proxy for business executives and attempt to generalise the results after	This study avoids subject surrogating (Miller 1966) using business executives rather than students. This provides a more quality opportunity for generalisation of the results to organisations. Students may exhibit more aggression and may be naïve about relevant considerations that may influence their behaviour in a real organisation setting.	This helps to achieve the appropriate balance between realism and artificiality suggested by Ashton (1982)
Use of scenarios in experiment constructs that measures issues of individual relevance than organisational relevance	This study tests both approaches. The study tests a scenario that is based on an experimental construct of individual relevance and another that measures a scenario based on business related issues	This answers various empirical calls for such tests as well as scholarly calls for replication studies.
Experimental constructs that assure anonymity and exclude the potential for reputational effects	This study appreciates the need for anonymity and signals it rather than explicitly announce it. Anonymity is signalled using codes that are randomly selected to identify subjects and other methods. In testing the results of potential reputation effects as a relevant variable, the study tests two scenarios, one involving immediate pay-off after the experiment and another involving a delay in payment. The second scenario is designed to signal the possibility of an audit even though subjects can rationally anticipate that an audit is impractical.	Einhorn (1976); Ashton (1982); Tayler & Bloomfield (2010)

Challenges with internal and construct validity to ensure credible findings	The construct of the scenarios is not designed to induce HPR unlike Baiman & Lewis (1989). A pre-experimental analysis was done by testing the experiment on colleague PhD students. Only one variable will be tested, monitored and measured per experiment. The experimental setting will provide equal and fair opportunity for honest, dishonest MPR and partial HPR to occur. Results obtained will be validated with interviews of business managers/executives.	Easterby-Smith et al. (2002); Oppenheim (2003); Collis & Hussey (2009); Saunders et al. (2007)
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The laboratory experiment is performed using actual employees (i.e. business executives) as subjects. As part of the process to ensure the validity of the results of the actual experiment, the study performs the following controls

1. Participation is voluntary. However, participants are paid a sum after the completion of the exercise. This sum is made up of a fixed amount for participation (to encourage participation) and a variable amount that depends on the construct and requirement of the experiments. Payments are anonymous in a separate room. Ariely, Bracha & Meier (2009) show how publicly displayed monetary incentives may interfere with the credibility of research findings. Birnberg & Nath (1968) indicate that rewards in experimental research provide an analogue of the real-world situation for rewards and punishments and is a critical factor that influences the extent of subjects' involvement in the experimental situation. While non-monetary rewards ("intrinsic interest") are equally strong motivation for subjects' performance, Bass (1964); Birnberg & Nath (1968) argue that the effects of non-monetary rewards are difficult to measure, and explicit rewards are more effective in eliciting motivation.
2. In ensuring that subjects understood the tasks and the rules of the experiment, during the administration of the experiment, all instructions were read aloud, and an example visibly demonstrated. Before each experiment, the contents and requirements of the experiment were explained to participants as well as the mechanics of payoff by the researcher or his associate. A period is allotted to answering all questions to reduce ambiguity and provide clarity. This instruction is also part of the cover letter accompanying each experiment. All experiments started and ended at the same time for all four groups.
3. A post-experiment questionnaire (Gibson et al., 2013) is administered as a manipulation check to ensure that participants understood the requirements of the experiments, can clearly distinguish between the relevant issues, have a reasonable assurance of anonymity, understand the basis for payment and have no understanding of the real reason for the experiment. Responses to the post

experiment questionnaire indicated that all respondents understood the basis for the payoff, the anonymity of their responses and felt free to provide any answers they considered appropriate.

Unlike previous studies, this research does not expressly communicate the assurance of anonymity to subjects. This is in the quest to ensure an appropriate balance between “realism” and a controlled environment. Salterio & Webb (2006) imply validity challenges with Hannan et al. (2006) findings because the experimental setting provided conditions that encouraged lying because anonymity was assured. Rather we implement a mechanism, in a manner visible to participants that can be interpreted as guaranteeing anonymity to subjects. For instance, we use codes that are randomly selected by all participants on the day of the experiment to identify participants rather than their real names. We do not record the codes in any form except for participants to use as unique registration identity for the experiments. All payments are by codes and made by an administrative assistant in another room, who plays no part in the experiment and has no knowledge of what the experiment is about. This fact is communicated to all participants. Birnberg & Nath (1968) argue that to create an isomorphic environment closer to reality requires that all relevant variables be included, but as well, irrelevant variables and inconsistent variables must be excluded. They caution that when subjects are sophisticated, a growing desire to ensure realism could instead introduce glaring inconsistency into the experiment setting and therefore, strive for realism may not necessarily require the inclusion of all real-life facts into a less complex situation. Following on, Jenson (1969) suggests an appropriate balance between “realism” and a controlled environment in experimental research.

In appropriately isolating the relevant variables for testing, this study runs a series of experiments, each one measuring one variable. The first experiment measures agent's preference for HPR using a scenario that relates more to personal issues than organisational relevant variables. The study tests an agent's preference for HPR in reporting examination results and pays participants an incentive based on the agents own reporting of his performance. The questions asked bothered on facts relating to the national history of Ghana (e.g. What was the name of the wife of the first President of Ghana?).

The second, third and fourth experiments (discussed in detail below) measure agents' preference for HPR when they are confronted with scenarios directly related to their performance within an organisation rather than the current dominance in the empirical literature of reporting a privately observed cost signal in a budget setting process. Using a budgeting scenario affects the credibility of findings because inflating budgets may be justified as conventional (Jenson 2001; Church et al. 2014) and hence participants may be engaging in it from a game theoretic perspective without necessarily intending to misreport MP. This introduces ambiguity into our operational definition for HPR.

This study differs because participants report their organisational-related performance in a “real effort task” setting and the experimental setting while making participants aware

that misreporting was possible did not implicitly or expressly signal its appropriateness or inappropriateness.

Freeman & Gilbert Jr. (1988) provide evidence to suggest that individuals' preference for HPR in an organisational setting may vary from preferences outside the work environment. Jackall (1988), Ford & Richardson (1994), Liedtka (1989); O'Neil & Pienta (1994) and have suggested that the bureaucratic setting of the work environment introduces other variables that may affect an individuals' behaviour and his preferences. Quinn et al. (1997) refer to this dualism of preferences as resulting from an adaptation process that may take place for an individual to progress up the corporate ladder. If this disposition is accurate, and considering reputation effects, then perhaps individuals will display less HPR in a personal scenario than in an organisational construct during our experimentation. Quinn et al. (1997) refer to this disposition as the pragmatic business ethics model.

It is possible to see a distinction in the decision variables that an agent faces with both experiment types. In the latter case ('individual scenario'), the repercussions for HPR are "closer to home" and may affect the preferences of agents differently. Jansen & Glinow (1985) argue that "*it is far more common and dramatic to focus on individual culpability ...however greater knowledge of the organisational context of the behaviour may change attributions of individual culpability*".

Grover (2005) segregates business lies from personal lies and acknowledges that competition and social pressures may affect business lies. Grover (2005) suggests further that it is important to understand how normal organisational participants behave daily at the work place.

For each of these scenarios (private related and organisational related scenarios) possible sub scenarios are plausible, where payments to subjects were immediate but capped, immediate uncapped, not immediate but capped, not immediate uncapped. Since Gneezy (2002) argues that experiments are effective for gathering data on economic behaviour when real monetary incentives are involved, and hence a study of capped and uncapped pay-offs and immediate and delayed pay-offs becomes relevant. This study may be the first to introduce experiment scenarios where pay-off to subjects are not immediate and will be made at a future time to signal detection risk. Tayler & Bloomfield (2010) suggest further studies on how audits can affect HPR. Nagin & Pogarsky (2001; 2003) conclude that increasing the likelihood of being caught is a more effective deterrent to dishonest MPR than a proportional increase in the severity of punishments. Results on the implication of detection risk on HPR have not been conclusive (Huang & Wu 1994; Lindbeck 1995; Mazar et al. 2008). The idea is to signal a form of control from the possibility of audits and checks even though subjects could reasonably estimate that it was impractical to do any form of audits and checks. Most studies have admitted a limitation to the generalisation of findings due to the non-inclusion of variables to measure the implications of reputation effects. Maas & Rinsum (2013) for instance confirm that

*“Care should be taken in generalising our results..... we examined a one-period situation, ignoring reputation effects. Outside of the laboratory, however, reputation effects are likely to play an important role in shaping managerial reporting decisions. A related issue is that we used a setting with zero probability that an overstatement would be exposed with absolute certainty or would have detrimental monetary consequences.... also, overstatements will generally be punished. Future research is needed to address these limitations and to investigate how robust our results are in settings that differ from ours”.*

As stated earlier, this study conceptualises the issue of preference by agents for HPR from a behavioural rather than a cognitive perspective and as such attempts to model an environment that includes the constraints of a real organisational setting. Other studies may have confused cognition with behaviour. In actual organisational setting, considerations of punishments or reputational retrogression play a significant role in behavioural preferences.

This study also runs a scenario of capped pay-offs to replicate Evans et al. (2001) finding for a “production hurdle” that places a cap on potential payoffs within a laboratory experiment. Antle & Eppen (1985) and Antle & Fellingham (1995) argue that in real business situations, production hurdles are critical decision variables in behavioural disposition. Evans et al. (2001) ask for further tests of their ‘distributional hypotheses.

Following on from assertions in the literature that experiments are effective in testing existing theories and models rather than unsupported hypothesis (Becker 1967; Jensen 1969; Birnberg 1973), our research strategy is to test models that have already been proposed in the literature to explain managerial preference, or otherwise, for HPR. Birnberg & Nath (1969) argue that when experiments are based on models or theories, the credibility of any findings consistent with the model or theory are high especially as such findings will not only be supported by the laboratory findings but also the logic of the model from which it was deduced. This approach helps to narrow the scope of experiments to a reasonable size (see table 3.4 for evidence of theoretical modelling).

**Table 3.4: The Experimental Scenarios And The Basis For Their Relevance.**

Experiment	Existing Model(s) Tested In This Study
Individual versus organisational scenarios	Pragmatic business ethics model (Quinn et al. 1997; Badaracco & Well 1995; Soutar et al. 1994; Bass et al. 1999).
The pay-off is immediate and uncapped	CAT; Threshold model and Revelation Principle (Baiman & Lewis 1989); Type model; Trade-off model (Brickley et al. 1997; Chow et al. 1988; Waller 1988; Luft 1997)
The pay-off is not immediate and uncapped	Reputation effects and control systems: Paz et al. (2013); Tayler & Bloomfield (2010).
The pay-off is immediate and capped	Distributional hypothesis (Evans et al. 2001; Bolton & Ockenfels, 2000; Rabin 1993; Fehr & Schmidt, 1999).
The pay-off is not immediate and capped	Reputation effects and control systems; (Paz et al., 2013; Nagin & Pogarsky, 2002).

This will have involved eight experiments.

1	Individual Scenario	Immediate Pay-off	The Payoff is uncapped
2	Individual Scenario	Immediate Pay-off	The Payoff is capped
3	Individual Scenario	Future Pay-off	The Payoff is uncapped
4	Individual Scenario	Future Pay-off	The Payoff is capped
5	Organisation Scenario	Immediate Pay-off	The Payoff is uncapped
6	Organisation Scenario	Immediate Pay-off	The Payoff is capped
7	Organisation Scenario	Future Pay-off	The Payoff is uncapped
8	Organisation Scenario	Future Pay-off	The Payoff is capped

Aside resource and time considerations, performing eight (8) experiments introduce two additional risks to the quality of findings. Fatigue could affect the quality of later experiments within the chain, and secondly, subjects may begin to realise the real import of the experiments and begin to provide inaccurate answers based on socially desirable behavioural expectations. Splitting the experiments among the participants may also affect the overall quality of any comparison and generalisation. Therefore, four experiments are selected out of the possible set, as are presented below, in the sequence in which they will be administered.

<b>Experiment 1</b>	Individual Scenario	Immediate Pay-off	Payoff is uncapped
<b>Experiment 2</b>	Organization Scenario	Immediate Pay-off	Payoff is uncapped
<b>Experiment 3</b>	Organization Scenario	Immediate Pay-off	Payoff is capped
<b>Experiment 4</b>	Organization Scenario	Future Pay-off	Payoff is uncapped

This study uses a basic experimental setting in which participants' report their earnings and participants are paid based on the earnings they report. The study follows Evans et al. (2001) and adopts a 'trust contract' approach where principals expect managers to report in good faith even though the fourth experiment attempts to signal an attempt to induce 'truthful' performance reporting (Antle & Eppen 1985; Church et al. 2014).

The choice of these four scenarios is sufficient to answer the research questions and address the research objectives. The interest in exploring a scenario on agents' behavioural choices in a scenario bothering on a personal issue is only to ascertain whether behavioural choices are different for agents between a personal setting and an organisational setting. Experiment one and Experiment two provides adequate evidence to answer that question. As this study is essentially concerned with behavioural choices in an organisational setting, the rest of the experiments are based on scenarios with organisational constructs. The interest in a scenario with a capped pay-off is to explore Evans et al. (2001) suggestion that capped pay-offs or "production hurdles" increase the propensity to report managerial performance dishonestly. As indicated earlier, other studies have found evidence to the contrary. Evans et al. (2001) request a further test of this hypothesis.

Finally, the interest in a scenario where pay-offs are not immediate is to test the implications of the possibility of repercussions and future audits on behavioural choices. This has been discussed extensively in earlier sections of this chapter.

The first test that uses a scenario involving individual construct was based on participants reporting their score after a multiple-choice test on current affairs issues in Ghana. Based on their reported results, they will be paid a sum.

One experimental construct is used to test the remaining three scenarios. The experiment measures how honestly subjects report their previously agreed performance results (with their managers), when the performance management system crashes, their superiors have resigned and are inaccessible, and the organisation has to rely on them to re-inform the organisation of their previously agreed performance ratings. This is a typical scenario in which a manager has private information that the organisation does not possess (information asymmetry), and hence this test will provide evidence as to the extent to which managers will use such private information to their own benefit. In ensuring that managers remain unaware of what the experiment is testing, other questions are deliberately included for subjects to answer. These questions deliberately focus on data management systems and how the organisation could ensure their reliability.

The experiment uses 150 business managers as subjects rather than students. A control group of 150 students also participated albeit at a different date and location. This provided an opportunity to contribute to the evolving debate about the appropriateness of students as surrogates in organisational related real task efforts.

A disproportionately stratified sampling method is used to select business managers who are familiar with performance measurement within their organisations from various business organisations in Ghana and assembled within a “neutral location” for the test. This allows the researcher to control for exogenous variables and provides an opportunity for the researcher to assure that the research measures and monitors the variables intended. The internal validity of the experiment was tested on eight PhD Students. Birnberg & Nath (1968) suggest that a greater emphasis on pre-experiment analysis of the appropriateness of the experimental task (both for the experiment setting and the subjects) serves the same purpose as formal models in enhancing the credibility of findings. The selection of student participants was based on stratified random sampling to ensure an equal representation of females and males within the sample.

Participants were grouped into three sets representing different sets for experiment two, three and four. Using the same set of respondents across experiments two to four will have resulted in fatigue and affected the quality of responses. Moreover, the repetition of subjects across the experimental scenarios could have increased the likelihood that respondents become aware of the true reason for the experiments and provide socially desirable responses. All experiments were administered simultaneously with each set of participants seated in a different room.

For each individual, HPR is measured as

**$HPR_{ind}=1$ - (actual pay-off claimed/maximum possible payoff);**

such that when a manager misreports to gain the highest pay-off possible the answer will be zero and when a manager reports truthfully, the answer will be one. Evans et al. (2001) use a similar method. For the entire study, HPR is measured as  $\sum HPR_{ind}$ . Essentially  $\sum HPR_{ind}$  is the weighted average of all individual HPR using maximum payoff possible as the weights. This places the magnitude of any specific lie in perspective by relating it to the maximum possible lie for that draw (Evans et al., 2001).

To enable this computation to be done for each individual, each randomly selected code will include, as well, predetermined actual bonus ratings (for four periods of Q1, Q2, Q3, Q4) that will be pre-recorded to guide analysis (this fact will be unknown to subjects). The determination of the bonus ratings will be based on a random selection performed by the researcher (with replacements from 0% to 100%) to identify fifty sets of four bonus ratings at each time. This process was repeated fifty times resulting in four sets of quarterly performances per respondent. This set of four bonus ratings were replicated across the three sets of experiments. Following that, another process of random selection, without replacement was used to attach each set of 'actual quarterly performance' to a seat number or code.

The random selection of participation codes was from seat one to seat fifty. Following that, the next set of fifty numbers (51-100) replicated the set of bonus ratings in the same order as the earlier set. Therefore, unknown to respondent, seat numbers 51 to 100 (experiment group two) and seat numbers 101-150 (Experiment group three) merely repeated the quarterly performance combination for seat numbers 1-50 (experiment group one). As an example, seat one, seat 51 and seat 101 had the same 'actual quarterly performance combination. The combination of 'actual quarterly performance' and code numbers had been pre-recorded by the researcher. This was unknown to respondents. Admittedly the use of computers could have simplified this process, but the context of Ghana makes it difficult to have access to many such computers, appropriately set up for this purpose. Even where possible, the cost implications will be prohibitive.

Participants draw a unique code (from between 1-150). This code is used as the I.D throughout the experiment and must be clearly displayed on the 'return sheet' submitted by the respondent for the payoff. This code also represented sitting arrangement. All participants were requested to keep their codes secret. Each code was attached with four sealed envelopes clearly labelled as Q1 or Q2 or Q3 or Q4. These sealed envelopes were required for experiment two, three and four, and represented the 'actual quarterly performance' for each respondent.

The experimental design for students (control group), which took place later, used a similar method and the same quarterly performance ratings that were used for business managers. Student participants with ID 106 had the same quarterly performance ratings as a business manager participant with ID 106. This simplifies the likelihood of exogenous variables and helps to ensure that the experimental construct and variables for students and business managers are similar.

### **3.3.2. Questionnaire.**

A questionnaire with limited interviews is used to explore the following research objectives.

#### **1) *OBJ2: To Identify And Evaluate, From A Stakeholder Perspective, The Implications Of HPR.***

Following on from the Douglas McGregor's (1960; 1985) theory of self-fulfilling prophecy, if managers believe that there are adverse implications from HPR or purposefully misreported MPR, then there are. This study assesses the perceptions of stakeholders on the implications of purposefully misreported MPR firstly through a questionnaire and then an interview process after that (n=30). Interview participants were mostly external stakeholders such as the media, civil society organisations and regulators. The questionnaire presents respondents with possible effects (negative and positive) of the implications of misreported MPR or HPR using a seven-point Likert scale. In designing the questionnaire, the study draws on existing literature to extract possible effects of HPR or purposefully misreported MPR. In line with a multi actor stakeholder perspective, questionnaires and interviews are administered to employees, regulators, employees and institutional investors (as a proxy for shareholders). The research strategy is effective in eliciting first-hand information from active stakeholders on the actual effects of dishonest MPR.

#### **2) *OBJ3: To Identify Factors That Influence HPR.***

This study follows Yang's (2009) argument and accepts that studies on HPR are more relevant for social development if viewed from a wider organisational perspective. The research approach uses a survey method (questionnaire) to elicit information to confirm or otherwise certain hypotheses regarding the perceived factors that influence HPR. This research design offers several advantages.

Firstly, the study focuses on honesty at the organisational level and adopt a multi actor principal-agent model proposed by Yang (2009) in his examination of HPR within public organisations. This model is adapted to suit private organisations. Quinn et al. (1997) argue that

*“the tendency to see honesty as an individual responsibility is a naïve approach and fails to consider the interactive effects between individual choices and corporate social norms”.*

Chun (2005) argues that empirical studies on ethics, including HPR, must shift from a focus on the individual level to a focus on an organisational level. Chun (2005), Dyck & Kleysen (2001); Cameron et al. (2004) argue that ethical behaviour must be investigated from an organisational context. This is because the focus on individual level studies is perhaps the main reason why scholarships in this area of study are not generating strategic implications for the firm and thereby limiting practical application of such studies.

Secondly, our hypotheses are not tested in a laboratory setting. Grover (1993) attests' that often research on lying and deceptive behaviours focus on interpersonal and inter

organisational behaviours in a laboratory setting. This study does not suggest the superiority of our methodology over typical laboratory setting experiments; rather it provides findings based on an alternative method to enrich the literature in this area of study. Essentially our hypotheses are designed to postulate that the factors that influence HPR within an organisational setting are a complex interplay of environmental, organisational, economic and individual attribute variables. Most studies have often focused on one or the other, particularly on individual attributes. Evans et al. (2001) propose and test a model that combines economic factors with behavioural factors on the individual's propensity for HPR but excludes considerations of the environment and the organisation. The need for further research that integrates varied variables beyond mere economic considerations has been suggested by many researchers such as Young & Lewis (1995); Moser (1998); Luft (1997); Kachelmeier (1994).

This study is the first application of a multi-actor principal agency model, based on the interplay of economic, environmental variables, organisational variables and individual attributes, not in a laboratory setting, to studies on the determinants of HPR in private organisations. Chun (2005), Cameron et al. (2004) test the empirical relationship between some measures of organisational virtuousness on employee and customer satisfaction as well as firm performance respectively and find a significant positive relationship. However, their construct of organisational virtuousness does not include HPR. Chun (2005) proposes a replication of his studies in non-western countries, applying other measures of ethics and virtuousness.

### ***3) OBJ5: To Identify The Main Features Of Managerial Behaviour In HPR Among Managerial Groups Within GC100.***

This objective was achieved by using Vignettes within the questionnaire (and limited interviews). Scenarios are widely used in business ethics studies (Robin et al., 1996; Randall & Gibson 1990; Weber, 1992). Scenarios (also referred to as vignettes) in ethics studies apply a precise description of a social situation that makes the decision-making situation more real. This helps to focus research on the critical factors in decision-making (Alexander & Becker 1978) and measure multiple variables simultaneously in a standardised manner across respondents (Cavanagh & Fritzsche 1985).

In ensuring the effectiveness of vignettes as an exploratory tool, scenarios must avoid ambiguity (Randall & Gibson, 1990), must be interesting to the participants, must use precise language to describe real life situations that participants are familiar with, and must reflect realistic ethical dilemmas (Weber, 1992) relating to the phenomenon being studied.

In this study, the scenarios measured the five broad elements of HPR. Scenario one attempted to measure the extent of 'responsible reporting' through adhering to company policy and used a realistic organisational construct where tempering with the outlook of a report is technically correct and similar in substance but disobeys a company policy on reporting format. Scenario two measured the extent of 'truthfulness' in disclosure and performance reporting when a real benefit accrues to the organisation from a deliberate inaccurate disclosure. Scenario three measured the extent to which organisations

deliberately attribute performance gaps to the wrong reasons. Scenario four measured the extent to which organisations deliberately hide information to conceal performance gaps while Scenario five measured the extent to which organisations deliberately shroud performance gaps in complexity using complex and ambiguous technical jargons.

A pilot of the questionnaire among colleague PHD students, relatives and friends as well as a few respondents within organisations suggested that the construct of the scenarios were clear, realistic and easy to comprehend. For each scenario, respondents were asked (1) how likely it was for a similar event to occur within their organisation, (2) what the likely response of their organisation and/or colleagues will be and (3) in some cases, what their response will be. All questions were open ended. Aside from the administering of the questionnaire, 15 persons agreed to be interviewed (instead of responding to the questionnaire) using the scenarios as an interview guide. During the interview, the respondents were made to understand the commitment of the researcher to the anonymity of participants. All interviews were recorded, and respondents did not provide any unique identification information such as personal data or name of the organisation they work for. The interviews lasted for approximately 30 (thirty) minutes per person. Interviewees were handed a write up of the various scenarios and asked to answer the questions therein orally. Where required, the researcher asked further questions to probe the responses. After the interview, the recording was played back for respondents to agree to its contents and permission obtained for its use. All respondents agreed to the use of their responses (except two respondents), without any further edits.

Peatman & Greenspan (1935; 1936) suggest that properly designed and administered questionnaires are reliable for obtaining information. Seham & Schey (1934) find evidence to confirm this assertion. Questionnaires are useful for large scale studies, due to logistical and cost reasons (Reading et al. 1996; Macdonald & Johnson 2000; Vaughan et al. 2003), interdisciplinary studies and studies that seek to quantify human behaviour, attitudes and perceptions (Kerr & Cullen 1995; White et al. 1997; White, Bennett & Hayes 2001; Jim & Xu 2002; Obiri & Lawes 2002; Bouton & Frederick 2003; White et al. 2003).

The validity of the use of questionnaires as a research tool has been criticised in recent times particularly for the following reasons: -

- 1) Respondents may not understand the questions and therefore answer inappropriately (Vadnjal & O'Connor 1994; Clark, Burgess & Harrison 2000).
- 2) Biases affect research outcomes (Neill et al. 1994; Loomis et al. 1996; Foster, Bateman & Harley 1997; Horowitz & McConnell 2002; Venkatachalam, 2004). Bateman et al. (2002) however contend that researchers understand better the nature of the biases, their effects and how they can be mitigated or quantified.

Postal surveys are frequently used than in-person interviews (White et al., 2005) due to cost considerations. However postal surveys suffer from a low response rate that could affect the validity of findings (Bowen, Krosnick & Weisberg 1996). Babbie (1990) suggest that a response rate of at least 50% is the minimum required for valid analysis. Harris (2001) contends that low response rate from postal surveys could be the result of many

factors including the possibility that the questions are not considered as relevant by the target population.

Postal surveys (questionnaires administered by post or an indirect way without any involvement of the researcher or his representative) also suffer from biases from self-selection and non-response (Oppenheim 1992). Loomis & King (1994) argue that this bias can be mitigated by 'researcher-administered' questionnaires such as telephone survey but contend that there may still be some biases in telephone surveys. Non-response bias often occurs when response rates are low however a high response rate may not necessarily mean that non-response bias has been eliminated (Brown & Wilkins 1978). Non-response bias is critical if any research intends to generalise or extrapolate its results to a wider targeted group (Dalecki, Whitehead & Blomquist 1993). In such a case, White et al. (2005) suggest that the extent to which the respondents are representative should be quantified, for example by (1) resurveying the non-respondents (Heydon & Reynolds 2000). This is difficult to achieve for 'in person interviews', telephone interviews or postal surveys in which anonymity is allowed (Moberly et al. 2003; Vaughan et al. 2003) or (2) by statistical comparison of the respondents with the intended sample population (White & Whiting 2000; Vaughan et al. 2003).

Arrow et al. (1993); Schuman (1996) contend that postal surveys reduce the possibility of biases from different interviewers because postal survey allows greater ease of centralised supervision. Jahoda, Deutsch & Cook (1951) assert that

*"in certain circumstances, an anonymous questionnaire may provide even more candid responses than an interview..."*

Ellis (1947), Gomm (2004) find no significant difference between a questionnaire and an interview as research tools even though Ellis (1947) Presser et al. (2004) reported a slight edge for questionnaires over interviews. Lundberg & Larsen (1949) also find no difference in the extent of bias between a questionnaire and an interview. McDonagh & Rosenblum (1965) confirm this assertion.

Even though Loomis & White (1996) suggest that the format of a questionnaire is unimportant, White et al. (2005) indicate that close-ended questions are widely used, and Arrow et al. (1993); Bateman et al. (1995) argue that close-ended questions help mitigate the biases and skewness from extreme values. Gomm (2004) assert that the purpose of opened ended questionnaires is better served with in depth interviews. This study uses a structured closed ended questionnaire distributed to organisational employees. Such employees (respondents) are differentiated from business managers. The questionnaire will be based on a seven-point Likert scale ranging from 'strongly agree' to 'strongly disagree'. The use of employees, rather than students, is to avoid the biases from subject surrogating and ensure that the sample population is representative of the target population (business managers). Respondents must have knowledge of and participate in the MPR process, measurement and reporting but excludes business leaders (senior managers) such as Chief Executive Officers, Chief Financial Officers, Chief Operating Officers and other Executive Directors and departmental and divisional heads as well as

any manager with a span of control (direct and indirect) of more than ten employees. Yang (2009) uses a similar approach in his study of MPR in public organisations and contends that the use of employees, to measure superior action, such as MPR, whose job security are not directly related to the organisational performance (at least compared to business leaders (senior managers) provides an opportunity for credible responses. Cameron et al. (2004) measure organisational virtuousness through the perception of employees using a structured close ended questionnaire that elicits employees' perspective on key variables and avoiding the situation of employees describing their personal attributes or behaviour. Evidence exists to confirm that 'subordinate assessments' often correlate with an objective assessment (Bommer, Johnson, Rich, Podsakoff, & Mackenzie, 1995; Venkatraman & Ramanujam, 1987).

Organisations on the Ghana Club 100 list are approached and a request made for an opportunity to administer questionnaires. The criteria were provided to the organisation to guide their selection of potential subjects. Questions were included in the questionnaire to assess the appropriateness of the participant vis-à-vis his role in the organisation. A set of questionnaires was then enveloped and addressed to the specific persons nominated by the organisation. This was to compliment the process of ensuring that questionnaires reach targeted respondents.

In ensuring anonymity and improving the quality of responses (Jahoda, Deutsch & Cook, 1951; Koltringer 1995), a return envelope was included that does not reference the respondent. The questionnaire does not ask for the respondents' name or any other identification method unique to the respondent. The return envelopes were collected by the researcher personally or submitted by post to avoid the fear of repudiation from within the organisation. To mitigate the bias of ambiguity in questions, the questionnaire provided background and stated the objective(s) of the survey, provided examples to clarify some questions and provided a cell phone contact of the researcher for easy contact when clarification is required. Where the organisation allowed it, the researcher personally administered the questionnaire to respondents who do not prefer anonymity. This will reduce non-response rate and the biases thereof.

To improve response rate, the researcher continuously followed-up with respondents, through the point of contact in the organisation. Easterby-Smith et al. (2002); Oppenheim (2003) argue that to reduce validity issues and improve reliability, the sequencing of questions, ambiguity and the length of questions must be subjected to alternative review through several rounds of pre-testing. Randall & Gibson (1990) argue that piloting and pre-testing should be done on a sample similar to the target population and hence must be drawn from the same population. However, Collis & Hussey (2009); Oppenheim (2003) and Saunders et al. (2007) contend that the objectives of pre-testing can equally be achieved through piloting a questionnaire on friends, colleagues, and similar groups to the sample as well as people of varied backgrounds to the sample. In reducing any biases from ambiguity in the question design, the questionnaire was piloted on a sample of colleague PhD students, relatives and friends and any amendments made to the structure and content of the questionnaire before it was administered. Statistical analysis was then

performed on the responses received to the questionnaire and the results analysed for trends and deviations.

Closed ended questionnaires are used in this study because they provide an economical and effective way to solicit responses on human perception from a relatively large sample size (Kerr & Cullen 1995; White et al. 1997; White, Bennett & Hayes 2001; Jim & Xu 2002; Obiri & Lawes 2002; Bouton & Frederick 2003; White et al. 2003) and are more effective when the questionnaire is long and time consuming (Coopers, &Schindler, 2008; De Vaus, 2002; Hair, 2003; Hair et al., 2003). They also provide an opportunity for standardisation and reduce biases from coding open ended questionnaires or interviews, and biases from skewness introduced by extreme responses and agree. I agree with Gomm (2004) that the purpose of an open-ended questionnaire is better served with an in-depth interview.

Interviews are costly and time consuming in eliciting responses from a wide sample size. Also, the quality of responses can be affected by the lack of anonymity and biases can be introduced through multiple interviewers leading to standardisation issues from coding. This study follows numerous examples in the literature in our preference for close-ended questions (Arrow et al. 1993; Bateman et al. 1995). I expect that the ambiguity from the application of the measurement on the Likert scale will be mitigated by the background provided as part of the questionnaire as well as prior experience from respondents to a similar questionnaire. A question is included to obtain information about the prior experience of respondents to a similar questionnaire. This study is an explorative investigation into human perception and attitudes, as such other methods of investigation were considered but judged to be inappropriate for this study due to the complexity and cost implications and/or inability to adequately and validly address the research objectives of this study. Saunders et al. (2007) identify five types of closed ended questionnaires which are;- (1) list questions: - where participants choose from a list of answers provided (2) Category questions (3) ranking questions: - where participants placed things in a rank order (4) rating questions: - used to obtain ratings on participants' opinions such as on a Likert Scale and (5) quantity questions: - where participants provide a figure that represents an amount, weight or some other measure.

Often a structured closed ended questionnaire will include a mixture of all the types as enumerated above. Rating questions in the form of a Likert scale are predominantly used in this study because they are easier and quicker to answer, are cost effective and allow for the use of varied statistical techniques (Easterby-Smith et al. 2002; Oppenheim, 2003; Sekaran, 2003).

Various studies (reviewed by Cox, 1980) have examined the reliability and validity of varied rating scales (e.g., Cicchetti, Showalter, & Tyrer, 1985; Matell & Jacoby, 1971; Schutz & Rucker, 1975). Often Likert scales and other attitude and opinion measures contain either five or seven response categories (Bearden, Netmeyer, & Mobley, 1993; Shaw & Wright, 1967). The preference for odd numbers allows the middle number to be interpreted as neutral and other studies have re-enforced the preference for odd number scales (e.g. Green & Rao, 1970; Neumann & Neumann, 1981). Miller (1956) argues that

the ‘human mind has a span of absolute judgment that can distinguish about seven distinct categories, a span of immediate memory for about seven items, and a span of attention that can encompass about six objects at a time, which suggested that any increase in number of response categories beyond six or seven might be futile’ (cited from Colman, Norris & Preston, 1997).

Even though Elmore & Beggs (1975) argue that there is no statistically significant difference between a five point and a seven point Likert scale, (e.g. Green & Rao, 1970; Neumann & Neumann, 1981), this study adopts a seven point Likert scale because it allows for granularity, and optimises reliability (Symonds, 1924; see Ghiselli, 1955 for a comprehensive review). Aside from the seven-point Likert scale, the questionnaire includes questions requesting categorisation, ranking and listing. Most importantly, all closed ended questions include an opportunity for participants to provide any other answers, not within the options provided. All questions include a line for ‘others (please specify)’. Additionally, only a few questions are open ended.

White, Jennings, Renwick & Barker (2005) make recommendations for improvement in the validity of findings from questionnaire administration as presented in the table below (table 3.5).

**Table 3.5: Proposed Strategies For Improving The Credibility Of Questionnaire Administration**

White et al. (2005) Recommendation	Appropriate Action In This study
1 A clear definition of the target population, any hypothesis and procedures for selection of the participants. This guides judgment around the reliability of the data and the extent to which the same is representative of the target population	Sekaran (2003) argues that to ensure reliability, the development of a survey instrument must be based on empirical literature. In this study, varied empirical literature and theories are relied on (such as Evans et al., 2001; Yang, 2009, Chun, 2005, Cameron, 2004) in choosing a research method, formulating a hypothesis, and designing the questionnaire. The target population is business managers (from the private sector) within Ghana and the sample is a selected number of employees and business leaders in companies listed on the Ghana Club 100. This mitigates ‘construct’ validity and reliability challenges.
2 Piloting of the questionnaire before use.	Questionnaires were pre-tested severally on colleague PhD students within HBS and other schools (Collis & Hussey 2009). This mitigates internal validity challenges.
3 The sample size should be sufficient for statistical analysis.	The questionnaire was administered to sixty-seven (67) organisations with an average of four persons from each organisation. A selected number of business leaders will be interviewed to collaborate findings within the questionnaire.

4	The rational for the choice of the survey method must be clearly stated.	The closed ended questionnaire was chosen due to its reliability and effectiveness in addressing the objectives of this research, using a pragmatist approach. A detailed explanation has been provided for the reason for a choice of the closed ended questionnaire as well as the limitations for generalisation thereof.
5	The number of non-respondents should be minimised.	Continuous follow-ups were used to mitigate non-response bias. As well, due to the non-sensitive nature of the questions asked, participants did not shun away, and socially desirable responses were mitigated. Anonymity is assured, and a background that emphasises that this research is for academic purposes is highlighted. Where participants do not opt for anonymity, the researcher administered the questionnaire.
6	The question and answer format should be simple and devoid of ambiguity.	Ambiguity is mitigated by providing a background to the research as part of the questionnaire, providing a contact number of the researcher in case a participant wanted to seek clarification. Additionally, piloting the questionnaire helped to reduce ambiguity and improve the sequencing and quality of the questions. Various statistical measures were used to measure the validity of the questionnaire.
7	The structure of the questionnaire and the data emerging from it should be unambiguously shown in any publication.	The questionnaire is attached as an appendix and the responses summarised and analysed within the study. The questionnaire design and why specific questions were included is also discussed within this chapter.
8	Bias arising from non-response should be quantified	This was analysed and discussed in chapter four.
9	The accuracy of data should be assessed by 'ground-truthing' where relevant.	Limited interviews were conducted on a selected number of senior managers to collaborate research findings.
10	The analysis of potentially interrelated data should be done using modelling.	Various statistical methods were used to analyse data.
11	Consider whether alternative, interpretative methods are more appropriate.	Even though the questionnaire is predominantly closed ended, opportunities were provided with each question for an alternative response. 'Others (please specify)' is added to all questions. A few open-ended questions were included, and responses collaborated with interviews.

After the administration of the closed ended questionnaire, a limited number of in-depth interviews (n=30) were conducted to validate key responses from the questionnaire. The intention was to collaborate various employees' perceptions.

### 3.3.2.1. The Questionnaire Design And Content

As explained earlier, in line with a pragmatist approach (Morgan, 2007), a survey method was used for this study, adopting a predominately closed ended questionnaire as a research instrument. The closed ended questionnaire allowed for a cost efficient and effective method of eliciting responses from a wide range of respondents within the shortest possible time. It was also easy to answer and hence reduce non-response bias, allowing for the application of varied statistical methods for analysis, and reduces biases introduced from coding or transcribing interviews and open ended questions. Most questions required a response on a seven-point Likert scale. However, there were a few open-ended questions, list questions, rank questions and categorisation questions as well. The mixture of methods can only serve to increase the reliability of responses obtained (Adams et al., 2001; Rottig & Heischmidt, 2007; Stohs & Brannick, 1999). In improving 'construct' reliability, the questionnaire was pre-tested on colleague PhD students, friends and relatives and amendments made as appropriate to sequencing, question construct, length of questions etc.

The target population of the study are managers (i.e. business leaders) who are responsible for MPR within privately owned profit oriented firms in Ghana. In such private organisations, ownership and management are segregated. The sample is chosen from employees (also referred to as business managers/executives) within organisations listed on the 2014 published 'Ghana Club 100' (GC 100) that meet this criterion (all organisations in GC100 meet this criterion). The selection of a sample from GC 100 is to ensure effectiveness in the administration of the questionnaire. These organisations are easy to identify and locate, usually, have governance structures that allow for segregation of ownership from management and hence the need for MPR. As well, they may be more receptive to responding to a questionnaire and/or interviews.

To ensure reliability and validity (Bryman & Bell, 2007) of the research instrument, several approaches were adopted. Reliability measures the extent of bias and requires that responses to the research instrument, to the same individual, are replicable and consistent over time (Sekaran, 2003). Validity assesses whether the research instrument and the questions therein, measure effectively the targeted concept.

Various statistical techniques can be used to verify internal reliability such as Cronbach's coefficient alpha, Test-retest; internal consistency and parallel form reliability (Easterby-Smith et al., 2002). Cronbach's coefficient alpha was calculated to determine the overall reliability of the multiple items used in this study.

There are four types of validity widely discussed in the literature. Content validity (or face validity) measures the extent to which measurement scales are appropriate for measuring the targeted concept and can be achieved through a careful definition of the research topic and stated objectives, review of the empirical literature and piloting a research instrument (Emory & Cooper, 1991; De Vaus, 2002). De Vaus, (2002) cautions that it is

challenging to effectively mitigate content validity due to the difference in opinion among researchers about the relevant content of concepts.

'Construct' validity is arguably the most relevant validity consideration, and attempts to evaluate the validity of hypotheses based on existing theoretical framework. Challenges with 'construct' validity can be mitigated by developing hypotheses based on theory modelling and using empirically tested and proven research instruments (Bryman & Bell, 2007; Litwin, 1995; Oppenheim, 2003; De Vaus, 2002).

Concurrent validity measures the comparability of results from one scale with a different scale that measures a similar phenomenon (Litwin, 1995; Oppenheim, 2003). Predictive validity measures the ability of an instrument to appropriately predict variables, such as behaviour. All in all, the predictive ability of an instrument can be measured over a period and is heavily dependent on the instruments content, construct and concurrent validities (Litwin, 1995; Oppenheim, 2003).

The approach used in questionnaire distribution is that organisation on GC 100 are identified and approached based on a criterion. The purpose of the study is explained to the contact person, and his/her support is enlisted to identify potential subjects. Questionnaires are then placed in an envelope and addressed to the identified respondent. A return envelope addressed to the researcher is included. Follow ups are made to the contact person to reduce non-response bias. The kind of questions included does not encourage desirable social response, but there is a risk of selection bias introduced by the contact person. Providing a criterion to the contact person to guide his/her choice of potential respondents mitigates this. Essentially respondents must be employees (not directors, or senior managers) with a reasonable knowledge of the organisation's MPR system for at least two years (see chapter two for the detailed conceptualisation of employees-Figure 2.1). A question is included in the questionnaire to measure this criterion. Additionally, a background is provided as part of the questionnaire explaining the essence of the research to reduce any misconceptions. As well, more than one questionnaire is administered in every organisation and questions are constructed to assess organisational leaders (senior managers) rather than respondents (McMahon & Harvey, 2006; Ng et al., 2009; Ponemon & Gabhart, 1990; Simga-Mugan et al., 2005). The anonymity guaranteed is also likely to improve the credibility of any responses and reduce the effects of selection bias (Fritzsche, 2000; Nederhof, 1985; Ng et al., 2009; Sweeney & Costello, 2009; Watley & May, 2004). No responses are returned to the contact person within the organisation. This is clearly indicated on the questionnaire. Responses are posted to the respondent or collected in person by the researcher or his agent.

Section A of the questionnaire was designed to measure bio data even though care was taken not to request any information that will suggest an attempt to reveal the participants' identity. Most questions in this section were closed ended and provided various categories for participants to choose from. Included in the categories was 'others (please specify)'. This was to provide an opportunity for respondents to indicate any other answers not spelt out in the categories. There were a few YES/NO questions and one

opened ended question that requested respondents to indicate the number of employed staff within the organisation. Questions in Section A sought information on age, gender, marital status, highest academic qualification, number of working years of experience of the participants, type of industry the organisation belongs to, ownership structure of the organizations and the size of the organisation measured in terms of the number of employees (both full time and part time, permanent and on contract). In most cases, the categorisations provided were supported empirically and are like categorisations adopted by other researchers (Yang, 2009, Martey et al., 2013). The categorisation on industry type was based on classifications in GC100 but was synthesised based on the researcher's knowledge of the Ghanaian corporate sector. The question about ownership structure is intended to help ensure that only privately controlled firms, rather than government-controlled firms are used in this study. As stated earlier, the targeted population for this study is managers within profit-seeking organisations that are privately controlled and registered as 'private or public limited liability' organisations at the Registrar of Companies. The essence is to replicate as thoroughly as possible an agency context where ownership and management are segregated and where there are a genuine interest and effort by the principal to mitigate adverse behaviour from agents. Therefore, any analysis will exclude sole proprietorships, and any other owner managed organisations, as well as government-controlled organisations. The emphasis here is on control rather than mere share ownership even though share ownership is used in most cases as a proxy for control. Other questions in section A explore the extent of control where there is partial government share ownership. Even though principal-agent conflicts replicate even in government organisations, they are excluded in this study. This is because, especially in Africa, governments acting as principals do a very poor job at organisational monitoring and control and therefore MPR behaviours between government controlled organisations as well as the factors that influence such behaviours are likely to be different from profit seeking private firms were ownership is segregated from management (Yang, 2009). Most sole proprietorships are owner managed in Ghana (Martey et al., 2013) and therefore will not significantly espouse principal-agent problems.

Part B of the questionnaire elicits respondent's perception of key statements using a seven-point Likert Scale ranging from 'strongly disagree' to 'strongly agree'. Respondents are encouraged to provide answers based on their perspective of the organisation and its business leaders as a group rather than a specific individual or specific event in isolation over the past three years. Since organisational attitudes take a long time to change (Brynjolfsson, Hitt & Kim, 2011), the consideration of MPR behaviour over a three-year horizon, will provide a credible assessment of MPR behaviour. The construct of the statements is designed to measure environmental dynamism and complexity, internal organisational dynamism, tension and politics, individuals within the organisation cognitive orientation towards collectivism, transparency and fairness in remuneration systems and other economic benefits to employees (see section on hypothesis). The essence is to correlate key environmental, organisational, economic and individual cognitive variables with HPR (see table 3.6). The first six questions in section B seek respondent's perception of the level of overall HPR within the organisation to its key stakeholders (based on a multi actor principal-agency approach).

**Table 3.6: Explanation Of Survey Questions**

Question Range	Intended Objective
A1-A7	Demographics required for computing test of independence and relatedness (Chi square, Fisher Exact Test etc.). Imputed into SPSS
A8-A11	Used (together with A5) for confirming whether respondent and/or organisation meet the selection criteria. Not imputed in SPSS except for A10, where listed companies are coded 1 and not listed are coded 2.
B1-B6	A measure of overall perception on HPR. Imputed in SPSS
B7-B11	A measure of external participation in performance management system. Imputed in SPSS
B12-B15	A measure of innovation. Imputed in SPSS
B16-B20	A measure of environmental variables. Imputed in SPSS.
B21-B24	A measure of internal organisational politics. Imputed in SPSS
B25-B30	A measure of MCS. Imputed in SPSS
B31-B36	A measure of the fairness of economic incentives. Imputed in SPSS
B37-B40	A measure of individual characteristics. Imputed in SPSS.
B41-B47	A measure of perception of effects of HPR. Imputed in SPSS
C1-C4	A measure of the relative importance of effects of benefits of HPR. Not imputed to SPSS
C5-C8	A measure of employee's perception of the financial performance of the organisation. Imputed into SPSS
C9	Test of reliability of responses. Imputed into SPSS
C10	A measure of employee's satisfaction with the organisation. Imputed into SPSS
SECTION D	Exploration of the misreporting strategies adopted by organisations. Used to evaluate B1-B6. Not imputed to SPSS.

Table 3.6 above provides content details of various sections of the questionnaire and indicates if responses from a specific section were imputed in SPSS. The inclusion of the environmental constructs (B16-B20) emphasises multiple principals, and the inclusion of internal organisational variables (B21-B24) emphasises multiple agents. All questions are framed using the words 'in this organisation' rather than 'in your organisation' to mitigate biases from self-inclusion.

The second part of section B seeks to explore participant's perspective about the effects, positive and negative, of purposefully misreported MPR using the same seven-point Likert scale. Statements provided are mostly based on existing empirical findings except for a few. For instance, question B41 AND B43 are from Gino & Pierce (2009). This section of the questionnaire is also administered to external stakeholders such as regulators, civil society groups etc. Responses in this section are based on perspectives and experiences of respondents and not necessarily specifically related to any organisation making it possible to seek external stakeholder views. Even though the questions are similar, a separate questionnaire (that excludes Section A and Section D) was sent to external stakeholders (see questionnaire in appendix) and are analysed in chapter four in addition to results from limited interviews.

In Section C, two separate opened ended questions deliberately ask respondents to state the (a) positive effects (if any) of misreported MPR and (b) the negative effects of misreported MPR. Even though part two of section B attempted to achieve the same objective, these two questions intend to explore if participants perceive other variables. It is estimated that some participants will restate the effects stated in part two of section B. If this happens, then it only re-emphasises the credibility of the pre-identified effects in part two of section B. Two separate questions ask respondents to rank (a) in order of likelihood of occurrence the effects (positive and negative) of dishonest MPR and (b) in order of the highest adverse effect on firm profit the effects (positive and negative) of dishonest MPR.

Finally, questions are asked to assess participants' perception of the FP vis-à-vis certain benchmarks (such as against best competitor or internally set targets). This is in line with Cameron et al. (2004) approach and is designed to help explore the relationship between HPR and perceived FP. Henri, (2006); Khandwalla, (1972); Brownell & Merchant, (1990) adopt a similar approach of rating perception of FP. This analysis will be done using multiple regressions and structural equation modelling. Another question explores participant's overall satisfaction with the organisation, using a seven-point Likert scale. This helps to replicate Chun's (2005) method in exploring the relationship between HPR and employee satisfaction, with employee satisfaction as a proxy for FP.

A question in section C seeks to determine if participants have responded to a similar questionnaire (regarding the object of the questionnaire) before. This helps to assess the overall credibility of the findings because socially desirable results are likely to occur when participants have taken part in similar research before. Hence the inclusion of this question is to help assess biases from desirable social responses and their significance. A final question assesses participants understanding of the organisation's MPR process to measure the credibility of responses provided.

The final section of the questionnaire (Section D) introduces five scenarios to measure MPR behaviours in GC100 organisations. The scenarios are designed to measure the key variables in the conceptualisation of HPR in this study; ***Responsible reporting; truthfulness; timely reporting; and attributing accurate reasons for performance gaps, simplicity and easy to comprehend reporting.*** As an example, 'scenario one' measures responsible reporting with a scenario construct where managers have the option to disobey headquarters reporting directives and still be 'technically accurate in their reporting'. The second scenario measures 'truthfulness' in reporting. The third scenario measures the opportunity to deliberately assign wrong reasons for a performance gap. The fourth scenario measures the opportunity to deliberately exclude and/or delay the submission of a report that highlights performance gaps. The fifth scenario measures the deliberate use of technical jargons and complex presentations to confuse stakeholders. Constructed scenarios were piloted with KPMG (Ghana) partners, and a select group of management accountants within Ghanaian firms to assess the practicability of the scenarios and how real they are regarding the Ghanaian business environment. The responses from these 'pilot participants' indicated that these scenarios are practical and relevant to the Ghanaian business environment. It is important to know

that the organisations that these 'pilot participants' did not participate in the actual administration of the questionnaire to avoid biases from pre-knowledge. In most cases, participants were asked to indicate how the organisation in which they are currently employed usually reacts when confronted with a similar scenario and why. All questions in 'Section D' were open ended.

Responses from the second part of section B, Section C and Section D of the questionnaires collaborate with a limited number of interviews. As an example, section D collaborated with 15 interviews. Interviews were semi structured.

### **3.3.3. Statistical Analysis: OBJ4: - To Provide Evidence Of The Relationship Between HPR And FP.**

#### **3.3.3.1. Theoretical Basis For Relationship Between HPR & ROCE & ROA.**

The theoretical basis for exploring the relationship between HPR and 'objective measures' of FP can be analysed from two mutually exclusive and yet complimentary perspectives. These are enumerated below and further explained in the ensuing sections.

- 1) The first argument is that HPR, as measured from employees perspective, is synonymous with objective measures of HPR. Therefore, considering that the factors that affect HPR, as demonstrated in this study (such as innovation, less hostile working relationship among peers etc.), have been empirically established (in prior studies) to affect the 'bottom line', then a theoretical basis is established to explore this relationship. Cameroon & Quinn (2011) argue that subordinate perceptions of dimensions of MPR are credible.
- 2) The second argument is that, in any case, empirical evidence has confirmed the fact that employee perceptions can influence FP.

Evidence exists to confirm that 'subordinate assessments' often correlate with an objective assessment (Bommer, Johnson, Rich, Podsakoff, & Mackenzie, 1995; Venkatraman & Ramanujam, 1987). The construct of HPR in this study, even though a perceptual measure, can be conceptualised as synonymous with an objective measure of organisational HPR. Several studies have confirmed the fact that employee perceptions about performance (organisational and managerial) are substitutable with objective assessments. Bommer et al. (1995) confirm that objective and subjective measures of the same performance construct, at the same level, may be used interchangeably due to significantly high convergent validity. Therefore, objective and subjective perceptions of HPR are substitutable (Fried 1991, Williams & Livingstone, 1994).

Objective measures are defined as direct measures of countable behaviours or outcomes whereas subjective measures include employee's ratings and/or perceptions of managerial performance. Subjective measures are often based on personal impression and judgements of the assessor (Dawes, 1999). Nathan & Alexander (1988), for instance, find no significant evidence of a distinction between objective and subjective measures

of performance and argue that the objective/subjective distinction 'may be more illusory than real' (page 531). They conclude that objective measures of performance variables are not more predictive than subjective perceptions of performance. Campbell (1990), Muckler & Seven (1992) as well as Pfeffer (1981) agree arguing that all measures of performance inherently have subjective aspects.

McEvoy & Cascio (1989), Ones, Viswesvaran & Schmidt (1993), Tett, Jackson & Rothstein (1991), Mathieu & Zajac (1990), Williams & Livingstone (1994) test and find no significant differences between objective and subjective perceptions of various dimensions of performance assessment. Bommer et al. (1995) argue that objective and subjective dimensions of performance assessment can be used interchangeably or combined largely without incident and hence equal predictability is a function of the substitutability of objective and subjective measures rather than mere chance.

Dess Gregory & Robinson Jr. (1984), Pearce, Robbins & Robinson (1987), Covin, Slevin & Schultz (1994) and Hart & Banbury (1994) find a significant association between subjective (perceptual) and objective measures of performance. Dawes (1999), Krem & Tyson (2009), Gibbs et al. (2004) comment that, even though objective measures are preferable, subjective measures are valid proxies.

Cameroon & Quinn (2011) argue that subordinate perceptions of dimensions of managerial performance are credible. This is because various dimensions of managerial performance are experienced by employees (McGregor 1960) since employees are close to the action and are affected by managerial performance (Dess & Robinson Jr. 1984). Munoz & Alvarez (2007) argue that employees' perception of superior performance is often accurate because employees can make valid judgements about own and superior performance. Various studies confirm the validity of using employee perceptions of superior performance as a proxy for objective evaluations (see Cram, 1997; Oskarsson, 1989; LeBlanc, & Painchaud, 1985; Von Elek, 1985). Cameroon (2005), as well as Chun (2004), attempted to correlate perceptual variables (measured based on employee perceptions) with firm performance.

The substitutability of objective and perceptual assessments of some dimension of managerial performance is strengthened by the consideration that both objective and subjective measures of dimensions of MPR have inherent limitations. Subjective measures are assumed to be prone to 'contamination' (Campbell, 1990) and bias and include a sizeable random error (Bommer et al., 1995) usually due to the assessors bounded cognitive abilities (Feldman, 1981) and/or limited observational opportunities.

Objective measures, even though are usually preferred and proposed as a superior alternative, are also excessively narrow, tapping a singular lower-order construct and only partially constituting a higher order performance construct of interest (Bommer et al., 1995). In any case, no measure can objectively measure all relevant performance aspects. Indeed, in my opinion, the empirical evidence of the distinctiveness between objective and perceptual measures is limited and vague.

Based on the above, the construct of HPR within this study can be a reasonable approximation of an objective evaluation of HPR. If this is the case, then a theoretical basis becomes viable for exploring the relationship between HPR and ROCE/ROA. This is because, the empirically proven variables that affect HPR (which are tested in this study, albeit with a different approach) have been confirmed to affect FP. As an example, the level of hostility in organisational relationships, the fairness of economic incentives and innovation have been confirmed to affect HPR and also FP. Considering that this study explores and confirms the confluence of factors (acting together) that affect HPR, and these factors (based on prior literature) also affect FP, then a theoretical basis is provided, *prima facie*, to explore the relationship. Irrespective of the results of this test, however, admittedly, further studies will be required on this phenomenon.

Secondly, even if HPR is seen as a purely perceptual measure, evidence exists of the effects of employee perceptions on FP. Other studies (such as Nielson, 2012) confirm that 'powerful' external stakeholders are influenced in their conclusions, perceptions and subsequent action by employee perceptions. This will be explained in more detailed in the hypothesis modelling section (see section 3.4.3). If employees indeed perceive managerial honesty as a measure of fairness, then perceptual HPR can affect motivation and consequent organisational trust with its attendant effects on FP. This also provides a theoretical basis to explore the relationship between HPR and FP. Perceptions stimulate action, affecting moral and/or motivation. Harter, Schmidt, Asplund, Killham, & Agrawal, (2010) establish an impact of employee perception on the bottom line of organisations. They argue that managerial action can impact employee perceptions, which affect the perception of work conditions and could result in improved performance outcomes. Their study uses a massive longitudinal database involving 2178 business units and finds supporting evidence of the causal impact of employee perception on the bottom line. Reverse causality of bottom line measures on employee perceptions also existed but was weaker. Also, if 'powerful' external stakeholders can influence FP through their control over critical resources required by organisations and such powerful stakeholders can be influenced by employee perception, then it is reasonable to postulate that employee perceptions affect FP.

In discussing the influence of HPR on FP, it is possible to argue that HPR is a dependent variable of FP and vice versa. For instance, prior research suggests performance shortfalls increase the propensity of business managers to misreport MP (Harris & Bromiley, 2007; Arthaud-Day et al., 2006; Zhang et al., 2008). It is also possible to explore the idea of a vicious cycle where companies with good FPs ensure HPR (because there are no performance gaps), leading to efficient resource allocation decisions and hence improve FP further and so on. However, Gujarati (2006) argues that the relationship between variables is a conceptual option for the researcher. I argue that HPR influences FP. This does not in any way suggest that there is no reverse influence of FP on HPR, but rather, in my opinion, good HPR precedes good FP. I based my argument on stakeholder theory, specifically, good management theory (Waddock & Graves, 1997) and posit that stakeholders perceive organisations that report honestly as having a good reputation and hence through market mechanisms (employability power, more investments etc.), will more easily achieve superior FP.

### 3.3.3.2. Equations.

An HPR index was constructed to explore this objective. Using the ‘performance-reporting index’, a statistical regression analysis was performed to test the relationship between HPR and FP. Firm performance (FP) was measured by

- a) Return on capital employed (ROCE) and return on assets (ROA); Even though market based measures are generally considered as preferable to accounting based measures as indicators of firm performance, because this study is not restricted to listed companies, it was difficult to estimate Tobin’s Q and other market based measures;
- b) Employees perception of FP measured as employees perception of FP vis-à-vis organisational targets, industry average, best competitor and organisational three year average (Cameron et al., 2004). Cameron, (1978, 1986) argues that providing standards against which to rate performance results is more reliable data than asking for a simple numerical rating of employee satisfaction score with the organisation on a seven-point Likert Scale (Chun, 2005).

The regression equations were of the form

$$ROA = a + (B_1 \times HPR) + DUMMYSIZE + DUMMYINDUSTRY + DUMMYLISTED + e_1 \dots \text{equation (1)}$$

$$ROCE = A + (B_1 \times HPR) + DUMMYSIZE + DUMMYINDUSTRY + DUMMYLISTED + e_1 \dots \text{equation (2)}$$

Dummy variables were introduced to control for industry, listing on the Ghana Stock Exchange and organisational size. Where

ROCE = Return on capital employed. This was based on information obtained from the organisation itself (if they are not listed) or from their annual reports (when they are listed on the Ghana Stock exchange). For standardisation, it is computed as

$$\frac{\text{Annual profit}}{\text{Stated Capital} + \text{Long term Debt} + \text{Accumulated Reserves} + \text{Preference Shares}}$$

ROA= Return on Assets. This was based on information obtained from the organisation itself (if they are not listed) or from their annual reports (when they are listed on the Ghana Stock exchange). For standardisation, it is computed as

$$\frac{\text{Annual profit}}{\text{Fixed Assets}}$$

The definition of annual profit, fixed assets, stated capital, long-term debt, accumulated reserves and preference shares was as per International Financial Reporting Standards (IFRS, 2014).

In performing the regression for each equation, two different computations of HPR were used as independent variables. The first was the individual HPR score per respondent and the second is ORGHPR, which is a mean estimated HPR score of the responses received from each organisation. The second method (ORG HPR) allowed for every organisation to have a standardised HPR measure.

Typically, higher ROA and ROCE percentages suggest relatively better performance. Therefore, HPR and ORGHPR were reversed to allow for directional alignment with ROA and ROCE.

DUMMYSIZE, DUMMY LISTED, DUMMYINDUSTRY represented dummy variables within each regression equation to control for size (measured by the number of employees), the effects of listing on the stock exchange and the effects of industry specific factors respectively (Waddock & Graves, 1997).

Regression analysis was performed to investigate the relationship between 'objective FP' and perceived HPR. The results obtained were more of a test of the relationship between HPR and firm performance rather than between dishonest MPR and firm performance. This is because, if per the performance reporting index an organisation is judged to purposefully misreport MP, then reliance on reported accounting indices may not be appropriate as it will be difficult to adjust for errors resulting from dishonest MPR. Market measures may have been more appropriate under such a circumstance if the market is efficient. It is difficult to judge the extent of market efficiency in Ghana, particularly as this is not the focus of this study. Also, not all organisations within the sample were listed on the GSE. Therefore, conclusions drawn from this regression will most probably confirm the kind of relationship between HPR and firm performance rather than between dishonest MPR and firm performance.

In mitigating this limitation, an analysis is done to correlate perception of honesty in MPR with employee satisfaction (a non-financial measure). Employee satisfaction is used as a measure of business success. Chun (2005) applied a similar approach in investigating the relationship between ethics and firm performance. Also, in line with Cameron et al. (2004), the relationship between employee perceptions of FP with the perception of HPR was investigated. This reduces the dependence on supposed 'objective measure' of FP that may involve deliberate machinations. The measurement of FP by non-monetary indicators is more recent and has increased in acceptance particularly because of the contemporary concern regarding the social action of firms as well as the proven inability of financial indicators to capture all essential dimensions (Oliveira et al., 2001). The regression equations were of the form: -

Employee Perception L3Y = a + (B<sub>1</sub> X HPR) + DUMMYSIZE+ DUMMYINDUSTRY+ DUMMYLISTED+ e<sub>1</sub>.....equation (7)

Employee Perception BC = a + (B<sub>1</sub> X HPR) + DUMMYSIZE+ DUMMYINDUSTRY+ DUMMYLISTED+ e<sub>1</sub>.....equation (4)

Employee Perception TARGET =  $a + (B_1 \times HPR) + DUMMYSIZE + DUMMYINDUSTRY + DUMMYLISTED + e_1$ .....equation (6)

Employee Perception INDUSTRY =  $a + (B_1 \times HPR) + DUMMYSIZE + DUMMYINDUSTRY + DUMMYLISTED + e_1$ .....equation (5)

Employee Satisfaction =  $a + (B_1 \times HPR) + DUMMYSIZE + DUMMYINDUSTRY + DUMMYLISTED + e_1$ .....equation (3)

Where

Employees Satisfaction was measured from Likert scale responses provided to a question that asked respondents to indicate their overall satisfaction with their current organisation on a seven-point Likert Scale from strongly dissatisfied (7) to strongly satisfied (1). Chun (2005) adopted a similar method.

'Employee Perception TARGET' measures employee perception of FP compared to the organisations own targets for the year in question. It was computed after coding response 'a: outperformed target' = 1; 'b: Marginally above target'=2; 'c=at par with target'=3; 'd: marginally below target'=4 and 'e: significantly below target'=5.

'Employee Perception BC' measures employee perception of FP against its best competitor and was computed after coding responses as 'a=1, b=2, c=3, d=4 and e=5'.

'Employee Perception L3Y' measures employee perception of FP against its last three years' average and was computed after coding of responses as 'a=1, b=2, c=3, d=4 and e=5'.

'Employee Perception INDUSTRY' measures employee perception of FP against the industry average and was computed after coding responses as 'a=1, b=2, c=3, d=4 and e=5'.

### 3.3.3.3. Sampling And Data Collection

Essentially this study attempted to replicate the methodology of Cameron et al. (2004) and Chun (2005) used for investigating the relationship between some dimensions of virtue with perceived and 'objective' FP. The sampling criterion is based on the possibility of the availability of data. All samples in GC100 provided verifiable data. Organisations were selected if relevant information about the ROA and ROCE as well as their independent variables over a two-year period was available and verifiable. Data were obtained through the questionnaire administration process. Factor analysis and average mean scores (Burke & Dunlop 2002) were performed to assess whether sufficient agreement exists for all questionnaires to justify aggregation to the organisational level. Aggregation to the organisation level was based on mean scores for all qualifying responses received from the same organisation. This was collaborated by other information sources such as from the annual report of the organisation, media, and civil society groups etc. As an example, information about tensions between staff unions and

management may be an indication of perception of unfairness in compensations. The combination of methods helped to mitigate the challenge of insufficient scientific data to measure these variables.

The data collected was cross sectional because the essence of this study was to test the extent of influence of certain variables on HPR. To do this, the perceptions of employees were obtained on several variables. Various regression methods were applied and preferred because it was effective at achieving the intended objective. The choice of regression method mainly depended on the nature of the dependent variable. Other studies such as Reckers et al. (1994) have used a similar approach.

The survey method was used to gather information on employee overall satisfaction, as well as employee perception of FP, on a seven-point Likert Scale. Churn (2012) applied a similar method. The targeted sample population was the top performing organisations in Ghana as per the Ghana Club 100 Rankings in 2014. 265 questionnaires were administered to employees in 65 qualifying organisations. Based on the data collected, linear regression (OLS, binary Logistic, and marginal effects) and SEM were performed to establish the strength of the relationship between HPR and FP.

In summary, the testing of the extent of the relationship between firm performance (FP) and HPR, applied various constructs of firm performance (FP). HPR was regressed against Return on Assets (ROA), Return on Capital Employed (ROCE), an employee satisfaction index and various measures of employees' perception of FP. Since, Cameron, (1978, 1986) argues that providing standards against which to rate performance results is more reliable than asking for a simple numerical rating of employee satisfaction score with the organisation on a seven-point Likert Scale (Chun, 2005), the application of multiple indices of firm performance improves the research.

### **3.3.3.4. Dealing With Financial Performance 'Halo' Effects**

Evidence exists to suggest that perception-based reputation rankings, such as the type used in this survey, can be affected by respondent's opinion of prior financial performance (Bharadwaj, 2000). More so, evidence exists to suggest that existing and future organisational financial performance is often strongly correlated with past financial performance (Fama & French, 2000) even though the strength of the correlation will vary depending on domestic factors (Griffin, 2002).

Financial performance 'halo' effect describes the situation where estimations of reputation rankings (such as HPR) and its effect on current financial performance is heavily influenced by actual and perceived prior financial performance which has not been appropriately mitigated for in the prediction model. Since the prior financial performance of an organisation may affect respondents' perception about current reputation rankings, it is useful to adjust for prior financial performance in any model that estimates an impact on current financial performance.

To mitigate the 'halo' effects, often, a 'halo' effect index is constructed, tested and the results evaluated (Brown & Perry, 1994; Bharadwaj, 2000). In this study, a halo effect index was constructed using five year averages (from 2008-2012) that combined financial and operational performances matrixes on past financial performance; (1) Return on Assets (ROA), (2) Return on Equity (ROE), (3) annual change in sales (Growth), (4) debt/equity, (RISK) and (5) Logarithm of average sales over the past five years (SALES). Average industry performance is used as an appropriate standard for performance comparison (Robbins & Pearce 1992; Wisner & Eakins, 1994; Santhanam & Hartono, 2003). Except for four (4) organisations, all other organisations provided complete financial data for the computation of five-year averages for the 'halo index'. Computed means were used to fill in for missing data for the remaining four. Excluding the four organisations, due to missing data, from the halo index computation did not significantly affect the logistic regression results.

To test for 'halo' effect, the 'halo index' comprising of the five-year average of past financial performance was employed as independent variables in a regression analysis on the perception of HPR (derived from the survey responses). HPR scores for each questionnaire (B1-B6 of the questionnaire) with a mean score of between 1 and 3 were classified as organisations that report managerial performance honestly, while HPR scores of 4-7 were classified as organisations that misreported their performance. The dependent variable (HPR) was coded as a binary variable with  $Y_0$  for HPR (mean score between 1 and 3) and  $Y_1$  for dishonest MPR (HPR mean score of between 4 and 7). That is

$$Y_0 = a + B_1 ROA + B_2 ROE + B_3 GROWTH + B_4 SALES + B_5 RISK + e_1$$

$$Y_1 = a + B_1 ROA + B_2 ROE + B_3 GROWTH + B_4 SALES + B_5 RISK + e_1$$

The overall model was not significant, with model chi square not significant, implying that past financial performance did not account for significant differences between the groups ( $Y_0$ , and  $Y_1$ ). Also, t test of significance between each variable (dependent variables) did not show significant values. Therefore, organisations that report managerial performance honestly were not enjoying any 'special halo effects' (Bharadwaj, 2000) due to past performance. This confirms Griffin (2002) suggestion that the argument that past financial performance heavily correlates with current financial performance is heavily dependent on domestic circumstances than on a general rule.

Santhanam & Hartono, (2003) contest the Bharadwaj, (2000) approach for measuring the 'halo' effect and argue against the application of five-year averages in the construction of a 'halo index'. Rather, Santhanam & Hartono, (2003) propose that reputation rankings are more affected by the immediate past performance rather than 'an average of several years'. More so, Santhanam & Hartono, (2003) contend that financial performance 'halo' effect cannot be ruled out completely because several studies confirm that current financial performance is often heavily positively correlated with past financial performance. Santhanam & Hartono, (2003) propose that a more effective approach will be to assume the existence of some form of financial performance 'halo effect' and

determine the impact of HPR on financial performance after adjusting for some estimate of halo effects.

Santhanam & Hartono, (2003) propose two models for testing for and/or accounting for 'halo effect'. First is a regression of prior year financial performance on current financial performance in an equation of the form  $FP_1=a + B_1FP_0$ . Where  $FP_1$  measures current year financial performance and  $FP_0$  measure immediate prior year financial performance. The essence of this equation is to test for a statistically significant causal relationship between immediate prior year financial performance and current year financial performance.

The second model involves the addition of a single variable  $FP_1=a + B_1FP_0 + B_1D$  where  $D$  represents binary variables of 1 for organisations that report managerial performance honestly (means score between 1 and 3) and 0 for organisations that do not report managerial performance honestly, (HPR mean score between 4 and 7). Since the second model involves the addition of a single variable, its coefficient will indicate whether HPR has a statistically significant effect on financial performance after adjusting for immediate prior financial performance on both the independent and dependent variable (Neter et al., 1996, Brown & Perry, 1994).

The limitations of the second model  $FP_1=a + B_1FP_0 + B_1D$  is that it only controls for one variable, past financial performance, and excludes other variables and considerations that may have a bearing on financial performance. Moreover, if  $FP_1=a + B_1FP_0$  confirms that the relationship between immediate past and current financial performance is not significant, it is difficult to appreciate the need to control for 'halo effect'. In this study, the results of  $FP_1=a + B_1FP_0$  showed no statistically significant relationship between current and immediate past financial performance. As this confirms earlier models applied in this study to test for 'halo effect', this study did not proceed to analyse  $FP_1=a + B_1FP_0 + B_1D$ . Rather a model that controlled for other variables such as organisational size, industry type etc. was preferred.

### **3.4. HYPOTHESES FORMULATION**

#### **3.4.1. Managers' Preference For HPR**

Freeman & Gilbert Jr. (1988) provide evidence to suggest that individuals' preference for HPR in an organisational setting may vary from preferences outside the work environment. Jackall (1988), Ford & Richardson (1994), Liedtka (1989); O'Neil & Pienta (1994) have suggested that the bureaucratic setting of the work environment introduces other variables that may affect an individuals' behaviour and his preferences. Quinn et al. (1997) refer to this dualism of preferences as resulting from an adaptation process that may take place for an individual to progress up the corporate ladder. If this disposition is accurate, then perhaps individuals will display less HPR in a personal scenario than in an organisational construct during our experimentation. It is possible to see a distinction in the decision variables that an agent faces with both experiment types. In the latter case, the repercussions for dishonesty are "closer to home" and may affect the preferences of agents differently. Jansen & Glinow (1985: 814) argue that

*“it is far more common and dramatic to focus on individual culpability ...however greater knowledge of the organisational context of the behaviour may change attributions of individual culpability”.*

Grover (2005) segregates business lies from personal lies and acknowledges that competition and social pressures may affect business lies. Grover (2005) suggest further that it is important to understand how normal organisational participants behave daily at the work place. The organisational context introduces peculiarities from group dynamics, reputational risk as well as controls systems (e.g. audits) that may mitigate dishonest MPR. Therefore, it is likely that;

**H<sub>1</sub> For Business Managers, HPR will be higher with an ‘organisational related’ construct than an ‘individual based’ construct.**

Nagin & Pogarsky (2003) argue that increasing the likelihood of being caught is a more effective deterrent to purposefully misreported MPR than a proportional increase in the severity of punishments. However, results on the implication of detection risk on HPR have not been conclusive (Huang & Wu 1994; Lindbeck 1995; Mazar et al. 2008) even though most studies have suggested that the risk of detection can mitigate misreported MPR (Nagin & Pogarsky; 2003). Due to this Tayler & Bloomfield (2011) suggest further studies on how the possibility of future audits can affect HPR. Various studies have suggested that deferred compensation increases the risk of detecting misreported MPR and improves HPR (Bhagat & Romana, 2009; Bebchuk & Fried, 2009). Most studies have admitted a limitation to the generalisation of findings due to the non-inclusion of variables to measure the implications of reputation effects from dishonest MPR. Maas & Rinsum (2013: 1182) for instance confirm that

*“Care should be taken in generalising our results..... we examined a one-period situation, ignoring reputation effects. Outside of the laboratory, however, reputation effects are likely to play an important role in shaping managerial reporting decisions. A related issue is that we used a setting with zero probability that an overstatement would be exposed with absolute certainty or would have detrimental monetary consequences.... also, overstatements will generally be punished. Future research is needed to address these limitations and to investigate how robust our results are in settings that differ from ours”.*

Therefore;

**H<sub>2</sub> For Business Managers, HPR of a scenario involving an immediate pay-off will be lower than HPR involving a deferred pay-off.**

The idea in this study is to signal a form of control from the possibility of future detection (e.g. audits) even though subjects could reasonably estimate that it was impractical to do so in this experiment.

Fisher et al. (2007) confirm that capped pay-offs adversely affect performance. Yang (2009), as well as Goffman (1959), confirms that a strong motivation for misreported MPR occurs when actual performance is below expectation. Therefore, it is reasonable to expect that when capped bonuses result in low performance pay-offs, agents will be motivated to purposefully misreport MPR to mitigate any adverse effect from low performance. Jensen (2003) confirms that capping of pay-offs motivates agents to attempt to game the system, withhold or distort information and hence affecting the credibility of performance reporting. Therefore

***H<sub>3</sub> For Business Managers, HPR of a scenario with capped pay-off will be lower than HPR of a scenario with an uncapped pay-off.***

The study runs a scenario of capped pay offs to test Evans et al. (2001) finding for a “production hurdle” that places a cap on potential payoffs. Antle & Eppen (1985) and Antle & Fellingham (1995) argue that in real business situations, ‘production hurdles’ are critical decision variables in behavioural disposition. Evans et al. (2001) ask for further tests of his ‘distributional’ hypotheses.

Considering the earlier discussions about the appropriateness of students as surrogates for practicing managers within an experimental setting, we postulate further that;

***H<sub>4</sub> The mean HPR for students will be significantly different from the mean HPR for business managers across the various experiment groups.***

### **3.4.2. Predicting HPR: - Factors That Influence HPR**

In a multi-actor principal agent setting, agents may misreport MPR to a principal if the perceived utility of dishonesty exceeds the perceived utility of truthfulness relative to the reporting relationship with other principals or agents. Yang (2009), suggests that in such a setting, misreported MPR is likely to occur when (1) there is a perceived benefit (material or otherwise) from the deliberate misreporting (such as getting a reward or avoiding punishment) and (2) the misreporting cannot be detected due to information asymmetry. The critical difference between a multi actor principal agent relationship and the CAT lies in the perception of utility. Under the multi actor model, the principle of relativity (between principals and other agents) plays a critical role in the evaluation of utility.

Therefore, to enhance HPR, principal(s) must reduce the perceived benefits of deception and/or reduce information asymmetry. Waterman, Rouse & Wright (2004) argue that in a multi-actor setting the opportunities for misreported MPR based on reasons of information asymmetry are minimal due to the possibility of information leakage. However, Yang (2009) suggests that in public organisations the long run is hardly considered. This study argues that the constructs of contracts and performance measurements systems in business organisations currently reward short-term efforts over long run efforts (Hecllo, 1977). Therefore, business managers (agents) hardly consider the long run in decision-making. Also, the principle of bounded rationality (Simon

1990, 1991) may reduce the likelihood of information leakage as well as the probability that any such leakage will influence stakeholder action. Additionally, information asymmetry is still likely to exist regardless of information leakage as stakeholders cannot constantly keep track of all activities within multiple relationships. As well, the definition of a long run can be ambiguous. Keynes (1923) argues that 'in the long run we are all dead'.

Following on from existing studies, we propose a four-phased approach (solution) for dealing with the dilemma of improving HPR. Our model postulates that HPR within organisations can be influenced by interplay and confluence of economic, environmental, organisational and individual cognitive factors (see table 3.7).

**Table 3.7: Proposed Predictive Variables Of HPR**

Variable	Perspective	Sub Variable	
Individual Cognitive Attributes	Individual	Individualism vs. Collectivism	
Economic Incentive (Wealth Distribution)	Individual	Aligning incentives and rewards to organisational profits	
Control Environment	Organisation (Captures the case of multiple agents)	<p>Stakeholder participation in performance management and measurement</p> <p>The existence of an innovative performance Culture</p> <p>The existence of well-designed management control systems (belief boundary systems) with well communicated business rules, organisational values and code of conduct</p> <p>Harmonised internal organisation dynamics and politics</p>	HPR
External Environment	Environment (Captures the case of multiple principals): - Dull 2006; Rainey 2003	<p>Less complex and diversified environmental sub factors</p> <p>Less dynamic and more stable environmental sub factors</p>	

### 3.4.2.1. Economic Incentive

This is based on existing empirical evidence from CAT and proposes that an appropriate economic incentive structure can align the interest of agents and principals, increasing the disutility for lying and improving HPR. Baiman & Lewis (1989) suggest that monetary incentive is perhaps the most critical factor in an agents' decision to misreport MPR. Gneezy (2005) suggests that in an organisation without any formal control and penalty for lying, individuals are motivated by the size of the monetary incentive to be dishonest.

Similarly, Evans et al. (2001) find evidence to suggest that the extent of HPR may depend on how a firm divides business profit among the firm and management (agents) but Erickson, Hanlon & Maydew (2006) find evidence to the contrary. Therefore, even though Yang (2009) suggests economic incentives for HPR rather encourages misreported MPR, especially when there are performance gaps, rather than mitigate it, the literature is overwhelming in its documentation of appropriate economic incentives as a mitigation measure for dishonest MPR. For ease of measurement, the construct of the research questionnaire measures monetary incentives as a proxy for the economic incentive.

However, empirical evidence suggests that the utility function of all economic actors are different. Therefore the construct of an incentive structure must be based on a unique assessment of the preferences, interest and expectations of the relevant economic actors (Bolton & Ockenfels, 2000; Rabin, 1993; Schmidt, 1999; Bolton, 1991).

This study postulates that HPR can be induced by monetary incentive, even though this can be expensive for the organisation (Luft & Shields 2009). Gino & Pierce (2010) suggest that HPR can be affected by employee perception of the inequity from wealth distribution that is randomly or non-randomly assigned. Huseman et al., (1987) assert that people evaluate fairness by comparing their input-outcome ratio to a similar ratio of a "referent other" such as a co-worker. Perception of unfairness causes emotional distress that can result in misreported MPR (Gino & Pierce 2010). Lazear (1989) and Prendergast (1999) suggest that agents will consciously misreport MP based on the incentive structure to derive short-term gain or long term pay-off (Duggan & Levitt 2002; Fehr & Gachter 2000).

This is particularly the case in a scenario of reward discrepancies and when reward discrepancies are based on a subjective managerial evaluation of employees or the value of the organisation (Gino & Pierce 2010). This is because most employees are over confident in their abilities (Zenger 1992) and will find a subjective and less transparent reward allocation as unfair and inequitable. Greenberg (2002; 1987; 1990) has suggested that an agent's perception of fairness affects performance and encourages misreported MP when there are performance gaps (Schwarzwald et al. 1992).

As well, when compensation is linked to the performance of others, agents are often motivated to misrepresent that performance to achieve a higher reward for themselves (Lewick 1983; Tenbrunsel 1998; Van Lange 1999).

Therefore,

***H<sub>5</sub> A fair economic incentive (INC) is positively associated with HPR***

Yang (2001) acknowledges that incentive structure remains a relevant consideration in HPR, even though he excludes it as a variable in his model construct. According to Devine (1966), measurement is a process that requires extremely high levels of abstraction. This study measures economic incentive through an index of four factors adapted from various sources including Kacmar & Carlson (1997) Perception of Organizational Politics scale (POPS) under the pay and promotion subscale and Gino & Pierce (2009a and 2010). These factors measure the existence of an incentive structure, its transparency, and perception of fairness.

**3.4.2.2. A Conducive Control Environment**

Rather than an extensive effort to monitor MP through third parties, such as auditors, (although relevant from a 'confidence signalling' perspective), this study hypothesises that a conducive control environment, within an organisational setting, can induce HPR. The conducive control environment is conceptualised as an environment with (1) high participation of relevant stakeholders in performance measurement and management (2) a high innovative performance culture (3) well designed management control systems that are widely communicated and (4) a harmonised internal environment devoid of hostile internal politics.

Stakeholder participation in performance management means stakeholders are actively involved in designing performance indicators, establishing performance targets, collecting data, analysing data and reporting results (Yang, 2001). Epstein, Coates & Wray (2005) confirm that stakeholder involvement in performance management can improve the relationship between agents and shareholders. Yang (2009) suggests that the resulting reduction in hostility between agents and principals enhances honest communication (Garnett, 1992), reduces information asymmetry by improving process-based trust (Zucker, 1986) and facilitates expression of stakeholder expectations to reduce ambiguity (Worsham & Gatrell 2005). A critical balance, however, has to be achieved to ensure that stakeholder participation does not result in undue interference from interest groups or micro management of all agency activities. Therefore,

***H<sub>6</sub> Stakeholder participation in performance measurement (PERF) is positively associated with HPR.***

Stakeholder participation in performance measurement is measured by an index of five factors adapted from Yang (2009) with some modifications to suit private organisations. These factors capture the extent of involvement of shareholders (through BODs) in performance indicator design and the extent to which regulators influence key performance targets (Melkers & Willoughby 2005). It also captures the extent of involvement of employees in performance management design and the level of familiarity

of regulators with measurement targets and performance results (Epstein, Coates & Wray, 2005).

Brehm & Gates (1999), Dilulio (1994) and Miller & Whitford (2006) demonstrate that a strong performance culture that encourages agents to internalise value preferences of the principal can encourage innovation. This is because innovation is a key dimension of organisational culture (O'Reilly, Chatman & Caldwell, 1991). Yang (2009) confirms in his studies that, a culture that values honesty can improve HPR. Grover (2005) suggests that an organisation that makes honesty an essential part of its culture risks driving dishonesty underground, however De Lancer Julnes & Holzer (2001) find a correlation between innovation culture and performance management. Since group culture has been found to improve external communication of organisations performance (Pandey & Garnett 2006), this study argues that innovation culture will improve HPR. This is because innovation culture is in essence similar to group culture (Yang 2009) and intellectual honesty is an essential element of innovation culture (Amabile 1988; Ahmed 1998). A culture that promotes new ideas and creativity supports responsible risk taking, experimentation and initiative and tolerates errors is more likely to improve HPR. Therefore,

***H<sub>7</sub>: A high innovative performance culture (INNOVATE) is positively associated with HPR.***

This study measures innovative performance culture using an index of four items adapted from Schein (1985), Yang (2009), Zeitz, Johannesson & Ritchie (1997) as well as Sarros et al. (2005), with some modifications. The indexes measure values, leadership commitment to innovation and organisation support for innovation.

Maas & Rinsum (2013) find that the tendency to misreport MPR is affected by the design of the control system. They argue that in an organisation with an "open information system" (Evans et al., 2001]), where performance reports are openly shared, misreported MPR is mitigated. Management control systems (MCS hereafter) are essentially all methods and procedures applied by management in the safeguarding of an organisations asset. Simon (1995; 2000) suggests that an appropriately designed MCS can moderate the tensions between personal self-interest and organisational interest and drive a focus on 'organisational wide' perspectives. Henri (2006) and Naranjo Gill & Hartman (2007) find evidence to confirm this. A well-designed MCS combines effectively values (belief systems such as mission statements, statement of purpose etc.) and rules (boundary systems such as code of conducts and standard operating procedures) to influence agents' behaviour (Simon 1995; 2000) and may encourage HPR (Widener 2007; Mazar et al. 2008).

Essentially while beliefs systems seek to reinforce the core value and purpose of existence of the organisation, boundary systems seek to communicate actions that employees must avoid with appropriate sanctions for default. According to Coleman (1990), credible sanctions reinforce appropriate behaviour. Various studies have identified a limitation with their findings for not considering the effects of sanctions of

dishonest behaviour (see for example Paz et al. 2013). Even though recent studies have sought to explore the possibility that a boundary system could be perceived as a constraint on freedom for agents with individualist cognitive orientation (Dillard & Shen 2005) resulting in psychological reactance (Brehm & Brehm 1981), based on reactance theory, which can result in misreported MPR (Waterman, 1981; Seeman et al., 2008), the results have been inconclusive. This study argues that a well-designed MCS that effectively communicates values and rules will enhance HPR. Agents will at least reflect on well-communicated and internalised beliefs and boundary systems when confronted with an ethical dilemma. Sprinkle (2003) and Cohen et al. (2007) suggest the need for further studies that combine the governance systems with other variables in studying HPR. Therefore,

***H<sub>8</sub> A well communicated belief and boundary system (MCS) is positively associated with HPR.***

The study measures MCS using an index of seven factors. These factors cover the clear existence and communication of belief and value systems, sanctions for default, rewards for compliance and leadership adherence to belief and value systems. This is based on an adaptation of the experiment of Mazar et al. (2008).

Following on from the multi actor principal agent model, we view organisations as a loose network of cliques and coalitions with varied interest (Pfeffer 1981; Cyert & March, 1963), rather than an integrated rational system (Yang 2009). The internal politics, interactions and dynamism within an organisation have been linked with performance management in recent times (De Lancer Julnes & Holzer 2001; McDavid & Hawthorn, 2006). Whereas Pfeffer (1981) considers internal organisational politics a neutral concept with no consequence on an organisation, Ferris et al (1989) argues that all organisational politics is necessarily detrimental and that the subjective perception of workplace politics whether or not actual often has adverse consequences on performance through producing conflicts that have adverse effects on employee morale, employee commitment and job satisfaction (Porter 1976; Gandz & Murray 1980; Miller, Rutherford & Kolodinsky 2008; Rosen, Levy & Hall 2006). For this study, hostile politics and internal dynamics are conceptualised as the opposite of harmonised internal politics and dynamics and defined to encompass behaviours that are self-serving, and not officially sanctioned by the organisation (Yang 2009). Since hostile internal politics adversely affects all forms of communication (Amabile et al. 1996; Damanpour 1991), it is negatively correlated with HPR. This is because hostile internal politics can generate excessive conflicts and unhealthy competitive behaviour. Grover (1993; 2005) suggests that often, competition and conflicts encourage lying. Therefore,

***H<sub>9</sub> Non-Hostile internal politics (POLITICS) is positively associated with HPR.***

Internal politics is measured by an index of five factors derived from an adaptation and modification of Kacmar & Carlsons (1997) POPS under the subsections 'general political behaviour' and 'going along to get ahead'.

### 3.4.2.3. External Environment

According to the threat rigidity theory, potential external threats, actual or perceived could influence an organisation to centralise controls, conserve resources, restrict information flow and avoid risk taking (Staw, Sanderland & Dutton, 1981). The restriction of information flow could affect effective communication and hence HPR.

In line with the measurement of other variables in this study, this study measures employees' perception of uncertainty within the task environment rather than an 'objective' measure of any such uncertainty. Other studies such as Govindarajan, (1984); Dill, (1958) Lawrence & Lorsch (1967), Duncan (1972), Weick (1969) Downey & Slocum (1975) and Downey *et al.* (1975), have used and/or supported this approach.

Essentially the environment is viewed as a source of information that can result in organisational changes based on the actors' perception of the information (Govindarajan, 1984). Often the instrument used to measure perceived environmental uncertainty, by researchers, is the instrument developed by Miles & Snow, (1978) with slight modifications. Adopting the Miles & Slow (1987) approach, Govindarajan, (1984) asked *decision makers* to indicate on a Likert Scale the predictability or unpredictability of a set of factors (such as competitor action, raw materials supply and availability, government regulations etc.), within the context of their business unit. A score was computed as a simple average of responses and was interpreted as an index of the perceived environmental uncertainty

Unlike Govindarajan, (1984), this study seeks to elicit responses from employees who may not necessarily be key decision makers within their organisation. Moreover, the concept of predictability may be ambiguous especially to employees who may not be key decision makers. As an example, it is perfectly possible for an employee to consider a Just in Time (JIT) system as an indication of unpredictable raw material supply either because he is not aware of the deliberate organisational strategy not to stock raw materials, or the occasional mishap from logistical constraints that affect timely delivery. It is this researchers' opinion that where logistical constraints (which is often well within managements control to alter), results in disruptive and hence unpredictable supply for raw materials, that cannot be classified as resulting from environmental uncertainty. Inherent in the differentiating definition of external environment is the concept of 'beyond the control of internal management'. Because of this limitation of the Miles & Slow (1987), approach, significant modifications were made (see question B17) and other observable variables (based on literature) were included to measure perceived environmental uncertainty.

Duncan (1972) conceptualises perceived environmental uncertainty as having two dimensions. These are (1) dynamism and/or turbulence and (2) complexity. Rainey (2013) introduces other dimensions such as stability, fragmentation, homogeneity, resource scarcity and relative power of interest groups. This study argues that Duncan's (1972) definition is a relevant conceptualisation of the environment especially as all the other dimensions proposed by Rainey (2003) can be fitted under the dimensions of

turbulence or complexity. This study argues that the existence of multiple principals' affect HPR based on the extent of certainty with which their actions can be predicted. The level of dynamism and the level of complexity of the actions of principals from the perspective of the agent measure this certainty.

Complexity is a measure of the heterogeneity or diversity in environmental sub factors (Teopaco 1993; Chae & Hill 1997). As complexity increases, the ability to reduce information asymmetry also decreases as well as the ability of agents to stay focused on critical activities of principals (Black & Farias 1997; Farell 1998; Conner 1998). A key measure of complexity will be the number of perceived external stakeholders and the changes in that number over time.

Also, the extent of diversity among the interest of various stakeholder groups could affect perceptions of complexity. If stakeholder participation improves HPR, then it is logical to conclude that difficulty in encouraging stakeholder participation that may result from a high number of diverse stakeholders will hurt HPR. Similarly, as the number and diversity of stakeholders increase, in a multi-actor principal-agent relationship, information quality and HPR may reduce due to the higher number of targeted communication and different reports that must be done by agents.

Complexity can introduce ambiguities into strategy (cost leadership versus differentiation), goal congruence, structure and the extent of formalisation of business processes and procedures. Dynamism or Turbulence measures rapid, frequent and unexpected changes in environmental sub dimensions (Conner 1998; Vorhies 1998). These changes are often caused by changes in and interaction between environmental factors such as advancement in technology, regulation and competitive forces (McKenna 1991; Samli 1993; Iansiti 1995).

Environmental turbulence drives pressure for innovation, greater business growth and a general difficulty in reducing information asymmetry as well as monitoring the unobservable behaviour of agents (Davis et al. 1991). Milliken (1987) suggests that high levels of environmental uncertainty are related to strategies that increase diversification within an organisation to diminish its vulnerability to effects of environmental conditions.

Whereas Yang (2009) study suggests no direct relationship between an organisation's external environment and HPR, this study argues that a direct relationship exists in a multi actor principal agent relationship. Therefore,

***H<sub>10</sub> A favourable external environment (ENV) is positively associated with HPR.***

Environmental constructs are difficult to measure (Yang 2009). However, several studies have used the scale developed by Duncan (1972) although with some modification (e.g. Anderson & Kida 1985; Brown & Schwab 1984; Mccabe 1990). The study measures the environment through reflective measures that assess the quality of an organisations interface with its environment (Whicker, Strickland & Olshfski 1993). These measures only manifest rather than mirror the external environment. Yang (2009) adopts a similar

approach in the study of variables in his study. This study modifies Duncan's scale to include important constructs from Miles & Snow (1978) designed to mitigate the identified weaknesses in Duncan's scale (see table 3.7 for ENV dimensions applied in this study).

The conceptual approach this study adopts in predicting the quality of an organisation-environment interface assumes that environmental uncertainty is determined by the extent of predictability of conditions in the environment.

**Table 3.7: Environmental Dimensions And The Observed Variables Used To Measure**

Environmental Dimension	Manifest Measure Used In This Study
Complexity	The changes to the number of key stakeholders over a period
	The perceived homogeneity or alignment among stakeholder interest.
Dynamism and Turbulence	The frequency of changes to products and production process (innovation).
	The extent of business diversification
	The extent of decentralised decision making

#### **3.4.2.4. Characteristics Of The Perpetuators: - Individual Cognitive Orientation.**

Various scholarships have confirmed that reporting behaviour is correlated with individual characteristics (Serota et al. 2010; Halevy, Shalvi & Verschuere 2014; Kashy & DePaulo 1996; Healy & Healy 1916).

Halevy et al. (2014) conclude that *“Taken together, our findings contribute to the developing debate regarding the role of individual differences in lying behaviour. We provide solid evidence showing that both self-reports regarding lying frequency and cheating in the lab are correlated and associated with certain individual characteristics. This evidence strengthens the need to continue investigating the role of individual differences in deceptive communication, as clearly such individual differences matter. While situational factors are likely to play a role in the decision to lie or cheat, as lying or cheating is easier or more appealing in some situations, certain personality traits seemingly make some of us more prone to deceptive behaviour than others”*.

Schweiger (1985) defines cognition as the 'characteristic or habitual process by which individuals gather and evaluate information. Most management literature interchange cognition with terms such as problem solving or decision-making styles (Schweiger, 1985). A growing body of research is focused on how individual characteristics affect moral judgments and ethical decision-making (Seybert 2010; Hobson et al. 2011). Research has suggested that within certain organisational contexts, such as where it is difficult to observe the behaviour of agents or to measure output, employing persons on the basis of their attributes or characteristics can mitigate moral hazard (Campbell et al., 2012; Merchant 1985). Fischer & Huddart (2008) also show that organisations can benefit from considering individual ethical types in designing an organisational structure. Church et al. (2014) encourage principals to employ mechanisms to identify the ethical types of

their employees. Luft (1997), and Mittendorf (2006) argue that the magnitude of disutility from dishonest MPR varies among individuals. This argument suggests that managers may have different inherent preferences for HPR, which makes them predisposed to report in a particular manner (Church et al., 2014). For instance, Hobson et al. (2011) show that personal values influence an individual's moral judgement.

An implicit assumption in the literature suggests that persons at a higher level of moral reasoning are likely to act more "morally" than those at a lower moral development stage (Munhall 1979). However, Ketefan (1981) indicates that such thinking perhaps emanates from the often-used categorisation of moral development stages into 'post conventional' or 'principled' rather than from a body of empirical evidence. Kohlberg (1975) proposes a correlation between moral reasoning (i.e. stage of moral development) and behavioural choices by suggesting that moral behaviour is likely to be more consistent, predictable and "responsible" at higher stages of moral development. This hypothesis has been supported by research especially regarding cheating and dishonesty (Blasi 1980; Brown & Hernstein 1975; Grim, Kohlberg & White 1968; Schwatz, Feldman, Brown & Heingartner 1969). Kohlberg (see table 3.8) suggests that moral thinking influences behavioural choices by providing a cognitive definition of a persons' frame of rights and duties in any situation.

Admittedly, even though previous studies have confirmed a form of relationship between moral reasoning and behavioural choices, the nature of the relationship is not clear. There is a general difficulty in understanding how behavioural choices and moral reasoning relate at the different stage of moral development.

A proposal to bridge the gap may lie with cognitive orientation (see table 3.8). Cognitive orientation (i.e. individualism – collectivism theory) distinguishes between two types of personality tendencies of people (Chow et al. 2001; Ilies et al. 2007). Individualism underlies a cognitive orientation of a person who pursues personal interest over group interest because gratification from personal interest is perceived to be higher than gratification from group interest (Triandis & Gelfand 1998; Wagner 1995; Wagner & Moch. 1986). In such a case, the cognitive orientation of individuals is defined by individualism, self-service and disassociation. Collectivists, however, rank team interest over individual interest (Kim et al. 1994; Wagner 1995; Eby & Dobbins 1997, Gundlach et al., 2006). Collectivism as an orientation differs from traditional group attraction constructs such as cohesiveness (Eby & Dobbins 1997) in that collectivism is context free and hence is not affected by the nature of the task at hand or the incentive systems in place (Wagner & Moch 1986).

Underlying Kohlberg's moral development stages, which is presented in table 3.8 below, is the focus on self, or a few persons or wider society to form reasoning and guide moral thinking and perhaps, moral thinking has a relationship with behavioural choices. Kohlberg argues that the stage of universal principles is a theoretical stage and difficult to distinguish from the stage of social contacts and individual rights. Turiel & Rothman (1972) find that relationships between moral reasoning and behavioural choices are more

consistent from sub-stage four; Rothman (1976) in a further study includes sub-stage three.

It is possible to stipulate that an organisation that has a predominant set of collectivists as employees will report honestly relative to an organisation with a predominant set of individualists. The appeal of group interest may be effective in mitigating any antisocial self-interest and encourage accepted behaviour except in rare cases where the entire organisation has a culture of cheating and lying. In such a case the pressures of group acceptance may encourage dishonest MPR. However, the possibility of a diverse cognitive orientation makes it difficult for such organisational wide cultures to exist.

***H<sub>11</sub>: A predominant set of collectivists (IND) within an organisation is positively associated with HPR.***

Collectivism is measured by a set of variables drawn from an adaptation of Kohlberg's scale (hence the reason for attempting to establish a relationship), Yaniaguchi (1994) and Naranjo-Gil et al. (2012). The variables measure perception of the strength of leaders and employees' values, the sense of collective responsibility, the focus on a personal relationship outside the work environment etc.

This study could have followed other studies in measuring personal characteristics by administering instruments to identify individual types using a certain type of personality inventory. In line with a similar approach adopted by Church et al. (2014), this study argues that individual characteristics as measured by such personality inventory may not necessarily carry on to the experimental setting. Prior research argues that individual characteristics are context specific (Brown 1996; Dohmen et al. 2011; Koutsos et al. 2008). Church et al. (2014) argue that 'type classification' based on observed behaviour is arguably more reliable than that based on responses to hypothetical questions'. Chun (2005) suggests that 'validity problems occur when researchers use an existing human personality scale directly for an organisational level study since some human virtue characters or personality items might not be relevant to an organisational context'.

Even though there is evidence to support the argument that the use of psychological or behavioural measures (e.g., integrity tests) to help identify managers predisposed to report truthfully (Murphy 1993), reduces counterproductive behaviour and increases job performance (Brown et al. 1987, 1998; Ones et al. 1993; Robinson and Bennett, 1995), there are also concerns about the validity of those measures and their vulnerability to manipulation and biases (see, e.g., Guastello & Rieke 1991; Sackett et al., 1989, 1991; Sackett & Decker, 1979; Sackett & Harris, 1984).

**Table 3.8: Kohlberg's Moral Development Stages**

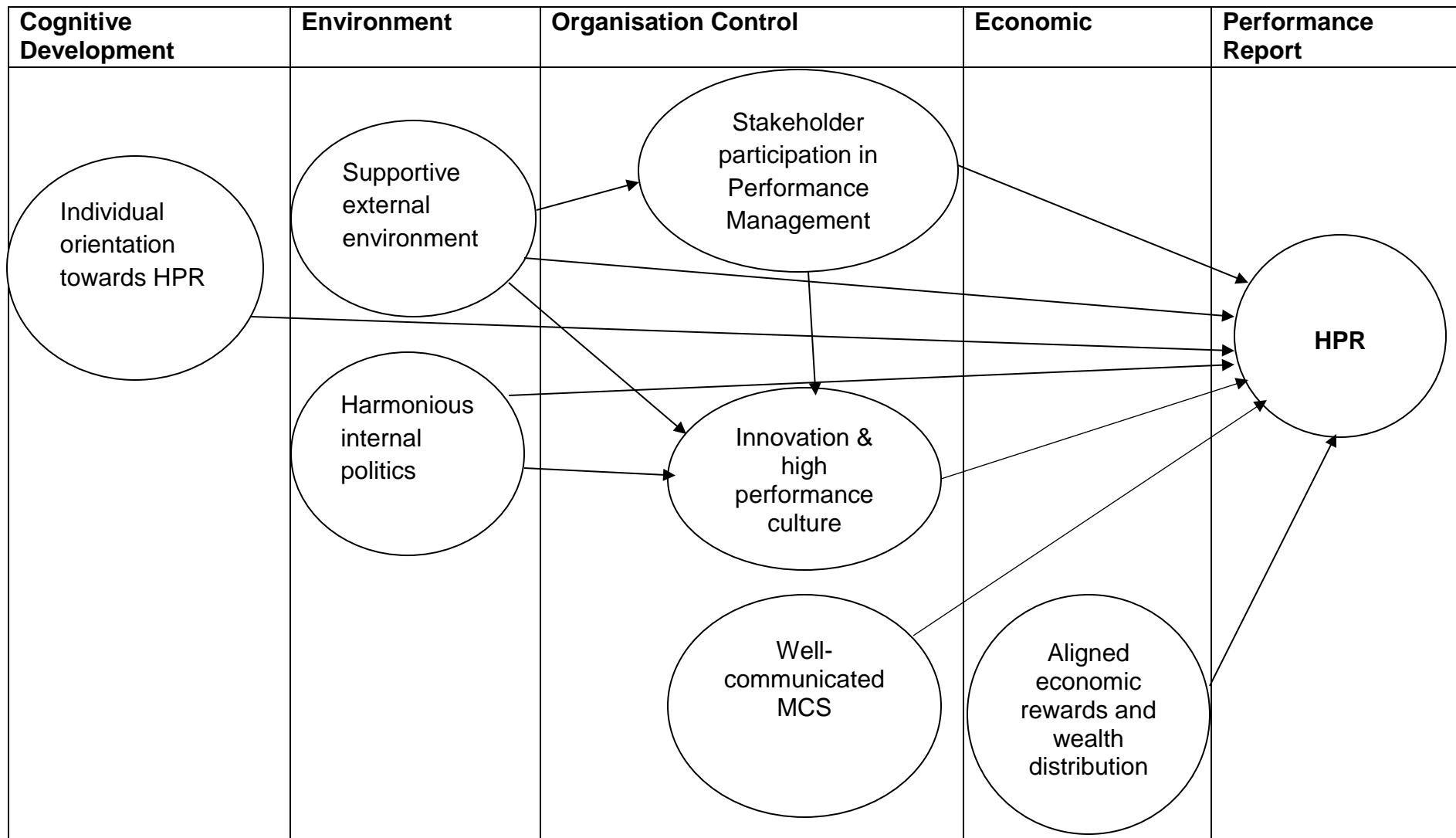
Kohlberg's Level	Moral Development Stage	Probable dominant cognitive orientation	Hypothesis on Behavioural Tendencies'
Level 1: Pre-conventional Morality	Stage 1: Obedience and Punishment	Individualism	Unpredictable
	Stage 2: Individualism and Exchange	Individualism	Unpredictable and possibility of immoral behaviour
Level 2: Conventional Morality	Stage 3: Good interpersonal Relationship	Individualism and partial collectivism	Moral behaviour defined by the mentorship of a few persons
	Stage 4: Maintaining Social Order	Collectivism	Predictable and moral behaviour and honest
Level 3: Post-Conventional Morality	Stage 5: Social Contracts and Individual Rights	Collectivism	Predictable and moral behaviour and predominantly honest
	Stage 6: Universal Principles	Collectivism	Predictable and moral behaviour and predominantly honest

Table 3.8 above summarises Kohlberg's moral development stages and postulate, for each stage, a dominate cognitive orientation as well as suggest (based on researchers synthesis) if behavioural tendencies are predictable. Huddart & Qu (2012) tests, using Kohlberg's three stages of moral development, the reaction of individuals to positive ("sterling performance) or negative influences ("bad apples") of their peers and find results consistent with Kohlberg's expectation. They find that whereas 'pre-conventional types' respond to only "bad apples" who are dishonest, 'conventional types' respond more to "sterling performances" and 'post conventional types' are immune to any social influences. Following their findings, Huddart & Qu (2012) conclude that

*"It is important for economic models to incorporate such type differences because the composition of agent types in a multi-agent setting may lead to different equilibrium outcomes".*

Below (figure 3.2) is a diagrammatical depiction of the proposed relationship between personal, organisational, economic and environmental variables on which the hypotheses are based. All relationships in this model are proposed as positive direct relationships.

**Figure 3.2: Proposed Model On The Relationship Between Independent Variables And HPR**



Even though the separation between the internal and external environments of an organization is common in management literature (O'Toole & Meier 1999), often the dichotomy between the external environment and the internal organisations may be blurred such that external factors may influence the internal environment and vice versa (Polonsky et al. 1999; Brooks & Weatherston 1997; Anderson et al. 1994; Ford 1997). Aside from the seven main hypotheses enumerated above, this study hypothesises also that: -

***H<sub>12</sub> Stakeholder participation in performance measurement (PERF) is positively associated with a stronger innovation and performance culture (INNOVATE).***

Damanpour (1991) suggests that stakeholder participation is a form of external communication that encourages organisational innovation through the introduction of new ideas by stakeholders (Hult, Hurley & Knight 2004). Schon & Rein (1994) argue that stakeholder participation could reduce ambiguity around stakeholder preferences, increase sympathy towards stakeholders and energise innovation.

***H<sub>13</sub> Supportive external environment (ENV) is positively associated with a stronger innovation and performance culture (INNOVATE).***

As discussed earlier, the threat rigidity theory suggests that a complex and turbulent external environment could minimise risk taking and influence organisations towards reliance on well tested routines and ways of working (Staw et al., 1981; Behn 2001). When the complexity and turbulence of the external environment is predictable organizational creativity increases, agents are likely to experiment with new ideas (Levin and Sanger 1994) and businesses may focus on long-term goals and innovation (Amabile et al. 1996; Cohen & Levinthal 1990; Damanpour 1991; O'Toole & Meier 2003; Rainey 2003).

***H<sub>14</sub> Supportive external environment (ENV) is positively associated with stakeholder participation in performance measurement (PERF).***

When the external environment is not overly complex and turbulent, agents are less hostile to external stakeholder participation in performance management. Additionally, external stakeholders will have few issues taking their attention and therefore will have the clarity of mind to participate in performance management with the ability to clearly monitor all the relevant variables.

***H<sub>15</sub> Harmonious internal politics (POLITICS) is positively associated with a stronger innovation and performance culture (INNOVATE).***

Amabile et al. (1996) contend that hostile internal politics adversely affects effective communication, which is critical for innovation (Parker, Dipboye & Jackson 1995). This is because in a hostile internal environment the fear of the repercussion of mistakes will result in a risk-averse behaviour (Behn 2001; Wilson 1989).

In summary, objective two uses a multi-item index with a Likert scale to solicit the perspective of employees on a variety of variables that are hypothesised to influence HPR. This study is based on the preposition that employees are best placed to indicate the extent of HPR within their organisations and the closed ended questionnaire that provides the opportunity for anonymity and a standardised base to evaluate these results is the appropriate research tool to use. HPR is measured through employees perception of honest managerial performance reporting (HPR) to shareholders, regulators, employees and the media. Yang, (2009); Chun (2005), and Cameron et al., (2004), adopted a similar approach of measuring HPR and organisational virtuousness respectively, through employee perspective on a Likert Scale. Yang (2009) argues that in the study of behavioural issues such as HPR, it is the perception that matters.

Statements to measure HPR are phrased like this

"When there are performance gaps, leaders of this organisation report honestly to regulators".

The Likert scale ranges from 'strongly disagree' to 'strongly agree'. A definition and scenario of HPR are provided as part of the questionnaire to reduce ambiguity. The use of the words "Leaders of this organisation" rather than say "leaders of your/our organisation" is adopted from Yang (2009) and prevents the pressures of self-involvement from affecting the responses. An alternative approach will have been to frame the question as "When there are performance gaps, this organisation reports honestly to its regulators". Chun (2005) argues that in order to capture the complexity of human behaviour within an organisation, the 'company as a person' metaphor serves a useful purpose of aiding understanding of a targeted concept and hence it is accepted and not uncommon to see a personification approach used in defining specific *characters* as perceived by both internal and external stakeholders. The 'company as a person metaphor' may well have served the same purposes but following on from Chun (2005) perhaps it is more useful in the study of characters than behaviour.

Moreover, HPR is a multidimensional measure, and hence the relevant dimensions will be correlated with some measure of HPR (Chun 2005). Therefore, the inclusion of an overall question of the extent of honesty in managerial performance reporting (questions B1-B6), as a dependent variable, assessed with a seven-point Likert scale is not to develop an HPR construct but to test if the hypothesised factors that affect HPR have predictive value. In such a case, Yi (1990) argues that a one-item measure of overall performance criteria (such as HPR in this case or say, customer satisfaction) adequately serves the purpose.

To ensure the validity of the entire research, the experiments will be performed (in the order indicated in section 3.5) before the questionnaires are administered. This is because the questionnaires may give away the objective of the research if they are administered before or with the experiments. A critical eliminate of validity for the experiments is to ensure that participants are not aware of the reason for the research. All questionnaires will be subject to the same methodology for sampling and validity

checks. It is possible that participants in the experiments may also become respondents for the questionnaire, but this will not be by deliberate design and does not interfere with the credibility of findings.

Following the administration of the closed ended questionnaire, a limited number of interviews will be conducted with senior management (about 30 interviews) to collaborate any significant findings from the analysis of the questionnaire. Chun (2005) studies organisational characteristics from the perspective of employees and customers using structured questionnaires and interviews.

### **3.4.3. The Relationship Between HPR And FP**

An earlier session in this chapter (section 3.3.3.1.) explains the theoretical basis for exploring this relationship. The hypotheses for this section of the study mainly emanates from Stakeholder Theory.

This study posits that HPR has a direct and indirect effect (through stakeholder satisfaction) on FP. The relationship between HPR and stakeholder satisfaction, for instance, can be explained through the normative approach to stakeholder relationship management. The normative approach posits that (1) stakeholders have a legitimate interest in the organisation and this interest is not related in any way to organisational actions and (2) each stakeholder has intrinsic worth (Dolason & Preston, 1995). Therefore, encouraging HPR improves stakeholder satisfaction because of the intrinsic worth of stakeholder interest, even if there are no perceived direct benefits to the organisation itself. Impliedly a positive relationship can be posited between HPR and stakeholder satisfaction (such as employee satisfaction) to the extent that a firm successfully satisfies the reporting requirements of stakeholders.

Reporting requirements of an organisation will be influenced by the expectations of stakeholders with whom an organisation interacts. Bearing in mind that HPR is, in essence, a perception (Yang, 2009), the way an organisation responds to stakeholder reporting requirements could stimulate trust and commitment between stakeholders and their organisation. Considering that stakeholders expect an honest representation of performance from management (Ferrell et al., 2000), the resulting improvement in trust and commitment will result in higher satisfaction (Fritz et al., 1999, Strong et al., 2001) especially as stakeholders will feel that their voices are being heard. Therefore, if a firm successfully follows the normative approach of understanding the reporting requirements of stakeholders, and adhering to such requirements, it is likely to achieve more stakeholder satisfaction. The positive and direct influence of stakeholder satisfaction on FP has been empirically proven in several studies.

Social exchange theory (Gouldner, 1960) suggests that employees engage in a mutual contingent exchange of gratification with their organisations. When such organisations report responsibly and truthfully, it improves employee motivation as well as effort with its attendant positive effect on overall organisational performance.

This is because, employees use an overall fairness heuristic to decide about relationships with their organisations (Trevino & Weaver, 2001) and often perceive HPR as a demonstration of fairness to stakeholders (Colquitt, 2004).

HPR has a positive effect on employee satisfaction because employees, like other stakeholders, expect the organisation and its managers to report managerial performance honestly. To the extent that this is achieved, employees are willing to expend efforts, which in turn enhance performance. Considering that fairness is a primary social expectation that guides employee perception and subsequent behaviour, a company that reports managerial performance honestly can create a friendly and ethical working environment which reflects organisational practices with moral consequences (Wimbus, Shepard & Markham, 1997; Naumann & Bennett, 2000). HPR reassures employees about their status within the organisation (Tyler & Blader, 2003). The relationship between employee satisfaction and firm performance has been suggested by Anderson et al. (1994) and proven in various studies. Yoon & Suh (2003) collaborate this finding and argue that satisfied employees work harder and deliver better quality services which improve customer satisfaction Babakus et al. (2004), as well as, Howard & Gengler (2001) argue that customer satisfaction improves quality of service and firm financial performance. Management literature provides several empirical pieces of evidence that confirm that improved stakeholder satisfaction positively influences financial performance of a firm. Riordan, Gatewood & Bill (1997) also find evidence that employee perception can influence employee job satisfaction. This rational is captured in the hypothesis: -

**H<sub>16</sub> HPR has a directly significant and positive influence on Employee Satisfaction (C10).**

According to social identity theory, people identify with organisations they perceive as (1) highly prestigious and with a credible image, (2) and the organisation's identity can enhance their self-esteem (Pratt, 1998; Ashforth & Mael, 1989). This explains why employees care about HPR and develop positive perceptions about organisations that engage in HPR. That is, the favourable public reputation from HPR (Fombrum & Shanley, 1990) improves employees' self-esteem and their perceptions.

**H<sub>17</sub> HPR has a directly significant and positive influence on Employee perception of FP (C5, C6 & C7).**

ROA is the variable widely used in empirical studies of financial performance (Boaventura, Silva, Bandeira De-Mello, 2012). The institutional approach to stakeholder theory posits that stakeholder's orientation is a source of competitive advantage, which drives improved financial performance. This approach suggests that stakeholder management has a strategic rather than intrinsic value and is therefore only a means to an end (Berman et al., 1999). Accordingly, stakeholders have legitimate authority over the organisation and will exercise this authority (withdraw resources etc.) if management misreports performance. HPR, therefore, ensure continuous support and commitment from stakeholders, which results in superior financial performance (Hosmer, 1994; Stevens et al., 2005). Various studies have confirmed the role of disclosure on firm

performance through the resulting effect on the efficient allocation of resources (Healy & Palepu, 2001). Other studies (such as Nielson, 2012) confirm that 'powerful' external stakeholders are influenced in their conclusions, perceptions and subsequent action by employee perceptions. Therefore

**H<sub>18</sub> HPR has a directly significant and positive influence on ROA.**

**H<sub>19</sub> HPR has a directly significant and positive influence on ROCE.**

Intangible assets such as good reputation, trust and commitment are generated through HPR (Fombrum et al. 2000). This improves the ability of the firm to have access to resources, enhance performance and build a competitive edge while still satisfying stakeholder needs (Hosmer, 1994).

### 3.5. ORDER OF THE RESEARCH APPROACH

Figure 3.3 summarises the overall methodological framework applied in this study. The various research methodologies were administered in the order below to ensure cohesion and validity of findings.

- 1) OBJ 1: Use experiments to reassess the empirical evidence of managers' preference for being honest in reporting their performance. To ensure validity and credibility of findings, four experiments were performed in this order: -

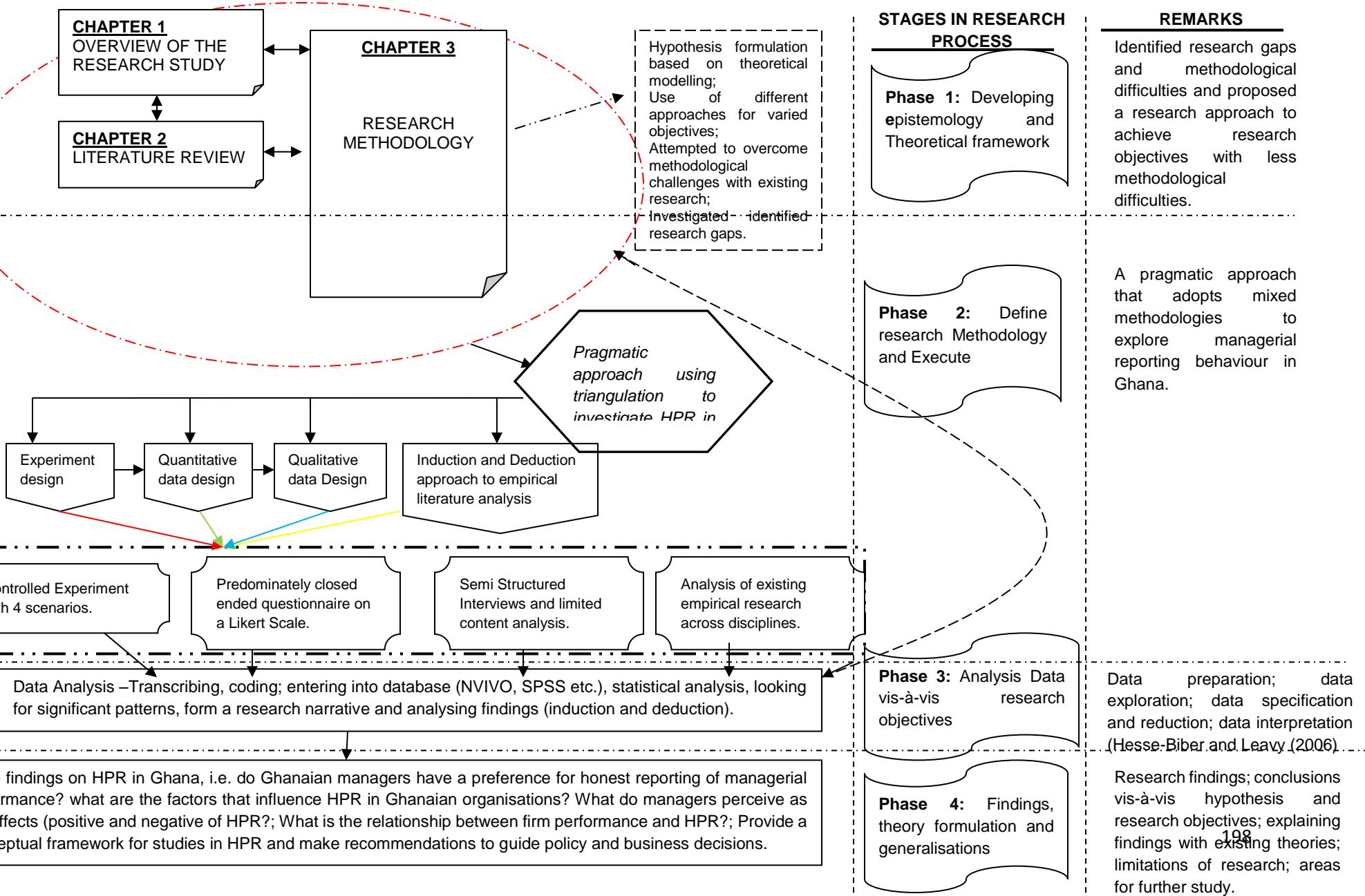
<b>Experiment 1</b>	Individual Scenario	Immediate Pay-off	Payoff is uncapped
<b>Experiment 2</b>	Organization Scenario	Immediate Pay-off	Payoff is uncapped
<b>Experiment 3</b>	Organization Scenario	Immediate Pay-off	Payoff is capped
<b>Experiment 4</b>	Organization Scenario	Future Pay-off	Payoff is uncapped

Experiment two, three, and five were tested simultaneously among different sub groups.

- 2) OBJ 2, OBJ 3 & OBJ 5 will be tested together: A close ended questionnaire (with limited interviews) on a seven-point Likert scale was used to test managers' understanding of the implications of misreported MPR, the factors that influence HPR as well as MPR practices within GC100 companies. This approach is cost effective, and feasible because the research instrument is similar, the sample selection process is similar, and the relationship between the three objectives makes it technically feasible to include questions to address all objectives without confusing the respondents.
- 3) OBJ 4: Use various regression techniques to test the implications of HPR on firm performance. The construct of the independent variables for the regression equation depended on the validity of the hypotheses for objective three and two.
- 4) Limited numbers of interviews were conducted with respondents to complement OBJ 2 (n=30), OBJ 3 (n=30), & OBJ 5 (n=15).

**Figure 3.3: Overall Methodological Framework For This Study**

In line with a pragmatist approach (Morgan, 2007) the methodological framework for this study can be depicted as follows.



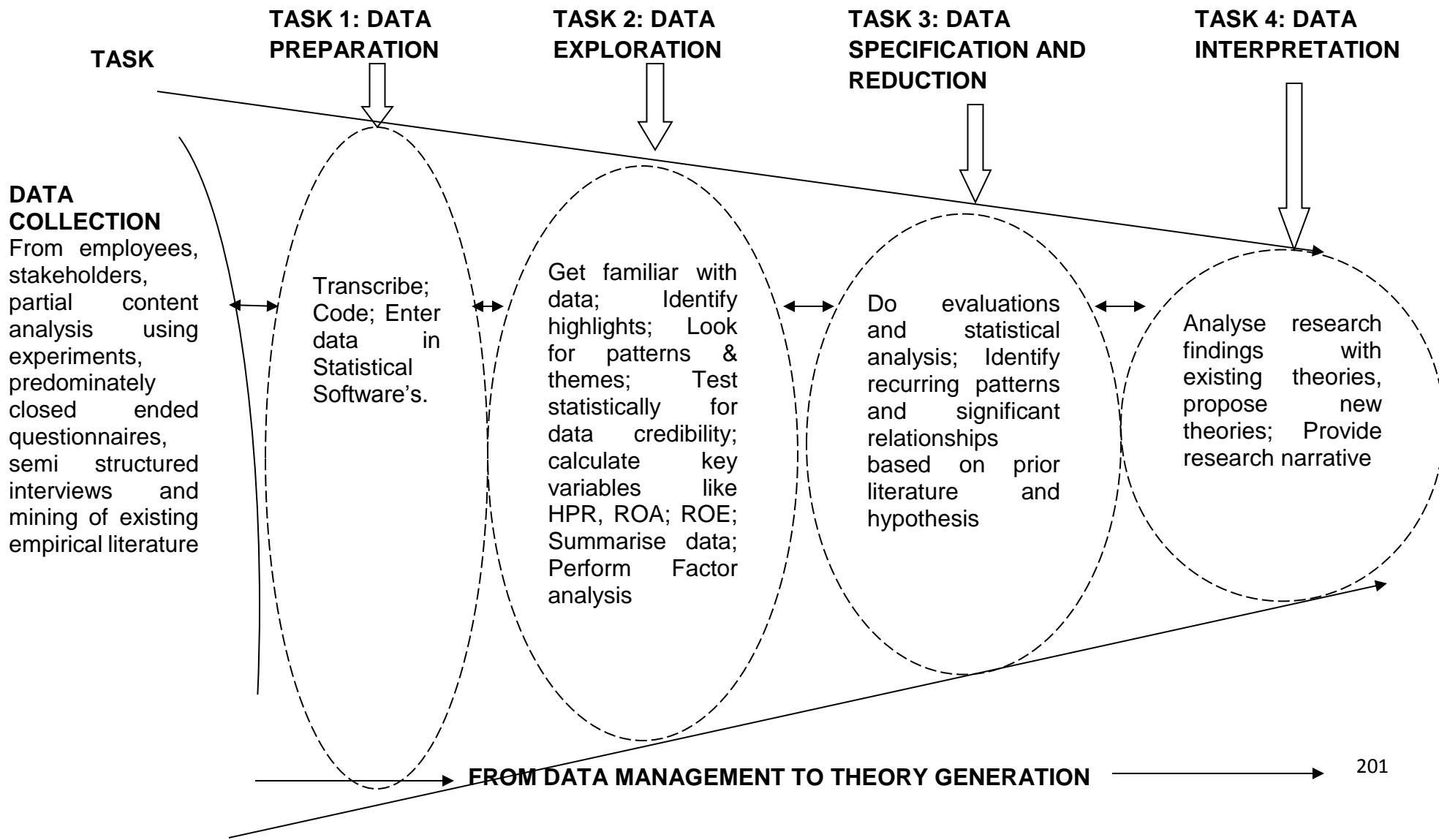
### **3.5. CHAPTER SUMMARY**

This chapter summarises the mixed methods used in the study, highlighting, for each method, strength, weakness and mitigating measures. Experiments were used to test managers' preference to be honest during the MPR process. The experiments used managers (rather than students) as respondents even though some students were used as a control group. Based on the findings of these experiments, the factors that influence HPR were investigated with hypotheses developed from theoretical modelling based on stakeholder theory and tested. To test the hypotheses, data was collected from employees within an organisation using structured questionnaires. To explore the relationship between HPR and FP, HPR was regressed on various measures of FP and a proposed model was tested using SEM. The perceptions of stakeholders on the implication of HPR is also explored using interviews and responses to a questionnaire that measures stakeholder views on the likelihood of occurrence and estimated effects of misreported MPR. MPR behaviours among managerial groups in GC100, is also explored with responses to interviews and vignettes.

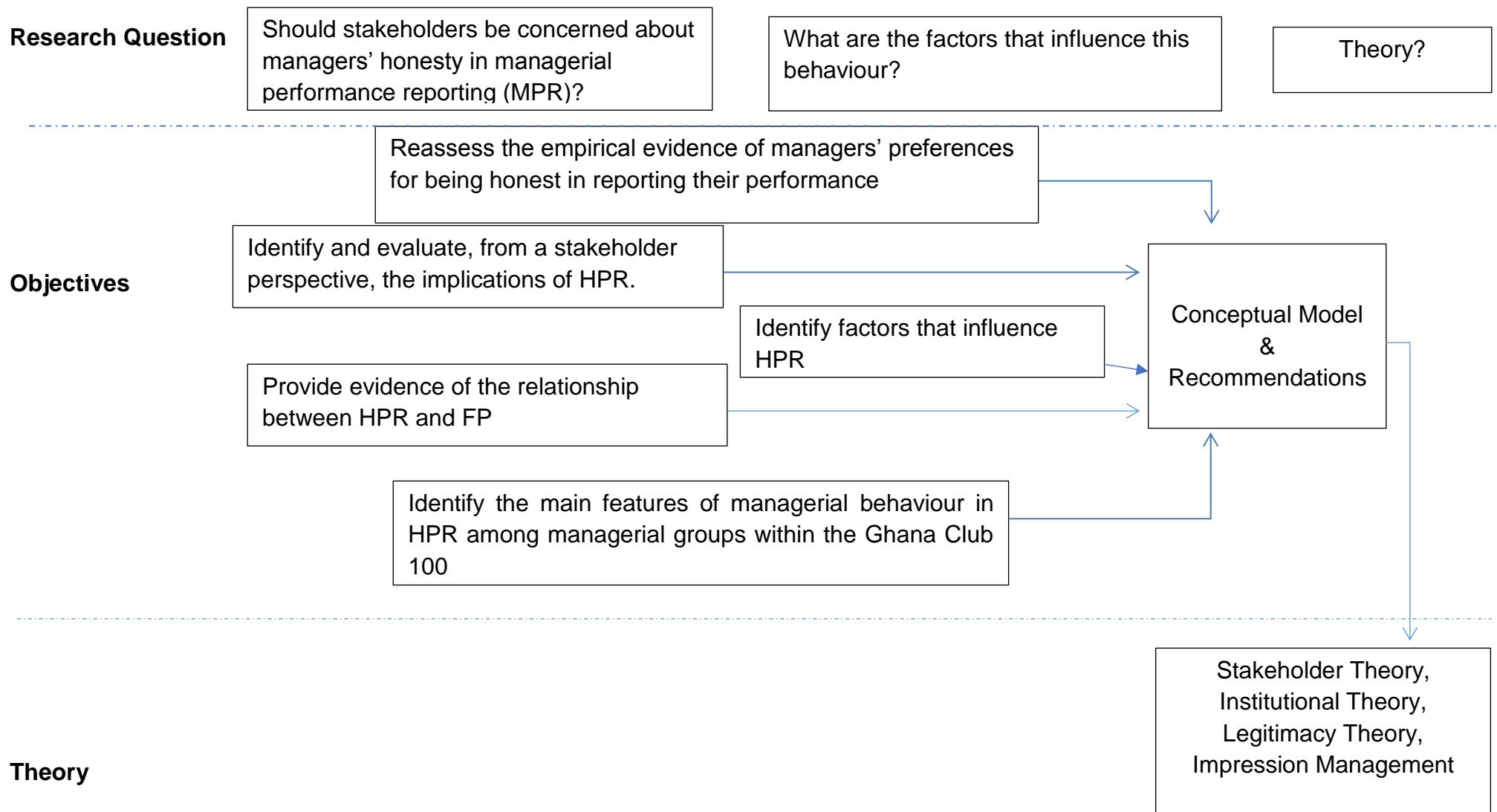
Considering the sensitive nature of this research area, the choice of research method(s) was critical to avoid eliciting socially desirable responses (SDR). This resulted in the use of multiple methodologies and in some cases multiple categories of respondents. All hypotheses were based on theoretical modelling (Sekeran, 2003) and the framing of survey questions deliberately avoided the focus on self (Chun, 2005; Yang, 2009). More importantly, in administering questionnaires within GC100 organisations, employees rather than business managers were targeted as respondents. To avoid ambiguity, the definition and qualifying criteria for employees were communicated and provided as part of the questionnaire (See figure 2.1 in chapter two). Yang (2009) contends that employees offer a reliable basis for a study on MPR because they are not as directly affected by perceptions of misreporting within the organisation. Figure 3.5 depicts how the research objectives help to address the primary research question.

Below (figure 3.4) is a modification of Hesse-Biber & Leavy (2006) as well as Low (2007) processes in data analysis and interpretation that summarises my approach to data analysis in the next chapter. The height of the bubbles represents the relative amount of raw data used in the task, while the width of the bubble represents the relative complexity of the task.

**FIGURE 3.4: Data Analysis Approach Adopted In This Study**  
(Based on a modification of Hesses-Biber & Leavy (2006) and Low (2007))



**FIG. 3.5: How The Research Objectives Address The Primary Research Question**



## CHAPTER FOUR

### ANALYSIS, RESULTS AND FINDINGS

#### 4.0. INTRODUCTION

This chapter analyses the data from the research instruments and discusses the major findings. It also interlinks the key findings from each research objective to existing empirical work.

#### 4.1. REASSESSING THE EMPIRICAL EVIDENCE OF MANAGERS' PREFERENCE FOR HPR.

Three hundred (300) participants (150 business managers and 150 students) participated in the experiment. The experiments for business managers and students took place on different dates. This allowed for effective monitoring and logistics management. For the business managers (this process was replicated for the students), participants were grouped into three sub groups of fifty members (50) each and seated in different rooms even though all experiments took place at the same time. Four experimental sessions were conducted with experiment two, three and four taking place simultaneously. All participants participated in experiment one (involving the individual scenario). Then after, each group participated in a different experiment. This approach was used to save time and cost to the researcher. Previous studies have mitigated excessive payoff, by randomly selecting one response from a set of repeated procedures and basing payments on the randomly selected response. In such an approach, respondents cannot, with certainty, know the amount they are entitled to at the end of the exercise and could result in respondents perceiving the exercise as a game theoretic process and may, therefore, introduce biases in the responses provided. All business managers were employed and knew the performance management system within their organisations. Except for experiment one (1), all experiments consisted of four periods of performance reporting (Q1, Q2, Q3, and Q4).

The first experiment (referred to as experiment one hereafter) involved a set of five multiple-choice questions on social issues in Ghana. No form of identification existed on the question sheet. The time allocated was five minutes after which the answers were displayed via a projector. Respondents were asked to mark their own scripts and record the answers on a separate sheet. Respondents were made aware that the payoff was USD1 for each correct answer and that the basis for payment was the recorded scores on the completed 'return sheet' that they complete. The researcher collected the answer sheets after the test. Cancellation of ticked answers was not allowed. Where a respondent wanted to change a previously ticked answer, the respondent could request for a new answer sheet. This was to prevent a scenario of answer changes during the self-marking process. No respondent requested for a new answer sheet. The researcher collected the question sheets with the marked answers carefully, in order of sitting arrangements. That is the question sheet for 'seat one' was picked before that of seat two et cetera. After the experiment and in the absence of the respondents, the researcher re-marked all the

sheets and the scores compared with the scores on the return sheets submitted by the respondents.

The second, third and fourth experiment involved a scenario with an organisational construct (See Appendix) allowing for a scenario where respondents could manipulate information to their benefit.

For the business managers experiments, the average payoff, excluding the fixed pay-off of \$5 for participation was \$4.08 (minimum \$1, maximum \$5) for experiment one, \$21.49 (minimum \$9.84, maximum \$32) for experiment two, \$22.40 (minimum \$8.48, maximum \$27) for experiment three and \$19.34 (minimum \$7.04, maximum \$32) for experiment four. In total \$4,524 was paid out (including the \$5 for participation) at an exchange rate of 1USD= 3.75 GHS. For the students experiments, the average payoff, excluding the fixed pay-off of \$5 for participation was \$4.15 (minimum \$0, maximum \$5) for experiment one, \$26.43 (minimum \$13.28, maximum \$32) for experiment two, \$23.95 (minimum \$8.48, maximum \$27) for experiment three and \$25.20 (minimum \$12.88, maximum \$32) for experiment four. In total \$5,151 was paid out (including the \$5 for participation) at an exchange rate of 1USD= 3.75 GHS.

The second experiment involved a scenario with an organisational construct and an immediate uncapped payoff. The third experiment involved a scenario of an organisational construct with an immediate capped payoff. The payoff was capped at USD27. The fourth scenario involved a scenario of an organisational construct, with uncapped payoff but the payoff is not immediate. The fourth experiment probably provides credence to the current attempt by shareholders to pay bonuses at some future period rather than immediately. Table 4.9 provides a summary of HPR for each experimental scenario.

The Chi square test of relatedness shows that demographics do not affect HPR scores for these groups of participants (See Table 4.1). In measuring demographics, I follow Kidwell et al. (1987) and measure GENDER, AGE, and NUMBER OF YEARS OF EMPLOYMENT. I include RELIGION in the demographic metrics. None of the demographic metrics is significantly related to HPR. This finding is consistent with O'Connell (1998) suggestion that in general, demographics have no bearing on ethical behaviour and MPR practices.

**Table 4.1: Chi Square Test**

	<b>Value</b>	<b>df</b>	<b>Asymp Sig (2 sided)</b>
Age	727.411	684	0.121
Religion	1404.267	1596	1
Gender	226.676	228	0.512
Manager/Student	231.905	228	0.416
Employment Experience	930.915	912	0.324

Subsequently, I perform a T test of independence between GENDER and HPR (Tables 4.2 & 4.3) and find no statistically significant difference between the mean HPR for females and male,  $t (298) = -0.886$ ,  $p=0.367$ .

<b>Table 4. 2: T Test Of Independence Group Statistics</b>				
Gender		N	Mean	Std. Error Mean
HPR	Female	150	.4808	.28062
	Male	150	.5111	.31139

<b>Table 4.3: Independent Samples Test</b>				
Levenes Test for Equality of Variances		HPR Score		
		Equal	Variance	Not Assumed
	F		3.016	
	Sig		.083	
T Test for equality of means	t		-.886	-.886
	df		298	294.832
	Sig. (2-tailed)		.376	.376
	Mean Difference		-.03032	-.03032
	Std. Error Difference		.03423	.03423
	95% Confidence Interval of Difference	Lower	-.09768	-.09768
		Upper	.03704	.03704

In confirming that students mean HPR scores are statistically and significantly different from business managers, I perform a t test of independence (Tables 4.4. & 4.5) and find a statistically significant difference in mean HPR scores between business managers (referred to as MANAGER in our statistical analysis) and students,  $t (298) = 7.149$ ,  $p=0.000$ . The group statistics in table 4.4 confirms that business managers have significantly higher HPR means scores ( $0.61 \pm 0.28$ ) compared to students ( $0.39 \pm 0.27$ ). This difference in mean HPR scores is further confirmed by a 2 x 3 univariate analysis of variance (Two-way ANOVA) test between groups (Student vs Employee) and within groups (Experiment group 2, 3, and 4). The results of the two-way ANOVA is shown in tables 4.12 & 4.13 and provide evidence that whether a participant was a student or an

employee [ $t(1) = 60.610$ ;  $p=0.000$ ], and/or the experimental manipulation [experiment 2, 3, 4;  $t(2) = 20.339$ ;  $p=0.000$ ] significantly affected the mean HPR score.

Even though the two way ANOVA showed a statistically significant interaction between the effects of experimental type (GROUP) and type of respondent (STUDENT or MANAGER) on HPR with results  $F(2, 294) = 9.314$ ,  $p=0.000$ , a simple main effects tests confirmed that mean HPR scores for managers and students were statistically significantly different. Therefore, we can accept the hypotheses (hypothesis four) that students and business managers have significantly different mean HPR scores and hence react differently to organisational related ethical issues about MPR.

**Table 4.4: T Test Of Independence Group Statistics**

Industry/Employee		N	Mean	Std. Deviation	Std. Error Mean
HPR	MANAGER	150	.6092	.27621	.02255
	STUDENT	150	.3828	.27220	.02222

**Table 4.5: Independent Samples Test**

Levenes Test for Equality of Variances		HPR Score	
		Equal Variance Assumed	Equal Variance Not Assumed
		F	0.004
T Test for equality of means		Sig	.949
		T	7.149 7.149
		Df	298 297.936
		Sig. (2-tailed)	.000 .000
		Mean Difference	.22636 .22636
		Std. Error Difference	.03166 .03166
		95% Confidence Interval of Difference	.16405 .16405
		Lower	.28867 .28867

To proceed with testing the remaining hypotheses, it was important to establish that the manipulations in experiment 2, 3, and 4 were statistically different. Tables 4.5 & 4.6 show the results of a Kruskal-Wallis H test. The test confirms that there was a statistically significant difference in HPR score between the different groups,  $\chi^2 (2) = 30.279$ ,  $p = 0.000$ , with a mean rank HPR score of 156.94 for GROUP A, 114.00 for GROUP B and

180.57 for GROUP C (Group A, B & C in the statistical analysis are equivalent to experiment 2, 3, and 4 in this study).

<b>Table 4.6: Kruskal-Wallis Test</b>			
<b>Ranks</b>			
<b>GROUP</b>		<b>N</b>	<b>Mean Rank</b>
HPR	A	100	156.94
	B	100	114.00
	C	100	180.57
	Total	300	

<b>Table 4.7: Test Statistics<sup>a,b</sup></b>	
Chi-Square	HPR 30.279
Df	2
Asymp. Sig.	.000

a. Kruskal Wallis Test

b. Grouping Variable: GROUP

A one-way ANOVA (Table 4.8) also confirms that experiment 2, 3, and 4 are statistically different at  $p=0.000$ . This is also confirmed by the univariate analysis of variances (two-way ANOVA) as shown in Table 4.10 - 4.13 below.

<b>Table 4.8: One Way ANOVA</b>					
HPR	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	2.585	2	1.293	16.224	.000
Within Groups	23.665	297	.080		
Total	26.250	299			

This study, like other similar studies (Evans et al., 2001) found a significant number of honest and partially honest managers within an organisation and disproves the preposition of the CAT as an explanation for all purposefully misreported MPR (Table 4.9). For the CAT to be a valid explanation for all forms of misreported MPR, HPR should have been zero for all scenarios (especially scenario two) in table 4.9.

**Table 4.9: Summary Of Experiment Results**

		Experiment 1: 'Individual Scenarios'	Experiment 2: 'Org. Construct-Immediate uncapped pay-off.'	Experiment 3: 'Org Construct-Immediate capped pay-off.'	Experiment 4: 'Org. Construct-non-immediate uncapped pay-off.'
Business Managers	N	150	50	50	50
	HPR – computed	34%	69%	44%	82%
Students	N	150	50	50	50
	HPR – computed	32%	36%	29%	44%

*Table 5.9: Summary of Experiment Results*

Again, this study finds evidence to support the argument that for persons with employment experience (managers), MPR behaviour is generally more honest within an organisational environment than involving purely personal issues. This confirms hypothesis One (1). While the essence of this study is not to provide probably explanations for this trend, it will seem that studies about HPR behaviour should be focused at the organisational level rather than at the individual level. This is because it is probable, that due to the peculiarities of an organisational environment, including the possibility of sanctions when discovered, the desire to be fully dishonest is mitigated. The significant differences in HPR scores between students and business managers found in this study may be due to students' lack of appreciation of the peculiarities of the work environment. Students' responses were not materially different between experiment 1 (HPR 32%) and experiment 2 (HPR 36%) whereas business managers HPR scores significantly differed between the Experiment '1' (HPR 34%) and Experiment '2' (HPR 69%).

This study also confirms Evans et al. (2001), preposition that dishonest MPR increases when pay-offs are capped. This confirms Hypothesis two (2). Various studies have confirmed that employees rebel when their freedoms are restricted (Maas & Rinsum; 2013), or when they feel an injustice being done (Rabin, 1993). Evans et al. (2001) propose a 'distributional hypothesis' for explaining this phenomenon and argue that respondents report relatively less honestly under the scenario of capped payoff because they want to achieve the desired distribution of the 'total surplus' between themselves and the firm. Arguments about considerations of equity and reciprocity (Gino & Pierce, 2009) also suggest that when employees perceive a cap as unfair, they may report MPR dishonestly. It is worth noting that when the pay-off is capped, HPR falls below the individual scenario HPR for students (HPR 29%) but remains above the experiment 1 for business managers (HPR 44%).

In the scenario where pay-off is uncapped but not immediate, HPR improves significantly to 82 percent (82%) for business managers and marginally to 44% for students. This

confirms Hypothesis three of the study. This revelation provides credence to the ongoing debate about delaying the payment of performance pay-offs. As well it provides credence to the argument that manager's assessment of the likelihood and effectiveness of monitoring mechanisms can mitigate dishonest MPR. Clearly, the possibility of sanctions within an organisational environment could be one possible explanation for the wide differences in HPR between individual and organisational constructs. Hypothesis three (3) can be accepted because for both students and business managers HPR is higher in experiment four compared to experiment two.

**Table 4.10: Between-Subjects Factors**

		Value Label	N
Industry	1	INDUSTRY	150
	2	STUDENT	150
GROUP	1.00	A	100
	2.00	B	100
	3.00	C	100

**Table 4.11: Descriptive Statistics**

Dependent Variable: HPR		Mean	Std. Deviation	N
Industry	A	.6712	.23383	50
	B	.3973	.25783	50
	C	.7590	.19545	50
	Total	.6092	.27621	150
STUDENT	A	.3660	.25846	50
	B	.3480	.28140	50
	C	.4343	.27400	50
	Total	.3828	.27220	150
Total	A	.5186	.28923	100
	B	.3727	.26964	100
	C	.5967	.28754	100
	Total	.4960	.29630	300

**Table 4.12 Tests of Between-Subjects Effects**

Dependent Variable: HPR		Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model		7.609 <sup>a</sup>	5	1.522	24.003	.000
Intercept		73.797	1	73.797	1163.911	.000
Industry		3.843	1	3.843	60.610	.000
GROUP		2.585	2	1.293	20.389	.000
Industry * GROUP		1.181	2	.591	9.314	.000
Error		18.641	294	.063		
Total		100.047	300			
Corrected Total		26.250	299			

a. R Squared = .290 (Adjusted R Squared = .278)

**Table 4.13: Multiple Comparisons**

Dependent Variable: HPR		Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval		
					(I) GROUP	Lower Bound	Upper Bound
Tukey HSD	A	.1460*	.03561	.000	B	.0621	.2298
		-.0780	.03561	.074	C	-.1619	.0058
	B	-.1460*	.03561	.000	A	-.2298	-.0621
		-.2240*	.03561	.000	C	-.3079	-.1401
	C	.0780	.03561	.074	A	-.0058	.1619
		.2240*	.03561	.000	B	.1401	.3079

Based on observed means.

The error term is Mean Square (Error) = .063.

\*. The mean difference is significant at the .05 level.

#### 4.1.1. Summary And Conclusion On Experimental Tests

Overall, these findings suggest that organisations may be able to benefit more from a redesign of employment contracts from the existing CAT convention of attempting to align agents' interest with shareholder interest. Perhaps, the overemphasis of a self-serving agent whose only desire is to maximise utility at any cost, including dishonest MPR, may not be appropriate and is costly. The evidence from this study suggests that agent's willingness to lie is affected by a variety of variables including the kind of employment contracts as well as the kind of managerial compensation adopted. As an example, managerial compensation that caps pay-offs may be detrimental, and perhaps as suggested by Evans et al. (2001), organisations will benefit from paying business

managers a higher fixed salary rather than an over focus on performance related bonus schemes.

For these findings to have any predictive credibility, it is critical to test for certain biases. Firstly, the internal and construct validity of the experiments must be confirmed. This was done through various methods. Firstly, the hypotheses on which the various experimental scenarios were based on emanated from existing theories in various social disciplines. Secondly, the respondents used were actual employees within organisations rather than the use of students as surrogates. Thirdly, the post experimental questionnaire suggested that respondents understood the experiments, were aware that their responses were anonymous and were free to provide any responses they deemed appropriate. Lastly, the experimental constructs used were similar in substance to other scenarios that had been used by other researchers but had been tweaked to be more practical, and relevant to the Ghana situation. All experimental constructs were submitted for review to colleague PhD students and a 'Big Four Auditing Firm', and the feedback suggested that it was an appropriate fit for the test being conducted.

A second bias that needs to be tested is the extent to which the sample (participants) is representative of the total population (Ghanaian employees). Considering that no computers were used, a larger sample size will have created management and administrative challenges for the researcher. The sample compared to other similar studies is appropriate. Evan et al. (2001) for instance based their conclusions on an experiment involving 28 students in the USA. This experiment uses 300 persons in total, with fifty persons in each sub group. Most importantly this experiment compared student participants with business managers and finds evidence that students mean HPR are significantly different from business managers. The challenges with using students as surrogates for employees are well documented. Quite clearly, the USA has more corporate entities than Ghana, and therefore if the number of respondents is put in context (relative to the number of corporate entities), then the sample used in this research is quite representative. Also, the categorisation of respondents into the various sub groups was based on randomisation. This suggests that responses within each sub group of fifty persons could be generalised to the general sample of 300.

The likelihood of socially desirable responses (SDR) introducing a bias was highly minimal. Firstly, aside from the researcher, no one was aware of the main purpose of the experiment. Indeed, a set of questions are deliberately included in the post experimental questionnaire to divert attention from the main object of the experiment. Based on responses to the post experiment questionnaire, none of the respondents had ever participated in a similar experiment before. Experiments were all carried out simultaneously across groups. More importantly, the relatively high number of 'negative responses' suggest limited effects of SDR.

## **4.2. FACTORS THAT INFLUENCE HPR**

### **4.2.1. Sample Demographics**

A total of three hundred and thirty-five (335) questionnaires were distributed to 67 companies. Overall, 265 useable responses were received equivalent to an average of 4 responses per organisation. Seventy-Four (74) responses, representing 27.9% of the total responses were from organisations with employees more than 500 persons. Therefore, the responses in this analysis may be skewed to large organisations, but this is to be expected considering that the sample was selected from organisations within Ghana's top 100 companies in 2014. The sample demography is presented below (Table 4.14 – Table 4.16).

<b>TABLE 4.14</b>	<b>Sample Descriptive Statistics By Sector</b>								
	<b>AGRIC</b>	<b>ICT</b>	<b>FIN SERV</b>	<b>MPC</b>	<b>FMCG</b>	<b>MINING</b>	<b>EOG</b>	<b>SERVICES</b>	<b>Total</b>
<i>Number of Companies</i>	5	5	61	7	5	3	2	12	100
<b><i>Exclude</i></b>									0
<i>GOVT</i>	1	1	1				1		4
<i>Owner Managed</i>		1	9	2				7	19
<i>Unable to establish Ownership</i>			3						3
<i>Unwilling to Take part</i>			7						7
<b><i>Available Sample</i></b>	<b>4</b>	<b>3</b>	<b>41</b>	<b>5</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>5</b>	<b>67</b>
<i>Questionnaire Administered</i>	20	15	205	25	25	15	5	25	335
<i>Responses Received</i>	20	15	151	25	25	15	5	24	280
<i>Unusable</i>	0	0	11	0	0	0	0	4	15
<b><i>Useable Responses</i></b>	<b>20</b>	<b>15</b>	<b>140</b>	<b>25</b>	<b>25</b>	<b>15</b>	<b>5</b>	<b>20</b>	<b>265</b>
<i>Response Rate</i>	100%	100%	68%	100%	100%	100%	100%	80%	79%
<i>Additional Interviews</i>	1	2	4		3			5	15

Table 4.15: Sample Demographics

Industry	GSE		Size (Measured by Number of Employees)				TOTAL
	Listed	Not Listed	Small	Medium	Big	Large	
			Employees<50	50<Employees<100	100<Employees<500	Employees<500	
FMCG	10	15	0	5	0	20	25
ICT	0	10	0	0	5	5	10
OTHER SERVICE	0	25	0	3	10	12	25
FINANCIAL SERVICES	40	100	10	31	48	51	140
AGRICULTURE	5	15	0	0	20	0	20
ENERGY/OIL/GAS	0	5	0	0	0	5	5
ENGINEERING	0	0	0	0	0	0	0
METALS AND CHEMICALS	0	25	0	0	20	5	25
GOVERNMENT	0	0	0	0	0	0	0
MINING	0	15	0	0	0	15	15
<b>Total</b>	<b>55</b>	<b>210</b>	<b>10</b>	<b>39</b>	<b>103</b>	<b>113</b>	<b>265</b>

**TABLE 4.16: Detailed Description Of Respondents**

	Gender		Married?		Academic Experience				AGE (YEARS)				Experience (Years)			Total
	M	F	Yes	NO	No Degree	Bach.	Profnal	Post Grad	18-25	26-35	36-50	>50	3->5	5->10	>10	
FMCG	21	4	15	10	5	10	5	5	1	10	12	2	9	11	5	25
ICT	9	1	6	4	0	1	4	5	0	6	4	0	2	8	0	10
OTHER SERVICE	21	4	24	1	1	9	9	6	1	16	6	2	3	9	13	25
FINANCIAL SERVICES	99	41	101	39	9	58	38	35	16	79	34	11	29	69	42	140
AGRICULTURE	16	4	14	6	2	11	4	3	3	9	8	0	0	13	7	20
ENERGY/OIL/GAS	4	1	5	0	1	3	0	1	0	1	4	0	0	5	0	5
ENGINEERING	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
METALS AND CHEMICALS	21	4	20	5	2	14	7	2	0	15	8	2	3	12	10	25
GOVERNMENT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MINING	9	6	9	6	2	4	3	6	2	8	5	0	8	6	1	15
<b>Total</b>	<b>200</b>	<b>65</b>	<b>194</b>	<b>71</b>	<b>22</b>	<b>110</b>	<b>70</b>	<b>63</b>	<b>23</b>	<b>144</b>	<b>81</b>	<b>17</b>	<b>54</b>	<b>133</b>	<b>78</b>	<b>265</b>

Married "YES" is defined to include 'married and engaged'.

'Post Grad' refers to respondents who indicated a post graduate degree as their highest qualification. Postgraduate includes masters only as there are no PhD respondents.

'Bach' refers to respondents who indicated a bachelor's degree as their highest qualification.

'Profnal' refers to respondents who indicated a professional qualification as their highest qualification.

#### **4.2.2. Representativeness Of Sample To Target Population**

Sixty-Seven (67) organisations out of the population of 100 were targeted with an average of 5 questionnaires per organisation. The response rate was 79% with an average response of 4 per organisation. The targeted sample was very representative of the private businesses with ownership divorced from management. Additionally, a sizable number of organisations within the sample are also listed on the Ghana Stock Exchange (30%). The sample cuts across various industry segments and includes organisations within the manufacturing, oil and energy, food and beverage manufacturing, insurance financial services, ICT and telecommunications, construction and mining companies.

#### **4.2.3. Test For Reliability And Validity:** Reliability and Validity tests were performed in SPSS.

##### **4.2.3.1 Non-Response Bias And Response Rate**

A total of three hundred and thirty-five (335) questionnaires were distributed to 67 companies. 265 useable responses were received. Responses from one organisation were excluded because they were received after the analysis of data had been completed. This was because the CEO requested to vet through all responses (six responses in total) from that organisation before they were submitted to the researcher.

This was in breach of the agreement between the researcher and the Human Resource Director for that organisation. Since confidentiality could not be guaranteed, the researcher believed socially desirable response bias might have occurred and hence the decision to exclude those responses from the analysis. In any case, the late submission of the response made it impossible to include it in the analysis.

##### **4.2.3.2. Social Desirability Bias (SDB):**

SDB occurs in situations where, for various reasons, respondents in any investigation provide answers and react in a certain manner based on their perception of what is socially approved or desirable (Bryman & Bell, 2007; Zaid, 1997). Often the respondent intends to provide answers or act in a manner that is socially desirable or acceptable. SDB can manifest itself through non-response to a questionnaire. This happens, when due to certain reasons (such as answer the questionnaire honestly and risk providing socially undesirable responses), certain persons refuse to answer the questionnaire and therefore the persons who answer the questionnaire belong to a skewed group. Therefore, when SDB exists, responses provided, and behaviour observed may not be credible for analysis and generalisation. SDB has pervaded most behavioural studies include ethics and the processes of managerial decision-making (Fernandes & Randall, 1992; Zerbe & Paulhus, 1987). Essentially, it is critical therefore for research studies to (1) minimize the possibility of SDB during their studies and data collection procedures, (2) scientifically assess the possibility of SDB in data collected and analysed and finally (3) to disclose in their study the level of SDB, or the possibility thereof of its existence to guide the extent of generalisation of their study.

Avoiding SDB during data collection involves several strategies. Often questionnaires and interviews that do not focus excessively on asking for prying personal information are likely to receive relatively less social desirable responses. Secondly, questionnaires and interviews that assure anonymity and visibly demonstrate the intention to ensure anonymity also receive relatively less socially desirable responses. Widening the sample size and reducing the non-response rate can also help to minimise the likelihood that certain persons rather than provide honest answers (that are socially undesirable) will refuse to respond to the questionnaire.

Various methods exist for measuring the existence of SDB within collected and analysed data. Firstly, to find out the reason for non-responses, the researcher can interview non-respondents. These interviews are supposed to provide an opportunity to assess if a significant number of non-responses were to avoid providing 'socially undesirable' responses. However, the method of making this determination may be difficult and arbitrary (Zaid, 1997). Secondly, early responses can be compared to late responses to determine if a statistically significant difference exists in the responses. Late responses are used, in this case, as a proxy for non-responses and have been by other researchers such as Armstrong & Overton (1977). Depending on the number of questionnaires involved, this can be done manually or through statistical software's. Statistical software's such as SPSS can be used to calculate sample t test (Table 4.18) and chi-square to determine SDB.

In this study, because the expected count for most categorical variables was below five (5) 'Likelihood Ratio' was used in computing chi-square (Table 4.17). For all variables, no evidence was found of a significant relationship between categorical variables and the mean score of respondents on all questions (B1-C10, except C1-C4 that were not imputed into SPSS) at the 95% confidence level ( $p=0.05$ ). Similar results are obtained when categorical variables are related to the sum of all responses (rather than the mean) on all questions from B1-C10 (Please see questionnaire).

Table 4.17: Likelihood Ratio Test of Relatedness			
Dimension	Pearson Chi-Square	df	Sig (2 tailed)
Age	415.079	417	0.991
Gender	142.524	139	0.066
Educational Level	699.588	695	1.000
Marital Status	604.523	556	1.000
Organizational Size	602.654	556	1.000
Experience	309.209	278	0.096
Industry	1009.807	973	1.000

Table 4.17 confirms that there is evidence that the population samples from early respondents and late respondents are significantly different (Levene's test significance higher than 0.05 for all computations) whereas Table 4.18 shows no evidence of a significant statistical difference in responses between early and late respondents (t test significance level in excess of 0.05 for all variables).

Table 4.18: T Test Of Relatedness Responses And Non-Responses								
Dimension	Levene's Test for equality of Variance		T test			Response		
	F	Sig (2 tailed)	df	T	Sig (2 tailed)		Early Response	Late Response
Mean of all responses	0.549	0.459	263	-0.643	0.521	N	235	30
						M	3.4230	3.5893
						SD	1.34378	1.24475
						SE	0.8766	0.22726
HPR (B1-B6)	3.184	0.076	263	-1.815	0.071	N	235	30
						M	3.4248	3.9677
						SD	1.52071	1.71283
						SE	0.09920	0.31272
PERF (B7-B11)	3.533	0.061	263	-1.258	0.209	N	235	30
						M	3.4757	3.8333
						SD	1.44348	1.63419
						SE	0.09416	0.29836
INNOVATE (B12-B15)	0.346	0.557	263	-1.439	0.151	N	235	30
						M	3.4277	3.8500
						SD	1.51209	1.52649
						SE	0.09864	0.27870
ENV (B16-B20)	0.483	0.488	263	-2.269	0.240	N	235	30
						M	3.6017	4.2467
						SD	1.46235	1.49545
						SE	0.9539	0.27303
POLITICS (B21-B24)	4.145	0.430	263	-1.174	0.242	N	235	30
						M	3.5667	3.9250
						SD	1.59469	1.40066
						SE	0.10403	0.25572
MCS (B25-B30)	2.590	0.109	263	-0.186	0.853	N	235	30
						M	3.4115	3.4660
						SD	1.48319	1.72981
						SE	0.9675	0.31582
INC (B31-B36)	1.486	0.224	263	-1.855	0.065	N	235	30
						M	3.5353	4.1053
						SD	1.56863	1.71122
						SE	0.10233	0.31242
IND (B37-B40)	0.260	0.610	263	0.012	0.990	N	235	30
						M	3.6128	3.6083
						SD	1.89284	1.42285
						SE	0.12348	0.25978

N=frequency, M=Mean, SD=Standard deviation, SE = Standard error of mean

Methods such as the Balanced Inventory of Desirable Responding (BIDR) and the Crowne-Marlowe social desirability scale – CMSDS - (Crowne & Marlowe, 1964) have been developed and used in studies similar to this research to measure the existence and effects of SDB (Manley, Benavidez & Dunn, 2007). However, to use these methods require extra data that is often achieved by embedding extra questions with the research instrument. In the specific case of this study, BIDR, and CMSDS were not used because the (1) researcher was of the opinion that this will have made the questionnaire cumbersome and lengthy and therefore may have affected the response rate (creating another risk of SDB) (2) the researcher was of the opinion that SDB, even if it existed will be very minimal due to the strategies used during data collection to mitigate SDB and (3) other equally effective methods such as the sample t test and the chi-square could be used to measure the extent of SDB.

The biases from socially desirable responses are minimal in this study because of the following reasons

- a) The non-response rate of 21% was relatively minimal compared to other similar studies (e.g. Evans et al., 2001).
- b) A relatively significant number of negative responses were received suggesting that very minimal attempt was made by respondents to provide a socially desirable response (Bampton & Cowton, 2002). Indeed, there evidence from this study suggests that a significant number of organisations do not report honestly on managerial performance. 47% of respondents (Scores from 4 to 7 on the Likert Scale) suggested that managers within their organisation do not honestly report MPR.
- c) Questionnaires avoided excessive intrusion into the private lives of respondents (this was confirmed during the piloting of the questionnaire), promised and expressly assured anonymity, and questions (including scenarios) within the questionnaire were written in the third person to allow respondents to exclude personal considerations in their responses. The covering letter that accompanied the questionnaire, as well as the introductory remarks to every interview conducted confirmed anonymity and confidentiality, and this was expressly maintained throughout the study (Sweeney & Costello, 2009). Scenarios used actors rather than specifically referring to the respondent, to mitigate the effect of personal considerations on responses (Ng et al., 2009).
- d) Questionnaires in most cases were self-administered, and responses were returned in a sealed envelope, directly to the researcher. The envelope and responses had no marking to identify the respondents.
- e) An interview of late and non-respondents did not suggest SDB as a challenge. Most 'late respondents' and 'non-respondents' stated (1) the lack of time, specifically the coincidence of the questionnaire administration with the month end financial close and other responsibilities, (67%) (2) the inability to meet the qualifying criteria and receiving the questionnaire in error, i.e. the number of years within the organisation and level of managerial responsibility (18%) and (3) inadvertently misplaced, made a mistake or soiled the questionnaire and felt shy to ask for a new one (15%).

#### 4.2.3.3. Test Of Internal Validity:

Cronbach (1951) alpha is a coefficient that describes how well a group of items focuses on a single idea. An analysis of responses (as shown in table 4.19) shows a computed Cronbach Alpha of more than 0.9 for all variables.

**Table 4.19: Evidence Of Effectiveness In Measuring Unobserved Variables**

Dimension	Related Questions	Number of Items	Cronbach's Alpha
Overall Reporting behaviour	B1-B47	40	0.983
HPR	B1-B6	6	0.929
PERF	B7-B11	5	0.903
INNOVATE	B12-B15	4	0.909
ENV	B16-B20	5	0.906
POLITICS	B21-B24	4	0.907
MCS	B25-B30	6	0.928
INC	B31-B36	6	0.939
IND	B37-B40	4	0.900

A Cronbach alpha of 0.7 or higher is often a measure of good internal validity (Pallant, 2001), even though an alpha of between 0.5 and 0.6 is an acceptable level of reliability (Nunnally, 1978; Peter, 1979). A Principal Component Analysis (PCA) also resulted in one factor extraction explaining about 74% of each latent variable (See Table 4.32). This confirms the results of the Cronbach Alpha test.

#### 4.2.4. Data Preparation For Analysis

Data was prepared, coded and imputed into SPSS. In most cases (except for question A6 and A10) the coding was the same as the categorisation or intervals defined in the questionnaire. As an example, question A1: AGE was coded as 1= Below 18; 2=18 yrs. – 25 yrs.; 3 = 26 yrs. -35 yrs.; 4= 36 yrs. – 50 yrs. & 5= above 50 yrs.; Questions B1 to B47 were coded in the manner similar to the seven-points Likert scale used in the questionnaire. Question A6: ‘Number of Employees’ was coded as follows; 1= up to 50 employees; 2=more than 50 and up to 100 employees; 3=more than a 100 and up to 500 employees and 4=more than 500 employees. Question A10 was coded as 1 for the listed company on the Ghana Stock Exchange and 2 for the unlisted company. Before including into SPSS, questions A5; ‘Number of years of experience within the organisation, A8: ‘Ownership structure’, A9, A10, and A11: ‘Knowledge about the organisation’s performance reporting system’ were used to determine the usability or otherwise of the completed questionnaire. Questionnaires responses were only included if they were fully completed (Section A, Section, B, Section C and Section D), by a respondent with a span of control of less than ten employees, who had been within the organisation in question for at least three years and had a fair knowledge about the MPR system within the organisation. Additionally, management must be separated from ownership within the

organisation, and the organisation must have more than 50% private ownership (local or foreign) and management, and 'private shareholders' must control critical business decisions. 26.67% of the unusable responses indicated in Table 4.14 were due to questionnaire responses not meeting these criteria. The remaining was due to incomplete responses (40%) or illegible responses (33.3%). Even though no specific question(s) was asked about respondents' span of control, the covering letter specifically mentioned this criterion. More-so this criterion was discussed with the contact person within organisations in deciding on the appropriate respondents to target. In the distribution of these questionnaires, most organisations allowed for personal contact with the respondents, based on the researcher's request. The researcher personally distributed 86% of the questionnaires, and the researcher personally collected all completed questionnaires. The researcher used this opportunity to highlight the qualifying criteria before distributing the questionnaire and when collecting the completed responses. Additionally, because some respondents stated not meeting the qualifying criteria as the reason for non-response, the possibility of responses from unintended respondents is very minimal. Question A9 and A11, C1; C2; C3 and C4 and Section D were not coded into SPSS. C5 to C8 were coded into SPSS in the following manner 1=a; 2=b; 3=c; 4=d; 5=e. The intention was to mimic the trend with the Likert scale were higher number values are relatively more adverse than smaller number values. C9 was code as 1=Yes and 2=No. C10 was coded similarly to B1-B47. MVIVO was minimally used to aid the analysis of interview responses of Section D and C1-C4.

SPSS AMOS version 24 was used to test and confirm the model proposed in Fig 4.5. To do this, section B1 to B46 were treated as continuum variables by assuming that the seven-points Likert scale represented intervals (Field, 2009) and various parametric tests were used to analyse the data. All requirements for using parametric test were met; that is; the selection of the sample was random within the specified population or group; the data is taken from an interval or ratio scale; the samples are independent; and the specific characteristics are normally distributed within the population (a test of some of these assumptions will be discussed as part of a discussion of the test of the assumptions for a regression analysis).

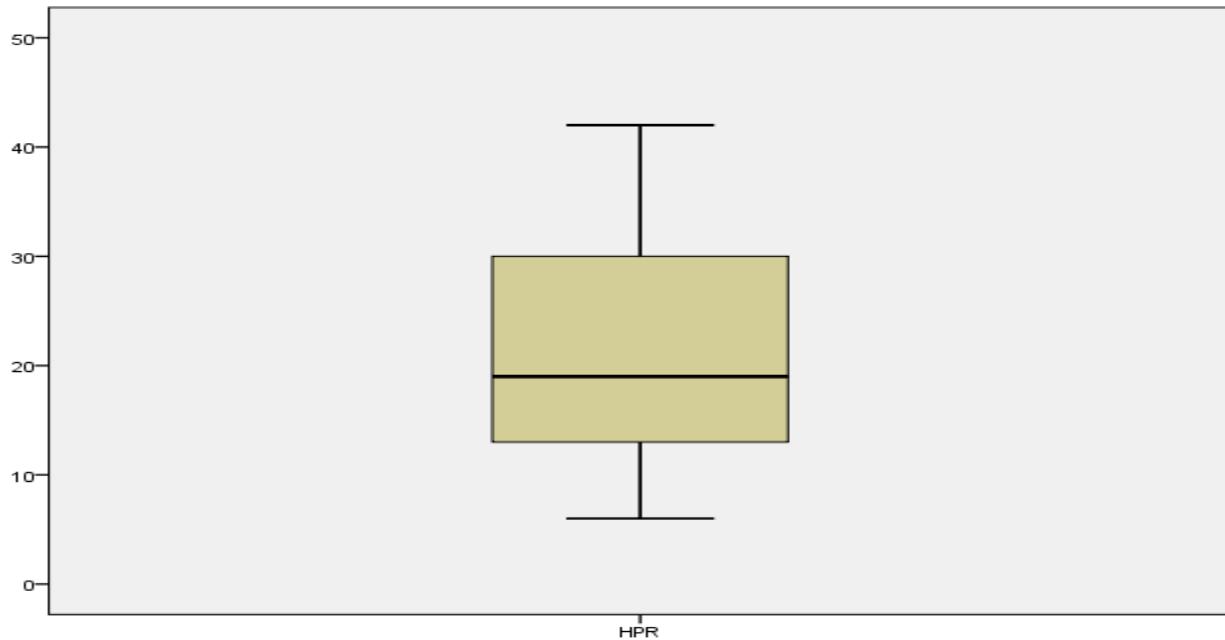
To ensure the credibility of any regression analysis performed, the data was checked to ensure that all critical assumptions required for credible regression analysis were met. O'Brien (2007) argues that multiple measures, rather than a single measure should be used to test regression assumptions because using a single measure can have unintended consequences on a research outcome.

HPR is the dependent variable in this section (assessing the confluence of factors that affect HPR), and hence various parametric tests are performed on HPR to confirm the reliability of data. HPR, (like PERF, INNOVATE, MCS, INC, IND, POLITIC and ENV) are latent unobservable variables which were measure through various observable variables. HPR was computed in two ways. One method involved adding up the set of responses related to the latent variable for each respondent. The other method involved performing a PCA to identify a unique factor for each latent variable (these two methods are discussed in greater detail in the following sections). In performing the credibility and

reliability test of data related to HPR etc., the two outputs of HPR are used. However, no significant differences were found in the results of the various reliability and validity tests using the two approaches. The results presented below (Table 4.20 to Table 4.21 and Fig 4.1 to Fig 4.4) are the results based on HPR as a sum of responses for each response that measures a latent variable. The discussion below confirms the validity of the data used for analysis.

1. Checking Data for Outlying and Influencing Variables: Box plots are more effective graphical tools for detecting outliers than histograms (Field, 2013). Scatter plots suggested no significant outliers for all relevant variables. Typically, in SPSS, mild outliers will be indicated by a nut (o) on the box plot, and extreme outliers will be represented by a star sign on the box plot. Figure 4.1 presents the box plot for HPR. The box plots for the remaining variables are within the appendix and confirm similar results of insignificant outliers and influencing variables (Figure 10.1).

**FIG. 4.1: Box Plots To Test For Outliers.**



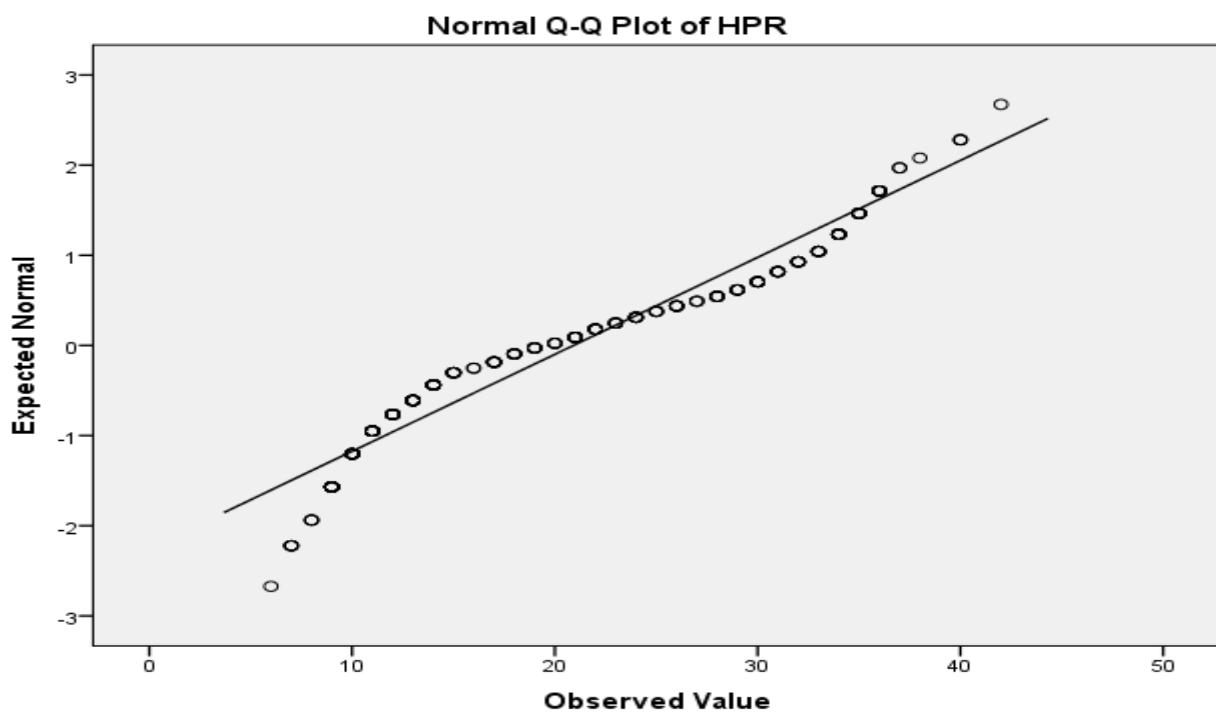
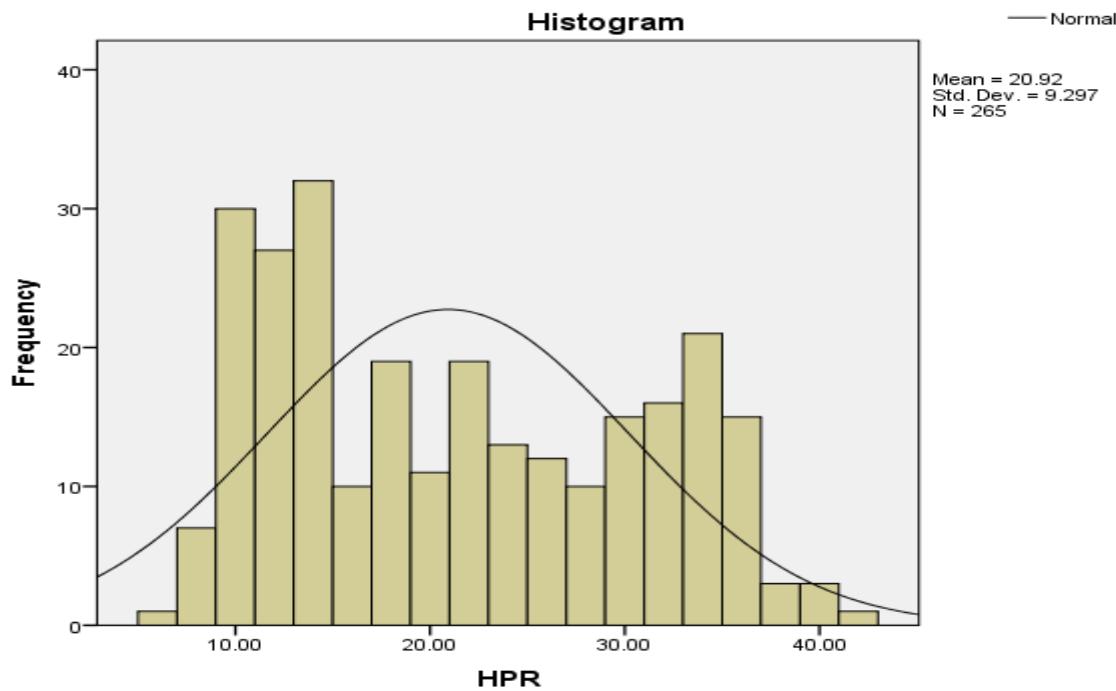
Additionally, cooks distance, centred leverage value, Case wise diagnostics and Mahalanobis distance were computed using SPSS with HPR as the dependent variable. Case wise diagnostics (based on a threshold of 3) identified only one case. For the number of responses of 256, one case (case 111) as an outlier cannot be considered to have a significant effect. More-so, taking out the specific case did not significantly alter the output of the regression analysis. This outlier or influencing factor was evaluated and considered an appropriate response. In making decisions concerning outliers, this study attempted to balance the potential bias from any outliers with the need to ensure that responses were not tempered with in a manner that skewed the results. Because this was a study based on employee perception, differences in perception can reflect in varied responses. Therefore, in making decisions about outliers and influencing factors, this study, rather than rely on a single statistical method, considered the total effect of a varied

set of methods including case-wise diagnostics, Mahalanobis Distance, Cooks distance and centred leverage value, histograms and box plots. Together these statistics showed very minimal effects of outliers and influencing factors. More-so, the identified outlier when excluded did not significantly affect the findings. Rather it strengthened the predictive power of the regression model hence no exclusions were made in this analysis on the grounds of outliers or influencing values.

2. Ensuring all Predictors are quantitatively measured on a continuous scale (such as interval or ratio or categorical). Likert scales used in this study were treated as parametric measures and converted to continuous variables. Considering that the qualitative variables are of a ranking nature, Nunnally (1978) argues that is possible to treat ranking variables as leading to interval or ratio scales for purposes of statistical analysis. Various other studies such as Reckers et al. (1994) have used a similar method.
3. Testing for Normality, Linearity and Homoscedasticity: Normality, Linearity and Homoscedasticity are often evaluated using scatter plots and various other graphs. Normality can also be checked by computing Skewness (Pearson, 1895) and Kurtosis (Pearson 1905) with SPSS.

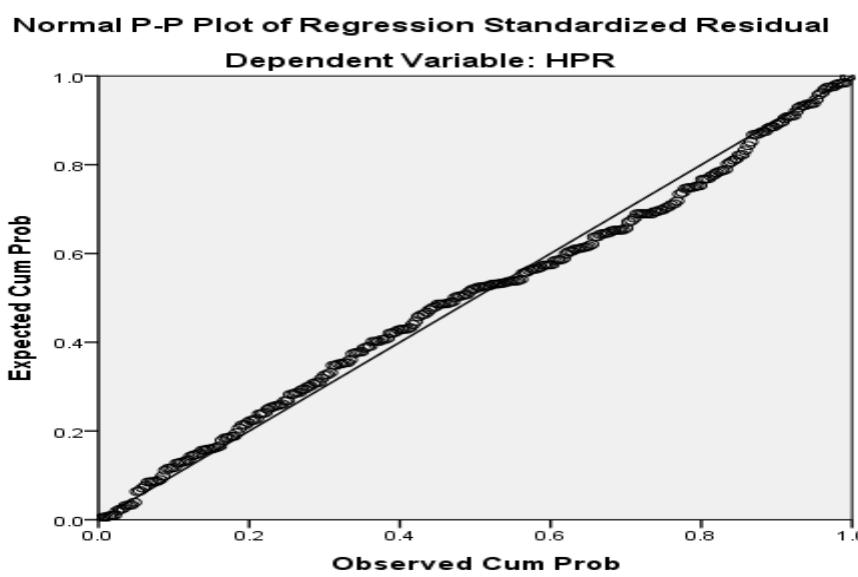
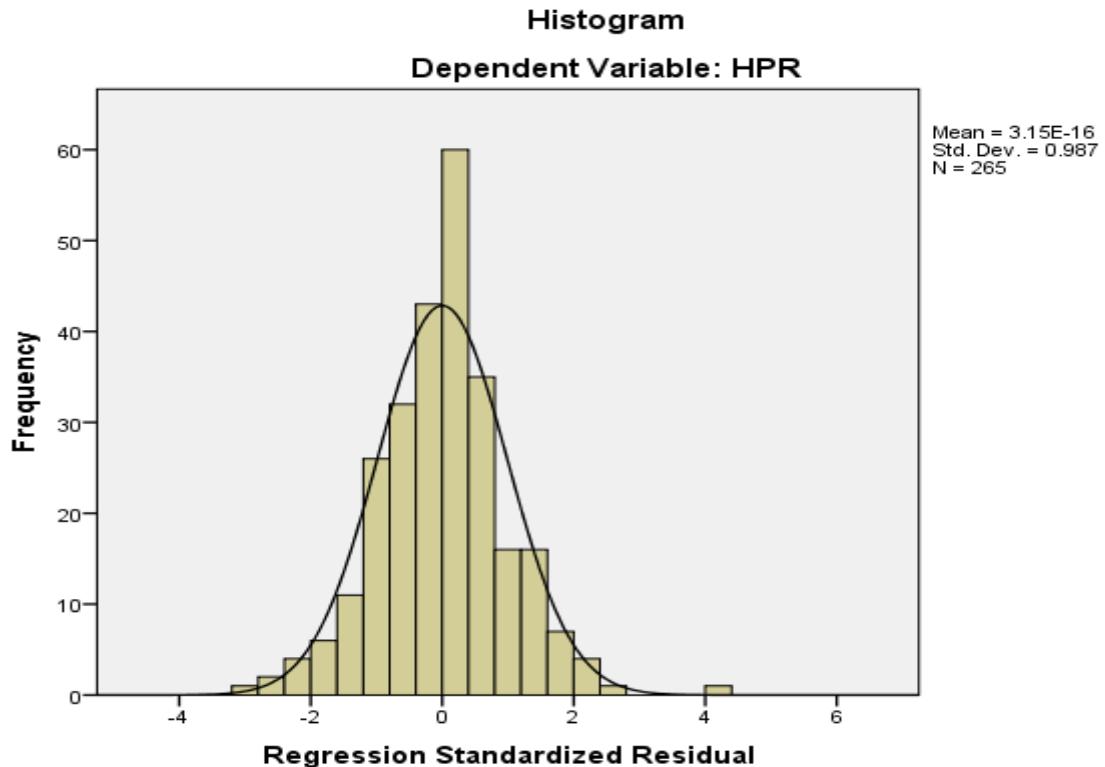
Due to the data size, a graphical analysis was used to assess normality of variables. To gain an indication of the shape of the distribution, a normal approximation curve was super imposed on each histogram. Also, the Q-Q plot was analysed for each variable. With a Q-Q plot, the scatter should lie as close to the line as possible with no obvious pattern coming away from the line for the data to be considered normally distributed (Marshall & Samuels, 2015). Measures of skewness and kurtosis and their standard errors were not computed because it is difficult to agree on the threshold for assuming approximate normality (Rose et al., 2015). Indeed Field (2013, page 185) argues that 'Always plot your data as well and try to make an informed decision about the extent of non-normality based on converging evidence'. Kolmogorov-Smirnov test and the Shapiro-Wilk's W test were also not computed because both tests are sensitive to outliers and are influenced by sample size (Rose et al., 2015). For smaller sample sizes, the Kolmogorov-Smirnov test and the Shapiro-Wilk's W test is less likely to detect non-normality even though the Shapiro-Wilk test is relatively more sensitive. For larger samples, the assumption of normality might be rejected too easily. Marshall & Samuels (2015, page 3) argue that 'any assessment should also include an evaluation of the normality of histograms or Q-Q plots'. The Q-Q plots and histograms suggest that all the variables HPR, ENV, PERF, POLITICS etc. are appropriately normally distributed to support the use of various parametric tests. Figure 4.2 presents the histogram and Q-Q plots for HPR. The remaining histograms and Q-Q plots are in the appendix (figure 10.2) and confirm the same narrative.

**FIG. 4.2: Histograms And Q-Q Plots Of Variables**



Since HPR is the dependent variable in this section, a normal P-P plot was generated (with an interpretation like the Q-Q plot). Also, a histogram of the standardised predicted values for HPR suggests an approximately normal distribution of the data.

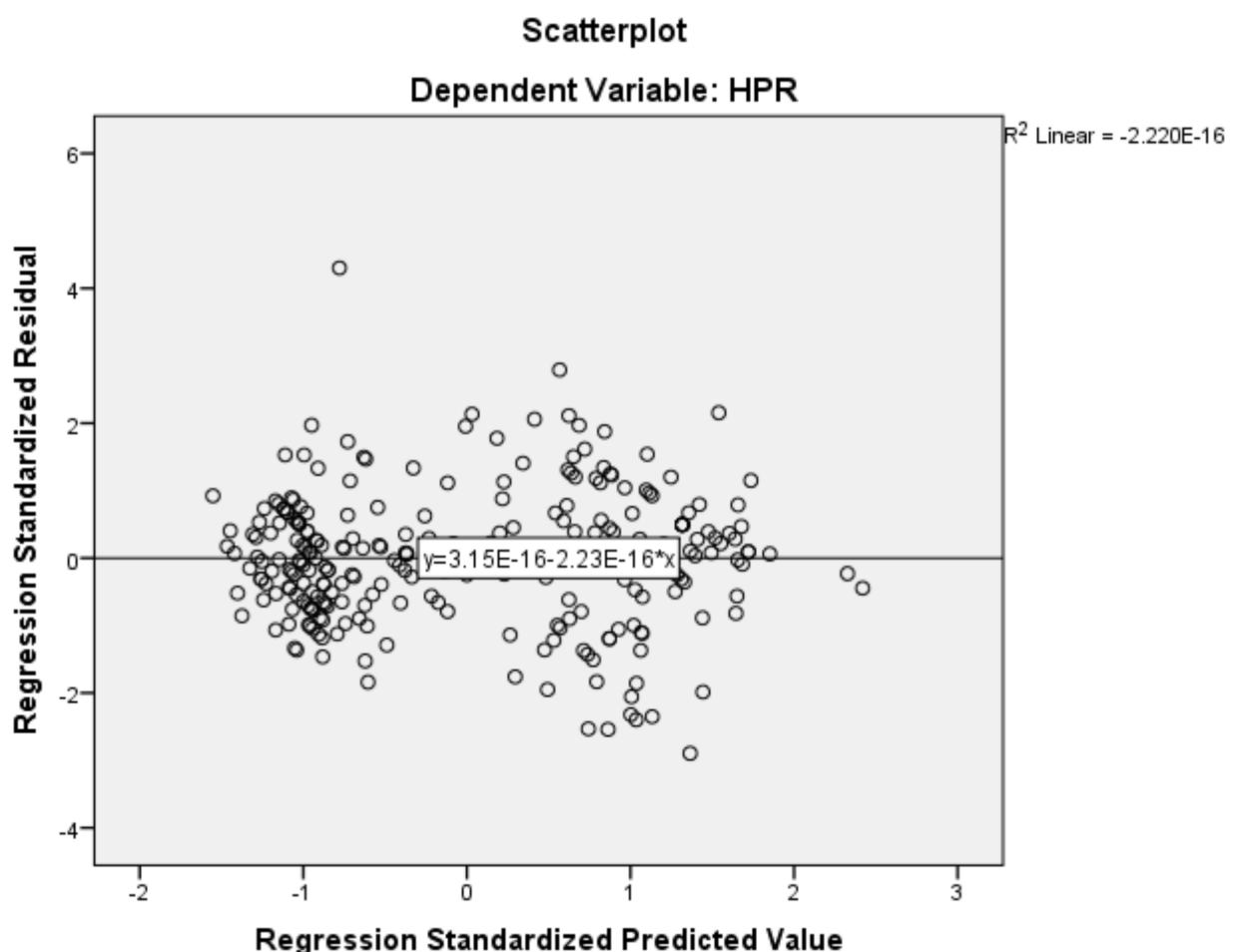
**FIG 4.3: Histogram And P-P Plot Of HPR Standardised Residuals**



Scatter plots were used to test the linearity in the relationship between HRP (DV) and the independent variables (Becker & Cleveland, 1987) and evidence was found to support the assumption of linearity when a trend line was superimposed on the scatter plot.

In checking for homoscedasticity, a scatter plot of the regression standardised residual (y axis) and regression standardised predicted value (x axis) for HPR was extracted. A trend line super imposed on the scatter plot was horizontal and parallel to the x-axis at the point 0, suggesting Homoscedasticity.

**Figure 4.4: Evidence Of Data Normal Distribution**



4. Eliminating Multi-collinearity: Whereas testing for multi-collinearity is important, the existence of multi-collinearity does not necessarily reduce the predictive power and reliability of any model. Multi-collinearity only affects calculations relating to individual predictors (Wikipedia, 11<sup>th</sup> August 2014). In other words, if multi-collinearity exists, a multiple regression model can still offer an effective prediction of how a group of variables, working together predict an outcome, but the regression model may not provide valid results regarding the predictive ability of any individual predictor or about which predictors are redundant with respect to

others. Gujarati (2012, page 363) argues that 'the existence of collinearity does not affect the efficacy of extrapolating the fitted model to new data provided that the predictor variables follow the same pattern of multi collinearity in the new data as in the data on which the regression model is based' (taken from Wikipedia on the 11<sup>th</sup> of August, 2014). Rawlings et al. (1998) agree with Gujarati (2012) and argue that collinearity concerns do not matter when extrapolation is to a similar data set.

It is important to note that a critical departure of this study from other studies is the fact that, rather than focus on the effect of a single variable on HPR, the study focuses on a confluence of factors and how they interact to affect HPR. To that end, multi collinearity, even if it exists, will not affect the efficacy of the predictive power of a multiple regression model that is statistically significant. Often, correlation factors above 0.8 provide a cause for investigating multi collinearity (Cooper & Schindler, 2008). Statistical methods such as tolerance level, variance inflation factor (VIF) and condition index (CI) are used to investigate multi collinearity. A tolerance level below 0.2 is often an indication for collinearity (Hutcheson & Sofroniou, 1999) requiring further investigation. Most studies prefer a tolerance factor of below 0.1, but tolerance factors between 0.1 and 0.2 are acceptable (Gerbing 2013). VIF lower than 10 is appropriate (Hocking, 1996; Cohen et al.; 2003) and a CI should be below 30 to be appropriate (Cohen et al., 2003). O'Brien (2007) cautions the use of the rule of thumb for VIF and states that '*when VIF reaches these threshold values researchers often attempt to reduce the collinearity by eliminating one or more variables from their analysis, using ridge regression to analyse their data, or combining two or more variables into one index. These techniques for curing problems associated with multi-collinearity can create problems more serious than those they solve. Because of this, VIF (and tolerance) need to be evaluated in the context of several other factors that influence variance regression coefficient. Values of the VIF of 10, 20, 40 or even higher do not by themselves, discount the results of a regression analysis, call for the elimination of one or more independent variables from the analysis, suggest the use of ridge regression or require combining of independent variables into a single index*'.

Fox (1991) argues that numerical thresholds should only be used to compliment other considerations such as graphical analysis. The size of the data can affect collinearity. All things being equal relatively large data sets are less likely to exhibit collinearity relative to smaller data sets. A total number of 265 valid responses constitute the data for this analysis and Tolerance, VIF and CI were calculated using HPR as a dependent variable.

**Table 4.20: Results Of Tests For Collinearity**

	Collinearity Statistics		Model Dimension	Eigenvalue	Condition Index
	Tolerance	VIF			
<b>(Constant)</b>			1	7.752	1.000
<b>PERF</b>	0.154	6.485		0.125	7.871
<b>INNOVATE</b>	0.126	7.925		0.027	16.916
<b>ENV</b>	0.153	6.531		0.026	17.429
<b>POLITICS</b>	0.147	6.818		0.023	18.443
<b>MCS</b>	0.144	6.968		0.018	20.630
<b>INC</b>	0.133	7.542		0.017	21.640
<b>IND</b>	0.146	6.867		0.012	25.200

a. Dependent Variable: HPR

The collinearity diagnostics (CI, VIF, Tolerance), in table 4.20, confirm minimal problems with multicollinearity indicating that the predictors are not highly inter-correlated and that small changes in the data values will not lead to large changes in the estimates of the coefficients.

All tolerance values are above 0.1, and below 0.2, all VIF values are below 10, and all CI values are below 30. Belsley et al. (1980); Chatterjee & Price (1991); Hocking (1996) suggest that an appropriate CI should be below 30. Considering the relatively high alpha values, as well as the fact that the focus of the proposed model was to consider the effect of a confluence of factors on HPR, multi collinearity, even if it existed will not affect the predictive power of the model. Indeed, some level of multi collinearity is perceived to be necessarily inherent in improving the predictive power of this model and the methodology thereof. The result of the regression model was significant at less than 1%. Berry & Feldman (1993) caution against removing explanatory variables from an equation merely because it has a high degree of multicollinearity as this could result in a model, which is misspecified.

5. Independence of Outcomes: Durbin-Watson test was calculated to measure the independence of the outcome of variables. Durbin-Watson values should be close to 2 to suggest appropriate autocorrelation (Montgomery et al., 2001). The Durbin Watson value for this regression model was 1.432.
6. Size of Data: Hair et al. (1998) argue that the number of cases of each independent variable for an effective multi regression should be above 28. This study has 265 cases for each independent variable.

#### **4.2.5. Hypotheses Results**

The descriptive statistics (Table 4.21) suggest that HPR is near the midpoint and the standard deviations were not high. Respondents reported relatively low (compared to other matrixes in the questionnaire) on INC and reported relatively high on a favourable external environment (ENV, with mean of 3.67) and on MCS (mean of 3.61).

In estimating the factors that affect HPR, various statistical methods were used to compute all relevant variables (dependent and independent variables). In general, however, one method involved the estimation of variables (HPR, ENV etc.) based on the sum of responses per each respondent. Various studies have used a similar method (Gray et al., 2016) and involve an assumption that in the use of Likert scales, an underlying continuum is present that justifies the use of parametric statistics (Knapp, 1994). The results from this method were not significantly different from the results from estimating the relevant variables as the mean of responses.

The second method involved the application of Principal Component Analysis (PCA) in the extraction of one 'representative variable' for each respondent based on eigen values. This preserves the non-parametric nature of the responses and adopts PCA to convert the variables to a useable parametric form.

The estimation of correlations was done in SPSS. Both parametric and non-parametric correlations were computed due to the nature of the data. All correlations were positive and significant at  $p=0.01$ , and hence all Hypotheses (H5-H15) are accepted. Tables 4.22 to 4.25 present the results.

**Table 4.21: Univariate Statistics**

Valid N (List wise) =265	Items in Scale	Potential Scale Range	Midpoint	Minimum	Maximum	Mean		Std. Deviation	Variance
				Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
HPR	6	1-7	3.5	1	7	3.4862	.09520	1.54975	2.402
PERF	5	1-7	3.5	1	7	3.5162	.09014	1.46735	2.153
INNOVATE	4	1-7	3.5	1	7	3.4755	.09317	1.51675	2.301
ENV	5	1-7	3.5	1	7	3.6747	.09076	1.47751	2.183
MCS	6	1-7	3.5	1	7	3.6072	.09679	1.57560	2.483
INC	6	1-7	3.5	1	7	3.4177	.09273	1.50959	2.279
IND	4	1-7	3.5	1	7	3.5998	.09781	1.59230	2.535
POLITICS	4	1-7	3.5	1	7	3.5557	.09258	1.50707	2.271

**Table 4.22: Pearson Correlation When Variables Are Computed As The Sum Of Responses**

	HPR	PERF	INNOVATE	ENV	POLITICS	MCS	INC	IND
HPR	1							
PERF	.885**	1						
INNOVATE	.875**	.884**	1					
ENV	.852**	.862**	.880**	1				
POLITICS	.838**	.860**	.868**	.866**	1			
MCS	.861**	.874**	.889**	.832**	.864**	1		
INC	.878**	.868**	.876**	.880**	.856**	.876**	1	
IND	.848**	.842**	.869**	.836**	.885**	.868**	.883**	1

**Table 4.23: Non-Parametric Test – Correlations When Variables Are Computed As The Sum Of Responses**

	HPR	PERF	INNOVATE	ENV	POLITICS	MCS	INC	IND
Kendall's tau_b	HPR	1.000						
	PERF	.705**	1.000					
	INNOVATE	.693**	.702**	1.000				
	ENV	.665**	.677**	.702**	1.000			
	POLITICS	.632**	.659**	.682**	.667**	1.000		
	MCS	.639**	.657**	.699**	.625**	.649**	1.000	
	INC	.677**	.663**	.673**	.694**	.643**	.648**	1.000
	IND	.664**	.656**	.691**	.644**	.714**	.679**	.697**
Spearman's rho	HPR	1.000						
	PERF	.875**	1.000					
	INNOVATE	.866**	.869**	1.000				

ENV	.846**	.854**	.872**	1.000				
POLITICS	.823**	.842**	.858**	.849**	1.000			
MCS	.828**	.840**	.868**	.812**	.835**	1.000		
INC	.857**	.849**	.852**	.869**	.835**	.834**	1.000	
IND	.843**	.839**	.863**	.832**	.877**	.852**	.872**	1.000

**Table 4.24: Pearson Correlation When Variables Are Computed Using Principal Component Analysis**

	PERF	INNOVATE	ENV	POLITICS	MCS	INC	IND	HPR
PERF	1							
INNOVATE	.761**	1						
ENV	.726**	.737**	1					
POLITICS	.748**	.771**	.787**	1				
MCS	.822**	.811**	.739**	.764**	1			
INC	.740**	.766**	.767**	.757**	.795**	1		
IND	.802**	.763**	.752**	.802**	.829**	.796**	1	
HPR	.795**	.797**	.737**	.779**	.849**	.798**	.815**	1

**Table 4.25: Non-Parametric Correlations When Variables Are Computed Using Principal Component Analysis**

	PERF	INNOVATE	ENV	POLITICS	MCS	INC	IND	HPR
Kendall's tau_b	PERF	1.000						
	INNOVATE	.575**	1.000					
	ENV	.531**	.552**	1.000				
	POLITICS	.538**	.582**	.574**	1.000			
	MCS	.587**	.586**	.512**	.506**	1.000		
	INC	.537**	.576**	.569**	.555**	.565**	1.000	
	IND	.591**	.553**	.533**	.572**	.598**	.579**	1.000
	HPR	.575**	.587**	.541**	.562**	.616**	.579**	.593**
Spearman's rho	PERF	1.000						
	INNOVATE	.778**	1.000					
	ENV	.734**	.748**	1.000				
	POLITICS	.754**	.782**	.780**	1.000			
	MCS	.804**	.793**	.719**	.736**	1.000		
	INC	.745**	.776**	.765**	.769**	.776**	1.000	
	IND	.801**	.762**	.740**	.790**	.792**	.788**	1.000
	HPR	.791**	.791**	.742**	.780**	.824**	.791**	.797**

#### **4.2.6. Testing The Model With Structural Equation Modelling (SEM).**

A confirmatory factor analysis (CFA) was performed using structural equation modelling (SEM). SEM corrects for errors and biases in multiple regression and can account for measurement errors with the use of multiple indicators for each latent factor or latent construct or latent variable. It can also handle more complex data, such as data that is not 'normally distributed', incomplete data, collinearity problems, as well as auto correlation errors (Kline, 1998). Within the framework of SEM, Confirmatory Factor Analysis (CFA) validates a priori specified measurement model based on observed patterns of correlations or covariance, commonly referred to as 'model fit' (Chun, 2005). CFA employs a method that estimates the relationship between 'latent factors' and indicators (observed variables, such as items in a survey instrument).

This study adopts a method that uses observed variables to measure latent constructs rather than using observed variables as a substitute for such constructs. Various studies adopt a similar approach (e.g. Chun, 2005; Yang, 2009, etc.). SEM allows us to account for measurement errors of the observed variables and therefore allows for a better interpretation of regression coefficients compared to the use of estimated factor scores in a regression analysis (Walker & Madden, 2008).

The statistical software used in performing SEM was SPSS AMOS applying the principle Maximum Likelihood estimation (Anderson & Gerbing, 1988). All latent factors had more than three unique indicators or observed variables. Typically to assure reasonably appropriate results from SEM, there must be more than one latent construct in a measurement model and each latent construct must have more than two observed variables (Hair et al., 2013).

There were seven latent factors included in the measurement model, enough to avoid problems from lack of parsimony. Observed variables were matched to each latent construct in this study in a similar manner to the survey questionnaire.

Kline (1998), as well as Anderson & Gerbing (1988) urge researchers to first test measurement models for appropriateness before proceeding to test the 'goodness of fit' for a structural model. As a first step, a measurement model was proposed and tested for 'good fit'. Essentially a measurement model tests the strength of covariance and variances between latent constructs and observed variables (similar to a Cronbach alpha). The measurement model evaluates whether the latent constructs (made up of exogenous independent variables –i.e. ENV, INC, IND, MCS, POLITICS-, the mediating variables – i.e. PERF, INNOVATE-, and the endogenous dependent variable – i.e. HPR-), are adequately measured by the observed variables B1-B40 (per the survey questionnaire). This is a reconfirmation of the Cronbach alpha.

In a typical measurement model, no causal relationship is suggested among latent constructs. Instead, covariance or correlations is tested among all latent variables. Therefore, the typical output of a measurement model is the loading factors of each observed variable on a latent factor, the error estimate for each observed variable, the covariance or correlation coefficients between latent constructs with their p values as well as the variance of each latent construct. Regression weights for directional relationships between latent variables are often not the output from the test of a measurement model.

For observed variables to be considered as appropriately measuring a latent construct, the t-statistics for factor loading for each observed variable on the specific latent construct must exceed 0.6 (Barclay et al., 1995; Hair et al., 2013). The standardised factor loading for all observed variables in the measurement model was above 0.9, suggesting that observed variables appropriately measured the latent variable they related to. This confirms the results of the Cronbach alpha. The t values for the factor loadings of all observed variable was significant, indicating convergent validity (Yang, 2009).

Hair et al., (2010) argue that a Composite Reliability (CR) greater than 0.7 for all endogenous variables demonstrates reliability while an average variance extracted (AVE) greater than 0.5 demonstrates convergent reliability. CR was above 0.7 for all endogenous variables.

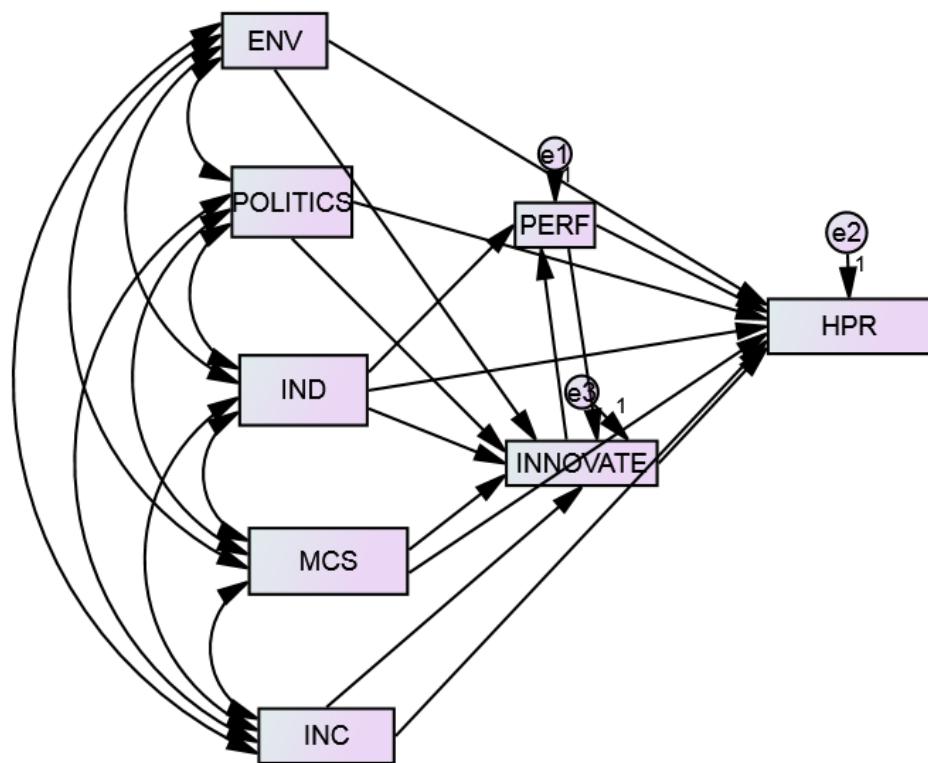
To further confirm convergent validity, the Average Variance Extracted (AVE) was computed (as the sum of the squared standard loadings divided by the sum of the squared standard loadings plus the sum of the indicator measure errors). The AVE was greater than 0.5 (Fornell & Larcker, 1981) with most above 0.7 (Table 11.1 in the Appendix).

Two methods are usually used in the literature to check for discriminant validity. A maximum shared variance (MSV)  $< \text{AVE} \text{ and } \text{squared root of AVE} >$  than inter construct correlations. Discriminant validity was confirmed by comparing the shared variances between factors with AVE of individual factors. The shared variance between factors is lower than AVE for the individual factors (see appendix- table 10.1- for a detailed explanation of iterated steps).

The structural model tests the direction of relationships between latent constructs. It is worthy of note that, for ease of presentation, the latent variables used here in the structural model are extracted based on factor loadings from PCA (discussed in detail in the next section). Various studies have used a similar approach (e.g. Yang, 2001). Extracting the latent variables based on the sum of responses per respondent or measuring latent variables using observed variables in AMOS yielded similar results. Appendix (Fig. 10.6) presents the full path model that shows the observed variables and the latent constructs that were used for the measurement test and the confirmation of the structural model (figure 4.5). As explained, results from a test of that model yielded similar results to the PCA approach.

FIGURE 4.5: Proposed Structural Model

CFA TEST OF FACTORS THAT AFFECT HPR



The standardised correlation coefficients between the latent construct are all below the threshold of 0.9 (Chun, 2005; Yang, 2009; Bagozzi et al., 1991) suggesting distinctiveness between the various constructs regarding their effect on HPR. Modification indices suggested that no modification was required to improve the model. AMOS does not provide opportunities for language multiplier test and Walde test, so it was impossible to test if any inclusions or exclusions were required to improve the model further.

The confirmatory factor analysis shows an acceptable overall fit, and hence the theorised model fits well with the observed data. It can be concluded that the hypothesised CFA model fits the sample data appropriately well. The test of model fitness for the structural model provided the results presented in table 4.26. The  $R^2$  on the endogenous variables are HPR, 80%, PERF, 62% and INNOVATE 53%. Therefore, the proposed model is a good fit explaining about 80% of the variations in HPR. The nomological validity and path estimates (B values and standardised regression weights) are shown in table 4.27. The recommended thresholds presented below (table 4.26) are from Hu & Bentler (1999).

**TABLE 4.26: Results From Test Of Model Fitness Using SEM**

Fit Statistics	Recommended Threshold	Obtained
$\chi^2$		2.206
df		3
$\chi^2$ significance	P<-0.05	.531
$\chi^2$ / df	<3 good; <5 acceptable	.735
Goodness of Fit Index (GFI)	>0.95 great; >0.90 traditional; >0.80 acceptable	.998
Adjusted Goodness of Fit Index (AGFI)	>0.80	.975
PGFI	>0.80	.083
Normed Fit Index (NFI)	>0.90	.999
Relative Fit Index (RFI)	>0.90	.994
Comparative Fit Index (CFI)	>0.90	1
Incremental Fit Index (IFI)	>0.90	1
Tucker Lewis Index (TLI)	>0.90	1.002
Root Mean Square Error of Approximation (RMSEA)	<0.05 good, 0.05-0.10 moderate, >0.10 bad	.000
Root Mean Square Residual (RMR)	<0.02	0.004
PCLOSE	>0.05	.749
SRMR	<0.09	.0047

Also, a comparison of the proposed model with the independence model generated by AMOS confirmed the proposed model as a relatively more appropriate model using parameters from AIC (Akaike Information Criterion). Therefore considering (a) the argument by Bollen & Pearl (2013) that models rather be cross validated rather than based on an accept/reject decision, (b) the split scores across various fit test indices between 'accept' or 'reject', I believe that the structural model can not be rejected because it provided a good fit of the variables hypothesised.

If for nothing at all, this model offers the first attempt at a measurement model and structural model for HPR within profit-making organisations and will serve a useful purpose of comparison with future models.

**Table 4.27: Standardised Regression Weights**

Path Relationship	Estimate	S.E.	C.R.	P	Sig. @ P=0.05
INNOVATE <--- ENV	.196	.086	2.481	.013	YES
INNOVATE <--- POLITICS	.307	.098	3.681	***	YES
INNOVATE <--- IND	.239	.099	2.429	.015	YES
PERF <--- IND	.205	.094	2.421	.015	YES
INNOVATE <--- MCS	.689	.081	6.412	***	YES
INNOVATE <--- INC	.197	.072	2.429	.015	YES
HPR <--- ENV	.006	.075	.122	.903	NO
HPR <--- POLITICS	.112	.087	2.039	.041	YES
HPR <--- MCS	.306	.062	4.922	***	YES
HPR <--- INC	.163	.064	3.021	.003	YES
HPR <--- IND	.134	.081	2.228	.026	YES
HPR <--- INNOVATE	.136	.072	2.525	.012	YES
HPR <--- PERF	.123	.066	2.270	.023	YES
INNOVATE <--- PERF	-.745	.149	-4.527	***	YES
PERF <--- INNOVATE	.783	.110	7.902	***	YES

**Table 4.28: Covariance and Correlation**

		Covariance	Correlation	S.E.	C.R.	P
ENV	<--> POLITICS	1.090	.787	.109	10.047	***
ENV	<--> MCS	1.606	.739	.166	9.659	***
ENV	<--> INC	1.415	.767	.143	9.888	***
ENV	<--> IND	1.219	.752	.125	9.765	***
POLITICS	<--> MCS	1.546	.764	.157	9.864	***
POLITICS	<--> INC	1.301	.757	.133	9.803	***
POLITICS	<--> IND	1.211	.802	.119	10.165	***
MCS	<--> INC	2.142	.795	.212	10.110	***
MCS	<--> IND	1.962	.829	.189	10.368	***
INC	<--> IND	1.600	.796	.158	10.117	***

ENV, MCS, INC, PERF, INNOVATE, POLITICS and IND show a directly positive relationship with HPR.

The direct relationship between independent variables (ENV, POLITICS, IND, INC, MCS) and INNOVATE is positive (and significant at  $P=0.05$ ). Innovation requires stability, patience and a focus on the long term to thrive effectively (Shrivastava & Souder, 1987; Yang, 2009). Therefore a stable external environment (Sørensen, 2002), harmonious internal politics (Alvesson, 2002), well incentivised employees (Baiman & Lewis, 1989), a collectivist leadership style (Bass & Avolio, 1993) and a well-designed managed control system (Shields & Young, 1994), provide the necessary essentials to encourage the sharing of ideas (team work) and motivated employees which are critical to INNOVATE.

Innovative culture is based on a sense of collective responsibility and shared vision and hence strengthens team efforts. Shirivastava & Souder (1987) argue that an organisation with a high innovation culture displays a clear commitment to rules and appropriate behaviour with a high sense of commitment and loyalty from employees. Ahmed (1998) argues that honesty in the use and application of knowledge is a critical element for effective innovation. Yang (2009) suggests that for innovation to be effective, an organisation must encourage experimentation, tolerate errors, and have a collective orientation to dealing with performance gaps. It is not surprising therefore that innovation has a positive, direct and significant effect (at  $P=0.05$ ) on HPR. This is consistent with Yang's (2009) findings for public organisations. Often persons with a drive for innovation display a high sense of honesty and are often 'principled'. (Yang, 2009). Secondly, an innovation culture is effective in mitigating performance problems (Julnes & Holzer, 2001) and hence reduces the likelihood of performance gaps with the attendant temptation to misreport MP. Moreover, an organisation with an innovative culture will see performance gaps as opportunities for changing the organisation (Yang, 2009; Dilulio, 1994).

Participation by external stakeholders in the performance management system of an organisation has a significant direct positive effect on HPR (at  $p=0.05$ ). When external stakeholders, particularly regulators, customers and the media participate actively in performance management within an organisation, the varied interests of stakeholders lead to information leakage that makes it difficult to hide information or misreport (Waterman et al., 2004). As well, the implication of misreporting to relatively powerful external stakeholders, who by their participation in the organisation can effectively evaluate MPR acts as a critical deterrent to misreporting MP.

It is not surprising that the ethical orientation of organisational leaders has a directly positive relationship with HPR. Leaders within the organisation have a significant influence on the culture (Načinović et al., 2009) and ways of working within the organisation (Bass & Avolio, 1993). Therefore when organisational leaders have a collectivist orientation, the resulting openness reduces the fear of making errors and the desire to hide bad performance results. The individual ethical orientation of leaders has a positive direct relationship on innovation which is significant at  $p=0.05$ . Because innovation emphasises a focus on organisational vision and team work, the positive direct relationship of leaders with a collectivist orientation on innovation is not unusual.

As expected, monetary incentives (INC) have a positive and significant relationship with HPR and INNOVATE (at  $p=0.05$ ). Various literature has confirmed that 'agents' will typically lie to gain an economic incentive (Baiman & Lewis, 1989; Schreck, 2015) and therefore when the economic incentive structure within an organisation is fair and transparent, misreporting will be minimised and innovation significantly improved (regression weight 0.752,  $P=0.008$ ).

MCS is a significant predictor of HPR, with a direct and positive relationship with HPR. A well-designed management control system is effective in building a strong culture (March, 1991) that ensures that 'agents' voluntarily adopt the appropriate organisational values (Rosenthal and Masarech, 2003) as well as promote transparency and team effort (Načinović et al., 2009). Chelariu et al. (2008) confirm that an effective management control system (MCS) positively influences organisational culture and values. Organisational culture also shapes employee behaviour and influences individual actions (Načinović et al., 2009). Kotter & Heskett, (1992) contend that the resulting organisational culture from MCS positively affects employee performance and hence firm performance especially under conditions of a stable external environment (Sorensen, 2002). Little wonder then that Dilulio (1994) argues for an emphasis on building the appropriate culture within organisations. Henri (2006) proposes that a well-designed MCS also results in a fair and transparent compensation system and promotes exploratory learning and innovation. This perhaps explains the positive, significant direct relationship between MCS and innovation (RW 0.608,  $p$  value  $<0$ ). Dávila (2000), and Shields & Young (1994) find that an effective MCS improves innovation effectiveness. Impliedly, an appropriate MCS that is based on belief systems and cultural values rather than boundary systems promotes transparency, ensures fair compensation and improves innovation and firm performance. Under these circumstances HPR is high.

The effect of ENV on HPR is positive even though not significant. Alvesson (2002) argues that an organisational cultural perspective is critical to understanding employee behaviour. Because organisations are open systems, the external environment influences organisational culture (Načinović et al., 2009). Schein (2004) defines organisational culture as "pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems (page 17). Impliedly, organisational culture adapts to changes in the external environment. Načinović et al., (2009) find that when the external environment is stable, simple and homogenous, organisational culture is characterised by initiative, flexibility, team work and openness. Lumpkin & Dess (2001) argue that when environmental conditions are hostile, the pressures of competition exert more pressure on the firm and its leaders due to the high likelihood of performance problems. As well, hostile environment reduces the slack available for experimentation on new strategies and forces organisations to focus on conserving resources (Chakravarthy, 1982). Lumpkin & Dess (2001) argue that organisations can react more appropriately to competition in a scenario of a 'stable and certain environment where the "rules of the game" are more evident and unchanging. Adaptation and reaction are quite difficult if one must chase the constantly moving target associated with dynamic and uncertain environments' (page, 9). Miller & Friesen (1983) state that 'extensive risk taking, "forceful proactiveness", and a strong emphasis on novelty can be very hazardous when

competitive conditions are becoming more taxing' (page 223). Impliedly, a hostile environment that is turbulent and dynamic reduces the opportunities for innovation (regression weight 0.969,  $P=0.002$ ) and increases the likelihood of performance problems from aggressive competition. This reduces HPR.

INNOVATE has a significant, direct positive relationship with PERF and PERF has a significant direct negative relationship with INNOVATE. That is to say, an organisation with a high innovative culture encourages stakeholder participation in performance management (RW 1.077,  $p < 0$ ) but stakeholder participation reduces innovation (RW -0.868,  $p < 0$ ) and the total effect of the relationship is negative. Innovation requires a team effort, openness and transparency, and most critically relies on feedback from internal and external stakeholders to identify challenges that need improvement. External stakeholders play a critical role in proposing new ideas, reviewing proposed solutions for effectiveness and evaluating new products or services for effectiveness (Yang, 2009; Aghion & Tirole, 1997). Unfortunately, active involvement by external stakeholders can result in less innovation. Perhaps, the fact that varied stakeholders pursue varied interest can result in conflicts that reduce team effort, and blur the focus on a shared organisational vision (Lumpkin & Dess, 2001; Niu & Easterbrook, 2008). The resulting conflicts may decrease the autonomy of working teams which is a critical element of an effective innovation culture (Shrivastava & Souder, 1987). Overall the net effect of the relationship between innovation and stakeholder participation is negative with a total effect estimate of -0.0464.

Harmonious organisational internal politics (POLITICS) promotes team work and open communication which is critical for innovation. The net effect, direct and indirect, of POLITICS on HPR, is positive and significant (Total effect of 0.053).

#### **4.2.7. Conclusion On Factors That Influence HPR**

Even though ENV, MCS, INC, PERF, INNOVATE, POLITICS and IND show a directly positive relationship with HPR, further studies using new methods are required to confirm these findings. Participant observation of employees or other longitudinal study methods may be helpful in building a comprehensive theoretical disposition on HPR.

I adopted a stakeholder approach using a multi-actor-principal-agent-model and develop hypotheses based on theoretical modelling and synthesis of the literature. I tested the hypotheses using correlation parameters (for an associational relationship) as well as SEM (for a directional relationship). Data was collected using a questionnaire that was administered to 265 respondents within 65 organisations in GC100 companies.

Following the results of the experimental study discussed earlier, I am convinced that the causes of HPR are varied. My preposition is that HPR is affected by a broad category of economic, individual, organisational and environmental variables (See Fig, 4.5a). For instance, Ndofor, Wesley & Priem (2015), argue that financial misreporting generally results from information asymmetry ('lack of transparency) and requires three simultaneous circumstances; opportunity to deceive (i.e. environmental, situational and organisational circumstances), motive for doing so (economic, cultural etc.) and willingness on the part of the perpetrator (individual characteristics of the

perpetuator). I proceeded to develop sub variables (and hypotheses) for each of these broad categories and then tested them. I applied a SEM because it mimics the real-life scenario of these variables working together simultaneously to affect HPR. Other studies have applied OLS regressions to selected variables with its attendant limitations.

Even though this is an exploratory test of MPR behaviour, I focused on testing my hypotheses with data from organisational employees, rather than business managers, about their perception on various variables of HPR (similar to earlier studies by Cameron et al., 2004, Chun, 2005 and Yang, 2009). This is because HPR is essentially a perception issue, especially in a scenario of multiple stakeholders (Yang, 2009). Moreover, employees are best placed to provide the best perspective on MPR behaviour of business managers and the organisation because their job security is not so directly tied to overall MP (Chun, 2005; Yang, 2009).

I provide a clear definition of who qualifies as an employee for purposes of this study (See Fig 2.1) to avoid ambiguity. In designing my questionnaire, I adopt the approach of the 'company as a person' metaphor to avoid the sensitivity of employees relating their answers to personal self and hence introducing bias into their responses. Chun (2005) confirms that to capture the complexity of human behaviour within an organisation, the company as a person metaphor serves an effective purpose. Therefore, I use words like 'Leaders of this organisation' rather than 'Leaders of your/our organisation'.

I first tested the associative relationship (correlation) between my variables before proceeding to test for directional effects. The summary of the results of the test of the various hypotheses are presented below (Table 4.28a, 4.28b, 4.28c). Pearson correlation matrixes find a significant correlation, two tailed, (evidence of association and not necessarily causality) between the proposed variables and HPR. All relationships are significant and positive at P value=0.01 and hence hypotheses H<sub>5</sub>-H<sub>15</sub> (alternative hypotheses) were accepted (See Table 4.28a).

Since the responses were on a Likert scale, which was ordinal, non-parametric tests of relationships between the variables were also computed using SPSS version 24. The results of the various parametric and non-parametric tests (Table 4.28a) confirm that hypotheses H<sub>5</sub>-H<sub>15</sub> can be accepted. Table 4.24 & 4.25 provides the results when variables are computed using Principal Component Analysis (PCA) and shows similar significant findings such as Table 4.28a (where latent variables were computed as a sum of Likert Responses). However, when PCA is used, the coefficients are relatively smaller in absolute terms (See table 4.22 – 4.25) even though all the hypothesised relationships remain significant at p=0.01.

TABLE 4.28a: Results Of Correlation Test Between Variables And HPR						
Correlation Results When Variables Are Computed As Sum Of Likert Responses Per Respondent						
No.	Hypothesis	Pearson Correlation	Kendall's Tau_b	Spearman's rho	Sig. (2 Tailed) (for all)	Supported /Rejected
H <sub>5</sub>	A fair economic incentive (INC) is positively associated with HPR	0.878	0.677	0.857	P=0.01	Supported
H <sub>6</sub>	Stakeholder participation in performance measurement (PERF) is positively associated with HPR	0.885	0.705	0.875	P=0.01	Supported
H <sub>7</sub>	A high innovative performance culture (INNOVATE) is positively associated with HPR	0.875	0.693	0.866	P=0.01	Supported
H <sub>8</sub>	A well communicated belief and boundary system (MCS) is positively associated with HPR	0.861	0.639	0.828	P=0.01	Supported
H <sub>9</sub>	Non-Hostile internal politics (POLITICS) is positively associated with HPR	0.838	0.632	0.823	P=0.01	Supported
H <sub>10</sub>	A favourable external environment (ENV) is positively associated with HPR	0.852	0.665	0.846	P=0.01	Supported
H <sub>11</sub>	A predominant set of collectivists (IND) within an organisation is positively associated with HPR	0.848	0.664	0.843	P=0.01	Supported
H <sub>12</sub>	Stakeholder participation in performance measurement (PERF) is positively associated with a stronger innovation and performance culture (INNOVATE)	0.884	0.702	0.869	P=0.01	Supported

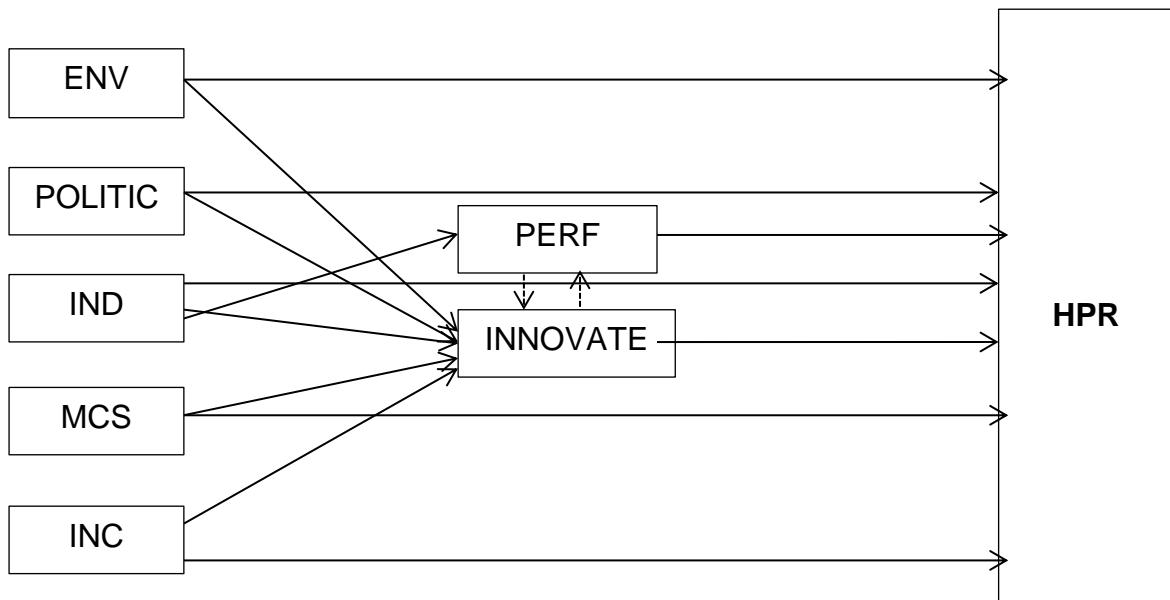
H <sub>13</sub>	Supportive external environment (ENV) is positively associated with a stronger innovation and performance culture (INNOVATE)	0.880	0.702	0.872	P=0.01	Supported
H <sub>14</sub>	Supportive external environment (ENV) is positively associated with stakeholder participation in performance measurement (PERF)	0.862	0.677	0.854	P=0.01	Supported
H <sub>15</sub>	Harmonious internal politics (POLITICS) is positively associated with a stronger innovation and performance culture (INNOVATE)	0.868	0.682	0.858	P=0.01	Supported

SEM was then applied to test the close to real life situation of the hypothesised variables working simultaneously. My proposed model was based on theory and was initially modelled to suggest that HPR is influenced by a confluence of ENV, POLITICS, IND, INC, MCS, PERF and INNOVATE working together. That is

$$HPR = A + B_1 \text{ENV} + B_2 \text{POLITICS} + B_3 \text{MCS} + B_4 \text{INC} + B_5 \text{IND} + B_6 \text{PERF} + B_7 \text{INNOVATE} + e$$

However, empirical evidence of the directional influence of all the other variables on INNOVATE, and of INNOVATE on PERF (Lumpkin & Dess, 2001; Niu & Easterbrook, 2008; Aghion & Tirole, 1997) resulted in a variation of the model with PERF and INNOVATE as mediating variables (Figure 4.5a).

**FIGURE 4.5a: Model Of The Relationship Of Variables On HPR.**



The results of the SEM analysis are summarised below (Table 4.28b, 4.28c). Predominantly, the results confirm my proposed model (Fig. 4.5a) and reconfirm the results of the correlation hypotheses ( $H_5 - H_{15}$ ).

**Table 4.28b: Covariance Among Factors That Affect HPR**

			Estimate	S.E.	C.R.	P
ENV	<-->	POLITICS	1.090	.109	10.047	***
ENV	<-->	MCS	1.606	.166	9.659	***
ENV	<-->	INC	1.415	.143	9.888	***
ENV	<-->	IND	1.219	.125	9.765	***
POLITICS	<-->	MCS	1.546	.157	9.864	***
POLITICS	<-->	INC	1.301	.133	9.803	***
POLITICS	<-->	IND	1.211	.119	10.165	***
MCS	<-->	INC	2.142	.212	10.110	***
MCS	<-->	IND	1.962	.189	10.368	***
INC	<-->	IND	1.600	.158	10.117	***

TABLE 4.28c: Results Of SEM/CFA Test Of Hypothesis					Sig. @ P= 0.05 (Yes/No)
	Unstandardized Regression Weight Estimate	S.E.	C.R.	P	
INNOVATE <--- ENV	.214	.086	2.501	.012	YES
INNOVATE <--- POLITICS	.360	.100	3.610	***	YES
INNOVATE <--- IND	.241	.098	2.459	.014	YES
PERF <--- IND	.228	.093	2.438	.015	YES
INNOVATE <--- MCS	.517	.075	6.858	***	YES
INNOVATE <--- INC	.174	.073	2.391	.017	YES
HPR <--- ENV	.009	.075	.122	.903	NO
HPR <--- POLITICS	.177	.087	2.042	.041	YES
HPR <--- MCS	.307	.062	4.937	***	YES
HPR <--- INC	.193	.064	3.031	.002	YES
HPR <--- IND	.180	.081	2.234	.025	YES
HPR <--- INNOVATE	.182	.072	2.532	.011	YES
HPR <--- PERF	.150	.066	2.280	.023	YES
INNOVATE <--- PERF	-.674	.147	-4.598	***	YES
PERF <--- INNOVATE	.867	.109	7.971	***	YES

Individually, all relationships are significant at p=0.05 (except the effect of ENV on HPR, which is positive but not significant). The model fit indices (see Table 4.26) suggests that the model can be accepted. My model confirms that HPR is influenced by a confluence of factors working together and ENV, MCS, INC, IND, INNOVATE, & PERF have a direct and positive influence on HPR. Curiously, INNOVATE has a significant, direct positive influence on PERF and PERF has a significant direct negative influence on INNOVATE and the total effect of the relationship is negative.

This study assumes a multi-actor-principal-agent relationship in developing models for testing. The inclusion of the environment constructs emphasises multiple principals, and the inclusion of internal organisational variables emphasises multiple agents.

### 4.3. FIRM PERFORMANCE AND HPR.

Discussions about data preparation methods earlier in this chapter are relevant to both section 4.3 and Section 4.4. I used a combination of statistical software for my analysis. This was intended to improve robustness as well as offer complimentary confirmation of results. Table 4.29 summarises the various statistical software applied in analysing the relationship between HPR and FP.

<b>Table 4.29: Explanation Of Application Of Statistical Software</b>				
<b>Activity</b>	<b>SPSS version 24</b>	<b>AMOS version 24</b>	<b>R</b>	<b>Stata</b>
Data Validation	X		X	
OLS regression Analysis			X	X
Binary logistic Regression			X	X
Ordered Probit (Marginal Analysis)				X
Structural Equation Modelling		X		

Variables HPR, ENV, INC, IND, POLITICS, INNOVATE, MCS were measured as the sum of the relevant responses of each respondent in SPSS, AMOS and R. Using the mean scores as a measure of central tendency produced similar results. In Stata however, HPR was computed based on a method that applied Principal component analysis as a data reduction tool. Table 4.30 summarises how HPR and other variables were computed in each statistical software.

<b>Table 4.30: How HPR Was Estimated In Various Statistical Software Packages</b>	
<b>Sum of Likert Responses</b>	<b>Principal Component Analysis</b>
SPSS & AMOS	Stata
R	

To improve the strength of my findings, various tests were performed on the raw data to ensure completeness, rigour and appropriateness of data for use in regression analysis. These have been discussed in section 4.2. Various regression methods were applied depending on the nature of the constituting variables especially the dependent variable as well as the intended objective of the analysis. Table 4.31 summarises the various regression methods applied.

	Table 4.31: Tabular Presentation Of Various Regression Methods Applied							
Equation Number	1	2	3	4	5	6	7	
Dependent Variable	ROA	ROCE	Employee Satisfaction-C10	Employee Perception BC-C5	Employee Perception INDUSTRY-C6	Employee Perception TARGET-C7	Employee Perception L3Y-C8	
HPR as Sum of Likert Responses	Regression Type	Linear Regression with HPR coded in a Binary Form (0/1)	Logistic Binary Regression with HPR 0/1					
	Software Used	R						
HPR based on PCA	Regression Type	Robust Stepwise OLS at the respondent and organisational level	Ordered Probit (Marginal Effects)					
	Software Used	Stata						

#### **4.3.1. Dependent Variable (HPR) Computed Through Principal Component Analysis (PCA).**

Principal Component Analysis (PCA) was performed on the responses to the Likert scale to arrive at HPR values for each response (a similar approach was used to arrive at values for ENV, MCS, INNOVATE, POLITICS, IND, INC and PERF). The principal component analysis is often used to reduce the number of dimensions of a set of variables and eliminate measures that are not appropriately correlated (see, for instance, Everitt, 1993 and Hair et al., 1998 for the use of principal components). The principal component analysis identifies patterns or variations in a dataset by converting a set of possibly correlated variables into a set of uncorrelated variables. PCA is, therefore, a useful statistical tool in data reduction, by generating variables that are mostly a series of uncorrelated linear combinations that contain most of the variance within a set of data.

In performing the principal component analysis, the extraction technique with varimax rotation was used and the latent root criterion that required that the eigenvalues are greater than one was used to select the appropriate number of factors. The KMO measure of sampling adequacy was used to test if the variables were suitable for the component analysis. This test validates the factorability assumption of the analysis by ensuring that there is some degree of correlation between variables. Theoretically, KMO measures should exceed 0.5 (Kaiser, 1974). All the variables used had KMOs higher than 0.5. To further validate the number of appropriate factors generated with the PCA, standard errors were computed for each variable used to generate the factor to ascertain the extent to which these variables load onto the factor. This is done by assuming the underlying distribution is multivariate normally distributed.

For each respondent, one factor was generated for the set of responses representing HPR (similarly for ENV, MCS, INNOVATE, POLITICS, IND, INC and PERF, one factor each was obtained). Table 4.32 presents results of the principal component analysis showing how the eigen value test validated the generation of the factor as well as the proportion of the variance explained. As can be observed from table 4.32, the first factor for all the variables had eigen values greater than one and explained over 70% of the variations in the responses used. For instance, the eigen value for the HPR index is 4.4488 and the variance explained is 74%.

**Table 4.32: PCA For Response Variables**

Factors	HPR		ENV		MCS		INNOVATE	
	Eigen Values	Exp. Prop.						
Comp1	4.4488	0.7415	2.9049	0.7262	4.4210	0.7368	3.1479	0.7870
Comp2	0.3956	0.0659	0.4411	0.1103	0.4380	0.0730	0.4097	0.1024
Comp3	0.3607	0.0601	0.3929	0.0982	0.3635	0.0606	0.2324	0.0581
Comp4	0.3153	0.0526	0.2611	0.0653	0.3093	0.0515	0.2100	0.0525
Comp5	0.2603	0.0434			0.2657	0.0443		
POLITICS		IND		INC		PERF		
Factors	Eigen Values	Exp. Prop.						
Comp1	3.1340	0.7835	3.0842	0.7711	4.6147	0.7691	3.6087	0.7217
Comp2	0.3324	0.0831	0.4740	0.1185	0.4808	0.0801	0.5253	0.1051
Comp3	0.2892	0.0723	0.2397	0.0599	0.3250	0.0542	0.3622	0.0724
Comp4	0.2443	0.0611	0.2021	0.0505	0.2344	0.0391	0.2588	0.0518
Comp5					0.1926	0.0321	0.2451	0.0490

#### 4.3.1.1. Ordered Probit

The specific question that the ordered probit model attempts to address is whether changes in HPR affects a set of variables (separate dependent variables) which include overall employee satisfaction as well as employee perception against INDUSTRY, TARGET and L3Y. Since respondents were asked to rank these variables using a standard Likert scale and the outcomes were more than two, an ordered probit becomes necessary in preserving the order of these responses. In an ordered probit, an underlying score is estimated as a linear function of the independent variables and a set of cut points. This framework can be understood by assuming the following model:

$$Pr(outcome_j = i) = Pr(K_{i-1} < \beta_1 x_{1j} + \beta_2 x_{2j} + \dots + \beta_k x_{kj} + u_j \leq K_i)$$

Where, the probability of observing outcome  $i$  corresponds to the probability that the estimated linear function, plus random error, falls within the range of the cut points estimated for the outcome,  $u_j$  is assumed to have a normal distribution. For each outcome, we estimate the coefficients  $\beta_1, \beta_2, \dots, \beta_k$  together with cut points  $K_1, K_2, \dots, K_{I-1}$ , where  $I$  represents the number of possible outcomes.  $K_0$  is taken as  $-\infty$ , and  $K_I$  is taken as  $+\infty$ . The coefficients  $\beta_1, \beta_2, \dots, \beta_k$  are coefficients of the firm level characteristics used in the model. Given the difficulty in appropriately interpreting the usual coefficients of an ordered probit model, average marginal effects are generated and interpreted as probabilities. The results obtained from the estimations are presented in the following subsections.

#### 4.3.1.1.1. *HPR on Employee Satisfaction*

Table 4.33 shows the results of the average marginal effects for the different outcomes of how HPR influences the probability of an employee's overall satisfaction with the organisation. Employee satisfaction is measured on a 7-point Likert Scale, and hence the outcomes follow a 7-point Likert scale from strongly dissatisfied (7) to strongly satisfied (1). In each of the outcomes, an employee being neutral in his/her response is used as the reference category. The results, as can be observed in Table 4.33, confirm that HPR is negatively associated with all the different degrees of dissatisfaction and positively associated with the different degrees of satisfaction.

More specifically, as the HPR measure increases, there is a 2.5% lower probability that employees will be strongly dissatisfied with the organisation, 1.6% lower probability that they will be somewhat dissatisfied and a 1.2% lower probability that they will be dissatisfied. Conversely, as the HPR measures improve and employees tend to agree with it, there is a 1.3% higher probability that they will be satisfied with the organisation, 5.2% higher probability that they will be somewhat satisfied and 5.6% higher probability that they will be strongly satisfied. Overall, as HPR improves, the probability that employees will be satisfied with the organisation increases, with the change in the magnitude of the probabilities increasing towards strongly satisfied. There is, therefore, a directly positive and significant relationship between HPR and employee satisfaction at  $p<0.01$ . However, no statistically significant relationship could be found for the effect of listing on the GSE, size and industry dummies on the overall satisfaction of the employees.

**Table 4.33: Regression: Marginal Effects (Ordered Probit)**

Dependent Variable: Overall Satisfaction of the Organisation

	Strongly Dissatisfied	Somewhat Dissatisfied	Dissatisfied	Satisfied	Somewhat Satisfied	Strongly Satisfied
HPR	-0.025*** (0.004)	-0.016*** (0.003)	-0.012*** (0.004)	0.013*** (0.004)	0.052*** (0.008)	0.056*** (0.009)
GSE	-0.005 (0.012)	-0.003 (0.008)	-0.002 (0.006)	0.003 (0.007)	0.010 (0.025)	0.011 (0.027)
Size						
Big	-0.014 (0.013)	-0.009 (0.008)	-0.007 (0.006)	0.008 (0.008)	0.029 (0.027)	0.030 (0.026)
Medium	-0.006 (0.016)	-0.004 (0.010)	-0.002 (0.007)	0.004 (0.011)	0.012 (0.034)	0.012 (0.032)
Small	-0.028 (0.020)	-0.019 (0.014)	-0.016 (0.014)	0.010 (0.008)	0.055 (0.036)	0.065 (0.049)
Industry						
FMCG	-0.009 (0.012)	-0.006 (0.008)	-0.004 (0.006)	0.004 (0.005)	0.018 (0.023)	0.020 (0.027)
ICT	0.018 (0.018)	0.010 (0.010)	0.004 (0.004)	-0.017 (0.021)	-0.042 (0.043)	-0.035 (0.032)
Service	0.007 (0.016)	0.005 (0.010)	0.003 (0.005)	-0.005 (0.013)	-0.016 (0.035)	-0.015 (0.031)
Agric.	-0.022 (0.016)	-0.015 (0.011)	-0.014 (0.012)	0.006 (0.004)	0.042 (0.028)	0.055 (0.043)
Energy	-0.010 (0.013)	-0.007 (0.009)	-0.005 (0.007)	0.005 (0.005)	0.021 (0.027)	0.023 (0.033)

Metals	-0.010 (0.017)	-0.006 (0.012)	-0.005 (0.010)	0.004 (0.006)	0.019 (0.034)	0.022 (0.041)
Mining	0.001 (0.022)	0.000 (0.014)	0.000 (0.009)	-0.000 (0.013)	-0.002 (0.046)	-0.002 (0.046)
Observations	265	265	265	265	265	265

Note: Robust standard errors in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Reference for Size is 'Large', and that for Industry is 'banking.'

#### **4.3.1.1.2. *HPR on Employee Perception of Firm Performance against Best Competitor (BC).***

The variable and relationship of interest is estimating the extent to which HPR influences employee perception about FP as against its best competitor. Employee perception about FP is measured on a five-point Likert scale from 'Significantly below performance' to 'Significantly above performance'. In each of the outcomes, as presented in Table 4.34, 'performance at par' is used as the reference category. As HPR increases, there is a 2.7% lower probability that their perception of FP, as against its best competitor, will significantly be below target. Similarly, there is a 0.6% lower probability that their perception of the FP, against the best competitor, will be marginally below target. Conversely, there is a 4% higher probability that their perception about the FP, against the best competitor, will be above target and a 4.6% higher probability that their perception, against the best competitor, will be that they outperformed their target. Overall, HPR has a directly positive and significant relationship with employee perception about FP against BC.

Regarding the other independent variables, employees in bigger firms (relative to larger firms) have a statistically significant increasing probability that their perception about FP, against the best competitor, will outperform their targets. A similar interpretation can be given to industries such as ICT, Energy and Mining; but relative to the banking industry.

**Table 4.34: Regression: Marginal Effects (Ordered Probit)**

Dependent Variable: Employee Perception BC

	Significantly Below	Marginally Below	Marginally Above	Outperformed
HPR	-0.027*** (0.006)	-0.006 (0.004)	0.040*** (0.007)	0.046*** (0.009)
GSE	-0.010 (0.022)	-0.002 (0.005)	0.014 (0.032)	0.016 (0.036)
Size				
Big	-0.045* (0.024)	-0.013 (0.009)	0.061* (0.032)	0.074* (0.040)
Medium	0.013 (0.020)	-0.002 (0.004)	-0.026 (0.041)	-0.020 (0.030)
Small	-0.025 (0.030)	-0.005 (0.009)	0.038 (0.042)	0.039 (0.048)
Industry				
FMCG	-0.027 (0.026)	-0.009 (0.011)	0.035 (0.031)	0.049 (0.048)
ICT	-0.188*** (0.025)	-0.231*** (0.026)	-0.293*** (0.029)	0.881*** (0.024)
Service	0.016 (0.023)	0.000 (0.003)	-0.029 (0.044)	-0.027 (0.038)
Agric.	0.025 (0.018)	-0.002 (0.007)	-0.049 (0.040)	-0.042 (0.033)
Energy	-0.084*** (0.022)	-0.049*** (0.015)	0.070*** (0.020)	0.176*** (0.046)
Metals	0.017 (0.020)	0.000 (0.003)	-0.030 (0.038)	-0.028 (0.034)
Mining	-0.104** (0.042)	-0.070* (0.042)	0.069*** (0.024)	0.235* (0.121)
Observations	265	265	265	265

Note: Robust standard errors in parentheses; \*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

Reference for Size is Large, and that for Industry is banking

#### 4.3.1.1.3. *HPR on Employee Perception of Firm Performance against Industry Average (INDUSTRY)*

Table 4.35 suggest that as HPR improves, there is an increasing probability that employees' perception of FP against the industry average, is outperforming their targets. HPR is significantly positively related to all the different degrees of perceived improved FP and negatively associated with 'significantly below industry average'. Similar interpretations can be given to the other statistically significant independent variables, except the Agric Industry dummy. For the Agric industry dummy, the coefficients suggest employee perceptions of FP against the industry average are below that of the bank sector. This to a large extent is reflective of the difficulties that have bedevilled the industry in recent times (Ghana Statistical Service, 2015).

**Table 4.35: Regression: Marginal Effects (Ordered Probit)**

Dependent Variable: Employee Perception INDUSTRY

	Significantly Below	Marginally Below	Marginally Above	Outperformed
HPR	-0.009** (0.004)	0.002 (0.001)	0.017*** (0.006)	0.023*** (0.008)
GSE	-0.026* (0.015)	0.006 (0.006)	0.053* (0.030)	0.069* (0.040)
Size				
Big	-0.037*** (0.014)	0.010 (0.009)	0.077*** (0.026)	0.102*** (0.037)
Medium	-0.021 (0.015)	0.013 (0.008)	0.053* (0.031)	0.061 (0.041)
Small	-0.045* (0.027)	0.007 (0.015)	0.086** (0.036)	0.123* (0.072)
Industry				
FMCG	-0.041* (0.025)	-0.005 (0.013)	0.065** (0.029)	0.103* (0.059)
ICT	-0.169*** (0.025)	-0.188*** (0.037)	-0.044 (0.060)	0.660*** (0.104)
Service	0.000 (0.014)	-0.000 (0.008)	-0.000 (0.036)	-0.000 (0.038)
Agric.	0.007 (0.015)	-0.065* (0.036)	-0.112*** (0.042)	-0.077*** (0.025)
Energy	-0.081*** (0.017)	-0.037*** (0.014)	0.089*** (0.020)	0.215*** (0.044)
Metals	-0.010 (0.018)	0.003 (0.004)	0.021 (0.036)	0.025 (0.044)
Mining	-0.087** (0.041)	-0.043 (0.043)	0.089*** (0.021)	0.231* (0.128)
Observations	265	265	265	265

Note: Robust standard errors in parentheses; \*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

Reference for Size is Large, and that for Industry is banking

**4.3.1.1.4. HPR on Employee Perception of Firm Performance against Target**

Similar interpretations, as before, can be given to the relationship between HPR and employee perception of FP against Target (Table 4.36). Table 4.36 suggests an increasing probability between HPR and the various measures of employee's perception of FP against their target. As HPR improves, employees are more likely to have a favourable perception of FP against set targets. Improved HPR has a significant positive relationship with all the different dimensions of improved FP against set targets and a negative relationship with 'significantly below target'. Similarly, statistically significant results were obtained especially for the Energy industry.

**Table 4.36: Regression: Marginal Effects (Ordered Probit)**

Dependent Variable: Employee Perception: Target

	Significantly Below	Marginally Below	Marginally Above	Outperformed
HPR	-0.029*** (0.007)	0.005 (0.003)	0.043*** (0.008)	0.032*** (0.007)
GSE	-0.009 (0.025)	0.002 (0.004)	0.014 (0.037)	0.010 (0.027)
Size				
Big	-0.025 (0.026)	0.005 (0.006)	0.037 (0.038)	0.026 (0.027)
Medium	-0.031 (0.027)	0.005 (0.006)	0.046 (0.039)	0.034 (0.030)
Small	-0.008 (0.044)	0.003 (0.012)	0.014 (0.070)	0.009 (0.047)
Industry				
FMCG	-0.023 (0.028)	0.002 (0.003)	0.032 (0.037)	0.026 (0.032)
ICT	-0.100* (0.052)	-0.026 (0.029)	0.103*** (0.039)	0.133 (0.084)
Service	0.019 (0.024)	-0.007 (0.012)	-0.032 (0.044)	-0.020 (0.026)
Agric.	0.024 (0.022)	-0.010 (0.013)	-0.042 (0.043)	-0.025 (0.024)
Energy	-0.125*** (0.026)	-0.044*** (0.015)	0.115*** (0.026)	0.180*** (0.042)
Metals	-0.001 (0.035)	0.000 (0.007)	0.001 (0.053)	0.001 (0.037)
Mining	-0.001 (0.042)	0.000 (0.008)	0.002 (0.064)	0.001 (0.045)
Observations	265	265	265	265

Note: Robust standard errors in parentheses; \*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

Reference for Size is Large, and that for Industry is banking

#### 4.3.1.1.5. **HPR on Employee Perception of Firm Performance in the last three years (L3Y).**

Table 4.37 presents the results for the relationship between HPR and employee perception of FP over the last three years. Similarly, as HPR improves, employees are more likely to have a favourable perception of FP over the last three years. Statistically, significant differences exist when size and industry type disaggregate the firms. For instance, employees of bigger firms are more likely to perceive their FP to outperform those in the last three years relative to larger firms.

**Table 4.37: Regression: Marginal Effects (Ordered Probit)**

Dependent Variable: Employee Perception L3Y

	Significantly Below	Marginally Below	Marginally Above	Outperformed
HPR	-0.018*** (0.005)	0.003 (0.003)	0.033*** (0.008)	0.031*** (0.008)
GSE	-0.003 (0.018)	0.001 (0.003)	0.005 (0.034)	0.005 (0.032)
Size				
Big	-0.051*** (0.020)	0.003 (0.011)	0.091*** (0.034)	0.088** (0.034)
Medium	-0.018 (0.018)	0.009 (0.009)	0.040 (0.037)	0.030 (0.029)
Small	0.005 (0.019)	-0.007 (0.027)	-0.016 (0.058)	-0.009 (0.034)
Industry				
FMCG	-0.040** (0.019)	-0.008 (0.010)	0.060** (0.026)	0.074* (0.038)
ICT	-0.063 (0.040)	-0.024 (0.032)	0.083** (0.038)	0.123 (0.088)
Service	-0.013 (0.023)	0.001 (0.003)	0.023 (0.038)	0.023 (0.040)
Agric.	0.022 (0.017)	-0.092** (0.041)	-0.142*** (0.040)	-0.077*** (0.021)
Energy	-0.091*** (0.019)	-0.054*** (0.016)	0.099*** (0.022)	0.197*** (0.044)
Metals	0.006 (0.021)	-0.002 (0.010)	-0.013 (0.044)	-0.011 (0.036)
Mining	-0.038 (0.033)	-0.006 (0.016)	0.057 (0.042)	0.069 (0.066)
Observations	265	265	265	265

Note: Robust standard errors in parentheses; \*\*\* p&lt;0.01, \*\* p&lt;0.05, \* p&lt;0.1

Reference for Size is Large, and that for Industry is banking

#### 4.3.1.2. HPR On ROA.

The theoretical basis for exploring the relationship between ROA and HPR has been explained in chapter three (Section 3.3.3.1). Ordinary least squares regression was performed to ascertain the effect of HPR on ROA. Two types of estimations were done: one at the individual employee level (using 265 responses) and the other at the organisational level (using 65 organisations). For the organisational level analysis, a composite HPR index was computed using the averages of the HPRs that were obtained from the PCA. The essence was to find out if significant differences exist between the two approaches. Table 4.38 presents the results of the relationship between HPR and ROA at the individual employee level. The results generally confirm that the coefficient of HPR has a directly positive and statistically significant relationship with ROA. Using a stepwise regression method, different specifications were estimated to ascertain the robustness of the HPR coefficient. Specification (1) presents the results only when HPR was introduced into the ROA model, and the result was statistically significant and positive, suggesting as the overall perception of HPR

increases (i.e. as employees tend to agree with the HPR measures), ROA responds positively with a magnitude of about 0.036. In specification (2), listing on the GSE was introduced, and the HPR coefficient did not change much (it reduced by 0.003 units). The results remained the same with the introduction of size and industry dummies separately (i.e. specification 3 and 4 respectively) and together (specification 5). In all the specifications, the HPR coefficient remained positive and statistically significant and did not change much.

**Table 4.38: Regression: Least Squares (Respondent Level): HPR on ROA**

ROA	(1)	(2)	(3)	(4)	(5)
HPR	0.036*** (0.006)	0.033*** (0.006)	0.033*** (0.006)	0.024*** (0.006)	0.024*** (0.007)
GSE		0.057** (0.024)	0.068*** (0.026)	0.040 (0.026)	0.046 (0.028)
Industry					
FMCG				-0.069*** (0.024)	-0.066*** (0.025)
ICT				-0.031 (0.022)	-0.027 (0.026)
Service				-0.187*** (0.025)	-0.184*** (0.027)
Agric.				-0.203*** (0.042)	-0.204*** (0.047)
Energy				-0.266*** (0.028)	-0.258*** (0.032)
Metals				-0.037* (0.021)	-0.036 (0.027)
Mining				-0.047* (0.024)	-0.038 (0.029)
Size					
Big			-0.012 (0.021)		0.009 (0.024)
Medium			0.052* (0.031)		0.021 (0.031)
Small			0.049 (0.039)		-0.004 (0.046)
Constant	0.163*** (0.010)	0.151*** (0.011)	0.143*** (0.016)	0.206*** (0.017)	0.197*** (0.023)
Observations	265	265	265	265	265
R-squared	0.145	0.162	0.179	0.350	0.351

Note: Robust standard errors in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1; Reference for Size is Large and that for Industry is banking

Regarding the rest of the explanatory variables, listing on the stock market is positively associated with ROA; at least in the specification (2) and (3). The GSE coefficient becomes insignificant with the introduction of industry dummies. Also, almost all the industries included have lower ROAs compared to the banking sector (the reference category); but the results are significant only for the following industries: FMCG, Services, Agric, Metals, Mining and Energy. Similarly, medium-sized firms seem to

have statistically significant higher ROAs in the specification (3) relatively to large firms.

Table 4.39 provides the estimation of HPR on ROA at the organisational level. The results, to a large extent, agree with those in Table 4.38 (i.e. results at the individual employee level). A statistically significant positive relationship was established between HPR and ROA. However, the HPR coefficients are slightly larger at the organisational level than the individual employee level. This could probably be because the organisational estimates are based on the aggregates of the individual estimates. More important, organisational ROAs appear smaller for the services and energy sector relative to the banking sector (similar to the results obtained in Table 4.38).

**Table 4.39: Regression: Least Squares (Organisational Level) HPR on ROA**

ROA	(1)	(2)	(3)	(4)
HPR	0.061*** (0.013)	0.059*** (0.015)	0.060*** (0.015)	0.052*** (0.018)
GSE		0.032 (0.045)	0.039 (0.054)	0.038 (0.064)
Size				
Big		-0.045 (0.047)	-0.038 (0.059)	
Medium		0.029 (0.064)	0.017 (0.070)	
Small		0.044 (0.054)	0.020 (0.070)	
Industry				
FMCG			-0.059 (0.054)	
ICT			0.002 (0.047)	
Service			-0.140** (0.064)	
Agric.			-0.148 (0.128)	
Energy			-0.184** (0.079)	
Metals			0.012 (0.060)	
Mining			0.009 (0.071)	
Constant	0.159*** (0.020)	0.153*** (0.023)	0.161*** (0.035)	0.191*** (0.055)
Observations	65	65	65	65
R-squared	0.258	0.262	0.291	0.379

Note: Robust standard errors in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Reference for Size is Large, and that for Industry is banking

### 4.3.1.3. HPR On ROCE.

For the effect of HPR on ROCE, similar stepwise linear regressions (like those presented in Tables 4.38 – 4.39) are presented in Table 4.40 & 4.41. Like equation 1, estimations for HPR on ROCE was done at the respondent level as well as at the organisational level. Table 4.40 presents the results of the estimation of HPR on ROCE at the respondent level, and the results show that the coefficient of HPR has a significant direct relationship with ROCE. The results remain statistically significant in the different specifications except for specification (5). In that specification, HPR becomes insignificant with the introduction of the industry dummies probably becomes of the strong heterogeneity in the selected firms. Listing on the GSE positively influences ROCE, while most industries have ROCEs lower than that of the banking industry.

**Table 4.40: Regression: Least Squares (Respondent Level) HPR on ROCE**

ROCE	(1)	(2)	(3)	(4)	(5)
HPR	0.030*** (0.008)	0.024*** (0.008)	0.024*** (0.008)	0.015* (0.008)	0.012 (0.008)
GSE		0.107*** (0.040)	0.107** (0.046)	0.105** (0.041)	0.093* (0.049)
Industry					
FMCG				-0.156*** (0.028)	-0.148*** (0.030)
ICT				0.110*** (0.027)	0.089** (0.039)
Service				-0.187*** (0.033)	-0.203*** (0.040)
Agric.				-0.303*** (0.051)	-0.340*** (0.060)
Energy				-0.193*** (0.039)	-0.201*** (0.053)
Metals				-0.070** (0.033)	-0.103** (0.041)
Mining				-0.071** (0.034)	-0.077 (0.050)
Size					
Big			-0.005 (0.036)		0.038 (0.043)
Medium			0.005 (0.034)		-0.027 (0.043)
Small			-0.005 (0.044)		-0.071 (0.059)
Constant	0.186*** (0.014)	0.164*** (0.015)	0.165*** (0.027)	0.230*** (0.023)	0.232*** (0.043)
Observations	265	265	265	265	265
R-squared	0.053	0.085	0.085	0.267	0.278

Note: Robust standard errors in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Reference for Size is Large, and that for Industry is banking

At the organisational level, HPR has a significantly positive and direct relationship with ROCE (Table 4.41). The results are like those found in table 4.40 across all specifications.

**Table 4.41: Regression: Least Squares (Organisational Level) HPR on ROCE**

ROCE	(1)	(2)	(3)	(4)
HPR	0.050*** (0.017)	0.045** (0.018)	0.048*** (0.017)	0.036* (0.021)
GSE		0.084 (0.084)	0.077 (0.105)	0.089 (0.121)
Size				
Big		-0.039 (0.078)	-0.018 (0.104)	
Medium		-0.013 (0.075)	-0.029 (0.100)	
Small		-0.001 (0.082)	-0.037 (0.116)	
Industry				
FMCG			-0.146** (0.070)	
ICT			0.118 (0.077)	
Service			-0.156* (0.093)	
Agric.			-0.280* (0.152)	
Energy			-0.141 (0.133)	
Metals			-0.054 (0.086)	
Mining			-0.040 (0.121)	
Constant	0.183*** (0.028)	0.169*** (0.029)	0.187*** (0.063)	0.230** (0.103)
Observations	65	65	65	65
R-squared	0.107	0.124	0.130	0.258

Note: Robust standard errors in parentheses; \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Reference for Size is Large, and that for Industry is banking

#### **4.3.2. Dependent Variable Computed As The Sum Of Responses On A Likert Scale.**

R software was also used to run the regression based on the data set. HPR was computed as the sum of Likert scores for each respondent from B1 to B6. Previous studies have applied a similar method of coding (Gray, Grove & Suntherland, 2016; Grove & Cipher, 2017, Waltz et al., 2010). Some researchers argue that if social sciences rigidly adhere to the rules developed by Stevens (1946), then few if any measures will meet the criteria to be considered interval level data. Such researchers (often referred to as pragmatist) further argue that violating Stevens' criteria does not lead to a serious consequence for the outcomes of data analysis (Gray et al., 2016).

Pragmatist treat summed ordinal level data from multi-item scales as intervals on a continuum and proceed to use parametric statistical methods to analyse them. They argue that with many ordinal measures such as scaling procedures, an underlying interval continuum is present that justifies the use of parametric statistics (Knapp, 1990; Nunnally & Bernstein, 1994). Table 4.42 shows each variables component(s).

<b>Table 4.42: Computation Of Variables In SPSS And R</b>	
<b>Variable</b>	<b>Computation</b>
HPR	Sum of scores from B1-B6 for each respondent
PERF	Sum of scores from B7-B11 for each respondent
INNOVATE	Sum of scores from B12-B15 for each respondent
ENV	Sum of scores from B16-B20 for each respondent
POLITICS	Sum of scores from B21-B24 for each respondent
MCS	Sum of scores from B25-B30 for each respondent
INC	Sum of scores from B31-B36 for each respondent
IND	Sum of scores from B37-B40 for each respondent
Employee_Perception_BC	C5
Employee_Perception_INDUSTRY	C6
Employee_Perception_TARGET	C7
Employee_Perception_L3Y	C8
Employee_Satisfaction	C10

#### 4.3.2.1. HPR On Employee Perception Of Firm Performance.

The various measures of employee perception, which are the dependent variables in equation 4 to equation 7 are not continuums, and hence a binary logistic regression was performed (Al-Ghamdi, 2001). Logistic Regression differs from the ordinary linear regression in that it does not require rigorous assumptions to be met. In a logistic regression with dependent variable and independent variables, for instance, the model is specified as

$$\log \left[ \frac{P(Y)}{1-P(Y)} \right] = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Thus, the log of the odds of success of the dependent variable is regressed on the explanatory variables

*log[Employee\_Perception\_L3Y] = a + bHPR+DUMMY SIZE+DUMMY LISTED+DUMMY INDUSTRY + e... (4)*  
*log[Employee\_Perception\_INDUSTRY]=a + bHPR+DUMMY SIZE+DUMMY LISTED+DUMMY INDUSTRY+e (5)*  
*log[Employee\_Perception\_TARGET]=a+bHPR+DUMMY SIZE+DUMMY LISTED+DUMMY INDUSTRY+e (6)*  
*log[Employee\_Perception\_BC]=a+bHPR+DUMMY SIZE+DUMMY LISTED+DUMMY INDUSTRY+e (7)*

To perform the logistic regression, the case (Prempeh, 2009) with scores of between 1-3 (Outperformed, marginally above and at par) were considered as positive and coded as 1, whereas the non-case with scores of 4 & 5 (Marginally below and significantly below) were considered as negative and coded as 0. Similarly, for HPR, scores of 1-3 on the Likert scale (agree, somewhat agree and strongly agree) were coded as representing HPR and coded as 1. Considering that HPR was computed as the sum of the scores for each respondent, and the fact that six questions (B1-B6) were used to measure HPR, this translated to a score of eighteen (18) representing HPR. Scores above eighteen (18) represented dishonest MPR (strongly disagree, somewhat disagree, disagree and neutral) and was coded as 0. Results of the logistic regression are presented below (Table 4.43-4.46) and confirm a statistically significant direct positive relationship of HPR on variants of employee perception about FP.

Logistic regression quantifies the relationship between the dichotomous dependent variable and the predictors using odds ratio. Odds is the probability that an event will occur divided by the probability that it will not occur (Kleinbaum et al., 2008). In other words, it is the probability of the case divided by the probability of the non-case. The odds ratio compares if the odds of a positive outcome (odds of the case) are equally likely to the odds of a negative outcome (odds of a non-case). The odds ratio has a minimum value of zero but with no upper limit. An odds ratio of less than one indicates that the case is unlikely to prevail, a value of one indicates that the odds of success (case) are equally likely as the odds of failure (non-case) and a value higher than one suggests a high likelihood for the case scenario to prevail. Therefore, odd values greater than one suggest a stronger relationship.

As an example, to assess the relationship between Best Competitor Perception (Table 4.43) and HPR controlling for firm size, industry type and stock listing status of the firm, a binary logistic regression is used due to the nature of the response variable (BC). Unlike in linear regressions, the R-squared for logistic regression is only used to compare competing models that used the same data set. In such a case a value of one indicates a perfect fit and a value of 0 indicates there is no relationship. The receiver operating characteristic (ROC) curve is often used as a measure of goodness-of-fit to evaluate the fit of a logistic regression model. It calculates sensitivity and specificity pairs for each possible cut-off point and plot sensitivity on the y-axis by (1-specificity) on the x axis. The area under the ROC curve ranges from 0.5 and 1.0 with larger values indicative of better fit.

In the case of logistic regression, the likelihood ratio test is used to test the overall significance of the model. The likelihood ratio test (table 4.43) produced a chi-square value 183.2 with a p-value significant at any level of significance. (d.f = 12, p-value < 0.001). The pseudo coefficient of determination used in this case is the Nagelkerke which was 0.6735. The Nagelkerke shows that about 67% of the variability in the Employee Perception is explained by the explanatory variables. The model further shows that a positive HPR increases the logarithm of odds of positive BC by 4.049 controlling for all the other factors in the model and this is statistically significant. ( Z = 8.364, p < 0.001). This shows that there is strong evidence to suggest a positive relationship between HPR and BC. To validate the model, the Hosmer Lemeshow test is used. The Hosmer-Lemeshow test, tests the hypothesis that the data fits the logistic regression model. The H-L test produced a chi-square value of 6.41 with a p-value of 0.6011 implying that the data indeed fit the logistic regression model used.

**Table 4.43: Logistic Regression Results: HPR on Employee Perception Of FP Against BEST COMPETITOR**

Coefficients:

	<b>Estimate</b>	<b>Std. Error</b>	<b>z value</b>	<b>Pr(&gt; z )</b>
(Intercept)	-0.84618	0.98091	-0.863	0.3883
HPRCAT	4.04925	0.48415	8.364	<2e-16 ***
MEDIUM	0.39103	0.82333	0.475	0.6348
BIG	-0.45344	0.84228	-0.538	0.5903
LARGE	-0.97696	0.80375	-1.215	0.2242
GSE	0.74036	0.55360	1.337	0.1811
MINING	1.54204	0.92537	1.666	0.0956 .
FMCG	-0.57752	1.05213	-0.549	0.5831
ICT	18.08651	979.67217	0.018	0.9853
BANK	-0.27697	0.73774	-0.375	0.7073
SERVICE	0.02882	0.86321	0.033	0.9734
AGRIC	0.63031	0.87278	0.722	0.4702
ENERGY	-15.74293	1769.25779	-0.009	0.9929
---				

Signif. codes: 0 ‘\*\*\*’ 0.001 ‘\*\*’ 0.01 ‘\*’ 0.05 ‘.’ 0.1 ‘ ’ 1

**Cox.Snell R<sup>2</sup>**

0.4987562

**Nagelkerke R<sup>2</sup>**

0.6735338

**Hosmer and Lemeshow goodness of fit (GOF) test**

Chi- squared = 6.4124, df = 8, p-value = 0.6011

Model	Likelihood Ratio Test		
Obs	265	LR chi2	183.02
0	107	d.f.	12
1	158	Pr(> chi2)	<0.0001

Tables 4.44 to 4.46 present the rest of the logistic regression results of the influence of HPR on employee perception of FP while Fig. 4.6 shows the ROC curve with interpretation for BC. The remaining ROC curves are included in the appendix and generally confirm the same pattern of a positive influence of HPR on employee perception of FP (see fig 10.3-10.5).

**Table 4.44: Logistic Regression Results: HPR on Employee Perception Of FP Against INDUSTRY**

Coefficients:

	<b>Estimate</b>	<b>Std. Error</b>	<b>z value</b>	<b>Pr(&gt; z )</b>
(Intercept)	-2.1792	1.0530	-2.069	0.0385 *
HPRCAT	4.2921	0.5173	8.297	<2e-16 ***
MEDIUM	1.0385	0.8849	1.174	0.2406
BIG	0.3457	0.8876	0.390	0.6969
LARGE	0.2281	0.8438	0.270	0.7869
GSE	1.3374	0.5953	2.247	0.0247 *
MINING	2.2418	0.9706	2.310	0.0209 *
FMCG	0.6739	1.0364	0.650	0.5156
ICT	19.4294	1598.6630	0.012	0.9903
BANK	0.2572	0.7764	0.331	0.7405
SERVICE	-0.4198	0.9483	-0.443	0.6580
AGRIC	0.1597	0.9589	0.167	0.8677
ENERGY	-16.6149	2917.0128	-0.006	0.9955

---

Signif. codes: 0 ‘\*\*\*’ 0.001 ‘\*\*’ 0.01 ‘\*’ 0.05 ‘.’ 0.1 ‘ ’ 1

**Cox.Snell R<sup>2</sup>**

0.4987562

**Nagelkerke R<sup>2</sup>**

0.6735338

**Hosmer and Lemeshow goodness of fit (GOF) test**

Chi-squared = 6.4124, df = 8, p-value = 0.6011

		Likelihood Ratio Test	
Obs	265	LR chi2	183.02
0	107	d.f.	12
1	158	Pr(> chi2)	<0.0001

**Table 4.45: Logistic Regression Results: HPR on Employee Perception Of FP Against LAST THREE YEARS**

Coefficients:

	<b>Estimate</b>	<b>Std. Error</b>	<b>z value</b>	<b>Pr(&gt; z )</b>
(Intercept)	-1.48390	0.87966	-1.687	0.0916 .
HPRCAT	3.05071	0.38646	7.894	2.92e-15 ***
MEDIUM	0.21264	0.76055	0.280	0.7798
BIG	0.19359	0.74298	0.261	0.7944
LARGE	-0.37034	0.71024	-0.521	0.6021
GSE	0.43870	0.49582	0.885	0.3763
MINING	0.97355	0.88022	1.106	0.2687
FMCG	-1.99279	0.89806	-2.219	0.0265 *
ICT	1.02951	0.93501	1.101	0.2709
BANK	0.63696	0.63920	0.996	0.3190
SERVICE	0.02989	0.78025	0.038	0.9694
AGRIC	-0.13130	0.79945	-0.164	0.8695
ENERGY	-14.71183	1073.10923	-0.014	0.9891

Signif. codes: 0 ‘\*\*\*’ 0.001 ‘\*\*’ 0.01 ‘\*’ 0.05 ‘.’ 0.1 ‘ ’ 1

**Cox.Snell R<sup>2</sup>**

0.3904609

**Nagelkerke R<sup>2</sup>**

0.5211724

**Hosmer and Lemeshow goodness of fit (GOF) test**

Chi- squared = 1.7035, df = 6, p-value = 0.9449

Model		Likelihood Ratio Test	
Obs	265	LR chi2	131.19
0	125	d.f.	12
1	140	Pr(> chi2)	<0.0001

**Table 4.46: Logistic Regression Results: HPR on Employee Perception Of FP Against TARGET**

Coefficients:

	<b>Estimate</b>	<b>Std. Error</b>	<b>z value</b>	<b>Pr(&gt; z )</b>
(Intercept)	-2.2104	1.7352	-3.4090	0.0634*
HPRCAT	4.4311	0.3418	5.4821	<2e-16 ***
MEDIUM	0.2109	0.8431	1.1185	0.2292
BIG	0.1783	0.8469	0.3721	0.6649
LARGE	0.2214	0.8048	0.2575	0.7505
GSE	0.5296	0.6336	2.3916	0.0263 *
MINING	2.4277	0.9922	2.3614	0.0214 *
FMCG	0.7453	1.7600	1.1038	0.8756
ICT	21.9424	1805.4342	0.0136	1.1184
BANK	0.2257	0.9776	0.4168	0.9324
SERVICE	-0.0487	0.9438	-0.4410	0.6549
AGRIC	0.7446	0.9195	0.1601	0.8320
ENERGY	-17.6449	3097.8476	-0.0060	1.0572
---				

Signif. codes: 0 ‘\*\*\*’ 0.001 ‘\*\*’ 0.01 ‘\*’ 0.05 ‘.’ 0.1 ‘ ’ 1

**Cox.Snell R<sup>2</sup>**

0.4213642

**Nagelkerke R<sup>2</sup>**

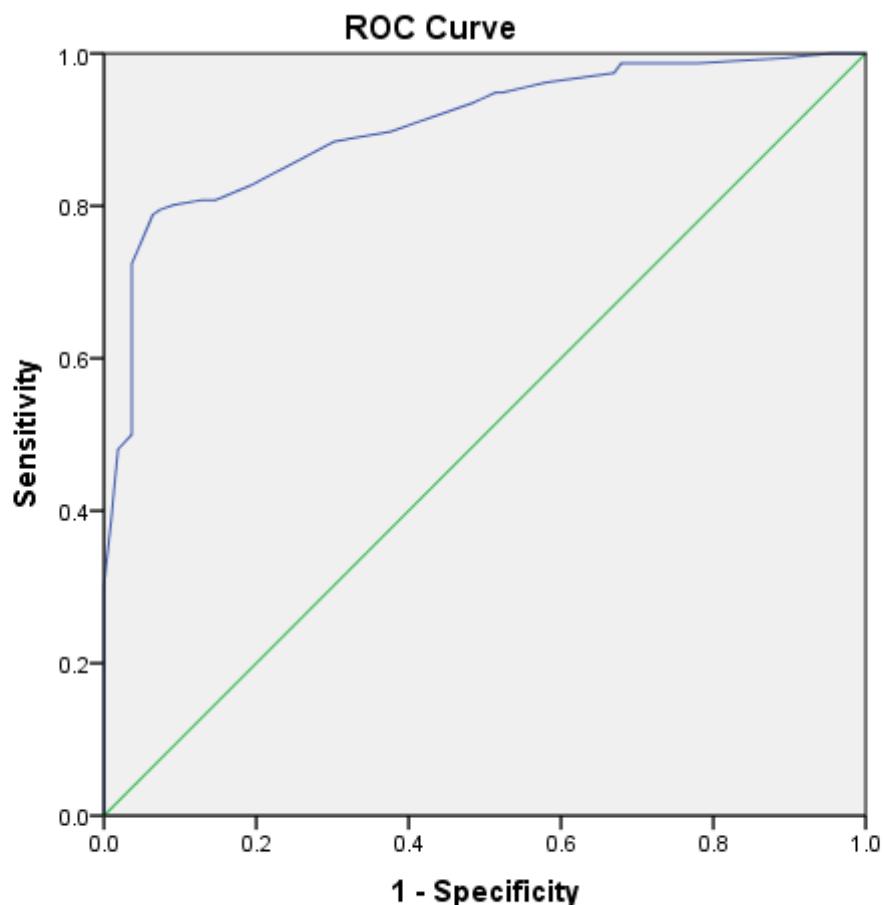
0.5618429

**Hosmer and Lemeshow goodness of fit (GOF) test**

Chi- squared = 10.507, df = 8, p-value = 0.2312

Likelihood Ratio Test				
Obs	265	LR chi2	144.97	
0	134	d.f.	12	
1	131	Pr(> chi2)	<0.0001	

FIG 4.6: ROC For BC



Diagonal segments are produced by ties.

#### Area Under The Curve

Test Result Variable(s): Predicted probability

Area	Std. Error <sup>a</sup>	Asymptotic Sig. <sup>b</sup>	Asymptotic 95% Confidence Interval	
			Lower Bound	Upper Bound
.905	.018	.000	.869	.940

The test result variable(s): Predicted probability has at least one tie between the positive actual state group and the negative actual state group.

a. Under the nonparametric assumption

b. Null hypothesis: true area = 0.5

The area under the curve is .905 with 95% confidence interval (.869, .940). Also, the area under the curve is significantly different from 0.5 since p-value is .000 meaning that the logistic regression classifies the group significantly better than by chance. Similar results were obtained for TARGET, IND and L3Y as per their ROCs presented in the appendix (Figure 10.3 – 10.5).

#### 4.3.2.2. HPR And Employee Satisfaction.

A binary logistic regression equation was also used for equation 3. Employee satisfaction scores of between 1-3 on the Likert scale (strongly satisfied, somewhat satisfied and satisfied) were considered positive and coded as one (1) while scores between 4-7 (strongly dissatisfied, somewhat dissatisfied, dissatisfied, and neutral) were considered negative and coded as zero (0). HPR scores above 18 were considered as positive and coded as 1 and scores above 18 were considered negative and coded as 0. The results of the binary logistic regression (table 4.47) confirms a significant positive direct relationship between HPR and Employee satisfaction when controlled for firm size, industry type and listing on the Ghana Stock Exchange.

$$\text{Employee Satisfaction} = a + b \text{ HPR} + \text{DUMMY SIZE} + \text{DUMMY LISTED} + \text{DUMMY INDUSTRY} + e \quad (3)$$

**Table 4.47: Logistic Regression Results: HPR on Employee Satisfaction Coefficients:**

	Estimate	Std. Error	z value	Pr(> z )
(Intercept)	-1.6344	1.0835	-1.508	0.1315
HPRCAT	4.4274	0.4884	9.066	<2e-16 ***
MEDIUM	-0.6084	0.9527	-0.639	0.5231
BIG	-0.5282	0.9093	-0.581	0.5614
LARGE	-1.6302	0.8907	-1.830	0.0672 .
GSE	0.5023	0.5470	0.918	0.3585
MINING	0.8229	1.2938	0.636	0.5248
FMCG	0.8208	1.1319	0.725	0.4683
ICT	-0.6283	1.2249	-0.513	0.6080
BANK	0.1318	0.8242	0.160	0.8729
SERVICE	-0.9048	1.0684	-0.847	0.3971
AGRIC	1.5310	0.9604	1.594	0.1109
ENERGY	-13.3015	1072.1094	-0.012	0.9901
---				

Signif. codes: 0 ‘\*\*\*’ 0.001 ‘\*\*’ 0.01 ‘\*’ 0.05 ‘.’ 0.1 ‘ ’ 1

**Cox.Snell R<sup>2</sup>**

0.5325656

**Nagelkerke R<sup>2</sup>**

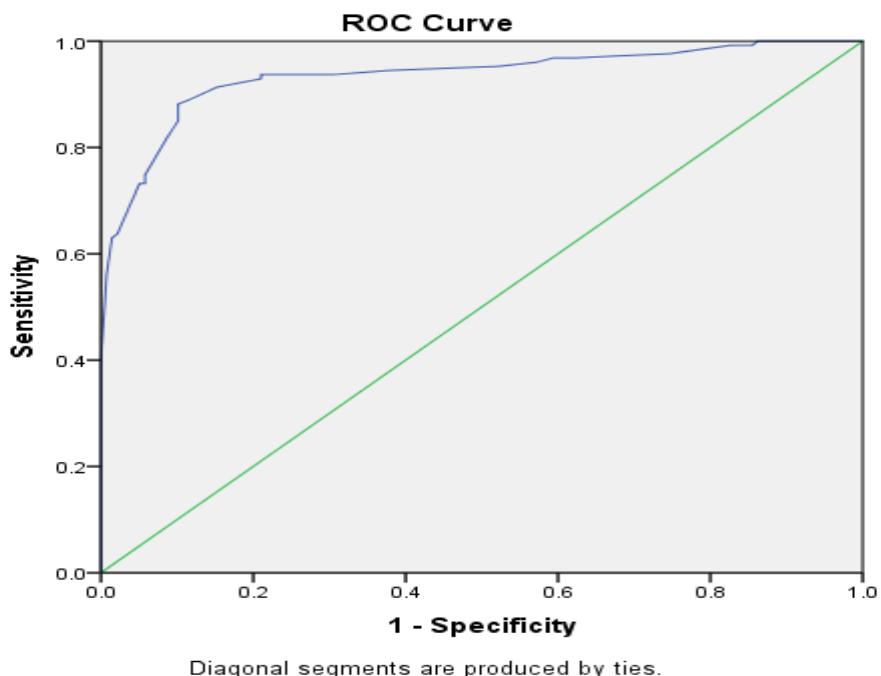
0.7104960

**Hosmer and Lemeshow goodness of fit (GOF) test**

Chi- squared = 10.153, df = 8, p-value = 0.2544

Model	Likelihood Ratio Test		
Obs	265	LR chi2	201.53
0	138	d.f.	12
1	127	Pr(> chi2)	<0.0001

**FIG 4.7: ROC For Employee Satisfaction**



### Area Under The Curve

Test Result Variable(s): Predicted probability

Area	Std. Error <sup>a</sup>	Asymptotic Sig. <sup>b</sup>	Asymptotic 95% Confidence Interval	
			Lower Bound	Upper Bound
.935	.016	.000	.904	.966

The test result variable(s): Predicted probability has at least one tie between the positive actual state group and the negative actual state group.

- a. Under the nonparametric assumption
- b. Null hypothesis: true area = 0.5

In figure 4.7 above, the area under the curve is .935 with 95% confidence interval (.904, .966). Also, the area under the curve is significantly different from 0.5 since p-value is .000 meaning that the logistic regression classifies the group (HPR on employee satisfaction) significantly better than by chance.

#### 4.3.2.3. HPR On ROA & ROCE.

Considering that the dependent variable ROA and ROCE are continuums (Field 2013, Pallant, 2013 and Rose, Spinks & Canhoto, 2015), equation 1 and equation 2 were modelled using ordinary least square regression.

$$ROA = a + b HPR + DUMMY\_SIZE + DUMMY\_LISTED + DUMMY\_INDUSTRY + e \dots \dots \dots (1)$$

HPR, scores of 1-3 on the Likert scale (agree, somewhat agree and strongly agree) were categorised as representing honest managerial performance reporting and coded as 1. Considering that HPR was computed as the sum of the scores for each respondent, and the fact that six questions (B1-B6) were used to measure HPR, this translated to a score of eighteen (18) representing honest reporting of managerial performance. Scores above eighteen (18) represented dishonest reporting of managerial performance (strongly disagree, somewhat disagree, disagree and neutral) and was coded as 0.

The number of employees within an organisation was used as a proxy for organisational size (Rosen, 1982, Kremer, 1993). A linear regression model was conducted to assess the extent of the relationship between ROA and HPR controlling other factors. In the first place, the overall significance of the model is tested using analysis of variance (ANOVA). The ANOVA test for the overall significance of the regression model gave an F-statistic of 14.36 with a significance probability less than 0.1% implying that the overall model is significant in predicting ROA. The model subsequently gave an adjusted coefficient of determination (R-Squared) to be 0.3778 showing that, approximately 38% of the variabilities in ROA is explained by the regression model. Since the overall model is significant, the study proceeds to look at the significance of the individual explanatory variables. The model further shows that controlling for industry type, firm size and stock listing status of the firm, a positive HPR increases the ROA of a firm by 0.084 and this was statistically significant ( $t = 4.607$ ,  $p < 0.001$ ). Similar significant positive relationship of HPR was confirmed on ROCE. Tables 4.48 and 4.49 present the results of HPR on ROA and HPR on ROCE respectively (based on computations in 'R', with HPR computed as sum of relevant Likert scores).

**Table 4.48: Linear Regression Results Of HPR On ROA**

Coefficients:

	<b>Estimate</b>	<b>Std. Error</b>	<b>t value</b>	<b>Pr(&gt; t )</b>
(Intercept)	-0.028332	0.046470	-0.610	0.542621
HPRCAT	0.083872	0.018207	4.607	6.50e-06 ***
MEDIUM	0.171334	0.041897	4.089	5.82e-05 ***
BIG	0.154006	0.039715	3.878	0.000135 ***
LARGE	0.171114	0.039043	4.383	1.72e-05 ***
GSE	0.045599	0.023289	1.958	0.051336 .
MINING	-0.025041	0.047560	-0.527	0.598998
FMCG	-0.052035	0.042789	-1.216	0.225093
ICT	0.007222	0.050772	0.142	0.886994
BANK	0.047441	0.032075	1.479	0.140367
SERVICE	-0.159850	0.038952	-4.104	5.49e-05 ***
AGRIC	-0.162317	0.041087	-3.951	0.000101 ***
ENERGY	-0.262783	0.068435	-3.840	0.000156 ***
---				

*Signif. codes: 0 ‘\*\*\*’ 0.001 ‘\*\*’ 0.01 ‘\*’ 0.05 ‘.’ 0.1 ‘ ’ 1*

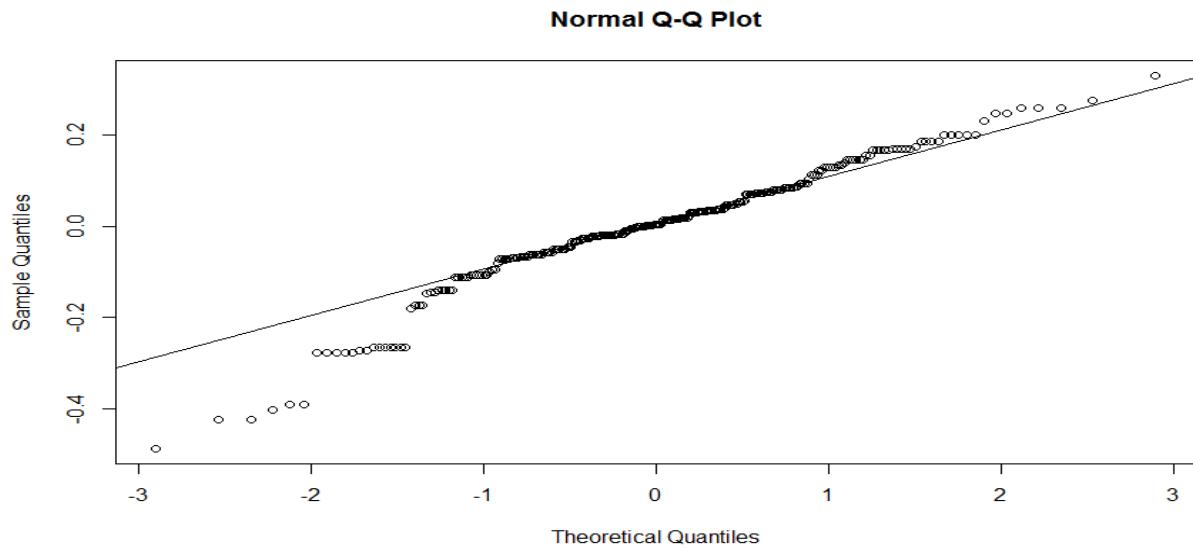
Residual standard error: 0.1345 on 252 degrees of freedom

Multiple R-squared: 0.406, Adjusted R-squared: 0.3777

F-statistic: 14.36 on 12 and 252 DF, p-value: < 0.001

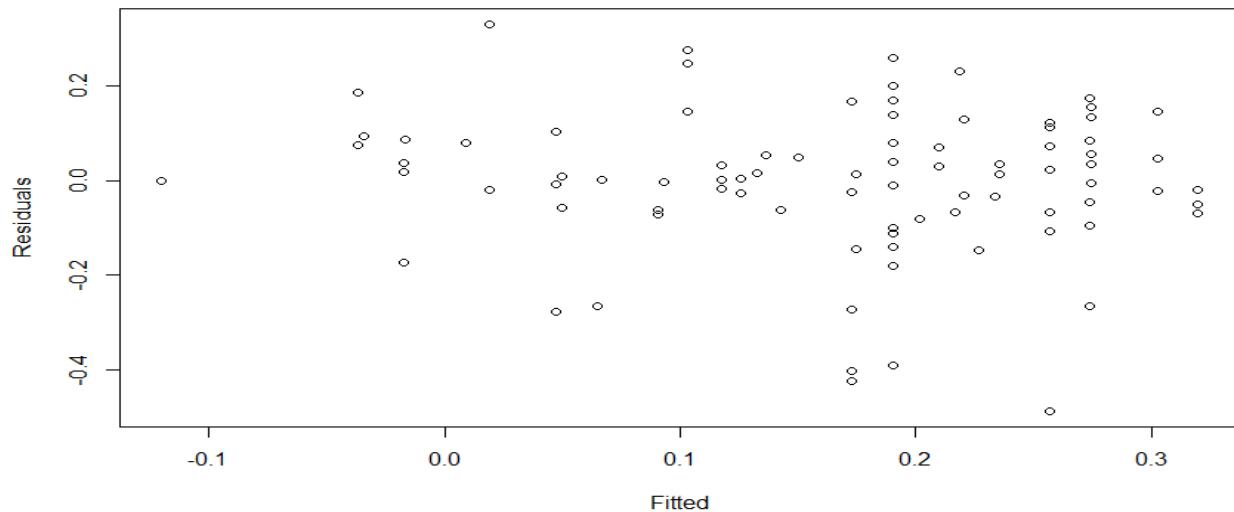
To conduct, a justifiable ordinary least square regression, some assumptions must be met, or at least not violated. These assumptions include; linearity of the relationship, normality, independence and homogeneity of the variance of the random errors, symmetry of the random errors about zero and absence of outliers. Non-violation of these assumptions validates the model. To check whether any of these assumptions are violated, graphical plots are used. The normal quantile - quantile plot (Q-Q plot) of the residuals is used to assess the normality of random error terms while the residuals are plotted against the fitted values to assess the other assumptions. The graphical results are shown below in Fig 4.8 and 4.9 respectively.

**FIG 4.8: Normal Q-Q Plot For HPR On ROA**



From the Q-Q plot, it is noticed that the residuals do not heavily deviate from the normal distribution function line. This shows that, the normality assumption is not violated.

**FIG 4.9: Residual Versus Fitted Plot For HPR On ROA**



From the residual vs fitted plot, it is observed that there are not influential outliers. Also, there is no pattern of distribution of points plotted. This shows that the model is indeed linear, the residuals are independent and have constant variance and symmetric about zero. Due to non-violation of the assumptions, there is strong evidence that the use of linear regression, in this case, is justified. Table 4.49 with Fig. 4.9 presents the results for HPR on ROCE with similar results and hence conclusions.

**Table 4.49: Linear Regression Results Of HPR On ROCE**

Coefficients:

	Estimate	Std. Error	t value	Pr(> t )
(Intercept)	-0.086810	0.068048	-1.276	0.203232
HPRCAT	0.052786	0.026661	1.980	0.048804 *
MEDIUM	0.164805	0.061353	2.686	0.007707 **
BIG	0.223470	0.058156	3.843	0.000154 ***
LARGE	0.214040	0.057173	3.744	0.000225 ***
GSE	0.095234	0.034103	2.793	0.005631 **
MINING	0.005918	0.069645	0.085	0.932354
FMCG	-0.067237	0.062658	-1.073	0.284266
ICT	0.186941	0.074348	2.514	0.012548 *
BANK	0.111710	0.046969	2.378	0.018135 *
SERVICE	-0.109074	0.057039	-1.912	0.056977 .
AGRIC	-0.231722	0.060166	-3.851	0.000149 ***
ENERGY	-0.126230	0.100214	-1.260	0.208978

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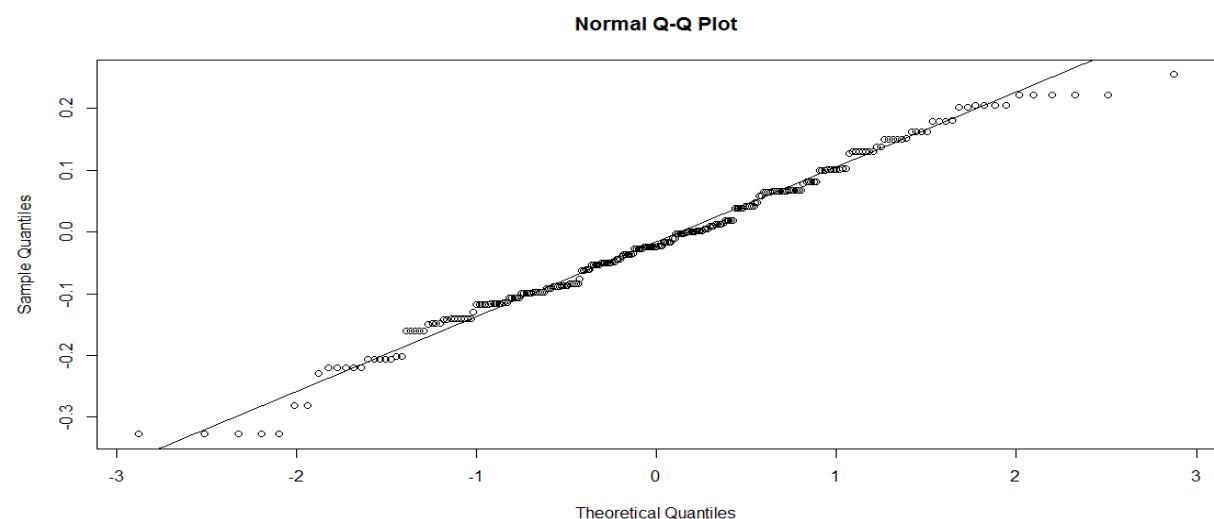
Signif. codes: 0 '\*\*\*' 0.001 '\*\*' 0.01 '\*' 0.05 '.' 0.1 ' ' 1

Residual standard error: 0.1969 on 252 degrees of freedom

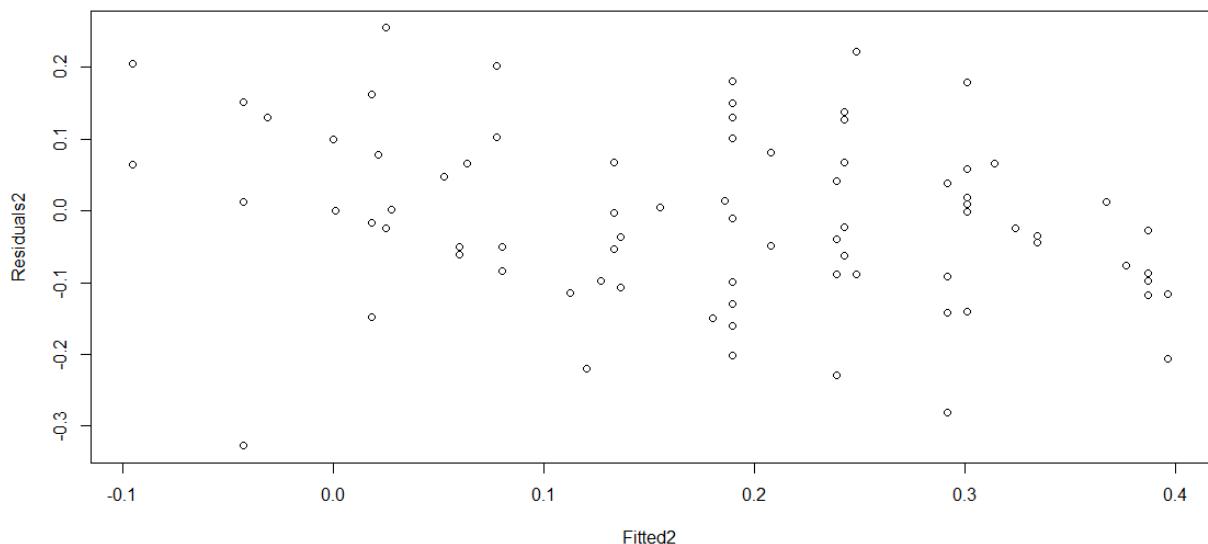
Multiple R-squared: 0.3205, Adjusted R-squared: 0.2881

F-statistic: 9.905 on 12 and 252 DF, p-value: 7.883e-16

**FIG 4.10: Normal Q-Q Plot For HPR On ROCE**



**FIG 4.11: Residual Versus Fitted Plot For HPR On ROCE**



#### 4.3.3. Discussion Of Results Of Predictors Of HPR.

Considering that evidence exists in the literature of a positive effect of employee satisfaction and perception on FP (this was confirmed in this study and presented in the appendix- see table 10.2 – 10.4), then the results presented above confirms that HPR has a direct relationship with ROA and ROCE and an indirect relationship through HPR's effect on employee satisfaction as well as employee perception of FP. Indirectly, the implication of a transparent and fair compensation system as well as a high innovation culture, coupled with a harmonious internal environment encourages team work and improves motivation and hence improves employee satisfaction (C10) which affects FP (Babakus et al., 2004)

Yee et al. (2008) for instance confirm that employee satisfaction leads to improved service quality, which leads to higher customer satisfaction and hence improved firm profitability (Bowen & Schneider, 1985; Hartline & Ferrell, 1996).

Section 4.2 tests a model that essentially confirms that HPR is positively related to ENV, POLITICS, INC, IND, INNOVATE and PERF. Evidence exists in the literature of the effect of ENV (Lumpkin & Dess, 2001; Načinović et al., 2012), POLITICS (Grover, 2005), INC (Baiman & Lewis, 1989; Evans et al., 2001), IND (Bass & Avolio, 1993), INNOVATE (Yang, 2009), MCS (Sonrensen, 2002) and PERF (Yang, 2009) on FP, and hence the significant relationship between HPR and FP is not surprising.

As an example, Metcalfe (1998) and Gunday et al. (2011) find evidence that innovation improves product performance, which improves market performance and hence firm performance. Also, Yoon & Suh (2003) find evidence to suggest that satisfied employees work harder and deliver better quality service, which improves customer satisfaction. Anderson et al. (2004) propose that customer satisfaction has a lasting effect on FP.

Also, MCS affect FP through a notion of 'fit to the context of the organisation' (Sim & Killough, 1998; Govindarajan, 1988; Govindarajan & Fisher 1990; Perera, Harrison & Poole, 1997; Henri, 2006) and firms with a greater capacity for innovation gain a competitive advantage through constant corporate renewal and customer orientation and hence achieve high FP (Danneels, 2002; Hurley & Hult, 1998).

In this model, HPR has a significantly positive direct relationship with various measures of employee perception of FP, employee satisfaction, ROA and ROCE. In any case, an indirect relationship can also be inferred through HPRs effect on employee satisfaction and employee perception.

The relationship between HPR and employee perception can be explained by McGregor's (1960) assertion that HPR could suggest the non-existence of performance gaps and hence could influence employees' perception that the organisation is performing well or has reasonable ability to overcome any identified performance gaps. This favourable perception could increase employee confidence, satisfaction and performance.

#### **4.3.4. Summary & Conclusion Of Predictors Of HPR**

This section provides evidence of a significantly positive relationship between HPR and selected measures of firm performance. Probable explanations for the identified relationships are discussed based on existing literature.

I summarise, below, the iterative process used in this analysis to arrive at this conclusion. After confirming the variables that influence HPR, I realised that empirical evidence confirms that most of the variables that influence HPR also have relationships with FP. As an example, the effects of harmonious organisational culture (POLITICS) and a high innovation culture (IINNOVATE), MSC, etc. on various measures of FP has been suggested by studies such as Yang, (2009) and Shields & Young (1994). I, therefore, proceeded to explore this relationship with interesting results. However, since this, is the first study of this relationship, further studies will be required to confirm this relationship.

HPR was regressed on various measures of FP including ROA, ROCE, an employee satisfaction index and various measures of employee's perception of FP. Employee satisfaction scores and perception of FP were obtained on a Likert scale through a questionnaire. The theoretical basis for these hypotheses are explained in sections 3.3.3.1. and section 4.3. Chun (2005) applies a similar method. Dummy variables were introduced to control for organisational size, industry type and listing on the Ghana Stock Exchange (Waddock & Graves, 1997). The results of the regression are presented in tables 4.32 – 4.49 and largely confirm the significant directional influence of HPR on FP.

In exploring the relationship between HPR and ROA & ROCE, I perform a Halo Test to isolate the effects of prior financial performance on current, actual or perceived financial performance (Bharadwaj, 2000). This is usually referred to as 'Halo Effects', and I initially test a 'control' using an equation of the form  $FP1=a+B1FP0$  (see chapter three) and find no statistically significant relationship between prior, current and

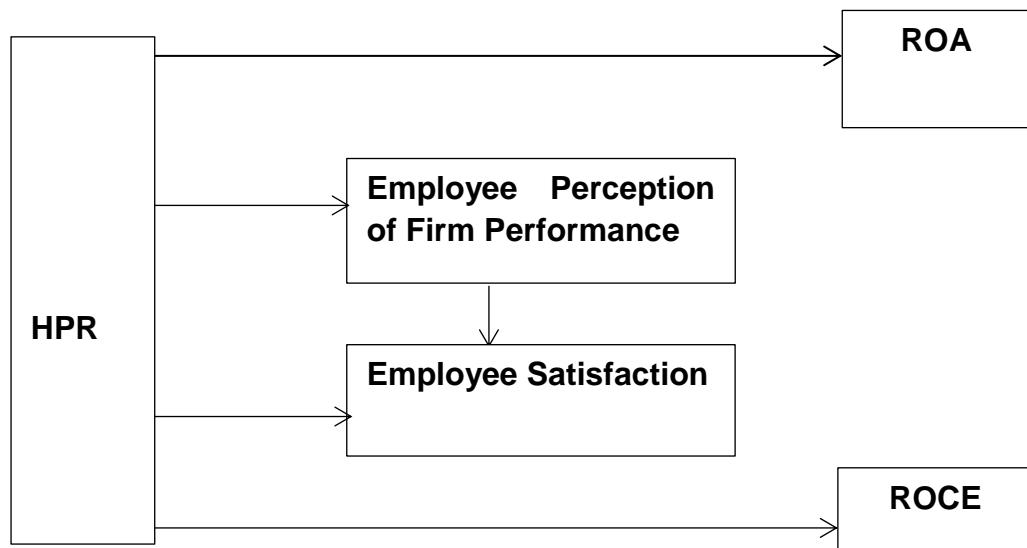
immediately past financial performance. Therefore, no further analysis was performed to eliminate Halo.

Typically, higher ROA and ROCE percentages suggest relatively better FP. However, in the questionnaire, HPR as a latent variable was computed in two ways. It was computed either by using PCA or summing up the relevant set of Likert responses for each respondent from a seven-point Likert Scale. There are no significant differences in findings based on the two approaches. Since HPR was derived from observable variables on a Likert Scale from strongly disagree (7) to strongly agree (1) making higher values computed for HPR relatively adverse compared to lower values, to align the direction (sign of the coefficient), the sign direction of HPR was reversed and used in the regression equations for ROA and ROCE.

One of the roles of accounting is to produce information on business performance (Gaspareto, 2004). This is usually done using financial accounting information. According to Orlitzky, Schimdt, & Rynes (2003), FP is often measured in three forms: - market, accounting and survey instruments. Market measures explain the degree of satisfaction of shareholders; accounting measures examine the relative level of internal efficiency in the application of resources within the company while survey instruments provide a subjective estimation of firm performance (FP).

Even though, ROA is the variable widely used in empirical studies of FP (Boaventura, Silva, & Bandeiraode-Mello, 2012), the measurement of FP by non-monetary indicators is more recent and has increased in acceptance particularly as a function of the contemporary concern regarding the social action of organisations (Oliveira, De Luca, Pone & Pontes Junior, 2009). Figure 4.11a depicts the hypothesised relationship between HPR and measures of FP. The directional arrows depict positive relationships.

**FIGURE 4.11a: Model Of Effect Of HPR On Firm Performance**



The findings suggest that HPR has a significantly positive and direct influence on ROA (See Tables 4.32 – 4.49), on employee satisfaction as well as on employee perception

of firm performance. Additionally, employee perception is also a significant predictor of ROA, ROCE and Employee Satisfaction (see appendix Table 10.2-10.4; this is not discussed further because it is not the focus of the study).

Table 4.49a summarises the results of the various hypotheses of the relationship between HPR and FP when HPR is computed as a sum of responses on a Likert scale. In Table 4.49a RW represents standardised regression weights. In table 4.49b the summary shows the results at both the respondent and the organisational level when PCA is used. ORGHPR (organisational level HPR) was computed as the mean of individual HPR scores per organisation. The intention was to ensure one HPR score per organisation (see for example Table 4.39 & 4.41).

**TABLE 4.49a: Results Of Hypothesis Of HPRs Relationship With FP.**

HPR Estimated As Summation Of Likert Responses Per Respondent							
No.	Hypothesis	Relationship	Regression Method Applied	Regression at the Respondent Level - HPR			
				RW	Log of Odds	P Value	
H <sub>19</sub>	HPR has a directly significant and positive influence on ROCE.	HPR -> ROCE	Linear Regression	0.053		P<0.01	<b>Supported</b>
H <sub>18</sub>	HPR has a directly significant and positive influence on ROA.	HPR -> ROA	Linear Regression	0.084		P<0.01	<b>Supported</b>
H <sub>17</sub>	HPR has a directly significant and positive influence on Employee perception of FP	HPR -> C5 HPR -> C6 HPR -> C7 HPR -> C8	Logistic Binary Regression		Various but all positive and significant See table 4.43-4.46	P<0.01	<b>Supported</b>
H <sub>16</sub>	HPR has a directly significant and positive influence on Employee Satisfaction (C10).	HPR -> C10	Logistic Binary Regression		4.427	P<0.01	<b>Supported</b>

TABLE 4.49b: Results Of Hypothesis Of HPR Relationship With FP

HPR Estimated Using Principal Component Analysis (PCA)

No .	Hypothesis	Relations hip	Regression Method Applied	Regression at the Respondent Level -HPR			Regression at the organisational Level - ORGHPR		
				RW	P Value	Supported/ Rejected	RW	P Value	Supported / Rejected
H <sub>19</sub>	HPR has a directly significant and positive influence on ROCE	HPR ROCE	Robust Stepwise OLS Regression	.012	0.121	<b>Partially Supported</b> Significant for all specifications except Industry Dummies.	.036	P<0.01	Supported
H <sub>18</sub>	HPR has a directly significant and positive influence on ROA	HPR ROA	Robust Stepwise OLS Regression	0.024	P<0.01	<b>Supported</b> Significant for all specifications	.052	P<0.01	Supported
H <sub>17</sub>	HPR has a directly significant and positive influence on Employee perception of FP	HPR -> C5 HPR -> C6 HPR -> C7 HPR -> C8	Ordered Probit (Marginal Effects)	Various See Table 4.35 – 4.37	P<0.01	<b>Supported</b> (See 4.35 – 4.37) however, a significant positive relationship confirmed for a positive perception of performance and significant negative relationship for negative perceptions of performance	<b>Not Required</b>		
H <sub>16</sub>	HPR has a directly significant and positive influence on Employee Satisfaction (C10)	HPR C10	Ordered Probit (Marginal Effects)	Strongly Satisfied: 0.056 Strongly dissatisfied: -0.025	P<0.01	<b>Supported</b>			

#### **4.4. MANAGERIAL PERFORMANCE REPORTING BEHAVIOUR IN GHANA.**

As discussed in chapter three, the MPR behaviour in GC100 companies was measured with vignettes through a questionnaire (Section D of the questionnaire). The scenarios were developed based on the operationalisation of HPR in this study and sought to measure company practices and respondent's opinion of company practices in MPR. An additional 15 interviews were conducted based on the vignettes to enhance the descriptive quality of responses.

HPR was computed as an index measure based on the responses of each participant. An overall HPR score was calculated as the sum of the responses of each respondent to questions B1 to B6. HPR is conceptualised as a sum less than 18 (i.e. Neutral/Not Sure on the Likert Scale) to 6 (i.e. Strongly Agree on the Likert Scale). Misreporting is conceptualised as a score of 18 or higher (up to 42). Mean total is the average across all scenarios and is computed to provide an estimate of overall MPR behaviour. Based on the mean total, 47% of respondents suggested that their organisations misreport managerial performance. Yang (2009) finds similar results in a study of HPR among government bureaucracies in Taipei.

Interviewees were also asked to rank, on a scale of one to seven (similar to the Likert scale), questions B1-B6 and provide reasons for their answers. The responses provided were used in computing a score. The sum of responses and the researchers' overall assessment of MPR (based on the mean calculated and the thresholds stated earlier) were disclosed to the interviewee for his agreement. As an example, the researcher will state that '*Based on the responses you provided to these questions, will it be appropriate to say that, overall leaders of the organisation mostly misreport managerial performance?*'. All respondents agreed with the overall assessments (emanating from the computed means) except three respondents who reviewed their answers from HPR (2.33; 3.83; and 3.17) to misreported MPR (4.17; 4.67; 4.17 respectively). Table 4.50 summarises the results of this exercise.

TABLE 4.50: MPR Behaviour in Ghana	Questionnaire				Interviews				Total			
	N= HPR		N = Misreported MPR		N= HPR		N = Misreported MPR		N= HPR		N = Misreported MPR	
	n	%	N	%	n	%	n	%	n	%	n	%
HPR =(B1-B6)	161	61%	104	39%	8	53%	7	47%	169	60%	111	40%
SCENARIO 1: Responsible Reporting	157	59%	108	41%	8	53%	7	47%	165	59%	115	41%
SCENARIO 2: Truthful Reporting	165	62%	100	38%	10	67%	5	33%	175	63%	105	38%
SCENARIO 3: Assigning Wrong Reasons	101	38%	164	62%	5	33%	10	67%	106	38%	174	62%
SCENARIO 4: Hiding Information	102	38%	163	62%	4	27%	11	73%	106	38%	174	62%
SCENARIO 5: Deliberate Ambiguity and Jargons	163	62%	102	38%	9	60%	6	40%	172	61%	108	39%
<b>Mean Total</b>	<b>142</b>	<b>53%</b>	<b>124</b>	<b>47%</b>	<b>7</b>	<b>49%</b>	<b>8</b>	<b>51%</b>	<b>149</b>	<b>53%</b>	<b>131</b>	<b>47%</b>

In total (questionnaires and interviews) 47% of respondents suggested that their organisations mostly misreport managerial performance. Overall organisations misreported to the media most, followed by customers, regulators, employees and shareholders (see table 4.51).

TABLE 4.51: Ranking Of Misreporting To Stakeholders						
Stakeholders	Questionnaire		Interview		Total	
	Mean	SD	Mean	SD	Mean	SD
B1: Employee	3.4792	1.8342	3.8000	1.7809	3.4964	1.8297
B2: Bosses	3.2528	1.6561	3.6000	1.3522	3.2714	1.6411
B3: Customers	3.5396	1.7165	4.7333	1.5337	3.6036	1.7258
B4: Regulators	3.5019	1.8609	4.0667	1.6242	3.5321	1.8508
B5: Shareholder	3.4000	1.8170	3.8000	2.1112	3.4214	1.8319
B6: Media	3.7434	1.9154	4.6667	1.8772	3.7929	1.9214

Regarding the scenario about Responsible Reporting, 47% of interviewees and 41% of questionnaire respondents suggested that their colleagues within the organisations will report ‘illustration B’ suggesting that some organisations do not ‘report MPR responsibly’ and often flout headquarters policy especially in situations where the non-conformity did not affect the substance of an activity. Approximately 67% of respondents admitted that scenarios of this nature have occurred within their organisation. Most respondents (51%) did not consider reporting ‘illustration B’ as misreporting. One respondent suggested that in reporting ‘illustration B’ ‘despite violating standard rules, the accuracy of the report is still intact’.

Regarding the scenario about reporting truthfully, 38% of all respondents suggested that their organisations do not report MPR truthfully. The relatively lower percentage may confirm existing empirical evidence that most organisations do not engage in direct lying (Bohte & Meier, 2000) as a form of misreporting because direct lying is considered extremely risky. 62% of respondents suggested that their organisations assign wrong reasons to performance gaps especially if performance reviewers already believed or will find it easy to believe the wrong explanation. 62% of respondents suggested that their organisation, under the stated circumstances (scenario 4) will conceal the profitability report (MPR) to hide the performance gap. Four (4) interviewees, however, indicated that whereas the finance department will have wished that the report is included, very often the decisions on this matter are beyond the CFO. 39% of respondents suggested that their organisations will use complex technical jargons to conceal performance gaps.

The method mostly used to misreport MP is (see table 5.50) 'hiding information' (62%), 'assigning wrong reasons' (62%), 'not reporting responsibly' 41% (i.e. ignoring company policy), followed by use of technical jargons (39%), and not reporting truthfully (38%).

It will seem from comparing the responses in the interview to the responses in the questionnaire that, the interviews aside complimenting the responses in the questionnaire provided a relatively stronger suggestion of misreporting in MPR. The reason for this is beyond the scope of this study, but a possible explanation could be the extra clarity that can be gained from a two-way interaction process as in a face-to-face interview.

#### **4.4.1. Interviews.**

51% of interview respondents suggested that leaders of their organisation mostly misreported managerial performance. I used qualitative measures to capture and understand the perceptions of respondents about MPR practices within GC100 companies. 15 interviews were conducted and used for data analysis. The age of interview participants was between 26-55 years old (mean=39.2, Median =37). Eight participants were male, and seven participants were female. Hill et al. (2005) recommend developing interview protocols that consist of between 8 – 10 questions with probes to fit within one hour. She also recommends at least two pilot interviews to test the questions. The interview protocols in this interview consisted of ten questions, and four pilot interviews were conducted among colleague PhD students. Interviews varied in length but were approximately 30 minutes per interview.

To help participants feel comfortable, the interview began with background questions, which also help gather pertinent background data (Hill et al. 1997). After the participants signed the consent form and filled out the demographic form, conversations regarding participants' work, home life, and interest in the study were discussed (Jalma, 2008).

Face-to-Face interviews were preferred over phone interviews because face-to-face interviews allowed for a naturalistic setting (Heppner, Kivlighan & Wampold, 1999). All interviews were audio taped and took place outside the work premises of participants.

In most case, interviews were held at the nearest hotel lobby to the participants work environment.

Data collected from interviews were initially transcribed, coded and fitted into five domain themes. The transcripts revealed themes and patterns that emerged from the data. The researcher, his assistant and a colleague PhD student independently transcribed all interviews. The colleague PhD student served as a tiebreaker if the researcher and his assistant could not reach a consensus. Also, five of the transcribed responses were reviewed by a relative to assure that it appropriately reflected the contents of the recorded interview and were found to be accurate. The transcripts were examined to look for themes about strategies for MPR, reasons, and reflections. These data were coded, and I reduced extraneous data to aid analysis. While reading the transcripts, I made notes and highlighted statements, and then categorised the responses based on identified themes. I used the qualitative data to generate categories, identified themes, and recurring patterns. Nvivo was applied in a limited manner to help identify key words to support the formulation of themes.

Strauss & Corbin (1990) suggest the identification of domains based on context, intervening conditions, actions/interactions strategies and consequence. I follow a similar approach and identify the following domain themes: -

- a) The extent of honesty in MPR
- b) Strategies for Dishonest MPR
- c) Participants estimation of reasons for MPR behaviour
- d) Participants Perception of MPR behaviour
- e) Experience related to participation in study and interview
- f) Other

The names of the domains were an appropriate reflection of the data. After the determination of the domain themes, core ideas were applied to the data, and subsequently, each core idea was examined for categories, nuggets or threads of common or unique experiences across the interview data. The analysis of the interview data-set for the vignettes resulted in five domains, five core ideas and eighteen categories. Core ideas attempt to categorise smaller nuances of information within the domain. Categories highlight unique components of participants experience within each domain. Direct interview quotes, which have been edited for grammatical clarity, are used to highlight the data.

Hill et al. (2005) recommend presenting the cross analysis of qualitative results through the frequency of occurrence. In this interview of 15 participants, categories that occurred for just one participant are labelled *Rare* (Jalma, 2008), categories that occurred for between two to seven participants are labelled *Variant*, categories that occurred for 8 – 13 participants are labelled *Typical*, and categories that occurred for fourteen or more participants are labelled *General*. Table 4.52 presents the results below.

**Table 4.52: Domains, Core Ideas And Categories**

Domain	Core Idea	Category	N	Frequency
The extent of Honesty in MPR	Nature of MPR	HPR	8	Typical
		Partial HPR	6	Variant
		Dishonest MPR	1	Rare
Strategies for Dishonest MPR	Predominant Strategies for Dishonest MPR	Hiding information & Delaying MPR	11	Typical
		Not Reporting Responsibly	7	Variant
		Obfuscation through Technical Jargons	6	Variant
		Deliberate Misleading by Assigning Wrong Reasons	10	Typical
		Untruthful Reporting	5	Variant
Participants estimation of reasons for MPR behaviour	Reasons for MPR behaviour.	Selfish Economic Reasons	15	General
		General Sustenance of the organisation	5	Variant
		External Pressure	1	Rare
		Normal Industry Practice	10	Typical
Participants Perception about MPR behaviour	Awareness of conceptualisation and consequences of Dishonest MPR	Positive Perception	8	Typical
		Neutral & Indifferent	1	Rare
		Negative Perception	7	Variant
Experience related to participation in study and interview	Reaction Interview to	General Interest in Research Topic	6	Variant
		Learning about Self through Reflection and Discussion	4	Variant
		Increased consciousness about mechanisms for HPR	5	Variant

#### 4.4.1.1. The Extent Of HPR Within GC100 Organisations.

All interviewees (N=15) indicated familiarity with the issues discussed within the scenarios and suggested that the vignettes appropriately captured the reality of MPR practices within GC100 companies. One respondent, for instance, indicated that '*We have similar issues like the scenario illustrates*'. Another respondent indicated that '*I am wondering how you designed these scenarios. In this case, too, situations like this occur often within the company*'. A third respondent identified with the vignettes and stated that '*This is the problem we are always having*' while a fourth respondent stated that '*..... due to the exact issue, you indicated in your question..... This is a real issue*'.

Most respondents expressed personal experiences with MPR practices within their organisations (n=13) in their responses to the scenarios. Some suggested active participation in generating the MPRs (n=6). One respondent, for instance, stated that '*I put the information together, so I know what I am saying*'. Other respondents indicated that they were mere witnesses or passive observers (n=8). For instance, one

respondent indicated that '*I have attended such meetings several times and I know what goes on. .... I was right there in my boss's office when this happened*'. Other respondents, based on their responses, were both passive observers and active participants in different circumstances (n=6).

Based on responses to questions B1-B6 of the questionnaire, eight respondents suggested that their organisations are mostly honest in reporting MPR, while six respondents suggested that their organisations were mostly partially honest in reporting MPR. One respondent suggested that his organisation was mostly dishonest in reporting MPR and confirmed it with an example of a recent MPR by stating that : - '*My company has been lobbying government for a concession, and all the information we are presenting to support the concession is false. Completely false! I put the information together, so I know what I am saying.*

As explained earlier, HPR scores were computed as an index measure based on the responses of each participant on a seven-point Likert Scale (similar to the questionnaire construct). An overall HPR score was calculated as the sum of the responses of each respondent to questions B1 to B6. For purposes of analysing the interview responses only, HPR is conceptualised as a sum from 6 (i.e. Strongly Agree on the Likert Scale) but less than 18 (that is any score below 'somewhat agree'). Due to the ability for better clarity in an interview process, a score was computed for a Partial HPR construct. Partial MPR is computed as a score greater than 18 but less than 36 (i.e. is covers somewhat agree, neutral and somewhat disagree). Misreporting is conceptualised as a score of 36 or higher (up to 42).

Through seeking further elaboration, respondents indicated that misreporting MPR occurred mostly to customers and the media. While admitting the power of the media, one respondent highlighted the general scepticism of his organisation in interacting with the media by suggesting that

*'Telling the media the truth will kill our business and make our customers turn against us. .... I do not think my company is the only one that does not tell the media the whole story because it is a bad strategy to be honest with the media. It is easy to lie to them because they do not understand our industry'.*

All respondents acknowledged the role of powerful stakeholders (especially external ones) on the MPR practices within organisations. A respondent discusses how making external stakeholders dissatisfied can have consequences on managerial tenure and comments that '*One of our CEOs was transferred out of this country because of problems with regulators*'.

Even though external stakeholders were deemed influential, misreporting MPR was mostly to external stakeholders than to internal stakeholders. The conduciveness of partially honest MPR (often) to external stakeholders was attributed to lack of capacity of such external stakeholders to detect any misreporting. One respondent indicated that '*worse of all, it seems to be working for them because they get away with it*'. One respondent highlighted the lack of technical capacity of the media '*..... because they do not understand our industry*' another highlighted the lack of capacity of regulators '*If the regulators do not stop being aggressive, we will keep lying to them because they do not have the calibre of staff to monitor our activities. They must tone down and work*

*with us'.* In the same vein, another respondent indicated that '*Anytime we want a reprieve from a government agency, we use complexity to scare them or excite them. Unfortunately, they are often not in a position to figure it out.*'

Even where internal stakeholders are deliberately misled in MPR, a recurring conduciveness of the action was attributable to lack of knowledge or awareness. One respondent, for instance, highlighted that managers misreported to the CEO, '*Because he does not understand Ghana some of the directors have taken advantage and feeding him with wrong information*'. Another respondent indicated that '*Headquarters has never been able to track our CAPEX spend well due to the exact issue you indicated in your question ..... and often we report whatever figure we want depending on what we want to achieve*'. The perception of lack of rigour extended to external auditors as well. One respondent remarked that '*Our auditors asked once about this and never asked again. We just told the auditors that they are old Purchase Orders that we failed to input into the system.*

Most respondents assumed that their organisations MPR misreporting practices were conventional, institutional, common practice and widespread (n=7). While some respondents acknowledged personal involvement in the MPR process and suggested collective responsibility (n=3) stating that '*We all do this. We do it to our bosses, and I suspect they do it to their bosses too*'. Other respondents suggested a widespread practice without acknowledging their role in the process (n=4). For instance, a respondent stated that '*Most companies in Ghana do not tell the truth at all especially when telling you the truth will entitle you to some form of benefit or right against them. ....Very few companies in this country tell the truth, especially to employees, customers and the government*'. Most respondents who shared this opinion of a widespread conventional misreporting practice were convinced that misreporting to the media and regulators (n=5) was common practice among GC100 companies. One respondent, for instance, indicated that '*I do not think my company is the only one that does not tell the media the whole story because it is a bad strategy to be honest with the media*'. Another respondent indicated that '*Most management is sceptical of regulators*'. A respondent was quite adamant that the creeping in of misreporting MPR into organisational processes is here to stay and cannot be controlled. He provides a compelling analogy using the metaphor of how several lies must be told into the foreseeable future to protect one lie. He contends that organisations are sceptical about full disclosure to have a clean slate for MPR because shareholders and markets are unforgiving in their reaction when managers voluntarily disclose misreporting. He states that '*The process of covering up or cleaning the mess creates more mess and lies. It is a vicious cycle.*'

A respondent highlights the unforgiving nature of the market in the comment that '*All they care about is higher profit even when it is not realistic and if you tell them the truth, they will sack you because they will say you are not achieving results*'

One respondent even suggested it was a global trend, remarking and asking the researcher '*Even in Europe this happens. Have you tried watching Bloomberg or business news on CNN before?*'

A respondent justified the trend of misreporting suggesting that '*Politicians in the country do it so why shouldn't business people?*

An obviously passionate respondent went further to highlight his view about a disturbing corporate trend of misreporting all forms of performance. He stated that '*Look! Let's call a spade a spade. The whole corporate system is a charade, and we all know it and pretend. Your boss is trying to keep his job; your bosses boss is trying to look good and get promoted and so on ..... that is why our stock market is not doing well. I do not believe any accounting report that any company in the world provides.*

Evidently, even though a significant number of respondents suggested some form of misreporting of MPR, the evidence of a wide spread problem was not established in this study. Indeed, quite a sizable number of respondents (49% of interviewees) still indicated HPR practices within their organisation.

Six respondents were of the view that the action or inaction of Headquarters created the impression that they subtly condoned such practices and were in support of it. They attributed their reasons to the lack of sanctions when these actions become evident, the lack of rigour that could easily lead to a detection of these practices and even the subtly suggestions of these actions by superiors from headquarters. One respondent puts it clearly by suggesting that '*headquarters treat us with kid gloves*'. Another suggested that '*management sides with them against us*'. In terms of conscious expression by headquarters superiors, one respondent narrated a scenario of explicit collaboration to obfuscate the MPR where '*Before the meeting starts, your boss's boss will discuss with him what to include and what not to include, then at the meeting both of them will pretend ..... my boss insisted but had to give in because his boss (from headquarters) suggested it be discussed in another forum and not the quarterly performance meeting*'. Another respondent was even more blunt and suggested that '*I think headquarters is in on this because you just have to check the number of Purchase Orders in the last day of the year and the reversals at the beginning of the year, and even you can call the supposed suppliers to cross check*'. Quite interestingly, most respondents suggested a critical role of the finance department and CFO in the MPR process. Some respondents even suggested that the finance department is not able to play its control and accountability role effectively because it does not receive adequate management support ('*management sides with them against us*') and often has the arduous task of defending MPRs that it has no influence on. The lack of top management support for the accountability function of the CFO is highlighted in this statement by a respondent '*I can tell you that the CFO fights and argues with the other directors all the time, but the CEO always defends the other directors, so he is left isolated and gives in*'. One respondent suggested that '*we [the finance department] are given the arduous task of defending their incompetence. It happens all the time*'. Another suggested that '*the CFO has to cover for them and make up explanations which will be difficult. I do not understand why everyone at Group [headquarters] expects the CFO to have all the answers concerning the business. It puts pressure on him, and he uses such creative ways to protect his job.*'

Some respondent suggested that an explicit and equal role for all managers in the MPR preparation, presentation and defence process may be helpful in curbing the creeping practice of misreporting MPR.

#### 4.4.1.2. MPR Practices.

Hiding Information and deliberate assigning of wrong reason are 'typical' schemes for misreporting MPR among GC100 companies. Respondents acknowledged that the widespread use of these schemes was because they were (1) subtle and less aggressive (n=7) '*it is not really lying, it is just stretching the facts a little bit...lying is wrong*' (2) difficult to detect (n=8); '*managers reputation is intact, and they are not criminally liable... it will never be detected*' (3) conventional business norms (n=11) '*I have seen it in all the companies I have worked in*' and (4) hence allows for positive self concept maintenance (n=5); '*That way, managers can massage the facts and still feel good about themselves.*'

A respondent summarises the widespread perceptual convenience of these two schemes in the following words: -

*'If you decide to make a manager liable for hiding information the question becomes how do you determine that he did and intended to do so? It is very ambiguous. It is the same with using jargons. How do you prove that it was intended for a deceptive purpose? In all reports, reasons assigned are based on perspectives. How do you say my perspective is wrong and was intended for a deception? It is so difficult to prove'.*

All other schemes are 'Variant'. Interestingly, however, direct lying is the least use and confirms existing empirical studies that confirm that managers will avoid direct lying because they consider it as risky.

Discussions around the deliberate use of complexity and technical jargons to conceal performance gaps were quite compelling (n=6). One respondent narrated a scenario in his organisation that captures clearly the case of abuse of technical jargons '*Last two years, we hired a global consulting firm to come and help us fashion out a strategy to improve our revenues ..... look, everything they said in the report is the same thing we have been telling the company over and over again, but in simple language so they ignored us and went to pay big bucks for the same information. Let me give you an example; we suggested that the company round up minutes per call and they ignored us when the consultants called it 'invisible price levers' they liked it*'.

Even more profound was the justification provided by respondents for this action. Some suggested that it was standard industry practice (n=4) '*We all do this*', while others argued that the action was global '*Even in Europe this happens*'. The comments of a respondent perhaps accurately capture the thought processes behind such action. She suggests that : -

*'Every simple thing has to look complex to look important. If you use simple language, the problem looks simple, and the next question they will ask is, so why have you not solved it. So, you make the problem big by using big words. It works trust me'*

#### 4.4.1.3. Participant's Estimation Of Reasons For MPR Behaviour.

Most participants (n=10) indicated that they could relate to and accept the reasons for such reporting behaviour and attributed it to noble reasons with wider group benefits. One respondent expresses his support for managerial action by stating that '*Personally I understand the reason my bosses are not completely honest with shareholders*'. Another indicated a collective benefit by suggesting that '*Telling the media the truth will kill our business and make our customers turn against us*'. Some respondents (n=5) were however sceptical. One respondent suggested that MPR action was purely based on selfish economic motives of top management with no direct benefits to lower level employees '*if you see their salaries and compensation packages, that is why they will tell lies to protect their jobs*'.

As another example, in discussing the scenarios, a respondent expressed full support for the actions of the CFO and attributed probable noble motives to his choice. She stated that '*I will do the same thing the CFO did. I will reduce my revenue to the target number so that I can reduce the huge management fees (please note that management fees are a percentage of revenue) and use the excess credit in the revenue account as he did. He is an African, so he cares more about our bonuses, and I support him 100%*'.

Another respondent was however quick to highlight that misreporting rather occurs during periods of impressive performance and not during periods of performance gaps '*when performance is bad, then [management] they quickly open up to employees so that employees become sympathetic to them. When performance is good, then they make up all sorts of excuses especially by telling us that they want to invest more so that the business can grow more*'.

A respondent suggested that competition (i.e. external influences) drives the general trend for misreporting MPR within his company. He stated that '*The market is tough, and competition is very high*'.

Five respondents attributed the determined MPR practices to a logical need for organisational survival and managerial sustenance. Related to this, MPR is used to avoid sanctions and keep stakeholders satisfied to ensure a continuous supply of critical resources that the organisation needs. One respondent discussed MPR to regulators and indicated that '*anytime you tell the regulator you have a problem, instead of them helping you solve it, they punish you and the next moment you hear it splashed all over the media. I do not understand how these regulators work. Rather than seeing us as a team, they think that the best way to show the public that they are on top of their job is to impose fines for every least mistake. One of our CEOs was transferred out of this country because of problems with regulators*'.

All responded (n=15) alluded to selfish economic interest as a driver of MPR practices. One responded alluded to this by stating that '*if you see the salaries and compensation packages of these people [senior management], that is why they will tell lies to keep their jobs. Their packages are huge, and they have gotten used to big lifestyles*'. Others identified the selfish desire for job security as well as other economic considerations of managers as the main driver for reporting behaviour. All respondents alluded to and

explicitly used the words performance ‘bonuses’ in the discussion of the reasons for MPR practices. Ten respondents used words that alluded to job security and promotions. Therefore, MPR practices were used by managers to ‘keep their jobs’, ‘avoid transfers’, ‘get promoted’ ‘look good’ etc.

Other respondents (n=10) suggested that the MPR practice is institutionalised and has become a routinised accepted norm. Respondents alluded to this assertion by their suggestion of the widespread nature of this phenomenon. This has been discussed in an earlier paragraph.

Two respondents alluded to cultural specificities (*‘He is an African, so he cares more about our bonuses, and I support him 100%’*) as well as peculiar and contextual operational issues (*‘because unlike Europe and South Africa, everything has to be imported into Ghana’*).

Some respondent (n=9) justified the MPR practices through inter departmental rivalry highlighting the competitiveness and lack of harmony in the working relationship between managers and departments. In discussing a scenario about ‘truthful reporting,’ a respondent justified the hypothetical managerial action with an example of a similar event within her organisation. She stated that: -

*‘There are very few times that we [finance department] get to spend on CAPEX. The technical departments and the sales and marketing departments are always misusing company money on cars and other things that do not benefit the company much. When we get the opportunity, we also seek the mandate of our boss to defend the department so that we do not lose out. We are all part of the company, so we also deserve to spend on CAPEX. Last year, we used operational expenses to replace all the PCs of our managers with Laptops’.*

The lack of harmony as a driving factor for misreporting MPR was quite revealing from comments by respondents. In another discussion regarding a scenario about deliberate use of technical jargons, another respondent remarked that “*You should be asking the sales director that because he and his team are the worse culprits. Every time there is a decline in sales, they blame everyone except themselves. Worse of all it seems to be working for them because they get away with it. Now we have a new technical director who is from the group head-office and very connected to the Group CEO. Let’s see if they can blame the technical department for sales challenges again*”.

Another respondent remarked *‘This is the problem we are always having. When we in the finance department point out that the other departments are the problem, management sides with them against us. Then we are given the arduous task of defending their incompetence. It happens all the time’*. Another respondent reveals how such inter-departmental and inter managerial contentions leads to the breakdown of trust and a healthy working relationship. His analogy and subsequent explanations provide some clarity on how a breakdown of trust affects MPR through shirking and hiding of information *‘The reason why we will not include such reports is that the sales director will not attend the performance review meeting claiming he has to be on the field. The CFO will have to cover for them and make up explanations which will be difficult’*.

#### 4.4.1.4. Participants Perception Of MPR Behaviour.

Participants conceptualisation of what constituted HPR was either narrowly defined (n=9) or erroneously conceptualised (n=6). Most respondents (n=9) considered HPR from the strict adherence to the letters (rather than the spirit) of rules and regulations. This is particularly evident in the scenario about responsible reporting. One respondent evaluated the managerial action in scenario one as meeting the requirements of HPR because '*There is no breach of standards or laws or principles*'.

Seven interviewees suggested that their colleagues within the organisations will flout headquarters policy especially in situations where the non-conformity did not affect the substance of an activity. Most of these respondents (n=5) suggested that reporting '*illustration B*' does not violate HPR because '*despite violating standard rules, the accuracy of the report is still intact*'.

Others (n=6) erroneously conceded MPR practices as acceptable and hence HPR if it results in outcomes that meet the expectations of a higher authority, '*because it tells the story the business expects to see*' or in higher rewards for self and other colleagues '*..... and to be fair to employees as a means of rewarding performance*'. One respondent suggested that reporting practices are acceptable if it is '*in the best interest of the company and its employees targeted bonuses would be achieved*'. Quite remarkably, three respondents equated misreporting MPR to creative accounting practices and suggested that creative accounting was legal. One respondent remarked that '*Well you call it misreporting, but I call it financial engineering*'. Another respondent remarked that '*The business expects targets to be achieved and employs creative ways to achieve the desired results. You call it misreporting, but I call it creative accounting which is allowed*'.

Perceptions of the effect of misreported MPR varied. Some considered it of serious consequence; '*It is very serious than I can explain*'; others considered any adverse effect to be mild. Eight respondents attributed an overall positive effect to misreporting MPR. Of these eight, three identified some negative effects but conceded that the positive effects outweighed the negative effects. One respondent was indifferent whereas seven respondents attributed an overall negative effect to misreporting MPR. Of these seven, two identified minor positive effects.

The main positive effect that was identified was the financial benefit of misreporting MPR regarding bonus pay-outs to employees and management. One respondent questioned '*Why must my boss stir up controversy especially if just keeping quiet will guarantee everyone's end of year bonus? My boss is too smart to make such a mistake.*' Respondents also suggested that such reporting practices provided the impetus for the organisation's survival because it kept stakeholders satisfied and at bay while providing critical resources for the running of the organisation. A respondent, for instance, admitted that without obfuscating an MPR, it would have been impossible for his organisation to obtain the needed CAPEX resources. He states that '*our industry is CAPEX driven and requires heavy investments to stay ahead of competition*'. Another respondent admitted that it would have been impossible to obtain the needed software that was functionally critical for his job. He states that '*we need the software to make our lives easier*'.

Negative consequences identified included possible litigation, adverse effect on brand image and reputation if discovered, and well as negative effects on the wider national economy. The discussions of the wider effects on the national economy seem to be premised on the assumption that reporting practices affect the payment of legitimately due sums to the government.

#### **4.4.1.5. Experience Related To Participation In Study And Interview.**

The final core idea emanated from statements participants made regarding their experience of being interviewed and participating in this study. Most of this content was unsolicited by the interviewer. All categories under this section were Variant. Six participants expressed a general interest in the topic.

In response to a question from the interviewer that asked that '*Is there anything I have not asked about that you think would be important to know?*', One respondent indicated that '*I think it is a very interesting topic and one that I will consider if I ever pursue a PhD. I have always wondered if people care about what goes on in organisations such as mine. Are people aware of the consequences of what we do on their daily lives? In my opinion, this topic should receive more attention from government and regulators because it has yet to be discovered consequence. I am glad someone is paying attention, and I hope you get the support you need*'. The words of this participant underscore the relevance of this exploratory study.

Five participants suggested that the interview process has led to an increased self-awareness of HPR and resulted in self-considered thoughts about its implications as well as their role in the entire MPR process. In response to the same question from the interviewer, one respondent indicated that '*I must admit that your questions have put things into a better perspective for me. I realise that some of the routinised behaviours that I take for granted contribute to this unhealthy practice. My action is to be a force for change, at least within my unit, and hope that it does not cost me my job*'.

Some participants (n=4) commented on how the interview process impacted them. The following quote highlights the issues that were raised by a participant as she discussed MPR practices within her organisation.

*'My mind is curious about what will be different if all organisations adhere to the highest standard of HPR. All of a sudden, I am asking myself where my career will be if everything was done the right way and rewards and promotions were based on true performance. I am wondering if I can adhere to the right standards of HPR if I become a CEO or senior manager. I am wondering what can practically be done to curb this menace'.*

#### **4.5. EMPLOYEE PERCEPTION ABOUT THE EFFECT OF HPR.**

This was measured using interviews (n=30; That is an additional 15 interviews were conducted in addition to the interviews in section 4.5.1. The extra interviews were with civil society groups, regulators, the media etc.) and the questionnaire (n=265). The questionnaire approached this from two perspectives.

Firstly, respondents were asked (with questions B41-B47) to show their agreement or otherwise with certain statements on a seven-point Likert scale from strongly agree (1) to strongly disagree (7). The statements were based on a scan of existing literature about the possible consequences of misreporting managerial performance. All statements began with the phrase; 'When an organisation does not report honestly to its stakeholders....." To ensure that, other consequences of misreporting are highlighted by respondents, two open ended questions were also included and sought to elicit respondents' opinion on (a) the possible adverse effects of misreporting and (b) the possible positive effects of misreporting.

63% of respondents stated that misreporting had a positive effect on the organisation. Reasons provided varied but included (1) opportunity to earn higher bonuses (2) opportunity to gain approval for critical resources needed to beat the competition and (3) job security for top executives. All respondents identified adverse effects of misreporting MPR, but in all cases, the identified adverse effects were like the ones provided in the closed ended question.

Table 4.53 reports the descriptive statistics of the variables included in the questionnaire study. All variables were mean centered (Aiken & West, 1991) and were reported as such in table 4.53.

Analysing the mean statistics in table 4.53, employees believe misreporting MPR mostly has a relatively more profound adverse effect on the organisation's reputation (mean 3.0792), national economic development (3.0981) and FP (3.1132). This confirms earlier findings of effects of HPR of FP in this study (See the earlier section of chapter four).

**TABLE 4.53: Univariate Analysis Of Employees Perception Of The Effect Of Misreporting MPR**

	N	Range	Minimum	Maximum	Mean		Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic	Std. Error	Statistic	Std. Error
B41	265	6.00	1.00	7.00	3.1245	.10806	1.75906	.730	.150	-.568	.298
B42	265	6.00	1.00	7.00	3.1283	.10691	1.74038	.640	.150	-.563	.298
B43	265	6.00	1.00	7.00	3.1132	.09717	1.58186	.773	.150	.032	.298
B44	265	6.00	1.00	7.00	3.2000	.10133	1.64961	.687	.150	-.344	.298
B45	265	6.00	1.00	7.00	3.1962	.10679	1.73838	.663	.150	-.599	.298
B46	265	6.00	1.00	7.00	3.0792	.10098	1.64379	.738	.150	-.368	.298
B47	265	6.00	1.00	7.00	3.0981	.09985	1.62538	.678	.150	-.309	.298

B41=adverse effect on organisation reputation, B42=Increased cost of operation, B43=Lower profits, B44=Internal conflicts, B45=Litigation and Penalties, B46= Lower moral and job satisfaction, B47=Adverse effect on national economic development

As stated in chapter three, interviewees on the effect of misreporting MPR included media, regulators and civil society groups (n=30: This means an additional 15 interviews were conducted in addition to the interviews in section 4.5.1). Highlights of some of the responses from the interviews about the effects of misreporting MPR are similar to respondents in the vignette with interview. Peculiarly even though most respondents (n=102 questionnaire and interviews) identified potential adverse effects of misreporting HPR, they did not consider them critical. In the interview process, for example, some respondent (n=10 in the interview) contested the practical relevance of brand equity. One respondent commented that '*I have never really thought about this carefully, but if I am pushed to provide an answer immediately, I think the biggest risk of misreporting is to the organisation's reputation. I do not think that businesses collapse just because of executives cooking up the numbers. Maybe, in the advance countries, a bad reputation can be costly, but in Ghana, and especially in my kind of industry I do not think so.*' Some respondents in the interview also contested (n=18) any significant effect of misreported MPR and indicated that any adverse effects could only be the soft and not significant consequence. One respondent highlighted that '*Misreporting even if it occurs can only affect employee moral if the resulting increase in bonus is shared only by the top executives. However mostly, we all benefit, even though top management gets the biggest share.*'

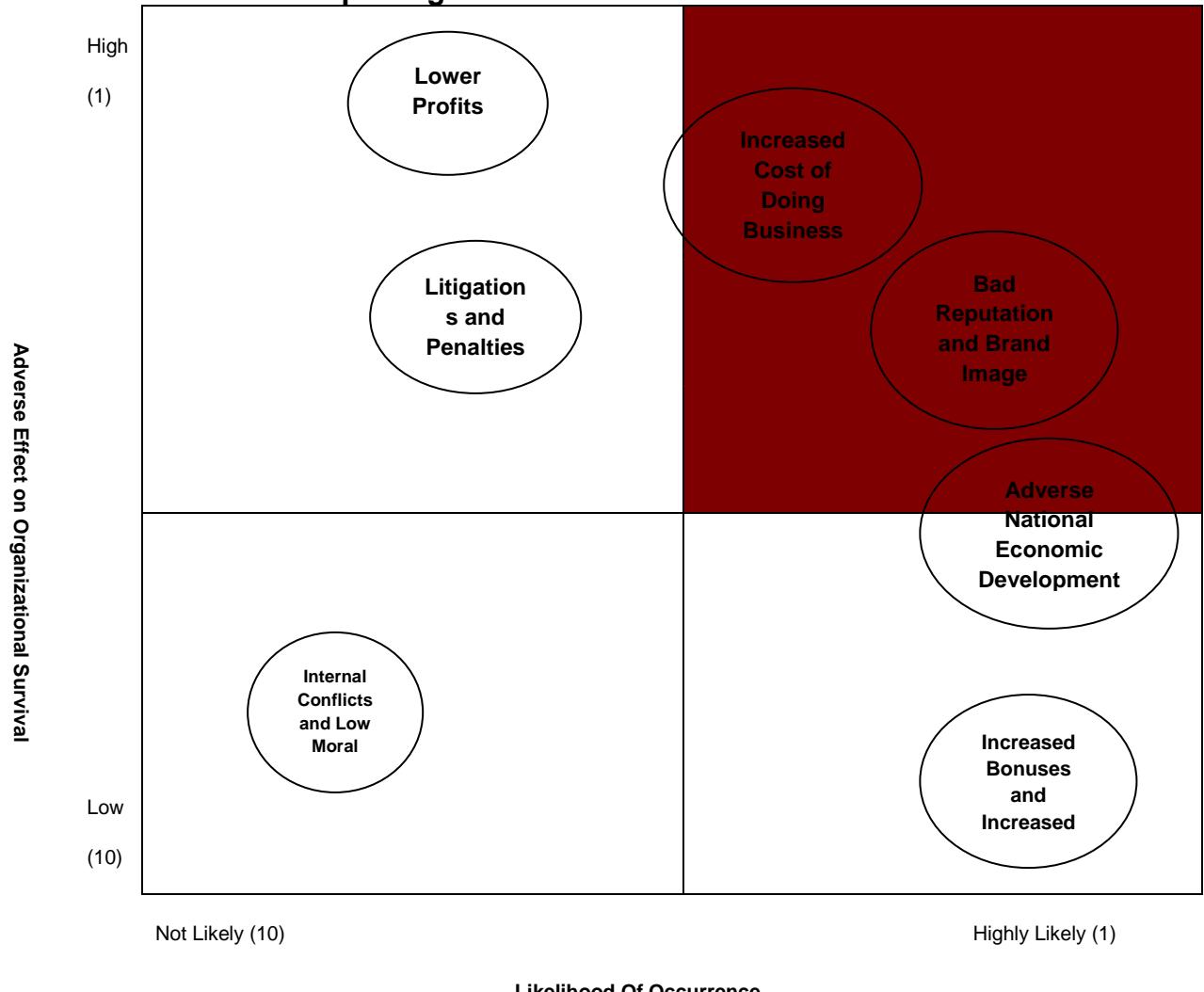
Interview participants from civil society groups, regulators and the media were particularly interested in the effect of MPR on the national economy of Ghana. One respondent commented that '*As a regulator, I just completed an audit of organisations that exposed that most of the companies have been under-declaring their revenues costing the government of Ghana more than USD10 million over five years. I am not sure that discussing whether it is deliberate or not is appropriate for your academic work, but I hope this answers' your question. Can you imagine what this money can do for Ghana?*'

Similarly, another respondent stated that '*Because I work in an advocacy organisation, perhaps I am biased towards effects on the national economy. I think the effect on the national economy is the most critical because even these organisations will not perform well if the economy is under stress. My organisation is currently involved in an issue where a company has gained significant concession as a manufacturing company when in fact it is importing finished products from China. When we investigated, less than 10% of their manufacturing takes place in Ghana, and even then, they only assemble the imported components rather than manufacture. Over 90% of the finished products on the market are imported. This has a direct consequence on the economy unless you do not agree.*

Some respondents suggested a wider group benefit of misreporting MPR thereby allowing the organisation an effective opportunity to manage its global affairs and hence sustenance (n=11 in the interview). One respondent suggested that '*Most of this creative accounting benefits the group as a whole but perhaps affects the specific in-country operation. So perhaps, lower profits will occur in Ghana, but it will show up as a gain somewhere in the group. However, I see the importance of your question because if the misreporting is not done with the support of the group head office then more investments will be made by the group into the in-country operation and it will eventually go down the drain.*

Secondly, the evidence from the interview (discussed above) is also collaborated by questions C3 and C4 that asked respondents to rank the effects of misreporting (positive and negative) in order of likelihood of occurrence and highest adverse effect on organisational survival. The summary of the results is presented below in Fig. 4.12.

**FIGURE 4.12: Grid Presentation Of Respondents Perception Of Effects Of Misreporting MPR.**



This grid is derived from computing the mean score rank for each variable within question C3 and C4. That is to say; it is computed as the mean of the various ranks provided by respondents. The size of the bubble is the researchers own estimation of the extent of seriousness (bigger bubbles are more serious than smaller bubbles) that organisations must attach to these consequences based on respondents' opinion. The grid is divided into four quadrants, and the highlighted quadrant represents what respondents consider as very likely to happen with the highest adverse effect on an organisations survival. However, based on the evidence of a high correlation between FP and HPR discussed in an earlier chapter, as well as the widely documented evidence of a high correlation between employee satisfaction (moral) and FP, it is possible that most organisations underestimate the adverse effect of misreporting MPR on the organisation's survival.

#### **4.6. A JOINT CONSIDERATION OF IMPRESSION MANAGEMENT THEORY, LEGITIMACY THEORY, INSTITUTIONAL THEORY AND STAKEHOLDER THEORY TO EXPLAIN MPR BEHAVIOUR IN GC100.**

Legitimacy theory and Stakeholder theory are often considered as overlapping perspectives that emanate from Political Economy Theory (Benson, 1975) and Institutional theory (IT hereafter). The institutional theory assumes that organisational behaviour is affected by external and internal pressure and organisations usually comply with such pressure to receive social validation, stability, legitimacy, resources and to enhance survival prospects (Moll et al., 2006; Oliver, 1991). Managers, therefore, spend their time attempting a critical balance between the desires for legitimacy against the desire for internal efficiency.

Gray et al. (1996, page 47) define political economy as 'the social, political and economic framework within which human life takes place'. Therefore, society, politics and economics are interlinked, and economic activity take place within a political, social, and institutional context. Impliedly accounting reports (and disclosures) are social, political and economic documents (Guthrie & Parker, 1990) that can transmit such meaning to a pluralistic set of recipients. This is because firms are part of a broader social system.

Legitimacy theory draws from political economy and institutional theory (LT hereafter) and emphasise that firms exist to the extent that society considers it (them) legitimate (Deegan, 2002). It highlights society and compliance with the expectations of society.

Stakeholder theory (ST hereafter) on the other hand concurs with the argument of different interest groups that have different views and expectations of a firm. Often such different interest groups have different levels of power, attractiveness, status, familiarity with the organisations, and ability to affect an organisation (Deegan, 2002).

Even though both theories are used interchangeably (Deegan, 2002) in substance ST emphasises economic motivations whereas LT highlights social motivations (Gray et al., 1995). Therefore, whereas LT emphasises the expectations of society in general (i.e. the average expectation of all stakeholder groups in society), ST recognises the different expectations of different interest groups. Recently discussions of LT have highlighted agents focus on a selective but powerful segment of stakeholders to derive legitimacy (rather than on society as a whole). Impliedly, a critical reason for stakeholder management is to derive legitimacy.

The overlap between LT and ST makes it possible and necessary to join them to provide more useful insight into organisational self-reporting of MP.

The sociological concept of Impression management (IM hereafter) has been applied to studies of organisational behaviour to explain the reaction of firms facing legitimacy threats and to account for changes in MPR behaviour (Aerts, 1994). Organisational impression management has been defined as 'any action that is intentionally designed and carried out to influence an audience's perception of the organisation (Bolino et al., 2008, page 1095).

Gardner & Martinko (1988) categorise the impression management process into four parts; (a) the motivation for managing impressions (b) the way impression is managed (c) the reaction of the audience and (d) the organisational context in which IM is performed. These four aspects underpin the research objectives of this study. In constructing my hypothesis, I take into consideration the organisational context as well as the motivations of the 'actor'. I further explore the manner of in which impression management is constructed using various scenarios that tie to the conceptualisation of HPR.

In this section (section 4.6.1), I use stakeholder theory (supported by LT and IT) as an overarching theory, supported by IM theory to explain the reactions of the audience as well as any other observed findings of this study. I am of the view that the existence of multiple stakeholders is conducive for IM because inherent to the Impression Management theory (IM) is the view of multiple stakeholders (audiences). Firms like people are viewed as social actors with self-presentation goals (Whetten et al., 2009) seeking to gain approval and status from relevant constituents (Highhouse et al., 2009). Therefore, impression management is used to gain legitimacy, be viewed favourably, and enhance the reputation of the organisation and/or self (Rosenfeld et al., 1995).

Schlenker (1980) proposes two main reasons for Impression Management (a) instrumental; where people want to influence others and gain a reward and (b) expressive; where people construct an image to enhance their identity. Therefore, individuals are likely to manage impressions if it is instrumental in achieving their goals.

Since reputation relates to the shared stakeholder impression of a firm (Fombrum, 1996, Highhouse et al., 2009), then the building of a firm's reputation can prompt relevant actors to engage in IM to gain a favourable impression from shareholders. My view is that, if reputation (for organisation and self) is considered as a product of HPR, then enhance corporate and self-reputation could be a key link between observed HPR results in this study, and the competitive advantage that results in enhanced FP.

This is because, MPR is part of the dialogue between the firm and its relevant stakeholders (Gray et al., 1995) and can be used as an instrument of IM (see chapter two) to contribute to the firm's reputation (Hoogheimstra, 2000). The evidence from this study is consistent with the view that management in selecting their construct of impression management (see results from scenario application) consider the implications on the organisations as well as their reputation and consider the relative relevance of the varied stakeholders. Fombrum & Shanley (1990) sum it up by suggesting that a firm's reputation is enhanced by the cues that signal Firm Performance integrity, conformity to rules and social norms and competitive leadership as well as distinctiveness.

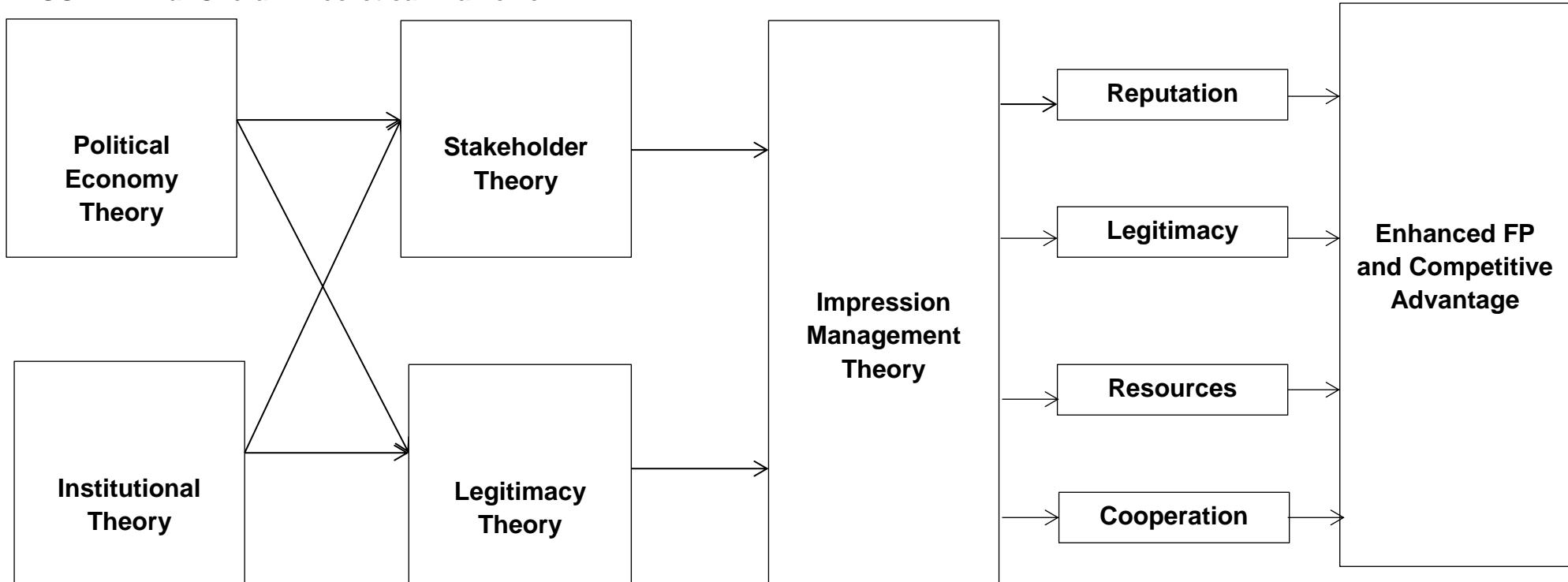
Therefore, HPR as part of the dialogue between firms and their stakeholders can be used as IM instrument (Arndt & Bigelow, 2000) to communicate socially responsible images to stakeholders to influence their assessment of reputation. In the accounting literature, legitimacy and reputation are sometimes used interchangeably (Chalmers & Godfrey, 2004) because both concepts are social constructions with stakeholders assessing firms and both create an improved ability to obtain resources (Deephouse

& Carter, 2005). Therefore, it is difficult to discuss firm legitimacy without discussing firm reputation.

In this study, IM confirms that managers engage in HPR to improve organisations relationship with stakeholders and enhance reputation (and hence will be mostly partially honest than outrightly dishonest in MPR). Pfeffer (1981, p. 26) concurs with this assertion and states that 'every organisation has an interest in seeing its definition of reality accepted ..... for such acceptance is an integral part of legitimisation of the organisation and its development of assured resources'. Therefore, in addition to striving to achieve MP, managers attempt to influence stakeholder perception of performance by rationalising the company's actions and projecting a favourable image (Ginzel et al., 1992).

Stakeholder theory affirms the differential constructs of IM since some stakeholder groups can be more influential than others in demanding HPR (Neu et al., 1998). In this study, there was evidence of enhancement and entitlements (Tedeschi & Norman, 1985), active concealing (Sutton & Callahan, 1987), excuses (Tedeschi & Riess, 1981), self-serving attribution (Schlenker, 1980), blurring and boosting. Institutional theory, in this study, highlights managerial tendency for isomorphism to gain legitimacy. Stakeholder theory, impression management theory, institutional theory, and legitimacy theory explain the reaction and effect of HPR especially in providing management with the needed legitimacy and resources to succeed. Figure 4.12a depicts the interrelationships between the above-mentioned theories vis-à-vis HPR.

**FIGURE 4.12a: Overall Theoretical Framework**



#### 4.6.1. Discussing Findings With Theoretical Framework.

CAT (Jensen & Meckling, 1976, Fama, 1980 and Fama & Jensen, 1983) contends that the principal (shareholder) and the agent (manager) have opposing interests that can result in conflicts and affect the smooth running of the company. In contrast, stewardship theory suggests that ethical and professional motives will override and prevent conflicts of interest between the principal and agent (Muth & Donaldson, 1998) because managers are honest, and good resource managers (Donaldson, 1990, Donaldson & Davis, 1991 and Donaldson & Davis, 1994, Donaldson & Preston, 1995) focused on achieving good business track records (Davis et al., 1997), to preserve their reputation.

Assuming the resource dependency theory, and interest group theory are relied on, the perspective about HPR will be relative because agents will be driven by a desire to satisfy 'interest groups' they consider valuable in facilitating the maximisation of performance (Pfeffer, 1973 and Pfeffer & Salancik, 1978). Therefore, what one interest group will consider as misreporting, will be considered as HPR by another often more 'powerful' group.

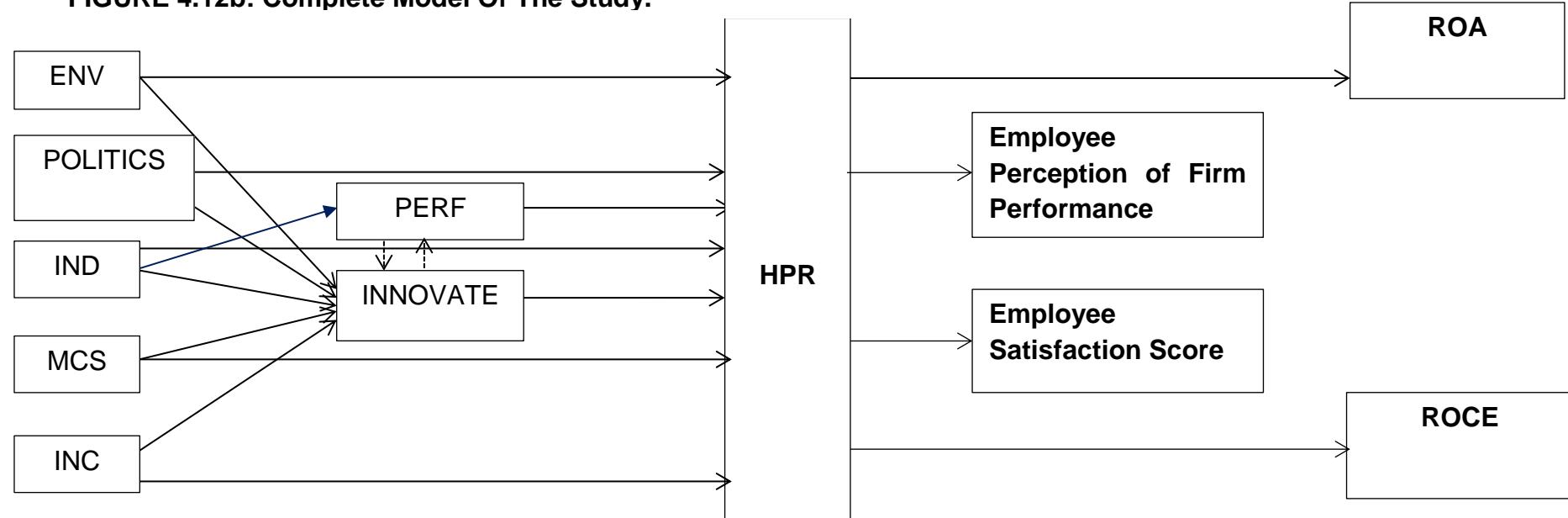
Theoretically, institutional perspective (Scott, 2001), holds that all social participants seek legitimacy, sometimes over economic efficiency (Carver, 2010) and in so doing help develop legitimate rules within the institutional environment (Judge et al., 2010). Therefore, if HPR delivers the required critical balance of the interest groups, then to promote legitimacy it will be vigorously pursued by managers (Hess & Warren, 2008; Johanson & Östergren, 2010).

All the above theories, working together explain various aspects of HPR (causes, effects etc.) and underlie and support the interrelationship between HPR and FP. However, stakeholder theory (with legitimacy theory) probably offers an integrative and holistic perspective on HPR. HPR improves FP to the mutual benefit of shareholders, employees, customers, suppliers, regulators and all other agents likely to be affected by the decisions taken by the company. Figure 4.12c depicts the conceptual and theoretical application of various strands of stakeholder theory vis-à-vis the actual empirical work to guide analysis in this section.

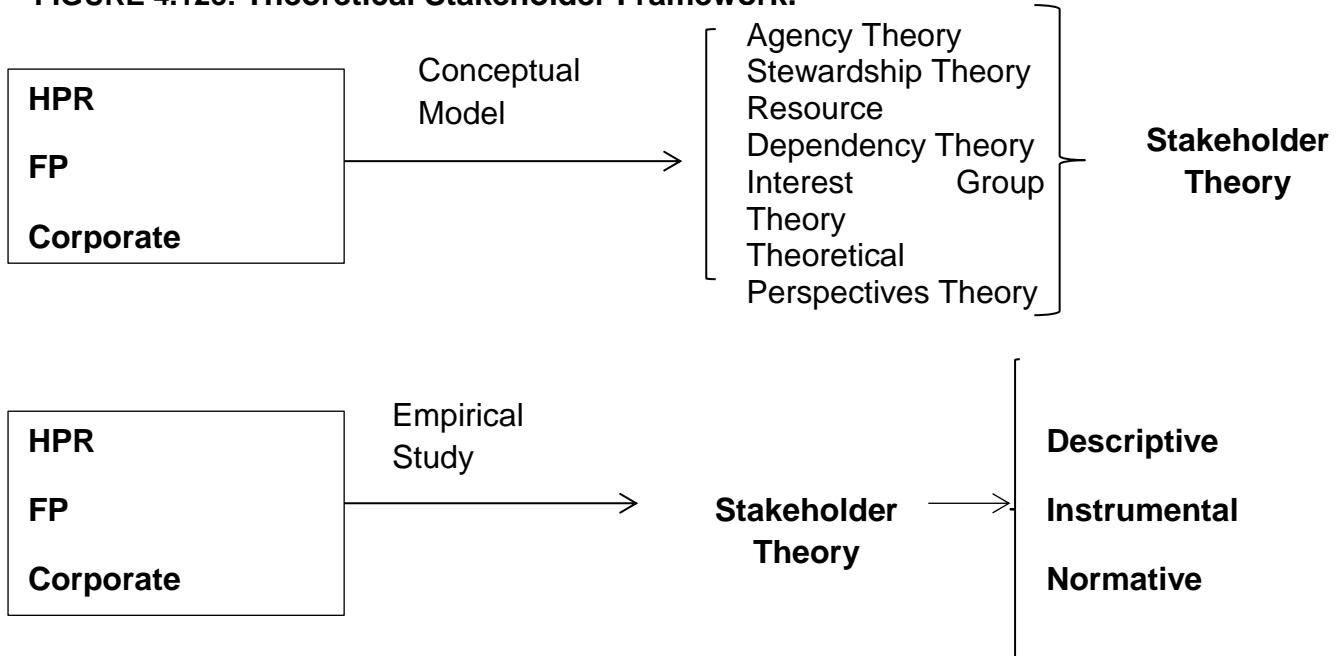
The findings of this study also suggest that MPR practices usually follow routinised practices and conventions (Institutional theory). It also confirms that the level of HPR is affected by several factors, internal and external (Stakeholder theory). Because HPR affects FP, managers voluntarily prefer HPR because it enhances managerial legitimacy with its attendant benefits.

Additionally, because of the relative differences between interest groups and the desire for legitimacy and enhanced reputation, MPR, on a continuum, is mostly partially honest than outrightly dishonest. This is because managers engage in IM to influence perception and actions of varied stakeholders and will avoid the outright misrepresentation of facts (Schleicher & Walker, 2010; Schleicher, 2012). Figure 4.12b presents a 'complete model' depicting the key findings of this study. In the model, all directional relationships are positive.

**FIGURE 4.12b: Complete Model Of The Study.**



**FIGURE 4.12c: Theoretical Stakeholder Framework.**



The HPR-FP relations, with HPR based on a multi actor-principal agency construct, demonstrates that all interest groups derive benefits in some way or another. Indeed, the evidence from this study that HPR is influenced by a confluence of factors derived from various stakeholders underpins stakeholder theory and confirms that firms have multiple goals other than merely satisfying shareholder value maximisation.

Also, the normative and instrumental approaches of this ST (see figure 4.12c) are also satisfied by the outcome of this work. The former because HPR undoubtedly generates actual and perceived benefits. The latter because this study confirms the relative importance given by the managers to the different stakeholders (See Table 4.51) and applying varied methods to misreport MP (see sections 4.4). This reflects the priority assigned to each of the interest groups. Indeed, the descriptive, instrumental and normative aspects of the theory are evident in this research. Although quite different from each other, as pointed out by Donaldson (1999), they are complementary and able to explain the interplay between HPR and FP. The evidence from this study is that ethical behaviour such as HPR, a normative orientation- can result in a significant competitive advantage –an institutional orientation. This is because HPR allows for trust and correlative relationship among stakeholders, which leads to a reduction in opportunism as well as contracting cost. This provides a competitive edge. While some researchers disagree with such an integrative view, I believe it provides a comprehensive explanation of the findings of this study.

The descriptive approach to ST provides a notion for the definition of a company; Donaldson & Preston (1995) describe it as a collection of cooperative and competitive interests with intrinsic value, Yang (2009); Pfeffer (1981); Cyert & March (1963) describe it as a loose network of cliques and coalitions with varied interest. From an instrumental point of view, ST provides the framework for analysing the relationship between HPR and the achievement of performance objectives (Surroca et al., 2010); it advocates that companies establish an order of priority amongst their interest groups and favour those who are best positioned. Thus, the level of effort in HPR exercised

by companies depends largely on the relative importance of their interest groups (Choi et al., 2010). This contrasts with the normative aspect of this theory, which focuses on the legitimacy of the company's interest groups and the value of their interests, always worthy of attention regardless of category (Kaufman & Englander, 2011). Consequently, it becomes imperative to introduce good control systems as an important element of HPR.

From a theoretical perspective, stakeholder theory (McGuire et al., 1988) sets the framework for the relationship between HPR and FP. Interest groups provide company resources, and in so doing implicitly require proper company behaviour, such as HPR.

The term stakeholder has been defined in various ways such as from anyone who assumes risk, (Clarkson, 1995) to only those who are economically affected (Freeman, 1984). The definition I prefer defines stakeholders as individuals or groups that may be affected by organisational actions or the process of achieving a given set of organisational objectives (Freeman, 1984). Stakeholder theory assumes that the interest of all stakeholders is considered in managerial decision making and actions and hence the agents' main role is balancing the competing interest among stakeholders. Such groups usually have a legitimate authority or influence on the organisation and organisations serve the purpose of co-ordinating the varied interest of stakeholders (Evan & Freeman, 1993).

Where companies misreport MP, the resultant misallocation of resources by stakeholders could be costly and affect FP. In contrast, if companies report MP honestly, decision making by stakeholders will be more efficient, encouraging more investments within the organisation and improvement in FP. This is because, based on the social norm of reciprocity (Cuevas-Rodriguez et al., 2012) managing stakeholder relationships not simply as a discrete economic exchange, but as a valued relationship that exceeds the economic benefits of the exchange (i.e. exceed the stakeholder 'reservation wage' or opportunity cost), such as with HPR, can result in goodwill and social debt which can produce a social asset. This social asset can be drawn on should changing circumstances require a contribution from stakeholders that exceed the economic benefits of the exchange. Cuevas-Rodriguez et al. (2012, page 533) summarise the effect of HPR on FP and state that '*by investing in stakeholder relations, agents may create social debt that based on social norms of obligation and reciprocity, may enhance firm value and thus wealth of principals*'.

Little wonder therefore that, Mitchell, Agle & Wood (1997), Jones (1995) as well as Campbell (1997) propose that companies with relationships based on trust with the stakeholders are likely to develop a competitive advantage over other companies. Considering that stakeholders usually have legitimate authority over a company, indications of mistrust could result in tension and reduce organisational focus. Institutional theory posits that investors lean toward those companies with responsible behavior (e.g. HPR) when all other factors remain constant. In this regard, HPR can also improve the employment desirability at the firm and improve its purchase and investment intentions. In line with expectations theory, (De Dreu, Giebels & Van de Vliert, 1998, Lant, 1992) Hendry (2002) points out that it is impossible for an organisation to function effectively without some measure of honesty and cooperation. Fehr & Falk (2002) confirm that the significant evidence of honest and partially honest MPR in this study is perhaps because

*'there are powerful non pecuniary motives that shape human behaviours such as the desire to reciprocate, the desire to gain social approval and the intrinsic enjoyment arising from working on interesting tasks'* (page 719).

That is to say; agents are rational social beings that recognise the value of stakeholder relations and will, therefore, enact protocols of justice and fairness in their dealings with stakeholders (Fukuyama, 1995). Therefore, in studies on MPR behaviour, broadening the perspective of agency theory to recognise that agents sit at the centre of a nexus of stakeholder relations and that these relations reside within a social context will improve literature (Cuevas-Rodriguez et al., 2012).

Even though managers adopt varied MPR practices to manage impressions and sustain legitimacy and reputation, the findings of this study and other empirical works also recognised a patterned approach to MPR across various cultures, industries and countries. It will seem that the pattern of partially honest HPR is routinised and the reaction to various stimuli vis-à-vis MPR practices display isomorphism and standardisation. This is explained by institutional theory. Indeed, the practice of different MPR strategies to varied stakeholders based on the extent of their 'influence' is, in itself, a routinised MPR practice.

#### **4.7. CHAPTER SUMMARY.**

This chapter has presented the key findings from the analysis of data collected for this study. It has highlighted that managers voluntarily prefer HPR, suggesting that existing contracts that are based on CAT and seek to align the monetary interest of managers with shareholders may be incomplete in dealing with MPR problems. It has also shown that HPR is affected by a variety of variables most of which are within the control of stakeholders and hence decision active stakeholders can consciously induce HPR. Additionally, it discusses employee perceptions about the consequences of HPR and confirms empirical hypothesis that the reputation loss that may result from misreported MPR may be very costly to organisations, perhaps more than regulatory sanctions and penalties. It shows that HPR has a direct influence on FP and that MPR practices within Ghana mostly align with empirical literature but with some noticeable differences. The chapter concludes by explaining the findings from this study with a joint consideration of theories.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 INTRODUCTION

This is the final chapter of the study, concludes by answering the primary and secondary research questions, its contributions to literature, practice and policy, the limitations of the study, and the directions for future research. This study provides a framework to study the concept of honesty in Managerial Performance Reporting (MPR) among Ghana Club 100 companies (GC100). It aims to examine the nature of honesty of managers in relation to Managerial Performance Reporting (MPR), develops the concept of Honest Managerial Performance Reporting (HPR), it considers the factors that influence Honest Managerial Performance Reporting (HPR) and the nature of HPR's relationship with Firm Performance (FP), contributing to our understanding and knowledge of these areas. Ghana offered a relevant and varied cultural environment to replicate prior research as well as test new relationships.

#### 5.2 ADDRESSING THE RESEARCH QUESTION

The primary research question of this study was: -

***“Should stakeholders be concerned about managers’ honesty in managerial performance reporting (MPR) and if so what are the factors that influence this behaviour?”***

It is further developed by the formulation of five secondary research questions, which are: -

1. In a self-reporting MPR environment do managers have a preference to be honest?
2. Are there implications for HPR?
3. Can we identify the factors that influence HPR?
4. Is there a relationship between HPR and FP?
5. Can we identify the main features of managerial behaviour in HPR?

The subsequent sub sections discuss answers to each of the secondary research questions.

##### **5.2.1. In A Self-Reporting MPR Environment Do Managers Have A Preference For Being Honest?**

The general conclusion from this study is that, like previous studies (such as Evans et al., 2001), managers are partially honest rather than fully honest or dishonest. This finding implies that other considerations temper individual's considerations for a maximum payoff from exploiting information asymmetry and hence the CAT alone does not provide a comprehensive explanation of the MPR behaviour within organisations. In the specific case of the experimental constructs, CAT will have implied that employees will seek maximum payoff (Evans et al., 2001) and hence HPR will be 0% for all scenarios especially scenario two (2). None of the scenarios had an HPR score of 0%. This confirms the growing assertion that other influences, aside

from monetary gain, also affect MPR practices (Merkl Davis & Brennan, 2011). These influences may including the MCS, incentive structure, environmental considerations, the ethical orientation of the manager, and nature of work place politics [Section 4.2 of Chapter four explores possible 'other variables' for HPR].

The first secondary research question was addressed in an experimental study based on four experimental constructs and confirm that managers voluntarily prefer HPR within an organisational context. The scenarios were;

Experiment 1-	Individual Scenario	-Immediate Pay-off	-Payoff uncapped
Experiment 2-	Organization Scenario	-Immediate Pay-off	-Payoff uncapped
Experiment 3-	Organizational Scenario	-Immediate Pay-off	-Payoff capped
Experiment 4-	Organization Scenario	-Future Pay-off	-Payoff uncapped

The experiments helped to test the following hypotheses with the following results (table 5.1). In summary, the results confirm that managers prefer to be honest in MPR within an organisational context but may be encouraged to misreport MPR if exogenously introduced variables introduce unfairness in the evaluation and compensation for performance (payoff). In other words, the desire for a maximum payoff from information asymmetry is mitigated by other influences, considerations and motives. Particularly managers are mindful of the fact that, from a normative perspective, HPR influences intrinsic stakeholder value, especially in their resource allocations decisions, even under situations where there is no direct economic benefit to the firm. This has implications on trust, confidence and relationship between managers and stakeholders.

TABLE 5.1: Results Of Hypotheses Tested With Experiments		
No.	Hypothesis	Supported /Rejected
H <sub>1</sub>	For Business Managers, HPR will be higher with an organisational related construct than an 'individual based' construct	Supported
H <sub>2</sub>	For Business Managers, HPR of a scenario involving an immediate pay-off will be lower than HPR involving a deferred pay-off	Supported
H <sub>3</sub>	For Business Managers, HPR of a scenario with capped pay-off will be lower than HPR of a scenario with an uncapped pay-off	Supported
H <sub>4</sub>	The mean HPR for students will be significantly different from the mean HPR for business managers across the various experiment groups	Supported

The experiments performed found and confirmed the following;

H<sub>1</sub>: Among managers (persons currently in employment and have been for at least three consecutive years), MPR behaviour is more honest within an organisational setting than involving private issues. This confirms my earlier conviction (and hence hypothesis) that studies on HPR should focus on the organisational level applying organisational constructs rather than a mere study of the lying behaviour of individuals. My conviction has been supported by other researchers such as Quinn et al. (1997) and Cameron et al. (2004). This

highlights the fact that inherent controls, reputation effects, and the possibility of sanctions for misreporting MP within an organisation can act as a mitigating factor on the extent of misreporting of MP. Studies, such as Widener (2007) have confirmed that effective MCS can improve HPR. Therefore a general study about why people lie (e.g. Gneezy, 2005) may not be appropriate in predicting MPR behaviour.

H<sub>2</sub>: For business managers, HPR improves significantly, when performance related bonuses are uncapped and not paid immediately after MPR. This revelation provides credence to the growing debate about delaying the payment of performance related bonuses. It is likely that this behaviour is due to the high possibility of detection and the consequent sanctions and reputational damage that may result due to the time lapse.

H<sub>3</sub>: Thirdly, HPR reduces when performance bonuses (pay-offs) are capped. Evans et al. (2001) explain this observation with a 'distributional theory' (see chapter two). Gino & Pierce (2009) and Maas & Rinsum (2013) also suggest that capped pay-offs lead to employee resistance and hence gaming behaviour because it distorts the relationship between effort and reward that gives a perception of unfairness.

H<sub>4</sub>: This study also confirms that students as surrogates for actual employees (business managers in the specific case of this study) in ethical studies may be inappropriate. This is confirmed by the significant differences in mean HPR scores between students and managers. The group statistics confirm that business managers have a statistically significant higher mean HPR = 0.61 ( $\pm 0.28$ ) than students = 0.39 ( $\pm 0.27$ ): - [See Tables 4.4., 4.11]. Various researchers (for example, Brownwell, 1995; Cole & Smith, 1995) have argued against the generalisation of findings from ethical studies about students to work place scenarios and argue that students cannot appreciate the inherent controls and effects of their ethical actions within the work place environment. Admittedly, this issue still divides opinions; however, despite the genuine challenges with using actual employees for organisational level studies [these challenges are discussed in Chapter Three], the relative relevance of the results from such studies on organisational improvement should justify and encourage the effort.

This study is the first attempt at studying HPR in Ghana including the adoption of an experimental approach. Ghana provides a varied context from other countries where similar studies have taken place. Most studies on this phenomenon have been in developed countries with relatively less corruption and high level of liberal behaviour. Ghana like most developing countries is a relatively more conservative society (Hofstede, 1991), but with a high level of corruption and hence offers an opportunity to study this phenomenon within a different geographical, social and cultural context. This curiosity was the basis of my interest in this research. That is to ask, how does Ghana differ from Western Europe regarding MPR? The understanding of how MPR practices vary across cultural and national lines could be critical to MNOs, in the continuous challenge to balance the desires of standard global practices with an appropriate consideration of specific norms of various cultural contexts (Bartlett &

Ghoshal, 1998) as well as inculcating core values throughout the organisation (Desai & Rittenburg, 1997).

More importantly, the increased internationalisation of the corporate world has led to a rise in multinational business interest in Africa. Therefore, the resulting compensation contracts may have wider implications for the international capital market especially if they are costly (Jensen, 2009), ineffective and based on a false premise. The evidence from this study demonstrates that the preference for honesty among managers does not significantly differ among nations and cultures and answers the call for more cross-cultural studies of this phenomenon (Evans et al., 2001). I arrive at this conclusion because the results from this experimental study are similar to prior studies about this phenomenon (this is discussed earlier). This is in line with the contention of Hopper et al. (2009) that Africa does not face peculiar management accounting issues from the rest of the world. Therefore, compared to other similar studies in Western Europe, the experiments performed do not suggest a difference in MPR behaviour between Ghana and Western Europe. Rather it confirms a significant difference in ethical behaviour among employees (i.e. business managers as respondents) and students (control group).

The results of this study confirm that agents will not necessarily use private information for their gain. In fact, the study reveals that compensation contracts have the unintended consequence of encouraging misreporting of MP if capped at some arbitrary threshold and perhaps principals may benefit more from paying agents a higher fixed salary rather than the current over focus on performance related bonuses. However, where performance related bonuses are used, this study confirms that HPR will be improved if the actual payment of the performance related bonus is delayed to some future date. Understanding the efficacy of the conventional agency model vis-à-vis the theoretical prediction of agents' MPR behaviour is critical to improving the credibility of the performance accountability process, and its attendant effects on resource allocation and hegemony (Solomon et al., 2013) and the result of these experiments shed more light on this.

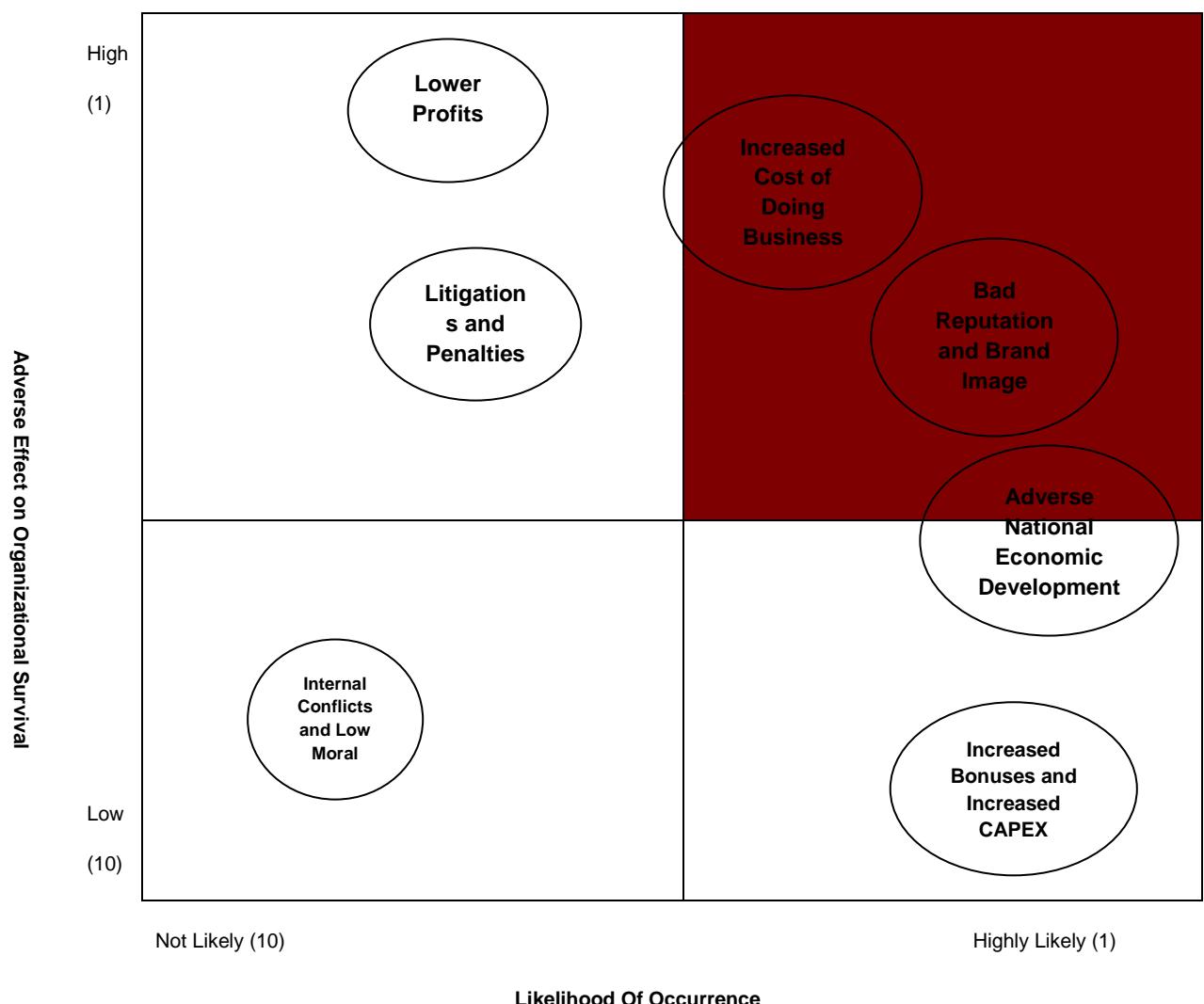
Moreover, considering that CAT as a theory underpinning HPR divides opinions, this replicated experimental study contributes to the resolving the debate and achieving the critical mass required for theorisation, generalisation and prediction (Chenhall, 2003). Also, the evidence from these experiments contribute to the accounting literature by demonstrating that even where individuals are dishonest in private life, the dynamics of the organisational context mitigates the preference for dishonesty and therefore current compensation contracts that seek to align agents' and principals' interests may not only be costly but ineffective. The findings indicate that although previous research suggests agency conflicts arising out of information asymmetry are the principal cause of opportunism, opportunism alone does not comprehensively explain agents (managers) MPR behaviour. Instead, stakeholder theory and its relevant sub theories are fundamental, yet little examined, theory to explain MPR behaviour. Evidence from this study points to the need to examine HPR within a context of complex stakeholder relationships and institutional fields. Based on Stakeholder theory, managers attempt to moderate varied motives and influences in their MPR behaviour and will focus on the key and/or influential stakeholders who control resources and can influence other stakeholders. Therefore, stakeholder dynamics affect MPR techniques, and different MPR behaviours will be adopted for

different stakeholders. In this sense, the approach of goal alignment between agents and stakeholders through the purposeful distribution of equity to top managers (Dalton et al., 2008) may, in some cases, only be a costly process with little empirical evidence on improving HPR. Indeed, O'Connor et al. (2006) suggest that depending on stakeholder dynamics, this goal alignment strategy can be counter-productive and rather encourage aggressive performance reporting practices (Desai et al., 2006).

### 5.2.2. Are There Implications For HPR?

Purposefully misreported MPR has direct positive and negative implications for organisations. It is perceived to have a positive effect on organisations due to its effect on employee bonuses and the ability to obtain critical resources. However, misreporting MP hurts organisational reputation and national economic development (see chapter four; section 4.6). This underlies the need for HPR in the organisation so that managers can gain legitimacy of managerial tenure as well as organisational survival. The clear influence of MPR on FP is confirmed in this perception index. HPR is highly likely to increase the cost of doing business which has implications on FP.

The grid of employee perception of the effect of misreporting MP is reproduced below (earlier shown in chapter four; figure 4.12). The size of the bubble is my estimation of the size of the effect.



### 5.2.3. Can We Identify The Factors That Influence HPR?

The level of HPR within the MPR process of an organisation is affected by the simultaneous interaction and hence confluence of organisational factors (POLITICS, MCS, PERF, INC & INNOVATE), environmental and situational factors (ENV) as well as Individual factors (INC, IDV). The strength of the proposed relationship is significant at  $p=0.00$  implying that the proposed interrelationships between variables explain HPR robustly. However, within the interaction mix, factors that can be described as 'controllable' by 'decision active stakeholders' have more bearing on HPR than other factors. Exploring the interaction of various variables on HPR was important because it revealed the relative significance (measured by regression weights and P values) of each variable within the mix. For instance, while I found evidence of a significant effect of each variable (in isolation) on HPR, the relative level of significance changed for some variables within the mix. Within the mix Management Control Systems (MCS) has the highest effect on HPR ( $p=0.0$ , RW 0.307) followed by Economic Incentives (INC,  $p=0.02$ , RW, 180).

The conclusion is that HPR is effectively within the control of stakeholders (at least to a significant extent) and hence the quality of MPR processes is more a reflection of the priority that 'decision-active' stakeholders place on this process than it is of 'uncontrollable factors'. This is because decisions about MCS and INC are within the control and influence of 'decision-active' stakeholders. This confirms my earlier view (within the experimental study) that effective MCS predominantly drives MPR and hence organisational factors can temper individual ethical orientation. External environmental factors (ENV) has a positive but mild effect on the mix. Indeed, it has the least effect on the mix with a p value of 0.903 further confirming that controllable factors predominantly drive HPR.

A second conclusion is that a pragmatic evaluation should precede stakeholder participation (PERF) within the MPR process. The net negative effect of the cross interaction between PERF and INNOVATE is the reason for this caution. Indeed even though PERF has a positive direct effect on HPR, it also has a negative indirect effect on HPR through its interaction with INNOVATE. While innovation requires new ideas and perspective and hence encourages stakeholder participation including relying on feedback from stakeholders (about challenges that need improvement), excessive stakeholder participation can stifle innovation because of the divergence in the interest of stakeholders resulting in conflicts. The point is, 'decision-active' stakeholders while pursuing MPR must continually make a pragmatic determination of their extent of involvement so as not to blur the focus on a shared organisational vision ( Lumpkin & Dess, 2001).

Following the evidence that CAT cannot completely account for MPR behaviour, this study explored the possible variables that influence HPR using hypotheses developed from theoretical modelling. Positive accounting theory has resulted in more research focus on the various techniques used by managers to manage impressions about performance to the neglect of studies about the causes and effects of HPR (Ndofor, Wesley & Priem, 2015). Even where such studies have occurred, they have not been comprehensive and have rather focused on selected variables. To help improve MPR as a communication and accountability tool, relevant stakeholders need a deeper understanding of the critical factors that influence HPR.

A test of various hypotheses, based on data collected with a questionnaire instrument, precedes the structural model. The summary of the results of the hypotheses are as follows (table 5.2): -

<b>TABLE 5.2: Results Of Hypotheses Tested About Factors That Influence HPR</b>		
<b>No.</b>	<b>Hypothesis</b>	<b>Supported or Rejected at P=0.00</b>
H <sub>5</sub>	A fair economic incentive (INC) is positively associated with HPR	Supported
H <sub>6</sub>	Stakeholder participation in performance measurement (PERF) is positively associated with HPR	Supported
H <sub>7</sub>	A high innovative performance culture (INNOVATE) is positively associated with HPR	Supported
H <sub>8</sub>	A well communicated belief and boundary system (MCS) is positively associated with HPR	Supported
H <sub>9</sub>	Non-Hostile internal politics (POLITICS) is positively associated with HPR	Supported
H <sub>10</sub>	A favourable external environment (ENV) is positively associated with HPR	Supported
H <sub>11</sub>	A predominant set of collectivists (IND) within an organisation is positively associated with HPR	Supported
H <sub>12</sub>	Stakeholder participation in performance measurement (PERF) is positively associated with a stronger innovation and performance culture (INNOVATE)	Supported
H <sub>13</sub>	Supportive external environment (ENV) is positively associated with a stronger innovation and performance culture (INNOVATE)	Supported
H <sub>14</sub>	Supportive external environment (ENV) is positively associated with stakeholder participation in performance measurement (PERF)	Supported
H <sub>15</sub>	Harmonious internal politics (POLITICS) is positively associated with a stronger innovation and performance culture (INNOVATE)	Supported

H<sub>5</sub> – H<sub>15</sub>: These hypotheses confirm that MCS, INC, IND, POLITICS, ENV, INNOVATE & PERF collectively and individually have a positive and direct association with HPR. This preceded a SEM of the structure of interaction between the variables with Adjusted Goodness of Fit indices of 0.975: The model fit indices imply that the model robustly fits the data.

This is the first tested structured model about the factors that influence HPR within profit oriented private companies (using data set from GC100 companies). Bollen & Pearl (2013) argue that models should not be evaluated based on an 'accept' or 'reject' criteria, but rather models should be compared to other models to determine relative robustness. Therefore, this model provides a conceptual basis for future study of this phenomenon.

#### 5.2.4. Is There A Relationship Between HPR And FP?

HPR has a direct and indirect influence on FP. Directly, HPR has a direct and positive influence on ROA and ROCE. This result is not surprising considering that the factors that affect HPR have been confirmed to influence FP as well. HPR aside conferring legitimacy on managerial tenure, based on institutional and stakeholder theory, also influences the ability to attract critical resources from key stakeholders for organisational operations and survival. Legitimacy reduces conflicts while critical resources can provide competitive leverage. Both of these are critical for FP.

Indirectly, HPR affects FP because it has a positive and direct influence on (1) employee perceptions about FP and (2) employee satisfaction. Evidence of the direct influence of employee perceptions and employee satisfaction on FP abound (see, for example, Fombrum & Stanley, 1990). HPR underscores employee's expectation of fairness and hence guides subsequent perception and behaviour.

The stepwise regression estimates using PCA also reveal an interesting finding (even though this was not the focus of the study) that supports my conclusion. This finding provides further strength to the theoretical argument to explore the relationship between HPR and FP. Stepwise regression of HPR on ROA and ROCE with GSE (Listing on the Ghana Stock Exchange) as one of the specifications shows a positive influence of GSE listing on ROA and ROCE. This is not surprising and has been confirmed by previous prior studies. However, one of the critical requirements and processes for GSE listing is a credible MPR process and hence HPR. If this linkage is expanded, then it can be presumed that listed firms generally ensure HPR. This provides a theoretical basis to explore a linkage between HPR and objective measures of FP which is confirmed by this study.

The conclusion from these findings is that, in modelling variables to ensure FP, 'decision-active' stakeholders must include HPR and put in place effective mechanisms to ensure HPR. Considering that section 5.2.2 confirms that HPR is predominantly driven by 'controllable factors' within the purview of key stakeholders, this is achievable. My conclusion of a robust influence of HPR on ROA and ROCE is not tempered by considerations of independent variables such as organisational size, listing on the GSE and type of industry (at the organisational level). This implies that the positive and direct influence of HPR on ROA and ROCE remains significant for all specifications. My study provides other evidence that supports my conclusion that HPR robustly influences FP. For instance, even though organisation size, industry type and listing on the GSE has no statistically significant bearing on employee satisfaction, HPR does. This is in line with the theory because employee satisfaction is usually based on internal organisational factors vis-à-vis employee's expectations of fairness and transparency. This aligns with social expectation theory, which emanates from institutional theory.

I also conclude, based on evidence from this study, that even though a robust direct relationship exists between HPR and employee perception of FP, this relationship is more likely depending on the organisation's size or industry type. As an example, the positive effect of HPR on employee perceptions is more likely for bigger organisations. Compared to the banking sector, the energy industry is likely to show a relatively stronger effect of HPR on all specifications of employee perception. My opinion is that

the volatility of the energy sector, mostly driven by externalities, can affect the financial fortunes of such organisations irrespective of employee efforts. In such a case, the relationship between economic compensation and employee efforts can be distorted. This creates a greater expectation of fairness and transparency by employees from managers and HPR enhances the perception of employee value and appreciation. Based on this, actual or perceived HPR could have a relatively higher implication on employee perception about FP.

Also, even though this may not be the focus of the study, I find evidence of other factors that affect ROA and conclude that medium sized firms seem to have relatively higher ROA and ROCE than larger firms. For ROA this result is statistically significant at the respondent level. The evidence ties in with literature which abounds with empirical findings that large organisations can have challenges with efficiency in asset utilisation due to bureaucracy and other attendant limitations. It will seem that, medium size firms comparatively have more agility and focus required to drive efficiency in asset utilisation and hence the relatively higher ROA. This may be an opportunity for further empirical study in future research. Again, the study provides evidence that, within GC100 companies, the banking industry outperforms other industry types regarding ROA. This evidence, within the Ghanaian context, is not surprising. In recent times, the banking sector has experienced phenomenal growth which has led to the proliferation of intermediary financial institutions. Little wonder that financial institutions dominate the GC100.

The conclusions above are based on a statistical analysis of questionnaire data vis-à-vis the following hypotheses (table 5.3).

<b>TABLE 5.3: Results Of Hypotheses About The Influence Of HPR On FP</b>		
<b>No.</b>	<b>HYPOTHESIS</b>	<b>Supported/ Rejected</b>
H <sub>16</sub>	HPR has a directly significant and positive influence on Employee Satisfaction (C10)	Supported
H <sub>17</sub>	HPR has a directly significant and positive influence on Employee perception of FP.	Supported
H <sub>18</sub>	HPR has a directly significant and positive influence on ROA.	Supported
H <sub>19</sub>	HPR has a directly significant and positive influence on ROCE.	Supported

H<sub>16</sub>: This study confirms that HPR has a direct and positive influence on employee satisfaction. This is in line with existing literature (Koh & Boo, 2004) that confirms that ethical culture constructs, such as top management support for ethical behaviour (e.g. HPR), improves employee satisfaction. HPR enhances the perception of fairness and equity. Till (2011) confirms that individual, distributive and procedural equity are critical to employee satisfaction. HPR enhances the opportunity for equity and fairness and hence reduces conflicts and dissonance in the working environment. Inherent in consideration of multiple stakeholders is the likelihood of information leakage and hence enforces transparency, a critical requirement for fairness. The results imply that organisational leaders can use HPR as a means to generate favourable organisational outcomes especially as empirical studies establish a significant and positive link between job satisfaction and employee commitment.

H<sub>17</sub>: HPR also has a direct and positive influence on employee perception of FP. When organisations are honest in MPR, it reinforces employees believe that managers have nothing to hide vis-à-vis the prospects of the organisation. In that way, market mechanisms may enhance reputation and legitimacy of the organisations (with its managers) to good effects. An example of such market mechanisms will be the attraction and employment of new talents, as well as critical resources. These reinforce the belief about improved FP. Employee perceptions can be as powerful as reality in reinforcing desirable behaviours, and hence stakeholders can benefit immensely from positively influenced employee perceptions.

H<sub>18</sub> &

H<sub>19</sub>: HPR also has a direct and positive influence on 'objective' and financial measures of FP such as ROA and ROCE respectively. Considering that HPR, based on an institutional theory and stakeholder theory, bestows legitimacy, reduces distractive conflicts between managers and stakeholders, enhances organisational reputation and hence helps secure critical organisational resources required for organisational survival and operations, then it is no surprise that HPR influences ROA and ROCE. The implication is that stakeholders in designing strategies to improve FP must consider HPR has a relevant variable. This requires relatively little effort because the variables that affect HPR also have a direct effect on FP and are 'controllable factors' from the perspective of stakeholders.

This is the first empirical test of the relationship between HPR and FP, and hence the findings and conclusions thereon are useful to organisations and stakeholders in their quest to improve FP, organisational legitimacy and reputation. Additionally, it repositions studies about MPR and HPR as relevant variables of interest as it affects the 'bottom line'. I am hopeful that the conclusions of this study will generate more scholarly interest in this phenomenon due to the likely practical implications to organisations.

### 5.2.5. Can We Identify The Main Features Of Managerial Behaviour In HPR?

MPR among GC100 companies espouses HPR and partial HPR. However, there are misconceptions among managerial groups about what constitutes HPR, and a fairly high level of purposeful misreporting of MPR exists, particularly to the media. The distrust of the media in the MPR process cuts across all GC100 companies. This confirms my earlier preposition that GC100 organisations do not apply a 'one size fits all' MPR. Instead, there are differential MPR practices to different stakeholders and hence different levels of HPR to different stakeholders even though the average HPR (across various stakeholders) is usually honest and partially honest. Based on the evidence from this study, I conclude that MPR practices within GC100 are substantially similar to MPR practices in Western Europe but differ in the extent of misconception about what constitutes HPR.

To a large extent, MPR practices follow institutional conventions where managers attempt to manage impression with deceptive language, syntax, etc. (partially HPR) and will avoid outright lies in MPR. Even though MPR practices are mainly routinised and common industry practices, the perception of widespread misreporting of MP (by respondents) is misplaced and not backed by the evidence from the study. The choice of method for misreporting MP is based on considerations of

- (a) The ability of the information recipient to identify the error
- (b) The perception of the relative power of the stakeholder on managerial tenure
- (c) Conventional practices and
- (d) The consequence on self and organisation for HPR

The above implies that misreported MPR is higher for external stakeholders than for internal stakeholders.

Misreporting MP, where it occurs, usually occurs in organisations

- (1) With a high level of departmental rivalry and competition,
- (2) That are highly technical and sophisticated making it difficult for the ordinary mind to understand and evaluate the mode of business or operations,
- (3) That lack transparency in reward systems and the ability to relate reward to effort.
- (4) Where the CFO bears full responsibility for the MPR process without proportional responsibility on other managers.

Point four is revealing and a new finding and highlights that an MPR process must be a shared responsibility. When CFOs are ultimately responsible for the entire process, the ensuing pressure could result in misreported MP, deepening interdepartmental tensions with its attendant effects on HPR. In this study (with results from the 15 interviews) HPR was higher where the CFO did not bear full

responsibility for the MPR process (Mean HPR 61%) compared with when they did (mean HPR 42%).

The conclusions are relevant for MNCs in their desire to inculcate standardised values across their subsidiaries. Even though some respondents alluded to cultural differences for their perspectives, the cultural difference was not evident in the perceptions about HPR. However, the level of mistrust of MNC headquarters (HQ) in promoting HPR was quite revealing. MNCs must address the perception that they tacitly approved misreported MP through actions, omissions in actions or inactions. Standardised practices about HPR are possible but should be proceeded with education about HPR. There were clear misconceptions about what constitutes HPR, and this needs to be addressed before any attempt at standardised practices and values.

### **5.3. GENERAL SIGNIFICANCE AND CONTRIBUTION OF THE STUDY**

Theoretically, this study makes contributions that are useful. I provide a conceptual definition of Honesty (from an organisational and stakeholder perspective), and the concept of HPR is developed and applied in the study. My definition of Honesty vis-à-vis the MPR process differs from other definitions in several ways. For instance, my conceptualisation of Honesty links with the operational definition of HPR and is based on varying ranges on a continuum. As such it is possible to compare HPR within and across organisations, because it is possible to have more, or less, honesty compared to another rather than a mere dichotomy between true or false. This is a critical distinction (especially from an institutional and stakeholder perspective) and allows for the appropriate contextualisation of the often used 'partial HPR'. Till date, even though most studies have adopted and applied the word 'partial HPR' or 'partial honesty' there is no clear definition of same. Also, the appropriate conceptualisation of Honesty also allows for the development and contextualisation of HPR. If for nothing at all, my conceptualisation of MPR and HPR allows for standardisation of empirical methods, contributes to the debate about what constitutes HPR and allows for a more robust comparison between studies. Most studies (notable exceptions being Evans et al., 2001 and Yang, 2009) lack clarity because they proceed with empirical discussions without conceptualising MPR and HPR.

In the same light, my conceptualisation of Honesty, MPR, HPR and FP are useful contributions because it departs from CAT (and shareholder theory) and emanates from Stakeholder theory. As explained earlier, CAT has remained the predominant theory for discussions about MPR even though there is growing evidence of CATs inability to comprehensively explain partial HPR. Interesting despite this evidence, conceptual developments of FP, HPR, MPR and Honesty are still dominated by CAT. My conviction is that theoretical frameworks should guide perspectives about operational definitions. Therefore, my study demonstrates how stakeholder theory can be applied in the operationalisation of concepts in ethical studies, MPR inclusive. I demonstrate that where stakeholder and institutional theory provide theoretical bedrock, multiple considerations must be infused into concepts practically to highlight the relativity of perceptions.

My study is the first to test the confluence of factors that influence HPR in 'profit-oriented businesses' as well as the direct influence of HPR on FP. Specifically, the study offers, for the first time, the direct evidence of the relationship between HPR and FP among GC100 organisations. The credibility of these findings are enhanced because- (1) the analysis is preceded by a halo test to eliminate the confounding effect of prior FP on current FP (2) the proxies for FP tested in this study are numerous and include financial and non-financial measures (3) the theoretical basis for these hypotheses are extensively discussed. This enhances the potential for generalisation and further replication. Secondly, the study offers, for the first time, a preposition of how various variables interact to influence HPR. It establishes that INOVATE and PERF are mediating variables in the relationship and compliment the direct effects of MCS, INC, IND, ENV on HPR. This is the first evidence of how variables interact with each other and directly on HPR within GC100 companies and hence offers managers a view on how to influence the level of HPR.

The findings from the above advance literature. Firstly, aside from demonstrating that HPR should be studied from an organisational relevant perspective, it provides a new perspective by espousing a theoretical basis for exploring the influence of HPR on FP. Hopefully, the theoretical arguments made to define the nature of the relationship and hence hypotheses ( $H_{16} - H_{19}$ ) will encourage more tests of this relationship to enhance our understanding of the phenomenon. Secondly, my study about the factors that affect HPR departs from conventionally accepted thinking that the alignment of interest of managers to shareholders through the purposeful distribution of economic surplus is the single most important factor to enhance HPR. Rather, my study confirms that other factors have a mitigating influence on economic incentive (INC). I also confirm that MCS has more bearing on the level of HPR than INC even though INC plays a significant role. The practical implication of this on the design and content of existing and future employment contracts is phenomenal. Thirdly, my study confirms that FP is affected by HPR and HPR is mainly affected by 'controllable factors'. Even though this is a new perspective, it is not surprising. However, it is a useful perspective because it provides further credence of the link between 'controllable factors' and FP. By extension, it shows one of the ways that 'decision active' stakeholders can influence FP.

The process to arrive at findings and emanating conclusions from my study also make significant theoretical contributions. In explaining my findings, I demonstrate how Institutional Theory and Stakeholder Theory can be combined in a meaningful way to explain MPR. My approach is new in that I propose a linkage between the two theories through Impression management and Legitimacy theories. Therefore, aside from espousing an alternative theoretical basis for studies about MPR, I demonstrate how these theories can be linked to explain observed behaviour. This is useful, especially with the recent call for exploring multiple theoretical dispositions to explain managerial and organisational behaviour. Using this theoretical framework, I conclude that MPR is driven by a desire to impress stakeholders to gain legitimacy. These considerations reduce outright lies in the MPR process because managers are

aware of the implications of purposefully misreported MPR on FP with its attendant consequences on the legitimacy of their tenure.

The study makes methodological contributions. It adopted a mixed method approach (experiments, interviews, surveys, mathematical modelling) and applied new methodologies to the study of MPR based on a sound synthesis of the literature. This mixed method approach provided complimentary findings that enhance credible understanding of MPR and HPR. Very few studies on HPR have applied such an extensive set of methods. As an example, unlike previous studies that were based on CAT (Ndofor et al., 2015), this study in the design of its methodology (survey instruments and experimental constructs), adopted a multi-actor principal-agent model with interesting findings. Essentially, I measured HPR from the perspective of varied agents and principals rather than solely from the perspective of shareholders. This was based on my earlier stated conviction that, in reality, managers' report on their performance to multiple persons of interest. Also, the experimental constructs correct for limitations in previous experimental constructs, uses actual employees, and introduces new experimental constructs to measure previously unmeasured variables. The use of employees as respondents is a methodological improvement especially with the growing body of knowledge (and confirmed in this study) that the assumption of subject homogeneity between students and employees in ethical studies is inappropriate. In using employees as respondents, this study demonstrates how to achieve a pragmatic balance between realism and artificiality in order not to confound experimental settings and constructs. This approach implies that recommendations and other deductions made from this study will have practical relevance. This is useful because, if empirical studies provide such relevance to practitioners and businesses, including stakeholders, then perhaps MPR will begin to receive the attention it deserves with its attendant benefits.

Another contribution is that this study provides a practical demonstration of how new methods and models about MPR can be tested in new geographical and cultural settings. Specifically, I demonstrate that in MPR studies, the adoption of the 'company as a person' metaphor remains useful irrespective of geographical considerations. I arrive at this conclusion because the application of this approach minimises SDB to acceptable levels. I also demonstrate that ensuring anonymity in pay-off mechanism during MPR studies reduces irrelevant exogenous considerations. This provides a useful guide to the future application of participant observation to MPR studies.

Furthermore, the application of CFA (Confirmatory Factor Analysis) to analysing the causes of HPR as well as the effect of HPR on firm profit improves upon linear regression and introduces robustness into the findings reported. CFA can handle more complex data; such as data that is not normally distributed, incomplete data, collinearity problems and measurement error problems (Kline, 1998). Therefore, if a proposed model fits the data, based on CFA, then the proposed model acquires validity which can be enhanced after cross validation with other models (Barret, 2007; Bollen & Pearl, 2013).

The study, therefore, offers a significant contribution to academia. This study extends current research on HPR (Ndofor et al., 2015; Zhang et al., 2008) by building theory regarding the effects and causes of HPR from an organisationally relevant perspective. It also answers the numerous calls for replication studies of the HPR phenomenon. That way, academia can build on the findings of this study to make a valuable contribution to business. This is important because misreporting of MP is a qualitatively different and potentially more egregious form of opportunism compared to simple shirking or the manipulation of strategic actions because HPR is fundamental to robust and efficient equity markets (Ndofor et al., 2015).

Also, the synthesis of literature coupled with the findings of this study resulted in a holistic conceptual framework within which to position and critically assess the various normative arguments on HPR. For instance, by better understanding, from a holistic perspective, the causes and effects of HPR, as well as how HPR can be conceptualised, researchers and practitioners are better positioned to critique and expand on empirical findings in literature as well as advance a theory for predicting MPR behaviour (Lee & Nowell, 2015).

The evidence from this study also has important implications for practice as it (1) provides a starting point for stakeholders to predict the likelihood of misreporting MPR within an organisation of interest to them, (2) can facilitate benchmarking and comparison among different companies even though this must be done within a context and with caution, (3) can guide decision about how to improve HPR within an organisation from a stakeholder perspective.

This study also makes contributions to practice for managers and decision makers. Specifically, even though further studies are required, empirical findings from this study confirm the influence of HPR on FP directly and indirectly. Improved FP benefits all stakeholders (Lee & Nowell, 2015). Therefore, stakeholders in modelling FP must consider HPR as a relevant variable and make efforts to improve on situational, organisational and individual factors that affect HPR.

Additionally, empirical evidence from this study suggests that stakeholders must consider a strategy of delaying performance related bonuses (pay-offs) to improve HPR (Ndofor et al., 2015) and avoid capping performance related pay off with an arbitrary threshold. The setting of arbitrary thresholds reduces the established relationship between effort and reward and introduces gaming into the MPR process.

Educational institutions should also consider more specific courses on HPR for accounting students to deal with the numerous misconceptions about HPR. This suggestion emanates from the revelation of significant differences between students and employees in dealing with an ethical dilemma in the experimental constructs. This was reinforced by the perceptions among employees about the effect of HPR on organisations (See Fig. 4.12).

Petre & Rugg (2010) suggest that making a significant contribution implies adding to knowledge or contributing to the discourse through providing

evidence to substantiate a conclusion that's worth making. They provide seven categories for demonstrating contribution, and I provide a summary of the contribution of my work based on these categorisations (table 5.4).

**TABLE 5.4: Summary Of Contributions Of This Study Based On Petre & Rugg (2010)**

Main Category	Sub Category	The contribution of this study
Re-contextualisation of an existing technique, theory or model.	Applying a technique in a new context.	I Studied MPR & HPR with a mixed approach. Applied vignettes to the study of MPR. Even though Vignettes have been applied to ethical studies, no evidence was sighted by this researcher of its application to MPR studies. Developed real task based and organisational relevant experimental constructs for testing previously unexplored relationships.
	Testing theory in a new setting.	This study is the first known application of experiments to the study of MPR in Ghana among GC100 companies.
	Showing the applicability of a model to a new situation.	This study showed that models on HPR do not vary across cultures. The study demonstrated that the 'company as a metaphor' concept is useful across cultures in survey studies. The study borrows from social theory and applies multiple theories to explain behaviour. The propose linkages between the main theories are new and can be a useful guide to future studies.
Confirmation and expansion of an existing model	Evaluating the effects of a change in condition.	This study confirmed the inadequacy of CAT and proceeded to evaluate the application stakeholder and institutional theory to MPR behaviour with robust conclusions. This provides an alternative theoretical framework for studying MPR and has potential to improve the robustness of empirical studies. Considering that the proposed theoretical framework substantially explains the observed MPR phenomena it enhances our perception and understanding of this phenomenon from both a theoretical and practical perspective.
	Providing an experimental assessment of a specific aspect of a model.	This study tests the implication of delayed payoff and finds confirmation that delayed pay-offs improve HPR. This experimental construct is new and offers practical considerations

		for MNC and practitioners on how to improve organisational HPR.
Contradicting an existing model or a specific aspect of a model		The assumption of the subject to population homogeneity between students and employees, in MPR studies, is confirmed in this study to be flawed. Also, studies about individual lying behaviour cannot be extended to organisational context because it does not consider mitigating influences within organisations. CAT is not helpful and does not fully explain observed MPR phenomenon. Cultural considerations have minimal bearing on MPR. HPR predominantly driven by 'controllable factors' and hence stakeholders can improve HPR.
Combining two or more ideas and showing that the arrangement reveals something new and useful		This study combines multiple theories and establishes linkages between them to explain MPR and HPR within organisations.
Demonstrating a concept – proving that something is feasible and useful, or that something is infeasible and explaining why it fails		Provides three theoretical bases to explore the relationship between HPR and FP and confirm that HPR has a direct and indirect effect on FP.
Implementing a theoretical principle – showing how it can be applied in practice; making ideas tangible; how something works in practice; and what its limitations are		I adopt a multi-actor principal agent model and demonstrate its application.
Providing a new solution to a known problem and demonstrating the solution's efficacy		I confirm that HPR should be studied within an organisational context, using employees as respondents. I also confirm that HPR is a relevant variable in determining FP. Also, Institutional Theory and Stakeholder Theory provide a more robust explanation of MPR compared to CAT.

#### **5.4. THE LIMITATIONS OF THE STUDY**

Studies have limitations, and this study is no exception. There are limitations with conceptualisation, findings and methodology. Most of these potential limitations have already been discussed in detail in chapter three.

Conceptually, I operationalised the concepts of Honesty, FP, MPR and HPR based on Institutional and Stakeholder Theory. The inherent limitation of these theories is that it introduces the perspective of relativity rather than an absolute dichotomy. While I find this a critical and relevant distinction and hence with practical usefulness, other researchers may be of the view that it limits the ability to have a 'one size fits' all definition. Therefore, the limitation in my conceptualisation is that it may not apply to other studies underpinned by other theoretical frameworks. This can affect the desire for standardisation and comparability between empirical studies. The effect of this limitation is however restricted because, in any case, it is not meaningful to compare studies underpinned by different theories and hence methodologies especially when the findings differ (Callan & Thomas, 2009).

HPR indices computed from the survey responses are perceptual measures and based on information obtained from employees rather than managers (who are the subject of enquiry). In exploring the relationship between HPR and FP the perceptual measure of HPR was proxied with actual HPR (with empirical support as discussed in chapter three and four) to test the various regression equations. An alternative approach could have been the construction of HPR indices based on actual observations and analysis of the researcher. Also, the credibility of using employees to measure managerial action could have been enhanced using a control group of managers as respondents. This will have allowed for comparison. There are currently no rigorously developed theoretical basis on which to construct HPR indices from research observation and hence my approach, aside from being in line with empirical practices (discussed in detail in chapter three), avoids the necessity of making subjective and arbitrary value judgements (Owusu-Ansah, 1998) and hence minimises biases.

My findings regarding the factors that influence HPR and the influence of HPR on FP must be generalised within context. Firstly, it is based on cross sectional data. That is, the empirical data used in this study covered between one to three calendar years. The lack of longitudinal data reduced the ability to observe the phenomenon over several years. Data was collected at one point in time rather than longitudinally, and hence this research cannot account for time lag effects on behaviour. That is to say, in studying the relationship between HPR and FP, for instance, I assume a synchronous relationship even though it is possible that a certain period must elapse before the full effect of HPR can reflect in FP (Salama, 2005; Callan & Thomas, 2009). Also, the data sample may not be representative of all businesses in Ghana and may be relatively small (256 questionnaire respondents and 15 interviews). However, the 65 sampled firms resulting in 265 responses were larger compared with the samples of similar prior studies in Africa (e.g., Firer & Meth, 1986; Ho & Williams, 2003; Mangena & Chamisa, 2008) and even some European studies (such as Yang, 2009). The 65 sampled firms represented all the qualifying firms that met the criteria within

the GC100 population. Admittedly, however, more questionnaires (than the current average of four questionnaires per an organisation) could have been administered per organisation. However, the context of Ghana and the objectives of this study make data collection difficult. Also, much manual work is required to collect and analyse the data. As a result, practical limitations of time, effort and finance meant that the sample had to be reduced to a number that is statistically large enough to make a significant contribution, while at the same time ensuring that the study is completed within the scheduled time-frame of a PhD.

Even though the targeted population for the study was GC100 companies, some firms were excluded because they did not meet a pre determined criteria. The main reason for the exclusion was when firms were owner-managed or had significant government managerial control. The determination of owner managed was based on guidance from GIPC rather than direct contact with the organisations. This approach was adopted because of the general difficulty in unveiling real ownership of firms in Ghana. GIPC had previously commissioned an exercise in that regard, and hence the researcher relied on their guidance as well as his knowledge of the Ghanaian business environment. This could introduce omission or inclusion bias and affect the ability to generalise findings to all GC100 companies. Rather than exclude firms, it could have been possible to attach weights based on the extent of compliance with the set criteria or even create an un-weighted mixed of the entire population of GC100 companies. Attaching weights could have introduced subjectivity and further complicated the findings and hence was avoided. Also, to the limitation, the organisations that formed the subject of this study are members of GC100 (relatively larger companies), and this introduces a bias into the ability to generalise the findings of this study to other companies. However, the diverse spread of industries within the sample mitigates this risk.

There may be validity and reliability problems with the Halo Index. The halo index constructed was un-weighted and based on a binary rather than an ordinal coding scheme. Binary coding can be less informative (Barako et al., 2006; Hassan & Marston, 2008). Un-weighted indices treat all variables as of equal importance, a view which is inconsistent with both theory and practice (Barako et al., 2006). My approach is because of the lack of rigorously developed theoretical basis on which weights could be accurately assigned to the various variables in a Halo index and hence the use of un-weighted index avoids the necessity of making subjective and arbitrary value judgements (Owusu-Ansah, 1998) and hence minimises biases. In any case, there is evidence that weighted and un-weighted indices tend to give the same results, especially where the number of variables is relatively large (e.g., Robbins & Austin, 1986; Chow & Wong-Boren, 1987; Beattie et al., 2004). Moreover, the use of an un-weighted index made it easier for direct comparisons with other studies. Another limitation is that the Halo Index was not coded by a different person to ascertain inter-coder consistency. This risk is however mitigated by the experience of the researcher from similar coding practices.

Methodologically, as explained in Chapter Four and the appendix (Table 11.1), discriminant validity issues (albeit very marginal) initially existed in the data for

MCS and ENV (particularly MCS). Using modification indices, this was corrected by covariance between selected error terms that improved the AVE. However, more measurement work is needed on the discriminant validity issues for MCS and ENV. As a first test model, however, the results of this study remain valid especially as the discriminant validity issue was solved (Ping, 2009).

ROA and ROCE information were mainly collected from annual reports received from the organisations (even though there was a minimal attempt to cross validate). It could have been cross-checked with other sources, such as questionnaire survey and face-to-face interviews, returns submitted to the Registrar Generals Department, GIPC, etc. Considering the legal and regulatory obligations to prepare and submit financial reports my opinion was that the mandatory nature of annual reports make them regular and reliable and is consistent with other empirical approaches (e.g., Lang & Lundholm, 1993; Botosan, 1997). Evidence also suggests that organisations hardly contradict their annual report (Lang & Lundholm, 1993, Botosan, 1997). Further, and for practical reasons, considering that there was the need for ROA and ROCE to comply with IFRS, only company annual reports were consistently available with appropriate information to allow for the computation.

The study may also suffer from potential omitted variables bias. In the case of the FP proxies, they may fail to capture informal personal interactions among directors, management, and employees that may potentially impact on a firm's FP (Ntim, 2009). About the HPR variables, they may not be able to capture the true intentions for which managers instituted them. For example, even though managers may know that MCS may be practically ineffective in monitoring their actions, they may still implement them just to signal their intentions of protecting company assets.

However, the limitations discussed above do not negate the result and findings of the study but only suggest that any generalisation must be done with caution. The research findings must, therefore, be interpreted in light of the above limitations. Also, these limitations potentially represent avenues for future research. Therefore, the next section points out potential avenues for future research and improvements.

## 5.5. AREAS FOR FUTURE RESEARCH STUDY

There are various opportunities emanating from this work and existing literature for further studies. The ones discussed herein are based on the identified limitations of this study.

First, to improve the dearth of MPR studies in Africa, replication studies in other African countries will enhance our current understanding of the drivers of MPR behaviour and HPR among organisations. The basis of this suggestion emanates from the fact that HPR influences employee satisfaction and perception. Considering that job satisfaction and perception can be affected by cultural values (Kuada, 1990), then, perhaps cultural difference can result in differences in the interaction between HPR and FP. Such studies can extend this study by exploring if and how MPR practices are different between private and public organisations, or between listed and non listed organisations or also between large, small and medium sized organisations. Even though this study confirmed that industry type, and organisational size did not affect MPR and HPR practices, this conclusion needs to be confirmed in other studies applying varied geographical considerations. Such replication studies can also explore the feasibility of other theoretical frameworks in explaining MPR and HPR. Particularly the appropriateness of other social theories such as Symbolic Interaction Theory, Conflict Theory, Functionalism Theory, Labelling Theory and Rational Choice Theory can be explored. Considering that these theories explain social action, reaction and social order they may perhaps offer an alternative perspective for MPR and HPR behaviour. Cognitive Dissonance Theory and Justice Theory can also be used to explore MPR and HPR practices.

Second, the study has mainly examined the influence of HPR on FP. Future studies can investigate how purposefully misreported MPR affects FP. In doing this such studies can begin by enhancing the distinction between HPR and misreported MPR through clear conceptualisation. Even the relationship between HPR and FP can be explored further by a focus on how the specific interaction between PERF and INOVATE affect FP. This will have practical relevance to managers and stakeholders in decisions about the optimal level of PERF that delivers HPR without negatively affecting INOVATE. Assuming a mathematical or statistical approach is applied in this analysis, then the conceptualisation and formulation of the Halo Index can be based on a weighted ordinal method. Also, extensive effort should be made to avoid discriminant validity issues so that there will be no need to mitigate its effect on the actual results of the study. Similarly, the conceptualisation of FP can be extended to include other proxies and variables. I am particularly curious about extending FP conceptualisation, based on a stakeholder methodology, to consider FP based on contribution to employment and national taxes. It will be of interest to know if the robustness of the influence of HPR on FP is maintained if such a conceptualisation of FP is adopted. A fuller appreciation of the interaction of HPR on a broader set of financial indices will be of immense interest.

This study analysed the nature of managerial incentive structure on HPR. It focused on the processes, perceptions and mechanisms rather than the absolute amount of managerial pay. It also did not explore directors pay. Considering the wide spread discussions about gender pay equality, as well as implicit deduction of the influence of directors pay on the global financial crisis, future research can also analyse if gender pay differences influence HPR and the relationship between the director (i.e., CEO, executive, and non-executive) pay and FP. In doing this, a distinction can be made between multiple (i.e. 'busy directors') and 'non-busy directors'. Related to this, future research can explore the relationship between MPR, HPR on the structure and cost of capital or risk. This is because if HPR positively influences FP, then a sound theoretical preposition is that HPR will result in lower cost of equity capital or risk. In the same light, future studies can explore the relationship between HPR and share price for listed companies.

Regarding improvement to the current study, future research can re-examine the factors that affect HPR as well as the influence of HPR on FP by expanding the sample size and considering a longer period applying a longitudinal approach and perhaps a participant observation methodology. If a longitudinal approach is used, then such a study can estimate both balanced and unbalanced panels to avoid survivorship bias. Such a study can also identify cleaner specifications of the firm to ascertain whether the current findings are sensitive or robust to different sample specifications.

Future research can also improve the construction of the Halo or HPR index to enhance validity and reliability. This can be done by examining the sensitivity or robustness of the results to weighted and un-weighted indices and to re-examine the implications of binary and ordinal coding schemes on the study results. The reliability of the index can be improved if future research uses more than one coder so that inter-coder consistency can be measured. Future studies can also explore alternative sources of data collection, especially about FP and HPR. Even if data about MPR and HPR are collected from employees rather than managers, a control group of manager responses can provide useful insight and/or collaborative evidence. Related to this, future studies can explore the application of an alternative method that allows for primary data collection about HPR by the researcher and proceed to propose and test a method for coding or analysing such data to construct an HPR index. That way, the HPR construct will not be perceptual, and hence there will be no need to proxy actual HPR with perceptual HPR. The literature on corporate governance has gone through a similar evolution to great and consistent effect.

Definitions of variables could be improved and made more precise. The construction of ENV can be measured by a broader base of variables than turbulence and complexity, IND can be defined to include variables beyond cognitive orientation, and even if the cognitive orientation is adopted, the variables can be broader than collectivism and individualism. IND, for instance, could consider cultural orientation. It could also consider self-control problems using the 'planner-doer model'. The definition of managers could be broad base and extend to non-executive members of the board, and where non-executive members are considered, a distinction can be made between independent and

non-independent members. This enhances the stakeholder perspective and avoids the inherent assumption that the board is representative of stakeholders rather than shareholders. If this approach is adopted, then in substance the board has responsibilities to stakeholders for the MPR process rather than a simplified assumption that the board represents stakeholders to ensure a credible MPR process from managers. The logistic regression of HPR on FP can also be enhanced beyond the binary classification to include partial HPR or by applying an alternative HPR of high, low or medium HPR.

The research design can consider alternatives such as event study methodology, participant observation, or even grounded approach. Event study methodology can isolate key events and explore their implication on MPR and HPR. Participant observation will provide insights into how MPR takes place and evolves within organisations and highlight how the various influences on HPR interplay in real scenarios. Understanding the evolution process for MPR is key to successful remedial action and other interventions. Admittedly behavioural change cannot be sudden, and this encompasses reaction to system changes. Therefore, understanding the evolution of MPR will help to anticipate the human reaction to changes and interventions.

Even though a qualitative approach was adopted for some aspects of this study, this can be deepened in future studies. Particularly a qualitative approach can be used to explore wider variables about HPR and MPR among external stakeholders. In line with the surge in behavioural economics studies, with the current trend to integrate economics with psychological analysis (Thaler, 2017), it will be helpful to be able to concisely examine and predict the decision-making processes of external stakeholders to key variations in MPR. Specifically, a qualitative approach can be used to explore how Mental Accounting (Thaler, 2017) applies to MPR vis-à-vis stakeholders. An alternative experimental approach that adopts Thaler's dictator games can be used to measure respondent's attitude to fairness vis-à-vis the MPR process. The effects of managerial 'nudging' on HPR can also be explored through case studies or other qualitative methods. This may help enhance current understanding of how MPR evolves especially in a developing country setting. Studies about how MPR processes evolve will be very insightful and of peculiar interest, because it enhances our appreciation of the likely impact of changes to 'controllable factors' along with a time range.

Also, in applying the survey method about different scenarios for misreporting, a difference was found between the questionnaire responses and interview responses. 47% questionnaire responses suggested misreporting MP within the organisation in Ghana whereas 51% interviewees suggested misreporting of MP. Further research is required to understand if the choice of methodology affects findings. This is on a quest to ensure that methodological limitations do not affect the validity of findings.

## 5.6. CONCLUSION

This study explores the concepts of honesty (H) in MPR of managers in their practice environment located in Ghana top companies. It seeks to explore, discover and review our understanding of these phenomena and then develop the concept of Honest Managerial Performance Reporting (HPR).

In this exploration, the study assesses the managerial preference (i.e. voluntary propensity) for honesty in Managerial Performance Reporting (MPR), establishing the view that managers are mostly partially honest and therefore stakeholders may have some concerns. As a result, this has implications for their advocacy of HPR in an organisational context. The identification of relevant factors that influence HPR is clearly paramount in our understanding and how to improve the level of HPR. The promotion of Honest Managerial Performance Reporting (HPR) is not just an idealised quest but has an impact on Firm Performance (FP). Finally, the main features of managerial behaviour in the top Ghanaian companies are considered in relation to HPR.

The answer to the primary research question is that stakeholders must be concerned about HPR because it has implications on FP, employee satisfaction, employee perception and hence employee action. Also, multiple factors affect HPR. These include MCS, INC, IND, POLITICS, ENV, INNOVATE and PERF. However, the manner of interaction of these variables is such that 'controllable factors' have relatively more bearing on HPR.

The study adopts a suitable and innovative theoretical framework in this endeavour. Initially, it considers Agency Theory (Jensen & Meckling, 1976), which now has matured into classic status. Hence Classic Agency Theory (CAT) is utilised to explore MPR practices. It then utilises the multi-factor stakeholder model (Freeman, 1984, Yang, 2009) to explore the factors that influence Honest Managerial Performance Reporting (HPR) providing a more informed outcome of the relevant factors which are at work. The nature of the relationship between Honest Managerial Performance Reporting (HPR) and FP is explored using appropriate statistical and methodology approaches to develop our understanding further. This provides metrics and measures to calibrate and quantify resulting associations. The use of mini case studies (in the form of vignettes) give insights into organisational and managerial practice about MPR.

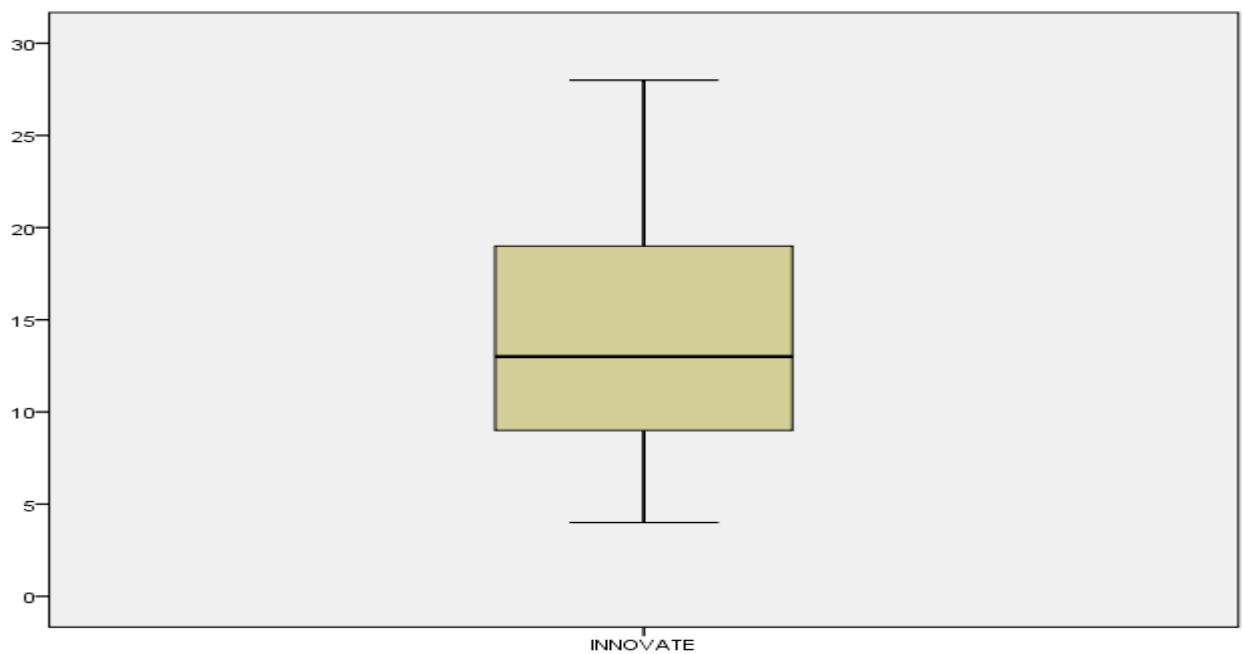
The outcomes of the study are profound, in that they provide an understanding of key concepts of honesty (H), Managerial Performance Reporting (MPR and Honest Managerial Performance Reporting (HPR) and how this relates to Firm Performance (FP). It informs practice of the factors, relationships and features at work in Managerial Performance Reporting (MPR), the level of honesty (H) of managers and how stakeholders need to be vigilant in monitoring such behaviour. This study is offered as a thesis that develops our understanding, contributes to our knowledge and has a very real value and potential impact on both the academic and practitioner communities.

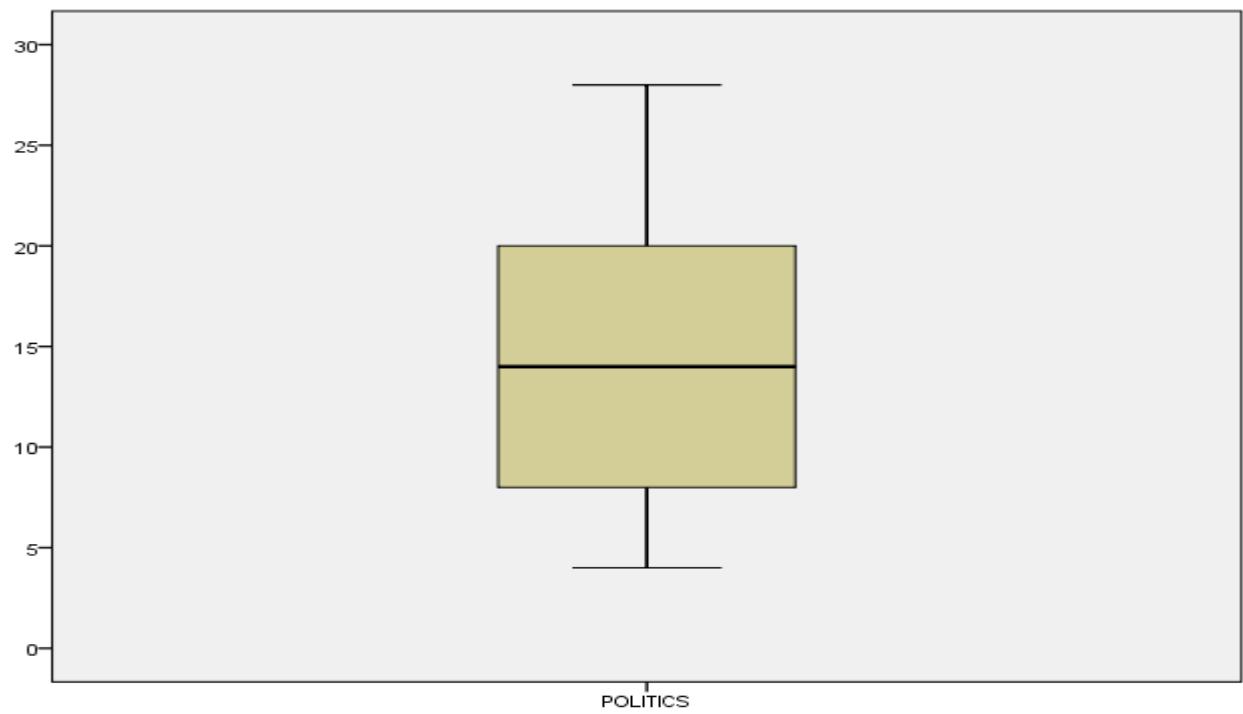
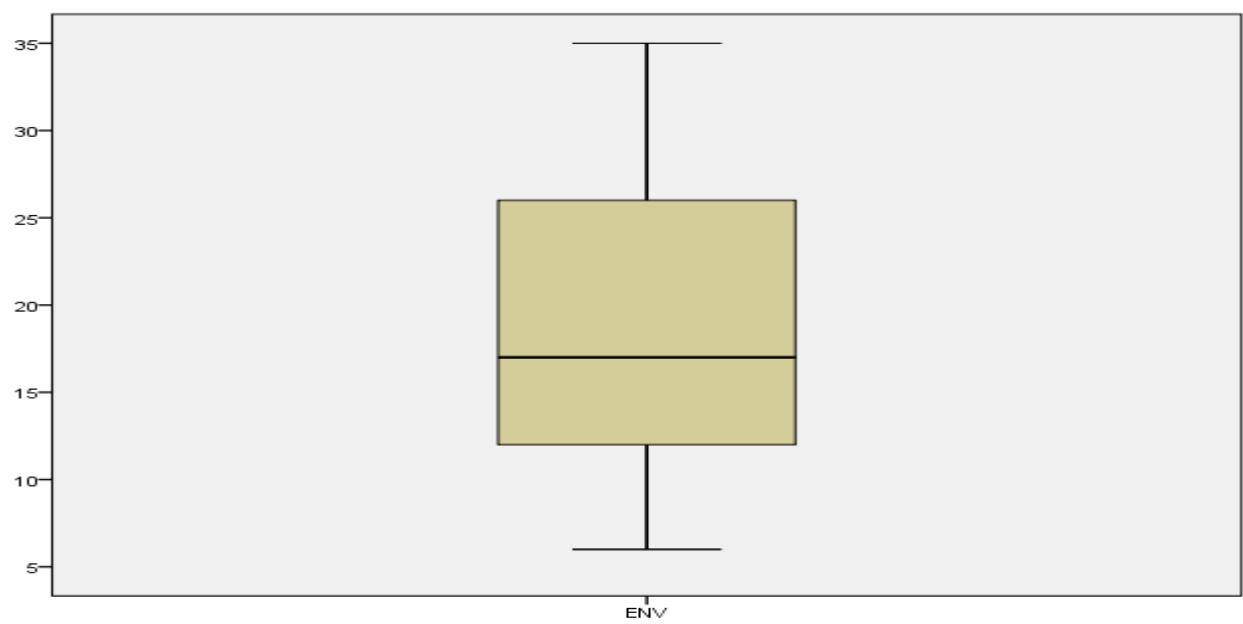


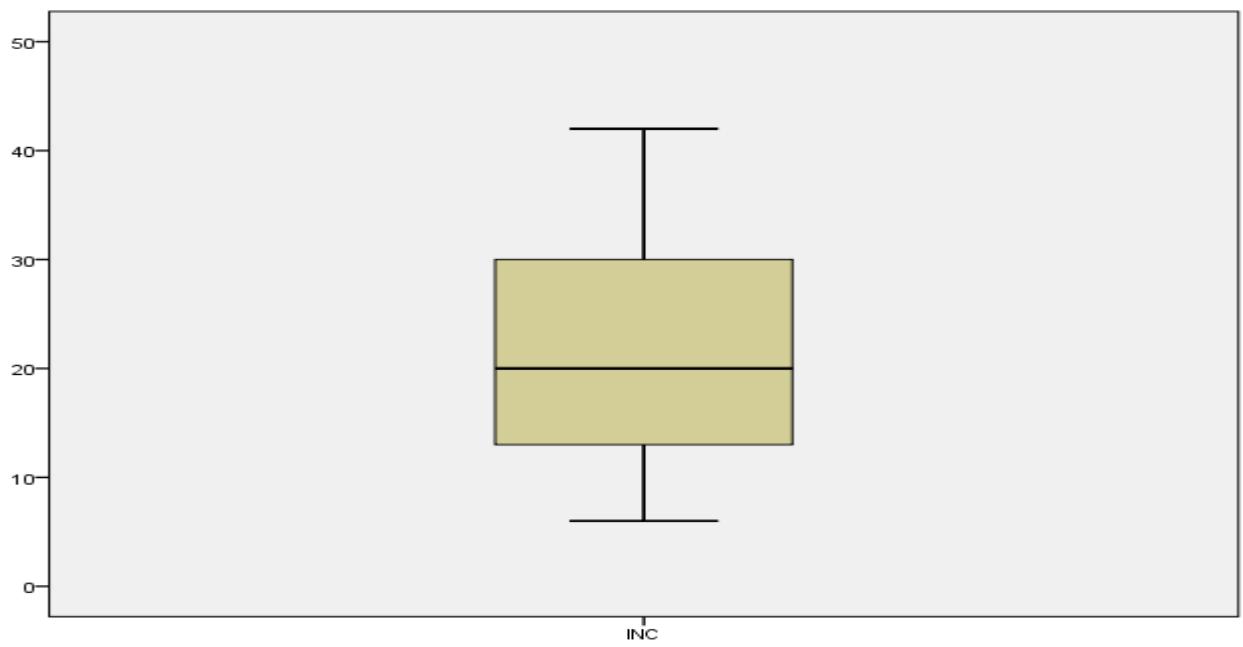
## APPENDIX

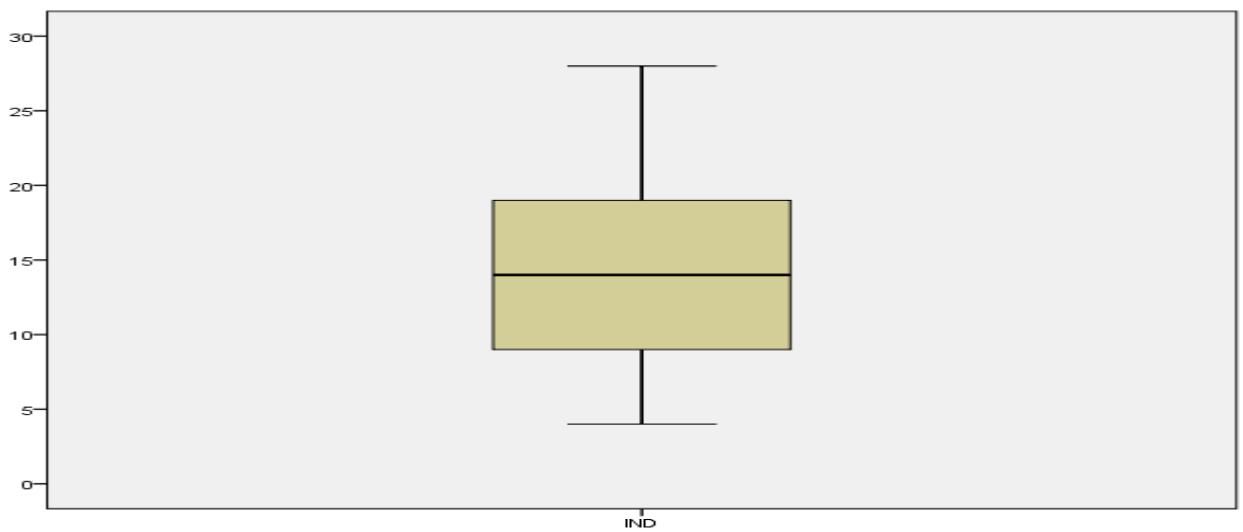
**FIG 10.1**

**Additional Box Plots To Test For Outliers**

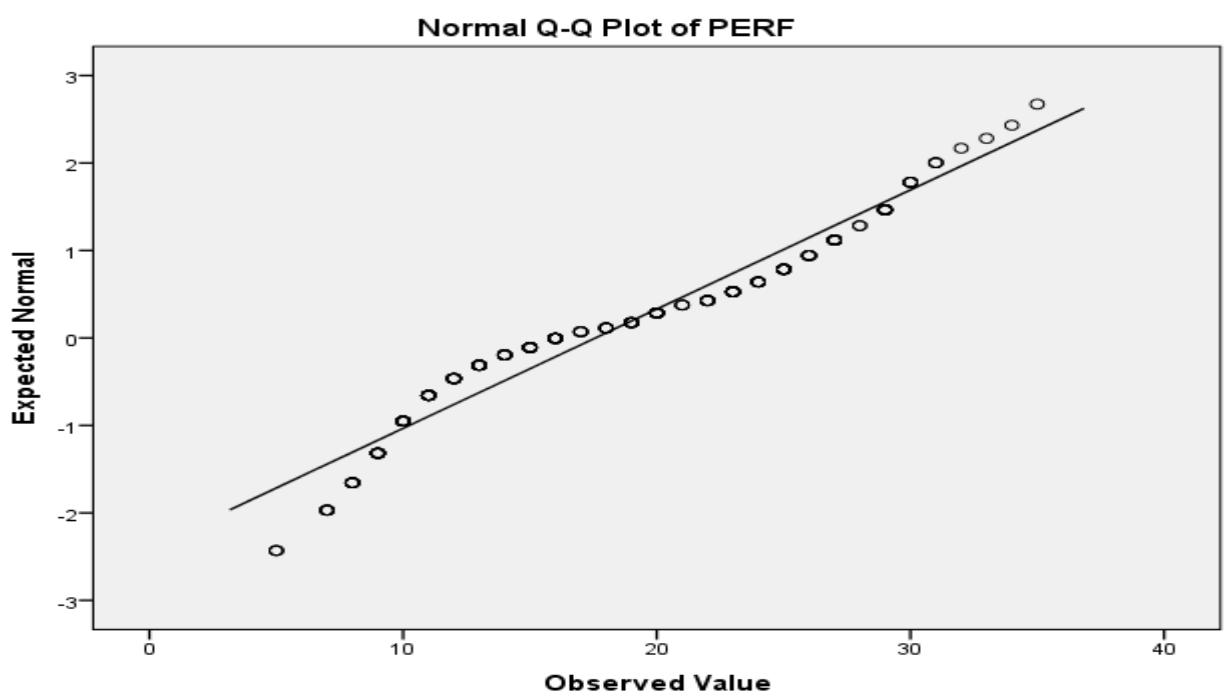
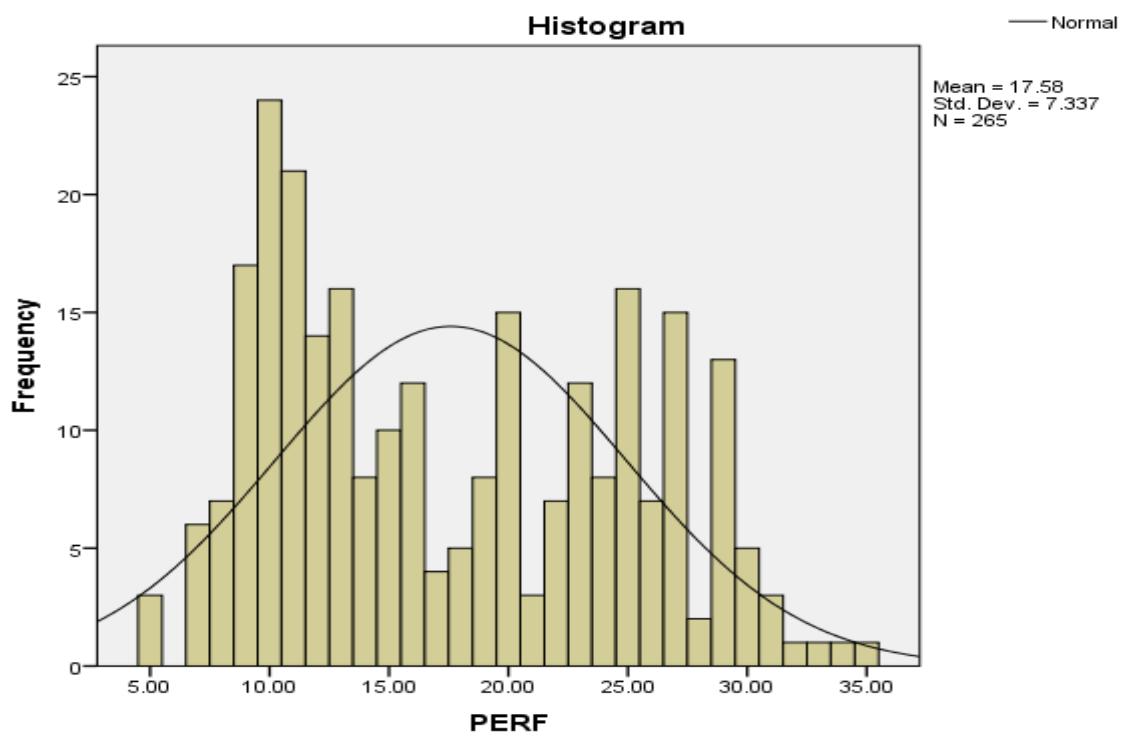


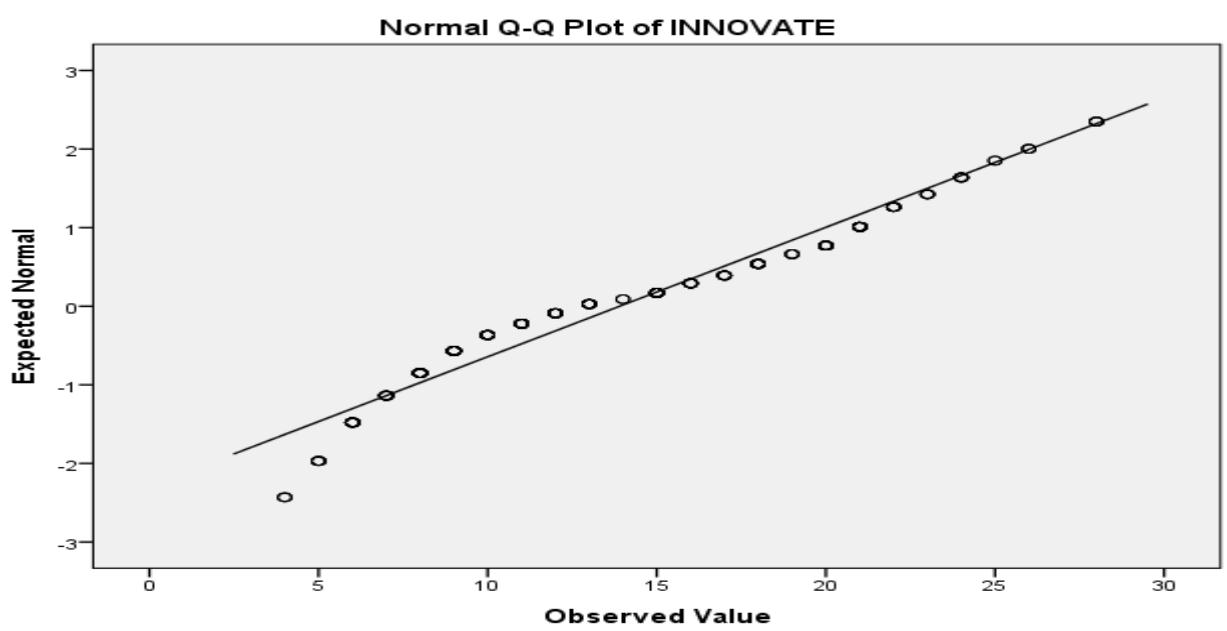
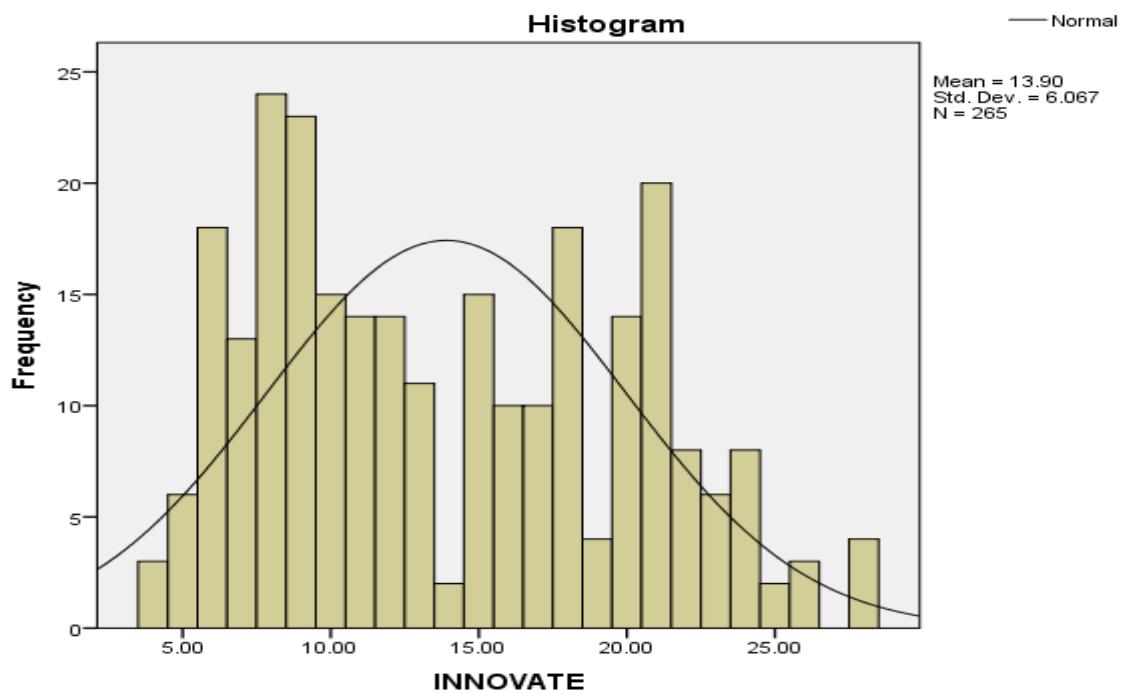


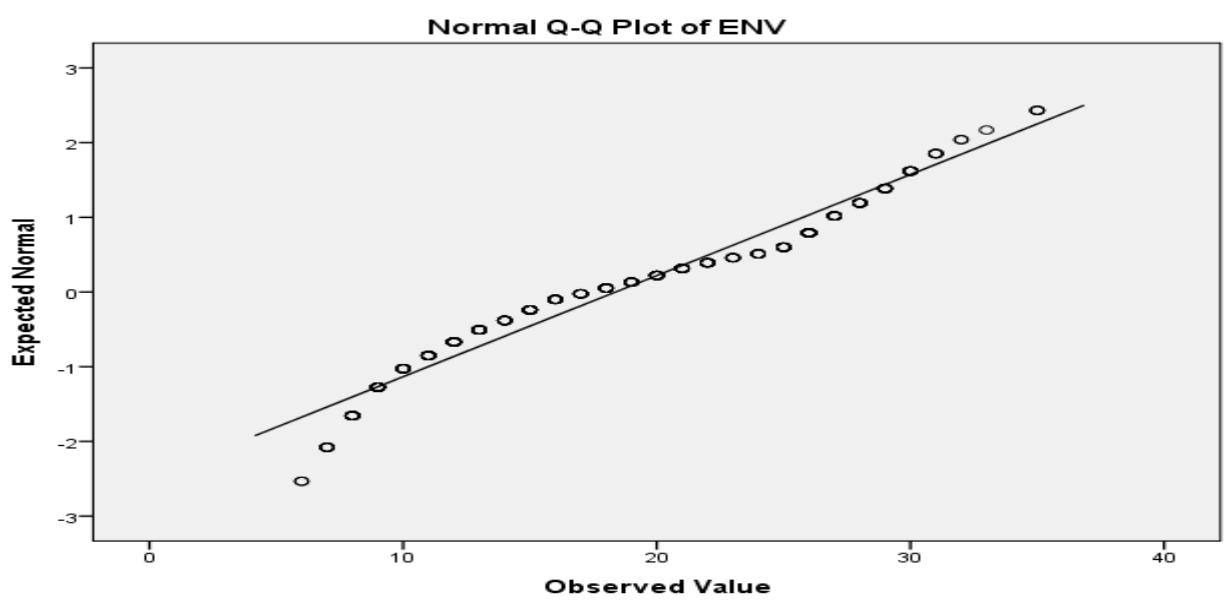
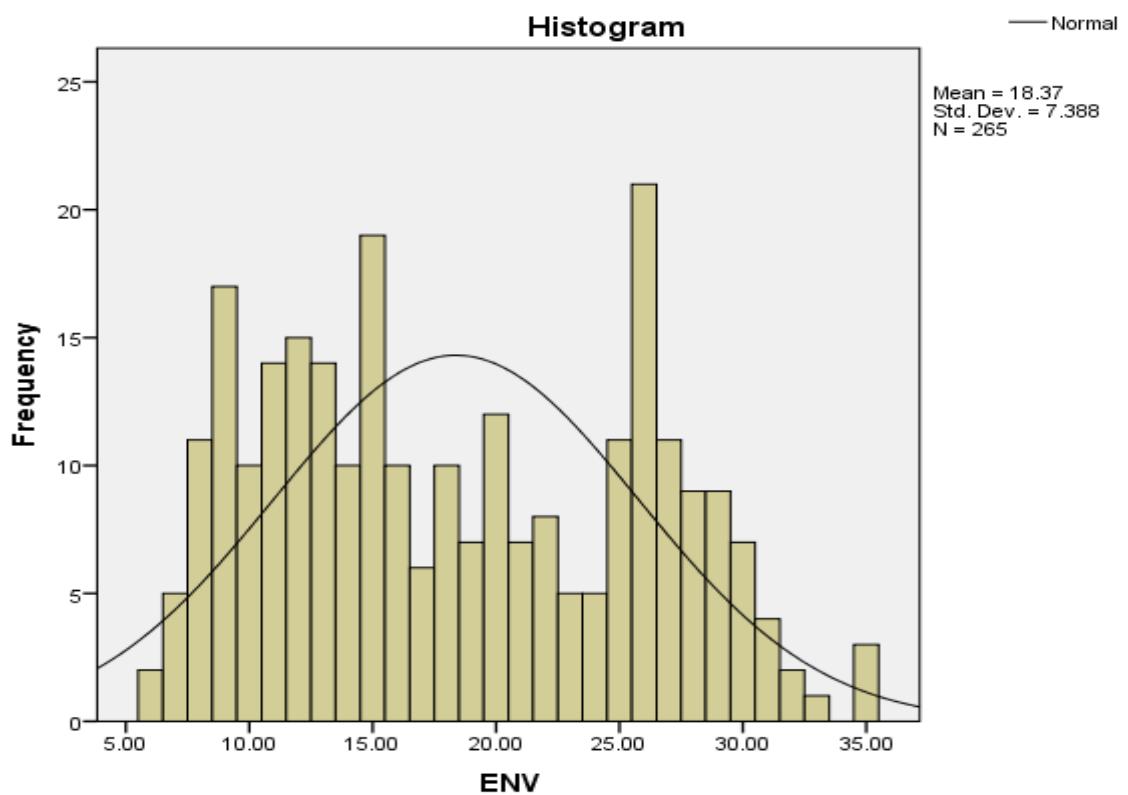


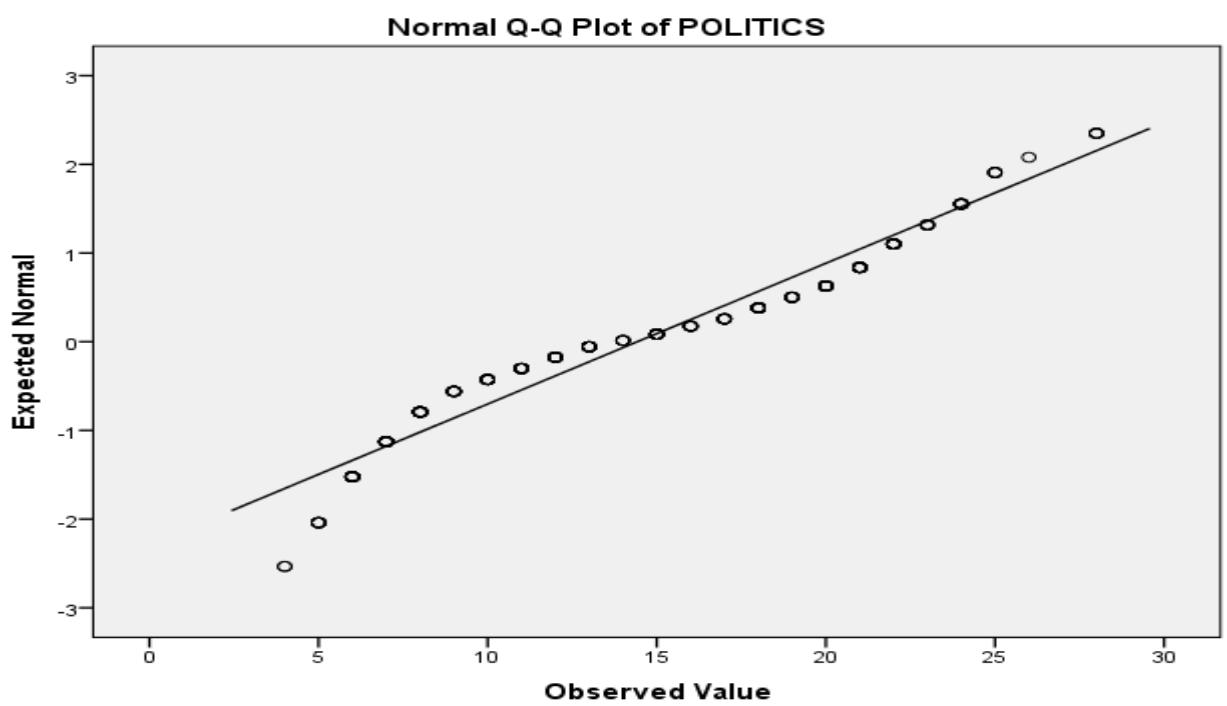
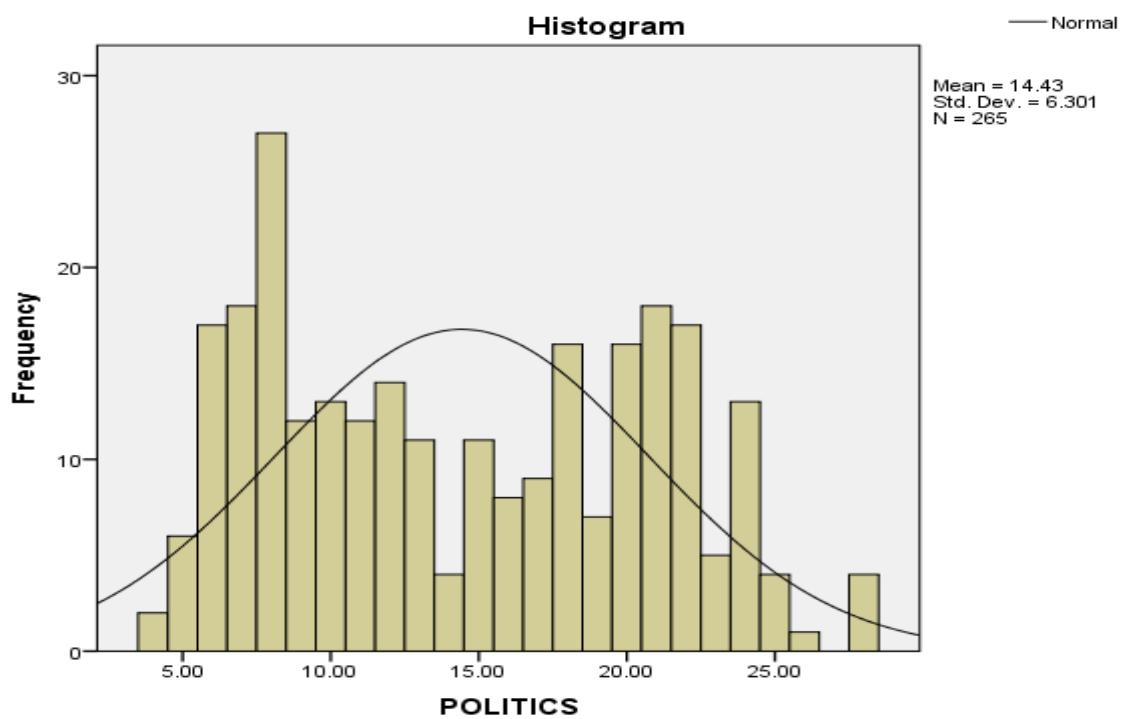


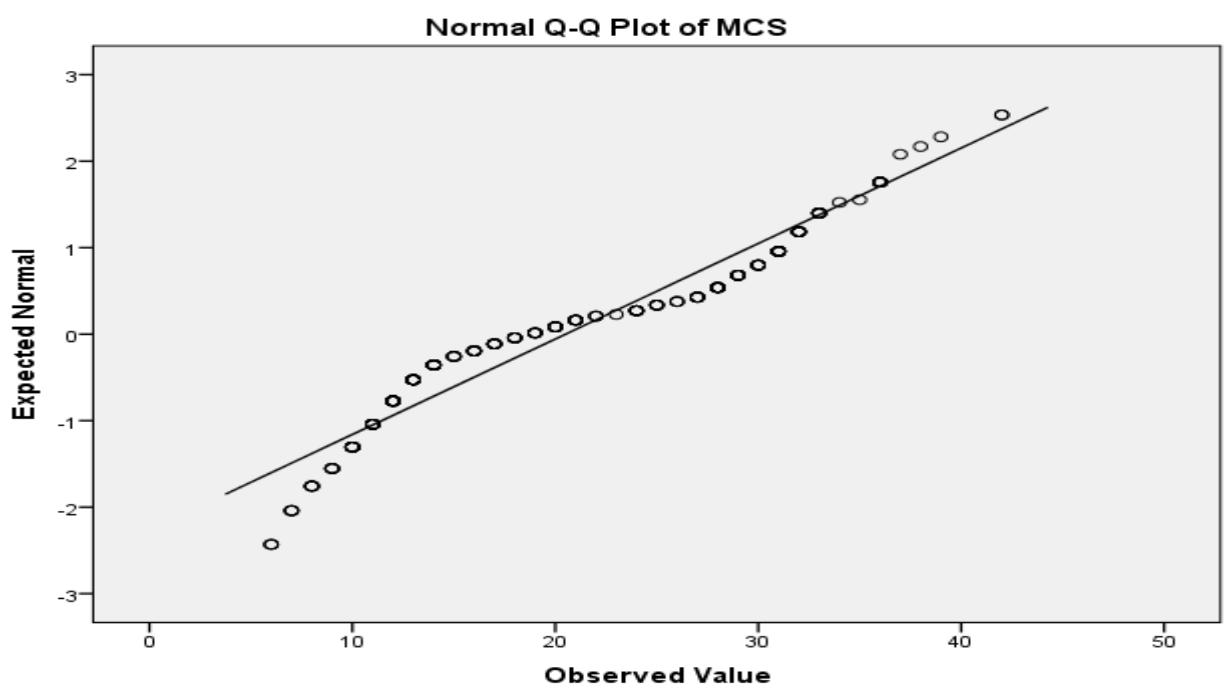
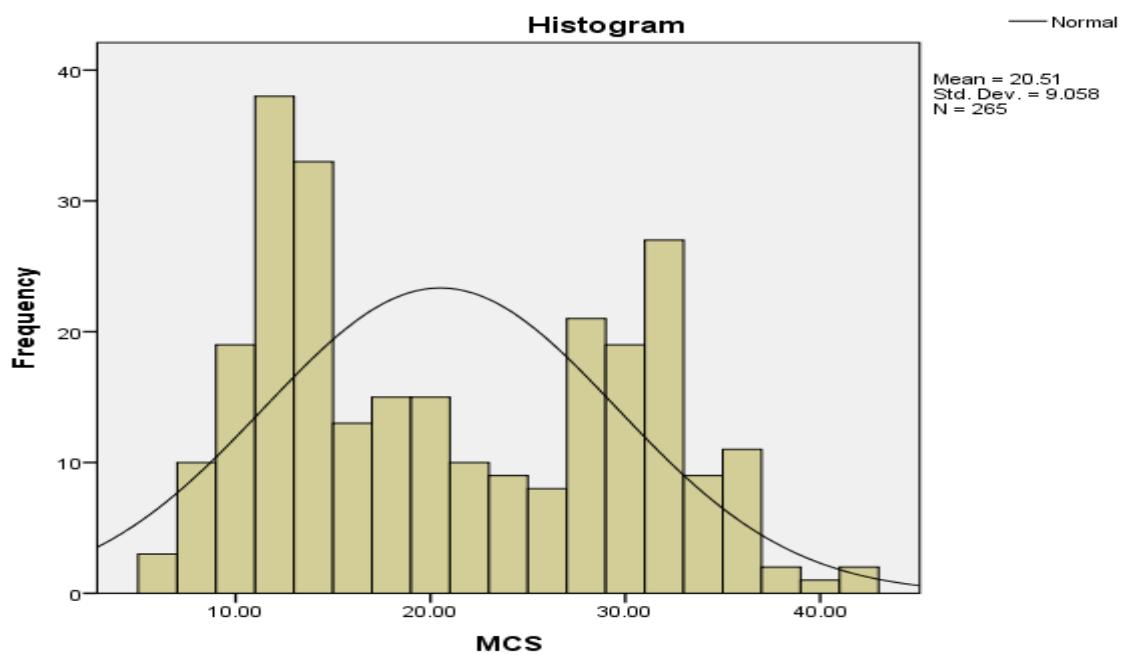
**FIG. 10.2 Additional Normality Tests With Histograms And Q-Q Plots**

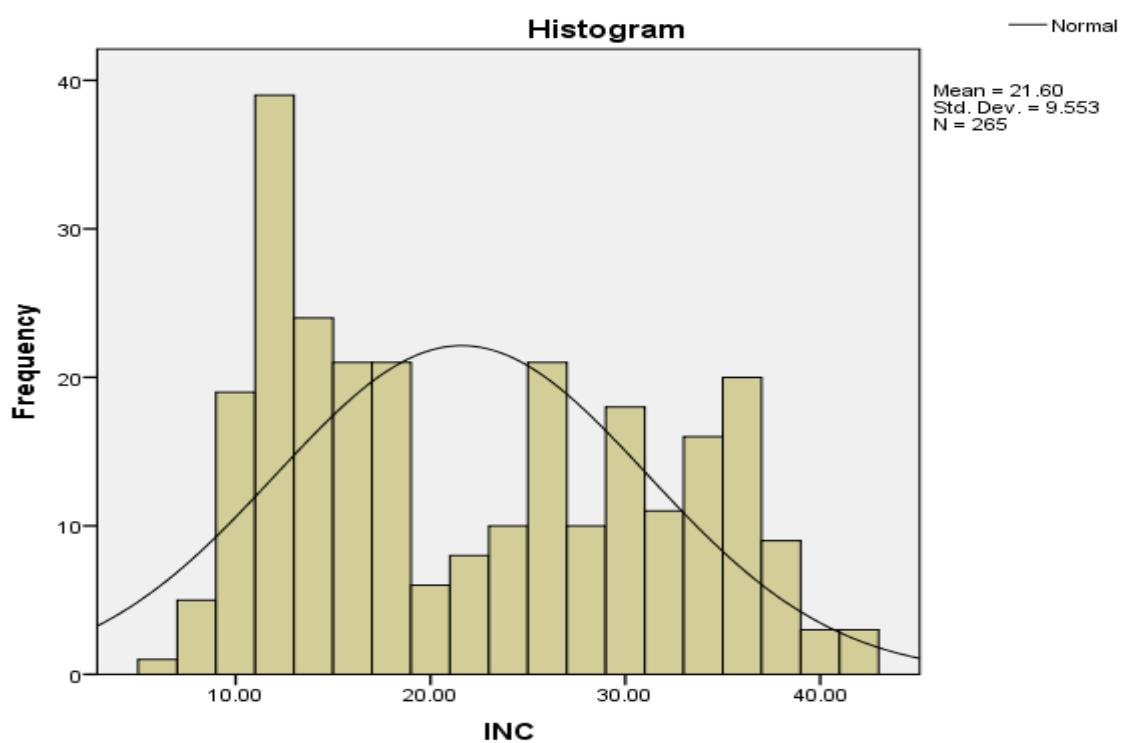


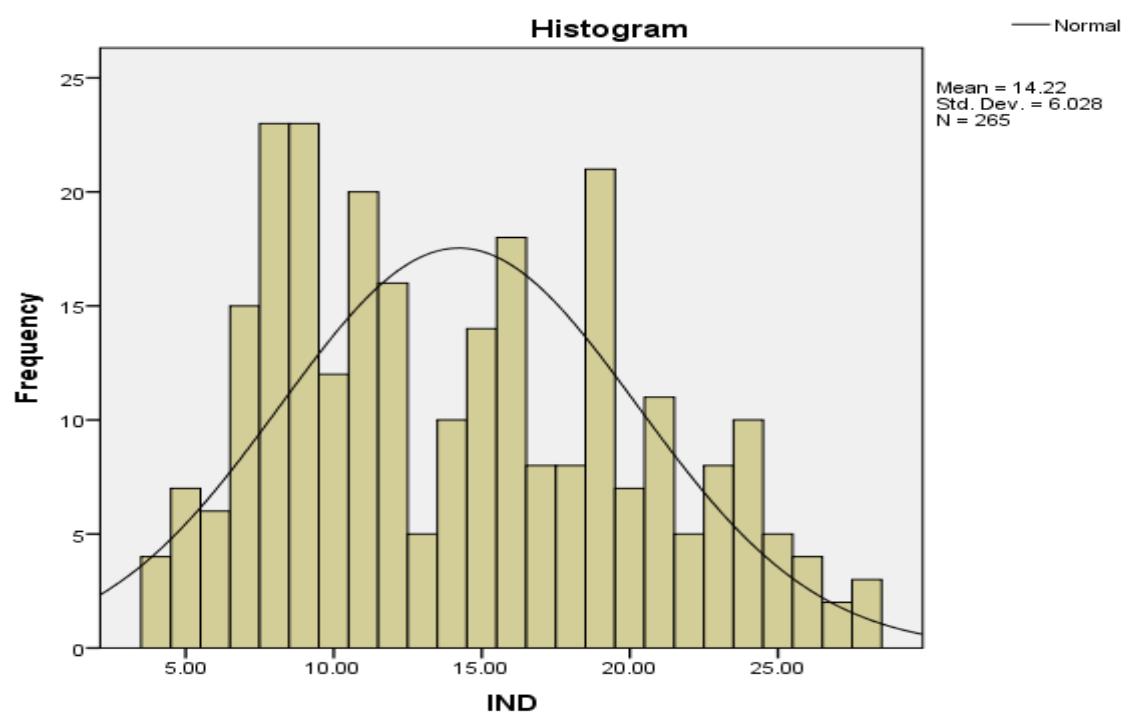
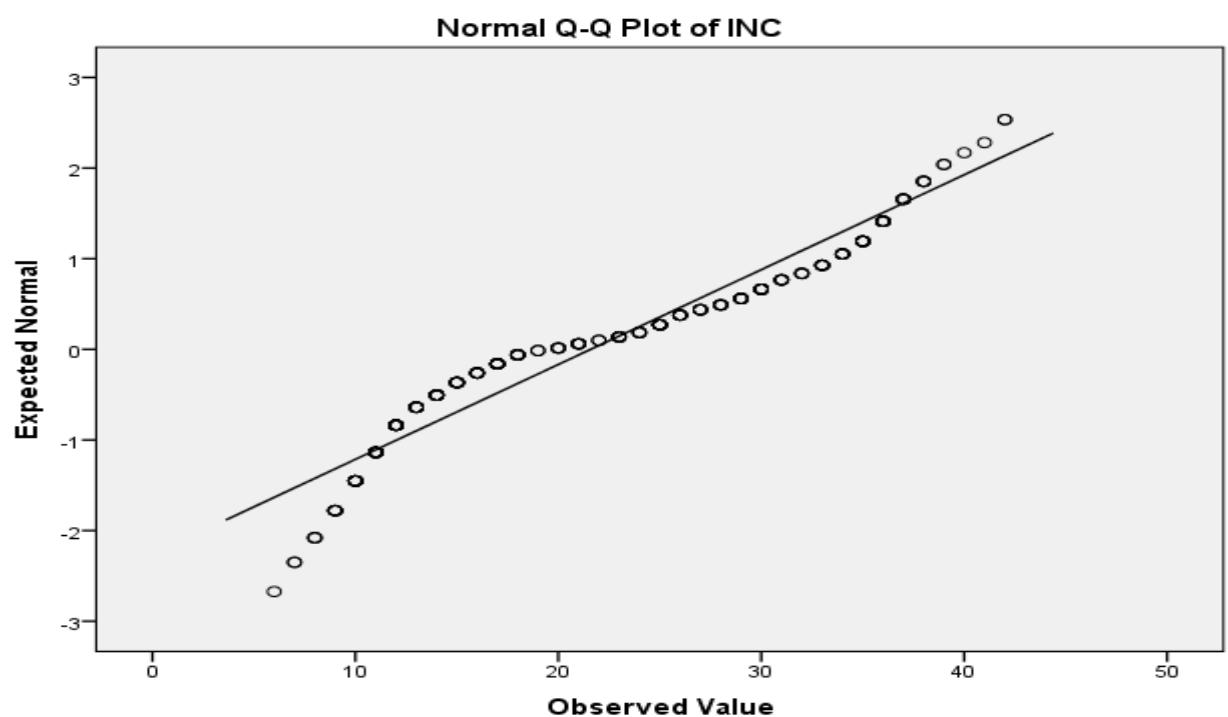


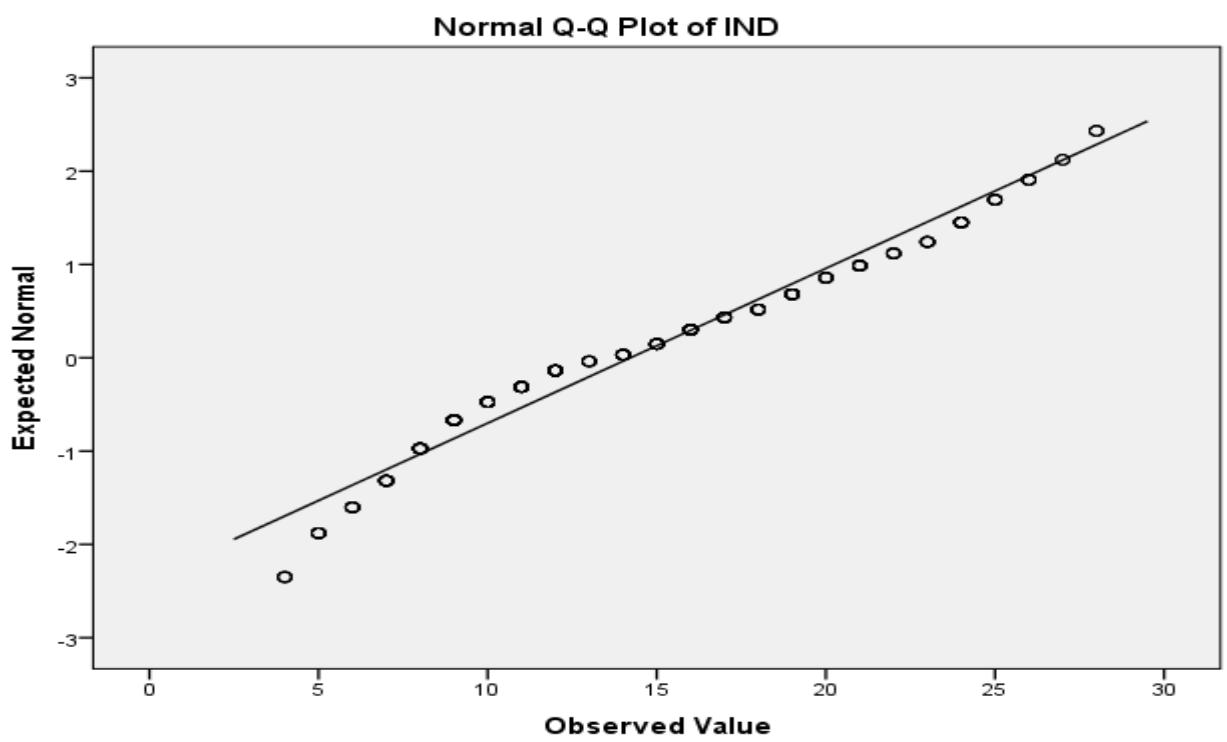




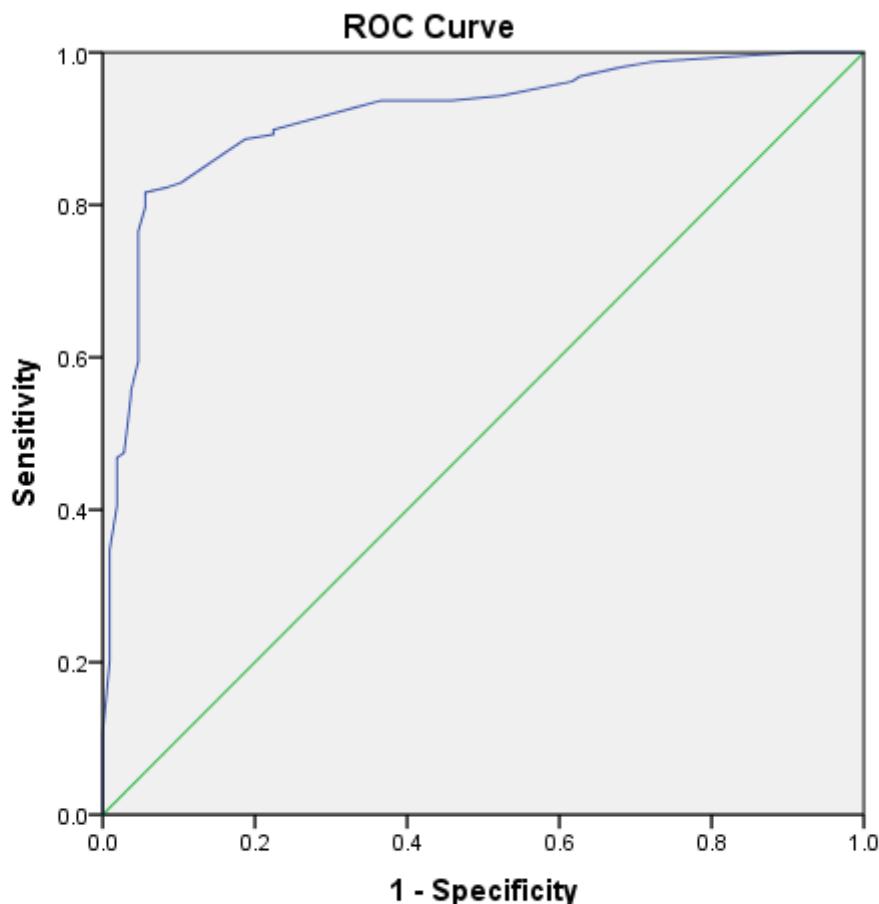








**FIG 10.3: ROC For INDUSTRY**



Diagonal segments are produced by ties.

### Area Under the Curve

Test Result Variable(s): Predicted probability

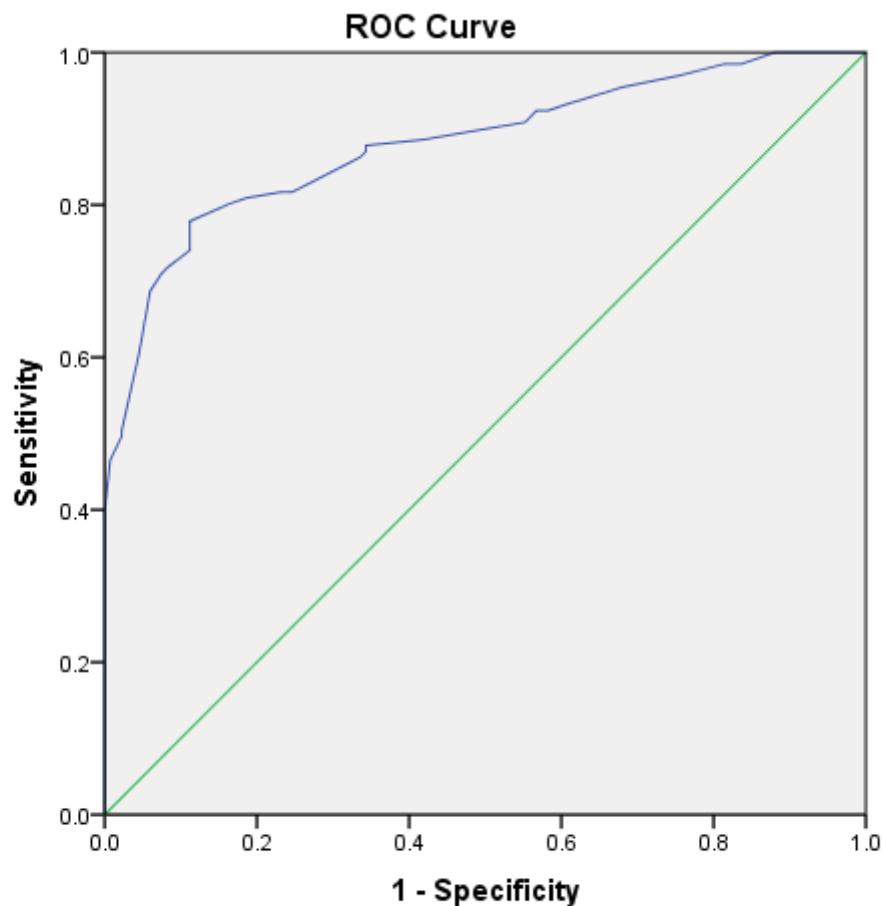
Area	Std. Error <sup>a</sup>	Asymptotic Sig. <sup>b</sup>	Asymptotic 95% Confidence Interval	
			Lower Bound	Upper Bound
.917	.018	.000	.882	.952

The test result variable(s): Predicted probability has at least one tie between the positive actual state group and the negative actual state group.

a. Under the nonparametric assumption

b. Null hypothesis: true area = 0.5

**FIG 10.4: ROC For TARGET**



Diagonal segments are produced by ties.

#### Area Under the Curve

Test Result Variable(s): Predicted probability

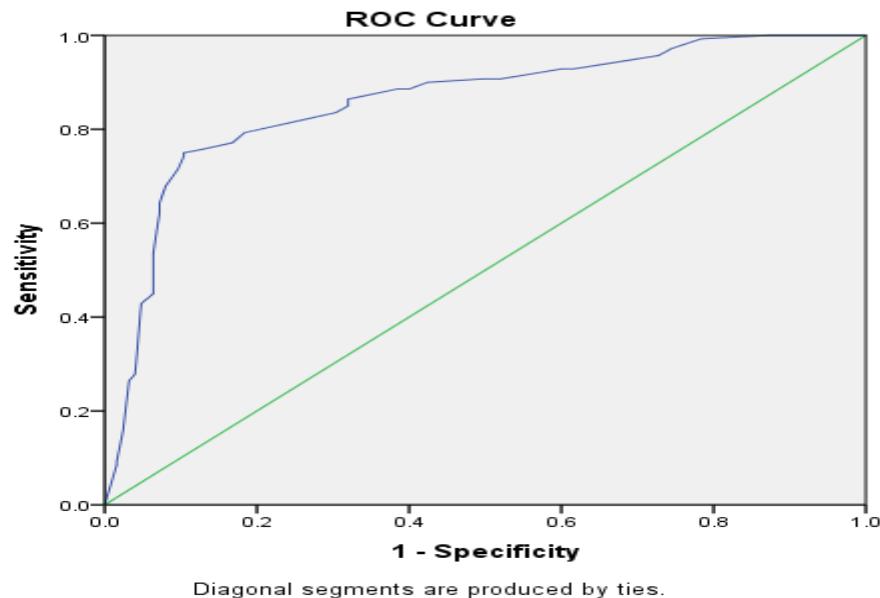
Area	Std. Error <sup>a</sup>	Asymptotic Sig. <sup>b</sup>	Asymptotic 95% Confidence Interval	
			Lower Bound	Upper Bound
.880	.021	.000	.839	.922

The test result variable(s): Predicted probability has at least one tie between the positive actual state group and the negative actual state group.

a. Under the nonparametric assumption

b. Null hypothesis: true area = 0.5

**FIG 10.5: ROC For L3Y**



### Area Under the Curve

Test Result Variable(s): Predicted probability

Area	Std. Error <sup>a</sup>	Asymptotic Sig. <sup>b</sup>	Asymptotic 95% Confidence Interval	
			Lower Bound	Upper Bound
.857	.024	.000	.811	.904

The test result variable(s): Predicted probability has at least one tie between the positive actual state group and the negative actual state group.

a. Under the nonparametric assumption

b. Null hypothesis: true area = 0.5

Hair et al., (2010) argue that a Composite Reliability (CR) greater than 0.7 for all endogenous variables demonstrates reliability while an average variance extracted (AVE) greater than 0.5 demonstrates convergent reliability. Two methods are usually used in the literature to check for discriminant validity. A maximum shared variance (MSV)  $<$  AVE and squared root of AVE  $>$  inter construct correlations. Table 10.1 provides the initial results of a validity test of the model as presented below (Fig 10.6).

**Table 10.1: Validity Tests of SEM**

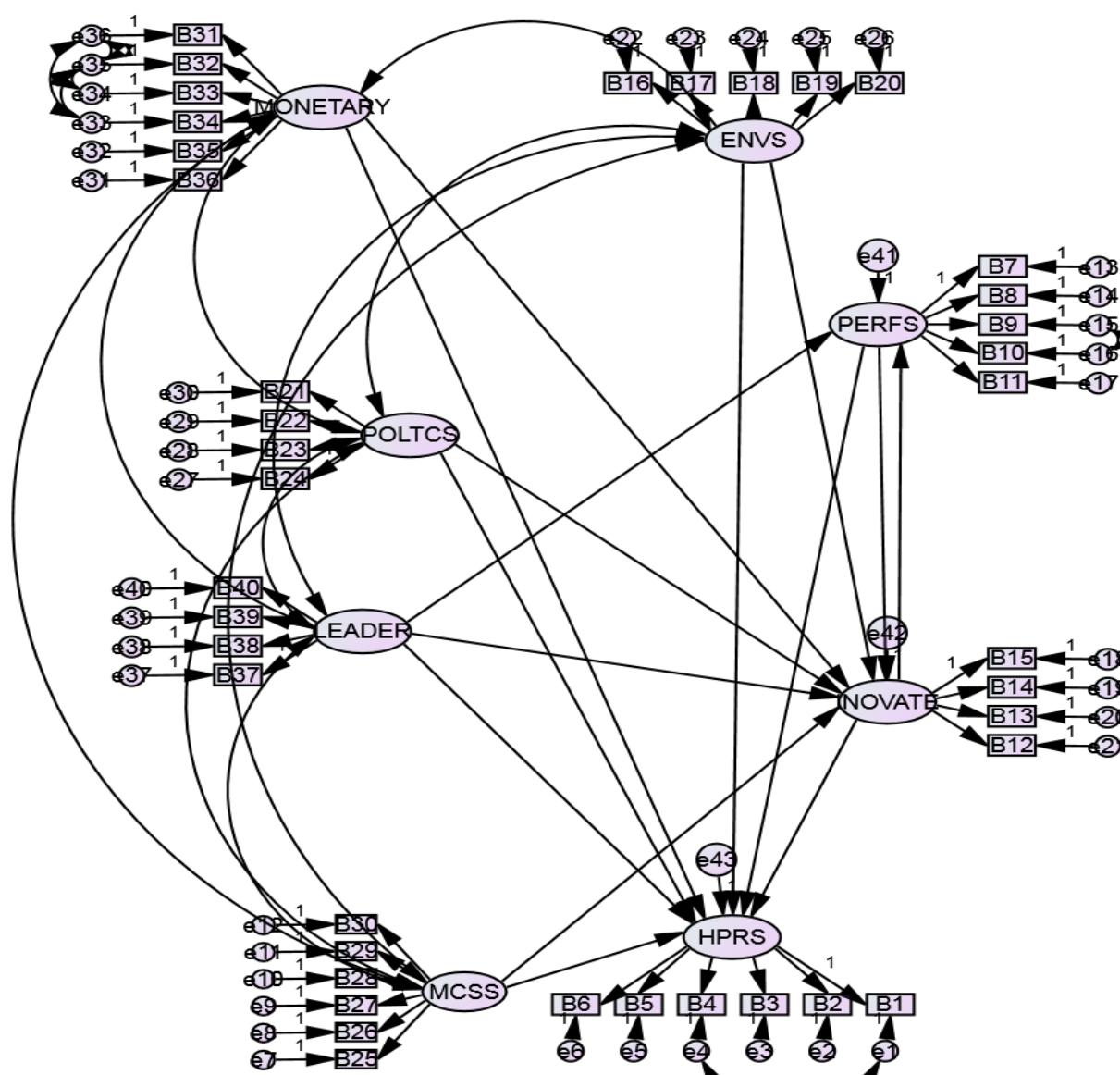
	CR	AVE	MSV	MaxR(H)	INC	MCS	ENV	POLTCS	IND
<b>INC</b>	1.194	1.400	0.937	0.929	<b>1.183</b>				
<b>MCS</b>	0.949	0.809	<b>0.897</b>	0.965	0.941	<b>0.899</b>			
<b>ENV</b>	0.909	0.883	<b>0.903</b>	0.973	0.950				
<b>POLTCS</b>	1.028	1.027	0.935	0.978	0.926	0.931	0.948		
<b>IND</b>	1.135	1.344	0.937	0.981	0.968	0.947	0.921	0.967	

The initial test raised certain discriminant validity concerns (1) **the square root of the AVE for MCSS is less than one the absolute value of the correlations with another factor**, (2) **the AVE for MCSS is less than the MSV**, and (3) **the AVE for ENVS is less than the MSV**

Ping (2009) argues that AVE and discriminant validity issues should not reduce the value of 'First Time Studies' as long as they are discussed as a limitation of the study. This is because "interesting" theoretical model-testing studies usually involve a "first-time" model, and an initial model test, that together should be viewed as largely "exploratory." This "first test" usually uses new measures in a new model tested for the first time, etc., and insisting that the new measures be "perfect" may be inappropriate because new knowledge would go unpublished until a "perfect" study is attained. In such a case the diminished AVE is noted and discussed in the Limitations section of the research, any significant effects involving the low AVE LV's are held to a higher significance requirement (e.g.,  $|t| \geq 2.2$  rather than  $|t| \geq 2.0$ ), and any discussion of interpretation, and especially implications, involving the low AVE LV's are clearly labelled as "very provisional" and in need of replication.

This study proposes a new model to test HPR and hence contributes as a "first test.". Indeed, more measurement work is needed on the discriminant validity issues for MCS and ENV. Error terms were correlated to raise AVE and improve discriminant validity until discriminant validity was eliminated. The diagram below presents the detailed path analysis that was tested with AMOS. The results were similar to Fig 4.5

FIGURE 10.6 Full Path Diagrams For SEM



## **EMPLOYEE PERCEPTION ON ROA, ROCE AND EMPLOYEE SATISFACTION**

'Perception' was measured as a composite index of four variables: IND, BC, TARGET and L3Y. Only one factor was obtained using the Eigen value criteria, and this factor explains 57% of the total variations in the variables used. To increase this variation, the second factor (which explains about 20% of the total variations) was included. The proportions explained were used as weights to obtain a single indicator from the two factors.

Employee perception of an organisation's financial performance is a significant predictor (has a positive direct effect) of ROA, ROCE and employee satisfaction and the relationship is positive. The results would remain the same if the earlier factors generated were included individually. The equations were estimated with OLS with robust standard errors, and the results are presented below.

**Table 10.2: Regression: Employee Perception And ROA**

	(1)	(2)	(3)	(4)	(5)
perception	0.064*** (0.011)	0.060*** (0.011)	0.061*** (0.011)	0.055*** (0.011)	0.055*** (0.012)
GSE		0.080*** (0.024)	0.098*** (0.025)	0.045* (0.026)	0.050* (0.027)
Industry					
FMCG				-0.086*** (0.026)	-0.086*** (0.028)
ICT				-0.108*** (0.020)	-0.103*** (0.023)
Service				-0.197*** (0.025)	-0.195*** (0.026)
Agric.				-0.197*** (0.037)	-0.195*** (0.042)
Energy				-0.337*** (0.015)	-0.331*** (0.023)
Metals				-0.046** (0.018)	-0.043* (0.025)
Mining				-0.097*** (0.023)	-0.091*** (0.029)
Size					
Big			0.007 (0.022)		0.004 (0.026)
Medium			0.079*** (0.029)		0.021 (0.030)
Small			0.069 (0.044)		-0.015 (0.048)
Constant	0.163*** (0.010)	0.146*** (0.011)	0.125*** (0.018)	0.215*** (0.016)	0.209*** (0.023)
Observations	265	265	265	265	265
R-squared	0.091	0.127	0.154	0.354	0.356

**Table 10.3: Regression: Employee Perception And ROCE**

	(1)	(2)	(3)	(4)	(5)
perception	0.075*** (0.017)	0.069*** (0.017)	0.069*** (0.017)	0.051*** (0.018)	0.048*** (0.018)
GSE		0.118*** (0.039)	0.123*** (0.044)	0.104** (0.041)	0.089* (0.049)
Industry					
FMCG				-0.169*** (0.028)	-0.165*** (0.031)
ICT				0.040 (0.028)	0.024 (0.037)
Service				-0.189*** (0.031)	-0.205*** (0.037)
Agric.				-0.294*** (0.048)	-0.325*** (0.058)
Energy				-0.238*** (0.021)	-0.246*** (0.042)
Metals				-0.077*** (0.030)	-0.105*** (0.038)
Mining				-0.106*** (0.021)	-0.114*** (0.042)
Size					
Big			0.002 (0.036)		0.025 (0.045)
Medium			0.025 (0.033)		-0.030 (0.042)
Small			0.006 (0.043)		-0.083 (0.056)
Constant	0.186*** (0.014)	0.162*** (0.014)	0.156*** (0.027)	0.237*** (0.021)	0.245*** (0.042)
Observations	265	265	265	265	265
R-squared	0.067	0.109	0.110	0.283	0.292

**Table 10.4: Regression: Employee Perception And Employee Satisfaction**

	(1)	(2)	(3)	(4)	(5)
perception	1.050*** (0.141)	1.015*** (0.143)	0.949*** (0.143)	1.205*** (0.139)	1.147*** (0.142)
GSE		0.649*** (0.233)	0.886*** (0.236)	0.298 (0.253)	0.429 (0.281)
Industry					
FMCG				-0.218 (0.328)	-0.025 (0.353)
ICT				-2.042*** (0.538)	-1.887*** (0.607)
Service				-0.471 (0.376)	-0.396 (0.391)
Agric.				0.729* (0.403)	0.560 (0.441)
Energy				-1.915*** (0.280)	-1.625*** (0.364)
Metals				-0.097 (0.386)	-0.137 (0.430)
Mining				-1.531*** (0.437)	-1.236** (0.489)
Size					
Big			0.833*** (0.230)		0.407 (0.297)
Medium			0.733** (0.334)		0.262 (0.379)
Small			1.263*** (0.270)		0.734** (0.340)
Constant	3.113*** (0.108)	2.979*** (0.125)	2.450*** (0.180)	3.270*** (0.169)	2.982*** (0.286)
Observations	265	265	265	265	265
R-squared	0.188	0.207	0.251	0.296	0.304

## **EXPERIMENT**

### **Introduction**

Dear Participant!

Thank you for your participation in this experiment. Please read the instructions carefully before starting the experiment.

You will participate in four (4) experiments and answer a short post experimental questionnaire.

Participation is voluntary. Therefore, you can exercise your right not to participate at any time during the process.

You will receive a monetary payment for your participation in these experiments. This will include a fixed fee for appearance and completed participation (US\$5) and a variable amount, the calculation of which will vary per experiment.

After each experiment, you will visit the next room (clearly designated) to collect your payment.

Please do not discuss this experiment among yourselves or with the cashier as she does not know about what is going on here and what the experiment is about.

For all experiments, please try to put yourself into the situation and try to behave as if you were involved in a real-world decision-making process.

Thank you for your participation.

Randolph Nsor-Ambala (PhD student, HBS)

## PAYMENT VOUCHER

Confidential Participation Number.....

Experiment Number .....

Reported Amount Q1.....

Reported Amount Q2.....

Reported Amount Q3.....

Reported Amount Q4.....

### **Experiment Two.**

*With this experiment, your payoff will be based on your reported performance into the PMS. You have randomly selected a unique participation code and randomly selected your actual performance achievement which is private to you only. Neither the researcher nor anyone else has the information about your actual performance except you.*

Assume in this experiment that your annual salary is US\$32. You are an employee of an organisation that distributes bonuses based on job performance. Annual bonuses are paid based on an accumulation of quarterly bonuses, and quarterly bonuses are computed as quarterly target achieved x (annual salary/4). For instance, an employee whose quarter one (Q1) target achievement rating is 50% will earn a bonus of  $50\% \times 32/4 = \$4$ . All bonuses are accumulated and paid at the end of the year ( $Q1+Q2+Q3+Q4$ ). You have agreed, with your boss, your percentage achieved targets for the last four quarters, and this has been duly imputed into the performance management system (PMS). Unfortunately, the PMS that records the agreed targets has been destroyed in a fire, and there is no back up anywhere. Your boss, who agreed your performance rating with you has resigned and moved to another country and cannot be reached. No one else has this information. The organization has requested that you update the system with your agreed performance for the last three quarters.

- 1) What is your opinion on the organisation's data management system?
  - i. Excellent
  - ii. Satisfactory
  - iii. Appalling
  - iv. These things happen
  - v. Could have done better.
- 2) What is your recommendation on how to avoid a similar scenario in the future?

.....  
.....  
.....  
.....  
.....  
3) Please input your percentage achieved performance into the PMS.

UNIQUE PARTICIPATION NUMBER.....

**POST EXPERIMENT QUESTIONNAIRE**

Please indicate the extent (**circle as appropriate**) to which you agree with each of the following statements about your company. In answering, use the following response scale and circle the number corresponding to your level of agreement with each statement.

Strongly Disagree <b>7</b>	Disagree <b>6</b>	Somewhat Disagree <b>5</b>	Neutral or Uncertain <b>4</b>	Somewhat Agree <b>3</b>	Agree <b>2</b>	Strongly Agree <b>1</b>
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<b>B1</b>	My participation in the experiment was anonymous	<b>7 6 5 4 3 2 1</b>
<b>B2</b>	I have made the decision during the experiment as I would decide in a real-world situation	
<b>B3</b>	My variable pay-off was based on how much I reported and not on the actual numbers.	
<b>B4</b>	I have experience in performance measurement within my organization.	
<b>B5</b>	I am unaware of what these experiments are about or what they are meant to achieve.	
<b>B6</b>	When deciding on what to report, I considered how much monetary reward I will get.	
<b>B7</b>	No one will ever know whether I reported the accurate figure or not.	
<b>B8</b>	I was free to report any figure I wanted.	
<b>B9</b>	When deciding on what to report, in each scenario, I considered the likelihood that the accuracy of my report will be verified.	

<b>B10</b>	Have you ever participated in a similar experiment?	Yes/No
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**QUESTIONNAIRE**

## **Introduction**

Dear Participant,

This survey is designed to explore the factors that cause as well as the effects of reporting behaviours within an organisation. The essence of this research is for academic purpose only; as part of a doctoral research study.

To be useful for analysis, we are interested in your honest perception (i.e. what you alone firmly believe to be the case in each scenario and with each case). High standards of confidentiality will be maintained and is assured to all respondents and your response will not be shared with your organisation or any other person. There are no identifying marks on this questionnaire and your responses will be aggregated and summarised into one report and therefore cannot be uniquely identified.

If you require any further clarification, please call the researcher on 0244621991.

For the purpose of this study we define honest reporting to exist when an organisation or its leaders purposefully report performance results to stakeholders truthfully, responsibly and in a timely manner. Therefore, although truthfulness is central to the definition, being timely and responsible is equally relevant. As such, for this study, dishonest reporting (or misreporting) goes beyond direct lying and will encompass other techniques to purposefully hide information such as knowingly attributing managerial failures and other corporate failures to the wrong reasons such as “unforeseen or uncontrollable events”, deliberately delaying the submission of reports with the intention to shift stakeholder interest, as well as, the conscious use of technical jargons, sophisticated numbers etc., to confuse stakeholders.

Business leaders are defined to mean executive management who report directly to the CEO and/or the BOD such as the CFO and other directors as well as all managers with a span of control (direct or indirect) over more than ten employees.

Please provide your answers based on your objective perception **of the organisation as a whole (not a specific individual or specific event in isolation)** spanning the past three years (including this year). Do not return your completed questionnaire to anyone within the organisation, or share your responses with anyone. Please post the completed questionnaire to the researcher in the addressed envelope included or else the researcher (or his authorised agent) can be alerted to pick it up through the number provided above.

Thank you for your participation.

Randolph Nsor-Ambala (Doctoral Researcher, Henley Business School)

## **Personal Information**

*Please provide the following details. All information provided will be treated as extremely confidential and used for academic purposes only. Please underline, mark, tick or circle as appropriate.*

<b>A1: AGE</b> Please tick one box to indicate your age range <input type="checkbox"/> Below 18 <input type="checkbox"/> 18 yrs - 25 yrs <input type="checkbox"/> 26 yrs- 35 yrs <input type="checkbox"/> 36yrs – 50 yrs <input type="checkbox"/> Above 50 yrs	<b>A2: GENDER</b> Please mark as appropriate <input type="checkbox"/> Male <input type="checkbox"/> Female		
<b>A3: HIGHEST ACADEMIC QUALIFICATION</b> Please indicate your highest academic qualification (Mark/Tick One Box Only) <input type="checkbox"/> SSCE/ O' level/ A' level <input type="checkbox"/> HND <input type="checkbox"/> Bachelors Degree <input type="checkbox"/> Professional qualification <input type="checkbox"/> Masters degree <input type="checkbox"/> PhD or higher <input type="checkbox"/> Other (please specify).....			
<b>A4: TYPE OF INDUSTRY</b> Please indicate the organizations main industrial sector (Mark/Tick One Box Only) <table> <tr> <td data-bbox="246 798 801 998"> <input type="checkbox"/> Food, Beverage and Tobacco (FMCG)  <input type="checkbox"/> ICT and telecommunication  <input type="checkbox"/> Service industry  <input type="checkbox"/> Textile, Furniture and Paper  <input type="checkbox"/> Agriculture  <input type="checkbox"/> Other (please specify)         </td> <td data-bbox="882 798 1356 998"> <input type="checkbox"/> Financial Services and Banking  <input type="checkbox"/> Government  <input type="checkbox"/> Construction  <input type="checkbox"/> Energy, Oil and gas  <input type="checkbox"/> Engineering and Electric  <input type="checkbox"/> Metal and Chemicals         </td> </tr> </table>		<input type="checkbox"/> Food, Beverage and Tobacco (FMCG) <input type="checkbox"/> ICT and telecommunication <input type="checkbox"/> Service industry <input type="checkbox"/> Textile, Furniture and Paper <input type="checkbox"/> Agriculture <input type="checkbox"/> Other (please specify)	<input type="checkbox"/> Financial Services and Banking <input type="checkbox"/> Government <input type="checkbox"/> Construction <input type="checkbox"/> Energy, Oil and gas <input type="checkbox"/> Engineering and Electric <input type="checkbox"/> Metal and Chemicals
<input type="checkbox"/> Food, Beverage and Tobacco (FMCG) <input type="checkbox"/> ICT and telecommunication <input type="checkbox"/> Service industry <input type="checkbox"/> Textile, Furniture and Paper <input type="checkbox"/> Agriculture <input type="checkbox"/> Other (please specify)	<input type="checkbox"/> Financial Services and Banking <input type="checkbox"/> Government <input type="checkbox"/> Construction <input type="checkbox"/> Energy, Oil and gas <input type="checkbox"/> Engineering and Electric <input type="checkbox"/> Metal and Chemicals		
<b>A5: NUMBER OF YEARS EXPERIENCE WITHIN THE ORGANIZATION</b> Please indicate the years you have worked for the organization (Mark/Tick One Box Only) <input type="checkbox"/> Less than 3 yrs <input type="checkbox"/> More than 5yrs but less than 10 yrs <input type="checkbox"/> More than 3 yrs but less than 5 years <input type="checkbox"/> More than 10 years			
<b>A6: NUMBER OF EMPLOYEES (FULL AND PART TIME; PERMANENT AND ON CONTRACT) IN THE ORGANIZATION</b> Please indicate the average number of employees within the organization for this year (Please provide answer below)			
<b>A7: YOUR MARITAL STATUS</b> Please indicate your current marital status (Mark/Tick One Box Only) <table> <tr> <td data-bbox="246 1438 833 1533"> <input type="checkbox"/> Single  <input type="checkbox"/> Engaged or Cohabitating but not married  <input type="checkbox"/> Married         </td> <td data-bbox="997 1438 1176 1533"> <input type="checkbox"/> Divorced  <input type="checkbox"/> Widowed         </td> </tr> </table>		<input type="checkbox"/> Single <input type="checkbox"/> Engaged or Cohabitating but not married <input type="checkbox"/> Married	<input type="checkbox"/> Divorced <input type="checkbox"/> Widowed
<input type="checkbox"/> Single <input type="checkbox"/> Engaged or Cohabitating but not married <input type="checkbox"/> Married	<input type="checkbox"/> Divorced <input type="checkbox"/> Widowed		
<b>A8: OWNERSHIP STRUCTURE</b> Please indicate the ownership / controlling structure of the organization (Mark One Box Only) <input type="checkbox"/> 100% private sector owned with no foreign ownership <input type="checkbox"/> 100% private sector owned with foreign ownership <input type="checkbox"/> Joint venture between local private and foreign private ownership <input type="checkbox"/> Joint venture between local private ownership and government <input type="checkbox"/> Joint venture between foreign private ownership and government			

**A9: WHERE THERE IS GOVERNMENT SHAREHOLDING WHO IS IN CONTROL OF KEY MANAGEMENT DECISIONS** (Mark One Box Only)

- Government
- The private shareholders
- Equally between the private shareholders and government

**A10: PLEASE TICK AS APPROPRIATE WHICH OF THE FOLLOWING BEST DESCRIBES YOUR ORGNAIZATION** (Please mark more than one box if required)

<input type="checkbox"/> Registered as private limited liability Company	<input type="checkbox"/> NGO	<input type="checkbox"/> Gov't controlled
<input type="checkbox"/> Registered as public limited liability Company	<input type="checkbox"/> Registered as a partnership	
<input type="checkbox"/> Registered as a Sole proprietorship	<input type="checkbox"/> Listed on Ghana Club 100	
<input type="checkbox"/> Listed on Ghana Stock Exchange		<input type="checkbox"/> Profit seeking
<input type="checkbox"/> Equally between the private shareholders and government		
<input type="checkbox"/> Owners/Shareholders directly manage the organizations		
<input type="checkbox"/> Ownership and management are separated		

**A11: KNOWLEDGE ABOUT THIS ORGANIZATIONS PERFORMANCE REPORTING**

**SYSTEM** - Please indicate if you have an idea about the organizations performance reporting and management systems – (Please tick one)

- Yes I have an idea and actively involved in the organizations performance reporting
- No I have no idea and not involved in the organizations performance reporting
- I have a thorough idea about the organizations performance reporting system even though I am not actively involved.
- I used to be involved in the organizations performance system, but I am no more involved, however I still have a fair idea about it
- I am actively involved in the organizations performance reporting system but I do not understand it.
- Other (Please specify)

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**SECTION B: YOUR PERCEPTIVE**

*This section seeks your perspective on certain statements regarding the organization. Your perspective should be based on a frame of reference of the previous three years including this year in question. Please indicate the extent (circle as appropriate) to which you agree with each of the following statements about your company. In answering, use the following response scale and circle the number corresponding to your level of agreement with each statement.*

Strongly Disagree 7	Disagree 6	Somewhat Disagree 5	Neutral or Uncertain 4	Somewhat Agree 3	Agree 2	Strongly Agree 1
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<b>B1</b>	When there are performance gaps, leaders of this organization report honestly to Employees	<b>7 6 5 4 3 2 1</b>
<b>B2</b>	When there are performance gaps, leaders of this organization report honestly to their superiors and/or Bosses	<b>7 6 5 4 3 2 1</b>
<b>B3</b>	When there are performance gaps, leaders of this organization report honestly to Customers	<b>7 6 5 4 3 2 1</b>

<b>B4</b>	When there are performance gaps, leaders of this organization report honestly to Regulators	<b>7 6 5 4 3 2 1</b>
<b>B5</b>	When there are performance gaps, leaders of this organization report honestly to Shareholders	<b>7 6 5 4 3 2 1</b>
<b>B6</b>	When there are performance gaps, leaders of this organization report honestly to the Media	<b>7 6 5 4 3 2 1</b>
<b>B7</b>	Shareholders/BOD participate in designing organizational performance indicators for this organization	<b>7 6 5 4 3 2 1</b>
<b>B8</b>	Regulators influence key performance indicators for this organization	<b>7 6 5 4 3 2 1</b>
<b>B9</b>	Employees participate in designing key performance indicators for this organization.	<b>7 6 5 4 3 2 1</b>
<b>B10</b>	Customers influence key performance indicators for this organization.	<b>7 6 5 4 3 2 1</b>
<b>B11</b>	Employees are familiar with the results of performance measurement of leaders of this organization.	<b>7 6 5 4 3 2 1</b>
<b>B12</b>	Risk taking and creativity are actively encouraged in this organization.	<b>7 6 5 4 3 2 1</b>
<b>B13</b>	Leaders of this organization encourage us to make suggestions for improvement in our work.	<b>7 6 5 4 3 2 1</b>
<b>B14</b>	People in this organization are encouraged to try new and better ways of doing the job.	<b>7 6 5 4 3 2 1</b>
<b>B15</b>	Innovative employees are the people who get rewarded in this organization.	<b>7 6 5 4 3 2 1</b>
<b>B16</b>	Most responsible officers have relatively limited decision making authority and often have to defer to other leaders on critical issues.	<b>7 6 5 4 3 2 1</b>
<b>B17</b>	Changes in the organizations products (i.e. <i>new product, product improvements, new branding, price changes etc.</i> ) and processes ( <i>production, distribution, procurement, accounting and H.R processes etc.</i> ) do not occur frequently (less than five times a year).	<b>7 6 5 4 3 2 1</b>
<b>B18</b>	Critical decisions making is mostly centralized in the hands of a few top managers.	<b>7 6 5 4 3 2 1</b>
<b>B19</b>	This organization is not widely diversified and focuses on one or a few businesses, products, customers or suppliers to survive.	<b>7 6 5 4 3 2 1</b>
<b>B20</b>	There is homogeneity, similarity and alignment of interest and objectives among key stakeholders (e.g. regulators, media, employees, shareholders, customers etc.) of this organization.	<b>7 6 5 4 3 2 1</b>
<b>B21</b>	There are no cliques, infighting, power and territory struggles in this organization.	<b>7 6 5 4 3 2 1</b>
<b>B22</b>	In this organization, departmental units work together and there is no intense competition and rivalry among them.	<b>7 6 5 4 3 2 1</b>
<b>B23</b>	In this organization, telling others the truth is better than telling people what they want to hear.	<b>7 6 5 4 3 2 1</b>
<b>B24</b>	In this organization people listen to each other and credit is always given to the right person.	<b>7 6 5 4 3 2 1</b>
<b>B25</b>	This organizations, mission, vision and purposes of existence are widely communicated in clear language.	<b>7 6 5 4 3 2 1</b>

<b>B26</b>	This organizations code of conduct is communicated widely and in clear language.	<b>7 6 5 4 3 2 1</b>
<b>B27</b>	This organization has standard operating procedures for critical activities and these are widely communicated in clear language.	<b>7 6 5 4 3 2 1</b>
<b>B28</b>	This organization has sanctions for disregarding the organizations rules and value systems and these sanctions are fairly applied in all situations.	<b>7 6 5 4 3 2 1</b>
<b>B29</b>	The code of conduct and other business rules are updated regularly.	<b>7 6 5 4 3 2 1</b>
<b>B30</b>	Leaders of this organization adhere to the organizations values and rules.	<b>7 6 5 4 3 2 1</b>
<b>B31</b>	Performance evaluations on which pay raises are based are transparent and fair in this organization.	<b>7 6 5 4 3 2 1</b>
<b>B32</b>	Monetary rewards in this organization equitably reflect effort and outcome compared to others in the same organization.	<b>7 6 5 4 3 2 1</b>
<b>B33</b>	Salary raises within this organization are consistent with set policies on how raises should be determined.	<b>7 6 5 4 3 2 1</b>
<b>B34</b>	People in this organization are given the right type and amount of resources they need to do the work.	<b>7 6 5 4 3 2 1</b>
<b>B35</b>	People performances on which rewards are based are openly disclosed in this organization.	<b>7 6 5 4 3 2 1</b>
<b>B36</b>	Distribution of rewards is fair in this organization.	<b>7 6 5 4 3 2 1</b>
<b>B37</b>	Leaders in this organization have high moral standards and uphold strong personal values.	<b>7 6 5 4 3 2 1</b>
<b>B38</b>	Leaders of this organization accept collective responsibility and do not shift blame.	<b>7 6 5 4 3 2 1</b>
<b>B39</b>	People of this organization will often sacrifice their personal interest for the collective interest of the group.	<b>7 6 5 4 3 2 1</b>
<b>B40</b>	People in this organization are likely to take time off to visit a sick employee.	<b>7 6 5 4 3 2 1</b>
<b>B41</b>	When an organization does not report honestly to its stakeholders, it adversely affects the reputation of the organization.	<b>7 6 5 4 3 2 1</b>
<b>B42</b>	When an organization does not report honestly to its stakeholders, shareholders invest in surveillance which increases cost of operation.	<b>7 6 5 4 3 2 1</b>
<b>B43</b>	When an organization does not report honestly to its stakeholders, it leads to lower profits.	<b>7 6 5 4 3 2 1</b>
<b>B44</b>	When an organization does not report honestly to its stakeholders, it increases internal conflicts among co-workers.	<b>7 6 5 4 3 2 1</b>
<b>B45</b>	When an organization does not report honestly to its stakeholders, it increases litigation and penalties charged against the organization.	<b>7 6 5 4 3 2 1</b>
<b>B46</b>	When an organization does not report honestly to its stakeholders, it reduces employee morale and job satisfaction.	<b>7 6 5 4 3 2 1</b>
<b>B47</b>	When an organization does not report honestly to its stakeholders, it adversely affects national economic development.	<b>7 6 5 4 3 2 1</b>

## SECTION C

1) In your view what are the negative effects of an organization misreporting its performance to stakeholders? .....

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2) In your view what are the positive effects of an organization misreporting its performance to stakeholders? .....

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3) Please rank the following (including your answer(s) to question C1 and C2) in order of likelihood of occurrence.

*Use 1 to represent highest likelihood, 2, next highest likelihood and so on .If you believe none has the likelihood of occurrence please state so here.....*

- a. Negative effect on organization reputation and brand image [ ]
- b. Increased cost of doing business [ ]
- c. Lower profits [ ]
- d. Internal conflicts and low employee moral [ ]
- e. Litigations and penalties [ ]
- f. Negative effects on national economic development [ ]
- g. Answer(s) to C1 & C2..... [ ]
- h. Answer(s) to C1 & C2..... [ ]
- i. Answer(s) to C1&C2..... [ ]
- j. Answer(s) to C1&C2..... [ ]

4) Please rank the following (including your answer(s) to question C1& C2) in order of highest adverse effect on organizational survival.

*Use 1 to represent highest adverse effect, 2 the next highest adverse effect and so on. Please note that in this case, positive effects from dishonest reporting will appear after negative effects. If you believe none has the likelihood of occurrence please state so here.....*

- a. Negative effect on organization reputation and brand image [ ]
- b. Increased cost of doing business [ ]
- c. Lower profits [ ]
- d. Internal conflicts and low employee moral [ ]
- e. Litigations and penalties [ ]
- f. Negative effects on national economic development [ ]
- g. Answer(s) to C1&C2..... [ ]
- h. Answer(s) to C1&C2..... [ ]
- i. Answer(s) to C1&C2..... [ ]
- j. Answer(s) to C1&C2..... [ ]

5) What is your perception about the financial performance of the organization compared to its best competitor?

- a. Outperformed best competitor [ ]
- b. Marginally above best competitor [ ]

- c. At par with best competitor [ ]
- d. Marginally below best competitor [ ]
- e. Significantly below best competitor [ ]

6) What is your perception about the financial performance of the organization compared to the industry average?

- a. Outperformed industry average [ ]
- b. Marginally above industry average [ ]
- c. At par with industry average [ ]
- d. Marginally below industry average [ ]
- e. Significantly below industry average [ ]

7) What is your perception about the financial performance of the organization compared to the organizations own targets?

- a. Outperformed target [ ]
- b. Marginally above target [ ]
- c. At par with target [ ]
- d. Marginally below target [ ]
- e. Significantly below target [ ]

8) What is your perception about the financial performance of the organization compared to the average performance of the organization over the last three years?

- a. Outperformed 3 yr average [ ]
- b. Marginally above 3 yr average [ ]
- c. At par with 3 yr average [ ]
- d. Marginally below 3 yr average [ ]
- e. Significantly below 3 yr average [ ]

9) Have you ever participated in a similar survey (based on the objective of the survey as stated earlier (Please mark one)? **Yes/ No**

10) Please indicate your overall satisfaction with the organization

Strongly Dissatisfied 7	Somewhat Dissatisfied 6	Dissatisfied 5	Neutral / Uncertain 4	Satisfied 3	Somewhat Satisfied 2	Strongly Satisfied 1
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## SECTION D

Please answer the questions below and truthfully as possible based on your knowledge of the organization you work in. Anonymity is assured, and no reference is made to your organization in the analysis.

### **SCENARIO ONE**

Key performance targets set by HQ for an organization on a new product recently launched are (a) Gross margin % (GM %) = at least 40% or better (b) Net Profit margin % (PM %) = at least 15% or better. At the end of the year the actual performance figures for the new Product are presented as "Illustration A".

In the reported figures in 'ILLUSTRATION A', there is a cost item within cost of sales (COS) of GHS10 that most organizations often classify as operational expense (OPEX) and this is technically very accurate, but in order to ensure standardization, HQ has specifically clarified that such cost items should be classified within COS and not OPEX. HQ only sees a summary of performance as presented below and never goes into the details unless it is absolutely necessary. The entire organizations and its employee's bonuses are based on achieving both the GM% and PM% targets. If an adjustment is made for the COS item (by relocating the item from cost of sales

to OPEX), the organization's performance report will look like "ILLUSTRATION B" and meet all the targets.

	ILLUSTRATION A		ILLUSTRATION B	
	GHS	%	GHS	%
Sales	100		100	
Cost of Sale (COS)	(70)		(60)	
GM	30	30%	40	40%
Operational Expense (OPEX)	(15)		25	
Net Profit	15	15%	15	15%

**Please answer the following questions as honestly as possible. Please be aware that there is no right or wrong answer.**

1) Assuming you are responsible for providing this report, which illustration will you report and why? .....

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2) How has the organization you currently work in treated similar scenarios in the past? .....

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3) How have your colleagues in this organization treated similar scenarios in the past and why? .....

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4) Do scenarios like this occur in your organization and how often? .....

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## **SCENARIO TWO (2)**

In an organization, annual capital expenditures plans (CAPEX) must be pre-approved by HQ as part of the annual budgeting cycle. Even after approval of the annual budget, actual spends within the year can only be made with HQ approval. As a convention, CAPEX approvals for the next year are based on actual execution and spend of previously approved CAPEX. HQ defines spend to include committed funds (when a purchased order has been raised in the system) even if not actually spent. CAPEX budget for next year (2015 financial year) includes a significant spend for upgrading the finance office including a management accounting software but this may not be approved unless the organization shows that it has utilized (spent or committed) more than 80% of this year's (2014 financial year) approved CAPEX. The organization's 2014 approved CAPEX is GHS 1000, the actual amount spent so far is GHS 600 and the pending POs (Purchase orders) in the system is GHS 100 hence budget spend as defined by HQ is 70% of the approved budget.

HQ has no way of knowing actual POs generated in the system. HQs only sees an excel sheet that summarizes actual spend and committed POs.

Assuming you are the management accountant of this organization and the decision is entirely dependent on you to report CAPEX to HQ, what will you report and why?

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How has the organization you currently work in treated similar scenarios in the past?

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### **SCENARIO THREE (3)**

A departmental head is responsible for ensuring that departments' overhead does not exceed GHS2000 per annum and the whole department's end of year bonus is tied heavily to achieving this target. At the end of the year (2014) actual expenditure is GHS3000. The department carried out a redundancy exercise so HQ is expecting the department to exceed its overhead. The budgeted amount for the redundancies exercise was GHS1000 so the actual overhead of GHS3000 is within HQs expectation. However unknown to HQ, the department succeeded in negotiating the redundancy cost down to GHS600. The extra GHS400 cost in overhead is an accrual for a cost item that was missed in last year's account (2013). GHS400 is 10% of the organizations 2013 total expenses and if it had been reported in last year's accounts, the department will miss its performance targets hence earn no bonus. Last year the department was adjudged the best performing department within the group in terms of cost control.

Assuming the organization you currently work in is confronted with a similar scenario, in the annual performance review with HQ will it highlight the error in last year accounts or will it allow HQ to continue believing that the excess overheads relate to redundancy costs assuming HQ has no way of knowing the truth? Please give reasons for your answer.

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### **SCENARIO FOUR (4)**

Your organization produces a quarterly product profitability report covering all products, but management never takes a look at this report. Your organization has recently launched a product that has been generating remarkable sales volume and revenue. Last year, every member in the organizations bonuses went up by 50% due to the achievement of the sales target for this product, and this is likely to repeat this year. However, a critical review of the product profitability report shows that the huge sales for the new product (last year and this year) were driven by a relatively high cost making the product unprofitable. You have spoken to the sales manager who has promised to get this cost under control next quarter and you are confident that he can; based on

the plan of action he has shared with you. Often as part of the quarterly visits from senior executives from HQ, a meeting is held where the performance of the organization is discussed. Various reports are prepared in readiness for that meeting, including the product profitability report, CAPEX report, overall financial statements and Human resources reports; however the product profitability report is never discussed or reviewed. HQ will be very unhappy if they realize the profitability of the new product. HQ has requested that your organization limit the number of reports submitted for this quarter's discussion to three due to time constraints. The CAPEX report and HR report do not contain any significant changes from last quarter's submission.

Based on your knowledge of your current organization, how do you perceive the department in which you currently work will act if confronted with a similar scenario? Which reports will they submit and why? .....

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### **SCENARIO FIVE (5)**

Sales volumes have been significantly below target in the months of May, June and July. Last year (in 2014) the sales director attributed 'unforeseen circumstances' to the low sales volume in a similar period and explained it as due to heavy rains affecting product distribution and consumer consumption preferences. HQ always accepts this explanation. However this year's budget (2015) took into consideration the rainfall patterns and significantly reduced forecasted sales volumes in MAY, JUNE and JULY. The real reason for the low sales volume is rather due to (for 2015) a competitor introducing a superior distribution network and a relatively better quality product that is appropriately priced. HQ is unaware that the budget figures took into consideration rainfall patterns, and are also unaware of the competitor recent successes. The sales director has attributed 'unforeseen circumstances' (without any further explanation) again as the reason for low sales volume. Technically he is right because the recent competitor activities are unforeseen. However, without any further explanation HQ will think it 'unforeseen circumstances' implies yet again an unpredictable rainfall pattern and are likely to accept the explanation without any further questions.

How will your organization handle such a situation in a real scenario? Will it offer further explanation or allow the use of the technical jargon 'unforeseen circumstances'? .....

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**THANK YOU**

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