Università
Ca'Foscari
Venezia

Dottorato di ricerca in Economia Aziendale
Scuola Superiore di Economia (SSE)
Ciclo XXIII - A.A. 2010 - 2011

Three Essays on Reward System Design for Mid - Level Managers

SETTORE SCIENTIFICO DISCIPLINARE DI AFFERENZA: SECS-P/07

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Chapter 1

A multi-faceted approach to examine reward preferences amongst mid-level managers

ABSTRACT: Limited research addresses the perceptions of mid level managers as recipients of meaningful rewards. In contrast to CEO "tailor-made" compensation schemes, mid level manager reward schemes are treated as homogeneously acceptable to motivate individuals. With access to 1.771 mid level managers data in a single company, reward preferences are analyzed employing instrumental, affective and cognitive modalities (Elizur, 1984). The findings suggest affective and cognitive rewards are deficient for mid-echelon managers. Managerial groupings at the higher and lower mid level manager echelons held differing views. With this extended approach to capturing desired rewards, patterns of meaningful incentives emerge that help to specify the design of means to motivate mid level managers.

1.1   Introduction

Management control systems (MCS) are intended to provide motivation for organizational members to take actions and make decisions that will accomplish the organization's objectives (Kren, 1997; Merchant and Van der Stede, 2007). Since the pivotal works of Hopwood (1974) and Otley (1987), researchers in management accounting have acknowledged that reward systems are likely to be one of the main mechanisms through which an organization can persuade managers to exert themselves toward organizational goals (Emmanuel et al., 1990). In fact, the direct control of the actions of middle managers might be hindered

in organizational settings where local managers have access to more relevant decision information than, and are distant from, their supervisors (Merchant, 1989). In such contexts, motivational contracts (i.e. written and unwritten promises of rewards for the attainment of pre-set performance results) are intended to foster the congruence between managers' objectives and those of the organization itself. In this respect, the significance of rewards for management control purposes has been recently reaffirmed (Ferreira and Otley, 2009; Malmi and Brown, 2008; Otley, 1999).

This study relates to prior research that investigates the design and impact of reward systems for middle managers. Merchant (1989) posits that the ideal motivational contract for mid level managers should offer rewards that are meaningful (i.e., desirable) to recipients. It follows that effective reward system design should take into account the rewarded manager perspective in order to determine patterns of preferences for different types of inducements. However much of the literature in management control has taken the standpoint of incentive scheme designers (Merchant and Otley, 2006; Lambert, 2001), while substantially "...disregarding how managers effectively react to rewards' provision within performance evaluation schemes" (Ahn et al., 2010: 390). To date, little is known about the desirable design features of reward systems for mid level managers in practice (Uyterhoeven, 1972; Ehrenberg and Milkovich, 1987; Fisher and Govindarajan, 1992). A body of literature explored the performance measures that are employed in the bonus contracts (Bushman et al., 1995; Keating, 1997; Abernethy et al., 2004; Bouwens and Van Lent, 2007; Abernethy et al., 2010). Another stream of research examined the link between delegation and compensation choices for business unit managers (Baiman at al., 1995; Nagar, 2002). However, only a limited number of studies have investigated how middle level managers actually perceive different elements of the reward systems they are offered (Kominis and Emmanuel, 2007; Vancil, 1979).

In addition, much of extant research in management accounting focused only on a subset of the reward system elements potentially meaningful to organizational members (Malmi and Brown, 2009; Ittner and Larker, 2001). Although reward systems can encompass both financial and non-financial components (Kuntz and Pfaff, 2002; Ferreira and Otley, 2009), the focus of this stream of research had traditionally been on explicit (mainly financial) inducements only (e.g. Bonner and Sprinkle, 2002). Merchant et al. (2003) noted that much of organizational incentive research disregarded the role of an array of intangible rewards such as recognition, autonomy or supervisory support as those are dif-

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ficult to measure and to evaluate. It can be argued that these difficulties are a consequence of the theoretical perspective employed by management accounting researchers in order to investigate the construct of work outcomes (Kuntz and Pfaff, 2002). So far, the literature addressing a broader spectrum of rewards has relayed predominantly on the extrinsic/intrinsic reward dichotomy, both in theoretical contributions (Ansari, 1977; Flamholtz et al, 1985; Malmi and Brown, 2008) and empirical studies (e.g. Bourguignon, 2004; Kominis and Emmanuel, 2007). However, the construct validity of this classification has been called into question by some commentators suggesting the extrinsic/intrinsic reward dichotomy may be inadequate to gauge the multidimensionality of the reward construct in an organizational setting (Elizur, 1984; Guzzo, 1979; Broedling, 1977; Thierry, 1990; Kuntz and Pfaff, 2002). On a practical ground, individuals are likely to fail to unambiguously categorize rewards based on this definitional distinction (Dyer and Parker, 1975; Kanungo and Hartwich, 1987). For control purposes, the effects of extrinsic inducements in influencing work behavior appear to be qualitatively different compared with those of intrinsic rewards (e.g., Flamholtz et al., 1985). It follows that the unequivocal capability to distinguish between different forms of rewards becomes crucial for the design of reward systems in practice.

Finally, the work of Merchant (1985, 1989) suggests that different groups of individuals may react differently to the provision of an identical reward. In fact, perceived meaningfulness of different types of reward may vary across groups of managers according to contextual characteristics and individual needs and preferences (e.g. Porter et al, 1975; Lorsh and Morse, 1974; Hackman and Lawler, 1971). Prior research in management accounting has mainly concentrated on compensation systems for executives, suggesting that executive incentive schemes should be "tailor-made" in order to enhance their motivational impact (see e.g. Pavlick et al., 1993; Murphy, 1999; for reviews). Instead, reward preferences of mid level managers are assumed to be substantially homogeneous (Bourguignon, 2004). Some commentators have suggested that the design of appropriate incentive schemes in decentralized organization may be hampered by the layering of agency problems down the echelons of the organization (Baker et al., 1988; Indjejikian, 1999) and that this has resulted in the adoption of one-size fits all reward approaches for middle level managers (Lawler, 2000).

This perception-based research examines the question of whether reward preferences vary across different layers of mid level management hierarchy. It aims to add to this stream of literature by providing insights from a multina-

tional company operating in the utility sector. It explores how middle level managers in this organizational setting perceive different facets of the reward system they are subject to and it examines whether and how these perceptions vary across groups of individuals at different organizational levels. For our purposes, the opinions of 1.771 middle level managers were collected and analyzed through a survey instrument, in 2009, to detect patterns of reward preference by position in the organization. At the same time, this study represents the first attempt to provide a more comprehensive picture of the array of rewards offered to managers in the company setting, by addressing the 'modality' of the reward construct through the multiple facet approach elaborated by Elizur (1984) and Elizur et al. (1991).

The remainder of the paper is structured as follows. The next section provides a discussion of our theoretical background, while in the third section we review the relevant theoretical and empirical research in the area of reward preferences for middle managers with the aim to develop hypotheses. Section four presents the research setting and the data for this study. Empirical tests and results are reported in section five which leads to a concluding discussion presented in section six.

1.2 Theoretical Background

Valuable rewards may have heterogeneous nature, ranging from expressions of recognition by supervisors and senior managers, through provision of autonomy in decision-making, to financial rewards and promotion (Merchant, 1989). It has long been recognized in the area of management control that a comprehensive approach to rewards ought to be adopted (Otley, 1999; Ferreira and Otley, 2009; Malmi and Brown, 2008). The emerging appreciation of a "broader" reward systems, which go beyond the provision of financial incentives only, has been extensively documented by commentators (e.g. Ezzamel and Willmot, 1998; Backer et al., 1988; Merchant, 1989).

Theorization in this field has been almost exclusively based on the insights offered by the intrinsic-extrinsic reward paradigm (Flamholtz et al., 1985; Merchant, 1985; Merchant and Van der Stede, 2007), or it has concentrated solely on the study of monetary inducements (Bonner and Sprinkle, 2002). Dearth of research may be a consequence of the ambiguousness inherent in the conceptualization of the extrinsic-intrinsic distinction (Kuntz and Pfaff, 2002). Scholars

have generated a plethora of alternative notions of these constructs however none of those seems to clearly differentiate various work rewards into extrinsic and intrinsic (Guzzo, 1979). As a consequence, studies adopting the extrinsic/intrinsic paradigm have collapsed some meaningful work outcomes such as supervisory support or feelings of esteem and recognition, to either of these two categories, leading to confounding results and inconsistent classifications, which may undermine the construct validity of the dichotomy (Guzzo, 1979; Broedling, 1977; Thierry, 1990). In addition, inconsistent classification of different work outcomes was observed in practice, suggesting that individuals are unable to unequivocally classify rewards based on whatever particular definitional distinction is applied (Dyer and Parker, 1975; Kanungo and Hartwich, 1987). Vague applicability of this reward paradigm may undermine its effective use for control purposes. Prior literature suggests that the design of an effective reward system includes the administration of extrinsic inducements and the design of intrinsically rewarding tasks. At the same time, extrinsic and intrinsic outcomes have qualitatively different effects in influencing work behavior of rewarded managers (Flamholtz et al., 1985). It follows that for reward system designers, independent assessment of rewards within an organization using an unequivocal classificatory scheme becomes necessary, since distinctive design choices need to be made according to the type of rewards the organization intends to offer to managers (Ansari, 1977).

An alternative conceptualization of the reward domain may be needed to allow a broader and more accurate approach to rewards offered to managers. A multifaceted approach to work values provides the main theoretical support for the research reported here (Elizur, 1984; Elizur et al., 1991). Elizur (1984) conceptually established and tested a structure for the construct of work values based on two independent facets: the modality of work outcomes and the relation with task performance. Independence of facets (Elizur, 1984) allows us to center this research on the first facet, i.e. the modality of work outcomes. Desirable work outcomes for managers can be classified, according to this modality into: instrumental-material, affective-social, or cognitive-psychological (Elizur, 1984; Elizur and Sagie, 1999). Under the first categorization, outcomes related with material aspects of work are considered, including pay, benefits and work conditions. The second modality pertains to interpersonal relations and social features of work, such as feelings of esteem as a person, recognition for performance and relations with colleagues and supervisors. Finally, the cognitive modality encompassed several psychological aspects associated with work itself,

such as job meaningfulness or sense of achievement.

The proposed structure is based on the identification of an assortment of desirable work outcomes, which is grounded conceptually on five content theories of work motivation (Elizur et al., 1991). Content theories of motivation focus on "the specific identity of what it is within an individual or his environment that energizes and sustain behaviour. Therefore, these perspectives attempt to define specific entities within a general class of valuables such as work rewards" (Campbell et al., 1970: 341). The assumption is that people will behave in ways that they think will satisfy their underlying needs and motives. Lawler (1994) noted that there is some degree of complementarity among different theoretical contributions in this domain since some researchers have developed need or motive classification systems in an attempt to predict which kind of outcomes will be attractive to people, while others have focused on establishing the existence of a number of human motives that they consider particularly relevant in the work environment. According to Shields (2007), the overall message from these constructs, is that motivation is a by-product of the worker's quest to satisfy his needs. Therefore, effective performance management requires careful attention to which needs are most salient for any given group of employees and, hence, which rewards are likely to be most highly valued as need satisfiers by the employees. Instrumental outcomes were derived from the works of Maslow (1954), Alderfer (1972) and Herzberg (1966). Affective and cognitive modalities were conceived by drawing on these three building blocks and on further selection of outcomes based on McClelland (1961) and Hackman and Oldham (1976). There is a strong congruence between each of the five content theories adapted by the work of Elizur (Shields, 2007). Lower-order needs correspond with existence and affiliation or relatedness needs and with hygiene factors (including pay). Higher-order needs are congruent with growth and achievement needs, and with the job content factors identified by Herzberg and colleagues and Hackman and Oldham. Content theories highlight that any reward may have different need-satisfaction value for different employees (Emmanuel et al., 1990; Ezzamel and Hart, 1987). Even though content theories appear to share some common shortcomings (Shield, 2007), they are not concerned with the motivational aspects of the individual per se but rather with groups of individuals, therefore they are particularly relevant to the use of managerial policies in handling issues relating to control systems and human resources (Miner, 1980).

Drawing on content perspectives Elizur (1984) identified a set 21 valuable work outcomes, which has been further extended to encompass 24 outcomes,

by Elizur et al. (1991). Pay, hours of work, security, benefits and work conditions were classified as instrumental. Relations with supervisors, co-workers, recognition, esteem and opportunity to interact with people were categorized as affective, while responsibility, use of ability, advancement, achievement, influence, interest, feedback, meaningful work, independence, company, status and contribution to society as cognitive.

In line with the Elizur (1984), other comprehensive attempts to map the reward terrain resulted in trichotomous structure of work, where an independent set of affective-social rewards supplement material and psychological outcomes (Katz and Van Maneen, 1977; Pryor, 1987; O'Connor and Kinnane, 1981; Crites, 1961; Mottaz, 1985). Structural correspondence between the proposed approach and the extrinsic/intrinsic classification has been established both theoretically and empirically (Borg, 1990). At a glance, intrinsic outcomes are cognitive, whereas extrinsic rewards are either instrumental or affective, however the modality facet allows to reconcile the ambiguous classification of certain outcomes within the extrinsic/intrinsic dichotomy. Thus it appears to be more generalizable as demonstrated by further validation in different national and cultural settings (Elizur et al., 1991; Borg, 1986) and with reference to different groups of organizational members (Elizur, 1984; 1994; Sagie and Elizur, 1999). In addition, the proposed structure expands the array of potentially desirable rewards, reducing the risk that important outcomes are overlooked in the process of deriving unstructured sets of potentially desirable rewards (Elizur, 1991; Borg, 1990). For this reason it has been employed to investigate the relation between preferences for different work outcomes and some relevant personal and organizational characteristics (e.g. Elizur, 1994; Cennamo and Gardner, 2008).

1.3   Relevant literature and hypotheses

The development of motivational contracts that help directing middle managers' effort and behaviour toward organizational objectives entails the identification of those work outcomes that are more meaningful (i.e., desirable) to recipients (Merchant, 1989). To this extent, when reward packages have to be tailored, organizations may have to assume a diagnostic stance with respect to their members, determining which set of rewards is desired and structuring the reward package accordingly (Lawler, 1994). This can arguably enhance the motivational strain of these outcomes (Gerhart and Milkovich, 1992; Kominis and Emmanuel,

2007). On the other hand, if the perceived meaningfulness of rewards is overlooked, the organization may unwittingly seek to address managerial behaviour employing incentives that are not valued by managers themselves, causing them to be ineffective (Merchant and Van der Stede, 2007; Lawler, 1994). Further, the organization might develop reward packages that may be too benignant in area of less importance to managers, thus compromising the efficiency of the reward system.

However, extant literature suggests that, when organizations make decisions about which MCS and reward practices to adopt, their choices reflect primarily the values and the preference of those in charge of designing those control systems. There is little guarantee that those choices will be similarly valued by all managers subject to such systems, as demonstrated in previous studies in the performance measurement and incentive compensation areas (Bento and White, 1998; Shields and White, 2004). Thus, there might be some discrepancy between the rewards effectively desired by organizational members and those the top-management thinks might be desired (Kohn, 1993). Kovach (1987) documented the results of three surveys in which large sample of industrial employees where asked to rank a number of "job reward" factors in terms of personal preference. At the same time, supervisors were asked to rank the rewards, as they believed employees would rank them. According to all three surveys supervisors fail to predict employees preferences for certain elements of the reward system. For instance, supervisors felt that "good wages" was the major motivator of their employees, whereas this item was ranked fifth (out of ten possible factors), by employees themselves. Understanding which are the more desirable elements of a reward package may be beneficial in terms of creating a more effective motivational contract for middle managers; this is however impossible without considering that preferences for rewards may vary across groups of managers due to personal and contextual characteristics (Merchant, 1989; Merchant et al., 2003).

Literature on work motivation has provided rationales for individual differences in reward perception by exploring the importance of human needs or motives relevant to the design and implementation of reward packages. According to the content perspectives on motivation, this perceived need embodies the central motivating element of rewards (Maslow, 1954; McClelland, 1961), therefore reward effectiveness strongly relies on whether the reward is valued and meaningful to the recipient. As Lawler (1994) pointed out, large differences among groups of individuals exist in the importance assigned to different work

outcomes, as need-satisfiers. These differences are related in meaningful ways to a number organizational factors, most notably management level (Lawler, 1994: 48). In fact, organizational level has been found to be allied with reward levels, reward satisfaction, and managerial perceptions of the satisfactoriness of their rewards relative to those of their subordinates and superiors (Lawler and Porter, 1966).

1.3.1 Instrumental outcomes

Content theories of work motivation (Maslow 1954, McClelland 1961) postulated that individuals at different levels in the company hierarchy are driven by different needs. Those in higher positions are more likely to be motivated by higher order needs, whereas descending the hierarchical ladder individuals tend to be more concerned with the satisfaction of lower order needs, such as physical or security needs (Porter, 1962; 1963).

The provision of instrumental rewards, such as pecuniary inducements, perquisites, and favorable work conditions, has generally been associated with the satisfaction of the latter group of needs (e.g. Hunt and Hill, 1969). In accordance with such interpretation, it has been argued that as individuals are endowed with more conspicuous lower-order/extrinsic rewards, their satisfaction with those rewards is likely to increase while the importance attached to such rewards will tend to decrease (Lawler and Porter, 1963; Porter and Lawler, 1965; Alderfer, 1973; Herman and Hulin, 1972; 1973). Consistently, individuals in higher-level positions appear to be better rewarded and generally more satisfied with their compensation than managers at lower organizational levels (Lawler and Porter, 1963; 1966; Ronan and Organt, 1973; Andrews and Henry, 1963; Rosen and Weaver, 1960). Similarly, studies based on the motivation/hygiene perspective, postulated by Herzberg et al. (1957), have found that extrinsic elements, such as pay and work conditions are of major concern for individuals at lower echelons in the company (Center and Brugental, 1966; Locke and Whithing, 1974; Robinson et al., 1969).

As such, it may be expected that middle managers at different organizational level will perceive differently the instrumental features of their reward package, such as: pay, benefits, work conditions and hours of work. In other words, higher-level managers are expected to be provided with higher instrumental rewards, thus they may well be more satisfied with those rewards, compared with their lower-level counterparts for whom lower level needs appear to be more ur-

gent (Lawler, 1970). Departing from Maslow's need-hierarchy concept, Herman and Hulin (1972; 1973) demonstrated that different groups of middle managers from a single organizational setting were significantly different in their perception of pay and benefits offered by the organization, with higher-level managers being comparatively more satisfied with the provision of those instrumental rewards compared to low level managers and first line supervisors. In a similar vein, Rosen (1961a) surveyed the satisfaction with a number of work outcomes - except monetary inducements – reported by managers from four echelons in a single plant. Significant differences among managers at different organizational levels were found for a number of items connected with work conditions and organization of work.

The above discussion leads us to propose the following hypothesis (stated in the null form):

H1: There is no association between hierarchical level in the organization and perception of meaningfulness of instrumental outcomes.

Consistent with Elizur et al. (1991) instrumental outcomes encompass: (a) pay, (b) work conditions, (c) convenient hours of work and (d) benefits.

1.3.2 Affective outcomes

The conceptualization of work outcomes has become more differentiated over time and more specific dimensions of the rewards of work have emerged. Some researchers have told apart a number of affective elements from extrinsic rewards since they are generated by the interaction with other individuals in the workplace (e.g. Mottaz 1985; Katz and Van Maneen, 1977). Others have distinguished intrinsic rewards from altruistic and social concomitants (e.g. Pryor, 1987; Ginzberg et al., 1951; Rosemberg, 1957), possibly because they satisfy different underlying needs (Maslow, 1954). Affective outcomes are of concern in the design of the reward system, especially for managers at middle and lower levels, since the effective enactment of their role appears to be mediated by their socialization process in the organization (Currie and Procter, 2005; Van Maneen and Schein, 1979). Proponents of content theories of work motivation conceived of affective outcomes as lower-order needs' satisfiers (Maslow, 1954; Alderfer, 1972; McClelland, 1961). For instance, Borg (1990) illustrated the substantial correspondence between the affective modality identified by Elizur (1984), Alderfer's relatedness and Maslow's esteem and affiliation needs.

Extant research does not provide, however, a univocal answer in relation to the relationship between perception of affective outcomes and managers' level in the organization. The perception of some affective outcomes, such as relations with peers and opportunities to help others while at work, seems not to be influenced by the hierarchical level of managers (Porter, 1961; 1962; 1964; Roberts et al., 1971; Slocum, 1971). On the other hand, research suggests that the perceived importance of esteem and recognition obtained for doing a good job varies depending on the hierarchical level of the individual. For example there is evidence to suggest, that hierarchical ascent is characterized by greater recognition, which contributes to individual satisfaction (Porter, 1961; 1962; 1964; Slocum, 1971; Rhinehart et al., 1969; Rosen, 1961a). In fact, lower-level managers and first-line supervisors may feel that the disapproval of relevant-others in the company for their results jeopardizes their opportunity to stay with or advance within the firm, therefore that may feel a more pressing need to obtain recognition for the work done, compared with managers at higher levels who are in a more established position. Similarly, relations whit superiors are perceived differently by managers at different echelons (e.g. Rosen, 1961a; 1961b; Saleh et al., 1975), possibly as consequences of differences in tasks and responsibility of managers and, as a consequence of different style of leadership (e.g. Gomez-Meja et al, 1985).

The above leads to the following hypothesis (stated in the null form):

H2: There is no association between hierarchical level in the organization and perception of meaningfulness of affective outcomes.

Consistent with Elizur et al. (1991) affective outcomes encompass: (a) relations with co-workers, (b) opportunity to interact with people at work, (c) supervisory support, (d) recognition, (e) esteem.

1.3.3 Cognitive outcomes

According to the content perspectives on work motivation, higher-order needs are likely to emerge when satisfaction of lower-order needs is achieved by individuals, due to the endowment of a desired level of lower-order rewards (Maslow, 1954; Alderfer, 1972). Managers at different organizational level are found to attribute different salience to their high-order needs. McClelland (1961) observed that lower-level managers tend to be primarily motivated by the need for achievement, while the need for power become more salient as one moves up the

company hierarchy. In such circumstances, managers will attribute growing importance to different types of cognitive outcomes (Lahiri and Srivastva, 1967), such as autonomy, responsibility and opportunities for personal growth and for being influential in the work context (Maslow, 1954; McClelland, 1961). At the same time, research in organizational behaviour contend that middle, and lower level management perform substantially different patterns of functions with increasing emphasis on administrative and external monitoring responsibilities relative to technical skills, as one moves up in the company ladder (Gomez-Mejia et al., 1985; Ford and Noe, 1987). The heterogeneous nature of tasks and skills inherent in these occupations may generate different opportunities for managers to satisfy certain higher-order needs, thus impacting on the perceived importance of those outcomes (Dubinsky et al., 2000).

A number of studies based on the pivotal work of Porter (1961; 1962; 1964) demonstrated that organizational level is related to the amount of perceived deficiencies in need fulfilment, with lower-level mangers being more dissatisfied than middle-level managers in attempting to fulfil higher-order needs such as autonomy and self-actualization, presumably because higher cognitive outcomes are more attainable at higher echelons (Haire et al.,1963; Slocum, 1971; Porter and Mitchell, 1967; Edel, 1966; Ivancevich and Baker, 1970; Cummings and El Salmi, 1970). Porter (1962; 1964) found that, although reporting comparable results in terms of the importance of need fulfilment, higher-level managers were more satisfied compared with lower-level managers with several cognitive dimensions connected with the interest and meaningfulness of their occupation, the opportunity for personal growth and for exerting their influence in the organization, as well as with the amount of responsibility and the possibility of use their abilities and knowledge in their job. Thus, the studies suggest a trend for deficiencies in these areas to decrease with increasing levels of hierarchy (Cummings and El Salmi, 1968). The increasing satisfaction with higher-order outcomes at higher managerial levels is a consequence of the decreasing difference between what is desired and what is obtained in reality, suggesting that managers at upper echelons benefit of a greater disposal of such cognitive outcomes. Porter's results are in line with those reported by Rosen (1961) about two other cognitive dimensions (Elizur et al., 1991), namely feedback and proudness of being employed by the company.

Thus, this dialectic leads to the following hypothesis (stated in the null form):

H3: There is no association between hierarchical level in the organization and perception of meaningfulness of cognitive outcomes.

Consistent with Elizur et al. (1991) cognitive outcomes encompass: (a) company, (b) work meaningfulness, (c) feedback, (d) opportunity for personal growth, (e) influence in work, (f) advancement, (g) responsibility, (h) use of ability and knowledge, (i) job interest.

1.4 Methods

1.4.1 Research setting and sample

Data for this research were collected in an overseas subsidiary of a large US-based corporation operating in the service sector. Since its establishment in Italy (where deregulation of the industry occurred in 1997), the organization experienced stable profit and revenue growth in all years and did not incur major restructurings. Its workforce has grown steadily by an average of 15,5% per year since 2000 whereas at the time of the research the turnover rate was 14,4%, in line with past historical trends.

This research explores the perceptions of 1.771 mid level managers across five layers from the pool of middle managers of the subsidiary. Layers were identified according to the job title of the respondent. Consistent with Mangaliso (1995: 238), the working definition of a middle manager was identified as a manager who had other managers reporting to him/her and/or was responsible for a clearly delineated subunit.

The choice of a single research setting is advantageous for the present study as it enhanced comparability among the respondents' stimuli, in terms of reward dimensions offered to employees and environmental conditions (Kominis and Emmanuel, 2007; Bourguignon, 2004). Preliminary investigations suggested that middle managers in this organization worked towards the same strategic goals, although specific objectives slightly varied across strategic business units. Additionally, they were confirmed to be subjected to common human resources policies and management control practices such as training and performance appraisal.

The material reward package offered to middle-level managers comprised of three major components: a fixed pay linked to job evaluation, an individual cash bonus determined by the performance review and other non-cash bene-

fits related to the performance of the business (sub)units. Base pay differed across middle managers. Base pay stratification encompassed seven pay levels and largely overlapped the managerial levels identified by the company. The performance-related cash bonus was intended to foster the attainment of pre-set performance targets and it was linked to the performance review on a trimester basis. At the time of the research, this was based on a set of three financial measures derived from the P/L account. The process of measurement and the remuneration rules were the same for all the respondents. Provision of non-cash bonuses was based on the attainment of specific non-financial objectives (e.g. acquisition of a pre-set number of new clients within a time span) and it took the form of 'competitions' between subunits. At the time of the research, the company launched five different 'competitions', one for each strategic business unit with similar rules and prizes, although the object of the scheme varied across strategic business units. On the whole, base pay was the only means through which the material reward system (Vancil, 1979) distinguished among groups of managers at different organizational levels. Nevertheless, it should be recognized that differences in managerial attitudes toward rewards might be generated by a dissimilar acclimatization of respondents to the organization. For instance, managers with limited length of service might experience a lower degree of assimilation of the company's policies and practices (Armstrong, 2003). Middle managers in the sample reached their position either through career advancement within the organization or through selective recruitment. However, our preliminary fieldwork demonstrated that new starters - irrespective of the career pathway - were subject to formal induction courses and on-the-job induction training, which took place within the first three months in the position.

The organization conducted an employee opinion survey annually; this research is grounded on the analysis of the survey questionnaire employed in 2009, hereafter referred as EOS-09. EOS-09 was conducted with the dual goal of developing and monitoring management control and human resources management strategies, and investigating workplace issues impacting on managers, such as performance management and rewards, leadership and communication. The organization intended to use the information obtained from EOS-09 to guide organizational improvements efforts. EOS-09 was directed only to those middle level managers with at least three months of tenure: 1925 managers, at the time of the research. Our preliminary discussions with executives from the company indicated that EOS-09 intended to gather middle managers' opinion on three areas, namely the reward system in use, the perceived supervisory and

Occupational Group	Absolute Number	% of Total Sample
Level 1 Managers	23	1,30%
Level 2 Managers	66	3,73%
Level 3 Managers	286	16,14%
Level 4 Managers	301	17,0%
Level 5 Managers	1.095	61,83%
Total $n. = 1.771$		

Table 1.1: Overview of the sample

peer support and a broad set of dimensions collected under the umbrella term of 'engagement' that encompassed items such as 'job interest', 'meaningfulness of work' etc. The original questionnaire included 97 items, which addressed managers' perceptions using a five-point Lickert response format (ranging from "strongly agree = 5" to "strongly disagree =1").

The content of the survey was defined by the top management, although discretion was left to national divisions, which could include further items for special purposes. The survey was distributed to respondents during the first quarter of 2009, and completed during work time. Respondents were asked to provide some demographic information such as gender, age, salary level and to identify which geographic area they came from, but they were informed that individuals would not be able to be identified from the feedback given to the organization. Respondents returned their completed survey through the organization's internal mail service. Completed surveys were returned by 1771 managers, representing a return rate of 92%. Eighty percent of the sample were female, and 20% male. The majority of those who responded were aged 35 or less (71%), while 29% were more than thirty-five years old. All respondents in the sample came from five layers of the organization's hierarchy, identified by the organization itself and had at least three months of tenure in the position. The above description clarifies that the sample of this research is not random in a strict statistical sense. In order to assure comparability of the results, we filtered those managers who: (1) were identified as middle level managers by Mangaliso (1995); (2) received the EOS-09; (3) had at least 3 months of tenure in a managerial position. Table 1.1 offers an overview of the sample

1.4.2 Research Instrument

The questionnaire employed in this study was derived from a subset of 50 items included in the EOS-09. Classification was based on the comparison between the items included in the EOS-09 vis a vis the assortment of 24 work outcomes forming the "work values questionnaire (WVQ)" (Elizur et al., 1991).

In order to meaningfully classify the items contained in the EOS-09 into work outcome modalities, the rationale behind the construction of the WVQ was preliminary investigated. It appeared that each item in the WVQ had been meaningfully identified as a need satisfier in (at least) one of the content theories on which the framework is routed. For instance, Elizur et al (1991: 26) reported that "the job characteristic model of Hackman and Oldham (1980) is represented by items like: variety, use of ability, meaningful work, independence (autonomy), feedback, recognition". Therefore, we could establish a number of correspondences between the items defined by Elizur et al. (1991) and a number of statements/questions appearing in the questionnaires underlying the five content perspectives. Item correspondences between WVQ content theories are derived by Elizur et al. (1991) and they are detailed in table 1.2 through table 1.4.

Item Description	Modality of Outcome	Underlying Content Theory of Motivation
Pay	Instrumental	Hierarchy of Needs Theory (Maslow, 1954) - ERG Theory (Alderfer, 1972)
Hours of work	Instrumental	Two Factor Theory (Herzberg et al., 1956; Herzberg, 1966)
Security	Instrumental	Two Factor Theory (Herzberg et al., 1956; Herzberg, 1966)
Benefits	Instrumental	Two Factor Theory (Herzberg et al., 1956; Herzberg, 1966)
Work conditions	Instrumental	Two Factor Theory (Herzberg et al., 1956; Herzberg, 1966)

Table 1.2: Classification of instrumental items included in the Work Values Questionnaire (Elizur et al., 1991)

The items included in the EOS-09 were compared with those adopted by Maslow (1945), Alderfer (1972), Hackman and Oldham (1980), Herzberg (1966) and McClelland (1961). For instance, we could establish a correspondence between the item: 'My compensation is competitive with similar jobs in other companies' in the EOS-09 and the item: "Compared with similar jobs in other places my pay is poor (disagree)' in the E.R.G. questionnaire (Alderfer, 1972). Finally, a subset of suitably selected statements from the EOS-09 were labeled according to the three modalities of work outcome identified by Elizur et al. (1991). Since Elizur et al. (1991) derived the item 'pay (the amount of money you receive)' from the work of Alderfer (1972) and since this item had been classified as instrumental by Elizur et al. (1991), we then labelled the item 'My compensation is competitive with similar jobs in other companies' as 'instrumental' ad related to 'pay (the amount of money you receive)'. Table 1.5 provides a sample of the classification.

This process of classification was informed by a number of procedural guidelines. First, Elizur et al. (1991) put forward that two need theories such as Maslow (1954) and Alderfer (1972) have been jointly considered in order to determine four items in the WVQ. However, it can be observed that those items (i.e. pay, esteem, recognition, growth) were derived primarily from the E.R.G. theory (Alderfer, 1972) only. This might be because Maslow's theory aimed to categorize human needs whereas Alderfer's work is applied to organizational

Item Description	Modality of Outcome	Underlying Content Theory of Motivation
Relations with supervisor	Affective	Two Factor Theory (Herzberg et al., 1956; Herzberg, 1966)
Relations with co-workers	Affective	Achievement motivation theory (McClelland, 1961)
Recognition	Affective	Hierarchy of Needs Theory (Maslow, 1954) - ERG Theory (Alderfer, 1972)
Esteem	Affective	Hierarchy of Needs Theory (Maslow, 1954) - ERG Theory (Alderfer, 1972)
Opp. to interact with people	Affective	Two Factor Theory (Herzberg et al., 1956; Herzberg, 1966)

Table 1.3: Classification of affective items included in the Work Values Questionnaire (Elizur et al., 1991)

settings (Schneider and Alderfer, 1973), therefore the latter appeared to better suit the purpose of the WVQ. Consistently, in order to classify the items in EOS-09, we took into consideration both E.R.G. items and Maslow items as they have been developed by Alderfer (1972). Second, Elizur et al. (1991) did not specify which items had been derived from the work of Herzberg (1966). Cross-checking Herzberg items with those in the WVQ, we inferred that 12 items were included, some with slight changes. Third, some of the items in the WVQ are common to more than one content theory. For instance, Elizur et al. (1991) suggested that the item "recognition" had been included in the questionnaire as it appeared both in Alderfer (1972) and Hackman and Oldham (1980). Similarly, Herzberg (1966) items partially "overlap" with those in Alderfer (1972), Hackman and Oldham (1980) and McClelland (1961). It follows that, whenever multiple references could be identified for one item in the EOS-09, each source has been taken into consideration as a potential mean of categorization. Since the statements in the EOS-09 are in the agree/disagree format we limited our assessment only to those items with a corresponding format in Maslow (1954), Alderfer (1972), McClelland (1961) and Hackman and Oldham (1980). Consistent with McClelland (1961), the concept of "support" for an item has been assimilated to the one of "agreement" with an item. Phrasal semantic equivalence has been our main mean of classification, however some of the items in EOS-09 were lexically different from those that could be found in the question-

Item Description	Modality of Outcome	Underlying Content Theory of Motivation
Responsibility	Cognitive	Two Factor Theory (Herzberg et al., 1956; Herzberg, 1966)
Advancement	Cognitive	Two Factor Theory (Herzberg et al., 1956; Herzberg, 1966)
Achievement	Cognitive	Achievement motivation theory (McClelland, 1961)
Influence in work	Cognitive	Achievement motivation theory (McClelland, 1961)
Influence in society	Cognitive	Achievement motivation theory (McClelland, 1961)
Job interest	Cognitive	Two Factor Theory (Herzberg et al., 1956; Herzberg, 1966)
Feedback	Cognitive	Job Characteristics Model (Hackman and Oldham, 1980)
Meaningful work	Cognitive	Job Characteristics Model (Hackman and Oldham, 1980)
Use of abilities	Cognitive	Job Characteristics Model (Hackman and Oldham, 1980)
Independence	Cognitive	Job Characteristics Model (Hackman and Oldham, 1980)
Company	Cognitive	Two Factor Theory (Herzberg et al., 1956; Herzberg, 1966)
Status	Cognitive	Two Factor Theory (Herzberg et al., 1956; Herzberg, 1966)
Contribution to society	Cognitive	Two Factor Theory (Herzberg et al., 1956; Herzberg, 1966)
Opportunity for personal growth	Cognitive	Hierarchy of Needs Theory (Maslow, 1954) - ERG Theory (Alderfer, 1972)

Table 1.4: Classification of cognitive items included in the Work Values Questionnaire (Elizur et al., 1991)

E0S-09 item	Comparable Item	Modality of Outcome
My compensation is competitive with similar jobs in other companies	Compared to similar jobs in other places, my pay is poor (dis.) (Alderfer, 1972)	Instrumental - Pay
In my organization people help each other when they are in need	I can count on my coworkers to give me a hand when I need it (Mc Clelland, 1961)	Affective - Co-workers
Overall I am satisfied with my present job	Generally speaking I am very satisfied with this job (Hackman and Oldham, 1980)	Cognitive - Meaningful work
I find my work challenging and fulfilling	The respondent mentioned the actual doing of the job as a source of good or bad feelings (Herzberg, 1966)	Cognitive - Job interest

Table 1.5: Classification of items in the EOS-09: abbreviated illustration

naires. Therefore, we proceeded by identifying the sentential paraphrases, i.e. the statements sharing the same semantic content (cf. Harris, 1954).

A distinct procedure was followed to label those items grounded on the work of Herzberg (1966). We compared the items in the EOS-09 with Herzberg's categories following a two-steps procedure. First, for each item grounded on Herzberg's work we identified the underlying category. We chose to operate a classification only of those items for which we could found a specific driver of identification within each category (e.g. "a supervisor who is perpetually nagging or critical and a supervisor who keeps things running smoothly and efficiently might both be reported as factors in a sequence of events that led to exceptional feeling about the job" – Herzberg, 1966: 196). However, this procedure required some degrees of interpretation from the researchers, therefore whenever possible we introduced a 'confirmatory step', by identifying at least one supporting item among the remaining content perspectives. The classification of the EOS-09 was independently undertaken by two of the researchers. After providing the first tentative of classification, the researchers met to compare and mutually resolved differences. A second reclassification of a subset of items was performed a few weeks later, adopting the same procedure.

The empirical analysis conducted on the EOS-09 depended on data availability, since issues of reward systems and incentive offered to managers were regarded as sensitive in our research context, particularly at high management levels. The difficulty in getting comprehensive support in sensitive areas of

enquiry such as performance evaluation and rewards has been noted by other researchers (Merchant et al., 1995; Hirst, 1983). To overcome such difficulties, our analysis was conducted at the group level.

1.4.3   Variable measurement and empirical tests

Non-parametric tests of independence were performed to find out whether differences between managers' perception of desirable rewards may be associated with the organizational level of respondents. The type of data and the sample size dictated the specific test of independence employed. Hypotheses were tested by using Pearson's chi-square test of independence, with the organizational level serving as the independent variable and a nominal, Likert-type scale, expressing (dis)agreement with an item, serving as the dependent variable. Hypotheses were analyzed by considering 99,9% confidence interval. As the survey generated primarily ordinal data, chi-square was an appropriate choice to assess the relationships between level in the hierarchy and perception of statements (Siegel and Castellan, 1988). Pearson's chi-square test is based on the assumption that the sample data follows chi-square distribution and it is appropriate if "fewer than 20 percent of the cells have an expected frequency of less than 5 and if no cell has an expected frequency of less than one" (Siegel and Castellan, 1988: 199). When necessary and conceptually meaningful, adjacent levels of variables were combined to meet the minimum cell expected frequency requirement for the chi-square. Specifically, the five levels of agreement with item were collapsed to three levels (agree; not agree nor disagree and disagree). The chi-square statistic calculated in each case was evaluated with the chi-square distribution for (L – 1)(S – 1) degrees of freedom. Results of the hypotheses tests were analyzed by comparing the calculated probability (p) values with the significance level of 0.001 for 99.9% confidence interval. Null (Ho) hypotheses were rejected when p values were smaller or equal to 0.001.

1.5   Findings

Descriptive statistics for the data are detailed in table 1.6 through 1.8. Descriptive statistics suggest that managers expressed a slightly more favorable attitude toward items belonging to the cognitive and the affective modalities compared with those included in the instrumental modality.

This pattern of preference is evident across all groups of managers. The evi-

n.	Item description	Lev. 1 Managers		Lev. 2 Managers		Lev. 3 Managers		Lev. 4 Managers		Lev. 5 Managers	
		Mean	St. Dev.	Mean	St. Dev.	Mean	St. Dev.	Mean	St. Dev.	Mean	St. Dev.
Pay: the amount of money you receive											
1	Compensation: internal reference	3,000	1,168	2,180	1,122	2,090	1,150	2,310	1,120	2,600	1,2584
2	Compensation: external reference	3,260	1,096	2,610	1,311	2,620	1,294	2,710	1,240	2,750	1,308
Work conditions											
3	Information to perform job well	3,570	0,945	2,700	1,081	3,150	1,236	3,230	1,179	3,540	1,083
4	Provision of training	3,650	1,191	2,770	1,200	2,900	1,363	3,140	1,180	3,330	1,202
5	Work processes well organized	3,090	1,083	2,500	1,041	3,020	1,135	3,220	1,041	3,530	1,044
6	Provision of equipment	3,740	1,096	2,970	1,136	3,340	1,069	3,560	0,990	3,610	1,058
Benefits											
7	Benefit system: transparent	4,130	1,217	3,770	1,107	3,530	1,291	3,710	1,085	3,580	1,159
8	Benefit system: satisfactory	3,650	1,434	2,950	1,270	3,040	1,399	3,020	1,262	3,100	1,323
Convenient hours of work											
9	Reasonable hours of work	3,300	1,222	3,150	1,260	3,250	1,154	3,330	1,069	3,290	1,161

Table 1.6: Instrumental Modality - Descriptive statistics for each group of respondents

n.	Item description	Lev. 1 Managers		Lev. 2 Managers		Lev. 3 Managers		Lev. 4 Managers		Lev. 5 Managers	
		Mean	St. Dev.	Mean	St. Dev.	Mean	St. Dev.	Mean	St. Dev.	Mean	St. Dev.
	Supervisor: a fair and considerate boss										
10	Supervisor leads by example	4,174	1,114	3,500	1,304	3,818	1,188	3,837	1,100	3,979	1,124
11	Supervisor good at motivating	3,522	1,377	3,136	1,300	3,458	1,302	3,425	1,256	3,828	1,210
12	Supervisor cares about workers	3,870	1,254	3,242	1,325	3,650	1,296	3,585	1,256	3,980	1,142
13	Supervisor competent	3,957	1,107	3,636	1,172	3,878	1,122	3,764	1,105	4,190	0,998
14	Supervisor good in coaching	4,087	1,083	3,606	1,188	3,769	1,260	3,794	1,148	3,989	1,025
15	Supervisor makes time for workers	3,652	1,112	3,409	1,265	3,664	1,281	3,764	1,172	4,019	1,041
16	Supervisor trustworthy	4,348	0,832	3,758	1,278	3,857	1,278	4,023	1,088	4,170	1,012
17	Supervisor helpful	4,174	0,887	3,621	1,147	3,923	1,173	4,073	1,101	4,258	0,915
18	Supervisor role model	4,174	1,114	3,682	1,192	3,703	1,216	3,814	1,079	3,897	1,118
19	Supervisor mentors development	3,696	1,105	2,621	1,187	3,308	1,087	3,542	1,014	3,781	0,986
20	Senior management competent	3,696	1,259	3,061	1,346	3,346	1,249	3,432	1,160	3,660	1,116
21	Senior management role model	4,174	0,650	3,227	1,187	3,525	1,117	3,804	0,897	4,010	0,900
22	Senior management reliable	4,000	0,853	3,030	1,301	3,315	1,222	3,771	0,958	3,838	0,998
23	Senior management helpful	4,174	0,778	3,046	1,329	3,150	1,177	3,429	0,993	3,620	1,076
24	Senior managers act with integrity	4,478	0,665	4,076	0,791	3,738	0,947	4,063	0,725	4,041	0,811
25	Senior management trustworthy	4,391	0,783	3,924	0,865	3,675	1,014	4,060	0,746	4,039	0,836
	Recognition for doing a good job										
26	Praise from supervisor	3,696	1,222	3,606	1,263	3,584	1,283	3,661	1,151	3,911	1,106
27	Praise from senior management	4,174	0,887	3,349	1,283	3,234	1,198	3,515	0,982	3,610	1,039
28	Recognition for a good job	4,087	0,668	2,985	1,318	3,066	1,374	3,093	1,259	3,218	1,310
	Esteem										
29	Fair treatment	4,435	0,662	3,833	1,012	3,483	1,142	3,851	0,931	3,839	1,028
30	Respect from others	4,522	0,665	3,894	0,963	3,762	1,151	3,970	0,854	4,009	0,944
	Opportunity to meet people and interact										
31	Opportunity to meet other at work	4,174	0,887	3,803	0,881	3,745	1,023	4,402	0,762	4,564	0,624
	Co-workers										
32	Co-workers helpful	3,652	1,027	2,924	1,012	3,046	1,033	3,488	0,951	3,570	0,972
33	Co-workers cooperative	3,957	0,878	3,379	0,957	3,455	1,017	3,671	0,917	3,749	0,922

Table 1.7: Affective Modality - Descriptive statistics for each group of respondents

n.	Item description	Lev. 1 Managers		Lev. 2 Managers		Lev. 3 Managers		Lev. 4 Managers		Lev. 5 Managers	
		Mean	St. Dev.	Mean	St. Dev.	Mean	St. Dev.	Mean	St. Dev.	Mean	St. Dev.
Company											
34	Favourable opinion of the organization	4,696	0,470	4,485	0,789	4,032	1,003	4,472	0,625	4,329	0,791
35	Reccomend organization	4,304	0,876	3,742	1,168	3,546	1,227	3,870	0,997	3,919	1,047
36	Proud of working for the organization	4,652	0,647	4,136	0,910	3,902	1,048	4,193	0,870	4,111	0,938
37	Willing to remain with the organization	4,304	0,876	3,742	1,168	3,427	1,292	3,831	1,068	3,848	1,100
Meaningful work											
38	Satisfaction with the job	4,348	0,755	3,576	1,138	3,570	1,208	3,811	0,956	3,851	1,062
39	Proud when job is well done	4,522	0,593	4,121	0,937	3,955	1,077	4,282	0,764	4,140	0,918
40	Understand job expectations	4,217	0,736	3,985	0,936	3,951	0,840	4,306	0,627	4,235	0,617
Feedback on the results of your work											
41	Regular feedback about performance	3,522	1,210	3,349	1,283	3,462	1,264	3,847	1,088	4,009	1,036
42	Feedback received by others	3,522	1,163	3,288	1,310	3,570	1,271	3,671	1,105	3,869	1,130
43	Feedback provided timely	3,870	1,100	3,394	1,239	3,556	1,235	3,674	1,155	3,919	1,076
Opportunity for personal growth											
44	Job favours long term development	4,174	0,887	3,318	1,192	3,399	1,274	3,502	1,082	3,560	1,144
45	Updated with developments	4,217	0,850	3,606	1,108	3,297	1,148	3,635	0,983	3,560	1,004
Influence in work											
46	Opinions are valued	3,826	1,230	3,303	1,022	3,315	1,181	3,282	1,088	3,329	1,106
Advancement, changes for promotion											
47	Opportunity to meet career goals	4,044	0,976	3,470	1,140	3,217	1,341	3,468	1,150	3,490	1,214
Responsibility											
48	Work independently and take risk	4,087	1,083	3,485	1,011	3,276	1,198	3,691	0,935	3,639	0,975
Use of ability and knowledge in your work											
49	Opportunity to be creative	4,087	1,041	3,455	1,084	3,504	1,178	3,890	0,915	3,829	0,951
Job interest											
50	Interesting and fulfilling job	4,304	0,765	3,758	1,151	3,594	1,204	4,030	0,866	3,949	1,025

Table 1.8: Cognitive Modality - Descriptive statistics for each group of respondents

n.	Item description	χ2 test	df	p-value
Pay: the amount of money you receive				
1	Compensation: internal reference	66,036	16	p<0,001
2	Compensation: external reference	ns	16	
Work conditions				
3	Information to perform job well	69,797	16	p<0,001
4	Provision of training	72,241	16	p<0,001
5	Work processes well organized	118,862	16	p<0,001
6	Provision of equipment	50,292	16	p<0,001
Benefits				
7	Benefit system: transparent	34,526	16	p<0,01
8	Benefit system: satisfactory	31,537	16	p<0,025
Convenient hours of work				
9	Reasonable hours of work	ns	16	

Table 1.9: Instrumental modality - synthesis of χ2 test results

dence suggests that the environments of the five levels of managements studied are relatively rich in terms of desired outcomes: middle managers in the research setting are offered affective- and cognitive-related rewards, which appear to be valued by individuals.

1.5.1 Instrumental outcomes

The first hypothesis (H1) involved the relationship between perception of instrumental/material outcomes and manager's level in the organization.

The results show several statistically significant differences between the perceptions reported by managers at different levels in the hierarchy. Specifically, tables 1.9 shows that no appreciable differences (p<0,001) between groups have been detected for only 4 of the 9 items in the instrumental facet. There were no meaningful differences in terms of the opinion expressed on the design features of the bonus system (item 7 and 8) and on the convenience of working hours (item 9). Because of the non-significant results for these three items, H1c and H1d could not be rejected. At the same time, respondents expressed homogeneous opinions on the 'internal' adequacy of the compensation (item 1).

Results of the Chi-square tests (table 1.10) of 4 items dealing with work conditions indicate that the patterns are not random, and significant differences exist between the observed and expected (no effect) distributions (p < 0.001). Overall, level 1 and level 5 managers were more likely to express their agreement with statements compared with others, while the lowest rates of agreement were

Item	Lev. 1 Managers					Lev. 2 Managers					Lev. 3 Managers					Lev. 4 Managers					Lev. 5 Managers					χ2 test
	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1	
Pay: the amount of money you receive																										
1	2	6	8	4	3	2	8	12	22	22	9	35	43	84	115	9	48	51	112	81	77	241	208	306	263	66,036
2	2	10	4	6	1	5	15	13	15	18	20	71	49	72	74	18	85	52	85	61	112	254	221	265	243	ns
Work conditions																										
3	2	13	5	2	1	1	18	17	20	10	40	92	57	66	31	35	117	60	60	29	184	490	206	162	53	69,797
4	6	8	6	1	2	4	17	17	16	12	37	79	51	57	62	34	100	70	67	30	175	416	186	230	88	72,241
5	2	6	9	4	2	1	13	15	26	11	23	91	66	80	26	22	124	64	79	12	164	504	219	164	44	118,862
6	4	14	2	1	2	3	25	12	19	7	32	117	66	57	14	45	135	72	41	8	199	506	199	145	46	50,292
Benefits																										
7	11	9	0	1	2	15	36	4	7	4	72	106	40	37	31	70	139	40	40	12	232	473	156	166	68	ns
8	9	6	1	5	2	7	19	15	14	11	46	84	55	38	63	32	99	60	63	47	173	326	206	217	173	ns
Convenient hours of work																										
9	4	8	7	7	1	5	31	6	17	7	28	122	57	51	28	30	133	60	63	15	120	482	186	208	99	ns

Note: ns = not significant at p<0,001

Frequency distributions are detailed for level of agreement where 5 stands for 'strongly agree' and 1 'stands for strongly disagree'.

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Table 1.10: Instrumental modality - observed frequency distributions across managerial levels and χ2 test results

reported by level 2 and level 3 managers. In fact, for the tests of the items on work conditions, the largest impact on the Chi-square statistic stems from a larger than expected number of negative opinions expressed by level 2 managers and from a smaller than expected number of negative comments reported by level 5 managers. For these reasons H1b could be rejected. Similarly, significant differences were associated with one item (item 1) dealing with pay (chi-square statistic: 66,036, df: 16). The largest proportion of positive comments on this statement was reported by level 1 managers followed by level 5 managers, while the lowest rates of agreement were reported by level 2 and level 3 managers. In fact the largest impact on the Chi-square statistics for this items results from a larger than expected number of negative opinions reported by level 3 managers. Evidence stemming from item 1 and 2 suggests implies that our null hypothesis (H1a) could be partially rejected.

1.5.2 Affective outcomes

Hypothesis 2 investigates whether managerial level is related to the perception of affective outcomes. The chi-square tests (table 1.11) show that the response pattern is random, i.e. not significantly different ($p > 0,001$) from the expected (no effect) distribution, for two items included in the supervision dimension (item 10 and 18), for one item dealing with recognition (item 28) and for one item (31) included in the dimension called "opportunity to meet people and to interact with them". In detail (see table 1.12), all managers concurred that superiors leaded by example (item 10) and that they recognized superiors as role models (item 18). At the same time, managers expressed homogeneous opinions on perceived recognition for doing a good job (item 28). Finally, individuals at different organizational levels expressed comparable (mostly positive) opinions on the opportunity to meet other people while being at work. Consequently, H2b could not be rejected.

The Chi-square tests of 20 items included in 4 dimensions reveal that the response patterns are not random and significant differences exist between the observed and the expected (no effect) distributions ($p < 0,001$). H2a posited that managers hold similar opinions on the relation with co-workers irrespective of their position in the organization. In fact, the opposite situation emerged; that is: statistically significant differences could be associated to all the items included in this dimension. Specifically, level 1 and level 5 managers expressed significantly higher rates of agreement compared with other groups, while the

n.	Item description	χ2 test	df	p-value
Supervisor: a fair and considerate boss				
10	Supervisor leads by example	ns	16	p<0,025
11	Supervisor good at motivating	68,175	16	p<0,001
12	Supervisor cares about workers	74,113	16	p<0,001
13	Supervisor competent	83,875	16	p<0,001
14	Supervisor good in coaching	42,935	16	p<0,001
15	Supervisor makes time for workers	59,018	16	p<0,001
16	Supervisor trustworthy	43,827	16	p<0,001
17	Supervisor helpful	59,669	16	p<0,001
18	Supervisor role model	ns	16	p<0,01
19	Supervisor mentors development	153,694	16	p<0,001
20	Senior management competent	58,183	16	p<0,001
21	Senior management role model	118,515	16	p<0,001
22	Senior management reliable	113,644	16	p<0,001
23	Senior management helpful	88,858	16	p<0,001
24	Senior managers act with integrity	50,088	8	p<0,001
25	Senior management trustworthy	70,267	8	p<0,001
Recognition for doing a good job				
26	Praise from supervisor	41,828	16	p<0,001
27	Praise from senior management	63,092	16	p<0,001
28	Recognition for a good job	ns	16	
Esteem				
29	Fair treatment	64,073	16	p<0,001
30	Respect from others	52,416	16	p<0,001
Opportunity to meet people and interact				
31	Opportunity to meet other at work	ns	16	
Co-workers				
32	Co-workers helpful	91,746	16	p<0,001
33	Co-workers cooperative	41,542	16	p<0,001

Table 1.11: Affective modality - synthesis of χ2 test results

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item	Lev. 1 Managers					Lev. 2 Managers					Lev. 3 Managers					Lev. 4 Managers					Lev. 5 Managers					χ2 test
	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1	
Supervisor: a fair and considerate boss																										
10	12	6	3	1	1	16	24	11	7	8	94	112	34	26	20	90	126	48	20	17	427	416	109	88	55	ns
11	7	6	5	2	3	8	26	9	13	10	69	95	55	32	35	67	100	55	52	27	385	96	134	101	79	68,175
12	9	8	1	4	1	13	19	14	11	9	84	106	43	18	35	85	97	52	43	24	458	348	151	85	53	74,113
13	8	10	2	2	1	16	27	10	9	4	95	112	46	15	18	84	123	44	39	11	515	394	98	55	33	83,875
14	11	6	3	3	0	16	25	13	7	5	103	86	51	20	26	94	115	43	34	15	396	429	167	68	35	42,935
15	5	10	4	3	1	12	28	8	11	7	86	103	43	23	31	94	109	49	31	18	427	405	153	77	33	59,018
16	12	8	2	1	0	23	22	9	6	6	120	74	49	17	26	124	105	39	21	12	515	372	120	55	33	43,827
17	10	8	4	1	0	14	30	9	9	4	109	103	37	17	20	121	117	36	18	9	534	392	107	42	20	59,669
18	13	4	3	3	0	16	30	9	6	6	89	89	68	14	26	94	103	70	22	12	383	383	197	77	55	ns
19	6	8	6	2	1	3	15	16	18	14	35	103	81	49	18	51	124	66	57	3	252	504	219	87	33	153,694
20	7	8	4	2	2	7	27	8	11	13	57	86	74	37	32	51	121	57	51	21	252	460	208	109	66	58,183
21	7	13	3	0	0	9	21	19	10	7	54	111	71	31	19	65	141	69	23	3	359	469	295	63	9	118,515
22	7	10	5	1	0	8	21	13	13	11	49	94	72	40	31	75	115	81	27	3	306	438	252	66	33	113,644
23	9	9	5	0	0	10	17	17	10	12	37	80	89	49	31	45	96	112	39	9	241	405	296	98	55	88,858
24	13	8	2	0	0	20	33	12	0	1	65	108	94	11	8	85	154	58	4	0	331	517	221	13	13	50,088
25	12	9	1	1	0	17	31	15	2	1	71	86	103	17	9	87	151	57	6	0	350	482	230	22	11	70,267
Recognition for doing a good job																										
26	7	7	6	2	1	19	21	13	7	6	78	98	58	17	35	81	103	69	30	18	386	407	177	68	57	41,828
27	10	8	4	1	0	15	17	17	10	7	43	86	83	43	31	49	109	97	40	6	219	427	296	109	44	63,092
28	6	13	4	0	0	7	23	10	14	12	43	95	41	52	55	36	103	57	63	42	186	372	186	197	154	ns
Esteem																										
29	12	9	2	0	0	12	39	9	4	2	46	126	58	32	24	69	151	57	15	9	315	447	206	96	31	64,073
30	14	7	2	0	0	16	36	7	5	2	83	112	51	20	20	78	157	51	9	6	361	493	153	66	22	52,416
Opportunity to meet people and interact																										
31	8	13	10	1	11	38	12	3	2	69	120	60	29	8	157	120	15	6	3	681	364	364	36	14	0	ns
Co-workers																										
32	5	8	8	1	1	2	20	20	19	5	14	94	92	63	23	38	126	87	45	5	153	515	263	131	33	91,746
33	6	12	3	2	0	4	33	15	12	2	40	111	85	39	11	51	136	84	24	6	208	536	241	88	22	41,542

Note: ns = not significant at p<0,001

Frequency distributions are detailed for level of agreement where 5 stands for 'strongly agree' and 1 'stands for strongly disagree'.

Table 1.12: Affective modality - observed frequency distributions across managerial levels and χ2 test results

lowest level of agreement was reported by level 2 and level 3 managers. As a matter of fact, the largest impact on the chi-square statistics of the items included in this dimension, is associated with a smaller than expected number of positive comments of level 2 and level 3 managers and from a larger than expected number of negative comments reported by managers on level. Thus H2a could not be rejected. Table 6 shows that level 1 manager manifested the highest level of agreement with the items included in the "esteem" dimension (item 29 and 30), while level 3 managers reported the lowest re12sults. The largest impact on the Chi-square statistics originates from a larger than expected number of negative comments reported by level 3 managers and from a larger than expected number of positive comments expressed by level 1 managers, thus leading to rejection of H2e. Fourteen significant items investigated respondents' perception on supervision, taking either an interpersonal or a technical perspective (Herzberg, 1966). Although statistically significant differences were associated with 12 items ($p < 0,001$), results suggest that the response pattern seems not to be affected by the content of the statement (i.e. interpersonal or technical), rather different patterns are associated to the supervisory level under investigation. Statements involving an assessment of senior management behaviour (i.e. item 21 - 25) reflect the pattern of response discussed above, in other words level 1 and level 5 managers expressed the highest level of agreement, followed by all other groups, while the lowest agreement was reported by level 2 and level 3 managers. In fact, for these items, the largest impact on the Chi-square statistic results from a larger than expected number of negative comments from either level 2 or level 3 managers. Conversely, the highest level of agreement with the items dealing with direct supervision (i.e. item 10 - 20) were reported by level 5 managers, with the exception of only two items (11 and 16) for which managers at level 1 followed by level 5 managers reported the highest scores, while managers at level 3 reported the lowest scores for the full set of items. In general, managers at level 2 showed a greater appreciation of policies and practices related to direct supervision, compared with level 3 managers, especially for those items addressing interpersonal issues (e.g. item 11 and 12). The only exception is constituted by item 15, on supervisor availability and involvement. Results for this item suggest that managers' opinion tend to be less favorable at higher organizational levels. The largest impact on the Chi-square statistic for a number of items addressing supervisory behavior (i.e. item 12, 14, 15, 16, 17 and 20) comes from a larger than expected number of negative comments reported by level 3 managers. Alternatively, it originated from a larger than

expected number of negative comments expressed by level 4 managers (item 11, 13) or by level 2 managers (item 19). Consequently, H2c was partially rejected. Finally the significant items included in the "recognition" dimension (item 34, 35) did not share a comparable response pattern even though the chi-square tests indicate that both patterns are not random but significantly different from the expected distributions (table 6). It can be observed that responses varied across managers as a function of the provider of formal recognition considered in the statements, i.e. either top management or direct supervisor. Even though the response patterns were dissimilar the chi-square tests indicated that managers at level 3 reported the lowest rates of agreement with both items. In fact, the largest impact on the chi-square statistics of both items originated from a larger than expected number of negative comments reported by level 3 managers. Thus H2d was partially rejected.

1.5.3 Cognitive outcomes

H3 investigated the relationship between perception of cognitive/psychological outcomes and managers' level in the hierarchy. The results of the chi-square test (table 1.13) indicate that the response pattern is not significantly different from the expected distribution only for two dimensions in the cognitive facet. In detail, there was no general agreement in terms of perceived opportunities to manifest personal opinions in the job (item 46) and in terms of career opportunities (item 47), however no significant differences were detected.

Unexpectedly, results suggest that the perception of opportunity for promotion and influence in the job is not statistically significantly related ($p > 0,001$) to managerial level (table 1.14). Thus, the null hypotheses could not be rejected for H3e and H3f. At the same time, all groups expressed comparable levels of proudness to work for the organization; this item was included in the "company" dimension (item 36).

The Chi-square tests of the items included in seven dimensions of the cognitive facet indicate that the patterns are not random, and significant differences exist between the observed and expected (no effect) distributions. Specifically, managers at level 1 expressed the highest rate of positive comments for all the items included in four dimensions, namely: "opportunity for personal growth", "use of ability and knowledge", "job interest" and "responsibility", followed by all other groups. For these dimensions, the lowest level of agreement was reported either by level 2 or level 3 managers. The largest impact on the Chi-square

n.	Item description	χ2 test	df	p-value
	Company			
34	Favourable opinion of the organization	60,047	8	p<0,001
35	Reccomend organization	47,512	16	p<0,001
36	Proud of working for the organization	ns	16	p<0,01
37	Willing to remain with the organization	67,825	16	p<0,001
	Meaningful work			
38	Satisfaction with the job	51,151	16	p<0,001
39	Proud when job is well done	31,646	8	p<0,001
40	Understand job expectations	87,244	8	p<0,001
	Feedback on the results of your work			
41	Regular feedback about performance	85,984	16	p<0,001
42	Feedback received by others	62,679	16	p<0,001
43	Feedback provided timely	47,311	16	p<0,001
	Opportunity for personal growth			
44	Job favours long term development	40,978	16	p<0,001
45	Updated with developments	50,069	8	p<0,001
	Influence in work			
46	Opinions are valued	ns	16	p<0,025
Advancement, changes for promotion				
47	Opportunity to meet career goals	ns	16	p<0,01
	Responsibility			
48	Work independently and take risk	62,559	16	p<0,001
	Use of ability and knowledge in your work			
49	Opportunity to be creative	53,327	16	p<0,001
	Job interest			
50	Interesting and fulfilling job	56,999	16	p<0,001

Table 1.13: Cognitive modality - synthesis of χ2 test results

item	Lev. 1 Managers					Lev. 2 Managers					Lev. 3 Managers					Lev. 4 Managers					Lev. 5 Managers					χ2 test
	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1	
Company																										
34	16	7	0	0	0	41	19	3	3	0	109	107	49	12	9	160	126	12	3	0	534	425	107	20	9	60,047
35	12	7	3	1	0	19	25	13	4	5	75	84	75	26	26	87	124	63	18	9	383	383	219	77	33	47,512
36	17	4	2	0	0	27	25	11	2	1	100	91	73	11	11	133	105	54	6	3	447	403	184	41	20	ns
37	13	4	6	0	0	19	25	13	4	5	63	101	52	35	35	96	106	57	36	6	372	361	230	88	44	67,825
Meaningful work																										
38	12	7	4	0	0	14	25	17	5	5	66	115	44	38	23	69	145	54	27	6	329	460	153	120	33	51,151
39	13	9	1	0	0	27	25	10	3	1	109	97	46	26	8	136	120	39	6	0	460	405	164	55	11	31,646
40	8	13	1	1	0	20	31	11	2	2	68	157	45	11	5	111	177	9	2	2	353	660	68	14	0	87,244
Feedback on the results of your work																										
41	5	8	6	2	2	11	28	8	11	8	61	109	49	35	32	87	135	42	20	17	416	416	153	77	33	85,984
42	6	5	8	3	1	13	22	9	15	7	74	102	57	19	34	75	112	69	30	15	383	383	186	88	55	62,679
43	9	5	6	3	0	13	23	13	11	6	69	106	54	29	28	79	112	64	25	21	383	405	186	77	44	47,311
Opportunity for personal growth																										
44	11	5	7	0	0	8	29	12	10	7	60	97	60	35	34	54	115	72	48	12	230	427	241	120	77	40,978
45	10	9	3	1	0	12	32	10	8	4	34	112	74	37	29	46	154	55	37	9	153	526	241	131	44	50,069
Influence in work																										
46	8	8	4	1	2	3	34	13	12	4	41	109	61	49	26	33	109	93	42	24	131	427	296	153	88	ns
Advancement, changes for promotion																										
47	10	5	7	1	0	12	25	15	10	3	57	80	60	46	43	54	120	60	47	20	230	416	208	142	99	ns
Responsibility																										
48	10	8	3	1	1	8	30	17	8	3	43	97	71	46	29	54	139	75	27	6	188	495	276	101	35	62,559
Use of ability and knowledge in your work																										
49	9	10	2	1	1	9	29	15	9	4	58	109	61	35	23	75	148	54	18	6	263	514	208	88	22	53,327
Job interest																										
50	11	8	4	0	0	20	23	14	5	4	74	97	63	29	23	90	151	45	9	6	372	438	175	77	33	56,999

Note: ns = not significant at p<0,001

Frequency distributions are detailed for level of agreement where 5 stands for 'strongly agree' and 1 'stands for strongly disagree'.

Table 1.14: Cognitive modality - observed frequency distributions across managerial levels and χ2 test results

statistics obtained for the dimensions "use of ability and knowledge", "responsibility" and "job interest" stems from a larger than expected number of negative comments reported by managers at level 3. Contrariwise, the largest impact on the Chi-square statistics obtained for the dimension called "opportunity for personal growth" originates from a larger that expected number of positive opinions expressed by managers at level 1. Consequently, the H3d, H3g, H3h and H3i could be rejected. For H3b, results of the Chi-square statistics suggest that organizational level is significantly associated to the opinion expressed by different groups of managers on "meaningfulness of work". Level 1 managers followed by all other groups reported the largest rates of positive comments on item 38 and 39 followed by managers at level 5, whilst level 5 managers together with level 4 managers were more likely to recognize the meaningfulness of their occupation for costumer-related activities (item 40). At the same time, the largest number of negative comments was reported by managers at level 2 and 3 for all the items included in the dimension. Results show that the largest impact on the Chi-square statistic for the items dealing with "meaningfulness of work" originates from a larger than expected number of negative comments reported by managers at level 3 and from a smaller than expected number of negative comments expressed by level 4 managers (item 38 and 39). A larger than expected number of neither positive nor negative comments reported by level 3 managers determined the largest impact on the Chi-square statistic of item 40. Thus H3b could be rejected. Statistically significant differences are associated with 3 items included in the company dimension. The group of managers at level 1 was more likely to express appreciation and proudness of working for the organization compared with other groups, while the lowest amount of positive comments was expressed by managers at level 2 and 3, whit the exception of item 34 for which level 5 managers were the least likely to assert they use to speak highly of the organization's brand and services. The largest impact on the Chi-square statistic comes from a larger than expected number of negative comments reported by level 3 managers for all the significant items (34, 35, 37) included in this dimension. Results suggest that there is a statistically significant association between organizational level and the proudness of working for a particular organization, although multiple response patterns have been observed. H3a was partially rejected, since significant differences have not been detected for the full set of items. Finally, statistically significant differences have been found to be associated with the opinion expressed by middle managers at different organizational on the "feedback" dimension. Specifically, managers at level 4 and 5

reported the highest rates of agreement with the all the items included in this dimension, followed by all other groups. Accurate and timely feedback seems to be offered to lower level managers while managers at higher organizational levels perceived a lack of information on past performance, mainly in terms of regularity. The largest impact on the chi-square statistics results form a larger than expected number of negative comments reported by managers at level 2 (item 42) and level 3 managers (item 41 and 43), together with a smaller than expected number of negative comments expressed by managers at level 5 (item 41) or a larger than expected number of positive comments reported by the same group of managers (item 42 and 43). Thus H3c could be rejected.

1.6   Concluding discussion

The purpose of the present study was to investigate the proposition that there is a pattern in mid level managers' reward preferences according to hierarchical position. A richer conceptualization of reward types based on the modality of outcome proposed by Elizur (1984) and Elizur et al. (1991) was used to compare the reward perceptions of 1,771 middle managers in the Italian subsidiary of a large US-based company. Chi-square results demonstrated an overall effect of manager hierarchical level on the perception of 14 work rewards included in three modalities.

Results suggest that all in all middle-managers in this research setting tend to express more favorable attitudes toward cognitive and affective outcomes compared to instrumental inducements. This pattern of preference is evident across all groups of managers suggesting that the environments of the five levels of management studied are relatively rich in terms of desired outcomes: middle managers in the research setting are offered affective- and cognitive-related rewards which appear to be valued by individuals. However upper- and lower-middle managers (i.e., managers at level 1 and 5) were the most likely to express positive opinions on the existing provision of affective, cognitive and instrumental outcomes. In comparison, the remaining groups of managers perceived a deficient supply of certain outcomes comprised in the three modalities. Managers at level 4 shared comparable attitudes toward cognitive outcomes, whereas they recognized a lack of instrumental and affective inducements. While the motivational contract offered to this group of managers appeared to be meaningful in psychological terms, unfavorable attitudes toward affective and instrumen-

tal outcomes were associated with the perception of pay, work conditions and supervision-related items. Compared with the existing reward system, these groups of managers appear to appreciate a motivational contract which emphasizes fixed pay and training opportunities as well as supervisory support in terms of mentoring. Similarly, managers at level 2 and 3 felt some deficiencies ascribed to each of the three modalities of work outcome. For the cognitive modality, extant perception of feedback, responsibility and work meaningfulness was deemed amiss by these managers. Lack of supervisor and co-worker supportiveness was reported for the affective modality, while for the instrumental modality deficiencies ascribed to pay and work conditions were observed. In the given research setting, managers at level 2 and 3 appear to detract the existing motivational contract they are offered, at the same time they feel discrepant deficiencies compared with managers at level 4 for the cognitive and, partially, for the affective modality. While managers at level 4 share with managers at level 2 and 3 a concern for base-pay and training provided by the organization, a reward package which accommodates these demands with distinguishing features such as relations with peers and supervisors, feedback and empowerment-related outcomes may be desirable for the latter two groups of managers.

Our results suggest that mid-level managers feel various alternate rewards as desirable. At the same time several different groups of managers have different reactions to a comparable set of rewards. This suggests that hierarchical level in the organization should be viewed as a relevant organizational variable, which can mediate managers' perception of the reward system in use, corroborating the idea that middle level managers should be viewed as a non-homogeneous group in terms of reward preferences (Merchant, 1989).

It follows that the lack of consideration of such a factor in the design of motivational contracts for middle managers may result in a mismatch between the set of rewards offered by the company and those effectively preferred by middle managers at different echelons in the organizational hierarch possibly reducing the capability of the system to drive managers' behavior toward desired organizational goals. Designing a reward system, which is not attuned to the needs of different groups of managers, may then result in an inefficient use of organizational resources failing to maximize the impact of the company's reward system (Merchant, 1989; Gerhart and Milkovich, 1992).

Perhaps more importantly, this study represents an attempt to integrate the rewarded manager perspective in the motivational contract discourse (Merchant, 1989). To this extent, our results complement well the findings of Shields

and White (2004) and Bento and White (2006). These studies compare the perceived congruence between preferred and actual use of MCS elements (e.g. performance evaluation and compensation). Bento and White (2006) found that rewarded managers perceived a discrepancy between the actual and the preferred deployment of different reward practices, but this stream of research does not document the impact hierarchical position may have in determining the perception of the actual use of such rewards. The present study adds a different dimension to the "user-perception" (i.e. evaluated and rewarded managers) literature. What is more, this stream of research limits its attention to monetary/material inducements only, while the results reported here suggest that significant differences between groups of managers can be associated to instrumental, cognitive and affective outcomes.

The employment of the facet approach proposed by Elizur (1984) and Elizur et al., (1991) assures a wide perspective on valuable work outcomes, allowing us to observe that middle managers differ in the perception of several material and immaterial rewards. To date researchers have observed that immaterial rewards have been underutilized in the design of control systems (Flamholtz et al. 1985; Malmi and Brown, 2008) even though they appear to have an impact on managerial motivation as extrinsic rewards have (Kominis and Emmanuel, 2007). The findings of this research suggest that the adoption of a more comprehensive framework of analysis may enlarge our understanding of the differences between groups of managers in rewards' evaluation and ultimately help in the utilization of non-tangible outcomes for management control purposes. In addition, the emerging observation of differences associated with the provision of affective outcomes suggest that the study of reward desirability may not resolve around a dual approach to rewards (i.e. the extrinsic/intrinsic) but a multidimensional stance might be taken in order to gauge different aspect of the motivational contract for managers. For control system designers, an unequivocal and comprehensive approach to rewards may help to target reward preferences of mid level managers at different organizational echelons more directly. This not only contributes to devise more effectual reward systems but also helps in identify precisely those modalities or work outcomes for which managers perceive deficient provision of rewards. Our evidence, for instance, seems to suggest that managers at level 2 and 3 were the least likely to appreciate the actual provision of affective and cognitive outcomes.

Finally, our results may have some implications for the design and use of reward systems for management control purposes in practice. A single universal

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reward package for mid-level managers appear to be ill-advised since different patterns in middle-level managers' reward preferences are likely to emerge. The inclusion of various inducements in a reward package, both in absolute and in relative terms, will be appreciated differently by groups of organizational members, therefore a more individualizable and flexible, reward system may be suitable in order to accommodate diversity of preferences across individuals (Lawler, 2000; Milkowich, 1988). To this extent customized reward plans such as "cafeteria system" (Hettenhouse, 1971; 1972) or "flexible benefit plans" (Barringer and Milkovich, 1998; McCaffery, 2005) may represent an opportunity to accommodate diverging manager attitudes toward material and non-material inducements by allowing individuals a choice in the rewards that they receive (Lawler, 2000).

Certain limitations of this study should be noted. These weaknesses indicate possible avenues for future research on the perception of elements of reward systems. First of all the instrument employed for this research was not purposely tailored to measure the modality of outcome facet (Elizur, 1984). Even though our setting provides the distinctive opportunity to gauge the perception of a large sample of mid level managers on elements of the reward package that effectively informs their work context, this suggests being cautious about the reliability of the evidence. Second, we adapted a survey instrument which was not originally designed for research purposes. Even though the list of items included in the research seemed large enough to capture a broad set of mid level managers' perceptions on different rewards, it should be acknowledged that the final selection is, at least in part, not free from our subjectivity. Third, the sample was limited to one company and one industry. Therefore, the findings may pertain solely to the firm and industry sampled, implying the need for validation of the results in different settings. Fourth, the present study is cross-sectional therefore it is unsure whether the findings would hold over time. Future research could adopt a longitudinal approach in order to verify whether (and how) managers' perception of certain elements of the reward system are stable over time.

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Chapter 2

The unintended effects of personnel controls: a longitudinal case study

ABSTRACT: The purpose of this study is to investigate, through qualitative enquiry, the consequences of the introduction of mechanisms of personnel control on the control package designed for middle level managers. The empirical analysis was based on Merchant's object-of-control framework about the different forms of management controls. Specifically, we documented the intended and unintended consequences of the introduction of ex ante control mechanisms associated with training on the provision of rewards for results, through a 3-years longitudinal case study on a large, decentralized organization operating in the service sector. Our evidence shows a two-stages interaction pattern in which the introduction of a control mechanism associated with training was triggered by outcomes generated by the existing control package, in terms of output controls. At the same time, unintended significances of the introduction, called for a revision of existing ex-post control tools. The paper constitutes an attempt to describe the interaction of ex-ante and ex-post control mechanisms for mid level managers. In addition it offers some insights on the consequences of discretionary usage of such ex-ante, training-related controls, exerted by supervisors.

2.1 Introduction

Research in management accounting has long recognized that reward systems are likely to be one of the main mechanisms to ensure that mid level managers' efforts can be channelled towards decisions and activities that facilitate the attainment of organizational objectives (Hopwood, 1974; Flamholtz et al., 1985;

Kren, 1990; 1997; Merchant and Van der Stede, 2012). The provision of rewards for management control purposes appears to be consistent with, and even necessary for the implementation of the decentralized forms of organization, which have largely autonomous responsibility centers. In fact, in decentralized companies, mid level managers have roles in operationalizing the strategic objectives of the organization and in ensuring progress toward the achievement of those objectives (Daft and Macintosh, 1984; Macintosh and Daft, 1987). The substantial distance between the organization's senior and lower-level management, and the consequential information asymmetry, can hamper the direct monitoring of the actions of middle-level managers. In this context, senior managers can indirectly exert influence over decisions and actions of mid level managers through appropriate motivation and control systems (Merchant, 1985; 1989). For this purpose, provision of ex post rewards linked to performance is employed to reinforce desirable behaviors of managers and to motivate them to align their own objectives with those of the organization (Flamholtz et al., 1985; Bonner and Sprinkle, 2002). Specifically, the written and unwritten promise of rewards for the generation of desired results has been conceived as constituting a "motivational contract" between the organization and the manager (Merchant, 1989; Emmanuel et al., 1990).

However, in decentralized settings, the alignment of objectives through contracting on action or output may be occasionally difficult or unfeasible (Merchant, 1985; Campbell, 2010). For instance, it has been widely recognized that organizations should attempt to motivate their mid level managers through the provision of a set of rewards that generates the most cost effective motivational response from them. Design of a meaningful reward package should consider that the attractiveness of different types of rewards may vary across individuals, affecting the outcomes of any reward system reinforcement (Merchant, 1989; Lawler, 1994; Merchant and Van der Stede, 2012). However, the design of individualized reward systems for middle level managers can be deterred by the layering of agency problems down the echelons of a decentralized organization (Baker et al., 1988; Indjejikian, 1999) or by issues of equity and inclusiveness (Ferreira and Otley, 2009; Wiedener, 2004), resulting in suboptimal "one-fits-all" reward solutions for mid level managers (Lawler, 2000; 2003).

In this context, ex ante, personnel control mechanisms (Merchant, 1985; Snell, 1992; Peck, 1994), such as personnel selection and training, may meaningfully supplement ex post mechanisms based of the provision of rewards for results (Merchant, 1982; 1985; Campbell, 2010). Field studies by Brownell

(1985; 1987) and Cunningham (1992) show that personnel control are likely to be employed when it is difficult to associate specific organizational processes with outcomes expressed in quantitative, financial terms. Mechanisms of personnel control are used to enhance the likelihood that psychological and affective forces will drive individuals towards the appropriate course of action (Merchant and Van der Stede, 2012; Thomas, 1983; Lawler and Rhode, 1979). Personnel control mechanisms and output controls are normally employed in combination and are likely to complement and reinforce one another (Cunningham, 1992; Merchant, 1985). Provision of adequate personnel control mechanisms to middle managers is likely to enhance the attainability of performance-related rewards such as monetary incentives (Ezzamel and Willmott, 1998; Merchant and Van der Stede, 2012) or opportunities for future promotion (Beer and Cannon, 2004; Campbell, 2008; Gibbs, 1995) which appear to be particularly desirable by mid level managers (Merchant, 1989; Eaton and Rosen, 1983). However these personnel controls may be administrated discretionally within organization, for instance through selective training aimed to retaining and improving the skills of "high potentials" (e.g. Fernandez-Araoz et al., 2011). In addition, subordinates' productivity and performance may be affected by discretionary decisions made by supervisors whenever the decision involve disposal of work resources or mentoring (Prendergast and Toepl, 1993).

This study is part of a larger research project on reward system design for middle level managers, which is divided into two phases. In the first stage [see chapter 1], we explored the pattern of preferences for meaningful rewards of mid-level managers across five hierarchical echelons at Workforce[1], a single organization operating in the service sector. While the formal incentive system these managers were subjected to was conceived to be comparable across management layers (i.e. one-fits-all reward solution), our analysis revealed a number of statistically significant differences across groups of managers at different echelons in the perception of instrumental, affective and cognitive rewards (Elizur, 1984).

Based on exploratory field research, the present paper reports evidence on the (un)intended interaction between the adoption of mechanisms of personnel control, specifically formal and informal training programmes, and the perception mid level managers have of the attainability of ex-post rewards for results. Field research in this area may guarantee an in-depth perspective on the design

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[1]The name is pseudonym in order to secure anonymity of the case firm.

choices made by reward system designers in practice (Merchant and Riccaboni, 1990) at the same time it helps to document the interplay of material and non-material features of the reward system design (Ezzamel and Willmott, 1998; Modell, 2000). Merchant (1985b) noted that field studies allow gaining first-hand knowledge of how management control and reward systems work in their specific contexts. At the same time, field research meaningfully complements studies employing other research methods because it discover more about a topic than could be learned from a single method alone (e.g. Jick, 1979; Cunningham, 1992).

The study makes two primary contributions. First, the paper extends the accounting-related literature on design of reward systems for mid level managers. Prior literature on incentive scheme design focused almost exclusively on compensation for top-executives (e.g., Indjejikian and Nanda, 2002; Lambert and Larcker 1987; Ely 1991; Sloan 1993; Bushman, Indjejikian, and Smith 1996; Ittner, Larcker, and Rajan 1997). Findings in this domain may not be directly extendable to reward system design for mid level managers since some distinguishing patterns in the design of result, action and personnel controls are apparent (e.g. Vancil, 1979; Merchant, 1989). Research in the management accounting domain has focused on the performance measures that are employed in the incentive systems of middle level managers (Abernethy et al., 2004; 2010; Bouwens and Van Lent, 2007; Keating, 1997). Alternatively, it has concentrated on delegation and compensation choices for middle level managers (Moers, 2006; Nagar, 2002). However, these studies largely focused on explicit compensation choices only, whereas they substantially disregard other mechanisms that organizations may employ to achieve management control in delegated decision environments (Campbell, 2010).

Second, the paper contributes to the emerging literature on subjectivity in compensation contracting (Bol, 2008 for a rewiew). Empirical literature in this domain focused on supervisory discretion in bonus assignment (Gibbs et al., 2004), target setting (Bol et al., 2010; Ittner et al., 2003) and performance evaluation (Bol, 2011). However, while contributors in accounting (Bol, 2008; 2011) and economics (Prendergast and Toepl, 1992; 1993) agree on the fact that supervisors can exert discretion towards the selective provision of mechanisms for personnel controls influencing subordinates' performance and prospects this is to our knowledge, the first attempt to comprehensively mapping the phenomenon.

The remainder of this article is organized as follows: the following section reviews the extant literature and the survey results from which expectations

were formed to guide the field enquiry. Section three outlines the research design. Section four describes the research setting. Findings of the study are reported in section five, while section five presents a concluding discussion.

2.2 Relevant literature

Management controls fall into three general categories, according to the object to be controlled: result, action and personnel controls (Merchant, 1985; Simons, 2000; Merchant and Van der Stede, 2012). The three categories of controls are not mutually exclusive and may complement and reinforce each other in an effective management control system (Merchant, 1985; Abernethy, 1996; Abernethy and Stoelwinder, 1991).

Personnel controls build on individuals' tendencies to self-direct and control themselves (Lawler and Rhode, 1976). According to Merchant and Van der Stede (2012) personnel controls can be operationalzed through: (1) selection and placement; (2) training; and (3) job design and resourcing. Personnel controls are conceived as ex ante, input-based, controls mechanisms (Snell, 1992; Campbell, 2010). They are likely to be employed when task characteristics are not well-suited to the use of action-based controls (Abernathy and Brownell, 1997) or when ex-post management control mechanisms like explicit contracting on performance are difficult or unavailable (Merchant, 1985; Campbell, 2010; Holzer and Norreklit, 1991). This can be the case in decentralized companies, where layering of agency problems across organizational levels may hinder the design and the enforcement of effective motivational contracts (Merchant, 1989; Baker et al., 1988). Employment of personnel controls is grounded on the assumption that more emphasis placed on selecting individuals at entry and providing them with information on what tasks are required and how they can be best performed, will result in less emphasis to be placed on monitoring employees once they will be in the organization (Campbell, 2010; Merchant and Van der Stede, 2012). In fact, the implementation of personnel control mechanisms may help organizations to clearly communicate to employees what it is expected from them and to ensure that employees possess the capabilities and dispose of the resources needed for their job (Merchant, 1985). A recent stream of literature, on economics, based agency theory supports this view suggesting that when incentives cannot be aligned via explicit contracting, selective recruitment and training of employees may alleviate the problem since they enhance

preference alignment (Prendergast, 2008; 2011a; 2011b; Bar-Isaac and Ganuza, 2008).

Among the mechanisms through which personnel control can be implemented, training has a central role, especially for middle management positions (Merchant, 1985; Kennedy and Schleifer, 2006; Cascio, 1991; Abernathy and Brownell, 1997). Formal training programs and informal training practices (e.g. mentoring and on-the-job experience) serve a dual function in organization.

First, training enhances managers' knowledge about the tasks they are assigned to. It also helps to identify the best way a certain task can be performed, with beneficial implications for individual performance (Merchant, 1985; Malmi and Brown, 2008; Merchant and Van der Stede, 2012). In fact, training can help managers to understand what they can do to influence the result measures they are held accountable for. These measures frequently represent the basis for performance evaluation and attribution of rewards for results (Merchant and Van der Stede, 2012). Research on industrial and organizational psychology has long recognized that training can be effective at improving individual behaviors and performance (e.g. Campbell et al., 1970; Goldstein, 1980). The adoption of employee training programs is also likely to improve overall organizational performance (Russel et al., 1985; Huselid, 1995). Consistent, Cascio (1991) and Flamholtz (1985) argued that organizational returns associated with this type of HRM practice are generally substantial.

Second, training has positive motivational effect since it can ingenerate a sense of professionalism among managers as well as the confidence that comes with having more knowledge about how to perform a particular job (Merchant, 1985; Merchant and Van der Stede, 2012; Abernathy and Brownell, 1997). This can have a positive psychological influence on task accomplishment, since individuals "are often more interested in performing well in jobs they understand better" (Merchant and Van der Stede, 2012: 89 cf. Lawler and Rhode, 1976). Moreover, training develops decision-making skills and abilities of individuals, which contribute to their empowerment, and their ability to taking responsibility (e.g. Kloot, 1997; Burkert et al., 2011). To this extent, provision of training is desirable to organizational members since it helps the development of skills and expertise, preparing them for progression to higher management levels. At the same time effective training may diminish the risk of promoting someone above his/her level of competence (Merchant, 1985; Merchant and Van der Stede, 2012). Research on organizational behaviour echoes these insights showing that access to formal/informal training enhances ex-ante opportuni-

ties for promotion a manager can have and carries important implications for managerial careers (Tharenou et al., 1994; Scandura, 1990; Mueller and Price, 1990).

However extant literature in management accounting suggests that employees' access to formal/informal training programs offered by an organization may be subjected to supervisor discretion (Bol, 2011; 2008). In fact, decisions of supervisors concerning e.g. job-assignment or on-the-job training may affect subordinates' productivity and incentives (Prendergast and Toepl, 1993).

2.3 Research design

2.3.1 Research methods

The approach adopted for investigating our research, was to undertake longitudinal field research within a single corporation, Workforce a large, decentralized organization operating in the service sector. The first stage of this research benefited from the analysis of archival material provided by Workforce, consisting in the results of an opinion survey internally administered to mid level managers in January 2009. While the results of the questionnaire were analysed, the authors were given access to the organization to collect field material for research purposes (Foster and Gupta, 1991). Continuity with the first stage of the research project was the major determinant in the choice of this setting for conducting field research (Foster and Gupta, 1991). In this sense the field study is serendipitous, however it should be noted that being the subsidiary of a large corporation, Workforce was likely to offer the opportunity to observe a wide set of management control and reward techniques, which may be uncommon in the Italian context (Merchant and Riccaboni, 1990; Zoni and Merchant, 2004). These features make the site attractive on a priori, objective grounds and the company would have been a top candidate in a purposive sampling approach.

Applying the typology of Rayan et al. (1992) the case-study approach adopted in this research is mainly descriptive in that it documents the design and use of the management control and reward systems in the research setting. However, it is hoped that the field evidence will allow exploration and explanation of the rationale behind the observed interaction of ex ante and ex post controls. For this study, three types of data were gathered over a period of approximately three years: direct observations, interview data and archival records. Based on Kanter (1977) different sources of data were used to validate

one another.

First of all, data for the study were gathered through 20 interviews from 15 different informants (see table 2.1 for details). During 2009 initial interviews were held with senior finance, accounting and human resource staff involved in the design of different features of the compensation and reward system for mid level managers. Key informants encompassed: Chief Executive Officer (CEO), Chief Financial Officer (CFO), Human Resource Director, Compensation and Benefit Manager, Chief Accountant and Strategic Business Unit managers. Based on leads from these discussions, future interviewees were identified. Consequently, eleven interviews were conducted with accounting and personnel managers involved in the implementation of monetary and non-monetary aspects of the reward system. In some cases, interviews were also followed-up by some telephone conversations or email exchange to elucidate some issues arising from the interview analysis. Interview data were collected at the company premises, during work-time, between 2009 and 2010 after sponsoring managers informed target respondents that the researchers were conducting this study and may ask them for input about the reward system design and/or implementation. Interviews lasted from 40 minutes to 120 minutes. All the interviews except three were recorded using a digital device and then transcribed verbatim for coding. However, interviewees were assured beforehand that the taping was purely aimed at facilitating the research process. Anonymity and confidentiality were assured both externally and internally. In three cases, the interviewee did not agree to be tape-recorded and the researcher took extensive notes of the conversations. The researcher collected observations and reflective notes during and after all the interviews. Notes were then transcribed and filed. The study employs a semi-structured interview format (Lillis, 1999; Abernethy et al., 1999). The choice is motivated by the fact that the primary aim of this research is to answer a "why question" (Yin, 2003). Although the research's employment of management control and organizational behavior theories represent a deductive approach to research and does inform our later analysis of data, we were not confident that we had identified all possible factors influencing the design of the reward system for mid level managers in the research setting. Therefore, it has been decided to gather data more openly and allow the respondents' natural, undirected commentary support, in order to extend or alter our theoretical considerations (cf. Malina and Selto, 2001). Using the semi-structured interview format, the researchers pose predetermined yet flexibly worded questions (Algozzine and Hancock, 2006). A summary of the findings of the first stage of the

Informant	N. of interviews	Duration
Chief Executive Officer	1	00:55
Chief Financial Officer	2	02:20*
Chief Accountant	2	03:00*
Director of SBU1	1	01:05
Director of SBU2	1	01:00
Compensation Manager	2	02:40*
Personnel Manager 1	1	01:10
Personnel Manager 2	2	01:40*
Business Development Director	1	00:50
Marketing and Communication Director	1	01:00
Operation Manager	1	00:40
Recruitment Manager	2	02:30*
Human Resource Director	2	03:10*
Controller SBU 2	1	01:05
Controller SBU 1	1	00:45

*Cumulative duration

Table 2.1: Summary of interview data used for analysis

research was used to initiate discussion. Interviewees were invited to openly describe and comment on the results associated with the three modalities of work outcome employed in the first stage of the research. Semi-structured interviews were aimed to gather informants' opinion on results associated with each of the three modalities and to trace possible links between pieces of evidence across modalities. Predetermined questions were complemented with follow-up questions designed to more deeply investigate issues of interest (Boyatzis, 1998). Interviewees were also asked to suggest missing themes to be covered in the interviews (Yin, 2003). To this extent the semi-structured interview approach served the researchers to invite informants to openly and freely offer their own perspectives on the topic of focus (Algozzine and Hancock, 2006).

Second, two prolonged periods of direct observations, lasting about 5 months, were undertaken by one of the researchers. According to Becker and Geer (1957, 28), field research is one in which the researcher "participates in the daily life of the people under study [...] observing things that happen, listening to what is said and questioning people, over some length of time". Direct observations were premised on research collaboration with the representatives of Workforce, during the second third quarter of 2009 and the first quarter of 2010. The researcher collaborated with the Accounting Office and with Human Resource Department

the was present on-site 3 to 5 full days a week. The prolonged period spent within the company allowed him to initially derive a picture of the performance measurement and reward system and than to deepen his understanding of the introduction of mechanisms associated with personnel control. During these periods the researcher took a role of participant as observer (Junker, 1960; Gold, 1958; Jarvie, 1969). Field relationship with the informants was established from the beginning of the research when the presence on site and the broad focus of the fieldwork were agreed with senior management staff (Bositis, 1988). Direct observations provided a relevant data source for acquiring information about aspects of the day-to-day management accounting and human resource activities involving provision of training and reward administration. Observations were carried out at the headquarters and in three branches in the northeast and central Italy. At the same time, the researcher had the opportunity to observe various management meetings involving both senior and middle level managers at different echelons in the organization. In particular, the researcher directly observed three workshops dealing with the design the incentive system organized by the HR department for line mangers at different layers. Moreover direct observation of a one-day "You Leader" workshop for company's "talents" was attended. In general, his presence at formal and informal meetings (Ahrens and Chapman, 2004; Bol and Moers, 2010) allowed the researcher to have relatively informal conversation with organizational members, leading to a better understanding on they way in which formal instrumental and affective work outcomes were devised and communicated to rewarded individuals. Further, a clearer perspective was gathered on the informal structure of the organization and specifically on the relationship and interactions between managers at different hierarchical levels. During these periods field notes were taken and transcribed, yielding to over 200 pages text. Information derived from direct observation was compared and triangulated with other primary data sources through an interactive approach (Yin, 2003).

Third, we collected archival documents (see Table 2 for details). Our archival sources encompassed documentations on financial performance, strategic planning, performance measurement systems, management control and incentive systems, at different organizational levels. In addition we collected material on HR policies and practices in use such as MBO evaluation forms for mid level managers at different levels in the hierarchy, job profiles and guidelines for selection of line managers and for training on the job. Internal measures of managers' satisfaction and engagement before and during the study were

	Source			
Type of document	internal	(confidential)	external	(external source)
Annual Report Corporation			x	Published information
Company description			x	Published information
Workforce website			x	Public information
Market and business outlook			x	Industry association
Proposal of incentive system revision			x	Union representatives
Bonus agreements	x	x		
Organizational organigrams	x			
Annual Report Workforce	x			
Guidelines for 'competitions' and winners	x			
Branch outlook	x	x		
BSC of Workforce	x	x		
BSC of SBU 1 and SBU 2	x	x		
Corporate guidlines on HR policies	x			
Corporate guidlines on incentive policies	x			
MBO of line/staff managers	x			
Guidlines for recruitment of line/staff managers	x			
Target allocation schemes	x	x		
Performance appraisals	x	x		
Incentive system agreements 2007-08-09-10	x	x		
YLP guidlines	x			
YLP memoranda	x			
Internal emails	x			
Discussion notes	x			
Slideshow presentations	x			
Training policies memoranda	x			
Reorganization plan	x	x		

Table 2.2: Types of archival documents used for analysis

also collected. We complemented our data gathering with documentation on managerial turnover and compensation profiles. Documents were also discussed and clarified during the interviews giving respondents the opportunity to talk the interviewer through their work (Ahrens and Chapman, 2004). In addition, during the interviews some respondents commented on internal documentation such as, management accounts and reports, performance evaluation reports or internal email correspondence as a mean of illustrating specific issues. For confidentiality reasons, researchers were provided with copies of some (though not all) of such documents normally in "skeleton" form; that is, without any figures and/or sensitive text showed.

2.3.2 Data coding and analysis

For this study, we adapted three methods of data analysis suggested by Eisenhardt (1989; 1991) and Eisenhard and Graebner (2007) to develop our understanding of the features and the reward system for mid level managers at Workforce. Although they are presented here as a linear step-by-step procedure for purposes of clarity, the three data analysis stages were undertaken concurrently and interactively. This interactivity is central for the analysis of rich field data since it allows to gain familiarity with the data and forces researchers to look beyond initial impressions and see evidence through multiple lenses (Eisenhardt, 1989: 533). Thus, the three stages represent different methods of analysis rather than distinct chronological steps (Ahrens and Chapman, 2004; Ahrens and Dent, 1998).

First of all, we organized chronologically the transcripts of the interviews and the field notes (Ahrens and Dent, 1998). Common issues in the data were grouped together and analysed to establish patterns of agreement/disagreement across respondents. Emerging patterns from interviews and observations were crosschecked and elaborated by accessing relevant archival documents.

Second a comprehensive process of thematic analysis of the interview transcripts, field notes and notes on the archival material was undertaken. Thematic analysis was used to identify, analyze and report patterns or themes that reoccur across a dataset (Boyatzis, 1998). The thematic analysis was informed by a five-stages procedure discussed in Braun and Clarke (2006). Familiarization with the data was achieved through transcription of interviews and systematization of field noted and notes on the archival material. Two the researcher read and re-read data several times and collected initial observations. Then, initial codes were generated. When qualitative inquiry is guided by some relevant theoretical constructs, an effective coding strategy encompasses the definition of an initial "conceptual framework" to be complemented by "free codes" as the data suggest (Miles and Huberman, 1994). Given the study's objectives, we employed a hybrid approach to thematic analysis where a data-driven inductive coding procedure complemented a deductive, a priori generation of a codebook (Boyatzis, 1998; Crabtree and Miller, 1999). The approach recognizes theoretical guidance while, at the same time, allowing empirical flexibility (Malina and Selto, 2001). An initial template of codes about the design features of the reward package for mid level managers was based based upon the facet approach to work values (Elizur, 1984). The initial codebook related to the work outcomes

included in the three modalities identified by Elizur (1984) and Sagie and Elizur (1996). Consistent, three broad code categories formed the initial code manual: instrumental outcomes, affective outcomes and cognitive outcomes. The choice of an initial codebook was important since it served to organize our data into meaningful groups. Grouping together segments related text helped in data interpretation (Freeday and Muir-Cochrane 2006). Definition of thematic codes was based on five elements described in Boyatzis (1998: 31): (1) a label; (2) a definition of what the theme concern; (3) a description of how to know when the theme occurs; (4) a description of any qualifications or exclusions to the identification of the theme; (5) examples, to eliminate possible confusion when looking for the theme. Initial theory-driven codes were then systematically applied to the data set to identify all data extracts associated with a code using a computerized data management program. The segments of text were then sorted and organized matching each code with extracts from the three datasources. Analysis of data at this stage was guided, but not narrowed to the preliminary codes. During coding of transcripts, inductive codes were assigned to segments of data that described a new theme observed in the text (Boyatzis, 1998). These additional codes were either separate for the predetermined codes or they expanded a code from the codebook. For instance the concept of autonomy were initially split into the "job interest" code and the "responsibility" code. However, comments from different sources in relations to autonomy were gathered resulting in a separate, data-driven code. Further, thematic maps (Braun and Clarke, 2006) were used to identify the relations between codes and to sort codes into themes. This phase was central in that it leaded to the identification of relationships among codes, which were not covered by our initial codebook. Themes were reviewed for validity in relation with the whole dataset (i.e. did the themes identified and accurately represent the data a whole). Finally the themes are given a final definition and a name that reflect their content.

Third, we identified and tested several rival explanations of the evidence (Yin, 2003). Alternative explanations were entertained and discussed by researchers both during data gathering and during the data interpretation stage. Careful consideration of rival explanation was addressed in further data collection, aimed to identify emergent explanation as the most compelling (Onwuegbuzie and Leech, 2007). Consistent with Yin (2003) a number of strategies were adopted to enhance the construct validity and reliability of this research. Construct validity was maintained in three ways: (1) we employed multiple sources of evidence; (2) we maintain a chain of evidence that can be retraced; (3) key

informants in the company reviewed the narratives of evidence. Reliability of the research has been enhanced by the creation of a case study protocol at the beginning of research, and by the construction of a case study database that contains the collected documents and evidence.

2.4   Research setting

Workforce is a national subsidiary of a US-based corporation that operates in the workforce solutions and services industry. It operates in Italy since 1997 when deregulation of the sector took place. It provides a comprehensive line of temporary work solutions and services, including permanent, temporary and contract recruitment, assessment and selection, training and outsourcing. Since it establishment in Italy, Workforce experienced stable profit and revenue growth in all years until 2008 and did not incur major restructurings. Since 2006, Italy represented the largest operation in the European segment of the group. Workforce is regarded as a long-term, well-managed organization. It is succeeded in a highly competitive domestic market, characterized by competition among relatively few, very large, international companies and some smaller regional competitors.

At the time the research was conducted, Workforce was a decentralized organization with 410 temporary work agencies distributed in all the national territory. It had a divisional structure based on two strategic business units. The line was based on geographical regions. Each region was further divided into homogeneous areas each comprising a number of temporary work agencies. The temporary work agency was the described as the "fundamental unit" of the business. It is managed by a branch manager who is responsible for revenue and costs heads temporary work agencies, thus temporary work agencies are devised as profit centers. Branch managers may supervise one or more "assistant managers" depending from the dimension of the agency and from the variety of service, the agency offers. Assistant managers are held responsible for either cost or revenues and they usually manage the provision of one specific type of service such as provision of tailor-made business solutions for key clients. While the study covers a three-year time horizon around the change period, we separated the time horizon into two periods. These two time periods were identified based on the documentation review and interviews (Kober et al., 2007). Each of these two periods was of approximately one and half-year duration:

1. Pre-introduction stage (beginning 2007 – third quarter 2008).

2. Post-introduction stage (third quarter 2008 – first quarter 2010).

Pre-introduction represent the time period from the introduction of the selection and output control mechanism in use over the period under consideration until the introduction of the You Leader Programme (hereafter, YLP) a training related control mechanism aimed to skill development and retention of selected mid level managers. Post-introduction represents the 18 months after the introduction of YLP when the control device is effectively operationalized and employed. Post-introduction terminates at the end of the first quarter 2010 when a major restructuring was deliberated and reconsideration of the reward package offered to middle managers was requested by Workforce representatives of the three major unions operating in Italy. Even though the time periods were an artificial distinction, they were regarded by key informants as the most appropriate event windows that captured the major changes in the personnel- and result-based control mechanisms.

In 2007, Workforce undertook a strategic change project linked to brand renewal. The strategic change project originated from worldwide corporate rebranding and strategic change plan. This was aimed to pursue a diversification strategy, by enlarging the variety of services provided by the organization and by homogenizing service supply across countries. Rebranding and was organized around the definition of six core values to be shared across national departments. Accordingly, in Italy, Workforce elaborated a three years strategic plan with the dual objective of improving profitability and market presence and to foster the offer of permanent recruitment and business solution services which could guarantee higher margins compared with temporary recruitment (i.e. the core business of the organization). Harmonization of the reward package for mid level managers with the strategic change project was obtained, in the intention of the reward system designers, by tailoring the selection and evaluation systems on the basis of the corporation's driving values and by aligning the existing variable components of compensation (i.e. incentive system and bonuses) to short-term financial objectives of the organization.

Since then, the incentive system for mid level managers was employed, with minor changes for all the period covered by this study and the fixed components of the remuneration remained the same. Further, no major changes occurred in the reward-related human resource and management control policies and practices during the time the research was conducted, with the exception of

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the introduction of YLP. Stability of reward system features over a prolonged period of time offered designers and an opportunity to familiarize with the outcomes of the system, enhancing their ability to interpret and critically evaluate it (Otley, 1992). For the year 2008, revenues increased by 0,5% compared with 2007 (in constant currency). However, a decline of the revenues was observed in the fourth quarter of that year. Demand of Workforce services decline in 2009 with a major contraction during the second semester leading to revenue declines of 37,4% (34,2% in constant currency) at the end of the year. As a consequence, a restructuring was deliberated; this involved 23 branch closures and about 200 dismissals of managerial and non-managerial personnel between the third quarter of 2009 and the second quarter of 2010. However, the impact of the recessionary economic climate on Workforce was relatively small when the performance of the company in 2009 is compared with the one of direct competitors. In fact, in 2009 Workforce acquired the largest market share in Italy with revenues of over € 690 million. Market leadership in Italy was preserved during 2010.

2.5   Evidence

2.5.1   Pre-introduction stage

2.5.1.1   Personnel-oriented controls

Workforce extensively employed two personnel mechanisms with ex ante control purposes, namely recruitment and training. The hiring process was based on a detailed role description which is reflected on a predetermined set of questions aiming to verify whether a candidate's experience and skills fit the job requirements. After Workforce rebranding, the selection process was partially reviewed with the introduction of further inquiry through hypothetical case analysis. The aim was to assist hiring managers to identify potential candidates whose attitudes and beliefs were in line with the organization's deliberated values. HR senior management staff was involved in the operationalization of the corporate values for driving selection choices. The operationalization consisted in involving mid level managers in the identification of a number of day-to-day activities and best practices that could serve as metaphors of enacting core values in the job environment. On the basis of the identified best practices, HR staff developed several hypothetical cases and questions to be presented to candidates aimed

to describe their behavior in such situations. Results were associated to 10 desirable skills and competences a candidate should possess. The introduction of such a technique for recruitment was based on some programmatic guidelines distributed by the European division of the corporation Workforce belonged to, but each national division operationalized such guidelines discretionally.

> Our corporate has given us a number of suggestions, that is: "pay attention to your recruiting profile, screen those behaviours that stem from our attributes" [. . .] the value system and our six attributes have to be operationalized, taking into account the specific context of reference, in an appropriate way, in light of your recruiting and training systems. [Personnel manager 2]

Senior managers at Workforce seem to agree that aligning the selection requirements with desired psychological attributes of candidates could enhance the possibility of hiring more self-motivated employees, thus reducing the likelihood of future resignations.

> We have standardized our profiles focusing on some particular treats, in terms of evaluation of potential candidates, based on the assumption that what I observe at the entry level is a homogenous standard therefore if you are in line [with values] before entering the organization, then you are likely to be in line when you are with us. You wouldn't feel any pleasure to work for an organization of which you do not share values. [Personnel manager 1]

In addition, some key-informants highlighted that the majority of new recruits in managerial positions were expected to be employed at the branch level (i.e. either as branch managers or as assistant managers). The job profiles of these positions, particularly those of assistant managers, emphasize the sales function of these line managers and their ability to work autonomously. Senior management staff believed that selective hiring procedures could enhance the likelihood of observing desired behaviours once the new recruit performs his/her task. One interviewee stated that:

> At those levels [branch and area management levels], for instance, actions are not always controllable. Of course we set guidelines but they might just not be enough. Selecting the right manager profile helps in the process. . . it allows us to make reasonable forecasts on managers' future actions. [CFO (Interview 2)]

Before the introduction of YLP, training was largely informal and on-the-job basis. After initial induction courses of 3-5 days of duration, new managers went through a coaching period of at least two months involving their direct supervisors. Formal training based on courses and tutorials was provided when the new recruits joined the company and during the work relation when new management systems or practices were introduced. Formal training programmes were differentiated according to managerial position in the hierarchy, functions or line of service provided. They usually targeted the full set of managers in a position/function and attendance was made compulsory. They were aimed to transmit technical skills, organizational skills, and knowledge about specific regulation impacting on the business. Formal training programmes were established at the beginning of each semester by the HR senior staff and communicated to the organization through periodical online conferences. Informal, on-the-job training was mainly based on coaching provided by direct supervisors. This was regarded as an effective method of learning the job at Workforce. Senior managers recognize that on-the-job training performed two main functions. First of all, it complemented formal training since it allowed supervisors to practically show how to apply formal training in daily tasks, avoiding the risk of a distorted assimilation and application of formal training. Perhaps more importantly coaching allowed supervisors to transmit best practices to be used in the role. A number of informants stressed the fact that Workforce was "a commercial organization" and "selling the service" was the main objective especially at the branch level, partially because managers were rewarded on that. To interviewees, sales techniques and contracting with clients could be best transmitted by direct observation and learning-by-doing.

> let's say that the man you sent there didn't turned up or he didn't do his job properly. Your client is furious and he only thinks: "Workforce sent me the wrong person". Well, a good line manager should go there and stress the fact that you can build on such situation to get to know the client's requirements and so on... at the end of the day you want to keep the client, I mean what you want is to create a long lasting relation to assure higher margins [...] I don't believe that this can be learned in a class. [Head of SBU 2]

> [...] we are a sales-oriented organization and then of course we do a lot of training on sales, we try to transmit how know-how through analogy, I mean, I show you how I manage my clients and how I

manage my subordinates. [Human Resource Director]

Summarizing, Workforce extensively employed ex ante, personnel control mechanisms for mid level managers. Reward system designers posited that these mechanisms could be mutually reinforcing but they had different purposes. Selection mechanisms were aimed to identify those new recruits who possessed adequate knowledge and skills for doing the job. At the same time, the investigation of ex ante alignment of the candidate with Workforce "way of thinking" would result in the selection of new recruits who could better integrate in the company, and share its core values (Malmi and Brown, 2008). On the other hand, formalized training was mainly devised to ensure mid level managers would be expert on rules and notions, necessary for doing with their job. Instead, on-the-job training served to ensure that formal notions were consistently transposed into practice. It also provided managers with practical knowledge and experience on selling different types of services and approach clients. For this reason, while both systems were believed to enhance the likelihood that mid level managers performed desired actions, training was believed to have an influence on managers' results and performance, as posited by the Personnel Manager 1:

> Selecting the right person is important of course but it does not guarantee this person will perform [. . .] Here we employ a pay-for-performance system which focuses on sales, roughly speaking, and training can teach you how to behave with clients. [Personnel Manager 1]

2.5.1.2 Output-oriented controls

The result-based reward system offered by Workforce to mid level managers comprised of three major components: monetary inducements encompassing fixed salary and a variable cash incentive determined by performance review; non-cash inducements related to the performance of the business (sub)units and promotion-based incentives. The fixed compensation provided by Workforce was based on the national collective contracting and it was differentiated primarily by management hierarchical level. Pay rises associated with different vertical levels were formulated according to some guidelines from the corporate and did not exceed 15% of the starting salary.

> The guidelines of our organization in some way tend to allow. . .

typically pay rises within 15%, from one position to another but
they usually indicate rises of 10% as a rule and 15% only for truly
outstanding performances. [Human Resource Director]

Fixed pay rises for lateral transfers (i.e. change in job title) were seldom employed, especially for middle managers working in the line, although practicable, as clarified by the following quotes:

Here people are paid a variable part linked to quantitative targets
therefore fixed salary increases can be just residual if not absent.
[Personnel Manager 2]

These raises, in terms of base salary, especially in times of crisis, but
even in good times, we tend to just be careful and cautious enough
[...] so last years we did not use that measure much. [Compensation
Manager]

Aside the fixed compensation, all middle level managers with at least three months of tenure in a managerial position were eligible for an incentive system. The incentive system devised by Workforce was introduced at the beginning of 2007. It was intended to foster the attainment of pre-set performance targets and it was linked to the performance review on a trimester basis. The corporation set guidelines that pertained to all worldwide participants in the incentive plan. Specifically, guidelines existed for the performance measures that are included in the incentive system, for the weight that is placed on different measures and on the remuneration rules. Over the period under consideration for this study, the incentive scheme was based on a set of three short-term financial measures, which were derived from the P/L account. These were: (1) gross profit of a certain unit; (2) operating unit profit and (3) day sales outstanding. However, the corporation did not provide worldwide guidelines on the levels of expected bonus to be attributed to managers at different hierarchical echelons, when their performance exceeded expectations.

The country managers were in charge of determining the level of expected bonuses and the timeline for evaluation and payment. At Workforce, levels of incentives for over-budget were expressed as fixed amounts which were paid on a semester basis. Overall, average incidence of the incentive compensation in terms of annual fixed pay was about 10%. While the evaluation parameters employed by the system were substantially the same across mid management levels, cash incentives increased, moving higher in the hierarchy. The rules

underlying the incentive system were communicated to managers in a formalized way at the beginning of each year. Each mid level manager could at any time monitor the formation of rewarded results and related incentives.

> They [mid level managers] have available on our server a report that says exactly how each calculation was processed and then they can exactly understand... budgeted, actual, percentage of deviation, rules applied, the "why" and the "how" of a certain amount. [Personnel Manager 1]

Respondents shared the view that the incentive scheme was designed as a structured yet transparent control tool which effectively directed managers' behaviour toward Workforce strategic objectives. However, some commentators noted that pay-for-performance, in general, may not be desirable compensation tool for mid level managers at Workforce since they would value fixed pay raise more:

> Middle managers are definitely much more sensitive to the fixed part and on the contrary they are less "touched" by even an important variable pay... because ours is a very significant variable compensation, but they consider it as they always have to prove something to the company. [Human Resource Director]

> Being a sale organization the emphasis on the incentive scheme is kind of expected, however I think managers may be dissatisfied especially if they get tenured and they do not progress. [Head of SBU 1]

Workforce offered its middle level managers non-cash bonuses. This was based on the attainment of specific non-financial objectives (e.g. acquisition of a predetermined number of new clients within a time span) and it took the form of "competitions" between subunits. Over the period of this research was conducted the company launched a number of different "competitions" for each of the strategic business units. Competitions usually had similar rules and prizes although the object and the timing of the scheme could vary across strategic business units. Interviewee stressed the fact that this type of system should not overlap with the incentive system. To this extent competitions usually lasted less than three months, they provided non-cash rewards to winners and they were normally used to focus mid level managers' attention on objectives the incentive scheme did not cover.

[. . .] as a result of the incentive system, you can have messages that
are biased toward a certain direction; hence you balance the system
through the competition. [Compensation Manager]

While the provision of non-cash rewards was based on the attainment of pre-
set results senior managers stressed that competitions were devised as action
accountability controls since they were aimed to stimulate desirable actions that
could lead to a certain result (Merchant, 1985):

For instance, if the competition is focused on acquiring new clients,
we are implicitly telling our managers: 'we do not just want you to
get margins, we want that margins with new clients'. [CFO]

They [competitions] are designed to show a preferred way to reach a
goal, that is the road might be a bit different from what they [middle
managers] are doin' just now but the goal should still be a result.
[Compensation Manager]

Promotion-based incentives were a major component of the result-based rewards
offered by Workforce. Promotion systems were only partially formalized. The
formal evaluation of the opportunity for promoting a manager was associated
with the MBO cycle (i.e. on annual basis). Promotion opportunity depended on
managers' ability to achieve budget and MBO targets but it was anchored on a
discretionary evaluation of the individual professional skills, made by his/her su-
pervisor. However the following quotes reveal that such an evaluation remained
frequently "on paper" and that the rapid expansion path of the company played
a substantial role in determining middle managers' opportunities for promotion:

We had an assessment of the potential of each manager, then we had
an MBO, of course these are all tools that Workforce has, but the
path was definitely not structured. [CFO]

Before 2008 you were hired as assistant manager or even as a branch
assistant, the company was expanding and the business was growing
... after one, maximum two years, you could already be responsi-
ble for your branch because in the meanwhile new branches were
opened.. One of the levers of reward used was, at that time: "I cre-
ate a central branch for you" and so on [. . .] of course you needed
to be a good performer, but even a short tenure could count a lot.
[Chief Accountant]

We were expanding so quickly; managers didn't have to wait for so long before getting promoted. [Selection Manager]

2.5.2 Post-introduction stage

2.5.2.1 Personnel-oriented controls

YLP is an internal programme for the selection and training of about 80 managers across three echelons on a year basis. The programme was introduced in the second semester of 2008; managers targeted for the programme were identified as valuable human resources the company should try to retain in the future:

These are the people we need to keep with us so we need a proper retention plan for them. [CEO]

A formal procedure and is about the participation in development programs dedicated only to those resources, to say it openly, which has been identified as key-resources by the organization. [Human Resource Director]

YLP was devised as a package including three major components. First of all, selected mid level managers were given visibility within the company through formal recognition systems. Second, a "*privileged path of coaching*" [CEO] was offered to managers consisting in formal postgraduate courses or specialization courses on specific subjects or topics. Finally, YLP consisted in the provision of a supplementary reward package, which encompassed material, usually non-monetary inducements. Use of different elements is exemplified by the following quotes:

We devised a package, a path, they attend some managerial courses (MBO), we are associated with some universities both in Italy and abroad, the attend some courses on specific topics. [CEO]

In part these actions imply some forms of compensation or rewards, I mean we give them some awards once again economically meaningfull [. . .] And so we reward them in say material terms but also we involve these people in training processes, they are involved in we call them "interventions" that are selected centrally by the organization because if these resources are key-resources for us they should be able to develop their competence, [Human Resource Director]

Aside enhancing the possibility of retention of selected middle managers, interviewees identified two different yet related rationales behind the introduction of YLP. On the one hand, they felt that potential mentors were, in some case, not experienced enough to effectively train new recruits on-the-job. This was seen as a consequence of Workforce rapid expansion in Italy over the last few years, which "fed" the career system, resulting in the promotion of relatively inexperienced managers. In addition, it was recognized that traditionally Workforce tended to promote best performers to higher hierarchical levels but there was little guarantee that a best performer would possess relevant skills in terms of coaching and mentoring.

> Well I doubt you have even something to transmit to someone else if
> you have been in the position for one year or so. [Chief Accountant]

In this context the YLP was seen an effective tool to formalize training and support learning in order to assure a more effective task completion (Malmi and Brown, 2008). At the same time a formalized training tool could constitute a viable way of enhancing mid level managers self-motivation (Merchant, 1985). In fact, senior staff observed that middle managers were dissatisfied with the existing training on the job since it appeared "too unofficial" to them. To this extent, YLP could improve the sense of professionalism perceived by managers undertaking the programme:

> Training, however, say, it is the aspect that perhaps in terms of
> perceived satisfaction is less appreciated by our members mainly
> because we are a sales-oriented organization and then of course we do
> a lot of sales-training and then try to transmit our know-how through
> analogy [...] an individual wants to hear that this is a structured,
> managerial approach with collaborators. [Human Resource Director]

> Being in the YLP is some sort of certificate a manager can show.
> [Chief Accountant (interview 2)]

Interviewees agreed that being part of YLP was a desirable achievement, in terms of differential training offered to selected managers, compared to their non-selected counterparts. Reward system designers referred to YLP as valuable opportunity for a manager to improve his/her present and future performance:

> For us the use of techniques associated with YLP is even more effective since it reinforces, obviously the result of the company but also

it promotes a leadership style of a certain type. [Human Resource Director]

Specifically, YLP comprised a number of elements, which were intended to prepare a preferential career path for selected managers, to advance in the hierarchy of the organization. For instance three key informants stated that:

If these resources are key-resources for us they should be able to develop their competence, for example in terms of knowledge of English. We are a U.S. multinational and even here if we want to look at possible career paths for our middle managers the step after a broad national leadership can be an international position or to be involved in international selling or in, say, international accounting and if you do not speak English you are automatically cut out. [Human Resource Director]

They [talents] have a particular career path, I mean it is not for sure... it depends for instance on our market expansion this year. However let's say there is some sort of "privileged path" for them, the have absolutely to stay with the company and we try to keep them with us. [CFO]

The real talents can raise in the hierarchy our ability, is to identify them and create the conditions to make them progress. [Compensation Manager (interview 1)]

To some respondents, mid level managers saw such desirable characteristics of YLP as valuable yet not sufficient requisite for being considered for advancement. The following quotes clarify this feeling:

It is also true that this focus, the emphasis on the talent programme [i.e. YLP] was just not there in the past as it is nowadays... 'cause you know we used to have certain percentages of hiring and advancement. [Selection Manager]

Even for physiological reasons we had to stop expanding at some stage... well I would even doubt on getting my incentives this year, a fixed pay raise would be something a would sign for... [Head of SBU 2]

Selection of candidate for YLP clarified during late 2008. Specific guidelines were set for basing the selection on the periodical MBO and performance evaluation. Direct supervisor was required to select a potential candidate for YLP

among best performers. However some discretion was left to supervisors in identifying those subordinates revealing leadership skills and characteristics.

> Then when we speak about talents, here, we mean not only those persons who posses a good knowledge of the business or good technical skills. The talent has some potential, has some management capabilities and some leadership attitudes, which can be clearly identified by his/her supervisor. [CEO]

> Line managers have to be necessarily involved in the identification and support of these resources [talents], figures may be not enough to identify a potential leader. [Selection Manager]

> It is likely an area manager will have to choose among a number of quite comparable branch managers in terms of MBO. The s/has to identify who among them can be a potential leader in the future. [CFO]

Rationale behind the choice of managers for the YLP resulted to be unclear to some of respondents:

> I asked Human Resources whether I should suggest a "good" candidate or someone who could substitute me in the near future. [Head of SBU 1]

> I just wonder, what should they [supervisors] do if they are in a situation in which their best performer is not a potential leader at all? [Chief Accountant]

Some informants recognized that the discretion left to supervisors in the final decision could impact on the view, non-selected managers could have of YLP. These feelings are synthetized by the following quotes:

> I would be interested to know why I don't get selected, especially in this moment. [Head of SBU 2]

> I tell you... it must then be assimilated and applied in practice by every single supervisor both for all the implication of the story for managers... and it follows that managers tend to well... of course the human resources work to have shared criteria so even if I change business function or department people will tend to make the same judgments, however, it is clear that we are human beings so I can

not tell you that this thing is 100% implemented. [Compensation Manager]

Limited opportunity for vertical advancement of mid level managers excluded from YLP was acknowledged by respondents, as demonstrated by the following quote:

They are likely to have few opportunities to advance in the firm. . . what is really missing in here is horizontal progress. . . [Chief Accountant]

Senior staff at Workforce dealt with dissatisfaction of managers excluded from YLP through the revision of training processes. During 2009, access to training was linked to MBO evaluation and via a dialogical process involving the interaction between supervisors and subordinates. Training needs of middle level managers were mutually agreed during a performance evaluation sections in order to ensure personalization of programmes. Una tantum training "projects" were additional to existing training offered by the organization and they could be more or less formalized. The HR director exemplified the introduction of such "projects" as follows:

. . . say a branch manager, if she has been a branch manager for many years and she is not progressing to become area manager, what can I do for stimulate her? I can possibly try to push this resource to look at other services, within Workforce offer. So maybe I have been very good for ten years to sell "temporary work" and that's all... well, I might not be selected for YLP in this case, what should I do.. well, while maintaining and continuing to sell temporary work, perhaps she could be involved in a project to be recognized as the supplier for the search and selection of candidates. . . what about this type of training, how can I be introduced to my area with this kind of credibility. And of course there are the paths more or less structured, to reach this goal. [Human Resource Director]

Senior staff agreed that the introduction of such training project could benefit those middle level managers who were excluded from YLP because of lacking skills or abilities. Personalization of the training programme was seen as a viable way for generating psychological motives to managers.

We have to think: which are the motivating factors that can push on the development of this people? [Personnel Manager 2]

To this extent, supervisors were responsible for evaluating subordinates' need for training and for agreeing with subordinates the objects, the nature and the timing of the project itself. Evaluation meetings were attended by HR staff managers to offer a third party evaluation and to suggest feasible training prospects. Additional training programmes could be offered to both staff and line managers, generating a plethora of different projects, for instance:

> Let me give an example of course in my area [HR department], I have to think to the activities of the department, for instance, I can wonder what are the new tools of variable pay we can introduce in our organization? Let's ask them [selected managers] to study such opportunities [...] So I can think to involve some resource in projects like this one. [Personnel Manager 2]

However it was clarified by senior personnel staff that such projects were not intended to enlarge the opportunities for promotion, selected middle managers could have, as clarified by the following quote:

> These activities are not linked to a formalized way of promotion, because we are an organization rather flat, very simple in terms of organizational roles, and therefore we have to place greater emphasis on "job enlargement" for these resources, rather than on vertical progression. [Human Resource Director]

2.5.2.2   Output-related controls

Result-based rewards offered by Workforce to mid level managers in the post-introduction phase were comparable with those in the pre-introduction phase. Non-monetary rewards offered through "competitions" and monetary inducements did not incur in major changes, while promotion opportunities were substantially reduced, compared with the pre-introduction stage, as a partial consequence of the stagnating economic environment. For this reason, promotion patterns were linked to YLP; that is, only managers included in the programme would have been candidate for promotion. Senior managers observed that, in the post-introduction period, efforts were made to keep the incentive system in place:

> Then we found ourselves in the situation of saying, either we remove the incentive system during the year, or we keep on keeping on...

with that. . . even if it may be hard for them to get the results, and
we can combine it with something else. [Head of SBU 1]

Targets for the incentive system were set at the beginning of 2009 and since
then they were not altered. Although Workforce received some guidelines from
the European division of the corporation, concerning the opportunity to adjust
managers' targets for the period, interviewees identified two main reasons for
keeping pre-set targets. On the one hand, senior staff was convinced that the
downturn Workforce was facing in 2009 was just a physiological, temporary
condition:

> Well we had just to keep the situation under control because we
> knew for sure that the year after, things would get better and in
> fact things are now stabilized [Compensation Manager]

> [. . .] Honestly, we were the one who was suffering less; compared
> with competitors [. . .] this again supported our view of the market
> and what we were doing in terms of strategy [CEO]

On the other hand, the incentive scheme employed by Workforce was deemed the
main control mechanism the organization employed to assure middle managers'
alignment on targets identified by the corporate. Dismissal of the incentive
system in unfavourable circumstances could set a precedent for future use of
the incentive scheme and could undermine the motivating potential of the tool.
The Compensation Manager summarized these impressions as follows:

> the simple idea of dismissing the incentive system during a difficult
> year could be a too strong message especially because you have an
> established, accepted, recognized instrument, if you abruptly termi-
> nate it in this way, it is actually counterproductive for you because
> you have struggled many years to build it, and it is not the incentive
> system to be invalid but the conditions are different from the one
> you had at the beginning [Compensation Manager].

Nevertheless, senior staff recognized that achievement of budget targets and con-
sequent obtainment of monetary incentives was unlikely in the post-introduction
period.

> Budget targets had been agreed in a time when no one knew ex-
> actly what would happen, then during the year we realized that the
> budgets deliberated and shared with the organization were not valid

because, at the time we made it, you could not really understand where the market was going [...] there is a budget attached to this incentive system that is asking us to achieve targets that we already know from the outset that are probably too difficult" [Personnel Manager]

[...] in April, I noted that I had 60% of branches that were very far from their goals, and I had only, I had only 30% of branches which was plus or minus 10 so I could be still in business here, but for the others, they could never reach the target. [Chief Accountant]

Senior managers saw the reduced possibility of attaining monetary incentives linked to budget targets and the lack of opportunities for promotion, for mid level managers excluded from YLP as a source of reduction of the motivating impact of result related rewards.

At the same time we are aware of the situation, so we had to do something so that the motivation of those people who are still working well did not decrease massively [Marketing and Communication Manager].

For this reason, the existing result oriented controls were reinforced through the provision of subjective cash bonuses.

So in that situation the incentive system was joined by an extensive use of an extra tool, which consisted of bonuses [Compensation Manager]

Bonuses consisted in a fixed sum, which usually did not exceed one-month base salary a given managerial level for guaranteeing equity across levels. They were delivered at the end of the year. Provision of bonuses was administered by direct supervisors, in a discretionary manner, although it was agreed in advance with the human resource department.

The bonus is a discretionary amount; we give indications for keeping it around one month salary because that tends to support fairness in the distribution. Because we are talking about a sphere of discretion, however, if I have to give different bonuses, how can I give an amount that would be fair if I have people with different contractual levels and different roles? I refer to their salary. [Compensation Manager]

[. . .] This is because the bonus shall be construed as a discretionary action that is not subject to standard rules [Human Resource Director]

Human resource managers c that bonuses were included to Workforce "development programmes" and were used to incentivize those managers involved in training or learning projects outside YLP, as the following quotes clarified:

Still, if that person has been with me in a project that is not part of her role, which is not a strict commercial target and the person followed me with dedication. . . Since it was a request that the person has followed in a good way, very good way, then I can give her a bonus [Compensation Manager]

If a person has followed a project but that project is not part of her routine activities, such as she has worked significantly on improving her skills, her boss has a chance to give her a "counter" and that is the bonus [Personnel Manager 1]

[. . .]the person did not take the incentives, but in fact the line or his supervisor knows that the guy worked on a whole range of training activities, then, he recovers through the use of a bonus. [Operation Manager 1]

2.6   Discussion and conclusions

The purpose of this study was to investigate, through qualitative enquiry, the consequences of the introduction of mechanisms of personnel control on the control package designed for middle level managers. The empirical analysis was based on Merchant's (1985) object-of-control framework about the different forms of management controls. Specifically, we documented through a longitudinal case study on a large, decentralized organization, the intended and unintended consequences of the introduction of ex ante control mechanisms associated with training on the provision of ex-post rewards for results.

Workforce, our case organization, implemented a formal talent retention programme, called YLP in late 2008 with the finality of improving formal training and skill development of selected managers (Merchant, 1985; Malmi and Brown, 2008). At the same time, the device was intended to foster feelings of professionalism and competency of organizational members, supplementing the existing,

mostly unformalized, coaching programs (Abernethy and Brownell, 1995; Abernethy 1996; Ezzamel and Willmott, 1998).

The study provides evidence of the interaction between the introduction of this mechanism with pre-existing rewards for results offered by the company, in particular promotion-based incentives. Promotion-based incentives constituted a major part of the reward package offered to Workforce managers since, in this setting, compensation raises were traced to vertical promotion rather than continued service in a particular position or changes in job title (Baker et al., 1988; Baker et al., 1993; 1994). Senior management staff acknowledged that in the pre-introduction phase the rapid organizational growth fed this reward system (Baker et al., 1988), leading the company to promote managers "over their head" (Merchant and Van der Stede, 2012).

The introduction of YLP intended to counterbalance this effect through a more structured approach to training for managers, which could emphasize retention of selected human resources (Merchant, 1985; Kloot, 1997). However, the intended purpose of YLP was detracted by the substantial curtail of the internal opportunities for promotion in the post-introduction phase. In such circumstances, successful implementation of training-related control mechanisms is attributable as much to labour market conditions as to intrinsic features of the control tool (Ezzamel and Willmott, 1998). At Workforce, the pre-defined career building features of YLP vis-à-vis the existing training on the job offered to mid level managers led managers to see the inclusion in the programme as an "on paper legitimization" for future promotion. Senior staff reckoned that the discretion left to direct supervisors in the evaluation of the "leadership attitudes" of potential candidates for the programme and the related scarce clarification of reasons for exclusion caused discontent among excluded mid level managers (Boll, 2011). In other words exclusion from YLP was seen as non-informative penalty scheme (Kerr, 1995). Our evidence suggests that a pattern of incremental adjustment was then initialized by senior staff at Workforce (Abernethy and Chua, 1996). Perhaps more importantly, this pattern encompassed the use of both ex ante and ex post control mechanisms, since the introduction of complementary, training-related measures, for manager excluded from YLP was reinforced through the provision of subjective financial bonuses (Gibbs et al., 2004). Specifically, discretionary involvement of mid level managers in una tantum training "projects", was deemed necessary to offer supervisors an instrument to deal with line managers dissatisfaction with YLP but such a measure was not devised as a specific support for career advancement. This resulted in

provision of monetary bonuses for the involvement in such training projects.

Theoretical literature on management accounting, economics and organizational behaviour debated the relation between management training and better management control outcomes especially in decentralized organizational settings. Yet, scant empirical evidence exists on the topic (e.g. Malmi and Brown, 2008). By studying an organizational setting in which a formal training programme was introduced for control purposes, we provide direct evidence of this link. In particular our longitudinal study shed light on how the introduction of ex-ante training-related control mechanisms relate with the primary form of control in use in the organization, i.e. ex-post, financial and promotion based incentives (Merchant, 1985; Merchant and Van der Stede, 2012). Specifically, we show a two stages interaction pattern in which initially the introduction of a control mechanism associated with training was triggered by outcomes generated by the existing control package, in terms of output controls. At the same time, unintended significances of the introduction, called for a revision of existing ex-post control tools.

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Chapter 3

Mind the gap: mid-level managers' perception of the organizational ethical environment

ABSTRACT: This study investigates whether and how the perception of the 'internal ethical environment' (Trevino et al., 1998) varies across groups of managers at different hierarchical levels. We drew on research on social and organizational identity to investigate whether and how different views on the ethical environment are retained by different sub-groups of managers within a single organization. Extant research suggests that senior managers are likely to express significantly more positive perceptions of organizational ethics when compared with employees in non-managerial positions, however it remains silent on middle and lower managers' perception of ethical environment, even though these managers act as 'linking pins', possibly influencing ethical decisionmaking and behavior of other organizational members, both upwards and downwards. Data from over 1500 respondents were collected in a national branch of a US-based, FTSE4GOOD organization, operating in the service sector. Our findings suggest that perception of the ethical environment varies significantly across groups of organizational members. Consistent with our predictions, senior managers are likely to hold a rosier perspective of the environment for ethics, while less favorable attitutes are manifested by middle- and lower-level managers. However, the perception of the internal ethical environment fails to be a "top-down phenomenon" in our research setting. Implications for research and practice are discussed.

3.1 Introduction

Extant business ethics research extensively debates the factors that may influence ethical decision-making and behavior within organizations. Ethical decision-making appears to be affected both by individual traits and contextual characteristics (McDevitt et al., 2007; Loe et al, 2000; O'Fallon and Butterfield, 2005). Among the latter group, efforts have been devoted to understanding the holistic role the organizational context can play in influencing the ethical decision-making and behavior of individuals (e.g. Wyld and Jones, 1997). In fact, organizational members are likely to develop perceptions about the ethical context in which they operate, based on the organization's policies, practices and procedures allied to ethics (Trevino, 1986; 1990). Moreover organizations provide their members with incentives to assume attributes consistent with the internal ethical context (Baucus and Near, 1991; Douglas et al., 2001). As a consequence, the perception of the ethical context held by organizational members influence their perception of ethical matters and their process of resolving such matters (e.g. O'Fallon and Butterfield, 2005; Martin and Cullen, 2006). In addition extant research shows that contextual factors are perceived as more salient than either individual or educational factors in driving ethical decision-making (Zey-Ferrel et al., 1979; Ashkanasy et al., 2006; Tenbrunsel and Smith-Crowe, 2008; Trevino et al., 1999). Extant research in this domain has conceptualized aspects of internal ethical context through multidimensional constructs such as "ethical climate" (e.g. Victor and Cullen, 1988 Schminke et al., 2005) and "ethical culture" (Trevino 1986; 1990). The work of Trevino et al. (1998) compared both constructs outlining their key differentiating factors. They found that selected ethical climate and culture dimensions differ in the influence they can exert on employee attitudes and behaviors in code and non-code organizations. Specifically, in ethics code organizations, a culture-based dimension that they labeled "overall ethical environment" (encompassing leadership, reward system and code support for ethical behavior) had the largest negative impact on unethical behavior, while in non-code settings, climate related dimensions influence unethical attitudes the most. Organizational members, in companies with formalized ethics codes, are shown to believe that their employers are committed to ethical behavior, that ethical (unethical) behavior will be rewarded (punished) in the organization, and that it is possible for people of integrity to succeed in their organizations. Therefore when organizational members are confronted with ethical dilemmas, their favorable perception of the organization's ethical

environment might enhance the likelihood that they will make the appropriate decision from an ethical standpoint (Trevino et al., 1998; Valentine and Barnett, 2002).

This study relates to previous research addressing the perception, organizational members hold, of the overall ethical environment in which they operate (Trevino et al., 2008). Contextual dimensions associated both with ethical climate and culture may be perceived differently by different groups of individuals possibly as a consequence of socialization processes and referent interactions in the work setting (e.g. Wimbush et al., 1997; Nwachukwu et al., 1997; Trevino et al., 2008). Understanding whether and how the perception of certain ethical aspects of the firms may vary across groups of employees proves to be relevant for management systems designers, since they "have more control over the work environment than they do over individuals' values or moral development" (Trevino et al., 1998: 447). Trevino et al. (2008) suggest that senior managers share a rosier perspective of the overall ethical environment compared to employees in non-managerial positions. Senior managers usually are personally involved in tailoring management and reward systems, they play a central role in defining and enforcing ethics standard and politics and they are likely to identify themselves with executive leadership. For these reasons senior managers are likely to hold appreciative opinions on the ethical environment they contribute to create. On the contrary, non-managers do not usually contribute to generate those organizational policies relevant for ethics and reward/compliance systems linked to ethical/unethical behavior are usually enforced to them. In addition, non-managers are more likely to be cynical about executive leadership, thus holding less favorable opinions of the internal ethical environment.

This prior work provides a foundation for discerning differences in the perception of the organizational ethical environment across groups of employees at different organizational levels. However, it failed to investigate the perception of the ethical environment held by managers at middle and lower organizational levels. In particular it did not explore whether and how these perceptions significantly differ from those reported by other organizational members (Brown and Mitchell, 2009). This is surprising, since the nature and frequency of ethical issues vary across different levels of the organization's hierarchy (e.g. Harris, 1990) with greater pressure placed on mid- and lower-level managers to compromise their personal principles to conform to their organization's expectations (Oliver, 1999; Dean et al. 2010). In addition, middle- and lower-level managers are seen as performing a coordinating role, where they mediate and interpret

connections between top- and operating-levels (Plugh et al., 1968; Likert, 1961). As 'linking pins', their actions and behaviors have both upward and downward influence (e.g. Floyd and Wooldridge, 1992). As such, middle management may direct senior management attention to certain ethical issues connected with the internal environment and provide or conceal information about such issues (Dutton and Ashford, 1993). At the same time mid-level managers may serve as role models for lower-level manager and non-managers, especially in decentralized companies, conveying information on ethical policies and practices. They actively contribute to identify desirable behaviors in the work context and they may steer their lower-level counterparts away from unethical conducts (Sparks and Hunt, 1998). It follows that the picture mid-level managers hold of the environment for ethics may influence the perception other organizational members have on the ethical environment, thus contributing to shape it.

This research examines the question on whether and how perceptions of the overall ethical environment vary across layers of management hierarchy. It aims to add to this stream of literature by providing insights from a coded, FTSE4GOOD corporation, operating in the service sector. It explores a unique dataset comprising opinions expressed by 1,508 individuals across multiple levels of management. The setting offers the opportunity to analyze perceptual similarities and differences across groups of senior-, middle- and lower-level managers subjected to comparable organizational policies and practices (Brown and Mitchell, 2009). This allows us to univocally address differences between managerial levels. In fact, the meaning of managerial level may change across company organizational hierarchies, hampering the possibility to interpret cross-sectional data (Vardi, 2001). In addition, while most of the extant research on ethical context has focused on top-executives, providing little guidance for their lower-level counterparts (Lund-Dean et al., 2010), this study concentrates on the opinion of middle- and lower-level managers, which has been substantially disregarded by the literature (O'Fallon and Butterfield, 2005; Brown and Mitchell, 2009).

The reminder of the paper is organized as follows. The next section presents our theoretical background. Section 3 develops the hypotheses. Section 4 describes the research site, the sample and the measures employed in the empirical analysis. Our findings are examined in section 5. Section 6 discuss limitations of the research, outlines avenues for future research and concludes.

3.2 Theoretical background

Identity theories provide the main theoretical support for the research reported here.

Social identity theory assumes that one part of the self-concept is defined by our belonging to social groups (Tajfel, 1978; 1982; Tajfel and Turner, 1979). According to social identity theory identity has two components: a personal component associated with idiosyncratic characteristics of the individual such as personality and physical traits and a social component encompassing salient group classifications. The latter component implies that individuals are likely to categorize themselves and others in terms of membership to salient social groups that may be associated with e.g. sex, race, class and nationality (Ashford and Mael, 1989; Hogg and Terry, 2000; Nkomo and Cox, 1996). Additionally, belonging to certain identity groups proves to be valuable for the individual (e.g. Turner, 1979; Pettigrew, 1986). It follows that social identity is constituted by: "an individual's knowledge of his or her membership in social groups together with the emotional significance of that knowledge" (Turner and Gilles, 1981: 24). According to Tajfel and Turner (1985) identification with a social group acquire meaning through comparison with other relevant groups especially when the categorization is salient to the individual. It follows that, based on group categorization, differences between groups are emphasized while differences between members within the same group tend to be underrated and restrained. Individuals are likely to ascribe particular emphasis to those dimensions, which can positively differentiate their in-group from a comparison out-group since this may generate a "positive distinctiveness" and thus a relatively positive social identity in comparison with the out-group (Tajfel, 1979; Cornelissen et al., 2007).

Organizational identity is a particular form of social identity, which is associated with membership of a given organization (Ashforth and Mael, 1989; 1996). Organizational identity encompasses the shared beliefs of members about the central, enduring and distinctive characteristics of the organization (Albert and Whetten, 1985) and it contributes to the specific ways in which individuals define the organization and to their identification with it (Gioia and Thomas, 1996: 372). While organizational identity may encompass a number of different dimensions, we limit our attention to ethics related constituents of an organization's identity. Specifically, extant literature on business ethics suggests that when features of the internal ethical context are central, distinctive and

enduring characters of an organization they can be seen as elements of an organization's identity (Trevino et al., 2008; Klemm Verbos et al., 2007). The underlying logic of the social identity approach suggests the individual is likely to identify himself or herself with an organization when the latter represents a salient social category and his or her self-concept shares some commonalities with the one he or she believes define the organization as a social group (Dutton et al., 1994). Therefore, organizational identity is related in meaningful ways to the perception that organizational members hold about themselves, via the process of identification, which reflects the specific ways in which individuals define themselves with respect to their membership in a particular organization (Dutton et al., 1994; Mael and Ashforth, 1995; 1992). In this respect, identification provides "a cognitive linking between the definition of the organization and the definition of self" (Dutton et al., 1994: 242). Being part of an attractive organization boosts individuals' self-concept and self-esteem. Dimensions forming organizationale identity are likely to be perceived in favorable terms by members as this may enhance their self-esteem. In fact, research suggests that positive organizational outcomes are associated with organizational identification (Haslam et al., 2003).

However dimensions constituting an organization's identity may be perceived differently by different groups of individuals across the organization (Ashforth and Mael, 1989; Cole and Burch, 2006 Pratt and Foreman, 2000). For instance, Albert and Whetten (1985) differentiated between holographic organizations where members across subunits shared a common identity and ideographic organizations in which individual within subunits develop distinctive identities. In particular, research on social identity demonstrates that organizational level can generate differences in identity perceptions (Corley, 2004; Haslam et al., 2003). Cole and Bruch (2006) show that employees may perceive their level within the organization's hierarchy as a salient social category shared with other members of an in-group and not shared with members of an out-group. Consistently, business ethics research theoretically demonstrates that identity dimensions related to ethics may be perceived differently at different hierarchical levels (Klemm Verbos et al., 2007; Trevino et al., 2008).

3.3 Objective and Hypotheses

This study explores the perception of the internal ethical environment as reported by individuals at different echelons in the organizational hierarchy. According to prior research in this area, the perception of ethical environment may differ between social groups at different levels, particularly between senior managers and non-managers. However, Trevino et al. (2008) speculates that middle- and lower-level managers' perceptions of organizational ethics do not differ significantly from those of senior managers and non-managers, possibly because they are in a position 'to influence and be influenced by those above and below them in the organizational hierarchy' (Trevino et al., 2008: 247), thereby impeding the construction of idiosyncratic opinions on these organizational features. Research on social identity has documented, however, the ways in which managers in the middle "attempt to secure an identity" (Thomas and Linstead, 2002: 79) and draw actively on various organizational discourses as resources "in creating a sense of self" that differentiates them from other managerial groups (Sveningsson and Alvesson, 2003). It is possible, therefore, that managers in the middle affirm an idiosyncratic perspective on the ethical environment, which differentiates the group from others within the organization. The above discussion leads us to propose the following hypothesis (stated in the null form):

H1: There is no association between hierarchical level in the organization and perception of the internal ethical environment.

Existing evidence indicates that differences in the perception of ethical context may be meaningfully associated with organizational level. Trevino et al. (2008: 243) substantiate that senior managers have significantly more positive perceptions of organizational ethics when compared with lower-level employees. In large organizations, attention to ethics appears to be a top-down phenomenon (Trevino et al., 2003; Sims, 1990). Senior managers shape the internal ethical context through organizational processes (Nystrom, 1990; Sims and Brinkmann, 2002). Therefore, as one descends the company ladder, organizational members tend to develop a more cynical perspective on the ethical context. In fact, Posner and Schmidt (1986) showed that, among a sample of almost 1,500 managers, a favorable perception of their organizations' ethical context was positively related to managerial level. This is possibly because managers at more senior echelons perceive less pressure to compromise their personal values to adapt

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to organizational expectations, than their lower level counterparts (Dean et al, 2010; Posner and Schmidt, 1992; Soutar et al., 1994). In addition, Carrol (1975) and Posner and Schmidt (1984) found supporting evidence to suggest that unethical pressures to achieve results were more strongly felt by middle- and lower-level managers when compared with senior managers. In the US, the National Business Ethics Survey emphasized that middle-level managers are more likely to have observed misconduct in their organizations than have their higher-level counterparts or non-management personnel (Ethics Resource Center, 2005). This might generate a more cynical view of their ethical environment when compared with other organizational members. Thus, the foregoing dialectic leads to the following hypotheses:

H2a: Senior managers are more likely to report positive perceptions of the internal ethical environment when compared with all other groups.

H2b: Middle managers are more likely to report positive perceptions of the internal ethical environment when compared with lower-level managers.

3.4   Methods

3.4.1   Research setting and sample

The research setting was an overseas subsidiary of a US-based, FTSE-for-good corporation operating in the service sector. Since its establishment in Italy (where privatization of the industry occurred in 1997), the organization has experienced stable profit and revenue growth every year and has not undertaken major restructurings. Furthermore, it has steadily grown in the number of employees by an average of 15.5% since 2000. At the time of the research, the turnover rate was 14.4%, in line with past trends. In 2006 the company switched from a functional structure to a divisional structure that comprised five strategic business units. Our research explored the perceptions of 1,508 individuals from the pool of managers of the organization. Preliminary information gathered for this research show that middle- and lower-level managers in this setting were subjected to comparable performance measurement, evaluation and reward systems, and to similar programs of 'ethical training' undertaken by the organization when they joined the company. The data were gathered during the third quarter of 2009 as part of a larger survey of work-related attitudes and behaviors, conducted by an international human resource and consulting company.

Occupational Group	Absolute Number	% of Total Sample
Senior Managers	19	1,25%
Regional Area Managers	116	3,98/
Branch Managers	304	18,89%
Assistant Managers	1.069	62,86%
Total $n. = 1.508$		

Table 3.1: Overview of the sample

An independent third-party survey and sampling administrator vendor was employed for data collection. The survey was completed during working hours and administrated only to full-time (more than 30 hours per week) managers with at least three months of tenure in their current position, or 1,696 individuals at the time the research was conducted. For this study the researchers asked to include eleven items that allow an assessment of the internal ethical environment (Trevino et al., 1998; Trevino et al., 2008). Participants were recruited through a personal email from the company undertaking the survey. Subjects responded anonymously to a web-based questionnaire, in order to guarantee confidentiality. No raw data were made available to the organization under investigation and feedback was provided at a statistical level only.

Respondents were asked to provide some demographic information, such as gender, age, salary level, tenure, and to state the division and geographic area they belonged to; however, they were also informed that individuals would not be able to be identified from the feedback given to the sender. Completed surveys were returned by 1,508 managers, representing a return rate of about 88,9%. 77% of the sample was female, and 23% male. The majority of those who responded were aged 35 or less (71%), while 29% were more than thirty-five years old. In the demographics section of the survey, respondents stated their level in the hierarchy. The levels identified by the organization according to job title included senior management, regional/area management, branch management and assistant management. Table 1 provides detailed information on the sample. Admittedly, there is no generally accepted demarcation across "lower level," "middle level" and "senior level" management. For the purpose of this research, the levels in the hierarchy, as indicated by respondents, have been categorized on the basis of the classification provided by Staehle and Schirmer (1992). Accordingly, regional/area and branch managers were classified as middle-level managers while assistant managers were categorized as lower-level managers.

3.4.2 Research instrument

The organization's ethical environment was measured using an eleven-item instrument adapted from Trevino et al. (2008) and reported in table 2. While initially devised by Trevino et al. (1998), this survey instrument was employed with slight modifications for investigating perception of the internal ethical context at different hierarchical levels (Trevino et al., 2008). The latter version of the survey questionnaire was employed for this study in order to enhance comparability of results. The instrument tackles three areas of enquiry namely (I) executive concern for ethics; (II) ethics in everyday life and decision-making; and (III) reward system's support for ethical conduct. The questionnaire addressed managers' perceptions using a five-point Lickert response format (ranging from "strongly agree = 5" to "strongly disagree =1"). Scores on the measures thus ranged from 1 to 5, with higher scores indicating a perception of a more ethical organizational environment. The empirical analysis conducted on the results of the survey depended on data availability, since issues of ethical leadership and reward system support for ethics, were regarded as sensitive in our research context, particularly at high management levels. The difficulty in getting comprehensive support in sensitive areas of enquiry such as ethics related features of the organizational context has been noted by other researchers (Liedtka, 1992; Trevino, 1992). To overcome such difficulties, our analysis was conducted at the group level.

3.4.3 Procedure

Non-parametric tests of independence have been conducted in order to discover whether differences in the perception of various dimensions of the organizational ethical environment are related to the organizational level of respondents (H1). The independent variable in the analysis is the level within the organization. Specifically, H1 was tested by using Pearson's chi-square test. Pearson's chi-square test is based on the assumption that the sample data follows chi-square distribution, and it is appropriate if "fewer than 20 percent of the cells have an expected frequency of less than 5 and if no cell has an expected frequency of less than one" (Siegel and Castellan, 1989: 199). When necessary and conceptually meaningful, adjacent levels of variables were combined to meet the minimum cell expected frequency requirement for the chi-square. Specifically, the five levels of agreement with the items were collapsed to three levels (agree; neither agree nor disagree, and disagree). The chi-square statistic calculated

Item	Description
1	This organization practices what it preaches when it comes to ethics and compliance
2	Executives here take ethics and values concerns seriously.
3	Ethics policies serve only as 'window dressing' in this organization. (rev.)
4	Ethics and values concerns are integrated into everyday decision making in this oganization.
5	Executives here care as much about ethics and values as they do about the 'bottom line'.
6	Executives of this organization regularly that they care about ethics and values.
7	Employees of the company who violate ethical standards still get rewarded. (rev.)
8	You can be unethical here and still get ahead. (rev.)
9	Being consistently ethical helps an employee to advance in this firm.
10	People of integrity get the rewards in the firm.
11	If employees are caught breaking the company ethics or compliance rules, they are disciplined.

Table 3.2: Overview of the instrument

in each case was evaluated with the chi-square distribution for $(L - 1)(S - 1)$ degrees of freedom. Results of the hypotheses tests were analyzed by comparing the calculated probability (p) values with the significance level of 0.05 for 95% confidence interval. Hypotheses 2a and 2b investigate whether the internal ethical environment is perceived more/less favorably as one moves across the organizational ladder. In order to statistically determine whether the mean level of perception differs pair-wise across organizational levels, a test of means is required. Pairwise comparisons of groups were made using either the Mann-Whitney U test for independent random samples (H2a) or the unpaired T-test (H2b). Differences were considered significant at a value of $p < 0{,}05$ (two-sided).

3.5 Results

Descriptive statistics for the data employed in this study are provided in Table 3. Descriptive statistics suggest that managers expressed slightly more favorable attitudes toward items related to reward system's support for ethical conduct compared with those on executive support for ethics and those on ethics in everyday life and decision-making. Response patterns for the latter two dimensions are comparable. The evidence suggest that among the components of the internal ethical environment, reward system is generally perceived as the most supportive for ethics within our research setting. However, while Trevino et al. (2008) provided a broad conceptualization of reward systems encompassing both rewards and punishments, our data show different response patterns associated with provision of incentives and punishments. Specifically, respondents across hierarchical groups were more likely to acknowledge that their organization provides members whit rewards for ethical conduct, compared with castigations for breaking the company's ethics rules.

H1 investigates whether individuals at different levels report similar perceptions of the internal ethical environment of the organization. Table 4 illustrates that statistically significant differences ($p < 0{,}05$) across groups of managers at different echelons in the organization's hierarchy were associated with the perception of all the items included in the ethical environment questionnaire. For this reason, H1 could be rejected. It can be observed that statistically significant differences across groups of respondents were more prominent for items associated with executive concerns for ethics and ethics in everyday life and decision-making. For these two dimensions of the internal ethical environment

Item	Senior Managers		Reg./Area Managers		Branch Managers		Assistant Managers	
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
1	4,000	1,155	3,129	1,198	3,526	0,985	3,749	1,015
2	4,158	1,015	3,440	1,106	3,467	0,985	3,650	1,015
3	3,790	1,032	2,957	1,233	3,447	1,052	3,640	1,063
4	4,263	1,098	3,905	0,923	3,911	0,776	3,942	0,902
5	4,105	1,100	3,216	1,324	3,526	1,090	3,429	1,219
6	4,105	0,937	3,578	1,143	3,723	0,949	3,731	1,093
7	4,368	0,831	3,647	1,065	3,842	0,945	3,869	1,038
8	4,421	0,961	3,940	0,878	4,049	0,920	3,889	1,078
9	4,316	1,108	3,647	1,211	3,990	0,983	3,940	1,039
10	4,579	0,961	4,060	1,082	4,240	0,885	4,098	1,036
11	3,421	1,539	2,491	1,315	2,510	1,197	2,950	1,299

Table 3.3: Descriptive statistics for each group of respondents

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no common pattern of responses is apparent. A quick glance through Table 4 indicates that, for the all the items on executive concern for ethics, a higher proportion of senior managers responded favorably compared with all other groups. Findings on mid- and lower level management groups were mixed: for item 2 and 6, assistant managers were more likely to report favorable opinions compared with mid level managers (i.e. regional/area and branch managers), whereas for item 5, a higher proportion of regional/area managers responded favorably, followed by assistant managers and then branch managers. Similarly, for all the items on ethics in everyday life and decision-making, a higher proportion of senior managers responded favorably compared with all other groups. Regarding responses of managers at middle and lower echelons, Table 4 indicates that, for item 1 and 3, assistant managers were more likely to report favorable opinions compared with mid level managers (i.e. regional/area and branch managers), while for item 4 and 8, a higher proportion of regional/area managers responded favorably, followed by branch managers and then assistant managers. The evidence suggests that distinctive perspectives associated with these two dimensions are more likely to be retained by managers at different hierarchical levels, whereas less prominent differences were associated with perception of the reward system support for ethics. In fact, the χ2 tests for reward-related items, showed less prominent differences across response patterns ($p < 0.05$) compared with items included in the other two dimensions, with the only exception of item 11 on punishment for breaking the company's ethics or compliance rules ($p < 0.001$). Moreover for all items included in this dimension, table 4 indicates that senior managers were the more likely to report favorable opinions on the items compared with all other groups while mid-level managers were the least likely to report positive views. Specifically for reward-related items branch managers were the least likely to report favorable opinions while for the punishment-related item regional/area managers were the least satisfied group.

Further, χ2 tests were applied to group pairings in terms of the eleven-item distributions. Based on our preliminary information, we compared the perceptions of groups of employees who were likely to have frequent formal and informal interactions and were subject to similar human resource policies and management control and reward systems. Results show that middle-level managers are likely to hold peculiar views of the internal ethical environment, which are substantially different from those reported by senior managers and lower level managers (Table 5). Table 5 (column 1) shows the comparison between the responses provided by senior-level managers and those of regional/area managers.

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Item	Senior Managers					Reg./Area Managers					Branch Managers					Assistant Managers					df	$\chi 2$ test
	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1	5	4	3	2	1		
1	8	6	3	1	1	14	34	36	17	15	40	134	91	24	15	246	470	235	75	43	12	59,714*****
2	8	8	2	0	1	14	56	22	15	9	43	110	109	30	12	214	438	289	85	43	12	37,253*****
3	4	10	3	1	1	9	38	28	21	20	40	125	91	27	21	235	406	289	86	53	12	60,307*****
4	10	7	0	1	1	31	52	28	1	4	67	152	79	3	3	321	428	278	21	21	12	27,361***
5	8	8	1	1	1	21	36	23	19	17	46	143	61	33	21	203	406	214	139	107	12	25,807**
6	8	6	4	1	0	21	56	17	13	9	55	149	73	15	12	267	460	182	107	53	12	30,482***
7	10	7	1	1	0	21	57	21	10	7	73	143	64	15	9	310	470	171	75	43	12	21,845*
8	11	7	0	0	1	31	56	21	7	1	100	146	40	9	9	342	438	171	64	54	12	24,600**
9	11	6	0	1	1	29	49	16	12	10	106	122	49	21	6	353	449	160	64	43	12	22,647*
10	14	4	0	0	1	51	35	22	2	6	143	109	37	12	3	459	385	139	43	43	12	22,126*
11	6	5	3	1	4	6	30	16	27	37	12	67	61	88	76	128	299	225	225	192	12	55,535*****

Level of significance: * p <0,05; ** p <0,025; *** p<0,01; **** p<0,00; ns: not significant.

Notes: Frequency distributions are detailed for level of agreement where 5 stands for 'strongly agree' and 1 'stands for strongly disagree'.

Table 3.4: Observed frequency distributions across managerial levels and χ2 test results

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	Senior Managers and Reg./Area Managers		Reg./Area Managers and Branch Managers		Branch Managers and Assistant Managers	
Item	χ2 test	df	χ2 test	df	χ2 test	df
1	12,270**	4	16,137***	4	18,056***	4
2	12,417**	4	14,223***	4	13,118**	4
3	8,463	4	20,034****	4	12,397**	4
4	10,712*	4	4,431	4	13,495***	4
5	9,382	4	13,153**	4	10,115*	4
6	7,829	4	10,835*	4	20,288****	4
7	12,021**	4	5,748	4	8,415	4
8	12,277**	4	6,075	4	10,402*	4
9	9,702*	4	13,929***	4	3,755	4
10	7,396	4	11,831**	4	7,551	4
11	16,041***	4	5,098	4	30,675****	4

Level of significance: * p <0,05; ** p<0,025; *** p<0,01; **** p<0,00; ns: not significant.

Table 3.5: χ2 test results for adjacent group pairings

Results suggest that the two groups portray the internal ethical environment differently. Seven statistically significant differences were detected while convergent perceptions were expressed for only four items ($p > 0,05$). In general, senior- and regional/area managers appear to share comparable views on the executive concern for ethics (item 5 and 6). When the response patterns of regional/area and branch managers are compared, seven statistically significant differences emerge (table 5, column 2). Convergent perceptions were expressed for three out of five items related to reward system support for ethics. Finally, table 5 (column 3) illustrates eight statistically significant differences between lower-level managers and assistant managers. Comparable perceptions were reported for three of the items (i.e. item 7,9 and 10) addressing the support of the provision of material and promotion-related rewards for ethical conduct. Summarizing, results suggest patterns of comparable responses across groups of managers. Senior and regional/area managers share comparable views on executive concern for ethics while significant differences exist descending the organizational ladder. At the same time middle- and lower-level managers share some commonalities in the perception of reward-related items, while perceptions of senior managers are significantly different.

H2a investigates whether senior managers reported more favorable perceptions of the internal ethical environment than their lower-level counterparts. Pair-wise comparisons of the management groups were carried out using the

	Senior Managers and Reg./Area Managers		Senior Managers and Branch Managers		Senior Managers and Assistant Managers	
Item	Z test	p-value	Z test	p-value	Z test	p-value
1	-3,006	p<0,01	-2,292	p<0,025	-1,364	ns
2	-2,941	p<0,01	-3,243	p<0,01	-2,477	p<0,025
3	-2,812	p<0,01	-1,572	ns	-0,719	ns
4	-2,176	p<0,05	-2,605	p<0,01	-2,114	p<0,05
5	-2,868	p<0,01	-2,651	p<0,01	-2,656	p<0,01
6	-1,890	ns	-1,751	ns	-1,453	ns
7	-3,096	p<0,01	-2,643	p<0,01	-2,298	p<0,025
8	-2,743	p<0,01	-2,271	p<0,025	-2,576	p<0,025
9	-2,733	p<0,01	-1,922	ns	-2,119	p<0,05
10	-2,443	p<0,025	-2,194	p<0,05	-2,597	p<0,01
11	-2,552	p<0,025	-2,730	p<0,01	-1,592	ns

Level of significance: * p <0,05; ** p<0,025; *** p<0,01; **** p<0,00; ns: not significant.

Table 3.6: Mann-Whitney U test - group pairings results

Mann-Whitney U test (table 6). When senior- and mid level managers were compared, analysis of the data indicated that on 10 of the 11 items the means for senior management exceeded those of regional/area management whereas on 8 items they exceeded the means of branch managers. Tests of mean for the remaining items were not significant. When senior- and lower-level manager were compared, the means of senior- exceeded those of assistant managers on 8 of the 11 items. Tests of mean for the remaining items were not significant. Indeed, whenever statistically significant differences were observed, the test results show that senior managers reported significantly higher mean scores than both middle- and lower-level managers, providing some support to H2a. The largest statistical differences between the group means occurred when senior- and regional/area managers were compared while less prominent differences were observed when senior- and branch-managers or assistant managers were compared.

H2b investigates whether middle managers reported more positive perceptions of the internal ethical environment than lower-level managers. Table 7 lists the significant results of the T-Test used to compare the means between regional/area and assistant managers and between branch managers and assistant managers. From Table 7, it is apparent that the means of regional/area- and assistant-management personnel differ from one another significantly on 6 out of 11 items. For statistically significant results, assistant managers' item

	Reg./Area Managers and Ass. Managers		Branch Managers and Ass. Managers	
Item	t test	p-value	t test	p-value
1	-6,131	p<0,001	-3,410	p<0,001
2	-2,103	p<0,05	-2,794	p<0,01
3	-6,466	p<0,001	-2,793	p<0,01
4	-0,417	ns	-0,542	ns
5	-1,779	ns	1,251	ns
6	-1,425	ns	-0,099	ns
7	-2,188	p<0,05	-0,407	ns
8	0,492	ns	2,365	p<0,025
9	-2,842	p<0,01	0,749	ns
10	-0,372	ns	3,119	p<0,01
11	-3,604	p<0,001	-5,297	p<0,001

Level of significance: * p <0,05; ** p<0,025; *** p<0,01; **** p<0,00; ns: not significant.

Table 3.7: t test - group pairings results

means exceed those of regional/area managers in all six cases. When branch and assistant managers are compared, evidence emerging from the T-test results is mixed. Statistically significant mean differences were associated with 6 out of 11 items in the ethical environment questionnaire. Among the significant items, assistant managers reported higher mean scores for four items related to ethics in everyday life and executive concern for ethics, while branch managers reported higher mean scores for one item related to the reward-system's support for ethical conduct and one on ethics in everyday life and decision making. All in all, our findings provide limited support to H2c, since in our research setting lower level managers (i.e. assistant managers) are likely to report more favorable perspective on aspects of the internal ethical environment compared with middle level managers.

3.6 Concluding discussion

The primary aim of this study was to investigate the perception of the internal ethical environment as provided by different groups of managers at different echelons in the hierarchy, in a single-company setting. It follows a line of conceptual and empirical research that has established the role of ethical environment as an antecedent of employee ethical decision-making and conduct (e.g. Trevino et

al., 1998). The results of the study reveal three main conclusions.

The present study, as opposed to others that employed data from random individuals from different organizations and industries, was conducted on site. The sample represented the perceptions of managers of this particular organization who were subjected to comparable management ethics-related policies. it reflected the perception of managerial staff at different echelons of the organizational structure in the company. Thus, we believe that, given certain field research limitations, the data present an reliable assessment of ethical environment in the organization.

First of all, there appeared to be a relationship between manager perception of the internal ethical environment and hierarchical level of managers. The chi-square analyses indicated that the favorableness of response to perception of the ethical environment was contingent upon level in the hierarchy. Consistent with prior literature in this domain, our results suggest that significant differences in the perception of the environment for ethics exist across sub-groups of organizational members, possibly reflecting shared group-related views on certain features that constitute the identity of an organization (Klemm Verbos et al., 2007). While extant empirical research documented dissimilarities in the perception of the internal ethical environment between senior managers and non-managerial personnel, this study provides evidence to suggest that a range of attitudes toward the internal ethical environment may exists even across group of managers at different organizational echelons (Trevino et al., 2008). When perceptions of senior managers were compared with their lower-level counterparts, we found that statistically significant differences existed across groups of managers at different hierarchical levels. Middle- and lower-level managers held a distinctive view of the internal ethical environment, which distinguishes them from other organizational members. Statistically significant differences were associated to all the items included in the survey, however our statistical results were more prominent for items on executive concern for ethics and ethics in everyday practices and decision-making. Differences across groups associated with the perception of the reward systems' support for ethics were less prominent, albeit significant. At the same time, managers expressed more favorable attitudes toward this dimension of the ethical environment compared with others, irrespective for their organizational level.

Secondly, when mean scores were compared, top-level managers' view of the ethical environment appears to be "rosier" than all other groups. This may be a consequence of the personal involvement of senior managers in defining

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and implementing ethics-related policies and practices as well as their closer identification with executive leadership, which may not be the case for middle and lower level managers (Trevino et al., 2008). In general, managers at middle and lower levels reported less favorable perspectives on the ethical environment when compared with senior managers, with potential implications for ethical decision-making and conduct. In fact, studies on middle managers ethical behavior (Dean et al., 2010) and ethical misconduct (Harris, 1990) assert that ethical conflict is felt most strongly by middle- and lower-level managers as a consequence of greater exposure to operational decisions that have ethical implications and of higher pressure to achieve results. This may contribute to generating an idiosyncratic view of the ethical context, which in turns may influence the perspective of other organizational members both upwards and downwards.

A third implication involves the fact that the perception of the ethical environment is not a "top-down phenomenon" in our research setting. The sign test analyses of the data show a common pattern of responses across dimensions, with higher mean scores reported by senior managers followed by lower-level managers (i.e. assistant managers) and then mid-level managers (i.e. branch managers and regional/area managers). Our results imply that the middle management echelons perceive the least constructive ethical environment, but perhaps more importantly that the regional/area managers rather than their organizational inferiors, branch and assistant managers, were the least likely to portray the internal ethical environment in favorable terms, compared with all other groups. In particular, pair-wise comparison of group responses reveals that middle level managers (i.e. regional/area and branch managers) share unfavorable attitudes towards items on ethics in everyday life and decision-making and on reward-related support for ethics. Regional/area and branch managers tend to recognize some discrepancy between espoused ethical values and day-to-day activities and they are likely to perceive ethics policies as mere "window dressing". At the same time it seems that managers at mid level echelons are skeptical on the way in which unethical conduct is disciplined in the organization. The latter appears to be a major distinctive trait of middle level managers as compared with their lower level counterparts in terms of their perception of the support fore ethics provided by reward/punishment systems. While our data provide evidence to suggest that mid- and lower-level managers share comparable views of the reward system support for ethics, possibly because these groups are subjected to comparable reward practices, formal means of applying

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punishment are regarded in more "cynic" terms by manager at middle echelons compared with their lower-level counterparts.

On a practical ground, our findings suggest that management system designers should consider whether and how reward and punishment systems work in concert with each other and the extent to which they are aligned with espoused ethical values of an organization (James, 2000). In fact, the extent to which an organization's reward/punishment systems convey conflicting messages to managers may result in ethical ambivalence (Jansen and Von Glinow, 1985). More in general, an understanding of the relationship between the different dimensions of ethical environment at different organizational levels should enable organizations to take a diagnostic stance in order to manage their internal ethical environment and, by implication, the ethical behavior of organizational members (Wimbush et al., 1997; Trevino et al., 1998). Besides, if management perception varies along ethical environment dimensions, then it may be feasible for management system designers to alter those relevant dimensions (e.g. reward system) of ethical environment in managerial groups were unconstructive behavior is prevalent.

Certain limitations of this study should be noted. These weaknesses indicate possible avenues for future research with respect to the perception of elements of the ethical environment in organizational contexts. First, our research instrument was included in a survey questionnaire, which was not originally designed for research purposes. This choice appears to be beneficial in that it allowed us to 'situate' employees' perception regarding elements of ethical policies and practices that effectively informed their work context; however, caution must also be exercised concerning the potential sources of common method biases associated with the presentation of the questionnaire (Podsakoff et al., 2003). Second, the sample was limited to one company and one industry. Even though this choice allows us to classify different sub-groups of organizational members unequivocally, the findings may pertain solely to the firm and industry sampled, thus implying the need for the validation of results in different settings. Third, the present study is cross-sectional; therefore, it is unclear whether the findings would hold over time. Future research could adopt a longitudinal approach in order to verify whether (and how) employees' perception of certain elements of the ethical context is stable over time.

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