

**THE NATURE AND EXTENT OF THE  
RELATIONSHIP BETWEEN  
PERFORMANCE MEASURES AND  
SHORT-TERMISM**

**By**

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## ABSTRACT

This thesis researches the nature and extent of the relationship between performance measures and short-termism. It is empirically based, with the relationship being investigated by way of a critical realist informed case study of a multinational retail organisation. To unpack the relationship and drill down further into the issues involved, the research addresses four questions: How do managers understand the short, medium, and long term? How do inter-temporal decisions manifest? What is the nature of the relationship between performance measures and short-termism? What is the extent of the relationship between performance measures and short-termism?

Utilising a combination of semi-structured interviews, non-participant observation, and company documents, the thesis argues that the concepts of short, medium, and long term are empirically messy due to heterogenous meanings. By linking managers' views about their time horizons to their involvement in different inter-temporal decisions, the thesis proposes that any future definition of short-termism should not just emphasise the inter-temporal trade-off involved in actions, but also the intention that underpins those actions. The thesis reshapes the financial/non-financial dichotomy to illustrate that quantitative (financial and non-financial) measures can lead to short-termism. Nevertheless, between-person differences in inter-temporal responses to how performance measurement information is used to evaluate and reward managers complicates this relationship. Thus, over the course of this thesis, a contingency-based framework is developed; the framework provides individual-level explanations about when, how, and why short-termism occurs.

The thesis contributes to the behavioural accounting literature, particularly the empirical literature, which examines the behavioural effects of financial measures by advancing the conceptualisation of short-termism, and provides a nuanced understanding of how short-termism manifests. It also contributes to this literature by synthesising the conceptual landscape in order to build an integrated framework of the nature and extent of the relationship between performance measures and short-termism.

**Keywords:** performance measures; short-termism; time horizons; decision making; contingency-based approach.

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## **DEDICATION**

I dedicate this thesis to the memory of my grandfather, Stephen James. Thank you for encouraging me to aim high.

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# 1 INTRODUCTION: ISSUES AND INTENTIONS

*“The second specific task of managers is to harmonize in every decision and action the requirements of the immediate and long-range future. Managers cannot sacrifice either without endangering the enterprise. They must, so to speak, keep their noses to the grindstone while lifting their eyes to the hills—which is quite an acrobatic feat.”* (Drucker, 2013: 54)

Managers, particularly middle-level managers, have a duty to approach the future in terms of day-to-day decisions and actions that consider both the short and the longer term (Frow et al., 2005). As Drucker (2013) forewarns, managers who are unable to balance the demands of both time periods may endanger the organisation. This forewarning is particularly pertinent when tension between the striving for short-term results and the pursuit of longer-term success prevails. In this context, trade-offs between the short and longer term may occur. Short-termism—behaviour that focuses on securing short-term results that precludes longer-term achievement (Lavery, 1996; Marginson and McAulay, 2008; Irving, 2009; Marginson et al., 2010)—denotes one such trade-off. This study aims to illuminate managers’ inter-temporal decision-making processes by exploring the nature and extent of the relationship between performance measures and short-termism. Performance measures, which form part of an organisation’s management control system, define the dimensions upon which results are desired (Malmi and Brown, 2008; Merchant and van der Stede, 2012). Hybrid forms of performance measurement, such as the Balanced Scorecard (BSC), contain both financial and non-financial performance measures. The present study adopts a contingency approach to researching the time horizons of, and inter-temporal trade-off decisions made by, middle-level managers in a multinational retail organisation which operates a BSC.

The remainder of the chapter contains four sections. The first section provides background information on the relationship between performance measures and short-termism to orient the discussion. The section emphasises the adverse consequences of short-termism and draws attention to the BSC as one potential way to mitigate the likelihood of its occurrence through the use of causally linked financial and non-financial measures. The second section presents the key concepts and arguments that will be used and referred to throughout the remainder of the study. The arguments lead to the following suggestions: (1) there is a need to explore the nuances and possible complexities of short-termism; (2) there is a need to unpick the general

categories of financial versus non-financial measures; and (3) there is a need to explore the contingencies that may complicate the relationship between performance measures and short-termism. The third section delineates the research agenda, both graphically and in narrative form, and outlines the envisioned contributions to be made by this research. The final section provides an overview of the forthcoming chapters.

## **1.1 Management Control Systems and Short-termism**

Management control is the process by which organisations attempt to ensure, using information-based systems, routines, and procedures, that the behaviours and decisions of managers are consistent with organisational aims and objectives (Marginson, 2012; Merchant and van der Stede, 2012). Financial measures, such as profit and return on capital employed, are integral to the management control process (Hansen et al., 2003; Kennerley and Neely, 2003; Malmi and Brown, 2008). Financial measures provide relatively accurate, timely, and objective information which supports the process of planning, monitoring, measuring, and evaluating (Hopwood, 1972; Merchant, 2006). Traditionally, most organisations have relied, in part, upon financial measures when exercising management control and, importantly, financial measures continue to be widely used by organisations (see e.g., Ekholm and Wallin, 2000; van der Stede et al., 2006; Libby and Lindsay, 2010).

However, within the post-1980s accounting literature, dissatisfaction with financial measures started to emerge (see Kaplan, 1984; Johnson and Kaplan, 1987). The dissatisfaction relates, in part, to the fact that financial measures focus on the past; they are derived from measurement rules that are often conservatively biased; and they provide incomplete signals of managerial effort (see Merchant, 2006; van Rinsum and Hartmann, 2007; Merchant and van der Stede, 2012). Nørreklit (2000) draws attention to these imperfections:

“Accounting figures do not emphasize the elements which will lead to good or poor future financial results. One of the problems with accounting figures is that the financial consequences of the uncompleted chains of action extend beyond the time of measurement. For instance, the performance measures of accounting systems ignore the financial value of a company’s intangible assets such as research in progress, human resources and the goodwill as well as the

bad-will which the company has built. The problem may even be aggravated if the company is in a situation in which it feels forced to pursue short-term financial results rather than the organization's long-term goals." (Nørreklit, 2000: 65-66)

The above excerpt alludes to the often-cited axiom 'what gets measured gets done'. This implies that, as financial measures assess the short term, managers will focus on the short term. As suggested at the outset, an excessive focus on the short term can be problematic when tension between managers' inter-temporal activities and responsibilities prevails. In this context, trade-off decisions in favour of the short term may occur. It is argued that short-termism can stifle creativity and competitiveness, cause operative inefficiencies and discourage investment in research, new capabilities and training (Merchant, 1990; Laverty, 1996; Thompson, 2007). Such behaviour can not only damage the long-term value-adding capability of the organisation (Hayes and Abernathy, 1980; Kaplan, 1984; Merchant, 1990), but also cause economic harm to the country in which the organisation operates (Jacobs, 1991; Porter, 1992; Laverty, 2004). Sir George Cox's independent review, which was commissioned by the Labour party in 2012, provides a vivid account of the adverse consequences of short-termism:

"Short-termism curtails ambition, inhibits long-term thinking and provides a disincentive to invest in research, new capabilities, products, training, recruitment and skills. It results in drastic cost-cutting and staff-shedding whenever revenue growth fails to keep up with expectation...Its most important consequence is that it militates against the development of the internationally competitive businesses and industries that are essential to the UK's future economic prosperity." (Cox, 2013: 6)

Considering the above, analogies to an 'illness', 'disease', or 'virus to corporate thinking' are often made to highlight the severity of short-termism and the difficulties of treating this behavioural phenomenon (Rappaport, 2005; Gallery and Gallery, 2009). Whilst several remedies have been proposed (see Merchant and van der Stede, 2012), perhaps the most recognised is Kaplan and Norton's (1992) BSC approach to performance measurement and management control. The BSC is supposed to translate an organisation's vision and strategy into four areas of performance: learning and growth, internal business processes, customers, and financial (Kaplan and Norton, 1996a). The BSC thus supplements financial measures

with non-financial measures, such as employee satisfaction, product quality, and customer retention. Non-financial measures are believed to emphasise the longer term, and so the BSC is assumed to balance managers' time horizons by ensuring that they consider the long term as well as the short term (Kaplan and Norton, 1996a; Merchant, 2006; Merchant and van der Stede, 2012).

The key feature that distinguishes the BSC from a more ad hoc collection of financial and non-financial measures is the presumed causal linkages between the four measurement areas (Nørreklit, 2000; Nørreklit and Mitchell, 2007; Nørreklit et al., 2008).<sup>1</sup> According to Kaplan and Norton (1996a), the causal chain begins with the measures of learning and growth, thereafter continuing through the internal business processes and the customer perspective, and culminating with improved financial performance. The series of cause-and-effect relationships is supposed to describe a strategic trajectory of "how investments in employee re-skilling, information technology, and innovative products and services would dramatically improve future financial performance" (Kaplan and Norton, 1996a: ix). In sum, the mix of financial and non-financial measures and their causal linkages is considered to help address the problem of short-termism.

Since Kaplan and Norton outlined the BSC in their well-known 1992 Harvard Business Review paper, it has engendered substantial interest: 26% of German organisations (Speckbacher et al., 2003), 46% of American organisations (Neely et al., 2004), and 57% of British organisations (Atkinson, 2006) have reportedly implemented the BSC approach to performance measurement and management control. Practitioner surveys (see e.g., Silk, 1998; Marr, 2001; Rigby, 2001; Williams, 2001) also frequently document the popularity of the BSC in a range of industries and countries. Understanding the effect that performance measures have on managers' inter-temporal decisions, specifically in the context of the BSC, which is a hybrid form of performance measurement, may therefore be regarded as important. Yet, knowledge pertaining to the nature and extent of this relationship is empirically limited. The present study aims to address this lacuna. Motivated by both theoretical and practical considerations, the research issue addressed in this study can thus be stated as follows:

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<sup>1</sup> The notion of causal linkages was introduced in the 1996 version of the BSC (compare Kaplan and Norton, 1992; 1996a).

## *What is the nature and extent of the relationship between performance measures and short-termism?*

In addressing this research issue, the study draws on the substantive topic area of performance measurement as a ‘domain theory’, and employs different ‘method theories’ imported from economics and psychology as a meta-level conceptual system for exploring various contingencies that may complicate the relationship between performance measures and short-termism (see Chenhall, 2003; Lukka and Vinnari, 2014).<sup>2</sup> It is empirically based, with the relationship being investigated by way of a critical realist informed study of a purposefully selected information-rich case. Critical realism is a philosophical approach that not only endorses the case study method, but also provides helpful implications for both the research process and theoretical developments (see Easton, 2010). The key concepts and arguments that will be used and referred to throughout the remainder of the study are presented below. The next section thus serves as a preliminary to problematizing the assumption that financial measures encourage short-termism, whilst non-financial measures engender a longer-term focus.

### **1.2 Key Concepts and Arguments**

As the above has alluded to, and Chapter 2 will demonstrate, it has long been argued that financial measures encourage short-termism (see e.g., Hayes and Abernathy, 1980; Hayes and Garvin, 1982; Kaplan, 1984; Ittner et al., 2003b; Merchant and van der Stede, 2012). Empirical evidence, however, is inconclusive at best, with several studies unsupportive of the literature’s conceptual arguments (see e.g., Marginson and McAulay, 2008; Marginson et al., 2010). Within the accounting literature, using non-financial measures is advocated as a way of mitigating the potential for financial measures to cause short-termism (see e.g., Kaplan and Norton, 1992; Ittner and Larcker, 1998a; Sliwka, 2002; Ittner et al., 2003a; Ittner et al., 2003b; Merchant, 2006). Again, however, the limited empirical evidence available thus far tends to

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<sup>2</sup> A domain theory refers to the substantive topic area that the study examines (e.g., performance measurement), whilst a method theory offers a lens for analysing the issue(s) of the domain theory (e.g., agency theory, social comparison theory, etc.). For a useful discussion about the roles of theories in management accounting research, see Lukka and Vinnari (2014).

contradict conceptual argument (see e.g., Moers, 2000; Marginson et al., 2010). The differences between argument and evidence suggest the need for further research to better understand the nature and extent of the relationship between performance measures and short-termism. Importantly, as a better understanding may likely derive from drilling down further into the issues involved, the study explores, through qualitative methods, the nuances of both short-termism and performance measurement.

Regarding short-termism, the study investigates the following two assumptions and uses these as a platform for exploring the nuances and possible complexities of short-termism in more detail. The assumptions are: (1) the short term is a standardised period not exceeding one year (e.g., van der Stede, 2000; Marginson et al., 2010), and (2) that short-termism can be viewed as a relatively uncomplicated/un-nuanced, if undesired behaviour (e.g., Merchant, 1990; Abernethy et al., 2013). These assumptions tend to underpin conceptual argument, but their appropriateness has yet to be examined empirically. Therefore, exploring managers' understanding of their time horizons, and broadening the consideration of how and to what effect managers make inter-temporal trade-off decisions, constitutes the first conceptual and empirical step which this study takes.

As noted in the previous section, existing research has yet to fully investigate how the use of a systematic or formalised arrangement of performance measures, as in the form of a BSC, may affect managers' short-termist behaviour. The second step thus involves examining whether and, if so, how, why, and in what ways a systematic combination of financial and non-financial measures might relate to managerial time horizons; specifically, the tendency for managers to engage in short-termist behaviour. In doing so, the study unpicks the general categories of financial versus non-financial measures in order to offer a more nuanced analysis of individual performance measures and their possible associations with short-termism. Apart from differentiating between financial and non-financial measures, researchers tend not to further differentiate in terms of performance measures and their relationship with short-termist behaviour. Recent studies suggest that considering performance measures at only an aggregate level may obscure relationships at the disaggregate level (see Marginson et al., 2010; Chakhovich, 2013). That is, individual performance measures may encourage or discourage short-termism in certain circumstances.

In the tradition of a contingency approach to management accounting research (for a review article, see Chenhall, 2003), and in a further attempt to reconcile the contradictory findings in the management accounting literature, the study considers aspects of the organisational setting that may complicate the relationship in question. Broader discussions about short-termism that rely on economic-based and psychology-based theories focus on how relative performance measurement information is disseminated (see e.g., Frederickson, 1992; Hannan et al., 2008; Tafkov, 2013); how different rewards are allocated (see e.g., Hoskisson et al., 1993; Wallace, 1997; Laverty, 2004); how managers' employment horizons are shaped (see e.g., Narayanan, 1985; Campbell and Marino, 1994; Barker and Mueller, 2002); and how individual managers respond differently to a performance measurement system (see e.g., Kabanoff and Keegan, 2009; van Rinsum and Hartmann, 2011). Emphasis is placed here on exploring, in a more holistic and processual manner, contingency relationships within the scope of management control—that is, the design of the performance measurement and reward systems (elements of results controls and cultural controls), as well as personal factors (which can be influenced by elements of personnel controls).<sup>3,4,5</sup> Thus, the scope of the study extends beyond the interplay between financial and non-financial measures to include relevant contingencies that may determine the extent of their relationship with short-termist behaviour. The research issue addressed in this study is mapped onto a research agenda outlined in the next section.

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<sup>3</sup> Merchant and van der Stede (2012) state that results control involves rewarding employees for producing satisfactory results. Implementing results control involves defining the dimension(s) on which results are desired, measuring performance on the dimension(s), setting performance targets for employees to strive for, and providing rewards to encourage the behaviours that will lead to the desired results (cf. Malmi and Brown, 2008).

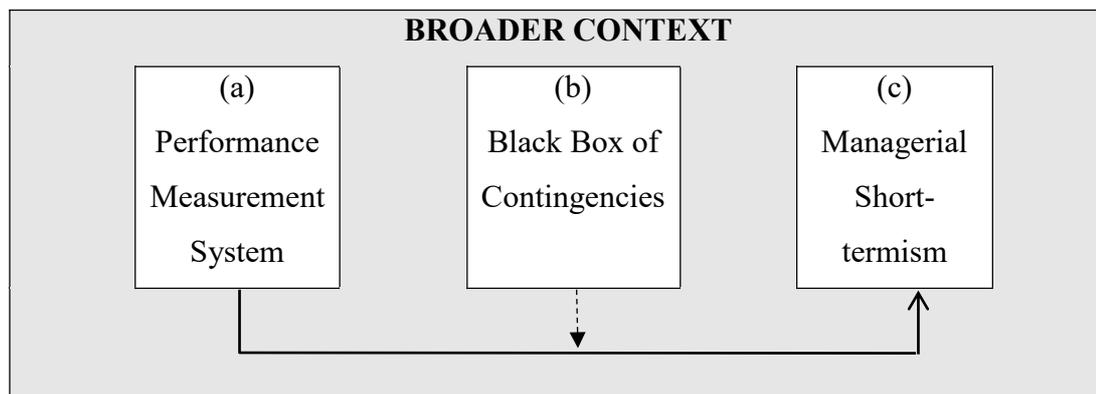
<sup>4</sup> Cultural controls are designed to encourage mutual monitoring and are built on shared traditions, norms, beliefs, values, ideologies, attitudes, and ways of behaving (Merchant and van der Stede, 2012). Group rewards and intra-organisational transfers are among the methods of shaping culture, and thus effecting cultural controls.

<sup>5</sup> Merchant and van der Stede (2012) note that personnel controls build on employees' natural tendencies to control and/or motivate themselves. The purposes of personnel controls are to clarify expectations, ensure that each employee has the capabilities and resources to perform their job and increase the likelihood that each employee will engage in self-monitoring. Personnel controls may include selection and placement, training and job design, and the provision of necessary resources (cf. Malmi and Brown, 2008).

### 1.3 Research Agenda

Figure 1.1 depicts the conceptual framework for the present study.

**Figure 1.1:** Conceptual Framework



As the aim is to unpack the relationship between performance measures and short-termism to drill down further into the issues involved, the framework can be unbundled into four research questions:

1. *How do managers understand the short, medium, and long term?*
2. *How do inter-temporal decisions manifest?*
3. *What is the nature of the relationship between performance measures and short-termism?*
4. *What is the extent of the relationship between performance measures and short-termism?*

Through the research questions identified above, this study seeks to contribute not just to the behavioural accounting literature, but also to the management accounting literature in general. In theoretical terms, the study contributes to the behavioural accounting literature, particularly the empirical literature, which examines the behavioural effects of financial measures. Its point of departure is twofold: (1) in exploring the nature of relationship between *individual* financial and non-financial measures and managers' inter-temporal trade-offs; and (2) in drilling down to provide a micro-level analysis of the extent of the relationship between

performance measures and short-termist behaviour. An additional point of departure is the intention to explore how managers view their time horizons and the issue of short-termism. In so doing, the study builds a contingency-based framework which provides individual-level explanations about when, how, and why managers engage in short-termism. The conclusions that can be drawn from this study call into question the appropriateness of assumptions that tend to underpin conceptual arguments.

This thesis is also significant in relation to its methodological contribution. There remains little published work discussing how critical realism can be utilised to conceptualise and conduct management accounting research (for exceptions, see Brown and Brignall, 2007; Llewellyn, 2007; Modell, 2009; 2017). In discussing the possibilities and practicalities of a critical realist research project, the study intends to add to this emerging area of interest. However, it should be noted at the outset that critical realism is largely deployed as an explanatory and linguistic device in this thesis rather than a meta-theory that informs theorising the empirical material. The qualitative approach to generating data also overcomes a limitation of prior research in this area, which has largely been conducted by way of questionnaire surveys (see e.g., van der Stede, 2000; Laverty, 2004; Marginson et al., 2010; Abernethy et al., 2013) and experiments (see e.g., van Rinsum and Hartmann, 2007). Qualitative studies are necessary where processes, such as the interplay between performance measures and managers' inter-temporal decisions, are involved which do not lend themselves easily to quantitative measurement (Yin, 2003). The next section provides an overview of each chapter in the thesis.

## **1.4 Outline of the Study**

The following two chapters review the literature that informs this study, with the next focusing on the conceptualisation of short-termism. The chapter defines short-termism and sets this against myopia to highlight the definitional inconsistency and conceptual ambiguity in the literature (compare e.g., Coates et al., 1995; Samuel, 2000; Chakhovich et al., 2010; van Rinsum and Hartmann, 2011). The chapter then explores the extent to which definitional inconsistency has led to varying operationalisation endeavours (compare e.g., Lawrence and Lorsch, 1967; Merchant, 1990; Marginson and McAulay, 2008). The remainder of Chapter 2 considers performance measurement systems and the claims that have been made for their effect

on short-termism, citing management accounting research which looks at the use of financial measures (e.g., van der Stede, 2000), non-financial measures (e.g., Marginson et al., 2010), and hybrid systems (e.g., Abernethy et al., 2013). Chapter 2 concludes with an appraisal of how this study understands short-termism and sets out the specific conflicts and gaps in the literature that will be addressed.

Given the conflicting findings evident in management accounting research, Chapter 3 draws upon a broader literature for which there are established empirical bases for exploring short-termism within an organisational setting. The chapter examines the accounting, economic, and psychology literatures, highlighting that the relationship between performance measures and short-termism may be complicated by interactive and complex factors such as how performance measurement information is disseminated (e.g., Hannan et al., 2013); how different rewards are allocated (e.g., Mergenthaler et al., 2012); how managers' employment horizons are shaped (e.g., Nicholson and West, 1988); and how individual managers respond to a performance measurement system (e.g., van Rinsum and Hartmann, 2011). The chapter ends by suggesting that the evidence relating to these factors is lacking, unclear, or conflicting and establishes the issues that will be addressed in this study.

Chapter 4 describes the research strategy that was deployed, emphasising the linkages between this study's research questions, ontology, epistemology, and methodology. The chapter begins by discussing this study's critical realist ontological and constructionist epistemological commitments, making detailed references to the methodological possibilities and implications of these philosophical commitments for the case study approach adopted. Assessments about the strengths and weaknesses of the investigatory tools utilised, and the ethical and procedural issues tackled, are also discussed. An account of the mode of analysis adopted and the criteria used to judge research within the critical realist paradigm concludes the chapter.

Chapter 5 is the first of the three empirical chapters, offering a detailed overview of the external and internal case study context. Attention is given to describing aspects of the internal context that influence managers' inter-temporal decisions, namely the organisation's hierarchical structure and decentralised control architecture and the formal and informal management control systems in operation. Ferreira and Otley's (2009) framework for describing the structure and operation of performance measurement systems provides a partial roadmap for the chapter.

Chapter 6 describes, analyses, and explains the research findings pertaining to the first and second research questions. The chapter begins by examining managers' perceptions of their time horizons in relation to the context in which inter-temporal tasks are performed. This discussion is then taken further by exploring four types of inter-temporal decisions observed. These are: (1) focusing on the short term (myopia); (2) focusing on the long term (hypermetropia); (3) sacrificing the short term for the long term (long-termism); and (4) sacrificing the long term for the short term (short-termism). Attention is given to describing and problematizing the inter-temporal decision of sacrificing the long term for the short term to flesh out the notion of short-termism used in the literature. In relating the data presented to the studies cited in Chapter 2, the chapter closes by highlighting the complexity of short-termism and discussing what it means to engage in such behaviour.

Chapter 7 describes, analyses, and explains the research findings pertaining to the third and fourth research questions. The chapter explains managers' short-termist decisions in relation to financial measures, non-financial measures, and the BSC. The remainder of the chapter considers several factors that, based on the evidence obtained, appear particularly active in complicating the relationship between performance measures and short-termism. These are: relative performance information; the performance evaluation system; the reward/penalty system; intra-organisational mobility; and personal time preferences. By considering how the findings relate back to the literature cited in Chapters 2 and 3, the chapter concludes by outlining the nature (i.e., the structure and operation of individual performance measures) and extent (i.e., individual-level contingency factors that play key roles) of the relationship between performance measures and short-termism.

Chapter 8 concludes the study by summarising the contributions that have been made to the management accounting literature. An assessment of the practical implications of the study is also made. Moreover, the chapter reflects on the research process; considering its limitations and what could have been done differently. The chapter finishes by outlining the future research opportunities that could be pursued in light of this study.

## **2 SHORT-TERMISM: WHAT, HOW, AND WHY?**

Chapter 2 reviews the management accounting literature on short-termism. Considerable attention has been given by accounting researchers to documenting short-termism (see e.g., Henderson and Dearden, 1966; Dearden, 1969; Hopwood, 1972; Merchant, 1990; Marginson et al., 2010), with arguments often premised on the assumption that the short term is a standardised period not exceeding one year (e.g., van der Stede, 2000; Marginson et al., 2010) and relatively un-nuanced proxies such as time allocation used for short-termist behaviour (e.g., Merchant, 1990; Abernethy et al., 2013). The focus of this academic domain has been the effect that an organisation's performance measurement system has on short-termism (see e.g., Merchant, 1990; Marginson et al., 2010). The interplay between financial and non-financial measures is frequently drawn upon to categorise measures that may cause or overcome such behaviour. Financial measures are claimed to encourage short-termism (see e.g., Hayes and Abernathy, 1980; Hayes and Garvin, 1982; Kaplan, 1984), whilst non-financial measures are usually described as leading indicators of future financial performance that can counteract short-termism (see e.g., Ittner and Larcker, 1998a; Banker et al., 2000; Said et al., 2003; Nagar and Rajan, 2005; Banker and Chen, 2006; Farrel et al., 2008). However, despite these assertions, empirical evidence regarding the effects of financial measures (compare Merchant, 1990; van der Stede, 2000) and non-financial measures (compare Moers, 2000; van Rinsum and Hartmann, 2007) on short-termism has been mixed. In line with the framework outlined in the previous chapter (see Figure 1.1), this review scrutinises the concept of short-termism and, insofar as it is possible, clarifies the nature of the relationship between performance measures and short-termism.

The chapter is structured as follows. The first section defines short-termism and sets this against myopia to highlight the definitional inconsistency and conceptual ambiguity in the literature. The second section explores the extent to which this definitional inconsistency has led to varying operationalisation endeavours, and unpicks the assumptions associated with the measurement instruments used in short-termism research. The assumptions are: (1) the short term is a standardised period not exceeding one year (e.g., van der Stede, 2000; Marginson et al., 2010); and (2) that short-termism can be viewed as a relatively uncomplicated/un-nuanced, if undesired

behaviour (e.g., Merchant, 1990; Abernethy et al., 2013). These assumptions tend to underpin conceptual arguments, but their appropriateness has yet to be examined. The conclusions reached in the first two sections place caveats around the claims outlined in the third. The third section considers performance measurement systems and the claims that have been made for their effect on short-termism. The section focuses on three control systems that have been identified in management accounting research as impacting on the occurrence of short-termism: financial measurement systems, non-financial measurement systems, and hybrid measurement systems that contain both financial and non-financial measures. In doing so, the section disentangles the assumption that financial measures encourage short-termism, whilst non-financial measures engender a longer-term focus that can counteract short-termism. The final section provides a summary of this chapter's review and sets out the specific conflicts and gaps in the literature that will be addressed by the present study.

## **2.1 Short-termism: What Is It?**

Decisions that have consequences in multiple time periods are inter-temporal decisions (Loewenstein, 1988). The spectrum of inter-temporal decisions includes myopia, short-termism, hypermetropia, and long-termism. Short-termism can be viewed as behaviour that focuses on securing short-term results that precludes longer-term achievement (Lavery, 1996; Marginson and McAulay, 2008; Irving, 2009; Marginson et al., 2010). Based on the notion of sacrificing the future, short-termism thus involves a trade-off decision, and it is this situation that is detrimental to the organisation. Behaviour that focuses on the long term to the detriment of the short term, or long-termism, is also suboptimal to the organisation according to this definition (see Marginson and McAulay, 2008). Considerably less attention has been given to researching long-termism, even though long-termism is the mirror image of short-termism. These trade-off situations necessitate a degree of tension or conflict between managers' inter-temporal activities and responsibilities, and become manifest when managers are unable to balance the demands of multiple time periods. Merchant and van der Stede (2012) characterise trade-offs that favour the short term as either investing or operating. The former refers to a situation wherein managers reduce or postpone worthwhile investments in order to secure short-term results, such

as investments in research and development, product and market development, and employee training. The latter involves managers securing short-term results by destroying the goodwill that has been established with employees, customers, and/or suppliers. For example, managers can impose mandatory overtime on employees at the end of a measurement period to complete production so that products can be dispatched and revenues recognised. However, this can be detrimental to product quality, customer satisfaction, and employee morale. Trade-offs that favour the short term may also manifest through strategic information manipulation which occurs ex-post the actual performance of outcome-focused actions (e.g., filtering, smoothing, and the falsification of information) or specific gaming practices such as slack creation, wherein managers modify their behaviour ex-ante performance measurement (see Birnberg et al., 1983; Jaworski and Young, 1992). Striving for short-term results thus relates to target achievement, whilst the operation of longer-term consequences is theoretically manifold.

Making a sacrifice denotes the knowing act of giving up something valued for the sake of something else regarded as more important. Therefore, implicit in the above definition of short-termism is the implication that the behaviour is knowledge-based and so purposive or intentional. This means that managers are broadly aware of and/or able to evaluate the expected longer-term consequences of their short-term actions. Drawing on the notion of intentional decision-making provides one way to distinguish between short-termism and myopia that has yet to be fully incorporated into research on short-termism. Myopia, often known as being short-sighted, can be viewed as behaviour that focuses on securing short-term results (Marginson and McAulay, 2008; Marginson et al., 2010). One interpretation of being short-sighted is that managers are generally unaware of and/or unable to evaluate the expected longer-term consequences of their short-term actions. This interpretation is broadly in line with van der Stede's (2013) suggestion that myopia may result from ignorance, that is, where managers do not know or are not made to know the longer-term implications of their short-term actions. From this standpoint, myopia does not involve an intentional trade-off between short-term results and longer-term achievement. This nuance is potentially important for clarifying the link between performance measures and specific inter-temporal decisions, which is an issue that is discussed at the end of this section.

There remains, however, the possibility that managers' short-term actions extrapolate into optimal long-term consequences (Marginson and McAulay, 2008). In other words, if short-term performance is adequately managed, long-term success may materialise almost automatically. Therefore, in this case, management myopia is not detrimental to the organisation. Noticeably, these myopic inter-temporal decisions are underpinned by a present-based rationality. Chakhovich (2013) finds that this is the rationality promoted by company executives of a publicly-quoted company, according to whom efficient and effective present actions lead to future success. Behaviour that focuses on the long term, or hypermetropia, may also be unproblematic according to this argument. Namely, hypermetropic behaviour need not necessarily result in a loss of concentration on short-term results. Hypermetropia aligns itself with a future-based rationality which denotes that the future is first planned, and only then are present actions implemented (Chakhovich, 2013). Both scenarios suggest that accordance underpins managers' inter-temporal activities and responsibilities, that is, the long term is an aggregation of short terms (Mauboussin and Callahan, 2015).

In the main, prior studies of short-termism are problematic insofar as the terms short-termism and myopia are used interchangeably. That is, myopia is used to indicate managerial (intentional and unintentional) inter-temporal trade-offs (see e.g., Samuel, 2000; Chakhovich et al., 2010; van Rinsum and Hartmann, 2011), and short-termism is used to indicate difficulties of foresight (see e.g., Marsh, 1990; Coates et al., 1995). Due, perhaps partly, to the blurred conceptual boundary between short-termism and myopia, researchers are occasionally not explicit about how they are applying the terms (see e.g., Abernethy et al., 2013; Gigler et al., 2014). The definitional inconsistency and conceptual ambiguity in extant literature has left the field open to criticism and generated uncertainty as to the adequacy of the claims surrounding short-termism. For example, Marginson (2009: 41) poses the following question: are financial controls being accused of encouraging short-termism, or myopia, or both? The extent to which these definitional problems have led to varying operationalisation endeavours is considered in the next section. However, for the purposes of this study, short-termism is defined as *managers' intentional and organisationally suboptimal behaviour which focuses on securing short-term results that precludes longer-term achievement*; whilst myopia is defined as *managers' limitations in the ability to foresee the future, which may not necessarily entail a suboptimal inter-temporal trade-off*. To empirically observe the nuances of short-

termism, it may be necessary to emplace this behavioural phenomenon within the spectrum of inter-temporal decisions to determine its properties and boundaries.

## **2.2 Short-termism: How Is It Measured?**

Management accounting research employing survey-based methods has operationalised short-termism in three main ways: (1) devoting more time to activities that influence the firm's annual profit position; (2) reducing discretionary expenditure; and (3) favouring predictable goal achievement. Each measurement approach is considered, together with its underpinning assumptions, in turn below. It is the purpose of this section to thus consider the assumptions that underlie existing operationalisations of short-termism.

Short-termism has traditionally been used as a proxy for the dysfunctional effects of budgeting within the behavioural accounting literature. This research stream has used Lawrence and Lorsch's (1967) instrument to measure short-termism, which asks managers to indicate the percentage of their time that is devoted to working on matters that will become evident in the profit and loss statement within one month or less, one month to one quarter, one quarter to one year, and one year to five years. This instrument has been used by Otley (1978), Merchant (1990), Moers (2000), van der Stede (2000), van Rinsum and Hartmann (2007; 2011), Chakhovich et al. (2010), Abernethy et al. (2013), and Aguiar et al. (2014). Except for Abernethy et al. (2013) and Aguiar et al. (2014), accounting researchers equate items that refer to a period of one year or less to short-termist behaviour. Moreover, the instrument requires managers to choose between the short term and the long term. The starting premise is thus that there is tension between managers' inter-temporal activities and responsibilities. The instrument, however, does not appear to be helpful in capturing inter-temporal trade-offs, as represented by investing or operating.

More recently the level of discretionary expenditure has been used as a proxy measurement of short-termism. This approach assumes that such outlays impose a short-term cost but enhance firm value months or years later. Reductions in discretionary expenditure are thus taken to be indicative of short-termist behaviour. This perhaps offers an improvement over the Lawrence and Lorsch (1967) instrument that uses time allocation as the sole indicator of short-termism. For example,

Merchant's (1990) instrument asks managers to assess the effect of financial controls on new ideas for a range of expenditures, such as new product development, advertising, and employee development. This instrument has been used by Chow et al. (1996). Noticeably, the instrument starts with the premise that there is a tension between producing short-term results and investing for the future. Here there are close parallels with Merchant and van der Stede's (2012) characterisation of investing inter-temporal trade-off decisions.

In view of the above, neither the time allocation nor reduction in discretionary expenditure measurement approach represent the concept of short-termism when defined as an *intentional* and *organisationally suboptimal inter-temporal trade-off*. It is not possible to infer from these approaches whether the pursuit of short-term success is to the detriment of longer-term performance and, if so, whether managers were aware of the trade-off.<sup>6</sup> In this regard, the Marginson and McAulay (2008) and Marginson et al. (2010) instruments attempt to capture short-termism as an intentional managerial inter-temporal trade-off by means of its association with predictable goal achievement. These instruments ask managers to disclose the extent to which they are prepared to sacrifice long-term benefits to achieve short-term results. Nevertheless, like the two other measures of short-termism outlined above, this measurement approach bases empirical analyses upon the normally construed cuts of the horizon scale. Namely, one year is used to distinguish the short term from the medium or long term. van der Stede (2013) notes that, if the medium term is used, it is usually done to provide a further cut of the long-term horizon scale.

A one-year reference point is consistent with the annual budgeting process (van der Stede, 2000; Marginson and McAulay, 2008). There is thus a tacit assumption in extant literature that the annual budget or, more broadly, one specific temporal structure of an organisation's performance measurement practice, shapes managers' short-term time horizons.<sup>7</sup> However, this construal of the short term is perhaps crude because managers' time horizons may be influenced by different, and often competing, temporal cycles that exist simultaneously within organisations

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<sup>6</sup> For example, Laverty (1993) finds a negative or non-existent relationship between research and development expenditure and a firm's long-term value. Moreover, van der Stede (2000) notes that scrapping developmental projects with little promise can help both short-term and long-term results simultaneously.

<sup>7</sup> It is recognised that this is a simplifying assumption used for developing constructs in research employing survey-based methods.

(Becker and Messner, 2013). Temporal cycles may be defined by the organisation's operating environment (Brochet et al., 2015), other management controls (Becker and Messner, 2013), and/or internal architecture (Jaques, 1990). The literature provides some important clues about this tripartite conceptualisation.

Organisations operating in different industries may have different temporal structures. The banking industry, for example, is likely to have a different temporal structure vis-à-vis the pharmaceutical industry, wherein managers are likely to work to a more protracted horizon scale (see Brochet et al., 2012; 2015). This is because, as Brochet et al. (2015) observe, organisations in industries where performance is driven by innovation have longer planning horizons compared to organisations in industries where performance is driven by efficiency of execution. Consequently, industry affiliation is sometimes controlled in the analysis of short-termism (see e.g., van Rinsum and Hartmann, 2007; 2011; Abernethy et al., 2013). However, how an organisation chooses to compete in its industry will also likely have some bearing on managers' time horizons. For example, an organisation adopting a prospector business strategy possibly requires managers to adopt a longer time horizon than an organisation adopting a defender strategy (see van der Stede, 2000; Chenhall and Moers, 2007).<sup>8,9</sup> At the same time, factors such as environmental uncertainty and organisational performance may influence managers' time horizons. Namely, organisations operating in volatile environments (Chakhovich et al., 2010), or those facing financial adversity (van der Stede, 2000), may have shorter planning horizons as managers' short-term actions may be necessary to ensure organisational survival. Thus, managers' time horizons may be shaped by the situation within which an organisation's performance measurement system operates.

As implied above, organisations often match the temporal structuring of their performance measurement practices to those of their situational context to become more effective and efficient (Becker and Messner, 2013). While banking organisations and defenders are likely to be concerned with short-term outcomes, such

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<sup>8</sup> A defender strategy involves the offering of a narrow product range, the pursuit of cost reduction, little product or market development, exploiting economies of scale, and the establishment of a standardised task environment (Miles and Snow, 1978; see also Merchant and van der Stede, 2012).

<sup>9</sup> A prospector strategy involves actively engaging in market and product development in order to create a product or service that is perceived by customers as unique in terms of quality, functionality, and so on (Miles and Snow, 1978; see also Merchant and van der Stede, 2012).

as quarterly earnings forecasts, pharmaceutical organisations and prospectors are likely to be concerned with measures, such as product development, that may be measured over a longer period. Interestingly, Becker and Messner (2013) illustrate how these temporal structures shape managers' time horizons in more specific ways. Among the examples that Becker and Messner (2013) provide, are the timing of budgetary forecasts: forecasts that are established and discussed only for the next quarter will likely create quarterly time horizons among managers. The way in which these, and other specific temporal structures inherent in an organisation's management control system, such as when and how often performance is evaluated and rewarded, shape managers' understanding of their time horizons has yet to be incorporated into short-termism research. This topic is significant, in that management control is related to issues of time, which serves to complicate the task of operationalising a time-motivated behaviour.

Managers' time horizons may also be influenced by the responsibility time span of their role, which is defined as the time required to complete the longest task, project, or programme assigned to the role (Jaques, 1990). Jaques (1990: 130) provides an array of examples to illustrate this point. A production supervisor whose principal job is to plan tomorrow's production assignments and next week's work schedule, but who also has ongoing responsibility for uninterrupted production supplies for the month ahead, has a responsibility time span of one month, whilst an advertising vice president who stays late every night working on next week's layouts, but who also has to begin making contingency plans for the expected launch of two new local advertising media campaigns in three years, has a responsibility time span of three years. The general implication is that senior managers may need to exhibit longer time horizons than more junior managers. Some researchers, such as Marginson et al. (2010), thus treat hierarchical level as a control variable in the analysis of short-termism. However, doing so overlooks the possibility that there may be within hierarchy variation in responsibility time spans.

Given the above potential differences in relevant reference points, managers' may have different understandings of the categories of short, medium, and long term. Complexities such as time horizons serve to emphasise the point that short-termism has thus far been assumed to be a relatively uncomplicated/un-nuanced behaviour. By not examining managers' perceptions of their time horizons, or accounting for the context in which inter-temporal decisions are made, the instruments may overlook

managers' propensity to take short-termist actions. In this regard, short-termism may need to be defined and operationalised more tightly in terms of inter-temporal behaviour that is intended (by the manager) and suboptimal (to the organisation). In view of this, the instruments outlined above are narrow in their consideration of how and to what effect inter-temporal decisions are made, as they do not capture the variety in the ways in which trade-offs may manifest. This is particularly the case for operating trade-offs, which are likely more pervasive in organisations given that the ability to make such decisions are not confined to managers with investment decision-making responsibilities. Overall, the definitional and operationalisation difficulties can, at times, impede meaningful comparisons and may partly account for the often-contradictory results of management accounting studies that research short-termism. As a result, these caveats should be kept in mind during the forthcoming discussion. However, to avoid confusion, it will be assumed that short-termism was meant whenever and wherever the literature refers to myopia.

### **2.3 Short-termism: Why Does It Occur?**

Normative and empirical accounting research into the origins of short-termism has mainly considered economic factors. From this vantage point, most of the attention, to date, has been directed towards capital market pressures and performance measurement systems.<sup>10</sup> The present study foregrounds the role of an organisation's

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<sup>10</sup> Although this study does not directly consider capital market pressures as a potential source of short-termism, research that examines this linkage is voluminous (see, for reviews, Marsh, 1990; Jacobs, 1991; Laverty, 1996; Drew, 2009; Fusso, 2013). It has been argued that pressure from capital markets to achieve short-term earnings results may cause a reduction in intangible investments (see Jacobs, 1991; Porter, 1992; Drew, 2009). Although, some researchers—for example, Rappaport (1992) and Marginson (2009)—recognise that, even if markets are not myopic, short-termism may persist if managers believe that capital markets will react vigorously to short-term earnings results (cf. Marginson and McAulay, 2008). This argument has found empirical support (see Stein, 1989; Black and Fraser, 2002; Graham et al., 2005), although often for only certain segments of the market (see Bushee, 1998; David et al., 2001). On the other hand, some studies have documented that capital markets pursue long-term value as announcements relating to research and development are often accompanied by increases in share price (see McConnell and Muscarella, 1985; Woolridge, 1988; Woolridge and Snow, 1990; Chaney et al., 1991; see, for a critique of this work, Miles, 1993). Nonetheless, in a recent study by Brochet et al. (2012; 2015), stock market myopia and managerial short-termism were found to be self-reinforcing phenomena. That is, organisations that employ managers with a short-term focus attract transient investors who also have a short-term focus.

performance measurement system. The remainder of this section thus considers performance measurement systems and the claims that have been made for their effect on short-termism. The section will mainly review behavioural accounting studies that investigate short-termism in relation to financial measurement systems, non-financial measurement systems, and hybrid measurement systems that contain both financial and non-financial measures. In the empirical studies cited, data has largely been collected via surveys or in the artificial setting of the laboratory, which does not facilitate active engagement with managers in their workplace setting and so may give only a very superficial view of the relationship between performance measures and short-termism. Nonetheless, the major conclusion that can be drawn is that the nature of the relationship between performance measures and short-termism may depend on the structure and operation of individual performance measures in certain circumstances. Regarding this latter point of certain circumstances, the next chapter considers a broader set of factors that may complicate (i.e., reinforce or weaken) the relationship between performance measures and short-termism.

The behavioural accounting literature generally suggests that short-termism is an undesirable side-effect of the use of financial measures and frames discussions around the financial/non-financial dichotomy (see e.g., Merchant, 1990; van der Stede, 2000; Marginson et al., 2010). The phrase ‘financial measures’ is often used interchangeably with ‘accounting measures’, without acknowledgment of either the subcategories of accounting measures (i.e., return or residual measures) or the second type of financial measures, namely, market measures. Likewise, the behavioural accounting literature on short-termism usually does not distinguish between non-financial measures that are quantitative or qualitative in nature. For example, a customer satisfaction survey is a quantitative non-financial measure whilst a developmental progress report is a qualitative non-financial measure (see Abernethy et al., 2013). Furthermore, financial measures are generally treated as lagging indicators (performance outcomes) and non-financial measures are generally treated as leading indicators (drivers of performance outcomes). However, as will be shown later, this characterisation is not always appropriate (see e.g., Kaplan and Norton, 1996a). Table 2.1 contains the definition of each type of performance measure and illustrative examples. The next sub-section will consider the impact that financial measurement systems have on short-termism.

**Table 2.1:** Categorisation of Performance Measures

<b>PERFORMANCE MEASURE</b>	<b>DEFINITION</b>	<b>ILLUS</b>
<b>1. FINANCIAL</b>	Performance measures that are either denominated in currency, expressed as a ratio of financial numbers, or as a change in financial numbers	Sales growth, return taxes, market-to-bo
1.1 ACCOUNTING	Financial measures that are transaction-oriented and derived from the standards set for external financial reporting purposes	Sales revenue, profit on assets (ROA), av
1.1.1 RETURN	Accounting performance measures that are expressed in ratio form	Return on equity (R capital employed (R
1.1.2 RESIDUAL	Accounting performance measures that are profit-based	Net income after tax (RI), economic valu
1.2 MARKET	Financial measures that reflect changes in stock price or shareholder returns	Security market retu Tobin's Q, earnings
<b>2. NON-FINANCIAL</b>	Performance measures that are not denominated in currency	Service error rate, d development, subje
2.1 QUANTITATIVE	Non-financial measures that are numerically based and objectively measured	Employee satisfacti production volume,
2.2 QUALITATIVE	Non-financial measures that are qualitative in nature and derived from subjective judgement	Developmental prog organisation, emplo
<b>3. LEADING</b>	Performance measures that are at the beginning or middle of the causal chain of business processes and can be financial or non-financial in nature	Customer satisfactio (financial)
<b>4. LAGGING</b>	Performance measures that are at the end of the causal chain of business processes and can be financial or non-financial in nature	Customer retention (financial)

Note: The information in this table was acquired from Nørreklit (2000), Chow and van der Stede (2006), Merchant (2006), van der Stede (2012), and Abernethy et al. (2013).

### 2.3.1 Financial Measurement Systems

Financial measurement systems that comprise accounting measures of performance are believed to encourage short-termism. This belief is based on the following arguments: accounting measures focus on the past, are derived from measurement rules that are often conservatively biased, and provide incomplete signals of managerial effort (Merchant, 2006; Merchant and van der Stede, 2012). Put simply, accounting measures assess the short term so managers will at least focus on the short term. This is suggestive of the management axiom ‘what gets measured gets done’.

Anecdotes that encapsulate this belief can be found in the normative accounting literature. For example, Henderson and Dearden (1966) tell of a manager who postponed all investment projects that did not yield an immediate return to improve short-term accounting results, even though this was contrary to the company’s long-term interests. As another example, Hayes and Abernathy (1980) refer to a manager who forwent the in-house development of specialised machinery to improve short-term profit, even though this was likely to damage the long-term technological competitiveness of the company. In accordance with accounting standards, investments to enhance the capability of employees, systems, and organisational processes are treated as expenses of the period in which they are incurred. This means that managers can reduce their current period expenses by cutting expenditure on such investments without suffering lost revenue until future periods (Kaplan and Norton, 1996a; Merchant and van der Stede, 2012). The normative accounting literature suggests that even-worse behavioural problems ensue when accounting measures are expressed as ratios as opposed to a residual form (see Table 2.1). This is because managers may increase the numerator (accounting profit) and reduce the denominator (e.g., equity, assets, or invested capital) to maximise short-term results (see Henderson and Dearden, 1966; Dearden, 1969; Murphy and Jensen, 2011).

Empirical research that examines the relationship between accounting measures and short-termism highlight several influencing factors: (1) the pressure to meet accounting measures for performance evaluation purposes (see e.g., Hopwood, 1972); (2) the difficulty in achieving accounting targets (see e.g., Moers, 2000); (3) the performance evaluation period length (see e.g., van Rinsum and Hartmann, 2007); and (4) the cultural origin of the manager (see e.g., Coates et al., 1995). Whilst

representing a critical nexus in control activities, the area of performance evaluation pervades these studies. Thus, there has been a tendency to focus only on specific aspects of financial measurement systems, as opposed to adopting a more holistic approach (see Ferreira and Otley, 2009). The implications of this are discussed in Chapter 3.

Regarding accounting measures and the pressure to meet them for performance evaluation purposes, these studies originate from the Reliance on Accounting Performance Measures (RAPM) research stream and largely rely on role-theoretic reasoning to account for dysfunctional behaviour.<sup>11</sup> In Hopwood's (1972) case study, the sole reliance on budgetary information in the context of performance evaluation was observed to cause managers to "ignore the more long-term implications and the elements of cost which are not reflected in the accounting system" (Hopwood, 1972: 171). Otley's (1978) case study shows that profit centre managers who are subject to a mixed style of evaluation, which balances budget and efficiency criteria, tend to spend a significantly greater proportion of their time on long-term planning. Together, the Hopwood and Otley studies indicate that the alleged short-termism associated with using accounting measures in a subordinate's performance evaluation can be reinforced or weakened by the manner in which the information is perceived as being used. More recently, Merchant (1990) finds a positive correlation between the perceived pressure to meet accounting measures and managerial short-termism. Similarly, van Rinsum and Hartmann (2011) report a direct positive relationship between emphasis on accounting measures in performance evaluation and short-termism. However, van der Stede's (2000) findings are not entirely consistent with the findings reported by others; he fails to find evidence of a direct positive relationship between a rigid budgetary control style and short-termism. As indicated above, one of the limitations of RAPM research is, however, that

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<sup>11</sup> Role theory outlines the dysfunctions that result from contravening the principles of classical organisation theory. Rizzo et al. (1970) explain that violation of the chain-of-command principle or the unity-of-command principle leads to role conflict. Role theory proceeds to explain that role ambiguity results from violating the principle that calls for all organisational members in the corporate hierarchy to receive clear, complete, and specific information about their roles and responsibilities, as well as the criteria that will be used to evaluate their performance. According to role theory, role conflict and role ambiguity will cause the role incumbent tension, stress, and dissatisfaction. This tension, stress, and dissatisfaction will lead the role incumbent to engage in coping behaviours, such as those that aim to distort the reality of the situation (see Rizzo et al., 1970).

performance evaluation is treated as a somewhat standalone activity that is disconnected from other aspects of managers' work (Jordan and Messner, 2012).

Several studies extend the focus of the RAPM literature. Namely, Moers (2000) finds that the difficulty in achieving accounting targets is positively associated with short-termism. This is perhaps because, as Merchant and van der Stede (2012: 446-447) state, "targets that are more highly achievable create some room for managers to be preoccupied by longer-term initiatives." In this regard, van der Stede (2000) finds an indirect relationship between a rigid budgetary control style and short-termism (cf. above), where poor past performance results in the use of more rigid controls and so reduced budgetary slack, which encourages short-termism.

There is also limited evidence to suggest that the relationship between accounting measures and short-termism may be moderated by the evaluation period length, which is defined as the period that is taken into consideration in financial-based performance evaluations. van Rinsum and Hartmann (2007) find that evaluation period length is positively associated with managers adopting a longer-term focus. This is because, as the performance evaluation period length is extended, accounting performance approaches economic performance, which supposedly reduces a manager's tendency to engage in short-termist behaviour. More specifically, lengthening the performance evaluation period length addresses the conservatism of accounting measurement practices because all results from an investment are realised and recognised in accounting performance (Merchant and van der Stede, 2012). Research that tests the capital market pressure hypothesis provides tangential evidence that is consistent with van Rinsum and Hartmann's (2007) finding. For example, Bhojraj and Libby (2005) find that, in conditions of market pressure, more frequent disclosure of earnings to the market causes managers to make more myopic investment decisions. Likewise, Gigler et al.'s (2014) analytical model shows that, when an organisation's shareholders are sufficiently impatient, the price pressure associated with increasing the frequency of financial reporting results in myopic investment decisions.

Earlier it was suggested that the relationship between accounting measures and short-termism is perhaps contingent on the cultural origin of the manager. Hofstede's

(1980) dimensions of culture often underpin this line of argumentation.<sup>12</sup> Adopting a cross-case comparison approach, Coates et al. (1995) find that British and American managers are more short-termist than their German counterparts. Chow et al. (1996) report that, when faced with the same level of control tightness, American managers exhibit more short-termism than their Japanese counterparts. More generally, many management theorists—for example, Hayes and Abernathy (1980), Porter (1992), and Drucker (1993)—argue that British and American managers lack foresight with respect to making investments that are expected to enhance firm value in the long term. Further support for this moderating factor can be found in RAPM research, where a high reliance on accounting measures in the context of performance evaluation is more likely to be associated with dysfunctional behaviour in some cultures than in others (see Harrison, 1993).

Other research has failed to find evidence of a significant relationship between the use of accounting measures and short-termism. For example, Moers (2000) fails to find a direct relationship between using accounting measures of performance for incentive purposes and short-termism.<sup>13</sup> As another example, Marginson and McAulay (2008) find no evidence to suggest that the importance that is attached to accounting measures is associated with managerial short-termism. In a case study that raises questions about the alternative roles that performance measures may play within an organisation, Marginson et al. (2010) find no evidence to suggest that using financial measures diagnostically or interactively is related to short-termism.<sup>14</sup> Marginson et al.'s (2010) paper is particularly noteworthy given that most research that deals with the issue of short-termism assumes that financial measures serve a 'diagnostic' role. Noticeably, however, Marginson et al. (2010) do not differentiate

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<sup>12</sup> Although reviewing Hofstede's work is not part of this thesis' remit, it is perhaps necessary to acknowledge that his approach to culture has been, at times strongly, critiqued (see, for example, McSweeney, 2002; Baskerville, 2003; Chenhall, 2003; Harrison and McKinnon, 2007).

<sup>13</sup> Moer's (2000) 'use of financial measures for incentive purposes' construct contains eight items relating to the use of financial measures for performance evaluation purposes, allocating monetary rewards and allocating non-monetary rewards. The paper thus conflates different aspects of the management control system package (see Malmi and Brown, 2008).

<sup>14</sup> The diagnostic use of performance measures facilitates single-loop learning (i.e., to monitor performance against a predetermined target) and can be contrasted with interactive use that facilitates double-loop learning (i.e., to stimulate the development of new ideas and encourage dialogue about strategic uncertainties). For further discussion, see Argyris and Schön (1978), Roberts (1991), Simons (1995), Henri (2006) and Marginson et al. (2010; 2014).

between accounting measures and market measures—the limitations of this are noted below.

Some studies, in fact, suggest that financial measures support a longer-term focus. For example, Bhimani and Langfield-Smith (2007) find that financial measures support strategic activities, such as strategy development and implementation. Strategic activities can be conceived as lying at the opposite extreme to short-termism on the spectrum of inter-temporal activities and responsibilities. Abernethy et al. (2013) find that the weight placed on accounting-return measures in a manager's annual performance evaluation is associated with a long-term focus. Abernethy et al. (2013) suggest that the inclusion of the cost of capital in accounting-return measures provides information which directs managers' attention to the long term (for a critique of this paper, see van der Stede, 2013). It is also notable that Chakhovich (2013) finds that managers perceive share price to be long term due to linguistic, functional, and morality-related processes.<sup>15</sup> In this case, Chakhovich (2013) focuses her analysis on a market measure of performance, which is argued to be long term in nature as it is formed based on the discounted future cash flows that the organisation is expected to generate.<sup>16</sup>

To summarise this sub-section, two tentative observations can be made: (1) the impact that financial measures have on short-termism may depend on their structure (e.g., target level difficulty) and operation (e.g., diagnostic use). Future research may benefit from disentangling performance measures that are in use within organisations from performance evaluation activities; and (2) the contradictory findings imply that the nature of this relationship has yet to be fully established. These contradictory findings can, in addition to the operationalisation difficulties outlined in the previous section, perhaps be traced to the fact that most studies use the all-encompassing category of 'financial measures' or sub-category 'accounting measures' when researching the issue of short-termism. Consequently, it is generally not possible to discern the individual measures that are included in the analyses. This

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<sup>15</sup> Interestingly, Chakhovich (2013) employs a social constructionist approach to analyse interview and archival data drawn from a case study operating in the financial services industry.

<sup>16</sup> This contrasts with the arguments presented earlier which implied that share price may be short-term oriented due to its links to short-termism in financial markets, which emphasise quarterly earnings and continuous visibility (see footnote 10).

is potentially problematic given that individual financial measures may have different effects on managers' inter-temporal decisions. For example, some researchers argue that sales measures encourage short-termism because they focus on the past (Chakhovich et al., 2010). However, others—for example, Hauser and Katz (1998) and Baghai et al. (1999)—suggest that sales measures are useful in some contexts for encouraging a future and strategic focus, because they can be used to improve the market position of the organisation. Moreover, Economic Value Added (EVA™), which is measured as modified net operating profit after taxes minus the cost of capital, should arguably alleviate investing inter-temporal trade-offs because the measure capitalises and amortises expenditures on research and development, employee training, and so on, which managers may cut if they are pressured for short-term results (see Merchant and van der Stede, 2012). Therefore, it may be necessary to include the role of individual financial measures within a model of the relationship between performance measures and short-termism. The following sub-section will consider the effect that non-financial measurement systems have on short-termism.

### **2.3.2 Non-Financial Measurement Systems**

Non-financial measures are usually described as leading indicators of future financial performance (e.g., Ittner and Larcker, 1998a; Banker et al., 2000; Said et al., 2003; Nagar and Rajan, 2005; Banker and Chen, 2006; Farrel et al., 2008). Such measures are thus supposed to prompt actions and decisions that have beneficial longer-term consequences. van Rinsum and Hartmann (2011) illustrate this process with the example of customer satisfaction: improving customer satisfaction through employee training may require an immediate monetary outlay in terms of employee training, but can be expected to increase revenues in the longer term. Thus, emphasising customer satisfaction should reduce the pressure for managers to engage in short-termist behaviour to optimise financial results. Noticeably, however, van Rinsum and Hartmann's (2011) example implies that non-financial measures may not just provide signals about what is likely in the future, but also encourage long-termism, which itself is deemed a behavioural problem. It is worth noting that the inter-temporal decision-making effects of using multiple performance measures are considered in the next section.

Research that examines the effects of contingency factors as antecedents of

the design of a performance measurement system provides indirect evidence that non-financial measures support a long-term focus. Research by Ittner et al. (1997), Said et al. (2003), and HassabElnaby et al. (2005) reveals that organisations that adopt long-term innovation-orientated strategies utilise more non-financial measures. Said et al. (2003) and HassabElnaby et al. (2005) also document that organisations that have longer product development cycles tend to use more non-financial measures, whereas organisations that are facing financial adversity tend to abandon the use of non-financial measures. These contingent factors influence the relative importance of non-financial measures in different organisational settings, and are consistent with the time horizon that is theoretically required for optimal results (see Section 2.2).

Some research provides direct empirical insight about the extent to which a superior's reliance on non-financial measures in performance evaluations is associated with subordinates' inter-temporal decisions. Like before, there has thus been a tendency to focus only on specific aspects of non-financial measurement systems, as opposed to adopting a more holistic approach (see Ferreira and Otley, 2009). Moers (2000) fails to find evidence to support his hypothesis that evaluations based on non-financial measures are negatively associated with short-termism. In contrast, van Rinsum and Hartmann (2011) report a direct negative relationship between emphasis on non-financial measures in performance evaluations and short-termism. One explanation for the different results is that Moers (2000) restricts his non-financial category to measures of market share, market growth, and customer satisfaction, whilst van Rinsum and Hartmann (2011) take a more aggregate view. In this regard, Abernethy et al. (2013) do not find a significant relationship between non-financial measures and the long/short ratio (i.e., the time spent on long-term activities relative to short-term activities). However, when non-financial measures are categorised into efficiency, quality, and project measures, efficiency measures (e.g., percentage of waste reduction, productivity growth, etc.) were found to have a significant relationship with the long/short ratio.

A distinct group of RAPM studies refine the above-cited findings. In Hirst's (1983) and Hirst and Yetton's (1984) study, RAPM is measured using a five-item scale. These researchers state that the five items measure:

“The extent to which the receipt of rewards is contingent on a manager performing satisfactorily in terms of quantitative performance criteria; and

whether the circumstances surrounding a manager's evaluative situation are conducive to a high reliance on APM [Accounting Performance Measures]." (Hirst, 1983: 598; Hirst and Yetton, 1984: 55)

As Otley and Fakiolas (2000) and Noeverman et al. (2005) emphasise, the abovementioned instrument focuses on the extent to which quantitative information is used to evaluate a subordinate's performance, which may be financial and/or non-financial in nature (see Table 2.1). Hirst (1983) finds that higher levels of job-related tension are associated with situations that involve both high (low) task and environmental uncertainty and high (low) RAPM. This may suggest that dysfunctional behaviour follows from the extent to which quantitative non-financial measures are used for evaluating the performance of subordinates in certain contexts. Support for this line of reasoning is provided by Chow and van der Stede (2006), who find that subjective (qualitative) non-financial measures are more effective than objective (quantitative) non-financial measures in curtailing managers' short-term focus and inclination to engage in gamesmanship. Indirect support is also provided by Marginson et al. (2010), who find that using non-financial measures diagnostically leads managers to make inter-temporal trade-off decisions that prioritise the short term to the detriment of the long term (see also Kaplan and Norton, 1996a). Diagnostic control can only be applied to quantitative performance measures, as this permits the monitoring of performance against pre-set standards (Simons, 1995).

Yet another layer of argument is put forward by van Rinsum and Hartmann (2007), who find that managerial evaluations that are based on non-financial measures with a longer lead-time (i.e., the time taken for a change in a non-financial measure to affect financial results) are associated with managers adopting a long-term focus. In other words, lead-time affects managers' time horizons but the precise influence may depend on the amount of lead-time which will vary between measures. Baiman and Baldenius (2009: 302) state that "the observed lead times can be quite short with the revenue effects of NFMs [Non-Financial Measures] often materializing in less than one year" (e.g., Banker et al., 2000; Nagar and Rajan, 2005; Dikolli et al., 2007). According to Abernethy et al. (2013), as the lead-time of non-financial measures shortens, the ability of non-financial measures to direct managers' attention to the long term reduces.

To summarise this sub-section, two tentative observations can be made: (1)

the impact that non-financial measures have on managers' inter-temporal decisions may depend on how (some, perhaps quantitative) non-financial measures are structured (e.g., lead times) and operated (e.g., diagnostic use). Available research has mainly focused on the area of performance evaluation; and (2) the limited and conflicting empirical evidence suggests that there is still much to be learned about the nature of the relationship between non-financial measures and short-termism. It was suggested that the conflicting empirical evidence may be partly attributable to different measures comprising the non-financial measures category. The broad category of non-financial measures may contain measures with different properties which may have different effects on managers' inter-temporal decisions. Therefore, to reconcile these differences it may be necessary to include the role of individual non-financial measures within a model of the relationship between performance measures and short-termism. Attention now turns to the effect that hybrid measurement systems, which contain both financial and non-financial performance measures, have on short-termism.

### **2.3.3 Hybrid Measurement Systems**

Some accounting researchers recommend the hybrid approach to alleviating short-termism (see e.g., Kaplan and Norton, 1992; Ittner and Larcker, 1998b; Sliwka, 2002; Ittner et al., 2003a; Ittner et al., 2003b). Specifically, Merchant (2006) suggests that the introduction of additional non-financial measures can help to ensure that managers do not pursue short-term financial measures to the possible detriment of long-term performance. The thinking that underpins this recommendation is as follows: non-financial measures can provide signals about the future, so their use as leading indicators of future financial performance will encourage a long-term focus and this will counterbalance the short-term focus caused by the sole use of financial measures. Noticeably, the usefulness of this recommendation rests upon the assumption that all 'financial measures' encourage short-termism, whilst all 'non-financial measures' engender a longer-term focus. Indicated by the preceding discussions, it is not clear whether this is the case. The BSC, which is considered a comprehensive hybrid system, has become quite dominant in recent years. The BSC is considered in the next sub-section.

### 2.3.3.1 The Balanced Scorecard<sup>17</sup>

Hall (2008) defines a comprehensive performance measurement system as one that includes a more diverse set of performance measures, which are linked to the strategy of the organisation and provide information about parts of the value chain. With this in mind, the BSC seeks to translate an organisation's vision and strategy into four areas of performance: learning and growth (can we continue to improve and create value?); internal business processes (what must we excel at?); customer (how do customers see us?); and financial (how do we look to our shareholders?) (Kaplan and Norton, 1992; 1993; 1996b). The strategic linkages are supposed to enable the measures in the four areas to be tied together in a series of cause-and-effect relationships (Kaplan and Norton, 1996b). The key feature that thus distinguishes the BSC from a more ad hoc collection of financial and non-financial measures is the presumed causal linkages between the four measurement areas (Nørreklit, 2000; Nørreklit and Mitchell, 2007; Nørreklit et al., 2008). Kaplan and Norton (1996a) suggest that the casual chain begins with the measures of learning and growth, thereafter continuing through the internal business processes and the customer perspective, and culminating with improved financial performance. Incidentally, Lipe and Salterio (2002) find that the arrangement of performance measures into the four measurement areas conveys decision relevant information to evaluators. Specifically, the findings show that performance evaluations are affected by organising the measures into the measurement areas when multiple below/above-target measures are contained within an area but evaluations are not affected when the below/above-target measures are distributed across the four measurement areas (Lipe and Salterio, 2002).

Each of the measurement areas should also combine lagging measures with leading measures (see Table 2.1). For example, regarding the customer perspective, customer retention is a lag measure whilst customer satisfaction is a lead measure (see Kaplan and Norton, 1996a: 155). Regarding the financial perspective, revenue growth

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<sup>17</sup> It should be noted that reviewing the transformation of the BSC from a performance measurement system (see Kaplan and Norton, 1992), to a strategic management control system (see Kaplan and Norton, 1996b), to, of late, a mapping system, which links intangible assets (viz., strategic human capital, information capital and organisational capital) to the value proposition (see Kaplan and Norton, 2004), is not part of this thesis' remit. For information relating to this topic, Kaplan (2009) and Hoque (2014) provide a detailed and chronological overview.

is a lag measure whilst revenue mix is a lead measure (see Kaplan and Norton, 1996a: 155). Thus, as noted earlier, characterising all financial measures as lagging indicators (performance outcomes) is not always appropriate, as some can possess a degree of lead which may influence their inter-temporal decision-making effects. Malina and Selto (2001) note that effectively communicating the links between lagging and leading measures may be crucial to strategy implementation. Effective communication may also alleviate the myopia that results from ignorance (see Section 2.1), as managers are made to know the longer-term implications of their short-term actions. However, managers understanding of the relevant reference points may depend upon the strategy that is being implemented (see Section 2.2).

In view of the above, a BSC should have two directional causal chains: (1) causal chains within each of the measurement areas; and (2) causal chains between each of the measurement areas (Nørreklit, 2000). The notion that the causal linkages enable the performance measures in the three non-financial areas (learning and growth, internal business processes, and customer) to be used as predictors of future financial performance is fundamental to the claim that the BSC can alleviate short-termism. This is because, if managers' actions to improve a performance measure at the beginning or middle of the causal chain do not entail a corresponding decline in the financial measures at the end of the causal chain, they need not make decisions which trade off performance measures that have temporally spaced outcomes (Banker et al., 2004). However, even if the causal relationships exist (see below), non-financial measures may be inadequate to counterbalance the alleged short-termism caused by financial measures if they are accorded insufficient weighting for evaluative purposes (Merchant and van der Stede, 2012). In a study of a large financial services firm, Ittner et al. (2003a) find that, even after implementing a BSC, most superiors continue to use financial measures as the primary determinant of bonuses (see also, Perrin, 1996).

According to Nørreklit (2000), the cause-and-effect model upon which the BSC is based is problematic and misleading.<sup>18</sup> Nørreklit (2000) provides a threefold assessment:

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<sup>18</sup> The three criteria for cause-and-effect relations include: (1) independence, such that events X (the cause) and Y (the effect) are logically independent; (2) time precedence, which means that X precedes Y in time and that the two events can be observed close to each other in time and space; and, (3) predictive ability, which means that event X necessarily implies the subsequent observation of the other event Y (see Malina et al., 2007: 937).

- (1) The BSC does not have a time dimension insofar as no reference is made to time lags (cf. Bukh and Malmi, 2005). This is problematic as the measurement areas may have different timescales, with some causal chains creating value enhancing end-results almost immediately. In this situation, the BSC becomes less relevant as a short-termism avoidance strategy because shortening lead-times has been argued to reduce managers' ability to direct their attention to the long term (see sub-section 2.3.2).
- (2) The causal linkages between the measurement areas either do not hold (see e.g., Ittner and Larcker, 1998a; Ittner and Larcker, 1998b; Bernhardt et al., 2000) or are inappropriate because the payoff relationships are non-linear with an inflection point that is difficult to determine (see Nørreklit et al., 2008; Merchant and van der Stede, 2012). Bukh and Malmi (2005) highlight several contingent factors (strategic, organisational, communicational, and environmental) that may render the use of cause-and-effect relationships inappropriate.
- (3) The relationship between most (if not all) of the performance measures is characterised by interdependence, rather than causality (see, for examples, Nørreklit, 2000). Merchant and van der Stede (2012) suggest that interdependence will lead to trade-off decisions between performance measures which may be temporally suboptimal.

Nørreklit (2000) concludes that the BSC perhaps contains logical and finality relationships rather than causal relationships.<sup>19</sup> Therefore, it appears that the evidence relating to the assumptions underlying the BSC are mixed, with factors such as the 'correct' weighting influencing its effectiveness.<sup>20</sup> If the causal linkages do not hold,

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<sup>19</sup> Logical relationships exist by human construction or definition and cannot be verified or determined empirically. Finality relationships occur when human actions, wishes, and views are related to each other such that a given action is believed to be a means to an end and the end and the view cause the action (see Nørreklit, 2000: 76; Malina et al., 2007).

<sup>20</sup> There are many other factors that are alleged to influence the operation and effectiveness of the BSC, which are not explicitly considered in this thesis. These include: the 'correct' number of measures to define performance (see Norton, 2000, wherein it is suggested that twenty-four performance measures is the ideal number); the appropriate method to measure qualitative concepts such as customer satisfaction (e.g., through a survey or mystery shopper; see Merchant and van der Stede, 2012); the manner in which to incorporate additional perspectives, such as community, into the BSC (see Nørreklit, 2000); and the hierarchical top-down approach to the BSC (see Nørreklit et al., 2008).

or if non-financial measures are accorded insufficient weighting for evaluative purposes, then the BSC may be an ineffective remedy to short-termism. However, Malina et al. (2007) note that statistically valid causal linkages may not be necessary to achieve desired control effectiveness, namely goal congruence and desirable management behaviours. Overall, the way managers may modify their inter-temporal decisions in response to a hybrid system is a relatively neglected research topic. No more than four studies engage with this issue (see next sub-section), and none confirm that the BSC is being studied. As a result, we know little about the process through which a BSC, which provides the structure within which individual performance measures operate, influence managers' inter-temporal trade-off decisions.

### **2.3.3.2 Ad Hoc Combinations of Performance Measures**

In a study that deploys an inter-temporal choice framework, Marginson et al. (2010) fail to find evidence that different combinations of diagnostic and/or interactive use of both financial and non-financial measures are related to short-termism. Abernethy et al. (2013) argue that non-financial measures can suffer from incongruence, non-linearity, non-verifiability, and relatively short lead-times. Abernethy et al. (2013: 933) postulate that these properties make it unlikely that non-financial measures can “balance out any myopic proclivities associated with profit measures as well as accounting return measures.” In this sense, it is notable that Abernethy et al. (2013) find that managers' inter-temporal decisions are more sensitive to accounting measures than non-financial measures. However, Aguiar et al. (2014) fail to replicate this result, though the different findings may be partly explained by the aggregation of different measures in the performance measurement categories being studied. Namely, Abernethy et al. (2013) include return and residual measures in the accounting measure category, whereas Aguiar et al. (2014) include only residual measures.<sup>21</sup> This highlights the value of the suggestion made by some researchers (e.g., Marginson et al., 2010), as well as the theme pervading the previous two sub-sections, that there is a need for closer analysis of such broad categories.

Research that lends support to this viewpoint is also provided by van Rinsum

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<sup>21</sup> The validity of Aguiar et al.'s finding is perhaps questionable because included within the non-financial category is a measure of sales volume, which is ordinarily classified as a disaggregated accounting measure (see Abernethy et al., 2013).

and Hartmann (2007). These researchers examine the interaction between two properties of performance measures—lead-time and evaluation period length—on managers’ time horizons. They find that the positive effect that a longer lead-time has on managers’ time horizons (see sub-section 2.3.2) is stronger when the period taken into consideration in financial-based performance evaluations is extended. van Rinsum and Hartmann (2007) explain that, if a manager’s financial performance is assessed during the lead time, the non-financial measure may become relatively less salient and this may negate the positive temporal effect of lead time. Nonetheless, as van Rinsum and Hartmann (2007) remark, not all non-financial measures are lead indicators (see previous sub-section).

To summarise this sub-section, two tentative observations can be made: (1) the proposition that non-financial measures can offset the alleged short-termism caused by financial measures has received limited empirical attention. The research that is available suggests that the recommendation to combine financial and non-financial measures is contentious; and (2) a BSC that entails causal linkages may, however, help to offset the alleged tendencies for financial measures to cause short-termism. However, so far, we know little about how a BSC may influence managers’ inter-temporal decisions.

## **2.4 Summary and Conclusions**

Chapter 2 reviewed the management accounting literature on short-termism. The chapter highlighted the inconsistency and ambiguity in the literature about defining short-termism and explained how this has led to alternative operationalisation endeavours. Consequently, it was suggested that short-termism can be viewed as managers’ intentional and organisationally suboptimal behaviour, which focuses on securing short-term results that precludes longer-term achievement. Viewing short-termism in this way means that decisions are knowledge-based insofar as managers are aware of and/or able to evaluate the expected longer-term consequences of their short-term actions. Table 2.2 provides an overview of this discussion, highlighting the key observations that were made, the specific gaps in the literature that will be addressed, and the consequent research questions.

**Table 2.2:** Properties of Short-termism

	<b>Summary Statement</b>	<b>Gap*</b>	<b>Research Question</b>
<b>Temporal Scale</b>	Short-termism explicates that there is a time-based motive for management behaviour. By implication, the normally construed cuts of the horizon scale are often accepted. In general, one year is used to distinguish the short term from the medium or long term.	Managers' understanding of their time horizons	<i>How do managers understand the short, medium, and long term?</i>
<b>Manifestation of Short-termism</b>	Short-termism is depicted as devoting more time to activities that influence the firm's annual profit position, reducing discretionary expenditure or favouring predictable goal achievement.	How and to what effect managers make inter-temporal trade-off decisions	<i>How do inter-temporal decisions manifest?</i>

\* In the behavioural accounting literature; particularly the empirical literature which examines the behavioural effects of financial measures.

Because short-termism explicates that there is a time-based motive for management behaviour, the normally construed cuts of the horizon scale are often accepted. In general, one year is used to distinguish the short term from the medium or long term (Merchant, 1990; van der Stede, 2000; 2013). However, it was noted that this reference point can be arbitrary (see Section 2.2). There is thus a need to examine managers' understanding of their time horizons to untangle what constitutes the short, medium and long term. This leads to the first research question: *how do managers understand the short, medium, and long term?* At present, short-termism is depicted as relatively uncomplicated/un-nuanced behaviour where managers take steps to improve short-term results that are detrimental to longer-term performance. Such steps include devoting more time to activities that influence the firm's annual profit position (see e.g., van der Stede, 2000; Chakhovich et al., 2010; Abernethy et al., 2013), reducing discretionary expenditure (see e.g., Merchant, 1990; Chow et al., 1996), or favouring predictable goal achievement (see e.g., Marginson and McAulay, 2008; Marginson et al., 2010). Existing research on short-termism may not be broad enough in its consideration of how and to what effect managers make inter-temporal

trade-off decisions. It was suggested that, to empirically observe the nuances of short-termism, it may be necessary to emplace this behavioural phenomenon within the spectrum of inter-temporal decisions in order to determine its properties and boundaries. This leads to the second research question: *how do inter-temporal decisions manifest?* Exploring managers' understanding of the temporal scale, as well as the nuances and subtleties of managerial actions and decisions that entail an inter-temporal trade-off, is part of this study's potential contribution. The study aims to move from cognition (what managers think, as per research question one) to behaviour (what managers do, as per research question two), and therefore traverse the cognitive-behavioural link to highlight the complexity of short-termism and outline what it means to engage in this behaviour.

The remainder of the chapter examined the relationship between performance measures and short-termism. Attempts were made to clarify the nature of this relationship by reviewing behavioural accounting literature that investigates short-termism in relation to financial measurement systems, non-financial measurement systems, and hybrid measurement systems that contain both financial and non-financial measures. It was noted that the mainly quantitative-based research was often based on simplified and partial settings (see Ferreira and Otley, 2009), with the empirical evidence lacking or conflicting. Table 2.3 provides an overview of this discussion, highlighting the key observations that were made, the specific conflicts and gaps in the literature that will be addressed, and the consequent research question.

The relationship between financial measures and short-termism continues to capture the attention of accounting researchers. Whilst financial measures are claimed to encourage short-termism, empirical evidence concerning this relationship is inconclusive. The inconclusiveness may derive, at least in part, from loose usage of the term 'financial measures'. The term is used interchangeably with 'accounting measures', without appreciation of either the subcategories of accounting measures (i.e., return or residual measures) or the second type of financial measures, namely, market measures (see Table 2.1). Moreover, financial measures are often characterised as lagging indicators without recognition that some can possess a degree of lead. It follows from this that there is a need for closer analysis of this broad

**Table 2.3:** Performance Measurement System and Short-termism

	<b>Summary Statement</b>	<b>G</b>
<b>Financial Measurement Systems</b>	Financial measures, of themselves, appear to have little influence on managers' inter-temporal trade-off decisions; rather, short-termism seems to be shaped, at least in part, by several influencing factors. The contradictory findings imply that the nature of the relationship between financial measures and short-termism has yet to be fully established.	Role p indi fina measur short- de
<b>Non-financial Measurement Systems</b>	Non-financial measures, of themselves, do not appear to influence managers' inter-temporal decisions; rather managerial behaviour seems to be influenced by the extent to which (some, perhaps quantitative) non-financial measures are used for performance evaluation purposes and the way non-financial measures are used. However, the lack of research suggests that there is much to be learned about the nature of the relationship between non-financial measures and short-termism.	Role p individ fina measur short- de
<b>Hybrid Measurement Systems</b>	The proposition that non-financial measures can offset the alleged short-termism caused by financial measures has received limited empirical attention. The research that is available suggests that the recommendation to combine financial and non-financial measures is contentious. On the other hand, a BSC that entails causal linkages may help to offset the alleged tendencies for financial measures to cause short-termism.	Role pl BSC in termism

\* In the behavioural accounting literature; particularly the empirical literature which examines the behavioural effects of

category to understand the saliency of individual financial measures in an organisational setting. This will bring to light matters such as the way measures are used, the level at which targets are set, and the frequency with which measures are monitored. There is a need to understand whether and, if so, how, why, and in what ways these issues influence the inter-temporal decisions that managers make.

Non-financial measures are normally characterised as leading indicators of future financial performance, and so are claimed to encourage managers to undertake actions with longer-term consequences. Nevertheless, the limited evidence available does not entirely confirm this claim (see e.g., Moers, 2000; Marginson et al., 2010; Abernethy et al., 2013). This literature also generally does not account for the lower degree of lead that certain non-financial measures possess or distinguish between non-financial measures that are quantitative or qualitative in nature (see Table 2.1). Departure from utilising the all-encompassing non-financial measures category will allow these complexities to surface. It will also reveal the perceived saliency of individual non-financial measures in an organisational setting and how this may influence the way the measures are used and the frequency with which the measures are monitored. Thus far, no study has considered the frequency of monitoring non-financial measures as a possible factor in the short-termism debate. Overall, there is a need to develop an understanding of whether and, if so, how, why, and in what ways managers perceive these issues as important to their inter-temporal decisions.

Four studies examine the relationship between a hybrid system and short-termism. These are: van Rinsum and Hartmann (2007), Marginson et al. (2010), Abernethy et al. (2013), and Aguiar et al. (2014). In these studies, the claimed short-termism avoidance strategy of combining financial and non-financial measures failed to find empirical support (see e.g., Marginson et al., 2010; Abernethy et al., 2013), perhaps because it may depend on the properties of the individual performance measures that comprise the measurement combinations (see e.g., van Rinsum and Hartmann, 2007). In the case of the BSC, averting short-termism may depend on appropriate causal linkages between the performance measures within and between the measurement areas. Little is known about how a BSC, which provides a structure within which performance measures operate, may influence managers' inter-temporal decisions.

The present study aims to contribute to the behavioural accounting literature on short-termism by examining the interplay between financial and non-financial

measures in a BSC. The study will go beyond the general categories of financial versus non-financial to offer nuanced information about the nature of the relationship between individual performance measures and short-termism. Whilst purposefully broad to convey the explorative dimension, the term ‘nature’ intends to capture the structure (e.g., relationships between performance measures, target level difficulty) and operation (e.g., frequency of measurement, prioritisation of performance measures) of individual performance measures. This aim translates into the study’s third research question: *what is the nature of the relationship between performance measures and short-termism?* The following chapter draws upon a broader literature, for which there are established empirical bases for exploring short-termism within an organisational setting to review the extent of the relationship between performance measures and short-termism.

### **3 PERFORMANCE MEASURES AND SHORT-TERMISM: LOOKING INSIDE THE BLACK BOX OF POTENTIAL CONTINGENCIES**

This study foregrounds the role of an organisation's performance measurement system and suggests that performance measures may influence the occurrence of short-termism. The relationship between performance measures and short-termism may, however, be shaped by several interactive and complex factors. In line with the framework outlined in Chapter 1 (see Figure 1.1), Chapter 3 seeks to look inside the proverbial black box of contingent factors, to explore and explain the extent of the relationship between performance measures and short-termism. Contingency-based research has its foundations in organisational theory, which considers contingent factors at the organisational level. Some of these contingent factors, such as environmental uncertainty and organisational strategy, were mentioned briefly in Chapter 2 as affecting the design of the performance measurement system which, in turn, may influence managers' understandings of the categories of short, medium, and long term.

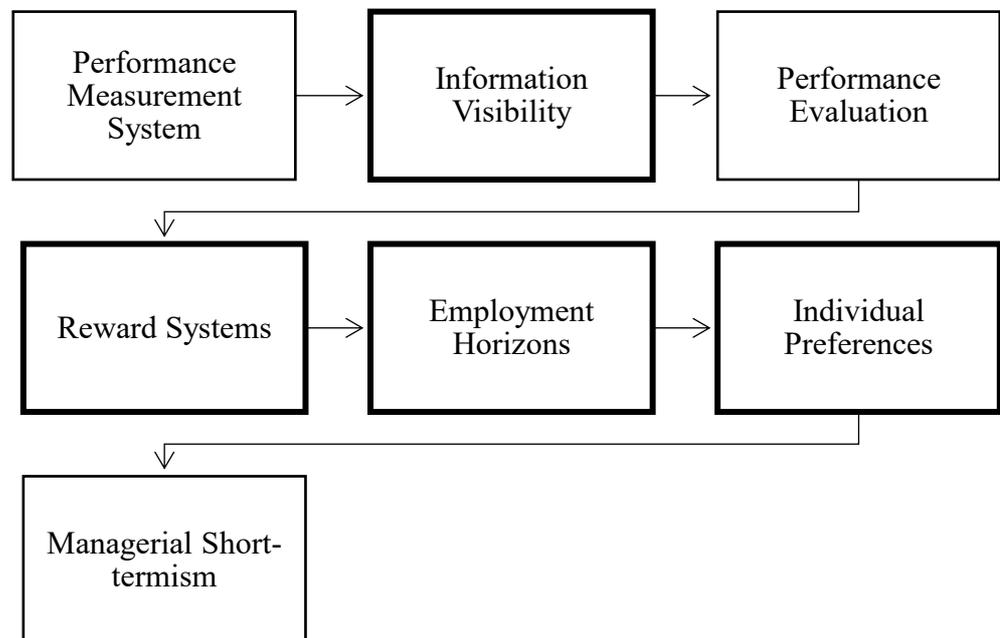
Chapter 3 is concerned with factors that may complicate (i.e., reinforce or weaken) the relationship between performance measures and short-termism at the individual level.<sup>22</sup> Noticeably, one contingency aspect explored in the behavioural accounting literature concerns performance measure emphasis by a superior in evaluating a subordinate (see Section 2.3). Chenhall (2003) suggests that advances in contingency-based management accounting research may derive from further integrating insights from theories in economics and psychology (see also Hall, 2016). Ferreira and Otley (2009) reference the compartmentalised nature of existing empirical management accounting research, noting that there has been a tendency to focus only on specific aspects of control systems. Chapter 3 thus draws upon a broader literature for which there are established empirical bases for exploring short-termism within an organisational setting. Specifically, this chapter engages with the accounting, economic, and psychology literatures to examine how performance information can be disseminated, how different rewards can be allocated, how

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<sup>22</sup> One justification for theory-building a contingency model at the level of the individual is that it is individuals who make decisions.

managers' employment horizons can be shaped, and how individuals can respond differently to performance information. These factors follow a loose process: performance information that is disseminated amongst managers can feed into the performance evaluation and reward systems, with the reward system more generally helping to shape managers' employment horizons, but the precise affect hinging upon individual preferences. In other words, this review critically examines factors (independently and with a processual approach) that have been considered in different streams of literature within an integrated framework of performance measures and short-termism. The review is hence thematically ordered, with the themes explored in this chapter highlighted in bold in Figure 3.1. The unifying matter is the design of the performance measurement and reward systems (elements of results controls and cultural controls), as well as personal factors (which can be influenced by elements of personnel controls) that affect managers' inter-temporal reactions to a performance measurement system.

**Figure 3.1:** Prior Research Classified by Theme



Chapter 3 is structured as follows. By drawing on insights from social psychology (see e.g., Festinger, 1954; Stapel and Blanton, 2007), the first section explores the impact of relative performance information on managers' inter-temporal behaviour. Recent research suggests that short-termism has a strong social dimension that is

worthy of further exploration (see Marginson and McAulay, 2008), which can be done through the nexus of information visibility. Relative performance information is coupled with non-monetary rewards and penalties, such as social pride and condemnation. Performance-based rewards are frequently discussed vis-à-vis short-termism in the broader accounting literature, and so this issue is explored more fully in the second section. A related but distinct strand of research concerns managerial employment horizons (both internal employment horizons and external opportunities), which may influence managers' interpretations of, and reactions to, performance information. Studies of managers' employment horizons are critically examined in the third section. The fourth section considers individual preferences, namely an individual's time perspective, which is theorised to complicate the relationship between performance measures and short-termism. The final section integrates the topics that featured in the preceding four sections to demonstrate the fragmented discourse about managerial short-termism and sets out the issues that need further research attention.

### **3.1 Relative Performance Information**

Social comparison theory examines the psychological phenomena initiated by the presence of at least one actual, implied, or imagined other (Stapel and Blanton, 2007). Facets of this theory have permeated into the accounting literature (see e.g., Frederickson, 1992; Hannan et al., 2008; Tafkov, 2013; see, for a review, Birnberg et al., 2007). However, outside of compensation research, social comparison processes remain largely neglected by accounting researchers. This is surprising for at least two reasons: (1) interpersonal comparison is a "pervasive social phenomenon" (Suls et al., 2002: 159) that is "embedded deeply into the fabric of organisational life" (Greenberg et al., 2007: 23); and (2) the process has been found to influence many outcomes including an individual's self-conscious and social emotions, level of aspiration, motivation, competitiveness, and adjustment (see e.g., Suls et al., 2002; Birnberg et al., 2007; Brown et al., 2007; Buunk and Gibbons, 2007; Garcia and Tor, 2007; Greenberg et al., 2007; Hannan et al., 2013). Relative performance information can be studied through the lens of social comparison theory, which addresses a limitation of extant behavioural accounting research that tends to view a manager's short-termist

behaviour in isolation of other managers (for exceptions, see Lavery, 2004; Marginson and McAulay, 2008).<sup>23</sup>

The origins of social comparison theory can be traced back to the publication of Festinger's (1954) seminal paper.<sup>24</sup> Festinger's (1954) theory of social comparison processes hypothesised that individuals make social comparisons with others to whom they are similar when they need an external benchmark against which to evaluate their opinions and abilities. The underlying motive that drives social comparison, he argued, is thus self-evaluation. Some researchers have expanded Festinger's theory due to concern that "he had a limited view of the motives that drive social comparisons" (Stapel and Blanton, 2007: 13). Two additional motives that drive individuals to compare have been theorised and empirically tested by social psychologists (see Suls et al., 2002). These symbiotic motives include self-improvement (i.e., a desire to enhance one's status; e.g., Wood, 1989; Collins, 1996) and self-enhancement (i.e., a desire to feel better about oneself; e.g., Hakmiller, 1966; Wood et al., 1994). However, as Buunk et al. (1990) and Brown et al. (1992) point out, the extent to which the social comparison process serves these functions depends on whether the comparer assimilates ('that person could be me') or contrasts ('that person is not me') themselves relative to a superior or inferior other. Put simply, when social comparisons serve a self-enhancement function the comparer ordinarily contrasts with a downward target, whereas the comparer assimilates with an upward target when the interest is self-improvement (Buunk and Gibbons, 2007).

Organisations nowadays commonly impose relative performance information onto managers via leader-boards (i.e., peer ranking, Manager A is 1, Manager B is 2, etc.; see, Silverman, 2011), which draw attention to the relevant domains and/or objects for comparison and make salient the individual(s) with whom to compare.<sup>25</sup>

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<sup>23</sup> One exception is Marginson and McAulay (2008) who draw on social influence theory to explore the extent to which a manager's short-termist behaviour can be explained by the level of short-termism within a workgroup and at the broader social context of a functional area. Marginson and McAulay (2008) find a significant and positive association between a manager's short-termist behaviour and the short-termism found within their workgroup; however, the association between managers' short-termism and the customs located within their functional area is statistically insignificant.

<sup>24</sup> For a critical review of Festinger's (1954) work and the impact that it had on the field of social psychology, see Stapel and Blanton (2007).

<sup>25</sup> A variant of this is a forced ranking system, wherein managers evaluate an employee's performance relative to that of their peers and then assign that employee to a pre-set category (e.g., top 20%, vital 70% or bottom 10%) based on their performance, potential, and

Therefore, a social comparison can be induced if an organisation's performance measurement system publicises performance differences between managers because this may stimulate the underlying motives that drive the social comparison process. Such a system stirs these underlying motives because it provides a situation wherein managers are faced with potentially threatening information. In this regard, the social psychology literature reveals that threat stimulates the self-evaluation and self-enhancement motives of social comparison. Socially comparing oneself to others is prevalent among individuals who, for example, face threat to their intellect (see Friend and Gilbert, 1973; Lane et al., 2002) and physical health (see DeVellis et al., 1991; van der Zee et al., 1996). Moreover, given that such a system emphasises performance differences between managers, this context is likely to prime differential thinking and induce contrastive social comparisons (see Stapel and Koomen, 2005).

It is argued that making contrastive upward comparisons can be demoralising, prompting an unfavourable self-image, and engendering negative emotions such as shame, anger, and jealousy (Greenberg et al., 2007; Hannan et al., 2013; 2014). On the other hand, making contrastive downward comparisons can be liberating, enhancing one's self-image, and engendering positive emotions, such as pride and arrogance (Greenberg et al., 2007; Hannan et al., 2013). In the workplace, social comparison theory indicates that managers will compete for non-monetary rewards—for example, performance pride and self-esteem—by trying to outperform peers on mutually important performance dimensions, which may have a positive impact on effort exerted (see Tafkov, 2013). However, this emphasis on the self, and a desire for one's abilities to be slightly better than others can, in certain circumstances, lead to deceptive behaviour, lower overall performance, and destroy firm value (see below).

Drawing on records of all downloads of Social Science Research Network (SSRN) working papers between 2001 and 2007, Edelman and Larkin's (2014) study reveals that ranking below one's peers can lead to deceptive behaviour amongst academics, namely downloading one's own working paper in the SSRN repository to increase the download count and make comparisons less unfavourable. Furthermore, Hannan et al. (2013) explore the effect of relative performance information on an individual's performance and effort allocation in a multi-task environment. Hannan et

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promotability (see, for a full description, Grote, 2005: 138-140). Such systems are used by companies such as General Electric.

al.'s (2013) experimental study reveals that when participants can depart from the firm-preferred 50:50 effort allocation between two tasks, participants distort their effort allocation more when relative performance information is public compared to private and private compared to no relative performance information. Actions symptomatic of inter-temporal trade-off decisions are implied in this study because effort distortion can be thought of as taking short-term actions to improve performance and relative standing on one task to the disadvantage of the second task. Hannan et al. (2013) show that prolongation of this trade-off causes overall performance to decline. Garcia et al. (2006) find that, as commensurate rivals competing on a mutually important dimension move closer to a meaningful standard—for example, companies ranked #2 versus #3 or #500 versus #501 on the Fortune 500—competition intensifies to the extent that the rivals become unwilling to engage in mutually beneficial collaborations and subsequently forgo maximising profitable joint gains.

In view of the above, social comparison processes are perhaps relevant to furthering discussions about short-termism in the behavioural accounting literature. For example, if managers' performance on the financial measure of expenses is publicised and ranked relative to peers, managers with low relative ranking may take actions to cut their expenses, such as cutting back on advertising, to improve their relative standing but this could be value decreasing in the longer term. Alternatively, if managers' performance on the non-financial measure of delivery time is publicised and ranked relative to peers, managers with high relative ranking on delivery time may take actions to maintain their position, such as exerting pressure on staff, but this could be harmful to employee morale longer term. However, thus far we know little of whether a manager's investing and operating inter-temporal trade-offs are affected by the presence of peers and, more specifically, the extent to which an organisation's performance measurement system is entangled with the social comparison process.

To summarise this section, two tentative statements can be made: (1) an organisation's performance measurement system may induce social comparisons by imposing relative performance information onto managers. Because this information emphasises performance differentials, it is likely to lead to contrastive social comparisons; and (2) the behavioural corollaries of contrastive social comparisons may then manifest through those financial and non-financial measures because they are the valued dimensions for comparison. Preferring to improve one's relative

standing on the valued performance dimension, to the detriment of the longer term, is indicative of short-termism. In this situation, short-termism may be the outcome of why, how, and to what effect the social comparison process unfolds within an organisation. The next section considers how performance-based rewards may complicate the relationship between performance measures and short-termism. Performance-based rewards are typically the outcome of informal indications of what is felt to be important (e.g., relative performance information) and formal performance evaluations (see Section 2.3).

### **3.2 Performance-based Rewards**

Some researchers suggest that it is the (positive and negative) rewards that are attached to financial measures that provide the context for managers to rationalise a mind-set that perpetuates short-termism. Agency theory underpins this viewpoint (see Eisenhardt, 1989a).<sup>26</sup> Agency theorists—for example, Jensen and Meckling (1976), Demski and Feltham (1978), and Baiman (1990)—assume that managers exhibit self-interested as well as risk-averse and work-averse behaviours. These assumptions help to justify why allocating rewards based on the attainment of financial measures should motivate managers to “pursue short-term results that serve their own interests at the expense of long-run results that would be optimal for their firms” (Lavery, 1996: 832). Agency theory maintains that it is the existence of information asymmetries between managers and the organisation’s shareholders that facilitate this behaviour (see Lavery, 1996).<sup>27</sup>

Hoskisson et al. (1993) find that allocating monetary rewards based on annual divisional financial performance has a negative and marginally significant relationship with research and development intensity. Wallace (1997) finds that managers increase firm residual income following the adoption of compensation

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<sup>26</sup> Agency theory addresses the work delegation between two types of actors, that is, the principle and the agent, by focusing on the contractual relationship between them (Eisenhardt, 1989a).

<sup>27</sup> Information asymmetry between the principle and agent leads to the agency (moral hazard and adverse selection) contracting problem (see Eisenhardt, 1989a). To attempt to mitigate the agency contracting problem, the principal can devise a better reward system that aligns the agent’s preferences with those of the principle or improve the quality of the monitoring system to reveal the agent’s behaviour to the principle (Eisenhardt, 1989a).

contracts that include residual income accounting measures. Wallace's (1997) findings also reveal that following residual income adoption there is a decrease in net investments which could be value-decreasing if managers are rejecting worthwhile projects. Lavery (2004) documents a significant and positive association between financial rewards and an undervaluation of the long term. There is also some evidence to suggest that career penalties for underperformance may encourage short-termism. Souder and Bromiley (2012) explain that the threat of reprisal following poor financial performance is likely to motivate managers to trade off investments in assets with more delayed benefits to maintain short-term results. Research that examines the capital market pressure hypothesis supports this viewpoint. For example, Mergenthaler et al. (2012) report that missing external quarterly earnings benchmarks is associated with CEO and CFO career penalties, such as reduced bonuses, fewer equity grants, and an increased likelihood of forced dismissal.

Researchers that investigate deviant workplace behaviour extend these arguments to non-financial measures. Litzky et al. (2006) suggest that a connection between customer satisfaction and monetary rewards may encourage workers to hand out free products without authorisation and/or grant preferential treatment. Research by Eddleston et al. (2002) confirms that bartenders, whose remuneration is tied to customer satisfaction because of gratuities, may, in the presence of a relational psychological contract with a customer, offer free beverages or serve that customer before other customers in the queue.<sup>28</sup> These behaviours, which are characterised as property and political deviance respectively, may be costly to an organisation in the long term. In the accounting literature, Moers (2000) reports, contrary to his expectation, a positive (albeit not statistically significant) relationship between using non-financial measures for incentive purposes and short-termism.<sup>29</sup>

Given the above, Coates et al. (1995: 129) suggest that, by detaching monetary

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<sup>28</sup> In the field of human resource management, a relational psychological contract involves personal and long-term commitments between two parties, and are largely trust based (Litzky et al., 2006).

<sup>29</sup> It was mentioned previously that Moers' (2000) 'use of performance measures for incentive purposes' construct contains eight items relating to the use of performance measures for performance evaluation purposes, allocating monetary rewards and allocating non-monetary rewards. Using performance measures as a basis to allocate rewards and, more broadly, evaluate managerial performance, are thus entwined. As a result, it is not possible to ascertain whether both uses are related to managers' time horizons in the same direction, and if so, whether to the same extent.

rewards from performance measures, a “long-termist culture” will be fashioned.<sup>30,31</sup> Such organisational actions are not unprecedented (see e.g., Marginson, 1999; Marginson and Ogden, 2005) and are consistent with agency theorists appeal to sever the link between financial measures and managers’ compensation (see e.g., Jensen, 2001; 2003). Though, a less radical solution can be found in Palley’s (1997) analytical model. His model shows that managers’ time horizons may be lengthened by allocating higher rewards in later periods, which is consistent with tournament theory (see Lambert et al., 1993). Similarly, a compensation plan that includes ‘bonus banks’ (where all or a part of the bonus is deferred for longer than one year) is proposed to help mitigate short-termism (see Stern et al., 1995).

However, others suggest that the impact that performance-based rewards have on short-termism may be dependent upon the type of (positive or negative) reward allocated. Larcker (1983) finds that firms adopting long-term compensation contracts experience substantial increases in capital investment relative to similar firms without such contracts. Long-term incentives typically comprise equity-based plans, and these are considered to evoke a longer time horizon because they reward managers for their role in creating long-term firm value (Palley, 1997; Merchant and van der Stede, 2012). Dechow and Sloan (1991) report that research and development is less likely to be cut during a CEO’s final year in office if the CEO has a stock holding. Nonetheless, recent evidence raises doubts about the ability of equity-based plans to induce a longer-term focus. For example, Souder and Bromiley’s (2012) archival study indicates that equity-based plans are significantly and negatively related to investment in long-lived assets amongst manufacturing firms.

From the foregoing, three tentative observations can be made: (1) monetary rewards attached to financial measures may provide the context for managers to rationalise their short-termist behaviour. But, as Mauboussin and Callahan (2015: 73) write, “a link between pay and short-termism is difficult to establish.” In other words, disentangling the relationship between financial measures, monetary rewards, and short-termism is not a trivial exercise. For the most part, it is not possible to ascertain from the studies cited whether it is the monetary rewards attached to financial

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<sup>30</sup> Coates et al.’s (1995) argument is slightly ambiguous because it is unclear whether the fashioning of a “long-termist culture” would be to the detriment of the short term (see Section 2.1).

<sup>31</sup> The emphasis here is placed upon detaching formal rewards from performance measures. Detaching informal rewards (such as praise) may be more problematic.

measures that are encouraging short-termism, or whether it is the use of financial measures in the context of performance evaluation (see sub-section 2.3.1), or some combination of both; (2) compared with financial measures, the relationship between monetary rewards based on non-financial measures and short-termism has received little empirical attention; and (3) the extent to which penalties for underperformance, as opposed to rewards for good performance, relates to short-termism is a relatively neglected area. Relatedly, existing short-termism research views rewards narrowly, focusing mainly on formal monetary rewards. Other formal rewards, such as progression and promotion, and informal rewards, such as praise and recognition, may influence managers' inter-temporal decisions.

More broadly, the studies cited in this section predominately use samples consisting only of CEOs/CFOs (see e.g., Dechow and Sloan, 1991; Hoskisson et al., 1993; Mergenthaler et al., 2012) or upper management (see e.g., Lavery, 2004). Whilst insightful, there is a lack of knowledge about the extent to which rewards/reprisals based on the attainment of performance measures influence middle and lower level managers' inter-temporal decisions. To conclude this section, Merchant and van der Stede (2012) caution that, for performance-based rewards to have an impact on inter-temporal decisions, they must be valued by managers, which is another contingency. Performance-based rewards, such as progression and promotion, help to shape managers' employment horizons. The following section considers how employment horizons more generally may complicate the relationship between performance measures and short-termism.

### **3.3 Employment Horizons**

A manager's employment horizon is determined by his/her job mobility, which refers to "patterns of intra- and inter-organizational transitions over the course of a person's work life" (Ng et al., 2007: 363). Mannix and Loewenstein (1994) explain that high levels of inter-organisational mobility will uncouple managers' personal gains from the long-term performance of the organisation in which they are currently employed. This is because the manager will not benefit from the future profits associated with their past decisions. In the same way, a manager who leaves an organisation is unlikely to suffer the repercussions of any actions that they have taken in the short term that are detrimental in the longer term (Mannix and Loewenstein, 1994). Accordingly,

Mannix and Loewenstein's (1993) simulation task reveals that managers working in a high-mobility environment have shorter time horizons, are more likely to deplete a firm's resources, and are unwilling to invest for the future vis-à-vis managers working in a low-mobility environment.

Drawing on agency theory assumptions (see Section 3.2), the accounting and economic literatures support a positive relationship between job mobility and short-termism. For example, Narayanan's (1985) analytical model shows that managerial incentive for short-term results is inversely related to the manager's employment horizon when increasing short-term profit improves his/her reputation and value on the labour market. Campbell and Marino (1994) advance a similar model which illustrates that managers have an incentive to select myopic investments to convince the labour market that they have superior abilities. In terms of empirical evidence, Dechow and Sloan (1991) find that research and development expenditure is reduced during a CEO's final year in office. Barker and Mueller (2002) find that CEO age has a strong negative association with research and development spending. This is because older CEOs with only a few years left to retirement focus on short-term results rather than on long-term investments as the pay-off from these projects may not benefit them in the form of higher short-term salary and/or bonuses (see also, Hambrick and Mason, 1984). van Rinsum and Hartmann (2011) report a significant and positive association between managerial propensity to leave the organisation and short-termism. Additional support for this viewpoint can be found in the family firm literature, wherein it is suggested that the longer-term nature of family firm activities is attributable to longer CEO tenure (see Zellweger, 2007; Irving, 2009). More generally, high labour mobility is cited by British and American managers as a reason for their short-term focus (see Lefley and Sarkis, 1997).

Ng et al.'s (2007) framework prescribes three determinants of job mobility: (1) structural factors, such as economic conditions; (2) individual differences, such as personality traits; and (3) decisional factors, such as readiness for change. These micro- and macro-level determinants of job mobility may influence the extent to which the construct affects managers' short-term behavioural inclinations. For example, in recessionary periods, some organisations are likely to downsize their operations and so there may be a high probability of layoffs (Ng et al., 2007). In this situation, job mobility may not necessarily engender a short-term focus because there may be no external-lateral mobility options and managers may still demonstrate

corporate loyalty and so not disassociate themselves from the organisation's long-term prospects.

Although this section's opening paragraph mentioned that job mobility is defined as "patterns of intra- and inter-organizational transitions over the course of a person's work life" (Ng et al., 2007: 363), research has mainly focused on the association between inter-organisational mobility and managers' short-term focus. This is potentially limiting because job mobility is a multidimensional construct that includes facets relating not only to employer, but also function (same or changed) and status (upwards, lateral, or downwards) (see Nicholson and West, 1988). Suggestive evidence of a positive relationship between intra-organisational mobility and short-termism is provided by Graham et al. (2005). In a study of more than four hundred executives, Graham et al. (2005) report that managers may exercise accounting discretion to achieve desirable earnings goals when repeatedly failing to meet targets inhibits their internal-upward mobility. Nicholson and West (1988) identify a further type of intra-organisational mobility: job rotation. Job rotation, which entails "lateral transfers of employees between jobs in an organization" (Campion et al., 1994: 1518; see also, Robbins and Judge, 2009: 252), appears to be relevant here. Campion et al. (1994) specify that job-rotation can be harmful insofar as it creates a short-term perspective with regards to problem solving by the rotated employee, as well as their peers and subordinates.

As a conclusion to this section, three tentative observations can be made: (1) the shorter a manager's employment horizon the more likely they may be to make short-termist decisions, such as reducing investment in research and development; (2) the determinants of job mobility are generally not accounted for. This omission is problematic given the variety of theorised determinants of job mobility and the proposition that these determinants may influence the extent to which job mobility affects managers' decision-making over the short and long term; and (3) despite the multidimensionality of job mobility, researchers have tended to concentrate on inter-organisational mobility. As a result, we know little about how intra-organisational mobility may influence managers' inter-temporal decision-making. As an aside, van Rinsum and Hartmann (2011) note that the studies cited assume that it is managers' expectation about the length of their employment horizon that influences the decision-making process. In view of this, the appropriateness of using variables such as age (see e.g., Barker and Mueller, 2002) and temporary employment contracts (see e.g.,

Dutta and Reichelstein, 2003) to proxy for managers' employment horizon is somewhat questionable. This is because temporary employment contracts can be renewed (Kahn, 2012), and managers may expect this. In the same way, British, American and Canadian organisations do not, for the most part, impose a compulsory retirement age (Flynn, 2010), and so some managers may expect to continue working past the statutory default. The next section reviews literature that relates to individual differences in time perspective. This individual difference may affect managers' inter-temporal response to performance measures and thus may complicate the relationship between performance measures and short-termism.

### **3.4 Individual Time Perspective**

The individual difference time perspective framework has been utilised extensively in the psychology literature (see e.g., Strathman et al., 1994; Zimbardo and Boyd, 1999; Holman and Silver, 1998; Boniwell and Zimbardo, 2004; Boniwell, 2011). Certain aspects of this framework may be usefully applied by management accounting researchers to help explain short-termism, namely the extent to which short-termism may result from a manager's temporal preference.

Time perspective may be defined as "an individual's way of relating to the psychological concepts of past, present, and future" (Boniwell and Zimbardo, 2004: 166). This overarching construct relates to the notion that individuals differ in their use of the three temporal frames: past, present, and future (Zimbardo and Boyd, 1999; Waller et al., 2001). When an individual develops a tendency to overemphasise one of the three temporal frames to the exclusion or minimisation of the other two, a dysfunctional cognitive temporal bias prevails. This temporal bias has been termed temporal orientation (Shipp et al., 2009), which may be defined as an individual's "cognitive involvement focused predominantly on one of the three time zones (i.e. past, present, or future)" (Holman and Silver, 1998: 1146). Even though temporal orientation is perhaps best described as one component of an individual's time perspective, researchers often fail to conceptually separate the two (see e.g., Shmotkin, 1991; Waller et al., 2001; cf. Bowles, 2008; Shipp et al., 2009), or as Drake et al. (2008) observe, use the terms interchangeably (e.g., Harber et al., 2003; Fried

and Slowik, 2004). This conceptual ambiguity impedes meaningful comparison of studies and may result in different interpretations of research findings.

Recently, a related, but perhaps more flexible concept of temporal focus has emerged, which may be defined as “the extent to which people devote their attention to the past, present, and future” (Shipp et al., 2009: 4). Unlike temporal orientation, temporal focus acknowledges that individuals can have multiple temporal foci. The concept recognises that individuals may focus exclusively on one time frame, but also allows for the possibility that individuals may focus on two time frames to the exclusion of the third, focus equally on all three time frames, or allocate varying degrees of attention across all time frames. While used less extensively by researchers that study an individual’s subjective experience of time, another concept is temporal balance. Temporal balance may be defined as “the state and ongoing process of being able to switch flexibly among these time frames as most appropriate to the demands of the current behavioural setting” (Boniwell and Zimbardo, 2004: 165). Again, to an extent, there is definitional and operational overlap between these subsumed concepts (Drake et al., 2008), namely, there is conceptual blurring between temporal balance and temporal focus.

Notwithstanding the inconsistencies in how time perspective has been defined, there is a consensus that an individual’s time perspective influences his/her current attitudes, decisions, and behaviours (see, for a review, Karniol and Ross, 1996; Drake et al., 2008; Boniwell, 2011). Subject to its valence, a past time perspective has been shown to be related to different cognitive and emotional outcomes. For example, Zimbardo and Boyd (1999) find that individuals with a past-negative time perspective, which embodies an aversive attitude towards the past, display low self-esteem and anxiety; however, individuals with a past-positive time perspective, which reflects a pleasurable view of the past, display high self-esteem and happiness, though a cautious disposition (Zimbardo and Boyd, 1999). These findings have been confirmed by others, such as Nolen-Hoeksema and Morrow (1993), Lyubomirsky and Nolen-Hoeksema (1995), and Bryant et al. (2005). More generally, a past time perspective, irrespective of its valence, is perhaps valuable given that the past can help individuals set goals and devise plans to achieve them when previous actions are evaluated to confirm behaviour or provide lessons for improvement (Karniol and Ross, 1996). Nonetheless, Specter and Ferrari (2000) find that when the focus on the past becomes excessive an individual is more likely to exhibit decisional procrastination. An

excessive focus on the past (i.e., a past time orientation) is assumed to lead to an individual being unduly cautious, risk-averse, and conservative, and can result in stagnation, where an individual resists change in order to maintain the status quo even when it is at odds with their best interest (Boniwell and Zimbardo, 2004; Kabanoff and Keegan, 2009).

Individuals with a present time perspective tend to embrace the fundamental message of *carpe diem*—or seize the day. Accordingly, the present time perspective person has been found to engage in risk-seeking and impulsive activities (see Zimbardo et al., 1997), and have little regard for the future consequences of their actions (e.g., Strathman et al., 1994; Zimbardo and Boyd, 1999). Furthermore, Zimbardo and Boyd (1999; 2008) find that individuals with a present time perspective have vaguely defined future goals since they believe that planning for the future is futile. For instance, Epel et al. (1999) find that individuals with a present-focused time frame engage in non-instrumental activities and avoidant procrastination strategies during times of acute crisis, which precludes improvement of the individual's current situation. Thus, when enmeshed in a decision, individuals who are heavily influenced by proximal goals will attend to the relatively more certain and concrete reality of the immediate present, and will not typically consider possible future consequences or reflect on past actions. Whilst a present time perspective can be beneficial in that individuals immerse themselves in the current task (see Harber et al., 2003), which may foster creativity (see Mainemelis, 2002), an excessive focus on the present (i.e., a present time orientation) is assumed to lead to impulsivity, accidents, and addictions, as well as educational and professional failure (see Zimbardo and Boyd, 1999; Boniwell and Zimbardo, 2004; Mello and Worrell, 2006).

Individuals with a future time perspective are committed to working towards distant goals and their associated rewards, often at the expense of immediate gratification, because they are better able to abstract mental representations of the implications of their current actions (see Bandura, 2001; Harber et al., 2003; Boniwell and Zimbardo, 2004). For example, Zimbardo and Boyd (1999) find that individuals with a future time perspective are highly ambitious and goal-orientated, and are more likely to have well-defined future goals and consider the distant outcomes of their present behaviour. Specter and Ferrari (2000) report a negative relationship between a future time perspective and avoidant and decisional procrastination. Similar results can be found in Epel et al.'s (1999) study, wherein individuals with a future-focused

time frame were found to use their time constructively. Therefore, given that long-term goals are salient for them, individuals with a future time perspective are better able to resist immediate temptations (see *Zimbardo et al., 1997*) and are motivated to work harder in the present (see *Waller et al., 2001; Fried and Slowick, 2004*) to achieve future goals. Whilst these highly motivated, ambitious goal seekers are more likely to excel both educationally and professionally (see *Bandura, 2001; Boniwell and Zimbardo, 2004; Mello and Worrell, 2006*), an excessive focus on the future (i.e., a future time orientation) is assumed to lead to elevated stress levels, anxiety, and a dearth of social contact (*Zimbardo and Boyd, 1999*).

In the psychology literature, the balanced time perspective concept is in its infancy and so many facets relating to its structure remain largely unexplored. Despite this, it is generally maintained that a balanced time perspective is beneficial, given that an individual's actions are influenced by a consideration of all three time zones, as opposed to a maladaptive dispositional bias towards one time zone (*Zimbardo and Boyd, 1999; Boniwell and Zimbardo, 2004; Drake et al., 2008; Boniwell, 2011*). Researchers from the field of positive psychology postulate that a balanced time perspective will lead to optimal functioning and well-being (see *Boniwell and Zimbardo, 2004*). Whilst few attempts have been made to operationalise a balanced time perspective, there is some evidence to support this proposition. For example, *Drake et al. (2008)* report that individuals with a balanced time perspective are significantly happier and more mindful vis-à-vis individuals with an ill-balanced time perspective profile. Similar results are reported by *Zhang et al. (2013)*, who find that a balanced time perspective is associated with happiness, vitality, self-determination, and increased life satisfaction.

Aspects of the time perspective framework have permeated into other research fields, namely the strategic management and organisational behaviour literatures. *Das (1987; 1991)* observes that managers with a present time perspective prefer significantly shorter planning horizons than those with a future time perspective. *Bird (1992)* postulates that an entrepreneur's future time perspective is related to strategy formation, innovation, and opportunistic vision which, in turn, aid organisational development. Similarly, *West and Meyer (1997)* find that top management teams with a greater average future time orientation are more likely to undertake changes in strategic direction. *Yadav et al. (2007)* find that firms that have CEOs with a future time perspective are: (1) faster at identifying new technological opportunities; (2)

faster at developing products based on these new technologies; and (3) better at positioning the products, relative to firms that have CEOs with a present time perspective. In terms of goal-setting theory, Fried and Slowick (2004) suggest that individuals with a future time perspective vis-à-vis a present time perspective are more likely to pursue challenging and risky goals following a failure because they can view the failure in the context of ultimate success in the long term. Whilst little explicit reference to a balanced time perspective can be found in the strategic management and organisational behaviour literatures, Thoms and Pinto's (1999) paper suggests that successful project managers use all three time frames and can vary their time perspective to match current demands. Wiberg et al. (2012) reiterate this belief by concluding that the balanced time perspective concept may be meaningful in recruiting individuals for positions that require them to operate in all three time zones, for example, executives and project managers.

Regarding inter-temporal choice, Kabanoff and Keegan's (2009) content analysis of firms' annual reports reveals that a future time orientation has a positive association with innovation and capacity building, whereas a present or past time orientation has a negative association with innovation and capacity building. Soo et al. (2013) find that a future time orientation has a positive relationship with both radical and incremental innovation, while a present time orientation is not associated with either type of innovation. van Rinsum and Hartmann (2011) find that a future time orientation has a significant and negative relationship with data manipulation. Stolarski et al. (2011) report that a past and present time perspective is associated with the discounting of delayed rewards, which the authors identified as indicative of an inability to delay gratification (see also, Wittmann and Paulus, 2007). Interestingly, Stolarski et al. (2011) also find that enhanced discounting tendencies are related to the degree of deviation from a balanced time perspective profile.

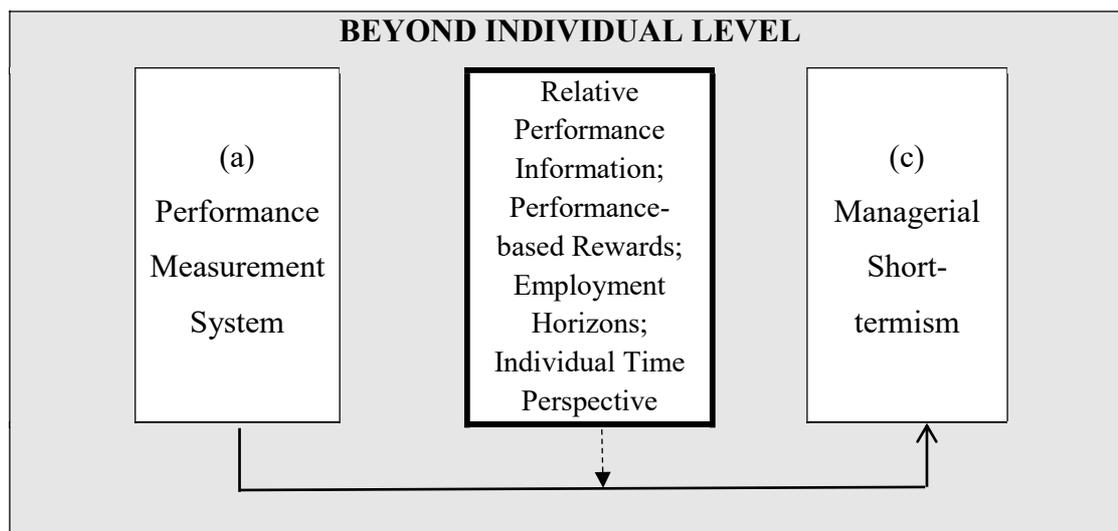
As a conclusion to this section, two tentative observations can be made: (1) a manager who is cognitively involved with only the past and/or present may be more likely to make short-termist decisions vis-à-vis a manager who has a future time perspective; and (2) short-termism may be related to individual differences in temporal constructs and so may occur irrespective of the structure and operation of an organisation's performance measurement system. However, this latter statement assumes that the way an individual's time perspective shapes the decisions that they make for themselves does not differ from those they make within an organisation. To

date, we know little of whether a performance measurement system may reinforce or weaken a manager's time perspective and so tendency to engage in short-termism.

### 3.5 Summary and Conclusions

Chapter 3 reviewed literature for which there are established empirical bases for exploring short-termism within an organisational setting. A speculative exploration of the factors that may complicate the relationship between performance measures and short-termism within the scope of management control was undertaken. The factors considered include relative performance information, performance-based rewards, employment horizons, and an individual's time perspective. The chapter thus looked inside the proverbial black box of contingent factors to explore and explain the extent of the relationship between performance measures and short-termism at the individual level. This is shown in Figure 3.2 below. However, it was noted that empirical evidence relating to these factors was often lacking, unclear, or conflicting. Table 3.1 provides an overview of this broad discussion, highlighting the key observations that were made, the specific gaps in the literature that will be addressed, and the consequent research question.

**Figure 3.2:** Black Box of Potential Contingencies



**Table 3.1:** Black Box of Potential Contingencies

	<b>Summary Statement</b>	<b>C</b>
<b>Relative Performance Information</b>	A performance measurement system may reinforce social comparisons by imposing relative performance information onto managers. Because this information emphasises performance differentials, it is likely to lead to contrastive social comparisons. The behavioural corollaries of contrastive social comparisons may then manifest through financial and non-financial measures because they are the valued dimensions for comparison.	How a performance measurement system may reinforce contrastive social comparisons and short-termism.
<b>Performance-based Rewards</b>	Incentives attached to financial measures may explain dysfunctional behaviour. Compared with financial measures, the relationship between incentives based on non-financial measures and short-termism has received little empirical attention. Also, the extent to which the threat of reprisals for underperformance relates to short-termism is a relatively neglected area.	How relationships between performance-based rewards and short-termism may be affected by penalties.
<b>Employment Horizons</b>	The shorter a manager’s employment horizon, the more likely they seem to be to make short-termist decisions. However, the determinants of job mobility are generally not accounted for. Moreover, researchers have tended to concentrate on inter-organisational mobility. As a result, we know little about how intra-organisational mobility may influence managers’ short-termist decisions.	How relationships between employment horizons and short-termism may be affected by organisational mobility.
<b>Individual Time Perspective</b>	A manager who is cognitively involved with only the past and/or present may be more likely to make short-termist decisions. Short-termism may thus occur irrespective of an organisation’s performance measurement system. However, we know little of whether a performance measurement system may influence a manager’s temporal preference.	How relationships between individual time perspective and short-termism may be affected by performance measurement systems.

\* In the behavioural accounting literature; particularly the empirical literature which examines the behavioural effects of performance measurement systems.

Organisations nowadays commonly impose relative performance information onto managers, which may prompt social comparisons. Because social comparison theory delves into the underlying psychological mechanisms of an individual's thoughts, feelings, and actions (Stapel and Blanton, 2007), it may unearth that short-termism is the outcome of why, how, and to what effect managers socially compare. However, little is known about the link between social comparisons and short-termism in an organisational setting. Even less is known about how the design of an organisation's performance measurement system may reinforce social comparisons, and how the behavioural consequences then manifest.

The studies that investigate the inter-temporal decision-making consequences of attaching rewards to financial measures generally confirm the creation of a short-term focus. However, it is difficult to untangle the joint influence of saliency of the measures and rewards on managers' inter-temporal decisions. Evidence regarding the impact that reprisals have on managers' inter-temporal decisions is limited to a single study in the accounting literature (i.e., Mergenthaler et al., 2012), which only considers the reprisals associated with missing external, not internal, benchmarks. With the partial exception of Moers (2000), accounting researchers have not investigated how rewards and/or reprisals attached to non-financial measures may influence managers' inter-temporal decisions. Beyond the accounting literature, researchers suggest that attaching rewards to non-financial measures can engender behaviours consistent with self-interest and short-term thinking (see e.g., Eddleston et al., 2002; Litzky et al., 2006). Consequently, there is still much more to learn about how different (positive and negative) rewards may complicate the relationship between performance measures and short-termism.

There is a substantial number of studies that indicate either directly (see e.g., Mannix and Loewenstein, 1993) or indirectly via a proxy measure (see e.g., Barker and Mueller, 2002), that higher inter-organisational mobility encourages managers to make harmful decisions to improve short-term results. However, job mobility is a multidimensional construct with facets relating to employer, function, and status. In this regard, little is known about the extent to which intra-organisational mobility (both upward and lateral) may influence a manager's propensity to make short-termist decisions in relation to performance measures.

The individual difference time perspective construct has received considerable attention in the psychology literature, with research findings generally supporting the

notion that an individual's time perspective influences their attitudes, decisions, and behaviours. Although there has been some cross-fertilisation between research streams, no more than four studies that deploy an inter-temporal choice framework were found to engage with this issue. These studies are Kabanoff and Keegan (2009), Stolarski et al. (2011), van Rinsum and Hartmann (2011) and Soo et al. (2013). To date, we know little of whether an organisation's performance measurement system may reinforce or weaken a manager's time perspective and tendency to engage in short-termism.

A black box of contingent factors may thus complicate the relationship between performance measures and short-termism. In drawing these strands of literature together, the present study aims to contribute to the behavioural accounting literature by exploring and explaining the extent of the relationship between performance measures and short-termism. Whilst purposefully broad to convey the explorative dimension, the term 'extent' intends to capture individual-level factors that focus on how performance information is disseminated, evaluated, and rewarded and how individuals can respond differently to performance information. This aim translates into the study's fourth and final research question: *what is the extent of the relationship between performance measures and short-termism?* With the literatures on short-termism examined, the following chapter delineates the methodological strategy that was deployed. Emphasis is placed on constructing a logical chain of meta-theoretical commitments (ontology, epistemology, methodology), as well as highlighting the ethical and procedural issues tackled.

## 4 RESEARCH DESIGN: ONTOLOGY, EPISTEMOLOGY, AND METHODOLOGY

Chapter 1 stated that the research issue addressed in this thesis is “What is the nature and extent of the relationship between performance measures and short-termism?”

Chapters 2 and 3 unbundled this research issue into four research questions:

1. *How do managers understand the short, medium, and long term?*
2. *How do inter-temporal decisions manifest?*
3. *What is the nature of the relationship between performance measures and short-termism?*
4. *What is the extent of the relationship between performance measures and short-termism?*

This chapter describes and explains the methodological strategy that was deployed to address the study’s research questions. Identifying a methodological strategy requires the researcher to make their philosophical commitments explicit, and to reconcile these with decisions about the research design, including the selection and implementation of investigatory tools; the approach to data analysis; and the choice of evaluative criteria (Mason, 2002). A critical realist informed case study premised on qualitative methods was selected and utilised here. As will be discussed later, the strategy offers a medium to get beneath surface-level experiences and an opportunity to grasp the breadth, depth, and richness of the setting, making it the ideal approach for probing the nuances of both short-termism and performance measurement.

Chapter 4 is structured as follows. The first section discusses this study’s critical realist ontological and constructionist epistemological commitments, highlighting them as the primary way in which this research is conceptualised and conducted. The second section considers the implications of these philosophical commitments for the case-based approach adopted. In so doing, the section outlines the defining features of a case study and relates these to the present study. The third section describes the implementation of the chosen investigatory tools, namely interviews, observation, and company documents. Interwoven into the discussions are assessments about the

strengths and weaknesses of the investigatory tools utilised, as well as reflections about the ethical and procedural issues tackled. A discussion about the mode of analysis adopted and the criteria used to judge research within the critical realist paradigm then follows. Taken as a whole, the purpose of each section's discussion is to demonstrate the cyclical relationship between this study's research questions, ontology, epistemology, and methodology.

## **4.1 The Critical Realist Paradigm**

The present study operates within the paradigm of critical realism, which retains an ontological realism whilst accepting a form of epistemological constructionism.<sup>32</sup> The next two sub-sections will detail these ontological and epistemological positions, while the third sub-section will highlight their relevance for this study.

### **4.1.1 Ontology: The Mind-Independent Stratification of Reality**

Ontology concerns the enquiry into the nature of being. The traditional ontological distinction seems to be on the matter of realism versus idealism (see Lukka, 1990; Ryan et al., 2002; Berry and Otley, 2004). The realist ontology considers that reality consists of entities that exist independently of our knowledge of them, whilst the idealist ontology sees reality as the product of our perception and consciousness. The ontological content of realism can be divided into two main strands: empirical realism and critical realism (Fleetwood, 2003; 2005).

Empirical realism maintains that reality is made up of the unique, unconnected (or atomistic) events of sense experience and their constant conjunctions. With the constant conjunctions of atomistic events, reality constitutes a closed system. As Downward (2003) explains, in closed systems, causes produce the same effects, and effects can always be uniquely understood in terms of the same causes. This conceptualisation of reality is associated with the epistemology and methodology of mainstream accounting research, particularly that which is based on analytical

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<sup>32</sup> Throughout this study, the term 'critical realism' is used in a broad sense to include those versions of realism that distinguish between ontology and epistemology without necessarily subscribing to all the developments in critical realist thought, particularly on critical realism as an emancipatory perspective (see Bhaskar, 1993; Modell, 2017).

modelling (Lukka, 2010). Many of the studies cited in Chapter 3 that draw on agency theory make use of analytical models when researching short-termism, for example, Narayanan (1985), Campbell and Marino (1994), and Palley (1997).

These ontological commitments confine empirical realism to surface-level experiences and the events that they represent (Tsoukas, 2000; Fleetwood and Hesketh, 2010).<sup>33</sup> Strictly speaking, the empirical domain (those aspects of reality that are directly or indirectly experienced) is presumed fused with the actual domain (those aspects of reality that occur, but may not necessarily be experienced). Consequently, the ontological matter of what there is to know is reduced to the epistemological issue of how we can know it (Ryan et al., 2002). Figure 4.1 illustrates this flat ontology.

**Figure 4.1:** A Flat Ontology (Fleetwood, 2003: 30)

<b>Domain</b>	<b>Entity</b>
Empirical	Experiences, observations
Actual	Events, actions

In contrast to the empirical realist ontology, critical realism has a stratified ontology. Specifically, Bhaskar (1978) differentiates between the real, the actual, and the empirical domains. Figure 4.2 illustrates this stratified ontology.

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<sup>33</sup> That said, the empirical realist does not deny the existence of non-observables. If non-observable factors, such as mental phenomena, can be operationalised through proxy measures, the non-observable factors that give rise to the proxies become part of the empirical realist's ontology. What ultimately results, then, is either neglecting non-observables that cannot be proxied or dealing with them in a variable-oriented framework (Fleetwood and Hesketh, 2010; Maxwell, 2012).

**Figure 4.2:** A Stratified Ontology (based on Bhaskar, 1978: 13)

Empirical Realism			
Critical Realism			
	Real Domain	Actual Domain	Empirical Domain
<b>Mechanisms</b>	✓		
<b>Events</b>	✓	✓	
<b>Experiences</b>	✓	✓	✓

Note: Checkmarks (✓) indicate the domain where mechanisms, events, and experiences reside, as well as the domains involved for such a residence to be possible. Put simply, experiences presuppose the occurrence of events in the actual domain and events presuppose the existence of mechanisms in the real domain (Tsoukas, 2000).

As shown in Figure 4.2, the real is the domain of mechanisms which cause events to occur, the actual represents the domain where the events are activated and it is at the level of the empirical where the events are experienced (Easton, 2000; 2010). This stratification enables the reality of ‘deep’ generative mechanisms that may not always be observable to be acknowledged as belonging to the real domain. The three domains are, however, typically out of phase with one another. This means that it is not always the case that mechanisms will manifest themselves in actual events to be identified in experience (Ackroyd and Fleetwood, 2000; Setterfield, 2003). Mechanisms, or rather their effects, can be blocked, disrupted, or redirected by the operation of other countervailing mechanisms. As a result, there can be no account of causality based upon constant conjunctions of events—that is, “whenever event x then event y” (Lawson, 2006: 19). Instead, “what are observable in the domain of empirical experiences are certain *tendencies* in the occurrence of events” (Modell, 2009: 212). Consequently, critical realism has an open-system ontology where effects may not always result from the same causes, and causes may not always have the same effects. As detailed below, these ontological assumptions have epistemological implications.

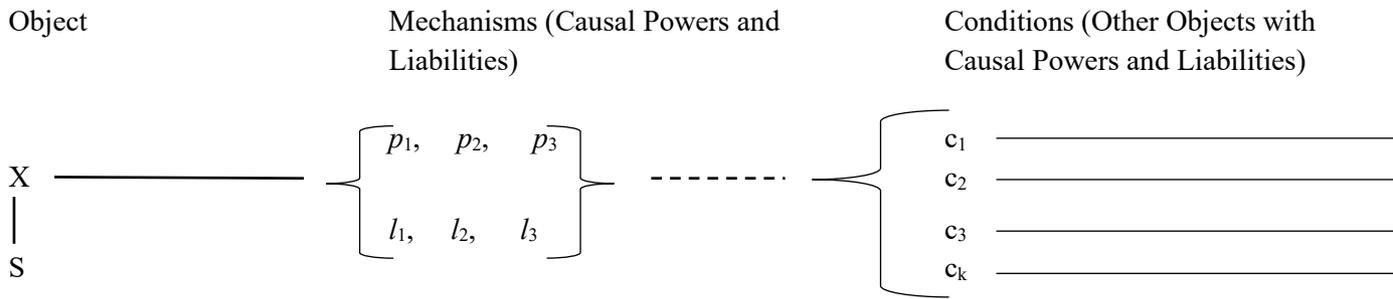
### 4.1.2 Epistemology: Our Knowledge Is Theory-Laden and Fallible

Epistemology concerns our knowledge of being. Critical realists accept that there is no theory neutral observation, description, explanation, or interpretation (Fleetwood, 2005). This epistemology approaches weak forms of constructionism, which emphasises the socially constructed nature of knowledge and the way in which knowledge often bears the marks of its origin (Sayer, 2000). But because realism retains a place for a mind-independent world, critical realism refutes that all descriptions and explanations are equally valid (Ackroyd and Fleetwood, 2000). For the critical realist, a statement is true or false because of the way the world is.

An open-system ontology denotes that critical realists “can never justifiably claim to have discovered the *absolute* truth about matters of fact, or to have established some absolute foundation for our knowledge” (Sayer, 1992: 67). Instead, truth is a matter of practical adequacy. Sayer (1992: 70) explains knowledge that is practically-adequate to the world through an example to the effect that “we cannot walk on water” and “that we can.” The convention that “we cannot walk on water” is more practically adequate since it generates expectations that are realised. In other words, it is the nature of water which determines its possibilities for us, and therefore its practical adequacy (Sayer, 1992). The notion of practical adequacy has implications for the approach to data analysis, which is outlined in sub-section 4.4.3.

To say a statement has practical adequacy, is not to say it is infallible. A practically-adequate statement may be shown to be false, partial, or incomplete. For example, the theories that we construct fit today’s evidence but, as more evidence becomes available, those theories may need to be refined and/or replaced by different theories. Consequently, the merit of a theory lies in its explanatory power (Sayer, 1992; Ackroyd and Fleetwood, 2000; Miller and Tsang, 2010). In this regard, explanation is conceived in terms of uncovering the metaphorical ‘deep’ underlying structures and their emergent mechanisms that govern events (Easton, 2000; Sayer, 2000). This is elaborated in Figure 4.3 below.

**Figure 4.3:** Critical Realist View of Causation (based on Sayer, 1992: 109)




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Object X, having structure S..... necessarily possessing causal powers ( $p$ ) and liabilities ( $l$ ) ..... under specific conditions ( $c$ ).....

———— = necessary relationship  
 - - - - - = contingent relationship

Events are what critical realists investigate. Events can be the visible behaviours of managers, performance measurement system implementation problems, or organisational downsizing. Mechanisms are “the ‘*causal powers*’ or ‘*liabilities*’ of objects or relations, or more generally their ways-of-acting” (Sayer, 1992: 105). Objects, which are the basic theoretical building blocks for the critical realist’s explanation, can be people, performance measurement systems, organisations, and so on. To illustrate, people possess causal powers of being able to speak and reason (Groff, 2004), but are susceptible to a range of causal liabilities, such as group pressure. Causal powers and liabilities, therefore, necessarily exist by virtue of the objects which possess them, and can exist whether or not they are activated (Sayer, 1992). Objects will usually be structured, which refers to “sets of internally related objects or practices” (Sayer, 1992: 92). For example, a performance measurement system presupposes the existence of an organisation. Mechanisms, however, are activated under certain conditions. The presence and configuration of these conditions is contingent, which is shown as a dashed line in Figure 4.3. Conditions take the form of other objects that have their own causal powers and liabilities (i.e., mechanisms). The critical realist approach to causal explanation thus seeks to answer the question “what caused that event to happen?”, which makes it relevant to this study.<sup>34</sup> With this in mind, the next sub-section outlines the reasons for adopting a critical realist perspective to studying short-termism.

### **4.1.3 Why Critical Realism?**

Critical realism re-legitimises asking ontological questions about the phenomenon under study, as distinct from epistemological questions (Maxwell, 2012). Section 2.1 defined short-termism and set this against myopia to highlight the definitional inconsistency and conceptual ambiguity in the literature. Because critical realism treats concepts as ideally real (Fleetwood, 2005), it makes sense to probe the conceptualisation of short-termism. The critical realist perspective adopted in this study can thus facilitate such probing; namely, is the short term a period not exceeding

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<sup>34</sup> In simpler terms, the realist formula to unlocking explanations can be stated as follows: mechanism + context = event (Pawson and Tilley, 1997). Pawson and Tilley (1997) use the term ‘outcome’ instead of ‘event’. In the critical realist literature, the terms ‘outcome’ and ‘event’ are synonymous (e.g., Sayer, 2000) and so, for consistency, this chapter will use the term ‘event’.

one year and is short-termism a relatively uncomplicated behaviour (see Table 2.2)? This ontology also enables the study's research questions to be framed in terms of unobservable (i.e., how do managers "understand"), rather than observable (i.e., how do managers "describe"), phenomena that may be involved in short-termism.

The critical realist epistemology is amenable to, and philosophically justifies, this study's third and fourth research questions. Epistemologically speaking, critical realism wants to "get beneath the surface to understand and explain why things are as they are" (Fraser, 2014: 58), in order to identify the structures and mechanisms that shape the observed events. This coheres with the research issue to explore the nature and extent of the relationship between performance measures and short-termism. Specifically, the critical realist view of causation depicted in Figure 4.3 can help to ensure that the emerging narrative is linked back to the four research questions set out at the start of this chapter, which focus on forms of inter-temporal decisions (events), and how the performance measures (object) of an organisation's performance measurement system (structure) may influence (causal powers and liabilities) the occurrence of short-termism (specific event) taking into consideration other relevant contingencies (conditions). In other words, critical realism is deployed as a useful explanatory and linguistic device that allowed the analysis to be conducted in a more deliberate and rigorous way (see Section 4.4). Having outlined this study's philosophical position, Section 4.2 specifies the research design that was developed in order to answer the research questions.

## **4.2 The Case Study Method of Empirical Inquiry**

Given its potential to reveal the interplay between financial and non-financial measures and the extent of their association with short-termist behaviour in a given context, the case study has a practical fit with this study's research questions, ontology, and epistemology. Moreover, as signposted in Chapter 2, using a case-based approach to examine the use of performance measures is not uncommon in the behavioural accounting literature (see e.g., Hopwood, 1972; Otley, 1978; Marginson and McAulay, 2008; Marginson et al., 2010). The next two sub-sections provide a broad overview of case study research, outlining its defining features and establishing the different types of case studies that are possible. The third sub-section considers

the extent to which critical realism endorses case-based research. The final subsection provides study-specific information about operationalising the case study method of empirical inquiry.

#### **4.2.1 Defining Features of Case Research**

The term ‘case research’ or ‘case study’ is loose because it does not prescribe a philosophical orientation (Berry and Otley, 2004), nor does it stipulate which methods should be used for collecting and analysing data. Consequently, different descriptions of what constitutes a case study can be found in the methodology literature. In most of them, however, some common elements emerge. For instance, Stake (1995: xi), working from a constructionist stance, defines a case study as “the study of the particularity and complexity of a single case, coming to understand its activity within important circumstances.” Yin (2003: 13-14), working from a positivist stance, notes that a case study is “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.”

According to both definitions, case studies focus on an individual unit. The individual unit may be an organisation, a person or a group of them, an event such as a merger, or a process such as an accounting system change. Alternatively, the unit of study may be a combination of these. Flyvbjerg (2011: 30) emphasises that “the decisive factor in defining a study as a case study is the choice of the individual unit of study and the setting of its boundaries.” Setting the unit’s boundaries determines what gets counted as the case and what becomes context to the case. Another defining feature of case-based research is highlighted by Stake’s (1995) and Yin’s (2003) definition: case studies focus on the involvement and importance of context. Cases are thus different from experiments, where a phenomenon is deliberately divorced from its context (i.e., the context is “controlled”). Implicit in both definitions outlined is the impression that case studies are demanding and comprise depth for the unit of study.

Stake’s (1995) definition stresses the progressive nature of case studies—“coming to understand.” Cases often evolve as a sequence of events that occur at a certain time and in a certain place which, when seen as a whole, constitute the case

(Flyvbjerg, 2011). Because they can deal with these operational links that need to be traced over time, case studies are suited to answer ‘how’ and ‘why’ framed questions (Yin, 2009). This particular framing distinguishes case research from surveys, which favour questions framed in terms of ‘how many’ and ‘how much’ (or their integrals—‘what’, ‘who’, and ‘where’). Yin (2003) provides the final important qualification when he notes that case studies investigate contemporary issues. This means that a case is typically restricted to contemporary situations, not to situations in the ‘dead’ past. In this respect, cases are different from histories, which usually deal with non-contemporary events on account of there being no relevant living persons to recount what occurred.

Taken together, a case study can be conceptualised as *an in-depth, progressive and contextually sensitive analysis of a contemporary set of events that make up an individual unit of study*. These defining elements are a common denominator in all case-based research and should feature regardless of a study’s meta-theoretical commitments. Excluded from the definition are, of course, the ways in which the individual unit can be studied. This is because, as Flyvbjerg (2011) states, method choices are not decisive for determining whether a study is a case study or not. After all, method choices will be influenced by ontological and epistemological beliefs. This point will be returned to when the methods for generating data are considered in detail. The next sub-section considers the different types of case study.

#### **4.2.2 Type of Case Study: The Theory Linkages**

Keating (1995) offers a useful theory-based taxonomy of case studies in accounting research. Specifically, Keating (1995) uses the stage of theoretical development as the criterion for classifying case studies as discovery, illustration, specification or refutation cases. Table 4.1 summarises these types of case studies.

The variations in case research that are shown in Table 4.1 have implications for case selection. The strategic selection of cases is termed theoretical sampling (Eisenhardt, 1989b). In theory discovery, for instance, it may be preferable to select ‘simple’ cases (Scapens, 2004), to avoid as far as possible complex issues. In contrast, a ‘paradigmatic’ or ‘deviant’ case may aid theory refinement (Cooper and Morgan, 2008), by either illustrating the value of a new theory or specifying the extent to which an existing theory can be extended. In theory testing, it may be preferable to select a

‘critical’ case (Ryan et al., 2002), that will enable logical deductions about the falsification of a theory to be made based on least-likely or most-likely scenarios.<sup>35</sup> The next sub-section discusses the extent to which critical realism endorses case research.

**Table 4.1:** Type of Case Study (based on Keating, 1995: 68-73)

<b>Theory Linkage</b>	<b>Type of Study</b>	<b>Description</b>
Theory Discovery	Discovery Cases	The objective is to map a novel, dynamic and/or complex phenomenon that has hitherto been ignored or inadequately explained. Cases are explorative and develop the building blocks for new categories and theoretical frameworks.
Theory Refinement	Illustration Cases	The objective is to establish the plausibility of a theory by demonstrating its capacity in relation to a certain phenomenon. Cases become an illustration of the theory applied, showing that it works in some area of accounting.
	Specification Cases	The objective is to revise existing theory based on new evidence. Cases refine a sparse and underspecified theory through making it clearer, introducing nuance or adding more details to it, and/or broadening its scope.
Theory Testing	Refutation Cases	The objective is to test a hypothesis or proposition derived from prior theory. Hypothesis testing is possible because cases of this type are able to refute a well-specified theory by means of one negative case.

### 4.2.3 Critical Realism and Case Research

Three of the defining features of case research—its in-depth, progressive, and context-dependent nature—allow critical realists to develop a defensible epistemological base for using this approach. It was noted that case research involves an in-depth analysis

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<sup>35</sup> A case that is selected because it possesses the characteristics ‘most likely’ to fit the hypothesised relationships can provide disconfirmation if the findings of the case are contrary to those expected by the theory. In contrast, a case selected because it possesses the characteristics ‘least likely’ to fit the hypothesised relationships can provide corroboration if the findings of the case match those expected by the theory (see Keating, 1995).

of the individual unit of study. This notion of depth facilitates a detailed examination of the case as an internally stratified entity (Kessler and Bach, 2014), which allows the actual events that are experienced in the empirical domain to be traced back to the generative mechanisms in the real domain. To assign causality, the critical realist must identify the underlying generative mechanisms that operate to cause events to happen in the actual domain. Case studies allow these evolutionary processes to be captured because cases are, by necessity, examined over time (Harrison and Easton, 2004). Finally, it was noted that case studies have the distinctive capacity to investigate a phenomenon in context. This supports the realist position, which emphasises the context-dependence of causal explanations (Maxwell, 2012).

Critical realism also provides an epistemological justification for using one case, which can withstand some of the prejudicial assessments that this strategy receives.<sup>36</sup> Flyvbjerg (2011: 304) highlights one misunderstanding: “One cannot generalize on the basis of an individual case; therefore, the case study cannot contribute to scientific development.” For critical realists, one case is sufficient because they do not seek to generalise to some wider population, but to the real world that has been uncovered (Easton, 2000). Yin (2009), despite not adopting a critical realist approach, uses the term analytical generalisation to denote the generalisation that takes place through expanding, refining, and developing concepts, arguments and theories. Realists maintain that explaining the reality of ‘deep’ causal powers and liabilities that underlie a set of events can contribute to theory. Thus, as Easton (2000) notes, theoretical generalisations are realisable to the extent that an individual case uncovers reality. What is more, from a practical standpoint, a single case that offers deep explanations across a narrow range of contexts is often preferable from a critical realist perspective (Harrison and Easton, 2004). This is because studying larger numbers of cases in the same amount of time, and with the same level of resources, essentially achieves shallower explanations across a wider range of contexts. In this situation, it may be possible to identify other contingent causal powers and liabilities, but it will likely be to the detriment of discovering how they operate in reality. This study’s operationalisation of case-based research forms the basis of the next subsection.

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<sup>36</sup> The epistemological logic associated with other paradigms, such as positivism and social constructionism, also endorse the single case study strategy (May, 2011).

#### 4.2.4 The Present Study: Case Study of Grocer Plc

Chapter 1 stated, and Chapters 2 and 3 demonstrated, that the purpose of this research is to build a comprehensive contingency-based framework that provides individual-level explanations about when, how, and why managers engage in short-termism. Because the research is thus explorative, an information-rich case was sought. To cohere with the research questions, the unit of study is an organisation's performance measurement system. Embedded within this unit of study are the individual managers, the level of analysis aligned with psychology theories, and groups of them, the unit of analysis aligned with social psychology theories. In this case, higher-level entities, such as the economic climate, become the context to the case.

To identify the sorts of location that would be most appropriate for this study's research questions, a potential research site was explored in a master's dissertation on this topic. The case study company, hereafter referred to as Grocer plc, was drawn from the UK's retail industry.<sup>37</sup> For several pragmatic and research-driven reasons, this case was retained for the present study (see below). Access to Grocer was granted by a senior manager in January 2014, following several email exchanges and one face-to-face meeting that dealt with the research proposal (an interest in performance measurement systems and, particularly, the impact that they may have on managers' work time horizons); issues of confidentiality and anonymity; resource constraints; and potential feedback. The concept of 'short-termism' and the associated notions of 'inter-temporal trade-offs' and 'dysfunctional behaviour' were not mentioned throughout the process of access negotiations. It was felt that to share specific details about this study's research agenda would undermine the research process. Consequently, this study was renamed "Performance Measurement and Managers' Work Time Horizons" on all written exchanges with the managers at Grocer.<sup>38</sup>

Pragmatically, Grocer is characterised by hundreds of geographically separate retail stores, with many of these stores being within a close geographical proximity to the researcher's base. This meant that the scale of travel costs and travelling time involved were kept reasonably low. Moreover, commercially sensitive documents had

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<sup>37</sup> Grocer is the pseudonym used to protect the organisation's identity.

<sup>38</sup> See, for example, Appendix 10.2, 10.3 and 10.4.

been made readily available during the master's dissertation, which indicated that managers were not overly guarded in response to being researched. Finally, and most importantly, initial contacts seemed open to the idea of being researched. Besides these pragmatic considerations, Grocer is a theoretically interesting case through which to study short-termism. Grocer is a large retailer with operations in multiple countries. The retail environment is fast-moving, competitive, and unpredictable. Second, Grocer operates a performance measurement system that comprises a range of financial and non-financial measures. Third, in recent times, Grocer has faced highly turbulent trading conditions because of falling revenues. Grocer's performance measurement system has become a core part of the organisation's approach to realign itself in the marketplace. Chapter 5 provides further information about Grocer. However, before that, the different ways in which data can be generated in case-based research is considered.

### **4.3 Methods: Interviews, Observations, and Documents**

In this study, interviews, non-participant observation, and company documents are the sources from which data is generated. The motivation for using these methods to generate data stems from the limitation of prior research in this area that has been largely conducted by way of a questionnaire survey or a laboratory experiment. As mentioned in Chapter 2, collecting data via surveys, or in the artificial setting of the laboratory, does not facilitate active engagement with managers in their workplace setting and so may give only a very superficial view of the relationship between performance measures and short-termism. Importantly also, each of these methods is an epistemologically legitimate way to generate data in critical realist research, and has the potential to either provide insight into the causal mechanisms at play, or illuminate the context in which short-termism is enacted. In effect, each method has the potential to reveal slightly different facets of the same reality (Berg and Lune, 2012), and so when combined increase the depth of understanding. Moreover, the practical adequacy of the data constructed from within and between methods can be more clearly understood when the different accounts are critically compared (Marks and O'Mahoney, 2014). This utilisation of three data sources is thus akin to a form of

triangulation.<sup>39</sup> The next three sub-sections will discuss the issues and debates surrounding the use of interviews, non-participant observation, and company documents in a critical realist informed study. The ethics of these methods and study-specific reflections on their implementation and operationalisation are examined in the final two sub-sections.

### 4.3.1 Interviews: A Process of Knowledge Construction

An interview can be defined as a “conversation that has a structure and a purpose” (Kvale, 1996: 6). The interview is one of the most important sources of case study information (Yin, 2003), but there are many ways to harness the flow of information that emerges from these dialogues. The critical realist approach to interviewing has much in common with the constructionist’s ‘active interview’, where the interview is an arena in which both the researcher and interviewee interact and collaborate in constructing meanings (Holstein and Gubrium, 1997). However, as Pawson (1996) explains, the active interview presupposes that the subject matter of investigation is the interviewee’s thoughts and actions, as expressed through their verbal and non-verbal communication. So, whilst the data emerges from the mutual construction of meanings, the researcher’s theoretical frame is never plainly on view to the interviewee. From a critical realist perspective, the subject matter of the interview is theory because:

“People are always knowledgeable about the reason for their conduct but in a way which can never carry total awareness of the entire set of structural conditions which prompt an action, nor the full set of potential consequences of that action...In attempting to construct explanations for the patterning of social activity, the researcher is thus trying to develop an understanding which includes hypotheses about their subjects’ reasoning *within* a wider model of their causes and consequences.” (Pawson, 1996: 302)

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<sup>39</sup> However, this process causes some concern because “triangulation views reality as unified, readily observable, and objective, and hides important differences in situated meanings” (Marks and O’Mahoney, 2014: 82). Converging or diverging data originating from within and between methods could be concealing or reflecting the competing explanations that are inherent in a complex and stratified world (Modell, 2009). Consequently, in critical realist research, it is the task of abstract theorising to recognise the convergence of explanations and integrate apparently divergent accounts that arise because of such triangulation. This point is returned to in sub-section 4.4.3 when the process of data analysis is considered.

For interviews to yield insight into events and their underlying structures and generative mechanisms, communicative interaction should be informed by an appropriate theoretical framework which can guide questions, frame answers, and suggest directions for further discussion (Smith and Elger, 2014). Considering this, critical realism favours semi-structured interviewing. Legard et al. (2003) explain that semi-structured interviews are structured by an interview guide that sets out the key themes to be covered, but there is still latitude for further questioning to explore relevant issues in more depth and probe factors that underpin interviewees' responses. This structure means that interviewees are generally asked the same questions in a fairly consistent order, permitting comparisons across interviews (May, 2011; Berg and Lune, 2012).

Overall, interviews can capture the depth, nuance, complexity, and roundedness in interviewees' situated accounts and/or experiences (Mason, 2002). It is possible to talk through specific events and situations that have taken place, as opposed to more abstract questioning about what someone 'would do' or has 'generally done'. Moreover, interviews often draw high levels of engagement because the method has the potential to provide interviewees with an interesting and empowering experience (see Marginson, 2004; Clark, 2010). Pragmatically, however, the success of an interview is at least partly contingent on the personal and professional attributes of the researcher.<sup>40</sup> Moreover, interviews are time consuming to conduct, transcribe, and analyse (Hammersley and Atkinson, 2007). At an epistemological level, there are concerns about whether researchers can access the experiences and understandings that interviewees construct or reconstruct in the interview. This is because the interview method hinges upon an interviewee's ability to communicate, interact, conceptualise, and recall events (Mason, 2002). Therefore, Smith and Elger (2014: 119) suggest that, in order to assess an interview's practical adequacy, "informants' accounts need to be subjected to critical scrutiny not only in their own terms but also in relation to other sources, including observation, documents

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<sup>40</sup> To be a 'good' interviewer is sometimes described as an innate ability possessed only by certain individuals. For example, Legard et al. (2003) delineate what they see as the necessary intellectual attributes of a good interviewer: the ability to listen, retain information, think quickly, respond flexibly, articulate relevant questions, manage distractions, and establish a good rapport with the interviewee. But, whilst there is certainly an element of truth in this account, interviewing is also a technical skill that can be learnt (see Berg and Lune, 2012).

and other interviews.” To remind the reader, study-specific information about the use of interviews is provided in sub-section 4.3.5. The next sub-section considers the method of observation.

### **4.3.2 Observations: The Conceptually-Saturated Character of Seeing**

Observation involves “looking at what is going on—watching and listening” (Bennett, 1991: 100). The process of observing entails the researcher immersing themselves in the participant’s social world (Mason, 2002) in order to experience first-hand the range of spatial, locational, and temporal dimensions in and of that world. Observation can also capture multidimensional data on naturally occurring phenomena, such as social activities, interactions, behaviours, and so on (Thomas, 2004). Essentially, the researcher observes due to an interest in the way in which social phenomena occur in the context of the observational setting, and/or a belief in the value of that setting’s physical or social makeup. But, like interviewing, a study’s epistemology will influence how this method is mobilised.

Constructionists argue that we have no direct access to reality because our “sense experience is mediated by both our perceptual equipment and the interpretations we place upon that experience” (Thomas, 2004: 176). Observations are thus said to be theory-laden, in that observing is a process of sense-making that takes place within some theoretical frame. Accordingly, observational data are understood as constructed meanings created through the interaction among actors (including the researcher) who are immersed in a world of interpretation (Emerson, 1981; Rees and Gatenby, 2014). For critical realists, because there is an external reality against which these subjective, situated, or constructed meanings can be assessed, clues about the character of generative mechanisms can be found by critically scrutinising their observable effects. As Ackroyd and Karlsson (2014) note:

“Only following the sustained observation of behaviour and through noting particularly deviations from sanctioned beliefs and expected patterns of action, does recognition of the precise nature of the generative mechanisms begin to emerge, understanding of their nature begin to develop, and extent of their effects confirmed.” (Ackroyd and Karlsson, 2014: 30)

However, because a researcher cannot see and hear everything, observations must be selective and relevant to a study's research questions. When deciding what to observe, Hammersley and Atkinson (2007) suggest that researchers should include an adequate range of coverage by sampling along the dimension of time. These might include salient daily events such as changeovers between shifts, routine weekly meetings, seasonal or annual cycles, and special occasions such as rites of passage. How a researcher then observes these events will depend upon their position on the participant-observer and overt-covert continuums (see Thomas, 2004).

In sum, observational methods can provide rich, rounded, local, and specific data (Bryman, 1984; Mason, 2002), which are usually constructed as substantive field notes. Because observing takes place in natural social settings, researchers can get closer to the phenomena of interest than other methods permit (Gerson and Horowitz, 2002). In so doing, the researcher does not have to solely rely on self-reports that can be problematic due to, for instance, memory error (Thomas, 2004). Observation of events first hand can thus provide access to aspects of behaviour that are normally hidden, and can reveal patterns that participants themselves may not notice or understand. Nevertheless, as with interviewing, the researcher needs to listen, remain alert, and retain key pieces of information. Another problem associated with observational methods is that of reactivity, which denotes that the presence of the researcher can influence the activities that are being observed (Thomas, 2004; Berg and Lune, 2012). Study-specific information about the use of observational techniques is provided in sub-section 4.3.5. The next sub-section considers the use of company documents.

### **4.3.3 Company Documents: A Topic of Research**

Documentary information is likely to be relevant to every case study (Yin, 2003), and used mainly alongside several other methods of data generation. The company documents available to researchers are many and varied, with a distinction often made between those documents that are in the public domain (e.g., annual reports, mission statements, press releases, etc.) and those that are not (e.g., company newspapers, email exchanges, performance reports, etc.). Whilst public-domain documents are easily accessible, Thomas (2004) cautions that certain commercially sensitive

documents that are withheld from the public domain are likely to be closed to the researcher even after gaining access to an organisation.

Documents can either be treated as a resource for research or a topic of research (Thomas, 2004), which reflects different epistemological orientations. When documents are treated as a topic, the document itself becomes the focus of analysis. The researcher believes that documents “need to be ‘read’ and interpreted in the context of, for example, how they are produced, used, what meanings they have, what they are seen to be or to represent” (Mason, 2002: 108). In other words, documents are ‘read’ in an interpretative manner and treated circumspectly because they were written with a distinctive purpose in mind which has shaped their content (e.g., the dissemination of fashionable rhetoric, self-presentation, etc.).

Company documents are particularly valuable because they have a broad coverage—that is, they span long periods of time and cover many experiences (Yin, 2003)—thus facilitating richer explanations. It is the detail introduced here that allows researchers to extend the temporal scale of their analyses and probe the more enduring features of an organisation. Mutch (2014: 240) notes: “Simply focusing on the immediate context can mean that we neglect more significant mechanisms that provide situational logics for action.” In other words, events may be triggered by historically conditioned notions and documents can help provide initial clues about these broader frameworks. Moreover, internal communication such as email exchanges or memoranda, can shed light on possible mechanisms and the conditions under which they operate in more direct ways.

In general, company documents that are publicly available or less commercially sensitive are usually plentiful and cheap to obtain, as the researcher is typically already onsite (Thomas, 2004; Bryman and Bell, 2011). Moreover, as Mason (2002) highlights, the construction of documents does not necessitate extended social interaction, thus placing less demands on the researcher. Company documents are also regarded as non-reactive to the researcher’s presence (Berg and Lune, 2012), given that they have not been created specifically for the research. At the very least, documentation “can provide the researcher with valuable background information about the company” (Bryman and Bell, 2011: 550), which can be used to contextualise, clarify, and/or verify data derived from other methods. However, this method is prone to selectivity bias because the process of unearthing documents is often incomplete (Yin, 2003). Thomas (2004) warns that more mundane company

documents may be retained only for a brief period of time. This can be problematic because of the intertextuality of documents (Atkinson and Coffey, 2004)—that is, documents do not stand alone, but invariably refer to, or are made in response to, other documents. Study-specific information about the use of company documentation is provided in sub-section 4.3.5. Now that the issues and debates surrounding the method choices have been considered, the ethics of implementation will be discussed.

#### **4.3.4 Ethical Considerations in Qualitative Research**

Ethical considerations ordinarily concern informed consent which means “the knowing consent of individuals to participate as an exercise of their choice, free from any element of fraud, deceit, duress, or similar unfair inducement or manipulation” (Berg and Lune, 2012: 90). For an individual to consent to partake in the research process, Thomas (2004) suggests that they must first possess the mental capacity to make decisions. Once this has been established, comprehensive and accurate information about the study’s purpose, protocols, risks, and benefits should be provided to all participants so that they are able to consider whether they wish to participate. Encouraged by Research Ethics Committees, researchers now commonly seek written, rather than just verbal, consent from participants. For instance, it is not uncommon for participants to be asked to read an ‘information sheet’ and complete, date, and sign a ‘consent form’ before the research process begins.

Hammersley and Atkinson (2007) note that covert participant observation is an example of research that transgresses this ethical canon. Covert participant observation involves a researcher entering a setting without the participants being made aware that research is taking place. However, even when a researcher adopts an overt or announced role, implementing the canon of informed consent is perhaps ‘easier said than done’ for at least three reasons. First, Thomas (2004) explains that the eliciting of free consent can become hazy when an organisation’s management actively encourage subordinates to partake in a research study. Second, Hammersley and Atkinson (2007) note that researchers rarely disclose every detail about their research because doing so may influence participants’ behaviour or answers to questions in ways that would undermine any conclusions (see sub-section 4.2.4, where it was noted that this study was renamed). Third, it can be difficult to ensure that everyone has had the opportunity for informed consent in observational methods. In

its place, implied consent is usually sought and is indicated by potential participants granting permission for the researcher to observe events. If any individual does not wish to take part, the researcher excludes the observational data that includes those individuals. What constitutes informed consent in this study is discussed in sub-section 4.3.5.

Discussions about ethical principles also cover the subject of potential harm which can arise during the process of doing research and/or through the publication of findings. For instance, being interviewed or observed might create embarrassment, anxiety, or stress for some participants (Hammersley and Atkinson, 2007). In the context of interviewing, some participants may believe that the researcher is evaluating their ‘performance’ (Hammersley and Atkinson, 2007), which is evident when interviewees ask, “did I answer that right?”<sup>41</sup> Precautions to avoid causing harm to participants extend to maintaining the confidentiality of records and anonymity of accounts (Bryman and Bell, 2011). Whilst confidentiality involves removing from the researcher’s records any elements that may allude to the participants’ identities, anonymity means that the participants remain nameless in the publication of findings (Berg and Lune, 2012). As well as safeguarding individuals, this injunction covers organisations that are being researched (see e.g., sub-section 4.2.4). Study-specific information about adhering to the ethical notion of do no harm is provided in the next sub-section which focuses on the conduct of this study.

#### **4.3.5 The Present Study: Implementation of Methods and Reflections**

The study was granted full ethical approval by Cardiff University’s Research Ethics Committee in August 2014.<sup>42</sup> Taking this into account, the present sub-section provides study-specific information about the implementation of the three methods outlined above, as well as a reflexive account of the research process.

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<sup>41</sup> Hammersley and Atkinson (2007) reassure that these affects will lessen by establishing rapport and trust with participants.

<sup>42</sup> See Appendix 10.1 for the stamped ethical approval form.

#### **4.3.5.1 Interviews with Middle-Level Managers: Recruitment, Sample, and Questions**

The researcher was given access to talk to managers situated in the middle of the corporate hierarchy. This is one limitation of the present study (for further methodological limitations, see Section 8.3). Interviews with lower-level managers, as well as those situated at the apex of the organisation, would have allowed for more exploration of any similarities and differences regarding inter-temporal decisions across hierarchical levels. Moreover, interviews with top-level managers would have been helpful for validating or providing contrasting rationales for performance measurement system effects on middle-level managers' inter-temporal decisions. Company documents were, however, used as a means of understanding the intended implementation, use, and effects of Grocer's performance measurement system.

This sample was particularly appropriate for addressing the study's research questions for three reasons: (1) at Grocer, middle-level managers have to deal with the interplay between various performance measures; (2) at Grocer, middle-level managers are eligible to receive a range of performance-based rewards; and (3) as noted in Chapter 1, middle-level managers have, at least in principle, a duty to approach the future in terms of day-to-day decisions and actions that consider both the short and the longer term (Frow et al., 2005). Theoretical parameters included the length of time that a manager had been in their current role and membership of an identifiable workgroup to look at the effects (if any) of intra-organisational mobility and social comparisons on the relationship between performance measures and short-termism, respectively (see Chapter 3). The initial sampling strategy was thus theoretically driven (Marshall, 1996). A snowball component was later introduced by asking those who had been interviewed for the contact details of other managers who they believed may possess similar or different characteristics to them to maximise the opportunity to uncover the causal powers of performance measures working under different conditions.

All potential interviewees were invited to participate via a standardised email that stated the name and position of the researcher, the purpose of the research, the practicalities of participation, and the assurance that all data associated with the research would be treated with utmost confidentiality and anonymity. A one-page

information sheet was also attached to this email.<sup>43</sup> Overall, interviewee recruitment was successful: of the thirty-seven managers who were approached, thirty agreed to be interviewed as part of this study.<sup>44</sup> Those who were willing to participate in an interview were also asked to read, sign, and date two copies of a consent form, and fill out a profile sheet about themselves prior to the commencement of the interview.<sup>45,46</sup>

All interviews were conducted between August 2014 and November 2015. Interviews were arranged at a time, date, and location that was most convenient for the interviewee. Except for four, all interviews were conducted at the interviewee's workplace. The interviews lasted ninety-one minutes on average (varying between fifty minutes and two hours), and were conducted face-to-face. All interviews were recorded and transcribed to ensure a full record of the topics covered (Hayes and Mattimoe, 2004). Out of the thirty interviews conducted, the interview-transcriptions were made available to nine interviewees on request.

These thirty interviewees spanned two hierarchical levels within two workgroups. A representative cross-section of Grocer's middle-management structure was thus captured in this sample: twenty-three store managers (eleven from one workgroup and twelve from the other); two group loss managers; two group change coaches; one group online shopping manager; and two store directors.<sup>47</sup> The interviewee sample also captured a range of career trajectories within Grocer: the length of service at Grocer ranged from nine to forty-two years; the length of time in a managerial position ranged from four to thirty-four years; the length of time that a manager had been at their current hierarchical level ranged from one to twenty-two years; and the length of time that a manager had been in their current role ranged from one month to just under five years. The sample of interviewees also comprised a mix

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<sup>43</sup> See Appendix 10.2 for the information sheet that was distributed.

<sup>44</sup> Most researchers sample until saturation has been reached. Data saturation denotes the point at which no new ideas, themes, or explanations emerge since the researcher observes phenomena seen before (Marshall, 1996). Whilst acknowledging that data are never truly saturated because the unexpected can always occur, this study's sample size was adequate to sufficiently answer the research questions.

<sup>45</sup> See Appendix 10.3 for the consent form that was signed by interviewees.

<sup>46</sup> See Appendix 10.4 for the participant profile sheet. Regarding the profile sheet, interviewees were asked to provide both general (name and age) and specific (job title, length of time employed by Grocer plc, length of time in a managerial position, length of time in their current role, and number of employees in their area of responsibility) information about themselves.

<sup>47</sup> These roles are described in detail in sub-section 5.2.4.

of both genders (twenty-two males and eight females) of differing ages (from thirty years of age to sixty). Details about the location, duration, and so on, of each interview are provided in Appendix 10.5, with Appendix 10.6 outlining the biographical profile of each interviewee.

Regarding the interview schedule, this study's research questions were translated into three interview topics defined by the literature reviewed: (1) managers' understanding of temporal reference points, including their awareness of inter-temporal tensions and how these tensions were managed; (2) managers' use of the organisation's performance measurement system and the manner in which this shaped the inter-temporal decision-making process; and (3) the conditions under which the performance measurement system resulted in short-termism, such as the manner in which performance measurement information was disseminated, evaluated, and rewarded, as well as managers' mobility within the organisation and personal time preferences. These topics were sub-subsequently mapped onto one or more interview questions.<sup>48</sup>

Because of this mapping process, an interview schedule that comprised of nineteen questions was developed to guide the interviews and generate data of a semi-standardised format. The schedule opened with a 'warm up' biographical question about the manager's current role, before proceeding to the middle part of the interview where the three more potentially sensitive topics that are outlined above were explored. The interview schedule closed with an open-ended question to ascertain whether there was anything else relevant to the discussion that had not been covered in the interview. The sequencing of the middle part of the schedule and the phrasing of four interview questions were revised after a pilot interview in August 2014 with store manager B1. The final version of the interview schedule can be found in Appendix 10.7.

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<sup>48</sup> For personal time preferences, guidance was sought from available instruments when constructing the interview questions. Bergada's (1990: 294) interview schedule that focuses on an individual's temporal orientation and Joireman et al.'s (2012: 1284) Consideration of Future Consequences scale were used as a point of reference.

#### **4.3.5.2 Observations of Management Meetings and Internal Company Documents**

The researcher identified four types of middle-level manager meetings as relevant for the purposes of this study: (1) the weekly ‘Store Meeting’, wherein store management review the store’s performance on all performance measures for the previous week and construct the current week’s agenda; (2) the weekly ‘Senior Meeting’, wherein senior store management review the store’s overall position and discuss broader company issues; (3) the ‘Daily Meeting’, wherein store management review yesterday’s (morning meeting) and the current day’s (afternoon meeting) performance on certain performance measures; and (4) the daily ‘Process Meeting’, wherein store management review the store’s daily performance on internal process measures. To the extent possible, the researcher sought to observe meetings that would differ in how and to what effect performance results were discussed (e.g., due to over or underperformance).

Observation of ten management meetings took place (five ‘Store Meetings’, one ‘Senior Meeting’, three ‘Daily Meetings’, and one ‘Process Meeting’) between January 2015 and March 2015. Meetings were observed within five different stores located in two workgroups. Before the commencement of any meeting, the researcher’s position and role was verbally clarified to each person present. The researcher did not seek written informed consent off all those present. Instead, implied consent was sought, whereby all members of all meetings were taken to have consented since no objections to the researcher’s presence were raised.

The meetings lasted between ten minutes and two hours and observations were manually recorded through jotted notes. The jotted notes were of a semi-structured nature, insofar as each entry included details about the location, duration, and participants of the meeting, in addition to being oriented to the study’s agenda. The researcher looked for occurrences of inter-temporal decisions, as well as any verbal and non-verbal explanations for them. The researcher was able to capture relevant verbatim quotes (which were placed in quotation marks), paraphrase relevant conversations, and describe relevant non-verbal elements of the research setting. Details about the location, duration, number of participants, and so on, of each meeting are provided in Appendix 10.8.

Internal company documents were also collected during the research process. As well as opportunistically collecting ‘Company Newspapers’ and ‘Employee Satisfaction Success Stories’ left behind in the employee canteens (where the researcher typically spent some time before interviews and observations) and the ‘Performance Results’ distributed in the meetings observed, at the end of every interview the researcher would ask for any documents that would complement the topics covered. This process led to the collection of nearly six-hundred pages of relevant internal company documents. The documents were arranged in an electronic file by type (e.g., company newspapers, store memoranda, email exchanges, etc.), that logged the author and intended audience. Appendix 10.9 details the database of these documents. Before the analysis of the data is discussed, a brief reflexive account of this research process is provided.

#### **4.3.5.3 Reflexivity: A Personal Disclosure**

A variety of social and historical factors may influence what researchers choose to investigate, how they carry out their research and how they interpret their findings (Hammersley and Atkinson, 2007). Reflexivity, which involves “reflecting on the way in which research is carried out and understanding how the process of doing research shapes its outcomes” (Hardy et al., 2001: 533-534), thus, has an important role to play in research. However, as Johnson and Duberley (2003) note, reflexivity is a product of the researcher’s ontological and epistemological commitments. In this regard, Johnson and Duberley (2003) outline three combinations of ontological and epistemological assumptions that constitute three types of reflexivity. When a realist ontology is combined with a subjectivist epistemology (as in critical realism) the reflexivity deployed is termed ‘epistemic’ which encourages an explicit recognition of how the researcher’s socio-historical position has influenced the forms and outcomes of the research process.

The researcher’s background in accounting and finance and curiosity about understanding why people behave the way they do motivated initial interest in the relationship between performance measures and short-termism, guided the formation of the research questions, and subsequently influenced the choice of academic texts to be read. These factors prompted a growing interest in the social psychology of management control and, more generally, psychological processes. Other

demographic factors, such as the researcher being a young female with no experience of working in the retail industry, may have influenced participants' interpretations of the situation and thus the data that was generated (although the researcher can only guess the content of those interpretations). A form of reflexivity has also been used when assessing the strengths and weaknesses of the method choices (see previous subsections). The next section explains how the data generated in this study were analysed.

#### **4.4 Data Analysis: The 'DREI' Model in The Context of The Study's Conceptual Framework**

This section makes explicit the process of analysis undertaken on the qualitative data emanating from the interviews, management meetings, and internal company documents. In a critical realist informed study, abstract theorising and empirical observations are brought together in the analyses using two modes of inference: retrodution and retrodiction.<sup>49</sup> Retrodution involves the movement from the empirical observations of the phenomenon of interest to the mechanisms that might be responsible for this phenomenon through abstract theorising (Modell, 2017). In contrast, retrodiction involves using existing theories, observations, and knowledge about the operation of mechanisms to explain the empirical observations.

Retrodution is a central feature in Bhaskar's (2010) DREI(C) model for analysis, which he differentiates from his RRREI(C) model which involves retrodiction and abductive re-description. The idea of Bhaskar's models is that retrodution and retrodiction should be understood as only one part of the data analysis process. Because both models appear to have been largely overlooked in the management accounting literature, it is worth briefly outlining them here. In the DREI(C) model:

“D stands for the *description* of some pattern of events of phenomena, R for the *retrodution* of possible explanatory mechanisms or structures, involving a disjunctive plurality of alternatives, E for the *elimination* of these competing alternatives, I for the *identification* of the causally efficacious generative

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<sup>49</sup> However, as Walters and Young (2003) and Fleetwood and Hesketh (2010) point out, critical realism does not abandon deductive logic, which is needed to form coherent arguments and sentences.

mechanism or structure, and C for the iterative *correction* of earlier findings in the light of this identification.” (Bhaskar, 2014: vii)

In the six-stage RRREI(C) model:

“The first R stands for the *resolution* of the complex event or phenomenon into its components, the second R for the abductive *redescription* or recontextualization of these components in an explanatorily significant way, the third R for the *retrodiction* of these component causes to antecedently existing events or states of affairs, E for the *elimination* of alternative competing explanatory antecedents, I for the *identification* of the causally efficacious antecedent, and C for the iterative *correction* of earlier findings in the light of this (albeit provisionally) completed explanation or analysis.” (Bhaskar, 2014: vii-viii)

Steinmetz (1998) argues that the RRREI(C) model is problematic because the open-systemic world implies that even if a researcher knows what the mechanisms are, they do not know—or, at least cannot be certain—of how they will operate within some new context. In other words, the task of discovering antecedent events is not straightforward, which complicates the third, fourth, and fifth stage in the RRREI(C) model. Consequently, the retrodiction of events needs to be intimately linked with moments of retrodiction via multiple cycles of moving back and forth between empirical observations and abstract theorising (see Fleetwood and Hesketh, 2010; Modell, 2017). In view of this, Bhaskar (2014) recommends that these complementary modes of inference be combined through an amalgam of the DREI(C) and RRREI(C) models. In this study, the DREI model for analysis was used following a modest revision of the retrodiction stage to include moments of retrodiction and abductive re-description. The implementation of this four-stage data analysis strategy is described below. It is worth mentioning at the outset that the interview schedule, which set out initial topics to explore, guided this process.

#### **4.4.1 ‘D’ for Description**

Description involved the coding of surface-level decisions as well as specifying the context in which these decisions took place. This stage of analysis formed part of the familiarisation process and first cycle of coding of the interview transcripts, observational field notes, and company documentation. Because coding in the

description stage remains at the level of the actual and empirical (see sub-section 4.1.1), the coding methods were restricted to the following: (1) attribute coding which noted the demographics of the interviewee, the background of the meeting and the audience of the company document; (2) descriptive coding which assigned labels to different segments of the data to summarise the topic of the passage; (3) emotion coding which labelled the emotions experienced by the participant or inferred by the researcher about the participant; and (4) process coding which used gerunds to denote observable action in the data. When the participant's own terms or phrases were used as the emotion or process code, these were In Vivo coded in quotation marks. Examples include: "Plastering over the crack" and "Fixing it forever".<sup>50,51</sup> Whilst some of these codes were predetermined because of the literature reviewed in Chapter 2 (e.g., 'short-term definition'), others emerged progressively during data collection (e.g., 'cost efficiency'). These codes comprise coding group one termed 'inter-temporal decisions' and coding group seven termed 'broader context to inter-temporal decisions', which are outlined fully in Appendix 10.10.

#### **4.4.2 'R' for Retroduction and Retrodiction**

The stage of retroduction moved from the coded inter-temporal decisions to the causal mechanisms by asking "what must the world be like in order for these findings to be possible?" (Marks and O'Mahoney, 2014: 81). Consequently, all data were re-read in order to tease out the metaphorical 'deep' generative mechanisms and the influential contingencies that co-determined the actualisation of inter-temporal decisions. In the first instance, this required the identification of the network of objects associated with the events at play in the case study—the organisational structure, managerial roles, performance measurement system, and so on. This stage of analysis formed part of the second cycle of coding of the interview transcripts, observational field notes, and company documentation. The data were provisionally coded under the specific areas

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<sup>50</sup> Defined as instances of managers taking a shortcut to perform back in line with their financial and/or non-financial target(s). The action enables the manager to achieve their financial and/or non-financial target(s), but does not bring to light the reasons for the former underperformance and the current performance may not be sustainable in the longer term.

<sup>51</sup> Defined as instances of managers not taking a shortcut to perform back in line with their financial and/or non-financial target(s). The action enables the manager to achieve their financial and/or non-financial target(s), whilst understanding the reasons for the former underperformance so that the current performance can be maintained in the longer term.

deduced from the literature reviewed, such as ‘financial targets’, ‘non-financial targets’, ‘non-financial measures (qualitative)’, ‘frequency of measurement’, ‘performance evaluation (process)’, and ‘reward allocation’. Nonetheless, at the same time, the researcher actively engaged in a search for other mechanisms and thus new and stand-alone codes were induced from the data, such as ‘informal performance evaluation’ and ‘limited controllability’. The coding methods used include: (1) values coding which labelled the participant’s values, attitudes, and beliefs; and (2) causation coding which extracted attributions from the data about why certain decisions came about.

The individual codes were then transformed into a smaller number of analytic units by means of ‘creative imagination’, ‘knowledge of the social world’, and ‘reading of relevant literature’ (Hammersley and Atkinson, 2007; Miles et al., 2013). Consequently, forty-nine sub-themes and five primary themes were derived, with candidate explanations preserved in an analytic memo. The five primary themes include: performance measurement system; reward/penalty system; social comparisons; intra-organisational mobility; and personal preferences. Each theme and associated sub-theme was recorded in tabular form in Microsoft Word, together with their operational definitions. These are outlined fully in Appendix 10.10. This stage of analysis was iterative, moving back and forth between previously identified mechanisms to explain the inter-temporal decisions at Grocer (retrodiction), and engaging in the search for new mechanisms to add to the initial conceptual framework outlined in Chapter 1 (retroduction). At the same time, the researcher was exploring different explanations to find the best fit for the data (abduction).

#### **4.4.3 ‘E’ for Elaboration and Elimination**

Following the description, retroduction, and retrodiction stages, a critical analysis of the data collected was undertaken. This involved multiple readings of the data to identify any additional themes and associated sub-themes. After each transcript was read, a three-page critical summary was developed that detailed the sub-themes and themes identified, as well as any puzzles and/or contradictions within the transcript. This process was repeated for each set of field notes from the observed meetings and the company documents. These summaries were then triangulated to assess their convergence and disconnect in the decisions occurring in the actual domain and the

underlying mechanisms in the real domain. Consideration was continually given to the reasons for different accounts—were there other mechanisms at play influencing the triggering of a decision? Were the observed decisions embedded in a specific temporal context?

Because critical realism retains a place for an objective social world, it was possible to judge the adequacy of alternative explanations by returning to the concrete empirical observations to ascertain if any of the abstracted mechanisms could be responsible for the inter-temporal decisions observed (Steinmetz, 1998). This procedure required the practice of counterfactual thinking to “distinguish between what can be the case and what must be the case, given certain preconditions” (Sayer, 2000: 16). Danermark et al. (2002: 101) note that to think in terms of the counterfactual simply means to ask questions such as: “How would this be if not...? Could one imagine X without...? Could one imagine X including this, without X then becoming something different?”<sup>52</sup> It was also at this stage in the analysis that alternative explanations were eliminated and those that offered the most accurate representation of the ‘real world’ were retained.<sup>53</sup>

#### **4.4.4 ‘I’ for Identification**

The final stage in the analysis involved constructing a logical chain of evidence. The process of constructing a research narrative involved drawing on the conceptual framework outlined in Chapter 1 (see Figure 1.1) to unpack the relationship between performance measures and short-termism. That is, the empirical chapters that follow are structured by this framework. The case study context is described in Chapter 5, with the inter-temporal decisions and identified mechanisms explored in detail in Chapters 6 and 7, respectively. Chapter 8 then summarises the nature (i.e., the structure and operation of individual performance measures) and extent (i.e.,

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<sup>52</sup> For example, developing an argument that quantitative (financial and non-financial) measures encourage short-termism means developing an argument that short-termism would be less likely if quantitative (financial and non-financial) measures were not used.

<sup>53</sup> In line with Luft and Shields (2014: 553), alternative explanations were eliminated by specifying the preferred causal explanations narrowly so that fewer alternative explanations were plausible. For example, a narrow segment of the causal chain is specified (link between box a and box c in Figure 1.1) that focuses on the behavioural effects of performance measures and not on factors that affect performance measurement choices. Moreover, the level at which the explanations are intended focuses on the individual level and not on higher levels of analysis such as organisational and social levels.

individual-level contingency factors that play key roles) of the relationship between performance measures and short-termism, highlighting that the initial conceptual framework failed to capture the dynamic, fluid, and bidirectional relationships at play. The process of analysing data was facilitated by computer assisted qualitative data analysis software, which is discussed briefly in the next sub-section.

#### **4.4.5 Data Analysis and Software**

Discussions continue in the literature about the general benefits and drawbacks of using Computer Assisted Qualitative Data Analysis Software (CAQDAS) (see e.g., Atherton and Elmore, 2007). Compared with working with all data in hard copy, CAQDAS can enhance the speed, efficiency, rigour, and consistency of the analysis process (Stewart, 2012). The ability to consolidate moderate to large amounts of data (e.g., field notes, interviews, analytic memos, etc.) in one place can help researchers to “keep track of connections that might otherwise easily fall through the cracks” (Weitzman, 2000: 807). Arguably, CAQDAS packages can strengthen the transparency and reliability of research due to in-built features that allow choices and reflections to be easily recorded in memos and annotations as the analysis progresses. Nonetheless, these practical benefits will be overshadowed “if you spend enormous amounts of time trying to locate, learn how to use, and enter data into a computer program” (Berg and Lune, 2012: 380) and undermined if key word searches and auto-coding “encourage the researcher to take shortcuts” (Weitzman, 2000: 808).

The arguments against using CAQDAS suggest that the code-and-retrieve strategy accentuates the de-contextualisation and dis-assembly of data (Atherton and Elmore, 2007), with the conceptual assumptions behind the chosen package often shaping the analysis (Weitzman, 2000). Regarding this latter point, CAQDAS packages are not neutral insofar as the tools privilege certain analytic strategies and inhibit others. For example, NVivo is underpinned by a hierarchical ordering method. CAQDAS packages may thus undermine a study’s epistemology if a researcher cannot code the way that their methodology requires. But, as Weitzman (2000) highlights, researchers need not be trapped by a software’s assumptions.

In addition to the pragmatic benefits versus theoretical drawbacks debate, the decision about whether to use a CAQDAS package may come down to personal preference: does the researcher “enjoy finding the hidden ‘techie’ part of their self”

(Anderson-Gough, 2004: 384) or “need to ‘feel the paper’” (Stewart, 2012: 506)? For the researcher to identify their preferred working style and assess the appropriateness of using CAQDAS for this study, a three-day qualitative analysis software workshop was attended in January 2014. In comparison to the size of the datasets in other accounting studies (e.g., Townley et al., 2003), the data generated by this study was not beyond the scope of managing and analysing manually. Nevertheless, CAQDAS was found to be a valuable tool, as it could support greater transparency not only in the steps taken throughout the analysis, but also when reaching causal explanations. The researcher settled on using the NVivo package—a choice strongly influenced by what was available at the researcher’s institution—to code and retrieve data, represent relations among codes, and capture the researcher’s thinking using memos within the software. The researcher did not experience a loss of closeness to the data since the researcher could straightforwardly access the three sources of data, rapidly retrieve coded text, and look at these retrieved sections of text in their original context. Indeed, the facility to summarise results and model ideas provided the necessary distance for abstraction and allowed for movement into deeper ontological domains. NVivo’s ‘coding tree’ architecture, which hinders process mapping, was managed by keeping track of process relationships in digitised memos and hand-drawn displays. Overall, incorporating this CAQDAS package into the researcher’s toolkit supported more ordered and rigorous research than what would have been achieved without it. The next section sets out the quality criteria for this study.

#### **4.5 Evaluating the Research**

“Because a paradigm is a world view, spanning ontology, epistemology and methodology, the quality of scientific research done within a paradigm has to be judged by its own paradigm's terms.” (Healy and Perry, 2000: 120-121)

Healy and Perry (2000) establish six criteria to judge the quality of critical realist research that span the three elements of a philosophical paradigm—that is, ontology, epistemology, and methodology. The six criteria are shown in Table 4.2, where each criterion is linked to the appropriate philosophical element and the tactics used in this study to increase the likelihood of meeting the quality criteria are outlined.

**Table 4.2:** Quality Criteria (adapted from Healy and Perry, 2000: 122)

<b>Element</b>	<b>Quality Criteria</b>	<b>Tactics Used in This Research</b>
Ontology	Ontological appropriateness	<ul style="list-style-type: none"> <li>• Ask ‘how’ and ‘why’ framed research questions</li> </ul>
	Contingent validity	<ul style="list-style-type: none"> <li>• Return to the basic realist question “what caused that event to happen?”</li> <li>• In-depth interview questions to uncover potential mechanisms</li> <li>• Describe the context of the case</li> </ul>
Epistemology	Multiple perceptions of participants and of peer researchers	<ul style="list-style-type: none"> <li>• Triangulation—within method triangulation and between method triangulation</li> <li>• Self-description and awareness of own values</li> </ul>
Methodology	Methodological trustworthiness	<ul style="list-style-type: none"> <li>• Maintain thorough case study database</li> <li>• Describe data collection plans and protocols</li> <li>• Provide a clear audit trail</li> <li>• Liberal use of verbatim quotes</li> </ul>
	Analytical generalisation	<ul style="list-style-type: none"> <li>• Conceptualise the context and events before data collection</li> <li>• Theorise about potential generative mechanisms before data collection</li> </ul>
	Construct validity	<ul style="list-style-type: none"> <li>• Draw on existing literature to define constructs</li> <li>• Maintain thorough case study database</li> <li>• Triangulation—within method triangulation and between method triangulation</li> </ul>

Critical realist research must demonstrate ontological appropriateness. Ontological appropriateness entails differentiating between the real, the actual, and the empirical domains to facilitate getting below the surface experiences to understand and explain why things are as they are (Fraser, 2014). The critical realist technique is thus to ask ‘how’ and ‘why’ framed research questions, which also aligns with case-based research (Healy and Perry, 2000; Yin, 2003). As outlined at the outset, this study’s research questions are generally framed in terms of ‘how’. Because of the open-systemic world that critical realism presupposes, mechanisms, or rather their effects, can be blocked, disrupted, or redirected by the operation of other countervailing mechanisms (Lipscomb, 2008). This means that causal impacts are not fixed but are contingent on their environment. Consequently, the second ontological

quality criterion is contingent validity, which refers to the legitimacy of the accounts provided about mechanisms and the context that makes them contingent. One tactic used in this study includes continually returning to the basic realist question “what caused that event to happen?” Other tactics deployed include using in-depth interview questions to uncover potential mechanisms (see sub-section 4.3.5.1) and describing the context of the case. The context of the case is described in the next chapter.

Critical realists believe that there is an imperfectly apprehensible real world out there. For the critical realist, a participant's perception is a window to reality and this picture of reality can be triangulated with other perceptions (Healy and Perry, 2000). Consequently, the multiple perceptions of participants and of peer researchers are drawn on to capture as much of reality as possible (Bisman, 2010). This study used within method triangulation and between method triangulation to offer the most accurate representation of the ‘real world’. It is at this point that researchers should also reflect on the role that they have played in the creation of knowledge. This is because, as Sayer (2000: 61) notes, “reflexivity is conducive—we can put it no more strongly—to objectivity in the sense of the developing of true or practically adequate accounts.” This tactic was deployed in sub-section 4.3.5.3.

Methodological trustworthiness is another criterion used to assess the quality of critical realist research. Trustworthiness refers to the extent to which the research can be audited by a third party. The techniques used to enhance the trustworthiness of this study include maintaining a thorough case study database, carefully describing the data collection plans and protocols, providing a clear audit trail, and liberally using verbatim quotes in the research narrative (Healy and Perry, 2000; O’Dwyer, 2004). The criterion of analytical generalisation refers to the generalisation that takes place through expanding, refining, and developing theories. Realists maintain that explaining the reality of the ‘deep’ causal powers and liabilities that underlie a set of events can contribute to broader theory. Researchers are advised to conceptualise the context of the case and events before data collection, as well as theorise about potential generative mechanisms to incorporate these into data collection protocols. As mentioned earlier in this chapter, the literature reviewed informed the study’s data collection plans and protocols. The final quality criterion is construct validity, which denotes how well information about the constructs in the narrative being built are captured in the research. To meet this criterion, this study used existing literature to define constructs, as demonstrated in Chapters 2 and 3 (Abernethy et al., 1999), as

well as maintaining the case study database and triangulating different data sources to uncover convergent and divergent accounts of key constructs.

## **4.6 Summary and Conclusions**

Chapter 4 outlined the research design of the study. The chapter has linked the researcher's critical realist ontological and constructionist epistemological commitments to the application of the case study methodology, and explained how the data that were generated by asking questions, making observations, and using company documentation were analysed. A discussion about the criteria that should be used to judge research within the critical realist paradigm then followed. Interwoven into the discussions in this chapter were assessments about the strengths and weaknesses of the investigatory tools utilised, as well as reflections on the important ethical issues and procedural issues that were tackled. Taken as a whole, this chapter has endeavoured to provide the reader with an account of the creation of this study in which forming a logical chain of meta-theoretical commitments was deemed important.

The next three chapters will detail the findings of implementing this methodological strategy. Chapter 5 will provide an overview of the case study, Grocer plc. Chapter 6 will consider the nature of short-termism and outline what it means to engage in this behaviour (research questions 1 and 2). Chapter 7 will explain short-termism with reference to underlying mechanisms (research questions 3 and 4).

## **5 THE CASE STUDY OVERVIEW: GROCER PLC**

This is the first of three empirical chapters based on the methodological strategy outlined in Chapter 4. The organisation of the chapters is structured around the conceptual framework depicted in Figure 1.1: Chapter 5 outlines the broader context to the case, explores the nuances of Grocer's performance measurement system, and provides a descriptive overview of the specific and fluid contingencies; Chapter 6 focuses on the inter-temporal decisions observed and explores the nuances of short-termism; and Chapter 7 unpacks the relationship between an organisation's performance measurement system and managerial short-termism. For each chapter, the data presented were generated from interviews with middle-level managers, observation of management meetings, and the acquisition and perusal of internal company documents.

This first chapter draws on the study's data to provide a detailed overview of the case organisation, with attention given to describing aspects of the internal situation that will be shown, in subsequent chapters, to influence the nature and extent of the relationship between performance measures and short-termism. One aim of Chapter 5 is thus to provide the context for the findings presented and discussed in Chapters 6 and 7. In line with the literature reviewed, the chapter describes the particularities of Grocer's performance measurement system, performance evaluation systems, and reward/penalty systems, as well as managers' remits, responsibilities, and mobility within the organisation. Table 5.1 presents a roadmap of the key issues that will be described and indicates where findings that relate to their impact on inter-temporal decisions can be found, as a reference for the reader. The chapter draws substantially on Ferreira and Otley's (2009) performance management systems framework for describing the design and operation of performance measurement systems.

**Table 5.1:** Roadmap of Key Issues

	<b>Issue</b>	<b>Described</b>	<b>Discussed</b>
<b>Store Characteristics</b>	‘Online’ stores	Section 5.2	Section 6.1
	Delivery restrictions		Section 6.2
	Lossmaking stores		Section 7.2
	Store age		
<b>Middle-level Manager Roles</b>	Store managers	Section 5.2	Section 6.1
	Group support managers		
	Store directors		
<b>Intra-organisational Mobility</b>	Secondments	Section 5.2	Section 6.1
	Internal-lateral mobility		Section 7.2
	Frequency of mobility		
<b>Performance Measurement System</b>	Financial measures	Section 5.3	Section 6.1
	Non-financial measures		Section 6.2
	Causal relationships		Section 7.1
	Frequency of monitoring		
<b>Relative Performance Information</b>	Nature of information	Section 5.3	Section 7.2
	Frequency of dissemination		
<b>Performance Evaluations</b>	Formal performance evaluations	Section 5.3	Section 6.1 Section 7.2
	Informal performance evaluations		
<b>Reward/Penalty System</b>	Formal reward/penalty system	Section 5.3	Section 7.2
	Informal reward/penalty system		

The present chapter is structured as follows. The first section describes the background of the case organisation and outlines the organisation’s businesses, strategic priorities, and financial performance observed during the investigation. The next section considers the organisation’s hierarchical structure, decentralised control architecture, and policies on intra-organisational mobility. A discussion about the formal and informal management control systems in operation within the organisation then follows. Interwoven into the discussions in this chapter are verbatim quotes from the organisation’s middle-level managers. This enables the chapter to capture and compare the intended purpose, design, and use of Grocer’s policies and systems, which is obtained from company documentation with the actual implementation

described by middle-level managers. To satisfy the quality criterion of methodological trustworthiness (see Table 4.2), an audit trail for each section is provided.

## **5.1 About Grocer**

This section will introduce Grocer plc, by describing the organisation's domestic and international businesses, core values, strategic priorities, and external environment. The section will also outline Grocer's approach to outperforming competitors and financial performance over recent years. The section thus describes the broader context to, and the static backdrop for, probing the relationship between performance measures and managers' short-termist decisions.

Grocer plc is a British multinational grocery and general merchandise retailer that supplies a variety of products and services to millions of customers online and in store each week. The company employs approximately 450,000 people worldwide and operates with six levels of management. At the time of the research, the company had a turnover in excess of £70 billion and held a leading position in most penetrated markets. The information presented in this section draws upon information from the public domain (annual reports, mission statements, and press releases) and the analysis of internal company documents (document groups 1, 2, 4, and 5; see Appendix 10.9), as well as interview data (interview questions 1, 17, and 17a with codes 5.2 and 8.3 used; see Appendix 10.7 and 10.10).

### **5.1.1 Historical Background**

Founded in the early 1900s, Grocer started life as a UK-based grocery retailer but, over recent years, has diversified geographically and into areas such as financial services, telecoms, and the retailing of general merchandise. Until the early 1990s, Grocer was a high-volume, low-cost retailer that competed on a cost-leadership business strategy (see Porter, 1980). However, the nineties witnessed the arrival of euro-competition with several limited assortment stores that worked on low-cost logistic and operational systems. These stores offered customers significant price savings through retailing low-price, high-quality private label products. This change in the nature of the UK retail environment resulted in Grocer abandoning its downmarket image and broadening its appeal to different market segments by

retailing a variety of differentially priced own brand products and services. Grocer's underlying strategy thus gradually moved towards a hybrid approach which sought to achieve branding differentiation and low costs through relative buying power. This broadening of its appeal was successful: Grocer's UK store portfolio grew from five hundred stores in the mid-1990s to over three thousand twenty years later. The strategy provided sufficient margins for reinvestment to maintain and develop the bases of differentiation as well as pursue international ventures in Europe, Asia, and the US.<sup>54</sup> The next sub-section delineates Grocer's domestic and international businesses.

### **5.1.2 The Businesses**

Grocer has retailing and associated activities in the UK, European, and Asian markets. Grocer operates in several international markets which account for approximately thirty percent of the company's revenue and trading profit (Annual Report and Financial Statements 2014/15). This success in international markets is due, in part, to Grocer's cultural awareness, gained by entering joint ventures with local partners and appointing a large proportion of local personnel into management positions. The local personnel are supported by managers from the domestic market.

Grocer's domestic operations are the largest of its businesses, with over three thousand multi-format retail stores throughout the UK. Because this business is a key driver of Grocer's revenues and trading profit, strengthening the foundations of the UK store operation through ensuring competitive prices, improved quality, stronger ranges, and better service is a strategic priority (see sub-section 5.1.4). Since the late 1990s, Grocer has also engaged in retail banking and insurance services in the UK. This business offers a range of personal banking products and services, including mortgages, credit cards, personal loans, savings accounts, and several types of insurance. The mainly online business constitutes approximately two percent and five percent of Grocer's revenue and trading profit, respectively (Annual Report and Financial Statements 2014/15). Grocer plans to expand its financial service business to some international markets (Internal Company Documents, Group 1). Nonetheless, overall, retail stores are the most important aspect of Grocer, with the core of the

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<sup>54</sup> Grocer has of late discontinued its lossmaking store operations in the US.

business remaining in the UK. For this reason, the discussions from this point onwards will focus on Grocer's UK store operations. The next sub-section considers Grocer's core purpose and values.

### **5.1.3 Core Purpose and Values**

Grocer's core purpose is: "*making what matters better, together*" (Internal Company Documents, Group 5). The core purpose intends to signify that Grocer is about more than generating profit, which aligns with stakeholder theory (Freeman, 1984).<sup>55</sup> Specifically, senior management wants Grocer to always do the right thing, inspire, and earn trust and loyalty from shareholders, customers, employees, and local communities (Internal Company Documents, Group 5). Grocer's core purpose is operationalised through three values, which are believed to support organisational growth and success. The three values are: (1) no one tries harder for customers; (2) we treat everyone how we like to be treated; and (3) we use our scale for good (Internal Company Documents, Group 2). The induction programmes for new employees includes a session dedicated to explaining these values. Managers also attempt to imbed the values into everyday work life. The values are commonly used and referenced in daily conversations and painted onto the walls of in-store training rooms. The values feed through all aspects of the business, such as role descriptions (see sub-section 5.2.4) and formal performance evaluations (see sub-section 5.3.3.2). In basic terms, the three values are intended to guide the choices and decisions that employees make each day. Grocer's core purpose and values underpin its vision and strategy. This is discussed in the next sub-section.

### **5.1.4 Vision and Strategy**

As a general vision, Grocer seeks to be valued by the customers it serves, the communities in which it operates, its employees, and its shareholders. Five strands of this vision are identifiable: (1) to be wanted and needed around the world; (2) to be a growing business, full of opportunities; (3) to be modern, innovative and full of ideas;

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<sup>55</sup> This theory outlines a vision of managerial responsibility that goes beyond an organisation's shareholders to embrace all stakeholders. In this regard, stakeholders are viewed as any group or individual who can affect or is affected by the organisation such as employees, customers, suppliers and the local community (Freeman, 1984).

(4) to be winners locally whilst applying skills globally; and (5) to be inspiring, earning trust and loyalty from customers, employees, and communities (Internal Company Documents, Group 4). Each of these components describes the sort of organisation Grocer aspires to be. This vision is thought possible only when employees internalise and champion Grocer's values (see above).

The vision is translated into a multifaceted strategy to reflect the business priorities, which focus on the way customers' needs are changing and the increasingly global nature of its businesses. The strategy is: (1) to restore growth to the UK business; (2) to strengthen the performance of international businesses; (3) to grow and diversify non-food offers; (4) to grow retail services, such as telecoms and financial services, in domestic and international markets; (5) to be a responsible corporate citizen; (6) to create highly valued brands; and (7) to build strong leadership teams across all businesses (Annual Report and Financial Statements 2014/15). The first strategic priority maps onto Grocer's in-store performance measurement system, which is based around the performance philosophy that, if managers treat customers well and stores operate efficiently and effectively, then Grocer's sales, profits, and returns will grow (for further details, see sub-section 5.3.1). The pretext for the first strategic priority is linked to Grocer's external environment. The external environment is discussed below.

### **5.1.5 The External Environment**

Grocer faces an increasingly competitive market, with pressure coming from the price-aggressive limited assortment stores (commonly referred to as the discounters) which have increased their store opening programmes in recent years. This is due, in part, to the financial crisis and subsequent economic recession in the late 2000s which ostensibly focused customers' minds on value (Flatters and Willmott, 2009). The growth of the limited assortment stores has diluted the market share of established grocery retailers, including Grocer (Internal Company Documents, Group 1).

The established retailers have retaliated by engaging in 'price wars' to try to entice more customers into visiting their stores and to spend more money on each store visit. However, customers' discretionary thrift is coupled with changeable brand consumption (see Flatters and Willmott, 2009). That is, customers have brought their

increasingly erratic loyalty into the post-recession era—a notion conveyed in the quotation below.

*“Our customers have become more promiscuous. They don’t care about spending fuel, driving half way around [City] now just to go and get the best deals in lots of different places.”* (Store Manager B6: 1667-1669)<sup>56</sup>

As Grocer’s revenues began to fall, short-term corporate cost-cutting measures were pursued to retain a year-end profit margin of approximately five percent. Examples of cost-cutting measures taken by senior management include cancelling in-store stock takes, cutting in-store payroll budgets, and delaying payments to suppliers. In doing so, however, Grocer began to damage its brand and in-store service and operation: *“we became so fixated on the middle section of our profit and loss report that it damaged our service that we offered”* (Group Change Coach A: 303-304). This is evidenced by UK trading profits continuing to fall by an average of four percent each year between 2011 and 2014. Consequently, and during this study, Grocer took a series of steps to try to increase competitiveness in its UK business. The steps involved closing more than forty lossmaking stores, consolidating Head Office locations, reducing in-store management roles, and changing employees’ pension scheme (Internal Company Documents, Groups 1 and 5). Due to redundancy costs, restructuring expenses, and so on, the UK trading profit figure for 2014/15 was £0.5 billion, which was a fall of eighty percent on the previous year. The future cost savings achieved from the new level of financial discipline and cost control are to be reinvested in the core customer proposition. That is, Grocer wants to provide competitive prices, improved quality, stronger ranges, and better service. It is worth noting that the issues raised here influence the financial target setting process, which is discussed later in this chapter (see sub-section 5.3.1).

This section has presented background information about the case study, Grocer plc. It was intended as a static backdrop, against which the more specific and fluid internal organisational conditions that shape managers’ time horizons and inter-temporal decisions are described in the remainder of this chapter. The following section thus provides more specific contextual information pertaining to this research.

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<sup>56</sup> Numbers in brackets reflect the lines of text referenced. For example, ‘(Store Manager B6: 1667-1669)’ denotes the interview with Store Manager B6 with the quotation taken from lines 1667 to 1669 in the transcript.

## **5.2 Contextual Information**

This section describes Grocer's internal architecture, including its management structure, nature of decentralised decision-making, and policies on intra-organisational mobility. The characteristics of the twenty-three stores visited and responsibilities of the thirty managers interviewed will also be considered to familiarise the reader with the organisation. As indicated in Table 5.1, many of these issues will be shown to influence managers' time horizons and complicate the relationship between performance measures and short-termist decisions. Consequently, the issues raised in this section will be referred to when addressing the research questions in Chapters 6 and 7, and when relating the data presented to the studies cited in Chapters 2 and 3. The information presented in this section draws upon the analysis of internal company documents (document groups 1 and 5; see Appendix 10.9) and interview data (interview questions 1, 17, 17a, and 17b with codes 5.1, 5.2, 5.3, 5.4, 7.1, and 7.5 used; see Appendix 10.7 and 10.10).

### **5.2.1 Management Structure**

Grocer has relatively few layers of management. The structure has six layers, with three of these comprising Grocer's in-store management: departmental managers (management level six), deputy store managers (management level five), and store managers (management level four). The exception to this are the group support managers (management level four or five), who are situated externally to in-store management. Positioned above, and external to the store teams, are store directors (management level three), format directors (management level two), and the board of directors (management level one).

As noted in Chapter 4, this study focuses on the middle of the corporate hierarchy, that is, management levels 3 and 4. The responsibilities and remits of these roles are explained fully towards the end of this section with the aid of an organisational chart (see sub-section 5.2.4). Having outlined the management structure of the organisation, sub-section 5.2.2 considers Grocer's decentralised structure.

## 5.2.2 Store Formats

Grocer's UK store operations are organised into four formats—GroA, GroB, GroC, and GroD. The formats are differentiated by size and the range of products sold. For instance, GroA stores are the mainly out-of-town hypermarkets with a floor space averaging over six thousand square metres, stocking nearly all of Grocer's product ranges (e.g., groceries and non-food items such as clothing, electrical appliances, furniture, etc.). These stores offer a 'destination' shopping experience as they house services such as cafés, restaurants, pharmacies, opticians, phone shops, beauticians, petrol filling stations, and so on. With a floor space averaging two thousand square metres, GroB stores are the supermarkets that stock groceries and a smaller non-food range. These stores offer some of GroA's destination services, namely cafés, phone shops, and petrol filling stations. Thus, in many respects, "*[GroB] and [GroA] are the same because they serve the same type of customer*" (Store Manager B3: 1043).

GroC stores are the town centre shops that have a floor space averaging one thousand square metres. In contrast to GroA and GroB stores, GroC stores offer a limited food and non-food range and have no destination services. GroD stores are located in residential areas and have a floor space averaging two hundred square metres. Similar to GroC stores, they stock a limited food and non-food range, but place more emphasis on high-margin products such as sweets, crisps, chocolate, biscuits, fizzy drinks, and processed food. Because they are both convenience stores, "*[GroC] and [GroD] link together because they basically serve the same type of customer*" (Store Manager B3: 1042).

This study concentrates on the larger, more complex, formats, which are GroA and GroB comprising more than 200 and 400 UK stores respectively.<sup>57</sup> The GroA and GroB formats are each divided into several workgroups. This is discussed in the following sub-section.

## 5.2.3 Workgroups

Formats are spilt into several geographically dispersed workgroups which comprise a maximum of twenty-five stores. For stores at the opposite ends of a workgroup, the

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<sup>57</sup> This is a consequence of the access that was negotiated.

geographical distance can cover some two hundred miles. Each store is assigned a store manager who makes decisions for that store. All store managers in a workgroup report to a store director who makes decisions that can affect each of the stores within the workgroup. Noticeably, the store director (superior) is not located at the same site as store managers (subordinates) and so superior-subordinate interaction takes place through store visits, telephone conversations, and/or email messages. Due, in part, to this geographical dispersion, store directors are supported by a number of group support managers. As noted, these roles are described in sub-section 5.2.4.

This study focuses on two workgroups: one GroA workgroup and one GroB workgroup. For simplicity, the workgroups in question will be referred to as GroA and GroB. GroA comprises eighteen stores (eleven of which were visited) within a one-hundred-and-seventy-mile radius. GroB comprises twenty-three stores (twelve of which were visited), within a one-hundred-and-thirty-mile radius. Each of these stores, however, possess slightly different characteristics. The store characteristics observed are described below.

### **5.2.3.1 Store Characteristics**

*“This is my probably my sixth or seventh store and each one has been different.”* (Store Manager A1: 518-519)

*“All our shops are different.”* (Store Manager A2: 834)

*“There’s not one shop that’s the same.”* (Group Loss Manager A: 1024-1025)

Within a workgroup, stores are categorised into bands. The criteria considered for categorisation include the store’s size, level of sales, and complexity of in-store operations (e.g., the capacity to fulfil online shopping orders, destination services). GroB stores are categorised as either ‘six’ or ‘seven’, whilst GroA stores are categorised as ‘seven’, ‘eight’, ‘nine’, or ‘ten’.<sup>58</sup> An increase in band number denotes that the store has a larger shop floor space and thus a larger workforce, a higher level of sales, and more complex in-store operations. Less experienced store managers are usually placed in a store with a lower band number. Of the twenty-three store manager respondents, five manage band six stores, nine manage band seven stores, seven

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<sup>58</sup> Bands one to five encompass GroC and GroD stores only.

manage band eight stores, and two manage band nine stores. Note that this study does not capture a band ten GroA store.

For stores with the capacity and equipment to fulfil online shopping orders, between fifteen and thirty percent of the store's sales per week originate from fulfilling and delivering orders placed by customers using Grocer's online shopping system. These stores serve online customers within a set catchment area (usually a twenty-mile radius around the store's postcode). Being an 'online' store entails a complex set of in-store operations (i.e., picking, packing and dispatching online orders) which, if not managed and resourced appropriately, can have a detrimental impact on the day-to-day functioning of the store: *"it drains the store to try and get the pick finished. So, people that should be doing other things aren't because they're picking"* (Store Manager A4: 1648-1650). Fourteen GroA stores have the capacity to fulfil online shopping orders (eight of which were visited), whilst two GroB stores have the capacity to fulfil online shopping orders (both of which were visited).

Some stores are subject to delivery curfew restrictions imposed by local authorities. These stores are typically within or near residential areas. A delivery restriction hinders in-store activities (e.g., the replenishment of groceries and non-food items), as evidenced by the following quote.

*"We're a delivery restricted store, which means that we can't accept deliveries between midnight and six am. So, my fresh food predominantly, ninety percent of it arrives at six o'clock in the morning. That's the same time we pick home shopping."* (Store Manager A6: 172-175)

Due to multiple uncontrollable factors that were previously discussed and are returned to later in this chapter, many Grocer stores have experienced falling sales in recent years. The sales figures no longer justify the operational costs of running some of these stores. This is evidenced by the closure of in excess of forty lossmaking stores during the first half of 2015 (see sub-section 5.1.5). Seven of the closed stores were from the GroB format. Regarding the stores visited during this study, three GroA stores and one GroB store are lossmaking. This status influences the managers' budget plans, the product ranges available in-store, and the preservation of destination services.

Table 5.2 presents a concise overview of the store characteristics of the sample outlined above, as a reference for the reader.

**Table 5.2:** Store Characteristics of Sample

	<b>Band 6</b>	<b>Band 7</b>	<b>Band 8</b>	<b>Band 9</b>
<b>Number of stores</b>	5 GroB stores	7 GroB stores 2 GroA stores	7 GroA stores	2 GroA stores
<b>Store capacity to fulfil online shopping orders</b>	0 GroB stores	2 GroB stores 1 GroA store	5 GroA stores	2 GroA stores
<b>Delivery restrictions</b>	0 GroB stores	0 GroB stores 0 GroA stores	1 GroA store	0 GroA stores
<b>Lossmaking stores</b>	1 GroB store	2 GroA stores	1 GroA store	0 GroA stores
<b>Level of store manager experience</b>	Less than two years on average	Seven years on average	Nine years on average	More than fifteen years on average

The affluence of the area in which a store is located influences whether the retail offer is targeted at predominately upmarket, mid-market, or price-sensitive customers. Moreover, the ethnic composition of this target market differs in terms of rural-urban location. These, and other demographic (e.g., age), psychographic (e.g., lifestyle), and behavioural (e.g., loyalty status) trends, mean that it is necessary for each store to tailor localised food and non-food ranges to the needs of customers in their catchment area. For example:

*“We’ve just incorporated a larger Polish range because we’ve got a lot of Polish customers around here.”* (Store Manager A9: 83-84)

*“It’s a little bit more midmarket which is why I’ve got to be careful and balance the range.”* (Store Manager B5: 169-170)

Range decisions made by the store manager, in turn, influence the achievement of certain performance measures. This point is returned to in the next section.

Targets set for some of the performance measures are influenced by the age of a given store. Stores that have been open for less than three years are set more achievable financial targets than the best-guess forecast to protect managers against unforeseen circumstances. As the following quotation illustrates, substantial budgetary slack is introduced into targets for newly-opened stores but this slack is

gradually removed over a three-year period to a level that is consistent with a ‘tight, but attainable’ budgeting philosophy (Merchant and Manzoni, 1989).

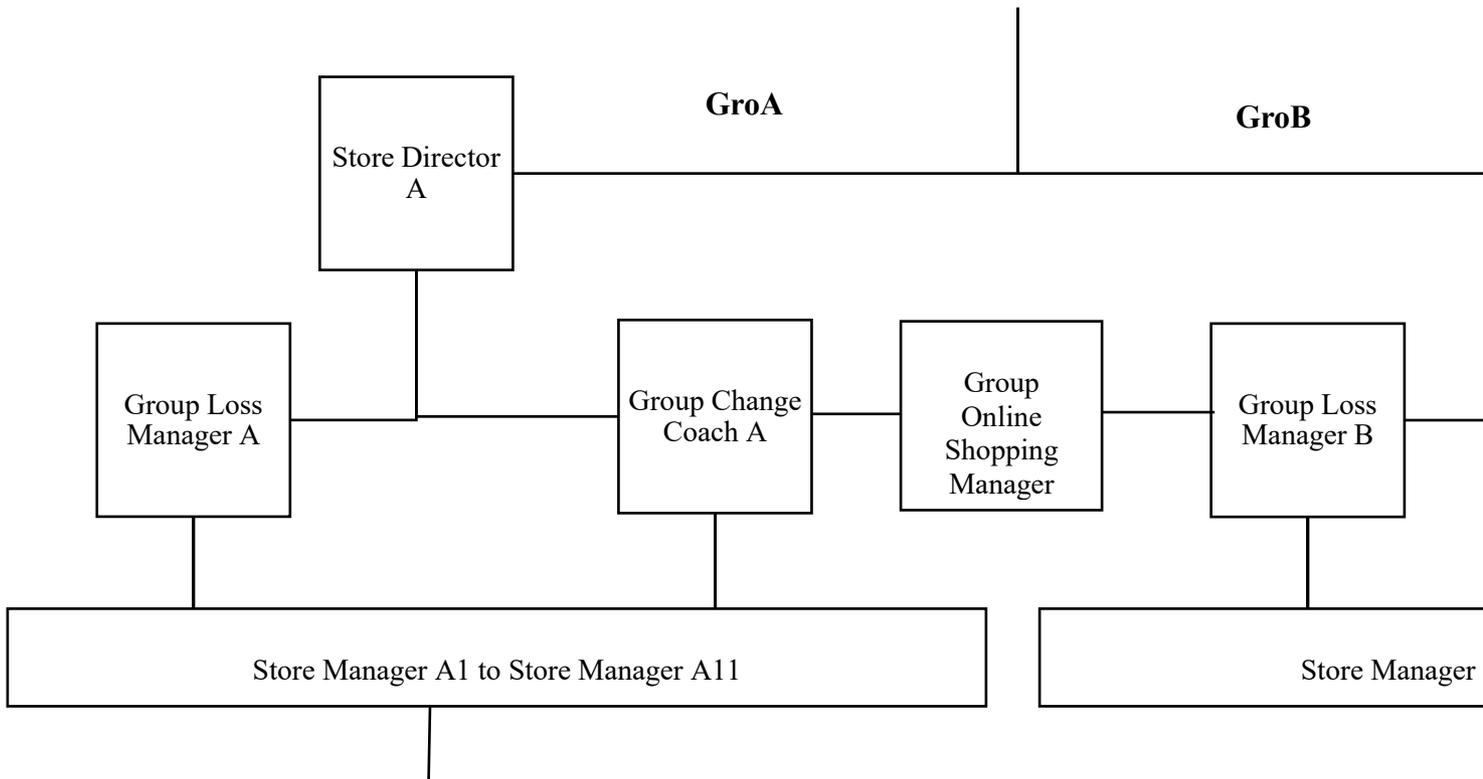
*“A new store has quite healthy budgets. This store is coming into its third year so actually the budgets for the store were too much anyway. It happens with every store, they have bigger budgets because they’re getting used to customers, their colleagues, and all that. Gradually, they then get cut.”* (Store Manager B1: 299-301)

Except for one GroA store and one GroB store, all stores visited during this research have been open for more than three years. As will be discussed later in the chapter, Grocer engages in acts of commensuration by comparing these stores according to common measures (Espeland and Stevens, 1998). The extent to which store characteristics influence the way managers perform their inter-temporal tasks permeates the discussions in Chapters 6 and 7. In the next sub-section, attention turns to the responsibilities and remits of Grocer’s middle-level managers.

#### **5.2.4 Roles: Responsibilities and Remits**

It was noted in sub-section 4.3.5 that a representative cross-section of Grocer’s middle-management structure was captured in the interviewee sample: twenty-three store managers (eleven from GroA and twelve from GroB); two group change coaches; two group loss managers; one group online shopping manager; and two store directors. Because managerial responsibilities are linked to target achievement, it is worth reiterating that Grocer operates a BSC approach to performance measurement and management control. Figure 5.1 shows the role and workgroup of each interviewee by way of an organisational chart. The responsibilities and remits of the outlined roles and their linkage to the BSC are described below. How these responsibilities and remits shape managers’ time horizons and inter-temporal activities is discussed in Section 6.1.

**Figure 5.1:** Organisational Chart of Sample



#### **5.2.4.1 Store Managers**

Situated at management level 4, store managers are responsible for overseeing the day-to-day functioning of one store. Daily, store managers are required to: (1) play an active part in the community through, for example, charity work; (2) lead their store team to put customers' needs first; (3) create a great place to work; (4) lead a highly effective store operation with excellent standards; and (5) manage costs and deliver profit (Internal Company Documents, Group 3). As will be shown in sub-section 5.3.1, each of these five essential role functions map onto a quadrant of Grocer's BSC—community, customer, people, operational, and financial. The catch-all job description (recited almost word-for-word by six store managers) is thus: *“My direct role is to lead a team of senior managers, managers, and colleagues to deliver a great shopping trip at a cost to the business which still delivers a reasonable return”* (Store Manager A8: 18-20). This aspect of the role necessitates a hands-on immersion in everyday decisions and actions.

Store managers are also required to contribute to the common good of the store and workgroup to which they belong. In this regard, broader responsibilities are threefold. First, store managers are required to translate pre-set workgroup and store-specific strategies aimed at improving the business for customers into workable actions. Second, store managers are expected to participate in workgroup activities, such as designing training workshops or undertaking value-adding projects. Third, store managers are required to demonstrate values-led leadership (see sub-section 5.1.4). The core leadership capabilities are collaboration, empathy, responsiveness, resilience, and innovation. In combination, then, *“a store manager's job is about three things: it's about improving the business for customers, it's about taking people with you, and it's about living the values”* (Store Director A: 1585-1587).

#### **5.2.4.2 Store Director**

At management level 3, store directors are responsible for guiding and monitoring the operation of up to a maximum of twenty-five stores within a geographically dispersed workgroup. First and foremost, the role entails setting a workgroup vision and strategy and then coaching and supporting store managers to translate that vision and strategy into workable actions. Store directors are also required to create store-specific

strategies that will align store managers with Grocer's core purpose and/or exploit different store characteristics. To support this strategizing and quest for value-adding ideas, store directors are expected to have an appropriate network of internal and external professional contacts, and be able to detect 'future talent' for promotion. In this regard, the store director's role is largely *"defined as being more about the medium- and long-term strategy"* (Store Director B: 492-493), than immersion in day-to-day tasks. This differentiates the store director's role from the role of a store manager.

The management of day-to-day tasks and performance issues is delegated to a number of group support managers. For the most part, each group support manager is assigned ownership of a particular BSC measure or BSC quadrant and given the responsibility of liaising on behalf of the store director with store managers (this point is elaborated below). In combination, then, *"a director's job is about setting the strategy and vision, it's about being a connected leader, it's about developing talent for the future, and it's about delivering excellent results"* (Store Director A: 1587-1590). The quotation below indicates that the success of a store director as judged by others is, however, determined solely on the basis of this latter criterion—that is, delivering excellent results.

*"My measures of success are a collection of my store managers' measures of success...I'm seen as doing a great job if my store managers' [BSC] all add up together to make a good [BSC] for me."* (Store Director A: 1602-1610)

### **5.2.4.3 Group Support Managers**

As noted, the store director is supported by a number of group support managers. These include, for instance, the group loss manager, the group change coach, and the group online shopping manager. These positions are usually filled by experienced store managers who have consistently exceeded performance expectations (management level 4), but are occasionally offered to deputy store managers who have been 'talent-spotted' by the store director (management level 5). In other words, group support managers are responsible for overseeing the day-to-day performance of store managers who are situated at the same or a higher work level to themselves. The group support roles involve coaching and advising some or all of the store managers within

a workgroup on a particular aspect their BSC performance. Whilst the group support roles are described here to orient the reader, Grocer's BSC is considered in detail in sub-section 5.3.1.

The group loss manager is associated with the financial quadrant of Grocer's BSC. The group loss manager is responsible for reducing the monetary overspend across all stores in his/her workgroup on two financial performance measures—unknown product losses and product wastage. The group change coach is assigned ownership of the customer quadrant of the BSC, and is responsible for changing the customer service ethos across all stores in his/her workgroup from functional (unemotional and machinelike) to experiential (emotional and personalised). The group online shopping manager is responsible for improving the results of one operational performance measure—product availability. Because not all stores have the capacity to fulfil online shopping orders, the group online shopping manager usually oversees the performance of stores in two workgroups. The group support team are also required to participate in workgroup activities and demonstrate values-led leadership, as per the broader responsibilities of store managers.

Having outlined Grocer's middle-management roles, sub-section 5.2.5 considers the nature and rate of intra-organisational mobility, which was theorised as a potential contingency in Chapter 3. Sub-section 5.2.5 outlines the intended and actual enactment of organisational policies about intra-organisational mobility, as well as managers' interpretations of these policies, as a precursor to understanding the extent to which intra-organisational mobility is implicated in the inter-temporal decision-making process.

## **5.2.5 Intra-organisational Mobility**

There is a high degree of intra-organisational mobility within Grocer. The main types of intra-organisational mobility are internal-lateral and internal-upward mobility (Nicholson and West, 1988). Internal-lateral mobility takes the form of secondments and job rotation. Secondments are used to cover temporary projects, placements, maternity leave, and so on, and are intended to last for a maximum of eighteen months. However, in exceptional circumstances, the secondment can be extended. At the end of the secondment, the manager either returns to their original role or transfers to another role. Secondment opportunities are offered to managers who consistently

exceed performance expectations in their quarter-end reviews (for a description of the formal reward system, see sub-section 5.3.4.1). A secondment supports the manager's professional development and is a prerequisite for internal-upward mobility.

The group loss and group change coach roles outlined above are secondments. Because of deteriorating corporate performance, the group loss role was established as part of a project to reduce the £130 million overspend which had accrued across all formats on unknown product losses and product wastage. The two group loss managers interviewed have held the role since its inception in April 2014 (i.e., roughly seven months).<sup>59</sup> The group change coach role was established as part of a project to enhance the customer shopping experience across all formats. Group change coach A has held the role since its inception in January 2013, while group change coach B has held the role for roughly seven months. For both the group loss and group change coach roles, there is uncertainty surrounding the length of the secondment. The following quotations capture this uncertainty:

*“My role is a secondment role. There is uncertainty around the future of the role.”* (Group Change Coach A: 763-764)

*“The truth is we don't know how long this role is going to last.”* (Group Change Coach B: 1036-1037)

*“I don't know how long this role will continue.”* (Group Loss Manager A: 778)

At Grocer, secondments are also known as placements. Placements provide an opportunity for the manager to gain the essential skills and experiences for internal-upward mobility. They are intended to last for a minimum of twelve weeks and involve repositioning the manager into a different workplace setting. For instance, aspiring store managers are moved to a different store to the one in which they currently work as a deputy store manager for their placement. If the placement is deemed to have gone well, the manager is promoted into the role sought; this is nearly always the case because a rigorous selection process precedes the placement. In this instance, it is conventional for the manager to stay in the placement setting for a

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<sup>59</sup> The interview with group loss manager B took place in October 2014 and the interview with group loss manager A took place in November 2014 (see Appendix 10.5).

minimum for eighteen months. The following quotation illustrates the intention underpinning this process.

*“I wouldn’t want a placement store manager going into a store to do a placement. Ideally, if I’m going to place a store manager in a placement then it will be because they are going to stay in that shop.”* (Store Director A: 1875-1877)

But, this intention is not always explained to the manager at the start of the placement: *“I didn’t know I was going to stay in the store is the first thing, so I thought it was a short-term thing”* (Store Manager A6: 980-981). The inter-temporal decision-making implications of the use of secondments by Grocer are discussed in sub-section 6.1.3 and sub-section 7.2.4.

There are often internal-lateral transfers of store managers among stores within and between workgroups. Lateral transfers afford store managers an opportunity to learn new skills, try something different, and avoid complacency. As one store manager remarks: *“You do have a code life as a store manager in any store”* (Store Manager B9: 1919-1920). Company policy dictates that store managers remain in one store for a minimum of eighteen months so that like-for-like comparisons of the manager’s performance can be made in the second year. It is upheld that more frequent lateral transfers will threaten to destabilise the day-to-day functioning of stores. The following quotation thus outlines the minimum, maximum, and optimum timescale for internal-lateral transfers.

*“For store managers, eighteen months is the minimum amount of time that you can do in a shop before you have a move. And, we wouldn’t really allow you to stay in a store for longer than five years. The optimum time for store managers is about two and a half to four years.”* (Store Director A: 1840-1843)

However, the guidelines for internal-lateral transfers are not always adhered to: *“The lifespan of being in a shop is about eighteen months, which I’ve never got to do”* (Store Manager A2: 1419-1420). As implied in the preceding discussion, store managers have prior knowledge about internal-lateral transfers and so often anticipate a move (illustrated in the first quotation below). In fact, career discussions about internal-lateral transfers are occasionally initiated by the store manager during their formal performance evaluation meeting (illustrated in the second quotation below).

*“I’m literally just coming up to being here for three years, which is quite a long time for a store manager to stay in situ. So, it’s normally around two years and then the bell of change can ring at any point and up and off we go then onto the next setting.”* (Store Manager B6: 43-46)

*“I got appointed into [GroB store] but I’d already been in the shop for six or seven months. And, I was told right, you’ve got to do two years in your shop now. And, I was like, I don’t want to do two years...So, in my review, one of my reviews, I said: look, I need to move.”* (Group Loss Manager B: 2244-2251)<sup>60</sup>

Internal-lateral transfers often support the store manager’s career progression. If the store manager is performing notably well, relative to their colleagues, they will likely be moved to a store with a higher band number within the workgroup. This helps the manager to expand their repertoire of skills and is coupled with the chance to develop a reputation for consistently exceeding performance expectations. If the manager consistently exceeds performance expectations in their quarter-end reviews, they will likely be moved up the format scale—for instance, from the GroB format to the GroA format. Of course, the reverse scenario can also prevail but with the added possibility of dismissal. The next section elaborates Grocer’s reward/penalty system.

Store directors face similar trends in intra-organisational mobility. Organisational policies suggest that the optimum amount of time for a store director to oversee a particular workgroup is two and a half to four years; reasons are analogous to those outlined above. But, again, these promulgated timescales are not always adhered to. For example, GroA’s store director changes frequently—*“it’s even something as silly as eight in five years”* (Store Director A: 1804). The frequent movement (of either oneself or one’s superior) influences time horizons and the prevalence of inter-temporal trade-off decisions, which is discussed in sub-section 6.1.3 and sub-section 7.2.4 respectively. Having described a number of relevant contextual factors, attention now turns to the formal and informal management control systems in place at Grocer.

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<sup>60</sup> In this quotation, group loss manager B is speaking retrospectively about his experience as a store manager.

## **5.3 Formal and Informal Management Controls and Their Interactions**

This section unpicks Grocer’s formal and informal management controls, as well as managers’ interpretations of these controls. Understanding the different signals sent by Grocer’s management controls, and how managers receive and interpret these, is a precursor to understanding the inter-temporal decision-making process. The section first describes Grocer’s performance measurement system, including its purpose, design, and mechanics, as a precursor to outlining the nature of the relationship between performance measures and short-termism in Chapter 7. The extent to which the performance information is made publicly available is then considered.<sup>61</sup> To set the scene for further exploring the extent of the relationship between performance measures and short-termism, the section also describes Grocer’s old and new formal performance evaluation system, informal performance evaluation system, and the present-day tensions between them. The section concludes by outlining the formal and informal performance-based incentive systems in place. Together, the section provides a descriptive overview of the performance measurement system, and how the performance information is disseminated and used to evaluate and reward managers.

The first sub-section draws upon the analysis of internal company documents (document groups 6, 10 and 11; see Appendix 10.9), observed meetings (meeting numbers 1 to 10; see Appendix 10.8), and interview data (interview questions 9, 13 and 13a with codes 2.1, 2.2, 2.3, 2.4, 2.7, 2.8, and 2.14 used; see Appendix 10.7 and 10.10).

### **5.3.1 Performance Measurement System**

Grocer implemented what they describe as a BSC in the late 1990s, with the intent of making managers aware of the various dimensions of their role and to encourage a ‘balanced’ performance. Grocer’s BSC has five quadrants—community, customer, people, operational, and financial. The quadrants comprise performance measures that

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<sup>61</sup> In this thesis, ‘publicly available’ denotes that the performance information is available for a manager’s colleagues to view within the organisation.

are quantitative in nature. Grocer’s philosophy is that, if managers look after customers (community and customer quadrants) and stores operate efficiently and effectively (people and operational quadrants), then sales and profits will grow (financial quadrant). Figure 5.2 shows an outline of Grocer’s BSC and the weighting of performance measures (i.e., 20 performance measures that are each weighted 5%).

**Figure 5.2:** Grocer’s BSC

	<b>Number of Performance Measures</b>	<b>Individual Performance Measure Weighting</b>	<b>Quadrant Weighting</b>
<b>Financial</b> Sales, payroll, expenses, product wastage, unknown product losses	5	5%	25%
<b>Operational</b> Audits, product availability, pricing errors, stock record accuracy	4	5%	20%
<b>People</b> Employee satisfaction, training, absence, right hours in the right place	4	5%	20%
<b>Customer</b> Customer satisfaction (quality of products, customer service, product availability), queue length, loyalty	5	5%	25%
<b>Community</b> Charity collection, customer knowledge about charity involvement	2	5%	10%
<b>Total</b>	20	5%	100%

Beneath this frontage, however, lay many more performance measures that contribute to the achievement of a particular ‘surface-level’ BSC measure. For example, the financial performance measure of expenses is a composite of items including, but not limited to, the amount spent on carrier bags, staff uniforms, and quality refunds. Another example is audits, which are itemised into cash audits, price integrity audits, stock audits, and safe and legal audits. Thus: “*The [BSC] may well have twenty items on it but, beneath that, there’s another forty items. So, what are we measuring then? The forty or the twenty?*” (Store Manager A4: 2001-2003). Eight of

the thirty respondents explicitly emphasise that Grocer is measuring too many things. The consequence of this is discussed in sub-section 7.1.3.

Grocer's Head Office determines the target for each performance measure, which is subsequently cascaded to Grocer's management to achieve. There is a red, amber, green, and blue target zone for each measure of performance.<sup>62</sup> Targets set for some of the performance measures are store specific and influenced by store size, age, and past performance (e.g., sales and product wastage), whilst others are generic (e.g., customer and employee satisfaction). This target setting process is non-participative. Grocer's Head Office reviews the sales target for each store at least twice a year, with revisions having a proportional effect on cost targets. That is, as illustrated by the quotation below, each of the cost targets (payroll, expenses, product wastage, and unknown product losses) are calculated as a percentage of the budgeted sales performance.

*"If, for instance, you're missing your sales budget, then it will be lowered, which thus lowers your payroll, your waste, your [unknown product losses], and your expenses... So, they stay the same percentage of sales, but if the sales budget is lowered, then the cost line budgets become lower as well."* (Store Manager B8: 926-949)

Actual sales results are compared against the budget and, if the variance is greater than or equal to three percent, a volume rule linked to payroll is triggered. If the manager over/under achieves their sales budget in one week by three percent or more, his/her payroll budget will increase/decrease by the sales variance multiplied by 3.75% in the following week.<sup>63</sup> This volume rule is coupled with the sanctioned practice of offsetting cost targets. That is, managers can compensate for an overspend on one cost target (e.g., unknown product losses) by underspending on another (e.g., payroll, expenses, and/or product wastage) to sustain an acceptable profit margin. This *"robbing Peter to pay Paul"* (Group Change Coach B: 548) practice is implemented at either store-level or workgroup-level. An illustrative quotation of store-level

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<sup>62</sup> Red represents significant underperformance, amber represents marginal underperformance, green represents performance that should be maintained, and blue represents significant over performance.

<sup>63</sup> For example, if the sales budget is £1,000,000 for one week, but actual results are £1,040,000 there is a £40,000 favourable variance. Because this variance is four percent of budgeted sales, the volume rule is triggered. Therefore, £1,500 (£40,000 x 3.75%) is added to the payroll budget in the following week.

offsetting is given below. Different offsetting scenarios can prevail, but payroll is usually sacrificed. Payroll budgets comprise a store's aggregate contracted hours and an overtime allowance, thus overtime requests to cover holidays and absenteeism can simply be refused to achieve below-target performance.

*“So, let's just say that my store wasn't operating within the budgets that were decided for waste, and I kind of knew that in a set period I was going to overspend by a certain amount of money, then I might think actually just to balance it when I go into my review with my boss I'd say actually I'm overspending waste by x amount and therefore going to underspend on another cost line by x amount just to balance my books.”* (Store Manager B6: 194-200)

Ten of the managers are critical of this practice, noting that it may cause more harm than good because the relationship between most of the performance measures is characterised by interdependence (see below). It is of note that the practice of offsetting cost targets, as well as the volume rule outlined above, were phased out during the latter stages of this investigation.<sup>64</sup> At the same time as this phasing out, each store's payroll, product wastage, and unknown product losses budgets were increased. As indicated in the quotation below, prior to the budgetary increase, the targets for payroll, product wastage, and unknown product losses were deemed too tight.

*“I'd liken it to a noose, really. It was to the point where it was choking us. That's how it was. So, there was no movement, there was no manoeuvre, there was no freedom. Silly decisions were being made because you were under that much pressure.”* (Store Director B: 1114-1117)

For illustrative purposes, during the last quarter of 2014/15, store director A's waste budget was increased by approximately £300,000 for the twelve-week period. This was broken down into weekly amounts to be apportioned between the eighteen stores in the workgroup. The average amount received per week by each GroA store was £1,400. But, in keeping with the target setting process outlined above, the amount of money actually allocated to each store was based on store size and past

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<sup>64</sup> The practice of offsetting cost targets was stopped in December 2014 (after seventeen interviews were conducted) and the volume rule was removed in February 2015 (after twenty-four interviews were conducted).

performance. The larger stores and/or stores that were repeatedly underperforming on product wastage in the workgroup received an above-average allocation, and vice-versa. The same allocation procedure was used for increases in the unknown product losses budget.

Regarding payroll, however, the budgetary increase allocated to each store within a workgroup was based upon the store's productivity index (measured by sales per labour hour worked). It was noted in sub-section 5.1.5 that, as soon as Grocer's sales started falling, senior management begun cutting payroll budgets. This was to such an extent that *"we'd cut so much fat out of the business and we were now cutting into the bone"* (Group Change Coach A: 1144-1145). Consequently, most stores had a productivity index that was deemed too high (see second quotation below). Stores that had the highest productivity index received a larger share of the total amount of money to be apportioned between stores in a workgroup (see first quotation below).

*"My store had four hundred hours put back in, which is a substantial amount. It equates to three and a half thousand pounds worth of payroll a week. So, effectively, I was running my store three and a half thousand pounds worth of payroll short every week."* (Store Manager B8: 344-347)

*"The productivity index of stores was around about one hundred and sixteen when I joined this group, as an average. A good operating PI for a store of this size, to run efficiently on, is about one hundred and three, one hundred and four. And so, we've ran our business between one hundred six and one hundred and sixteen for the last five or six years."* (Store Director A: 669-673)

The budgetary increases were intended to support Grocer's core purpose and strategy, provide managers the freedom and opportunity to perform the various dimensions of their role, and encourage performance that was consistent with the original purpose of the BSC (see below). How (and if at all) the extra budgetary funds were utilised in store was, however, at the discretion of the particular manager.<sup>65</sup>

Except for unknown product losses and employee satisfaction, which are monitored on a six-monthly basis, all BSC performance measure results are available daily or weekly.<sup>66</sup> For instance, queue length (monitored via thermal imaging cameras) is measured every fifteen minutes and summed into morning, afternoon, and

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<sup>65</sup> This issue shall be returned to in sub-section 6.2.1.

<sup>66</sup> The anomalies are stores that consistently miss the unknown product losses target and are thus measured on a twelve-weekly basis.

evening figures each day. Sales and product wastage are similarly updated throughout the day to produce a day-end result. In this regard, Grocer increased the reporting frequency on some of the performance measures during the investigation. Specifically, prior to November 2014, customer satisfaction (with quality of products, customer service, and product availability) and customer knowledge about charity involvement were measured via a questionnaire survey administered to one hundred customers in store once a month. Because this was deemed to capture only a snapshot view of a store's service quality and performance, the system was changed so that managers can *"get live information every single day"* (Store Manager A1: 1150). Thus, from November 2014 onwards, all customers can complete a satisfaction questionnaire via the internet or telephone. The feedback is immediately available for the manager to review.

Many of the managers hold a positive view about the frequency of measurement, so much so that two managers suggest that employee satisfaction should be measured more frequently: *"I think we should do it every three months"* (Group Loss Manager B: 1672-1673). More frequent monitoring *"maintains the focus on them"* and provides *"information that I can then discuss with the team"* (Store Manager A9: 966-986). Reference is continually made to the performance measure results in the 'Daily Meeting' and 'Process Meeting' each day and then in the 'Store Meeting' and 'Senior Meeting' each week (see Appendix 10.9). The quotation below suggests that these discussions support performance and the cumulative nature of achievement at Grocer.

*"That's almost daily that you keep those on the agenda and are measured daily, report into the [BSC] weekly...It's just an escalation: it's weekly, then four weekly, and then we have a formal review after every quarter."* (Store Manager A8: 159-162)

As noted at the beginning of this sub-section, the intended purpose of the BSC is to encourage a balanced performance. At Grocer, as summarised in the quotation below, a balanced performance has two dimensions. The first dimension concerns a balanced view across performance measures so that no one performance measure is considered more important than the others. Supporting this notion is the equal weighting assigned to each of the BSC measures (see Figure 5.2). The second dimension concerns a balanced performance on each BSC measure. That is, above-

target performance is to be scrutinised in a manner similar to below-target performance.

*“The [BSC] was introduced with a view that we should take a very balanced view. No one measure was more important than the other was the original brief. And, a blue light was as bad as a red light.” (Store Director A: 1152-1155)*

The motivation for advocating this balanced approach to performance is to protect against trade-offs that can occur due to the various interdependencies between the measures within and between each of the BSC quadrants. For instance, the quotation below shows that the relationship between queue length and customer satisfaction (service) is moderated by the amount of payroll. The quotation below also exemplifies that managers are aware of this relationship and the possibility of trade-offs, which is discussed further in the next chapter.

*“Our target for [queue length] is seven point five fail. You can get up to about ten percent fail and the customers don’t recognise any material difference in the service. As soon as you get above ten percent, the customers start to feel that the service is less good. So, I suppose, there’s no point delivering a five percent [queue length] costing yourself one hundred thousand pound a year and you know realistically you can spend that sort of money quite easily on that overachievement, when there’s no real benefit for the customer.” (Store Manager A8: 136-143)*

In this regard, nearly all BSC measures have a non-linear payoff relationship with payroll. For instance, overspending payroll can improve product availability as more employees are available for shelf-stacking, but to a point that does not generate enough extra sales to improve Grocer’s financial performance. But, at the same time, and as the quotation below notes, an above-target sales performance can temporarily compromise the customer and employee quadrants because cost budgets are only realigned twice a year and there is a delay of one week for the payroll volume to take effect. The removal of the volume rule is disadvantageous in this instance.

*“If I’ve got sales going through the till of one point five million and I’m budgeted for one point two, then very quickly my frontend service is going to go off-kilter, my absence will potentially go off-kilter because colleagues are*

*under stress and I need some more payroll hours.” (Store Director A: 1172-1176)*

There are also potential inverse relationships between some of the performance measures. For example, “[*Unknown product losses*] is a measure of what you lose, what’s not recorded. Waste is a measure of what’s recorded. If you don’t record your waste, it becomes [*unknown product losses*]” (Store Manager B5: 1024-1025). Here, inaccurate recording can affect the automated re-ordering system and thus product availability and sales. This example is returned to in sub-section 6.2.2, when short-termism is explored in detail. For the group support managers, who are held accountable for only certain performance measures, these interdependencies are challenging. The extent to which both dimensions to having a balanced performance are (sometimes strongly) dissuaded at Grocer is addressed, with reference to the third research question, in Section 7.1.

As indicated, adhering to the controllability principle—only factors under the manager’s control should be considered when his/her performance is evaluated (Choudhury, 1986)—is not unproblematic at Grocer. Control typically falls between the two extremes of the continuum (i.e., full control or no control), insofar as nearly all of the managers interviewed acknowledged having only partial control over the achievement of several BSC performance measures. For instance, sales are affected by multiple uncontrollable economic (e.g., customer demand) and competitive (e.g., proximity to other stores) factors. The two quotations below illustrate this latter point can relate to proximity to other Grocer stores as well as non-Grocer stores.

*“Two big [GroA stores] have opened within a three mile radius of this store— [GroA store] and [GroA store]. So, the store which used to take about one point one million now takes probably on average about six twenty.” (Store Manager A5: 59-61)*

*“We have [Competitor A] at the end of the road, [Competitor B] at the end of the road. You know, we have all these things that have kind of come into play— [Competitor C] at the end of the road. All those things will affect our sales. I’ve got [Competitor D] opening now week fourteen next year, which will affect our sales.” (Store Manager B4: 1476-1480)*

Further examples of performance measures that are affected by occurrences partly outside of the manager’s control include: (1) internal and external theft

affecting unknown product losses; (2) late deliveries affecting product availability and customer satisfaction; and (3) the delivery of damaged products or spoiled food affecting product wastage. A degree of product wastage also stems from Head Office interventions. Specifically, as the quotation below states, the commercial teams at Grocer's Head Office often require store managers to sell particular food and drink ranges that are inappropriate for some stores.

*“A lot of our wastage issues come from fresh foods, which is generated by the commercial directors, the commercial teams, trying new things to sell products and making us range things that we know won't sell. So, a lot of waste is out of our control in terms of the pound note because we are given stuff—I don't ask for stuff, I'm sent it.”* (Store Manager B3: 1758-1763)

But, managers can take actions to try to counter the impact that these partially uncontrollable factors have on the performance measures. To use a simple example, when sales start to fall, a manager is expected to authorise local promotions and tailor their product range to render their store more appealing for shopping. Along these lines, managers are buffered only from factors for which they have no control.<sup>67</sup> The archetypal example of this is above-target absence caused by long-term health problems. In this instance, a manager is only held accountable for sporadic absenteeism. Having outlined Grocer's performance measurement system, sub-section 5.3.2 considers the extent to which this performance information is made publicly available. Relative performance information was theorised to complicate the relationship between performance measures and short-termism, which is explored in Section 7.2. The information presented below draws upon the analysis of internal company documents (document group 11; see Appendix 10.9) and interview data (interview question 14 with codes 3.1, 3.2, and 3.3 used; see Appendix 10.7 and 10.10).

### **5.3.2 Relative Performance Information**

Grocer provides relative performance information to managers via league tables, which draw attention to the relevant domains for comparison and make salient the

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<sup>67</sup> Respecting the controllability principle in this strict sense occurred from the summer of 2013 onwards (see sub-section 5.3.3).

individuals with whom to compare. The league tables that are prepared and electronically disseminated show the manager's relative performance rank versus other managers within their workgroup on each of the financial and non-financial measures in the BSC. Information about the manager's absolute performance on each of the financial and non-financial measures is also provided. The diffusion of relative performance information is, to some extent, public (i.e., the manager's relative performance is known by that manager and all workgroup colleagues) as opposed to private (i.e., the manager's relative performance is known only by that manager and their superior). The release of this information largely concurs with the frequency with which each of the BSC measures are assessed.

The league tables are used to emphasise performance differences between workgroup members. This fosters a competitive workgroup environment and primes differential thinking. It is often the case that managers compete for informal rewards—for example, performance pride and social recognition—by trying to outperform their workgroup colleagues on these mutually important performance dimensions. Of course, this is a double-edged sword; outperformed managers incur the penalty of “*public humiliation*” (Store Director A: 159). Consequently, topping the league tables provides only a temporary reprieve: “*It was like, you know, we're the top now. We can't drop below the top*” (Group Online Shopping Manager: 1720). These pleasant and unpleasant social experiences are exacerbated by the common practice of judging a workgroup member's capability by their relative performance rank (see quotations below). This is due, in part, to the lack of shared information about how each manager's financial and non-financial results are influenced by store characteristics and/or uncontrollable factors. The store director and his/her group support team are privy to such information.

*“When I first became a store manager, you judged a shop on its lights. Now, I don't because you don't know what's happening within that shop unless you're in it. So, doing a group role, and spending some time in each shop, you have empathy for why they're offline.”* (Group Change Coach B: 1251-1254)

*“I don't think there's one store manager on the group that doesn't check everybody's shop out because those green lights and red lights are still what we judge ourselves on.”* (Group Loss Manager B: 677-679)

The peer competition induced by the dissemination of relative performance information is believed to be motivational and have a positive impact on effort exerted, as suggested by the following two quotations.

*“There is a little bit of purposeful injection of competition there. Everybody wants to be number one. Nobody wants to be number sixteen, seventeen, or eighteen.”* (Group Change Coach A: 927-929)

*“Sometimes you need it to give a bit of competition because if somebody’s really red, or just amber and nearly green, and they see that their mate down the road is better it gives them a bit of motivation to try a bit harder.”* (Group Online Shopping Manager: 1508-1510)

Several managers note the informational benefits of relative performance information. For the store director and his/her group support team, the league tables help them to determine where to direct their attention. In the first instance, this involves identifying the store managers with weak relative performance (see second quotation below). Weak relative performance is synonymous with being in the lower quartile of a particular league table. Managers positioned in the lower quartile receive appropriate remedial support and/or are subject to the continual review of progress through regular and informal discussions (see first quotation below; see also subsection 5.3.3.3). The purpose of this is to cause performance to converge so that total workgroup performance is on-target or above-target. Because of raising the workgroup’s average performance, the store director and his/her group support team will, in turn, improve their absolute and relative performance.

*“If you were in that bottom quartile, you’d be receiving more attention than if you were in the middle or at the top.”* (Store Manager A10: 1774-1776)

*“I can show you a leader board now on service and it helps me certainly go: right, where is everyone at? How do you rank? How do you fair against the others?”* (Store Director B: 422-424)

Store managers are provided with similar management control benefits. Relative performance information helps store managers decide how to direct their in-store efforts. Weak relative performance on one or more financial and/or non-financial measure indicates the need for improvement in that area, even if absolute performance is on-target or above-target. Regarding below-target performance, the league tables

also highlight whether underperformance is a store-specific issue or a broader workgroup problem. Because of this, relative performance information forms the basis of discussions in management meetings. Reference is made to relative performance information in each of the management meetings observed (see Appendix 10.8 for the meetings observed).

To a degree, all the managers interviewed use the relative performance information for self-evaluation purposes. The information is used by the manager as an external benchmark against which to evaluate their abilities and performance. This is consistent with the social psychology literature, which suggests that the underlying motive that drives individuals to socially compare with others is self-evaluation (see Festinger, 1954). It should be noted that the inclusion of relative performance information in the formal performance evaluation system (see sub-section 5.3.3.2) and its association with the formal reward/penalty system (see sub-section 5.3.4.1), substantiates the manager's inclination to self-evaluate and perceive their abilities and performance as better (and not worse) than others. Some of the managers specifically compare themselves to a workgroup colleague who is performing better on a financial and/or non-financial BSC measure. As indicated in the quotation below, here the manager assimilates ('that person could be me') with an upward target to try to enhance their current performance. This behaviour is also consistent with the social psychology literature, which suggests that social comparisons can serve a self-improvement function (see Wood, 1989; Collins, 1996).

*"You look at their [BSC] and you go: how have they only got one red light? So, you would go: I need to be better."* (Group Loss Manager B: 1830-1831)

Nine of the twenty-three store managers are explicitly critical of the dissemination of relative performance information. This is discussed in sub-section 7.2.1 but, in essence, the league tables are seen to encourage uncooperative and impulsive behaviour that influences inter-temporal decision-making. In the next sub-section, attention turns to Grocer's performance evaluation systems.

### **5.3.3 Performance Evaluations**

Organisational policy of senior managers at Grocer dictates that superiors (store directors) conduct formal performance evaluations of their subordinates (store managers and group support managers) at the end of each quarter. Of late, the content of the formal performance evaluations has changed from a retrospective review, based solely on BSC performance, to a review that encompasses broader sources of information regarding the subordinate's overall performance over the evaluation period and projections about future performance. But, as will be described below, reviews based solely on BSC performance have not entirely been dispelled. Informal reviews of a subordinate's BSC performance still take place as and when the superior deems it necessary. It is of note that the mechanics of Grocer's informal performance evaluation system often conflict with, rather than complement, the formalised system. Grocer's old and new formal performance evaluation system, informal performance evaluation system, and the present-day tensions between them are described in the remainder of this sub-section. The inter-temporal decision-making implications of the performance evaluation systems in place are discussed in sub-section 7.2.2. The information presented in this sub-section draws upon the analysis of internal company documents (document groups 2, 3, and 5; see Appendix 10.9) and interview data (interview questions 15 and 15a with codes 2.16, 2.17, 2.18, and 2.20 used; see Appendix 10.7 and 10.10).

#### **5.3.3.1 Formal Performance Evaluations: Only BSC Measures**

Prior to the summer of 2013, the superior appraised the subordinate's performance solely in relation to results-oriented information. The superior used the results-oriented information as a device for undertaking a recriminatory post-mortem of the subordinate's performance during the period in question. These formal discussions were supposed to be carried out at the end of each quarter but, due to resource constraints, normally occurred semi-annually. The subordinate was deemed to be performing below-target or above-target as per the red, amber, green, and blue target zone for each measure of performance (see sub-section 5.3.1). Discussions about below-target performance were often framed in an accusatory manner by the superior,

and the subordinate was not usually afforded an opportunity to provide explanatory performance-related information in defence of his/her underperformance. One subordinate metaphorically described it as: *“It was all about either your [BSC] was right or not and that was reflective of how well you did your job regardless of whatever get out of jail free card you might have had within that [BSC]”* (Store Manager B6: 1425-1427). Regarding below-target performance, the superior and subordinate would jointly discuss possible remedial actions for the subordinate to pursue during the forthcoming three- to six-month period. Above-target performance was congratulated and accepted at face value. These points are illustrated in the quotations below.

*“We’ve always been previously: There’s your [BSC]. Why are you red on that? Well done for that. You know, it was always around the [BSC].”* (Store Manager B2: 1955-1957)

*“All reviews used to be based on the [BSC]. So, you’d come and meet your store director with your [BSC] and you’d go around the [BSC] and he’d write, I don’t know, how well you’re doing, pick out some good stuff, pick out some bad stuff, some next steps to go away and do and that would be your review.”* (Group Loss Manager B: 621-625)

The mechanics of this system were that the ‘traffic lights’ mapped onto a four-point scale: a red scored one point, an amber scored two points, a green scored three points, and a blue scored four points. The points that the subordinate accumulated for each performance measure within a BSC quadrant were totalled to give an overall quadrant score and associated ‘traffic light’ colour. The score for each of the five quadrants were then appropriately weighted (see Figure 5.2) to give the subordinate’s total BSC score and ‘traffic light’ colour for the period in question. As implied by the following quotations, this total BSC performance was the sole basis upon which the subordinate was appraised.

*“You already knew what you were coming out with before you went in regardless of what you felt about it.”* (Store Manager B6: 1881-1882)

*“You’d come in, ten minutes, if you’re a green [BSC], no problem, you had a ten-minute chat with him about your [BSC] and you’d go away with a green light.”* (Group Change Coach B: 1794-1796)

Several respondents note the consequence of this performance evaluation system: “*The [BSC] just became everything, achieving the measures became everything*” (Store Manager A11: 1079-1080). Because neither store characteristics nor uncontrollable factors were considered as reasons for above-target or below-target performance, evaluation-based inequities also prevailed. These consequences and concerns led to the view that the organisation should take a broader perspective on evaluating subordinate’s performance. That is, senior management acknowledged that qualitative issues, such as leadership skills and personal development, which were not entirely amenable to quantification, were equally as important to Grocer’s longevity. Consequently, the ‘Only BSC Measures’ performance evaluation system was supplanted by ‘Inspirational Performers’.

### **5.3.3.2 Formal Performance Evaluations: Inspirational Performers**

In the summer of 2013, Grocer introduced an evaluative process termed ‘Inspirational Performers’ with the aim of “*inspiring each and every one of us to play our part and to make what matters better, together*” (Internal Company Documents, Group 2).<sup>68</sup> Inspirational Performers entails a five-stage framework, which is designed to cohere with Grocer’s core purpose and help the particular subordinate enact their part in driving the business forward. The framework is organised around three introspective stages which, in turn, link to an outcome stage and then a developmental stage. The introspective stages include: (1) the ‘why?’ stage, wherein the subordinate is required to understand the role that they play in delivering Grocer’s core purpose and strategy; (2) the ‘what?’ stage, wherein the subordinate is required to be familiar with the various performance dimensions and expectations associated with the role that they hold within Grocer; and (3) the ‘how?’ stage, wherein the subordinate is required to understand and utilise the appropriate leadership and/or operational skills to meet those performance expectations. When the particular subordinate understands ‘why’ they are performing a specific task or making a specific decision, ‘what’ they need to achieve, and ‘how’ they can achieve the best results, the fourth performance stage of

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<sup>68</sup> Whilst ‘Inspirational Performers’ is a pseudonym, it is in keeping with Grocer’s intended theme.

‘measurement success’ is believed to follow. The final stage of Inspirational Performers is termed ‘grow’, wherein the subordinate outlines what they need to do to keep learning and improving both personally and professionally.

Superimposing the performance evaluation system with this five-stage framework means that the agenda for the appraisal of subordinates is reframed insofar as the superior focuses not only on what the subordinate has achieved during the period in question, but also how s/he has achieved it. As store director B notes: *“It explores more about how you go about your job, why you do what you do, rather than just a set of numbers”* (Store Director B: 1221-1223). In this regard, a subordinate’s BSC performance is now judged alongside their ability to implement business plans, maintain store standards, and demonstrate values-led leadership.

Subordinates are provided with an eighteen-page ‘Inspirational Performers: Performance and Development Pack’ at the beginning of each financial year and are required to prepare a retrospective narrative on ‘what’ they have achieved, ‘how’ they have utilised the appropriate leadership and/or operational skills to achieve those results, and any performance ‘concerns’ experienced during the period in question. Company policy prescribes that the ‘what’ (elements of performance that can be quantified) and the ‘how’ (elements of performance that are not entirely amenable to quantification) should be assigned equal weighting. By assigning an equal weight, Grocer aims to rectify the performance-based inequities (see first quotation below) and counterproductive behaviour (see second quotation below) associated with the ‘Only BSC Measures’ performance evaluation system.

*“What I think that they recognised is some stores are harder than others and actually it’s easier to achieve a green [BSC] in some stores than others. And so, the whole point of the pack is to prove, well, what are you bringing to the party? So, you’ve got to prove why you’re doing a good job.”* (Store Manager B9: 1459-1463)

*“It gives you the opportunity to talk now at your review, to say, look, I know my [queue length] figure is not green on the [BSC] but we’ve moved from X to Y to Z, and this is the prediction moving forward into the new financial year and it’s sustainable. It’s not an ‘I’ve thrown three thousand pounds a week at it to fix the number’. So, we’ve got the opportunity to show the leadership element as well as the number.”* (Group Change Coach A: 1438-1443)

Based on this retrospective account, the subordinate is asked to ‘objectively conclude’ how they feel they have performed during the period and rate the level of their performance using a traffic-light system.<sup>69</sup> By combining this account with information from all possible sources, the superior conducts a 360-degree appraisal of the subordinate’s overall performance during the period in question. The sources of information can include relative performance information, feedback from subordinates, colleagues, and managers, as well as feedback from external sources, such as customers. The superior rates the subordinate’s level of performance using the same traffic-light system. This rating, in turn, influences the rewards ‘earned’ or penalties ‘incurred’ by the subordinate, which is discussed in sub-section 5.3.4.

The final part of Inspirational Performers requires the subordinate to prepare a prospective narrative that outlines clear objectives and appropriate action plans on each of the performance dimensions (i.e., BSC performance, business plans, store standards, and leadership skills) as well as personal goals. All retrospective performance ‘concerns’ are set as an objective to pursue. The subordinate has to delineate how they will go about achieving these objectives, estimate when the objectives will be achieved (usually within a nine-month period), and outline how they can confirm the objectives have been achieved. In conjunction with their superior, the subordinate also prepares a Personal Development Plan that specifies up to three issues that they want to work on that will allow them to move closer to realising their personal and professional objectives. Incidentally, this is at odds with the broader management literature that suggests that conflicts arise when the performance evaluation system is used both to evaluate and develop subordinates (see Murphy and Cleveland, 1995). As Redman and Wilkinson (2009: 179) note, “recording the past and influencing future performance is difficult to achieve in a single process.” This mirrors the inter-temporal tensions documented in sub-section 7.2.2.

As implied, the ‘Inspirational Performers: Performance and Development Pack’ is completed by the subordinate prior to the formal discussion. The discussion is to be, essentially, an open, honest, and meaningful conversation between the superior and subordinate about past performance and projections about future

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<sup>69</sup> Blue is exceptional performance, green is great performance, amber is an opportunity to improve performance, and red is performance that is a priority to address.

performance. Formal performance evaluations occur at the end of each quarter, but are supported by the continual review of progress through regular and informal evaluations. This is discussed in the next sub-section.

### 5.3.3.3 Informal Performance Evaluations

It was noted that reviews based solely on BSC performance have not entirely been dispelled at Grocer. Informal reviews of a subordinate's BSC performance still take place as and when the superior deems it necessary (sometimes daily). As suggested in the following two quotations, more often than not, these reviews occur only when there is below-target performance and/or weak relative performance. It is of note that elements of the subordinate's performance that are not entirely amenable to quantification, such as leadership skills and personal development, do not form part of this informal review. The interaction takes place through face-to-face meetings, telephone conversations, and/or email messages.

*“You wouldn't want to be on a report of not delivering something for more than two or three weeks. You'd want to get yourself into a position where you're delivering—whether that be one of the twenty measures basically—because otherwise you'd get reminders, you'd get prods and pokes, and you'd get questioned.”* (Store Manager B2: 151-156)

*“Most of the calls you get aren't to pat you on the back and say: you know what [Store Manager B9], I just want to congratulate you on what a fantastic job you're doing with your charity collections which are blue for the year and, by the way, why have you overspent waste for the last four weeks and cost me whatever thousand? Very much the calls you get are all about: why is this off-track? And most of the emails you get are: why are you struggling with this? What's going wrong with that?”* (Store Manager B9: 1411-1417)

Several respondents remark that this micromanagement is a form of *“relentless harassment”* (Store Manager A1: 800). The objective and content of these informal reviews is at odds with that promulgated in the Inspirational Performers pack (i.e., the 'what' and the 'how' are equally important). Thus: *“I think there's much more focus on the [BSC] even though it's about inspiring performance...I know store managers will say 'well, I don't even get reviewed on my [BSC]'—yeah, they do*

*because [Store Director B] knows what their [BSC] looks like” (Group Loss Manager B: 1643-1646). Sub-section 5.3.4 considers Grocer’s reward/penalty system.*

### **5.3.4 Reward/Penalty System**

Regarding Grocer, the performance-based incentive system in place affords managers the opportunity to ‘earn’ a number of formal and informal rewards for meeting or exceeding performance expectations. The rewards available are of a monetary (e.g., salary increases and bonuses) and non-monetary (e.g., recognition and job security) nature. The incentive system is also designed to bestow negative rewards for underperformance, hereafter referred to as formal and informal penalties. Whilst the penalties can manifest themselves through an absence of monetary (e.g., not receiving salary increases and bonuses) and non-monetary (e.g., lack of autonomy, chastisement, loss of job) rewards, overt penalties include the public humiliation associated with underperforming relative to one’s colleagues. Grocer’s formal and informal reward/penalty systems are described in the remainder of this sub-section. The inter-temporal decision-making implications of the reward/penalty systems in place are discussed in sub-section 7.2.3. The information presented in this sub-section draws upon information from the public domain (annual reports) and the analysis of interview data (interview questions 16, 16a, and 16b with codes 4.1, 4.2, and 4.4 used; see Appendix 10.7 and 10.10).

#### **5.3.4.1 Formal Reward/Penalty System**

The pay structure at Grocer closely reflects seniority. For instance, the base salary of level 4 managers ranges from £50,000 to £90,000 and the average salary of level 3 managers exceeds £100,000 (2015 figures). Whilst this base salary is an entitlement, the annual cost-of-living adjustment is performance-based. As elucidated by the following quotation, the percent increase in salary awarded is based on the performance rating that the manager receives in his/her year-end evaluation. Note that the baseline cost-of-living adjustment is typically set at two percent of a manager’s salary.

*“If you get a blue you get double the annual pay rise whatever the company decide to give. So, you know, if they give two percent and you’re blue you get four. Green, would be you get the company pay rise. Amber would be you get half the company pay rise and red would be you get no pay rise.”* (Store Manager B2: 2128-2131)

At Grocer, annual bonuses have historically been a significant component of the remuneration package offered to middle-level management. With a monetary value equivalent to approximately forty percent of a manager’s base salary, the bonuses *“became almost life changing”* (Group Change Coach A: 1197). The bonuses were paid partly in cash and partly in shares deferred for three years and were based on the achievement of corporate targets. That is, whether the bonus was paid was contingent upon Grocer’s financial and non-financial performance over a one-year period. Specifically, three bonus scenarios could prevail: (1) no bonus pay-out due to below-target corporate performance; (2) fifty percent bonus pay-out due to on-target corporate performance; or (3) one-hundred percent bonus pay-out due to above-target corporate performance. Because of the deteriorating corporate performance, Grocer has paid modest or no performance-based bonuses for at least five years (as highlighted in the quotation below). Consequently, those who have been positioned at work level four for less than six years have seen no bonus payment since being in their role. The interviewee sample captures seventeen such managers.

*“The bonus scheme stayed the same for my first seven or eight years. And then, as company performance struggled they realised that actually the bonus scheme we were on was becoming meaningless because we were never ever achieving any targets to get a bonus...So, I don’t think we’ve had a bonus for three, four, maybe, yeah, five years I think was the last time we had a bonus.”* (Store Manager B9: 1869-1882)

The felt impact of this monetary loss was tapered for the seventeen newly appointed middle-level managers: *“So, for me, I haven’t had it so I haven’t lost anything yet”* (Store Manager A3: 1785). Nonetheless, in the absence of bonus payments, many of these middle-level managers were disengaged and aggrieved. This sentiment was even more apparent when the manager’s personal performance was on-target or above-target: *“I’ve always been a green performer and there should be some sort of recognition for that”* (Store Manager B8: 116). To incentivise managers to deliver business goals, acknowledge individual contribution and performance, and

continue to attract and retain the ‘right sort’ of managers, Grocer changed the way in which bonuses were to be assigned towards the end of 2014. Bonuses are now awarded on the basis of personal performance and corporate performance so that “*the company can still perform poorly but if you’ve done well you can still get a bonus*” (Store Manager A4: 1842-1843). Grocer’s financial and non-financial performance makes up eighty percent of the maximum bonus available (i.e., forty percent of a manager’s base salary), with the remaining twenty percent being based on the performance rating that the manager receives in his/her year-end evaluation. The form of the bonus payment, the mechanics of the system, and the three bonus scenarios remain as outlined above. Whilst these points are discussed more fully in sub-section 7.2.3, it is worth noting here that some managers considered the size of the likely bonus award to be inconsequential and/or the bonus award would be entirely revoked for 2014/15.<sup>70</sup> This latter point is evidenced by the quotations below.

*“I’ve never had a bonus since I’ve been a store manager because it’s always been debunked and I’m guessing this year’s will be as well.”* (Store Manager A7: 1423-1425)

*“It wouldn’t surprise me if there’s some way they say well actually we just haven’t made the money, you can’t have the bonus that you were entitled to.”* (Store Manager B9: 1880-1882)

Besides monetary rewards, Grocer offers several formal non-monetary rewards for meeting or exceeding performance expectations. One of the most valued non-monetary reward is the prospect of career progression (albeit normally also linked to a base salary increase). GroA store managers are viewed as the most successful level 4 managers, who have a proven legacy and reputation for excellent results. Many GroB store managers aspire to move to the GroA format, but this move is only possible if the manager consistently exceeds performance expectations in his/her quarter-end reviews. Besides this, level 4 managers who are performing notably well relative to their colleagues are also often moved to the ‘broken’ (see quotation below) and/or ‘complex’ stores or offered group team roles.

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<sup>70</sup> If Grocer has below-target performance and the manager has on-target performance the bonus payment to level 4 managers would range from £2,000 to £3,600 and the average bonus payment to level 3 managers would be £4,000.

*“I can remember when I came here most of my [BSC] was red, which wasn’t a nice place to be obviously coming from the best [BSC] in the group to the worst [BSC]. But, I suppose, that was what I was put in here for—you know, because I’d proved I could do it in my last store for two years.” (Store Manager A3: 361-364)*

These sideways career moves are seen to support the manager’s professional development and are a prerequisite for promotion. Regarding penalties, a formal process termed ‘Supporting Your Performance’ (Internal Company Documents, Group 5) is triggered when there is underperformance at the quarter-end review. The three-stage process is designed to operate as follows: (1) within five days of the superior rating the subordinate as an amber or red, as per Inspirational Performers, a meeting will take place wherein remedial actions for the subordinate to pursue during the forthcoming four-week period are agreed. Progress against these agreed performance objectives are reviewed weekly; (2) after the four-week period, the subordinate’s performance is measured and evaluated again, as per Inspirational Performers. Here, subordinates rated green leave the process, subordinates rated amber repeat stage one of the process, and subordinates rated red are invited to a disciplinary hearing; and (3) after another four-week period, the amber subordinate’s performance is measured and evaluated for the final time, as per Inspirational Performers. The subordinate is either rated green with no further action taken or rated red and is invited to a disciplinary hearing. Demotions or dismissals are common outcomes of disciplinary cases.

At Grocer, the performance-based incentive system also affords managers the opportunity to earn informal rewards for meeting or exceeding performance expectations, as well as incur informal penalties for underperformance. The informal reward/penalty system is described below.

#### **5.3.4.2 Informal Reward/Penalty System**

Middle-level managers who meet or exceed performance expectations are afforded more autonomy. For example, these managers are able to carry out the various performance dimensions and expectations associated with their role in a manner that they deem appropriate, without intervention from their superior and his/her group

support team. This is most evident through the exclusion from ongoing and informal reviews of BSC performance, as highlighted in the following quotation:

*“Using [GroB store] as a really good example: they deliver their waste budget, they’ve delivered their [unknown product losses] budget. So, I will go to [GroB store] once every six weeks or so just to catch up with the store manager, have a walk of their shop and, you know, say well done and get out of there really.”* (Group Loss Manager B: 167-171)

As indicated in the above quotation, middle-level managers are praised for good performance. Providing praise and recognition to colleagues or subordinates coheres with Grocer’s ethos: *“Take time to acknowledge and celebrate success when you see it—genuine appreciation and noticing achievement is the simplest way to motivate”* (Internal Company Documents, Group 3). Acknowledging exceptional performance can range from a spontaneous and private ‘well done’ up to a publicised certificate presented to the manager at a workgroup or format meeting. Here relative performance information is tightly coupled to positive (and negative) social recognition. The following quotation suggests that the dissemination of this information means that managers with above-target performance earn so-called ‘bragging rights’, while managers with below-target performance incur public humiliation.

*“Everybody sees this red, or green, or blue, or whatever it is, a colourful [BSC]. And, if you’re green and blue, you’re amazing. If you’re red, then everybody sees that you’re a poor performing manager.”* (Group Online Shopping Manager: 1452-1455)

In this event (as will be discussed in sub-section 7.2.1 and sub-section 7.2.3), managers consider social recognition and condemnation to be as important as the formal rewards and penalties in inducing and directing their inter-temporal efforts.

## **5.4 Summary and Conclusions**

Chapter 5 focused on describing the particularities of Grocer’s context, including unpicking the purpose, design, and mechanics of the management controls in place and managers’ interpretations of these controls. First, the chapter described the

background of the case organisation and outlined the organisation's businesses, strategic priorities, and financial performance observed during the research. An overview of the organisation's hierarchical structure, decentralised control architecture, and policies on intra-organisational mobility then followed. To complete this orientation phase, a description of the organisation's performance measurement system, performance evaluation systems, and reward/penalty systems was provided. The chapter thus proffered contextual information and an underpinning analysis which will inform the subsequent answering of the research questions.

The next two chapters build upon this evidence by presenting and discussing the findings with reference to the study's four research questions. Chapter 6 will consider managers' time horizons (research question 1) and the nature of inter-temporal decisions (research question 2). Chapter 7 will explain inter-temporal decisions that sacrifice the long term for the short term with reference to underlying mechanisms (research questions 3 and 4).

## 6 INTER-TEMPORAL DECISION-MAKING

This study aims to answer four research questions. The first research question explores managers' time horizons (and specifically what constitutes the short, medium, and long term and why, as a precursor to considering short-termism). The second research question considers the manifestation of inter-temporal decisions (to emplace short-termism within the spectrum of inter-temporal decisions). The third research question aims to identify the linkages between an organisation's performance measurement system and short-termist decisions. The fourth research question asks whether there are factors that complicate this relationship. In short, the research is concerned with the nature and extent of the relationship between performance measures and short-termism. The purpose of the present chapter is to describe, analyse, and explain the research findings pertaining to the first and second research questions, namely:

1. *How do managers understand the short, medium, and long term?*
2. *How do inter-temporal decisions manifest?*

In line with the conceptual framework outlined in Chapter 1, the present chapter thus investigates the nuances and possible complexities of managerial short-termism (box c in Figure 1.1). While much of the data utilised in this chapter are drawn from middle-level managers' responses to interview questions, the quotations illustrate themes confirmed by observational field notes and company documentation, and so may be treated as exemplary. Empirical observations of managers' time horizons are primarily derived from question two on the interview schedule (see Appendix 10.7), with codes 1.1 through to 1.6 used (see Appendix 10.10). Examples of inter-temporal decisions are gathered from questions three and ten on the interview schedule (see Appendix 10.7), with codes 1.7, 1.8, 1.9, 1.10, 1.11, 1.12, 2.6, 2.8, 2.9, and 2.10 used (see Appendix 10.10). Whilst some of these codes were predetermined because of the literature reviewed in Chapter 2, others emerged progressively during data collection.<sup>71</sup>

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<sup>71</sup> An example of a deductive code used in this chapter is 'gaming' (code 2.9); whereas an example of an inductive code is 'offsetting financial targets' (code 2.8).

The findings in this chapter are presented in two sections that move from cognition (what managers think, as per research question one) in Section 6.1 to behaviour (what managers do, as per research question two) in Section 6.2. The research is thus able to traverse the cognitive-behavioural link to highlight the complexity of short-termism and what it means to engage in this behaviour. To conclude each section, the findings are discussed in relation to the published work that was reviewed in Chapter 2, particularly those cited in Section 2.1 and Section 2.2.

This chapter is structured as follows. The first section examines managers' perceptions of their time horizons in relation to the context in which inter-temporal tasks are performed. This discussion is then taken further in the next section by exploring four types of inter-temporal decisions observed at Grocer (myopic, hypermetropic, short-termist, and long-termist). Attention is given to describing and problematizing the inter-temporal decision of sacrificing the long term for the short term. Through probing this inter-temporal decision, the chapter also begins to address the third and fourth research questions by moving from the observation of surface experiences to the mechanisms that govern those experiences. This forms the basis of further analysis in Chapter 7. The chapter closes by making general comments about the importance of this data and the identified decisions.

## **6.1 Managers' Perceptions of the Temporal Scale: Short, Medium, and Long Term**

This section explores managers' perceptions of their time horizons in relation to the context in which inter-temporal tasks are performed. This is done by highlighting how and why the organisation's operating environment (Brochet et al., 2015), internal architecture (Jaques, 1990), and management control practices (Becker and Messner, 2013) shape managers' understanding of time by shaping time horizons and inter-temporal activities and responsibilities. The initial tripartite consideration corresponds with the issues detailed in Section 2.2 that may influence managers' perceptions of the temporal scale. Establishing managers' time horizons is the first stage of analysis because inter-temporal decisions imply that there is a time-based motive for management behaviour. Definitions of what constitute the temporal scale also influence the manifestation of inter-temporal decisions, as will be demonstrated in

Section 6.2. This section is divided into four parts. Different cuts of the temporal scale (short, medium, and long) are explored in the first three sub-sections below.<sup>72,73</sup> The fourth presents an aggregate analysis as a conclusion to this section. Taken together, the section addresses the first research question: *how do managers understand the short, medium, and long term?* By demonstrating that the concepts of short, medium, and long term are empirically messy due to heterogeneous meanings, the present study calls into question the assumption that the short term is a standardised one-year period (see e.g., van der Stede, 2000; Marginson et al., 2010). This conclusion has implications for the conceptualisation and operationalisation of short-termism in the behavioural accounting literature.

### 6.1.1 Short-term Time Horizons

*“The [BSC] tells you what you’ve got to deliver over a year but if you take payroll, for example, we get quarterly budgets on payroll. But, you can’t come up with a plan that says I’ll underspend my payroll in quarter one so that I can save a bit of money to put into quarter two. Every quarter gets chalked off and then you start afresh again...And, because we get reviewed quarterly, you are conscious on a daily basis as to what you’re doing well at, what’s not going so well, and what you need to do more with and what you need to focus on.”* (Store Manager B9: 198-232)

All middle-level managers interviewed conceive the short term as pertaining to three months (one quarter) or less. As stated by store manager B9 in the opening quotation, time is portioned into quarters due to the technicalities of the BSC and the three-monthly Inspirational Performers evaluations. At the broadest level, managers’ time horizons are thus shaped by the quarterly practices that relate to the annual reporting cycle. However, further cuts to this short-term horizon scale are revealed by examining the time span related to role-specific responsibilities and the frequency of performance measure monitoring. As per Table 6.1, sixteen managers conceive the short term as daily, eight managers conceive the short term as weekly, five managers conceive the short term as monthly, and one manager conceives the short term as

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<sup>72</sup> Participants’ thinking in terms of the short, medium, and long term is largely an interview artefact (see Appendix 10.7).

<sup>73</sup> Cuts of the temporal scale denote the point at which the short term is separated from the medium term and the medium term from the long term. For example, if the short term is annual and the long term is beyond three years then the medium term is one to three years.

quarterly. Despite this, there is little variation in managers' descriptions of the type and purpose of the tasks that fall within the short term. This is, perhaps, because *"the short term is about delivering something that has already been decided"* (Store Director A: 108-109), which is the target for each performance measure. Table 6.1 provides an overview of managers' understanding about the short term, including different temporal reference points and illustrations of the inter-temporal tasks performed therein. Aspects of this table are discussed in detail below.

The previous chapter outlined that store managers are responsible for overseeing the day-to-day functioning of their store; this necessitates a hands-on immersion in everyday decisions and actions. For fourteen of the twenty-three store managers interviewed, performing this role function in and of itself shapes their temporal perception and helps to define their point of reference as daily. A typical comment is that the *"short term is to just literally lead and manage the day-to-day activities within the store"* (Store Manager B6: 67-68). Daily activities, such as delivering excellent store standards and performing timely store routines, are linked to the achievement of performance measures. Without exception, store managers' short-term activities and responsibilities are related to 'reviewing' and/or 'delivering' BSC measures. As also outlined in the previous chapter, nearly all the BSC performance measure results are available daily or weekly. The quotations below indicate that the frequency with which the performance measures are monitored shapes the period over which short-term tasks are performed. For example, as store manager B11 explains, waste routines are carried out each day to ensure that the day-end product wastage target is delivered. In this regard, as indicated in Table 6.1, a further eight store managers define their point of reference as weekly. In general, then, store managers' understanding of the short term is disproportionately shaped by shorter reporting intervals for performance measures.

*"I don't need to plan what service needs to look like in six months' time because that's something I need to be concentrating on daily and weekly. I don't need to concentrate on what the standards in my shop are going to look like in six months' time because that's something I look at daily and weekly. I don't need to concentrate on what waste will look like in six months' time because I get reports daily and weekly."* (Store Manager A1: 643-648)

**Table 6.1:** Managers’ Understanding of the Short Term

	Temporal Reference Point	Role	Illustrative Quotes
<b>SHORT TERM</b>	Day		“The [BSC] and technology drives daily challenge really. So, delivering [queue length] is critical every day. Trying to deliver [product availability] as painlessly as possible is critical every day as well.” (Store Manager A4: 277-279)
			“Short term is the day-to-day management of KPIs...Very [BSC] focused because everything is tracked and we tend to get a report that lets us know how a particular measure on the [BSC] is actually tracking on a daily basis.” (Store Manager A5: 272-277)
		14 Store Managers	“Maintaining the focus of the store around the customer shopping trip—delivering a great shopping trip to support a strong sales line within the right cost lines.” (Store Manager A8: 78-80)
		1 Group Support Manager	“I would be aware of the key performance indicators on a daily basis.” (Store Manager A10: 132-133)
		1 Store Director	“Anything that goes wrong, really. So, any operational issues that come up with the stores which need fixing...For instance, if I had to get drivers from one store to another. So, you’ve only got a certain amount of drivers and they have to be assessed and that sort of thing. So, there’s only certain people who can take the vans out. So, if a store couldn’t get drivers, I’d have to get them from another store, get them into that area to take out the runs. If that didn’t happen, it would affect the delivery on time, it would affect the customer measure.” (Group Online Shopping Manager: 38-81)
			“To be on hand really for the store managers as somebody to go to, to inform, and to consult with over decisions they might or might not be confident to make. So, in the very short term, on a daily basis, I guess that’s what I’m there for. And, I have a structure of the team around me that helps me deal with that.” (Store Director B: 89-93)

		<p>“Short term, I suppose, would be managing the business from week-to-week in terms of short-term priorities...Every week I’d review the store’s KPI performance. That’s then shared in a weekly [Store Meeting] with the line managers.” (Store Manager A6: 95-117)</p> <p>“To support my guys to deliver the company’s expectations around the customer shopping trip. So, some things are very measured, where we have a commitment to the customer around [queue length] and also we have some challenges around the amount of availability.” (Store Manager A11: 50-53)</p>
Week	8 Store Managers	<p>“My short-term tasks would be week-to-week...So, we’d discuss every day how we’re doing with waste this week, how we’re doing with [unknown product losses] this week, how we’re doing with [queue length] this week.” (Store Manager B5: 189-192)</p> <p>“I’d be looking at things like, how can we improve standards? How can we improve the offer that we give to the customer? When you look at it in that way, it’s customer experience. And, customer experience should always be short term because, if we’re delivering something for the customer, it should never be a long-term task. Absolutely, reviewing the numbers...The numbers I would look at on a weekly basis.” (Store Manager B11: 225-238)</p>
Month	1 Store Manager 4 Group Support Managers	<p>“To deliver the company business plan. To ensure that we’re changing the culture in the shop in terms of the staff and how we work.” (Store Manager B7: 62-63)</p> <p>“Short-term goal is to ensure my support is out there and it’s available to everyone. That they are clear around what my vision is around what I believe service could be in [GroB].” (Group Change Coach B: 178-180)</p> <p>“Coaching and building their awareness of lockdown and [unknown product losses] ...So, the other side of it is waste. And again, short term is to reduce the amount of stuff that we’re having to reduce because it costs us money...So, the short-term stuff is probably four to six weeks.” (Group Loss Manager B: 67-98)</p>
Quarter	1 Store Director	<p>“Probably the short-term delivery of numbers. The delivery of performance objectives. By short term, I’m talking probably up to sort of four to twelve weeks.” (Store Director A: 38-40)</p>

*“On a daily basis, I’d look at the routines that were underneath that. So, what’s causing it? What’s driving it? Are there issues with out-of-codes? Are there issues with damages?”* (Store Manager B11: 244-246)

Store manager B7 is the sole exception to the above observation. He refers to translating predetermined strategies into meaningful actions within a short-term planning horizon. Nearly all of the other store managers interviewed perform this role function over a longer period of time (see Table 6.2 and Table 6.3). The specific strategy discussed aims to change the everyday customer service ethos from functional (unemotional and machinelike) to experiential (emotional and personalised) in line with the advice given by GroB’s group change coach. This account may be related to the fact that store manager B7 *“had probably one of the worst [BSCs] on the group”* and *“was probably on the verge of leaving [Grocer] because he couldn’t see the wood for the trees”* (Group Change Coach B: 106-116). Consistent with Grocer’s performance philosophy, store manager B7’s short-term activities were aimed at improving the performance measures at the beginning of the causal chain (i.e., the customer quadrant; see Figure 5.2). At the time of the interview, customer satisfaction (with quality of products, customer service and product availability) was measured monthly. The frequency with which customer satisfaction targets were monitored appeared to provide guidance as to understanding time horizons.

Store directors delegate the management of day-to-day tasks and performance issues to group support managers. Except for the group online shopping manager, all group support managers describe their short-term activities with reference to the performance measures that fall within their remit of responsibility. These roles involve coaching and advising a number of store managers on performance issues, rather than immersion in everyday store activities. This, coupled with the time-bound assignments associated with the group loss and group change coach roles, appears to lead these managers to view the short term as a period of one month or less. It was previously noted that the group loss and group change coach roles were temporary secondments designed to support Grocer’s strategy of restoring growth to the UK business through stricter cost control and improved customer service. Time-bound assignments are thus used to convey the sense of urgency around needing *“to stop the rot”* (Group Loss Manager A: 47-48) and wanting *“to put the emotional service back*

into [Grocer]” (Group Change Coach A: 207-208). Relatedly, “*the retail business moves at such a pace*” (Store Manager B6: 562) that time-bound assignments evolve to match the circumstances and conditions defined by the environment.

For the group online shopping manager, the short term consists of dealing with unforeseen events on a daily basis. This is because “*it’s usually a disaster and I have to fix it*” (Group Online Shopping Manager: 750-751). As indicated in Table 6.1, the archetypal examples are delivery driver shortages and system glitches. Whilst these unforeseen events influence the achievement of the assigned performance measure of product availability, the concern here is with superficially ‘fixing’ the problem.<sup>74</sup> The group online shopping manager must successfully resolve these day-to-day issues otherwise online orders will be capped or cancelled by Grocer’s Head Office. This would likely have an immediate and detrimental impact on online customers and financial performance.<sup>75</sup> Like the group online shopping manager, store managers also have to manage unforeseen day-to-day events. Examples include unexpected absenteeism creating gaps in schedule requirements, late deliveries impeding store routines, and power outages affecting perishable products. Effectively managing these events allows the manager to demonstrate the core leadership capability of responsiveness. However, these events sometimes prompt myopic decisions. Paradoxically, depending on the decision-making context, these events can also prompt long-termist decisions. Both situations will be illustrated in the next section.

At one level higher in the corporate hierarchy, store directors are situated external to in-store management and are judged on the workgroup’s average performance across all BSC measures. Table 6.1 and the following quotations indicate that, daily, store directors liaise with the group support managers to guide store managers’ decisions and informally evaluate those who have weak relative performance.

*“What will be highlighted is the bottom five on each group and what I would then do is pick up a daily conversation with the bottom five and say: How’s it*

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<sup>74</sup> For ‘online’ stores, the operational performance measure of product availability is a composite of pure product availability in store, missing items, product quality, and late deliveries to customers.

<sup>75</sup> Between fifteen and thirty percent of a store’s sales per week originate from orders placed by online customers. If sales budgets are missed due to capped and/or cancelled online orders then each of the cost targets will be lowered. Also, prior to February 2015, the volume rule would be triggered (see, for full details, sub-section 5.3.1).

*going? What’s your plan? How can I help? How can I support? How can I coach? How can I guide?” (Store Director A: 329-332)*

*“Very short term, on a daily basis, would be to be on hand really for the store managers as somebody to go to, to inform, and to consult with over decisions they might or might not be confident to make. So, in the very short term, on a daily basis, I guess that’s what I’m there for. And, I have a structure of the team around me that helps me deal with that.” (Store Director B: 68-72)*

Store directors’ short-term horizons can, however, cover a longer period of time. Specifically, cumulative results for the workgroup are compiled on a quarterly basis and this is seen as the relevant short-term reference point for GroA’s store director. To summarise this sub-section, the short term is perceived as one quarter or less with three temporal reference points therein (one day, one week, and one month) linked to role-specific responsibilities and the frequency of performance measure monitoring. As illustrated in Figure 6.1, there is a notable difference between store managers’, group support managers’ and store directors’ understanding of the short term. Specifically: (1) almost all the store managers interviewed understand the short term to be one week or less due to ‘reviewing’ and/or ‘delivering’ daily and weekly BSC measures; (2) all the group support managers interviewed understand the short term to be one month or less due to set monthly assignments; and (3) all the store directors interviewed understand the short term to be one quarter or less due to the three-monthly compilation of workgroup BSC results.

**Figure 6.1:** Cuts of the Short-Term Horizon Scale as Defined by Role Holders

	<b>Store Manager</b>	<b>Group Support Manager</b>	<b>Store Director</b>	<b>Total</b>
<b>Day</b>	14	1	1	<b>16</b>
<b>Week</b>	8	0	0	<b>8</b>
<b>Month</b>	1	4	0	<b>5</b>
<b>Quarter</b>	0	0	1	<b>1</b>
<b>Total</b>	<b>23</b>	<b>5</b>	<b>2</b>	<b>30</b>

Sub-section 6.1.2 now turns attention to managers’ understanding of the medium term.

## 6.1.2 Medium-term Time Horizons

Fifteen of the thirty middle-level managers interviewed conceptualise and practice a medium-term horizon. In doing so, a further cut of the long-term temporal scale is made. The remaining fifteen interviewees understand the relevant reference points as pertaining only to the temporal categories of short term and long term.<sup>76</sup> For those managers who conceptualise a medium term, the time period over which inter-temporal activities and responsibilities are performed pertains to one year or less (but greater than their recounted short-term time horizon). However, nuances of the medium-term horizon scale are revealed by examining the frequency of performance measure monitoring and the timing and contents of Inspirational Performers. That is, as per Table 6.2, one manager conceives the medium term as monthly, eleven managers conceive the medium term as quarterly, two managers conceive the medium term as six monthly, and one manager conceives the medium term as yearly. Because of the type and purpose of the tasks that fall within this time period, the narratives associated with the BSC gradually begin to change from a preoccupation with ‘reviewing’ and/or ‘delivering’ to ‘maintaining’ and/or ‘improving’. Table 6.2 provides an overview of managers’ understanding about the medium term, including different temporal reference points and illustrations of the inter-temporal tasks performed therein. Aspects of this table are discussed in detail below.

At the broadest level, Grocer’s performance measurement practices continue to shape middle-level managers’ understanding of their time horizons. The store manager activity of ‘reviewing’ and/or ‘delivering’ BSC measures prevails in this time period, albeit to a lesser extent than in the short term, because of the frequency with which certain measures of performance are monitored. Table 6.2 indicates that, for store manager B1, customer satisfaction (with quality of products, customer service, and product availability) and customer knowledge about charity involvement are seen as medium-term performance measures. As with store manager B7 (see previous sub-section), at the time of the interview these measures were operationalised via a questionnaire survey administered to one hundred customers in

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<sup>76</sup> These managers found the dividing line between the medium term and long term unclear. For example, when asked to differentiate between their medium- and long-term activities and responsibilities, a typical comment was that: “*I think they’re a bit of the same thing to be honest*” (Group Change Coach A: 134).

**Table 6.2: Managers’ Understanding of the Medium Term**

	<b>Temporal Reference Point</b>	<b>Role</b>	<b>Illustrative Quotes</b>
<b>MEDIUM TERM</b>	Month	1 Store Manager	“A [customer satisfaction] plan, which we get measured on per period, which is more like a four week, like a mid-term, kind of plan.” (Store Manager B1)
	Quarter		“The [BSC] highlights where our opportunities are in the medium term.”
		7 Store Managers	“Once the period is out of the way we know what are we going to be working on, we going to celebrate? What are we going to work on for the next period of time?” (Store Manager A5: 332-334)
		3 Group Support Managers	“That we grow towards that eighty percent and how I help and support the team without allowing the superstars to slip into mediocre.” (Group Change Co-ordinator)
		1 Store Director	“I would look more at the [BSC] then. So, it would be coaching, planning for Easter, seasonal events, extra vans that might be coming in. So, I’ll have the Office.” (Group Online Shopping Manager: 106-109)
	Six Months	2 Store Managers	“What are the themes in retail? What are the themes in [Grocer]? Whether it’s as the [project] we’ve launched this autumn, such as planning for Christmas.” (Store Director B: 99-101)
Year	1 Store Director	“Working on changing the culture, the behaviour, any operational issues that you’ve got. You’d want to be able to change those within the six months.”	
			“The more strategic delivery of those. So, how to land and sustain change over the long-term. So, the day-to-day stuff and the short-term tasks become less and less. So, building a culture.” (Store Director A: 63-66)

store once a month. Even though the activities that are linked to the achievement of these performance measures are carried out daily, such as handling products with care, the targets could only be monitored monthly for control purposes. One explanation for the difference between store manager B7 and store manager B1 temporally positioning the work task content as short and medium term, respectively, is that customer satisfaction is store manager B7's core reference point for improvement. The impact of changing the temporal dynamics of management control practices (i.e., shortening the measurement period for customer satisfaction and customer knowledge about charity involvement from monthly to daily) on managers' perceptions of their time horizons will be explored in the discussion sub-section.

The process of managers seemingly matching their time horizon to the timing of performance measurement practices is also evident for the measures of unknown product losses and employee satisfaction. As noted in sub-section 5.3.1, unknown product losses and employee satisfaction are monitored on a six-monthly basis. Because in-store meetings and discussions about achieving these targets concern only a six-month period, managers focus on decisions and actions that influence this time window. In this regard, two store managers approach these measures with a medium-term horizon of six months (see Table 6.2). Whilst the remaining twenty-three store managers interviewed view unknown product losses and employee satisfaction as long-term measures of performance (see Table 6.3), this horizon scale is still semi-annual. Illustrative quotations of this are given below.

*“My more medium to long term would be, you know, our [employee satisfaction] surveys to the year end and [unknown product losses] because we only measure [unknown product losses] twice-yearly.” (Store Manager B5: 193-196)*

*“And [employee satisfaction] because there's sometimes a bit of a dash for the line when people are filling in the [employee satisfaction] and then suddenly the store manager is saying hello to everybody the day before. But, those are definitely long-term measures, things that are always on the backburner but you need to be aware of. **What timescale is on these long-term tasks? When the measure comes—so, every six months.**” (Store Manager A4: 447-457)*

Particularly evident in the above quotations is the linguistic compartmentalisation of performance measures as longer term due to their monitoring

frequencies. Store manager A4's reference to the 'backburner' is discussed in relation to the interplay between performance measures with different monitoring frequencies in sub-section 7.1.3.

The medium term consists of 'maintaining' performance on each BSC measure. Striving to maintain BSC performance tangentially relates to Grocer's external operating environment and the contents of Inspirational Performers. The Inspirational Performers evaluative process entails judging a manager's BSC performance alongside, among other things, their ability to implement business plans. Business plans outline the activities that the manager should perform to prepare for new technology initiatives (e.g., applications linked to relevant local charities to distribute surplus food from stores), seasonal events (e.g., Christmas) and price and promotion changes (e.g., different multi-buy offers). The business plan links elements of Grocer's annual strategy (e.g., to be a responsible corporate citizen) and the present-day conditions defined by its operating environment (e.g., public pressure to reduce unsold food waste) to all levels of the corporate hierarchy. Business plans are disseminated quarterly and specify the managerial activities that should be carried out in each of the three months. The excerpt below is taken from the business plan for November 2014, which outlines the seasonal activities to be performed.

***“Period 8 Core Activities:** (1) prepare the [online shopping] departments for the festive season; (2) implement the stock reduction plan to minimise stock holding before Christmas; (3) implement the Q3 severe weather preparation plan to keep our carparks and walkways safe and accessible for customers and colleagues.”* (Internal Company Documents, Group 5)

Eight of the fifteen managers who conceptualise a medium term consider that business plan activities, such as those outlined above, sit most comfortably within a time horizon of one quarter (see also Table 6.3 where store manager A10 views this as a long-term task that is performed each quarter). Store managers are responsible for adapting and implementing the business plans while maintaining the same level of short-term BSC performance. Store directors attempt to ensure a degree of standardisation in the enactment of business plan activities across all stores in the workgroup.

Eleven of the fifteen managers also see 'improving' BSC performance as a medium-term activity. This is due, in part, to the final part of the Inspirational

Performers evaluative process, which requires the manager to make sense of their past performance and prepare a narrative that outlines steps to improve their future BSC performance. The objectives set attend not only to below-target performance, but also to moving on-target performance to above-target performance. This is one example of not adhering to the balanced performance principle.<sup>77</sup> Because the manager delineates how they will go about achieving these objectives, medium-term plans are devised. The following quotation, taken from an interview with store manager B3, exemplifies the narratives associated with ‘improving’.

*“Medium term is trying to build towards KPIs we’re off track on. So, waste is astray at the minute. It has been for quite some time. But, in terms of fixing that or putting processes in place to make that perform better, it’s not something you can do in a day. And, when I say medium term, it means we would put plans in place and then review them weekly, monthly, and so forth.”*  
(Store Manager B3: 173-179)

Whilst these plans can be implemented over a nine-month period, the four completed copies of the Inspirational Performers evaluation pack (Internal Company Documents, Group 3) and the illustrative quotes in Table 6.2 indicate that managers prefer achieving the objectives within three months. In so doing, the manager is able to demonstrate an improvement by the next formal evaluation of performance. The exceptions to this are those objectives that concern unknown product losses and employee satisfaction, as the measurement point to confirm achievement is six-monthly.<sup>78</sup>

Store director A’s medium-term horizon extends from one quarter to one year (see Table 6.1 and Table 6.2). This cut of the temporal scale covers the longest period of time vis-à-vis the other fourteen middle-level managers who conceptualise and practice a medium term, including store director B. This is, perhaps, because store director A perceives the activities and responsibilities that fall within this time period to relate to the tactical building of store managers’ capability and spotting talent in order to more easily meet short-term performance requirements.

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<sup>77</sup> Recall that one aspect of this principle concerns a balanced performance on each BSC measure. That is, above-target performance is to be scrutinised in a manner similar to below-target performance.

<sup>78</sup> But, as noted in sub-section 5.3.1, if a manager has previously missed the unknown product losses target the measure is monitored on a twelve-weekly basis.

To summarise this sub-section, the medium term is perceived as one year or less (but greater than the manager’s recounted short-term time horizon) with three temporal reference points therein (six months, three months, and one month) linked to the frequency of performance measure monitoring and the timing and content of Inspirational Performers. As illustrated in Figure 6.2, most managers who conceptualise and practice a medium term understand the time period to be three-monthly due to the quarterly process of ‘maintaining’ and/or ‘improving’ BSC measures. Grocer’s performance measurement practices, however, continue to add nuance by shaping one-monthly or six-monthly medium-term horizons.

**Figure 6.2:** Cuts of the Medium-Term Horizon Scale as Defined by Role Holders

	<b>Store Manager</b>	<b>Group Support Manager</b>	<b>Store Director</b>	<b>Total</b>
<b>Month</b>	1	0	0	<b>1</b>
<b>Quarter</b>	7	3	1	<b>11</b>
<b>Six Months</b>	2	0	0	<b>2</b>
<b>Year</b>	0	0	1	<b>1</b>
<b>Total</b>	<b>10</b>	<b>3</b>	<b>2</b>	<b>15</b>

In the next sub-section, managers’ understanding of the long term is considered.

### **6.1.3 Long-term Time Horizons**

Twenty-seven of the thirty middle-level managers interviewed for this research conceive the long term as the maximum temporal reference point to which they can extrapolate into the future. The farthest these managers indicate that they can extrapolate into the future is four years. However, further cuts to this long-term horizon scale are revealed by examining the time span related to role-specific responsibilities and the rate of intra-organisational mobility. As per Table 6.3, five managers conceive the long term as quarterly, five managers conceive the long term as six monthly, five managers conceive the long term as yearly, and twelve managers conceive the long term as beyond one year. Interestingly, three managers are unable

to fully conceive the long term, and this is an issue that will be returned to later in this sub-section. There is greater variation in managers' descriptions of the type and purpose of the tasks that fall within this time period. This is, perhaps, because in this time period *"it's up to me to decide what I want to do"* (Store Manager B9: 299). Specifically, *"everybody has a different long-term goal"* (Store Manager B1: 1396), which often is *"more about the vision or strategy for the shop"* (Store Manager B7: 107-108). Since each store has slightly different characteristics (see Table 5.2), each manager has to tailor the long-term vision or strategy to the requirements of the store. Table 6.3 provides an overview of managers' understanding about the long term, including different temporal reference points and illustrations of the inter-temporal tasks performed therein. Aspects of this table are discussed in detail below.

For twenty of the twenty-three store managers interviewed, the long term involves focusing mainly or exclusively on store or workgroup strategies. Regarding the four lossmaking and one delivery restricted store in the sample, minimising the effects of these characteristics is the ongoing strategy. Table 6.3 and the quotations below indicate that store managers attempt to translate this store-specific strategy into workable actions and thus demonstrate the core leadership capability of innovation.

*"We look at other areas in the store, whether they can make a difference to the profitability plan. And, I'll give you an example on that, our direct desk has just closed. We used to have a direct desk offer at the back of store. But, trading twenty to thirty percent down each year, manning levels about one hundred hours a week so you're looking at best part of eight to nine hundred pound a week in payroll—an offer that doesn't make any money. So, the idea I came up with was to have a collection point from front of store instead. So, I asked the business to remove the direct offer and replace it with transactional units instead."* (Store Manager A5: 360-369)

*"When I talked about grocery home shopping and the fact that we have a delivery restriction and I have a huge fifteen van operation, I made a decision to move the vans from leaving at quarter past eight in the morning to quarter to nine. So, it's only thirty minutes. But, what it does is it stops people, customers sorry, ordering shopping at half past eight, quarter to nine, and it makes that slot, or those slots, unavailable. So, I had to make a decision about actually the welfare of the team, availability versus the financial output."* (Store Manager A6: 1058-1065)

**Table 6.3: Managers' Understanding of the Long Term**

	Temporal Reference Point	Role	Illustrative Quotes
<b>LONG TERM</b>	Quarter		“Long term is the store strategy. It’s quite easy for me at the moment because the store strategy is profitability. So, every call we make is around making the branch more profitable.” (Store Manager A5: 355-357)
		4 Store Managers	“Continuing the customer loyalty and the customer shopping trip and continually trying to improve that. Long term is around capability within my team.” (Store Manager A9: 262-264)
		1 Group Support Manager	“To deliver the business plan on behalf of [Grocer]. So, the business plan will have particular strategies involved that I’m responsible for delivering.” (Store Manager A10: 181-183)
	Six Months		“Long-term task is just putting the routines in place. So, even if this job finished now in the beginning of week one, the foundations we have put in place they would continue into the New Year.” (Group Loss Manager A: 149-151)
		4 Store Managers	“Changing figures and culture. So, you can’t change culture overnight.” (Store Manager A3: 561-562)
		1 Group Support Manager	“Trying to challenge the delivery restriction with the residents, which is a bit more I suppose of a longer game.” (Store Manager A6: 561-562) “My longer-term goals are around the culture in the store...What I would be focusing on long term is that vision and that everyone knows where we’re trying to get to.” (Store Manager B8: 142-148)
		“Back to eighty percent [customer satisfaction] and having no focus shops which we’re getting very close to...I’d put six months to get us out of no focus shops.” (Group Change Coach B: 192-201)	

Year	3 Store Managers	“I see my longer-term responsibilities as coaching and developing managers to, you know, provide for other stores and provide for this store in the future.” (Store Manager A11: 142-144)
	2 Group Support Managers	“Long term is about where I’m going to be career wise in twelve months.” (Group Loss Manager B: 1188-1189) “I’ll have a new dot com opening in a whole store in [GroA store] next year so that is a long-term plan. Then, planning for growth, planning for new managers.” (Group Online Shopping Manager: 158-160)
Beyond One Year		“For customers to come to us because they love coming to us, not that we’re just on the end of the road and it’s easy.” (Store Manager A2: 71-72)
	10 Store Managers	“I have a vision for the shop and I can’t create that vision to come alive in a day. It will take me two years to create that vision and that’s about making the shop profitable.” (Store Manager B1: 122-125) “It would be stability. You tend to stay in a shop for two years as a store manager. So, my goal would be when I leave, the store still delivers everything that it delivers now.” (Store Manager B2: 108-110)
	2 Store Directors	“Half of my time is strategizing and looking at, what does [Grocer] look like in the next ten years? And, what am I doing to ready the business for that?” (Store Director A: 86-87)
		“What is this store going to look like? How will it evolve? What do we know of the local economy? What do we know of, you know, the houses that are being built down the road here? What’s that going to shape? How’s that going to change the dynamic of the store?” (Store Director B: 453-456)
Not Specific	2 Store Managers	“I look at my senior team so are they likely to be around and if so how do I stretch them, grow them, get them to move onto the next level of the vision...I don’t know whether there’s a timescale on it. But, I suppose, it’s always beyond the next medium whatever that looks like.” (Store Manager B6: 534-572)
	1 Group Support Manager	“Continue to improve the shopping trip. So, to move all stores within [GroA] to excellent as a measure of service...There isn’t a timescale.” (Group Change Coach A: 196-227)

A further eight store managers appear to focus mainly or exclusively on the workgroup strategy set by the store director that aligns the stores with Grocer's core purpose, which was outlined sub-section 5.1.3. The strategy is *"to create a store where customers love to shop and colleagues love to work"* (Store Manager B11: 391). Thus, *"the vision, in essence, for the shop is quite loose"* (Store Manager B10: 1107) so that how it is actioned is able to be shaped by the store's characteristics. But this vision has close parallels with the more idiosyncratic accounts outlined by seven store managers that intend to gain customer loyalty and/or improve workplace culture over a longer period of time. It is of note that three store managers perceive the inter-temporal activities that fall within such a time period to relate solely to building the operational and leadership capability of departmental managers (management level six) and deputy store managers (management level five). When sufficiently realised, these lower-level managers will be accepted for internal training targeted at career progression. While this may be an interpretation of translating the workgroup strategy into action, the explicated reasons for this longer-term objective are threefold: (1) to support the longevity of the store and workgroup; (2) to achieve BSC targets (as per the first quotation below); and (3) to outperform other stores on this measurable dimension (as per the second quotation below).

*"If I can get more people interested in wanting to develop into bigger jobs, that brings a feel good and a change of attitude with it, which then, hopefully, addresses absence problems, improves my sales because they want to keep on showing that they're doing a better job."* (Store Manager B9: 357-362)

***"Conversation with [Store Manager A11] after the [Daily Meeting 2]: [Store Manager A11] says that some store managers are fixated with KPIs and are driven by wanting to be at the top of a league table. [Store Manager A11] says that he prefers developing more colleagues than other store managers."*** (Daily Meeting 2: 98-105)

Nearly all the store managers interviewed define the long term as a period of two years or less (but greater than their recounted short- or, if applicable, medium-term time horizon). This is, perhaps, because Grocer stipulates that the intended store or workgroup strategy should be realised within two years: *"We know you are committed to the [Grocer] core purpose; you help translate this into a 1–2 year vision for your store"* (Internal Company Documents, Group 3). This maximum cut of the

horizon scale also corresponds with the guidelines for the rate of internal-lateral transfers between stores. In combination, the inter-temporal activities and responsibilities that fall within this time period largely relate to the functioning of the store that the manager is situated (rather than the broader workgroup or business) and so store manager foresight is bound by the length of time that they will remain in situ. As store manager A1, who has been in situ for eighteen months, notes, *“I might not be in this store in six months’ time so I wouldn’t plan that far”* (Store Manager A1: 640-641).<sup>79</sup> However, as indicated in Table 6.3, the frequency of performance measure monitoring and performance evaluation contributes to the overall temporal pattern for many of these managers. For instance, employee satisfaction scores are seen to signify the type of workplace culture created. Employee satisfaction is measured on a six-monthly basis, which is the point of reference for those concerned about the concept of workplace culture (as shown in the previous sub-section). Moreover, whilst the profitability plans for the lossmaking stores can take two years to realise (see Table 6.3), progress against objectives are monitored quarterly due to Inspirational Performers. This can create different temporal perceptions which are sometimes seen as too short to attain, as the following quotation reveals:

*“There will be times when actually, I suppose, I will question certain things back around perhaps timescales on achieving a certain part of the profitability work.”* (Store Manager A5: 673-675)

The suggestion that managers’ time horizons (and inter-temporal trade-off decisions, as will be shown in sub-section 7.2.4) are bound up with intra-organisational mobility is possible because managers have prior knowledge about internal-lateral transfers and so often anticipate or even initiate the move. The group online shopping manager who oversees the performance of stores in two workgroups also fits this line of reasoning. The group online shopping manager’s long-term responsibilities include planning for the opening of new online stores and the growth of online grocery shopping through training and recruitment. However, the long term is *“also looking for my replacement. So, if I want to go on, developing people to come into my role”* (Group Online Shopping Manager: 161-163). Thus, given that *“I need to go onto store manager, I’ve done this a bit too long”* (Group Online Shopping

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<sup>79</sup> See Appendix 10.6 for the biographical profile of each interviewee.

Manager: 1023), the group online shopping manager's time horizon is bound by the length of time that she expects to remain in her current role (one year).

The group loss and group change coach roles are secondments that are intended to last for a maximum of eighteen months. Particularly prominent is the uncertainty experienced by these managers as to whether and when they will return to their original role or transfer to another role. This, coupled with the fact that time-bound placements evoke a feeling of “*obviously we're judged on results now*” (Group Loss Manager A: 152), provides the context for these managers' longer-term activities. As highlighted below, the recounted activities and responsibilities relate solely to raising the workgroup's average performance on the relevant BSC measures by drawing on relative performance information.

*“The long-term strategy for our group in terms of [customer satisfaction] is that every store starts with a seven—so, seventy percent—which would give us a net of around seventy-five to eighty as a group. I have a few stores that are focus stores. There's six stores that I spend a larger proportion of my time in. And, going back to the eighty-twenty really. If I can fix those six stores it will give me the nets that I need for the overall.”* (Group Change Coach A: 528-534)

The point of reference for three of the four group loss and group change coach managers interviewed is up to one year. These managers have been in their roles for seven months, as documented in Appendix 10.6, and so their time horizons appear bound by the probable period of time left on the secondment (i.e., eleven months). The exception to this observation will be discussed shortly.

Store directors set the store-specific and workgroup strategies and then coach and support store managers to translate the strategy into workable actions. As the quotations below suggest, to perform this inter-temporal activity, store directors examine current and future trends in the retail industry, regional economy, local housing market, and so on. These trends enable the store director to identify value-adding opportunities and discern skill gaps. Because store directors are essentially “*trying to wonder up what the future might look like*” (Store Director A: 862), the long term is seen as a period of four years or less (but greater than one quarter for store director B and greater than one year for store director A; see Table 6.2). This is also the upper limit on the optimum amount of time for a store director to oversee a particular workgroup. The quotations below also suggest a future-based rationality,

which is discussed with reference to hypermetropic decisions in the next section.

*“It comes under looking at trends. So, trends within the sector we work in—within retail. Looking at capability gaps in terms of either managerial skills or leadership skills. Looking at information technology and how that’s going to adapt and change. And then, looking at what will [Grocer] look like in ten years’ time? And then, filling the gaps in-between.”* (Store Director A: 94-98)

*“Planning better use of our space, understanding the profitability of our business. And, if we need to make any changes to the business, to the store, to the way we’ve set it up, then you know repurposes, refreshes...So, you’ve got one hundred and five thousand square foot in this shop, is the future of retail going to require, or is the future of [Grocer] necessarily going to require, such a big shop anymore? And, if not, what do you do with the space?”* (Store Director B: 107-120)

It was noted at the start of this sub-section that three managers—two store managers and one group support manager—were unable to define the period over which long-term activities and responsibilities are performed. The quotation below suggests that Grocer’s present financial difficulties creates hesitance about the future. This, in turn, prompts some of the managers to focus on the short term, which is discussed later in sub-section 6.2.1.1.

*“We used to be really good at it. **The long term?** The long term. I don’t know whether anybody knows what’s really going on at the minute. It’s quite uncertain.”* (Store Manager B6: 1247-1256)

To summarise this sub-section, the long term is perceived as four years or less (but greater than the manager’s recounted short- or, if applicable, medium-term time horizon) with three temporal reference points therein (one year, six months, and three months) linked to role-specific responsibilities and the rate of intra-organisational mobility. As illustrated in Figure 6.3, most of the group support managers interviewed consider the long term to be annual due to the length of time left on their secondment. Most of the store managers and both of the store directors interviewed understand the long term as a period of up to four years due to the rate of internal-lateral transfers between stores and workgroups. For store managers, the frequency of performance measure monitoring (six-monthly) and performance evaluation (three-monthly) continues to contribute to the overall temporal pattern.

**Figure 6.3:** Cuts of the Long-Term Horizon Scale as Defined by Role Holders

	<b>Store Manager</b>	<b>Group Support Manager</b>	<b>Store Director</b>	<b>Total</b>
<b>Quarter</b>	4	1	0	<b>5</b>
<b>Six Months</b>	4	1	0	<b>5</b>
<b>Year</b>	3	2	0	<b>5</b>
<b>Four Years</b>	10	0	2	<b>12</b>
<b>Not Specific</b>	2	1	0	<b>3</b>
<b>Total</b>	<b>23</b>	<b>5</b>	<b>2</b>	<b>30</b>

Sub-section 6.1.4 discusses the findings presented so far in relation to the literature reviewed in Chapter 2, particularly Section 2.2.

#### **6.1.4 Discussion: The Short Term as a Standardised Period Not Exceeding One Year**

As noted in Section 2.2, short-termism studies are normally premised on the assumption that the short term is a standardised period not exceeding one year. A one-year reference point is consistent with the annual budgeting process (van der Stede, 2000). There is thus a loose assumption in existing literature that one specific temporal structure of an organisation’s performance measurement practice shapes managers’ short-term time horizons. Two notable exceptions to using one year to distinguish the short term from the medium or long term are the Abernethy et al. (2013) and Aguiar et al. (2014) studies. Abernethy et al. (2013) and Aguiar et al. (2014) itemise the short term to be quarterly, the medium term to be annual, and the long term to be beyond one year. These researchers state that this grouping of accounting periods is appropriate due to the context of their study. Nonetheless, presumed homogeneity in the meanings of time horizons remains.

Section 2.2 suggested that managers’ time horizons may be differentially shaped by three factors: (1) the situation within which an organisation’s performance measurement system operates, such as the nature of the industry (see Brochet et al., 2015), organisational strategy (see Chenhall and Moers, 2007), environmental uncertainty (see Chakhovich et al., 2010), and organisational performance (see van

der Stede, 2000); (2) the temporal structuring of an organisation's management control practices (see Becker and Messner, 2013); and (3) an organisation's internal architecture, such as the responsibility time span of managerial roles (see Jaques, 1990). It was concluded that existing research on short-termism may overlook the prevalence of inter-temporal decisions because the studies do not tend to account for how and why an organisation's operating environment, management control practices, and internal architecture may shape managers' time horizons and inter-temporal activities and responsibilities. The present study addressed this gap in the literature through formulating and answering the following research question: *how do managers understand the short, medium, and long term?*

The short term is defined by the middle-level managers interviewed as a period of one quarter or less, consistent with Abernethy et al. (2013) and Aguiar et al. (2014). This cut of the horizon scale is partly due to the frequency of performance measure monitoring at Grocer. In support of this finding, Becker and Messner (2013) propose that the provision of performance information, including when and how often, may affect the temporal horizons of managers. Definitions of what constitute the temporal scale are also influenced by role-specific responsibilities in that managers who are assigned performance tasks that take longer to complete possess an elongated short-term horizon. For instance, store directors at Grocer possess an extended short-term horizon because they are exposed to lengthened performance measures, that is, cumulative results for the workgroup are compiled on a quarterly basis. This stands in contrast to the reference point for store managers who receive most performance measure results daily or weekly to oversee the functioning of their store. These findings align with Jaques' (1990) argument that managers' time horizons may be influenced by the responsibility time span of their role. In combination, managers' short-term time horizons are shaped by timing that is accounting-driven and timing that is operationally-driven.

Grocer's middle-level managers perceive the medium term as a period of one year or less (but greater than their short-term time horizon), which corresponds with the cut of the horizon scale used in the Abernethy et al. (2013) and Aguiar et al. (2014) studies. This reference point is due not only to the frequency of performance measure monitoring (i.e., monitoring unknown product losses and employee satisfaction on a six-monthly basis), but also to how, when, and how often performance is formally evaluated. The Inspirational Performers evaluative process promotes foresight to the

extent that middle-level managers engage in a temporal horizon that is concerned with the implementation of business plans and improving BSC performance. Nonetheless, the three-monthly temporal structure inherent in this process limits the foresight efforts of most of these managers. This supports the contention of Becker and Messner (2013: 145) that both the incentives and information provided by an organisation's performance measurement and management control system may influence managers' time horizons.

The long term is usually conceived as an orientation beyond one year, namely one to five years (e.g., Merchant, 1990; van der Stede, 2000; Abernethy et al., 2013). The inter-temporal activities performed within this time period are usually viewed as relating to innovation and learning (e.g., Merchant, 1990; Chow et al., 1996; Marginson and McAulay, 2008). At Grocer, middle-level managers view the long term as a period of four years or less (but greater than their short- or medium-term time horizon) because of role-specific responsibilities and the rate of intra-organisational mobility. More specifically, half of the managers interviewed view the long term as a period of one year or less (but greater than their short- or medium-term time horizon), which differs from the usual point of reference used in existing accounting research on short-termism.

Grocer promulgates guidelines for the length of time that store managers should remain in one store. Because store managers' responsibilities involve translating pre-set workgroup and store-specific strategies aimed at improving the business for customers into workable in-store actions, their personal gain from successfully implementing these strategies is linked to the functioning of that store. In consequence, store managers' long-term horizon is constrained by the rate of internal-lateral transfers between stores (usually every two years). The issue of intra-organisational mobility constraining managers' time horizons is one which also applies to group support managers and store directors. This line of reasoning is not dissimilar to research that finds a high rate of inter-organisational mobility limits managerial foresight (see e.g., Narayanan, 1985; Dechow and Sloan, 1991; Eccles, 1991; van Rinsum and Hartmann, 2011). These researchers contend that a high rate of inter-organisational mobility uncouples the manager's personal gain from the long-term performance of the organisation in which they are currently employed. In other words, the manager will not benefit from the future profits associated with their past decisions (Mannix and Loewenstein, 1994).

To summarise, managers understand the short term to be quarterly, the medium term as annual, and the long term to be up to four years. However, a holistic examination of what constitutes managers' time horizons reveals overlaps between these three cuts of the temporal scale, and highlights nuances that the traditional measurement approach obscures. Existing measurement instruments may thus overlook managers' propensity to take short-termist actions. Consequently, future studies employing survey-based methods may benefit from including the time horizons of managers in their analysis through clustering (Everitt et al., 2001). As will be discussed in sub-section 6.2.3, this may be important when analysing the associations between performance measures and different inter-temporal decisions. In answering the first research question, this study contributes to the behavioural accounting literature by highlighting how an organisation's internal architecture (store characteristics, specific roles, and intra-organisational mobility) and management control practices (performance measure monitoring and performance evaluation process) influence managers' understanding of their time horizons. In doing so, the study calls into question the assumption that the short term is a standardised one-year period (e.g., van der Stede, 2000; Marginson et al., 2010).

Of note, the present study highlights how changing the temporal dynamics of performance measurement practices changes the time horizons of managers. That is, Grocer's decision to shorten the period over which customer satisfaction and customer knowledge about charity involvement are monitored, focuses managers' attention on shorter timeframes and changes where the related performance tasks are situated with respect to a temporal reference point. This is, perhaps, because "*the more frequently you measure an area of your business, the more attention you'll pay to it*" (Store Manager A10: 1926-1927). The findings from Grocer suggest that increasing the frequency of performance measure monitoring shortens managers' perceptions of the temporal scale because increased monitoring implies shorter time periods between measurements. This extends previous findings that highlight that evaluation period length is positively associated with managers' time horizons (van Rinsum and Hartmann, 2007), as a result of not treating performance evaluation as a standalone activity that is detached from other aspects of managers' work (see Jordan and Messner, 2012). The findings also extend research that tests the capital market pressure hypothesis (e.g., Bhojraj and Libby, 2005), by suggesting that more frequent internal monitoring of non-financial measures, in addition to financial measures,

causes managers to possess shorter time horizons. To conclude, the existing literature does not appreciate enough how closely time horizons are linked to the frequency of measurement. There is a widely-accepted management adage ‘what gets measured gets done’ but, based on this study, a supplementary, cautionary maxim can be offered: ‘what gets measured frequently may get done frequently’.

This section has presented findings about managers’ perceptions of their time horizons in relation to the context in which inter-temporal tasks are performed, and has then discussed these findings with reference to the broader literature. The following section presents and discusses the findings that relate to the nature of inter-temporal decisions and, in so doing, addresses the second research question.

## **6.2 Spectrum of Inter-Temporal Decisions**

This section links managers’ understanding about their time horizons to their involvement in different inter-temporal decisions.<sup>80</sup> Four types of inter-temporal decisions are observed at Grocer. These are: (1) focusing on the short term (myopia); (2) focusing on the long term (hypermetropia); (3) sacrificing the short term for the long term (long-termism); and (4) sacrificing the long term for the short term (short-termism). By covering the inter-temporal decision-making spectrum, it is possible to empirically observe the properties and boundaries of short-termist behaviour through noting points of similarity and difference between the four inter-temporal decisions. By this means, consideration is given to how and to what effect inter-temporal decisions are made to capture the variety in the ways in which trade-offs manifest. Because of the nature of managerial roles, the examples encountered concern operational, rather than investing, inter-temporal decisions.

The present section is divided into four parts. Inter-temporal decisions that involve focusing on a time period and sacrificing one time period for another are disentangled in the first two sub-sections below. The third sub-section aggregates these findings by using a decision tree approach to model the differences between myopic and short-termist decisions, and diagrammatically shows which middle-level managers provide a first-person account of participating in the inter-temporal

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<sup>80</sup> For the most part, the discussions hereafter assume that the long term subsumes the medium term, unless an interviewees’ account explicitly refers to medium-term activities and responsibilities. In doing so, the presentation of findings can be simplified.

decisions observed. The final sub-section presents an aggregate analysis as a conclusion to this section. Taken together, this section attends to the study's second research question: *how do inter-temporal decisions manifest?* By emplacing short-termism within the spectrum of inter-temporal decisions and empirically demonstrating the nuances of the behaviour, the present study calls into question the assumption that short-termism is a relatively uncomplicated/un-nuanced, if undesired behaviour (see e.g., Merchant, 1990; Abernethy et al., 2013). This conclusion has implications for the way in which short-termism is conceptualised and operationalised in the behavioural accounting literature.

## **6.2.1 Focusing on a Time Period: Myopic and Hypermetropic Decisions**

Focusing on a time period can be conceptualised as either focusing on the short term (myopia) or focusing on the long term (hypermetropia). Because the long term is an aggregation of short terms (Mauboussin and Callahan, 2015), focusing on a specific time period need not necessarily entail an inter-temporal trade-off decision. This contention necessitates accordance between inter-temporal tasks. Accordance occurs when short-term tasks coincide with longer-term tasks, and vice versa. However, focusing on a specific time period may result in managers' unintentional trade-off decisions when tension between inter-temporal tasks prevails. Examples of myopic and hypermetropic decisions are given below.

### **6.2.1.1 Examples of Myopic Decisions**

For store managers, the inability to assess the long term occurs "*because when you're in the four walls sometimes it's easy to not see something that's fairly obvious*" (Group Change Coach B: 573-574). This may help to explain why the group support roles involve coaching and advising some or all of the store managers within a workgroup on improving a particular aspect of their BSC performance (store managers' medium-term activity) and the store director roles involve coaching and supporting store managers within a workgroup on translating the pre-set vision and strategy into workable actions (store managers' long-term activity). At the same time,

*“we became so programmed to chase that number that we lost sight of what really mattered”* (Group Change Coach A: 494-495). In other words, if middle-level managers cannot recognise the various performance dimensions and expectations associated with the role that they hold, they may be unaware of the possible longer-term implications of their short-term actions. Inspirational Performers intends to resolve this matter through its five-stage framework. Limitations of foresight also relate to Grocer’s financial instability. As the following quotation suggests, focusing on the short term reduces the felt ambiguity.

*“I feel more confident that I’m doing the right things with the team in the now. Whereas two years ago, I probably wouldn’t have felt like that because we weren’t in such a turbulent time as a business”* (Store Manager B7: 692-695)

Nonetheless, middle-level managers report that their short-term activities and responsibilities should coincide with their longer-term activities and responsibilities for reasons which are twofold. Firstly, six managers note that, *“when you’re looking at your short term you are gaging that really long term”* (Store Manager A2: 259-260). This means that short-term BSC performance measure results provide guidance for setting store-specific and workgroup strategies. Secondly, middle-level managers state that the short-term ‘reviewing’ and/or ‘delivering’ of BSC measures indicate progress in realising these strategies. For example, store managers that have on-target daily and weekly performance on product availability and absence are likely to have realised the workgroup strategy of creating *“a store where customers love to shop and colleagues love to work”* (Store Manager B11: 391). Another example concerns the lossmaking stores, where regular underspending on the daily and weekly cost targets (payroll, expenses, and product wastage) helps realise the ongoing store-specific strategy of minimising the monetary loss. From this standpoint, focusing on the short term need not necessarily be detrimental to longer-term activities and responsibilities because managers’ short-term actions may extrapolate into optimal long-term performance. These decisions demonstrate a present-based rationality.

A short-term focus is occasionally necessary because *“there are elements of the job that obviously we’re required to be reactive about”* (Store Manager A6: 1147-1149). As noted previously, store managers are required to demonstrate responsiveness to unexpected absenteeism creating gaps in schedule requirements,

late deliveries impeding store routines, and power outages affecting perishable products. Here store managers embrace an event-based orientation to “*deal with that situation by dropping everything else and attending to it—like you would a fire*” (Store Manager A10: 1169-1170). ‘Fire-fighting’ practices are suggestive of spur-of-the-moment behaviour, enacted to immediately suppress the symptoms caused by an unexpected event. The unexpected event is a source of tension between inter-temporal tasks leading to trade-off decisions. However, at least prior to the enactment of the fight-fighting practices, managers sometimes do not evaluate the expected longer-term consequences of their short-term actions. Limitations of foresight may thus result in managers’ unintentional trade-offs when there is tension between inter-temporal tasks.

In the following illustration, unexpected absenteeism in the online shopping department created gaps in daily schedule requirements. To prevent online orders being capped or cancelled by Grocer’s Head Office, store manager A10 enforced temporary inter-departmental movement to meet the staffing requirements of the online shopping department. However, store manager A10 did not consider this fire-fighting practice within a wider operational framework, namely, the consequent understaffing in other departments which would impact upon the operation of those departments. When an unexpected event is deliberated within a wider operational framework, long-termist decisions can result (see sub-section 6.2.2).

*“There’d been a couple of sick calls on our home delivery department and the orders, which are online, spiked by twenty percent. So, all of a sudden, the resource that was planned in for that department was nowhere near enough. So, in order for me to get orders out to customers, I’m going to have to make some decisions and put other resource in the store which could be my department manager population and other people into that department to firefight something that’s come up as an issue.”* (Store Manager A10: 1072-1079)

As will be shown in sub-section 6.2.3, all the middle-level managers interviewed for this research offered a first-person account of focusing on the short term. The next sub-section describes hypermetropic decisions.

### 6.2.1.2 Examples of Hypermetropic Decisions

Middle-level managers state that they are encouraged to address the long term because of the objective-setting process in Inspirational Performers and ‘Plan, Do, Review’ documents that help them to structure the way that they complete their inter-temporal activities and responsibilities (Internal Company Documents, Group 5). ‘Plan, Do, Review’ documents are intended solely for the personal use of managers, and relate to BSC performance problems that are to be resolved over a few weeks. Completing a ‘Plan, Do, Review’ ensures that the manager has the right plan in place, knows how to complete the plan, understands how they are performing against the plan, and captures results to continuously improve performance. Managerial foresight may also be facilitated by highly achievable performance targets. As highlighted in the following quotations, managers report that short-term BSC targets must first be achieved to allow them to feel liberated enough to consider their medium- to longer-term activities and responsibilities.

*“I like the short-term things to be delivered because they stop becoming a distraction then so allows you time and your mind to be free enough to think about the long term.”* (Store Manager A8: 725-727)

*“The biggest part of our job is KPIs. They would say capability, leadership, inspiring people, and culture would be our job. But, to do that, to have time for that, you’ve got to be stable around your KPIs.”* (Store Manager B2: 162-164)

Examples of hypermetropic decisions relate to changing target levels. Most store managers used their increased payroll budget to support the process of picking, packing, and dispatching online orders to try to grow sales and/or support checkout service to improve customer satisfaction targets and so gain customer loyalty.<sup>81</sup> However, Chapter 5 noted that how (and if at all) the extra budgetary funds were utilised in store was at the discretion of the particular manager. Regarding the four lossmaking stores in the sample, these store managers decided not to utilise all the extra budgetary funds to help realise the store-specific strategy. In other words, the future was first planned (e.g., minimise the monetary loss), and only then were present

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<sup>81</sup> Increases in payroll budget occurred during the last quarter of 2014/15. For information about the allocation process, see sub-section 5.3.1.

actions implemented (e.g., do not utilise all the extra budgetary funds). Consequently, focusing on the long term does not generate a loss of concentration on short-term results when there is accordance between inter-temporal tasks. The following quotation illustrates this future-based rationality.

*“The company has given investment to all stores because they want to improve the service offer. So, the money is there for me to spend, but the conversation I’ve had with [Store Director A] is it’s not my expectation to be spending my investment because that’s not going to help my profitability plan. So, we only spend the investment we’re required to spend. So, provided I still deliver the expectation from the business, which is best at busiest, we improve our evening [queue length] and availability on the shelf actually improves. As long as I achieve those numbers, I’m okay not spending all of my investment.”* (Store Manager A5: 173-180)

Focusing on the long term can also lead to the informal changing of cost targets. It was previously noted that, because targets set for some of the performance measures are store specific and influenced by store age, stores that have been open for less than three years are set more achievable financial targets than the best-guess forecast to protect managers against unforeseen circumstances. It was also noted that this budgetary slack is gradually removed over the three-year period to a level that is consistent with a ‘tight, but attainable’ budgeting philosophy. As highlighted below, one store manager decided to gradually remove this slack before it was formally done by Grocer’s Head Office in order to prepare her store team for the tighter targets. Again, a future-based rationality is implied.

*“So, for me, by doing it with payroll, I was getting them into a position where they were going to end up being anyway. So, it made perfect sense to gradually ease that in and didn’t seem like such a shock then. In the second year, figures are cut etcetera your budgets are cut slightly.”* (Store Manager B1: 303-307)

As will be shown in sub-section 6.2.3, twenty-five of the thirty middle-level managers interviewed for this research offered a first-person account of focusing on the long term. Sub-section 6.2.2 now turns attention to inter-temporal decisions that involve sacrificing a time period.

## **6.2.2 Sacrificing a Time Period: Short-termist and Long-termist Decisions**

Making a sacrifice denotes the knowing act of giving up something valued for the sake of something else regarded as more important. Therefore, sacrificing a time period involves making an intentional inter-temporal trade-off decision. At Grocer, two sacrificing inter-temporal trade-off scenarios prevail: (1) the short term is sacrificed for the longer term (long-termism); and (2) the longer term is sacrificed for the short term (short-termism). Sacrificing a time period implies that there is tension between inter-temporal tasks. Tension occurs when short-term tasks are at odds with longer-term tasks, or vice versa. Whilst exploring the sources of tension that explain short-termist decisions is the purpose of Chapter 7, the notion of tension permeates this sub-section. Decisions that involve sacrificing a time period are described and unpicked in the remainder of this sub-section.

### **6.2.2.1 Examples of Long-termist Decisions**

Sacrificing the short term indicates that middle-level managers' inter-temporal trade-off decisions favour the longer term. Perhaps, "*we might have to take a bit of pain where you see waste go up for that to get the right process, but then it should deliver going forward*" (Group Loss Manager A: 173-174). Behaviour that focuses on the longer term to the detriment of the short term, or long-termism, thus manifests itself at Grocer through managers favouring actions that will improve longer-term effectiveness. Such actions are colloquially referred to as 'fixing it forever'. At Grocer, managers are aware that these inter-temporal decisions are harmful to the short term but nonetheless still make the decision. As will be demonstrated shortly, these decisions evoke the notion of sacrificing the here and now. Four examples of this inter-temporal trade-off decision are provided below.

Chapter 5 indicated that payroll budgets comprise a store's aggregate contracted hours and an overtime allowance. Below, store manager B4 describes that a store's contracted hours are calculated based on turnover from the lowest predicted sales week.

*“I might be given three thousand hours that I’m allowed to contract based on the lowest predicted sales week. And, as a company, week forty-nine is the quietest week of the year for us. So, we base our payroll cost on week forty-nine...I can flex up with overtime, temporary contracts. I can do what I want. But, what the business, and you can understand why, the business has got to think of a worst-case scenario week. What if every week was like week forty-nine?”* (Store Manager B4: 1321-1331)

However, “because [Grocer’s] sales have been falling” (Store Manager A4: 539) and store managers “took on too many people and didn’t finish them off” (Store Manager B4: 1333-1334) many GroA and GroB stores are deemed to be over contracted. In consequence, these stores have little or no overtime to cover holidays and absenteeism. Two store managers thus decided to reduce their store’s contracted base to not only improve profitability but also regain flexibility. An overtime allowance provides flexibility insofar as planned and sporadic absenteeism that creates gaps in schedule requirements can be managed (thus preventing the fire-fighting practices outlined in the previous section). Of course, because payroll was calculated as a percentage of the downward revised sales budgets, the working hours lost through reducing the store’s contracted base was not entirely recovered in the overtime allowance. So, whilst the stores adapted to having a smaller workforce to perform the day-to-day activities that are linked to the achievement of performance measures, this decision was to the detriment of short-term BSC performance, as highlighted below.

*“We had too many hours and got rid of five hundred hours of temps and anybody who wanted to drop hours we let them. And, that did damage the store short term. We’re only now coming out of the other side of that. But, absolutely, the long-term benefit is that we’re in a better position going forward.”* (Store Manager A4: 541-545)

Second, two store managers (one of whom is now a group support manager) decided to change the working pattern of employees’ contracted hours. The purpose of this was to improve the customer shopping experience and thus realise the long-term workgroup strategy of gaining customer loyalty (see sub-section 6.1.3). Both managers enforced this contractual change shortly before the six-monthly measurement point for employee satisfaction. As revealed below, this linguistically

compartmentalised medium- to long-term performance measure captured a short-term morale problem and disruption to ongoing performance.

*“We just fundamentally changed our cashiers’ working week, which was quite emotive if I’m honest. If you think about the [BSC], we have never been a poor [employee satisfaction] store. When we did the piece of work that we did this year, we actually became a red store because it was hugely unpopular with about eighty or ninety of our colleagues what we had done with regards to their hours. But, we needed to do that to balance the customer experience from a service perspective.” (Store Manager A8: 249-255)*

*“So, in [GroB store], hours in [GroB store] this time last year, and in quarter three, beginning of quarter four last year, before [employee satisfaction], I decided we were going to change peoples’ hours for the right business needs not just because I wanted to upset people. But, we enforced a bit of change on the checkouts which I knew would affect my [employee satisfaction] in January.” (Group Loss Manager B: 1682-1687)*

This temporary below-target performance may account for group loss manager B’s suggestion that employee satisfaction should be monitored more frequently (see sub-section 5.3.1), because *“if I had reviewed them in three months’ time, I would have been in a much better place”* (Group Loss Manager B: 1699-1700). As the following quotation reveals, with hindsight, group loss manager B regrets the timing of the above decision because it negatively affected his performance evaluation rating which, in turn, influenced the rewards earned. To some extent, store directors (superiors) are thus discouraging inter-temporal trade-off decisions that favour the longer term.

*“I wouldn’t change hours in December again. So, I missed out on a blue review this year, sorry, the end of the financial year last year, because my [employee satisfaction] was seventy-seven percent and it needed to be eighty. So, I’d already said to [Store Director B] in the December I’m going to upset a load of staff now which is going to impact my [employee satisfaction]. However, this is the business decision behind it blah, blah, blah. Okay, fine, no problem at all. I said but it’s going to affect, ‘yeah, no problem’. So, when it got to my review, and I said right ‘I’m a blue performer’, ‘ah, you’re not a blue performer because your [employee satisfaction] is seventy-seven percent’.” (Group Loss Manager B: 2121-2129)*

Third, to realise the store-specific strategy associated with the lossmaking stores and support the broader workgroup, one store manager chose to close his store's optician service. In the longer term, this decision contributed to the broader goal of minimising the store's loss whilst also supporting the profitability of another store's opticians through the relocation of customers within the workgroup. However, removing the store's destination service damaged short-term BSC measures, such as sales.

*“We've got an optician at the front of store that was in place when the store was taking its one point one million... [GroA store] is a non-profit optician, we are a non-profit optician. We're looking at our business moving to [GroA store], including the personnel in this store. It would turn [GroA store] profitable. So, the business would see a definite gain. Short term, we'd take a hit at this store, obviously because our customers we're asking now to travel a mile and a half further down the road. But, long term, it supports this branch and it supports the overall optician business because it turns another branch profitable.”* (Store Manager A5: 576-586)

Fourth, and finally, the group online shopping manager must successfully manage unforeseen day-to-day incidents, such as delivery driver shortages, to prevent online orders being capped or cancelled by Grocer's Head Office. As indicated in the following quotation, the group online shopping manager makes decisions with a view to securing long-term customer loyalty but to the detriment of short-term financial performance. The difference between the group online shopping manager's and store manager A10's decision (see sub-section 6.2.2.1), is that the group online shopping manager deliberates her decision within a wider operational framework of long-term plans.

*“I had to get some drivers from there to go and support which meant putting them up in a hotel. So, expenses wise, and money wise, completely unproductive and costly, especially with [GroA store] being a seasonal area, the hotels we had to put them up in were expensive and it was just not to cap and not to be on a list of you know you've had to cancel all these orders...At that time, it was right we need to just not disappoint the customers, not cap. So I did that and it was costly. But, the other part of it is it's annoying because of expenses but actually we might have lost those customers if we didn't.”* (Group Online Shopping Manager: 555-571)

These examples illustrate that middle-level managers sometimes make decisions that involve a short-term sacrifice for expected longer-term betterment. The managers are aware that these inter-temporal decisions are harmful to short-term BSC results but still make the decision. As will be shown in sub-section 6.2.3, eight of the thirty middle-level managers interviewed for this research offered a first-person account of sacrificing the short term for the longer term. Inter-temporal decisions that involve sacrificing the long term for the short term (short-termism) are discussed below.

### **6.2.2.2 Examples of Short-termist Decisions**

Sacrificing the longer term indicates that middle-level managers' inter-temporal trade-off decisions favour the short term. It is, essentially, "*where you're trying to get to that long-term goal but can't get over the short-term fixes*" (Group Loss Manager A: 298-300) because "*people in general are blinded by the fact they have to deliver a number to be successful*" (Store Manager A6: 871-872). A preference for short-term actions that have detrimental consequences for the longer term, or short-termism, thus manifests itself at Grocer through managers making decisions that will deliver short-term BSC performance measures. These decisions are metaphorically known as 'plastering over the cracks'. At Grocer, managers are aware and able to evaluate that these inter-temporal decisions are potentially harmful to the longer term but, nonetheless, they still make the decision. As will be demonstrated shortly, these decisions are organisationally suboptimal because they evoke the notion of sacrificing the future. Four examples of this inter-temporal trade-off decision are provided below.

The pursuit of short-term success can manifest through favouring predictable goal achievement. Several managers explain that striving to achieve short-term BSC performance measures can militate against medium- to longer-term capability building responsibilities (see Table 6.2 and Table 6.3). This is because informal reviews of a subordinate's BSC performance lowers the level of autonomy given to that subordinate to make their own decisions. The quotations below illustrate this point.

*"Sometimes I give the answers 'oh, we need to do this. What do you think?' But, people aren't thinking for themselves then, are they? So, they're always*

*looking to you for the answer and actually we want people to be thinking for themselves.” (Group Loss Manager B: 1278-1281)*

*“In order for me to be able to hit that number, I generate a conference call daily. Eighteen store managers and then that generates results because they’re on a daily conference call with myself and then that is starting to bring about change because they don’t want to be on a conference with myself to answer how they’re doing things. What I will then start to notice, yes it’s giving me results; however, I’ve created an environment where they’ll deliver results based on me asking them on a daily basis. So, therefore, a system and a tool that has been set up in the last probably eighteen years is conference calls, which now I know don’t deliver and sustain in the long term and medium term.” (Store Director A: 129-138)*

Second, delivering short-term BSC performance measures can occasionally be at odds with the actions that are required to improve BSC performance in the medium term and gain customer loyalty in the long term. For instance, in order to achieve the short-term product wastage target (see Table 6.1), a number of store managers decided to “decimate” (Store Manager A9: 788) their store’s product range. These managers had quite a simple rationale: “*the quickest way we can reduce waste is to get rid of the lines that we believe cost us waste*” (Store Manager A8: 565-567). The consequence of this, however, appears to be detrimental to long-standing customer relationships and improving sales levels. For example:

*“Stores have been happy to get rid of range without thinking about the long term—those customers are going to go somewhere else.” (Store Manager A4: 764-766)*

*“Look at my range downstairs, there’s six lines of [Grocer’s highest-quality] sandwiches on sale. Some of the [GroA stores] wouldn’t stock that...If you’re a [Grocer’s highest-quality] customer and you spend one hundred and twenty, one hundred and thirty, forty pounds in a shop every week and you can’t buy a [Grocer’s highest-quality] sandwich you may want to go and shop somewhere else. So I could lose, for the sake of a couple of pounds worth of waste a day, a customer who could spend over a year, if it’s two hundred pound a week, ten thousand pounds.” (Store Manager B5: 70-83)*

These and other managers explain that such actions are often necessary to create a façade of competence in the short term and thus protect their managerial positions in the longer term (this point is returned to in sub-section 7.2.3). One

manager likens this inter-temporal tension to that faced by “*a political party*” because “*if you want to be around in the long term to add value and make a difference then you better win in the short term to allow that to happen*” (Store Director A: 843-845). Another manager more prosaically describes it as “*cutting a few corners to get a result*” (Group Loss Manager B: 469). Interestingly, as illustrated below, this specific inter-temporal trade-off decision is influenced by a store’s characteristics.

*“My last store, I managed [GroA store], which is a bloody big old shop. It’s a big old shop, but with probably a third less turnover than us. Incredibly difficult to maintain your range because their range is probably twenty-five percent bigger than ours, their turnover is thirty percent less than ours and, although their waste budget would be in percentage terms more generous, incredibly difficult.”* (Store Manager A8: 580-585)

Third, middle-level managers may “*actually look at gaining some short-term relief from not delivering a particular measure by manipulating the figures*” (Store Manager A10: 1663-1664). As one store manager remarks, “*an awful lot of the numbers can be manipulated*” but this behaviour “*doesn’t contribute necessarily to customer loyalty or profit*” (Store Manager A4: 1585-1594). Internal company documents corroborate the occurrence of gamesmanship at Grocer. A PowerPoint presentation designed by store manager A8, and titled “*Is It Really Only about the Number?*”, includes in-depth illustrations of gaming practices that occur within GroA (Internal Company Documents, Group 10).<sup>82</sup>

For example, it has been noted that customer satisfaction is operationalised through a questionnaire survey, which customers can complete via the internet or by telephone. However:

*“Almost everything within that can be influenced by the store if you choose to. So, in whatever way you choose to do it, you could fill the forms in yourself, you could put your colleagues under so much pressure that they do things themselves, which will deliver you a number but doesn’t actually fix the shopping trip...And, if you do that, the real loss is the fact that you don’t use the valuable data that the customers are giving you to fix your shop.”* (Store Manager A8: 193-203)

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<sup>82</sup> The researcher was provided with a hardcopy of the PowerPoint presentation one month before the interview with store manager A8. This allowed the content of the presentation to be referenced and probed during the interview.

The above quotation reveals that short-term results are ‘delivered’ but to the detriment of maintaining or improving actual customer satisfaction. In fact, customer satisfaction and future sales may diminish because of this decision. Table 6.4 shows further examples of the gaming of individual BSC measures. Examples include: gaming queue length by logging onto a checkout, ensuring no operator then sits at that checkout, and finally scanning one lemon; gaming expenses through collecting customers’ products left at the checkouts at the end of each day and then stating they were returned by customers due to a fault to claim money back off suppliers; and gaming employee satisfaction by completing questionnaires intended for subordinates. Reasons for managers’ gamesmanship are explored in the next chapter.

Another form of gaming occurs because of the various interdependencies between the measures within and between each of the BSC quadrants. That is, there are some inappropriate linkages between the BSC measures that do not lead to the desired ends (see sub-section 7.1.3). For instance, the inverse relationship between the measures of product wastage and unknown product losses can result in an inter-temporal trade-off because the measures have temporally spaced outcomes (i.e., weekly versus six monthly).<sup>83</sup> Inaccurate recording is thus indicative of favouring the short term (product wastage) to the detriment of the longer term (unknown product losses). Basically, “*you might end up with a bit more [unknown product losses] but if you were a good [unknown product losses] store you might sort of think well actually I can afford it*” (Group Online Shopping Manager: 1576-1578). So, even though “*you’d always have one that would be adverse*” (Store Manager A6: 425-426) it is possible that there would be “*somebody saying ‘oh well, my [unknown product losses] is red, what the hell, let’s not record waste now because [unknown product losses] is red anyway not to have a red and another red light on waste’*” (Store Manager B5: 1636-1638). To some extent, this rationale is reinforced by the equal weighting of the BSC measures (see Figure 5.2).

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<sup>83</sup> That is, if products in store are inaccurately recorded as missing then product wastage will decrease and unknown product losses will increase.

**Table 6.4:** Gaming of Individual BSC Performance Measures

BSC Quadrant	Performance Measure	Illustrative Quotes
<b>Financial</b>	Expenses	“Say this is a packet of Ariel and it comes back and it doesn’t work or washing up liquid and it doesn’t bubble. So, you bring it back and you complete an RP125 and then we should then get money back from the supplier. So, like everything, we’re then targeted to deliver a certain number of those a day, a week rather. So, I’ve got forty a week I’ve got to do. I know that stores started just scanning the stuff that was left behind at the tills at the end of the night.” (Store Manager A4: 1548-1554)
	Product Wastage	“Not declaring waste because you’ve got a waste target to achieve, and if you declare the waste you won’t hit the target.” (Store Manager A10: 900-901)
	Unknown Product Losses	“In the past, loss was created through choice of the store manager to count something. If I’m supposed to have two spoons and I know I’ve only got one spoon, it’s my decision to count that line and create that loss.” (Store Director A: 180-183)
<b>Operational</b>	Product Availability	“If they didn’t have one pack of tomatoes they can make a barcode or keep a barcode of that, scan that, and give the customer a better product. So, then they wouldn’t complain because the product is better or bigger. Then, it wouldn’t show on the KPI.” (Group Online Shopping Manager: 1537-1544)
	Pricing Errors	“If the cashier behind the desk didn’t process it as a pricing error and just gave the customer their money back and refunded the item then it wouldn’t go through as a pricing error; which means the customer doesn’t get double the difference back so doesn’t go away as happy.” (Store Manager B8: 1181-1184)
	Stock Record Accuracy	“Every gap that you scan, has it got a book stock? And, if it has, you then clear it down. So, stores can get around that. So, you scan a gap with one PDA. Just say it’s got a stock record, you then clear it, and you then scan the gap so it’s a zero-stock record.” (Store Manager A4: 1506-1509)

<b>People</b>	Employee Satisfaction	“It’s done online on a tablet or a computer. You don’t have to register your employee number because it’s confidential. So, if you want to skew a figure you could just get somebody to whack in four hundred surveys.” (Store Manager A6: 779-781)
	Absence	“You could code the absence as not absence. So, we’re measured at about three and a half percent I think the target is, four percent as a group or something like that. And, you could code them differently. You could code them as not absence, not sick but unpaid leave anything like that and fix that number.” (Group Loss Manager B: 545-549)
<b>Customer</b>	Customer Satisfaction (with quality of products, customer service, product availability)	<p>“We’d hear that they were in and then I’d make sure that every single person on the checkout bank knew that the mystery shopper person was in so make sure that they were nice.” (Store Manager A4: 1329-1331)</p> <p>“The way you can manipulate it is based on cards being handed in. So, you could have a close knit of friends or people you know outside of work and just ask them to fill in the cards for you and then the more positive comments you get it improves your number.” (Store Manager A5: 1389-1393)</p> <p>“You can phone in yourself. I’ve also heard that they only give out cards on the quiet days when it’s a more stress-free shopping experience. If you get a good score, you then take all the cards away so that they don’t get handed out to customers.” (Store Manager B9: 1210-1213)</p>
	Queue Length	<p>“You could have a till signed on and you’d actually scan one item. What they used to do was put a lemon through and it would show that you had another till open. There’s nobody at that till but somebody is signed on. [Queue length] number is based on number of tills open against the number of tills required to be open. So, if you signed on a till but there’s nobody parked up on it, it’s helping your [queue length].” (Store Manager A5: 1521-1527)</p> <p>“[Queue length] is a measure of people queueing at main bank checkouts. Let’s say you’ve got ten main bank checkouts and four express checkouts. Your express checkouts are for baskets, your main bank checkouts are for trolleys. You’ve got ten cashiers, you open up all your main bank checkouts so you’ve now got no basket checkouts open. Your customer aren’t being served properly because if I’ve got a basket I can’t go through an express checkout. But, you get exclude on [queue length]. So, your [queue length] doesn’t measure properly.” (Store Manager B5: 970-979)</p>

Further illustrations of inter-temporal trade-off decisions that relate to the linkages between BSC measures are provided in Table 6.5. These include: product wastage versus other BSC measures; unknown product losses versus product availability; and product availability versus other BSC measures.

Fourth, and finally, the sanctioned practice of offsetting cost targets (prior to December 2014) is another example of sacrificing the long term insofar as it may cause more harm than good because the relationship between most of the performance measures is characterised by interdependence. Recalling that payroll is usually sacrificed, this practice can damage the customer shopping experience and customer loyalty because *“if you’re saving loads of money on your payroll, then are you giving customers the number of colleagues they need for either replenishment or availability and checkout service?”* (Store Manager A8: 130-133). For this reason, five managers note that they would not willingly underspend payroll to compensate for an overspend on another cost target (i.e., expenses, product wastage, or unknown product losses). This is because:

*“It makes everything a lot harder further down the road. So, where you had one red light so you might have had waste as a red light all of a sudden [unknown product losses] becomes a red light because you can’t pay for people to do their jobs because your payroll is under pressure and then your expenses are under pressure because everything else is under pressure. So, all of a sudden then, you become red. So you have four red lights instead of one.”*  
(Group Change Coach B: 548-554)

These examples illustrate that managers take actions to achieve short-term BSC performance measures that can sometimes harm their medium- to long-term

**Table 6.5:** Gaming of BSC Performance Measures through Interdependencies

Performance Measure	Influences	Illustrative Quotes
Payroll	Other BSC Measures	<p>“For a quarter, I could overspend my payroll by fifty thousand. That fifty thousand could buy me a fresh food waste team, it could buy me more night crew to fill my fresh food to ensure that my waste number comes through, I could employ a security team to protect my [unknown product losses] and protect my products around the store. I could put more bums on seats at the frontend to ensure I’m always passing my [queue length] number. So, there’s a direct correlation. You could spend that money there and you could pretty up your shop so your store standards number is always good, when the boss comes in he always sees this really nice-looking store. But, you’ve spent money to deliver that that you haven’t got.” (Store Manager A5: 1215-1223)</p>
Product Wastage	Other BSC Measures	<p>“You can make your waste look good by throwing it in the bin and not booking it. And then, on the back end of that, you won’t see [unknown product losses] for a couple of months.” (Store Manager A1: 1361-1363)</p> <p>“We’ve had examples in our group where a stores been held up as, this store is delivering a great number on waste, and you all need to go there and understand what they’re doing. And, three months later, we found that the store wasn’t recording stuff and throwing it down the compactor.” (Store Manager A8: 1393-1397)</p> <p>“You have a lot of focus on waste—‘waste is a big problem guys’. So, what you get is people don’t record waste and it has an effect on [unknown product losses], which means when you get your stock result, which is perhaps every twenty-six weeks, you’ll lose twenty thousand pounds or something. Your waste is okay, but now you’ve got a bigger problem. If you’re not recording your waste properly, your availability isn’t right because the system doesn’t know what’s here until it gets fixed by doing the right routines on waste and [unknown product losses]. If your availability is a problem, your customers can’t get what they want, which means sales is a problem, which might affect payroll because, if you’re not getting high enough sales, your payroll comes down because it’s worked on a percent.” (Store Manager B5: 394-406)</p>

		<p>“We had twenty cases of bananas in yesterday. We sold ten and they’re only one-day life. So, where are the other ten cases? Have they thrown them without booking the waste? The system still thinks they’re there so will not reorder until we correct that stock record.” (Group Loss Manager A: 590-594)</p> <p>“It’s important that we are clear on what is waste and what is [unknown product losses] because if we were to not waste a product and [unknown product losses] it—what I mean by that is we tell the system we haven’t got it here so we’d lose that money as far as [unknown product losses] is concerned—the ordering system will just reorder the stock. If we tell the ordering system that it was out-of-code, or it was damaged, or it was reduced, then it will reduce the orders going forward. So, we will have less waste in future.” (Group Loss Manager B: 193-199)</p>
Unknown Product Losses	Product Availability	<p>“But, there has been times when someone will know that stock is not in the building and say ‘oh, I can’t write that off because I haven’t got that [unknown product losses] money to be able to write that off’ and never mind about the fifty customers coming behind that we’re going to disappoint that day because that stock is not in the building.” (Store Manager A2: 1244-1248)</p> <p>“So, I would tell our system we’ve still got ten even though there’s only two. So, when those two have been sold the system thinks I’ve got eight and then it doesn’t reorder it.” (Store Manager A3: 706-708)</p> <p>“It’s got a big impact on the customer as well because if you’re not counting that product it might not be on the shelf for a number of weeks because of that.” (Store Manager B11: 1243-1245)</p>
Product Availability	Other BSC Measures	<p>“If they didn’t have one pack of tomatoes they can make a barcode or keep a barcode of that, scan that, and give the customer a better product. So, then they wouldn’t complain because the product is better or bigger. So, they might give them a bigger size of the same product. Then, it wouldn’t show on the KPI. You would affect your [unknown product losses] because that’s then gone out of the business without recording it. So, they would affect a different measure but they could keep their availability green.” (Group Online Shopping Manager: 1537-1546)</p> <p>“You’re trying to fix availability, but by fixing availability you’re picking later because you’re looking for stuff which means you’re spending more of your payroll. Your vans are going out late because you’re picking too late and you haven’t got people loading them because you’re overspending payroll. Your pick rate has gone down, so you’re taking people who should be on the shop floor to fill it. It’s a big circle of bad.” (Group Online Shopping Manager: 1557-1562)</p>

responsibilities. The managers are aware that these inter-temporal decisions are potentially harmful to the medium and long term, but they still make the decision. The examples indicate that a considered approach may underlie managers' inter-temporal trade-off decisions. As will be shown in the next sub-section, eleven of the thirty middle-level managers interviewed for this research offered a first-person account of sacrificing the longer term for the short term. Incidentally, it is worth noting that several middle-level managers openly condemn these inter-temporal trade-off decisions—*“it's taking us away from our colleagues and customers, which is where we should be spending the time, just to chase numbers which last thirty seconds and then they're gone”* (Store Manager A8: 1907-1910). However, it was explained that *“working in [Grocer] is about chasing targets all the time”* (Store Manager B9: 480-481). Before discussing these findings with reference to the broader literature, sub-section 6.2.3 aggregates the data by using a decision tree approach to model the differences between myopic and short-termist decisions, and diagrammatically shows which middle-level managers provide a first-person account of participating in the inter-temporal decisions observed.

### **6.2.3 Comparing Inter-Temporal Decisions: Myopia, Hypermetropia, Short-termism and Long-termism**

Table 6.6 provides an overview and synthesis of the findings from sub-section 6.2.1 and sub-section 6.2.2 that relate to the four inter-temporal decisions observed at Grocer. The table indicates that focusing on the short term (myopia) or the long term (hypermetropia) may not necessarily entail an organisationally suboptimal inter-temporal trade-off if there is accordance between managers' inter-temporal tasks. In contrast, sacrificing the long term (short-termism) or the short term (long-termism) implies that there is tension between managers' inter-temporal tasks. The sources of tension that account for short-termism are outlined in Chapter 7. Table 6.6 highlights that, when focusing on a time period, if an inter-temporal trade-off occurs, it is unintentional insofar as managers are unaware of and/or unable to evaluate the expected longer-term consequences of their short-term actions. In contrast, sacrificing a time period involves managers making an unambiguous and intentional inter-temporal trade-off. The various manifestations of inter-temporal decisions perhaps reflect the messy reality of organisational life.

**Table 6.6:** Overview of Inter-temporal Decisions

	<b>SPECTRUM OF INTER-TEMPORAL DECISIONS</b>			
<b>Inter-temporal decision</b>	Myopia	Hypermetropia	Short-termism	Long-termism
<b>Relationship between short term and long term</b>	Accordance/ Conflict	Accordance	Conflict	Conflict
<b>Occurrence of inter-temporal trade-off</b>	Not necessarily	No	Yes	Yes
<b>Intentional inter-temporal trade-off</b>	No, managers are unaware of and/or unable to evaluate the longer-term effects of short-term actions	Not applicable, managers consider the future consequences of short-term actions	Yes, managers are aware that the decision is harmful to the long term but still make the decision	Yes, managers are aware that the decision is harmful to the short term but still make the decision
<b>Illustrative example</b>	Managing unforeseen daily events (mentioned by all managers)	Informal stretching of cost targets (mentioned by one manager)	Gaming individual BSC measures (mentioned by nineteen managers)	Reducing store's contracted base (mentioned by two managers)

The key distinction between myopia and short-termism is that the inter-temporal trade-off decision is knowledge-based and so purposive or intentional. With this in mind, a decision tree approach to model the differences between myopic and short-termist decisions is provided in Figure 6.4. To clarify the conceptual boundary between short-termism and myopia in the behavioural accounting literature, two questions are formulated: did the manager's decision involve an inter-temporal trade-off? Was the manager aware of the expected longer-term consequences of their short-term actions before making the decision? Two successive 'yes' answers suggest the occurrence of short-termism, whilst a 'no' answer suggests the occurrence of myopia. However, except for unforeseen events, the shorter managers' perceptions of the short term (e.g., daily), the easier it may be to foresee the longer-term consequences, implying unintentional trade-offs may be less likely.

**Figure 6.4:** Decision Tree of Short-termist and Myopic Decisions

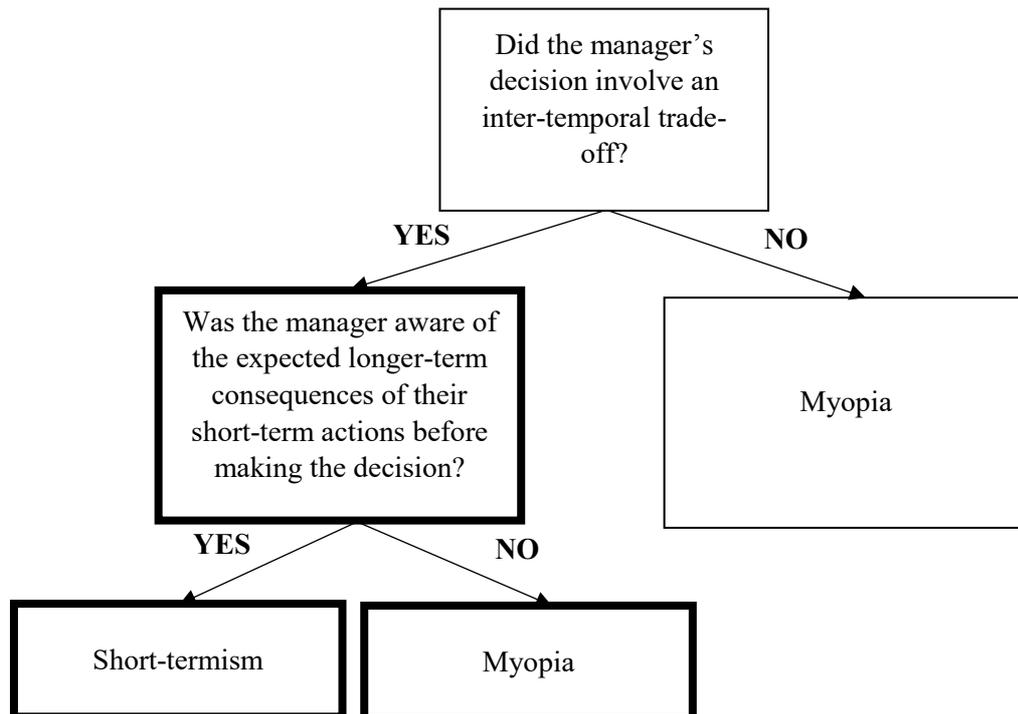


Figure 6.5 shows which middle-level managers offered a first-person account of participating in these inter-temporal decisions. A first-person account denotes that the manager offered a first-person perspective of participating in the inter-temporal decision, as opposed to using the third-person narrative mode. This distinction qualifies a discussion about how personal time preferences may complicate the relationship between performance measures and short-termism in sub-section 7.2.5.

Figure 6.5 reveals that all thirty middle-level managers interviewed for this research focused on the short term, whilst twenty-five managers focused on the long term. Twenty-five managers were thus able to switch between myopic and hypermetropic decisions, depending on the decision-making situation. Importantly, this suggests that a short-term focus need not preclude a long-term focus. As can be seen in Figure 6.5, eleven middle-level managers sacrificed the long term for the short term, whilst eight sacrificed the short term for the long term. Interestingly, three managers engaged in short-termist and long-termist decisions, depending on the decision-making situation. Sub-section 6.2.4 discusses the findings presented in this section in relation to the literature reviewed in Chapter 2, particularly Section 2.1 and Section 2.2.

**Figure 6.5: Inter-temporal Decisions by Manager**

Interviewee	SPECTRUM OF INTER-TEMPORAL DECISIONS			
	Myopia	Hypermetropia	Short-termism	Long-termism
Store Manager A1	✓		✓	
Store Manager A2	✓	✓		
Store Manager A3	✓	✓		
Store Manager A4	✓	✓	✓	✓
Store Manager A5	✓	✓		✓
Store Manager A6	✓	✓	✓	
Store Manager A7	✓	✓		
Store Manager A8	✓	✓	✓	✓
Store Manager A9	✓	✓		✓
Store Manager A10	✓	✓	✓	
Store Manager A11	✓	✓	✓	
Group Loss Manager A	✓	✓		✓
Group Change Coach A	✓		✓	
Store Director A	✓	✓	✓	
Store Manager B1	✓	✓		
Store Manager B2	✓	✓		
Store Manager B3	✓	✓	✓	
Store Manager B4	✓	✓		✓
Store Manager B5	✓	✓		
Store Manager B6	✓			
Store Manager B7	✓			
Store Manager B8	✓	✓		
Store Manager B9	✓	✓		
Store Manager B10	✓	✓		
Store Manager B11	✓	✓		
Store Manager B12	✓			
Group Change Coach B	✓	✓	✓	
Group Loss Manager B	✓	✓	✓	✓
Group Online Shopping Manager	✓	✓		✓
Store Director	✓	✓		

#### **6.2.4 Discussion: Short-Termism as a Relatively Uncomplicated/Un-Nuanced, If Undesired Behaviour**

As noted in Section 2.1, despite much research on short-termism, definitional inconsistency and conceptual ambiguity remains. This may partly be caused by the loose usage of the terms short-termism and myopia (see e.g., Marsh, 1990; Coates et al., 1995; Samuel, 2000; Chakhovich et al., 2010; van Rinsum and Hartmann, 2011). This is problematic because, at least theoretically, there are differences between the behavioural phenomena. Short-termism can be viewed as managers' intentional and organisationally suboptimal behaviour that focuses on securing short-term results that precludes longer-term achievement. This interpretation is based on the notion of sacrificing the future, and necessitates tension between inter-temporal tasks (Laverty, 1996; Marginson and McAulay, 2008; Irving, 2009; Marginson et al., 2010). In contrast, myopia refers to managers' limitations in the ability to foresee the future that may not necessarily entail a suboptimal inter-temporal trade-off when there is accordance between inter-temporal tasks. One interpretation of being short-sighted is that managers are generally unaware of and/or unable to evaluate the expected longer-term consequences of their short-term actions. From this standpoint, myopia does not involve an intentional trade-off between short-term results and longer-term achievement when inter-temporal tension prevails.

Section 2.2 noted that this terminological and conceptual confusion has led to varying operationalisation endeavours (compare Lawrence and Lorsch, 1967; Merchant, 1990; Marginson and McAulay, 2008). Short-termism has been equated with devoting more time to activities that influence the firm's annual profit position (e.g., Otley, 1978; Moers, 2000; van der Stede, 2000; Chakhovich et al., 2010; Abernethy et al., 2013), reducing discretionary expenditure (e.g., Merchant, 1990; Chow et al., 1996), and favouring predictable goal achievement (e.g., Marginson and McAulay, 2008; Marginson et al., 2010). Because existing research on short-termism does not link managers' views about their time horizons to their involvement in inter-temporal decisions, measurement instruments may not be broad enough in their consideration of how and to what effect inter-temporal trade-off decisions are made. The present study addressed this gap in the literature through formulating and answering the following research question: *how do inter-temporal decisions manifest?*

Four types of inter-temporal decisions were observed at Grocer: (1) focusing on the short term (myopia); (2) focusing on the long term (hypermetropia); (3) sacrificing the short term for the long term (long-termism); and (4) sacrificing the long term for the short term (short-termism). Of the thirty middle-level managers interviewed: (1) thirty managers made myopic decisions; (2) twenty-five managers made hypermetropic decisions; (3) eight managers made long-termist decisions; and (4) eleven managers made short-termist decisions. As far as the researcher is aware, this is the first study of the spectrum of inter-temporal decisions in the behavioural accounting literature.

At Grocer, middle-level managers are encouraged to focus on the short term due to the frequency of performance measure monitoring. Focusing on the short term may thus be, in part, an unintended consequence of the properties of a performance measurement system. Research that tests the capital market pressure hypothesis provides tangential evidence to support this finding. For example, Bhojraj and Libby (2005) find that, in conditions of market pressure, more frequent disclosure of earnings causes managers to make more myopic decisions. Likewise, Gigler et al.'s (2014) analytical model shows that, when an organisation's shareholders are sufficiently impatient, the price pressure associated with increasing the frequency of financial reporting results in myopic decisions. Broadly speaking, organisations may thus need to carefully consider their choice of performance measures, given that some aspects of performance that are measured need to be monitored frequently. This practical implication is elaborated in Chapter 8.

Nonetheless, focusing on the short term is not necessarily disadvantageous, supporting Marginson et al.'s (2010) assertion. First, achieving short-term results provides managers with the time and freedom to perform the various dimensions of their role. Second, decisive short-term actions are necessary when dealing with unforeseen daily events. In this case, if an inter-temporal trade-off decision occurs, it is unintentional insofar as the potential longer-term implications of short-term actions have not been considered. This emphasises disjunction in the literature about short-termism: if myopia signifies limitations of foresight, the manager cannot have knowingly traded off the long term for the short term. Except for unforeseen daily events, perhaps the shorter a manager's perception of the short term the less likely s/he will be unaware of and/or unable to evaluate the longer-term effects of their short-

term actions; that is, organisationally suboptimal myopic decisions may become less relevant.

At the other end of the temporal continuum, hypermetropia is encouraged at Grocer by the objective setting process in Inspirational Performers and ‘Plan, Do, Review’ documents. Because the long term is an aggregation of short terms (Mauboussin and Callahan, 2015), focusing on the long term does not necessarily cause a loss of concentration on short-term results. For example, store managers of loss-making stores focus on longer-term profitability plans and so carefully limit their use of additional budgetary funds in the short term. In this situation, inter-temporal trade-off decisions are not made. In sum, focusing on a time period is facilitated by accordance between managers’ inter-temporal tasks.

The findings from this study confirm that short-termism may manifest through reductions in budgetary expenditure (see e.g., Merchant, 1990) and favouring predictable goal achievement (see e.g., Marginson and McAulay, 2008; Marginson et al., 2010). Favouring predictable goal achievement appeared to lead to the gaming of BSC measures. This behaviour was consistent with managers’ intentional inter-temporal trade-off and, as such, was viewed as symptomatic of short-termism. Whilst this treatment is consistent with Brochet et al.’s (2015) description that gaming is a ‘symptom’ of short-termism, the manipulation of performance measures is often treated as a separate construct (see e.g., Merchant, 1990; van Rinsum and Hartmann, 2011). At Grocer, gaming took two forms: the gaming of individual BSC measures in isolation of other BSC measures; and the simultaneous gaming of two or more BSC measures through drawing on interrelationships. The short-term actions taken were often akin to ‘hitting the target, but missing the point’ (Bevan and Hood, 2006), particularly regarding customer satisfaction. Thus, as the group online shopping manager suggests, *“I just think we should welcome the negative feedback and be able to fix it. I don’t see why we need to put a light on it”* (Group Online Shopping Manager: 1899-1900). Attaching a target to the performance measure creates perceived pressure to meet the target for reasons discussed in the next chapter.

The examples reveal managers are aware of and are able to evaluate the expected longer-term consequences of their short-term actions. In this regard, the expected longer-term consequences are driven by a manager’s perception of what constitutes the temporal scale and thus are manifold. The longer-term consequences most frequently impact on customer loyalty, employee capability, employee

satisfaction, and financial performance. This emphasises the importance of understanding managers' time horizons prior to documenting inter-temporal trade-offs to observe how the decisions manifest.

At the other end of the temporal continuum, long-termism, or decisions that sacrifice the short term for the long term, manifests itself at Grocer through managers favouring actions that will improve long-term effectiveness, rather than on actions that will produce good short-term BSC results. Managers are aware that these inter-temporal decisions are harmful to the short term but, nonetheless, they still make the decision. For example, some store managers decide to reduce their store's contracted base to not only improve profitability but also regain flexibility, even though this is to the detriment of short-term BSC performance. But, to some extent, superior's use of the performance evaluation system and reward/penalty system discourages these types of decisions. In sum, sacrificing a time period is underpinned by tension between managers' inter-temporal tasks.

In answering the second research question, this study extends existing research by empirically demonstrating that any future definition of short-termism perhaps should not just emphasise the inter-temporal trade-off involved in actions, but also the intention that underpins those actions. This provides one way to distinguish between short-termism and myopia that has yet to be fully incorporated into short-termism research. The study demonstrates that the decisions and actions that are evident in the manager's short-termist behaviour are driven by his/her perception of what constitutes the temporal scale. In doing so, the study calls into question the assumption that short-termism can be viewed as a relatively uncomplicated/un-nuanced, if undesired behaviour (e.g., Merchant, 1990; Abernethy et al., 2013). Because short-termism studies do not link managers' views about their time horizons (cognition) to their involvement in inter-temporal decisions (behaviour), they may overlook how and to what effect the behavioural phenomenon manifests. The findings also contribute to research in this area by offering a broader perspective on the inter-temporal decision-making process, thereby highlighting points of similarity and difference between four inter-temporal decisions. Specifically, the present study highlights that a manager can make both myopic and hypermetropic decisions. Also, a manager who engages in short-termism may also engage in long-termism. This underlies the argument developed in Chapter 7 that short-termism may be a contingent decision behaviour.

### 6.3 Summary and Conclusions

This research is concerned with the nature and extent of the relationship between performance measures and short-termism. The purpose of this chapter was to describe, analyse, and explain the research findings pertaining to the first and second research questions:

1. *How do managers understand the short, medium, and long term?*
2. *How do inter-temporal decisions manifest?*

The purpose of the research questions was to ascertain when and how managers may engage in short-termism. The chapter has outlined managers' understanding of their time horizons in relation to the context in which inter-temporal tasks are performed. At the broadest level, managers understood the short term to be quarterly, the medium term to be annual, and the long term to be up to four years. Managers' understanding of the temporal scale was shaped by Grocer's internal architecture and management control practices, particularly the frequency of performance measure monitoring. These findings called into question the assumption that the short term is a standardised period not exceeding one year (see e.g., van der Stede, 2000; Marginson et al., 2010).

The findings were then taken further by linking managers' understanding of their time horizons to four types of inter-temporal decisions that manifest at Grocer. These were: (1) focusing on the short term (myopia); (2) focusing on the long term (hypermetropia); (3) sacrificing the short term for the long term (long-termism); and (4) sacrificing the long term for the short term (short-termism). The findings illustrated that short-termism may take many guises beyond the traditionally narrow view of the behavioural accounting literature, and that any future definition of short-termism perhaps should not just emphasise the inter-temporal trade-off involved in actions, but also the intention that underpins those actions. These findings called into question the assumption that short-termism can be viewed as a relatively uncomplicated/un-nuanced, if undesired behaviour (e.g., Merchant, 1990; Abernethy et al., 2013).

Together, this chapter moved from cognition to behaviour to traverse the cognitive-behavioural link. In so doing, the present chapter highlighted the complexity of short-termism and what it means to engage in this behaviour, thereby questioning the appropriateness of two assumptions that tend to underpin conceptual arguments. In the ensuing chapter, attention turns to exploring short-termism with reference to underlying mechanisms (research questions 3 and 4).

## **7 UNPACKING THE RELATIONSHIP BETWEEN PERFORMANCE MEASURES AND SHORT-TERMISM**

Chapter 7 aims to unpack the relationship between performance measures and short-termism by addressing the study's third and fourth research questions. The third research question aims to identify the linkages between an organisation's performance measurement system and short-termist decisions. The fourth research question asks whether there are factors that complicate this relationship. In other words, the purpose of the present chapter is to describe, analyse, and explain the research findings pertaining to the following research questions:

3. *What is the nature of the relationship between performance measures and short-termism?*
4. *What is the extent of the relationship between performance measures and short-termism?*

In line with the conceptual framework outlined in Chapter 1, the present chapter provides an individual-level analysis of the relationship between an organisation's performance measurement system and managerial short-termism (link between box a and box c in Figure 1.1) and empirically opens the black box of contingency factors (box b in Figure 1.1). The findings are presented in two sections, which move from the impact that the structure and operation of performance measures have on managers' inter-temporal trade-off decisions (as per research question three) to the contingency factors that play key roles (as per research question four). Together, this highlights the nature and extent of the relationship between performance measures and short-termism. To conclude each section, the findings are discussed in relation to the published work reviewed in Chapters 2 and 3. The empirical findings presented in this chapter are primarily drawn from responses to interview questions. During analysis, responses were cross-referenced with the observational notes from management meetings and internal company documents to uncover convergent and divergent accounts. To satisfy the quality criterion of methodological trustworthiness, an audit trail for each section is provided.

This chapter is structured as follows. The first section describes middle-level managers' short-termist decisions in relation to financial performance measures, non-financial performance measures, and the BSC. Attention is given to explaining the impact that the structure and operation of performance measures have on managers' short-termist decisions, such as the weighting of performance measures, the perceived pressure to achieve targets, target level difficulty, the frequency of performance measurement, and causal linkages. The second section considers five contingencies that appear to complicate this relationship at the individual level. These include: relative performance information; the performance evaluation system; the reward/penalty system; intra-organisational mobility; and personal time preferences. The contingencies focus on how performance information is disseminated and used to evaluate and reward managers, whilst acknowledging the possible between-person variability in inter-temporal responses to performance measures. The chapter concludes by making general comments about the importance of this data.

## **7.1 The Link Between an Organisation's Performance Measurement System and Managerial Short-termism**

This section examines how, why, and in what ways a combination of financial and non-financial measures relates to the tendency for managers to engage in short-termist behaviour. In doing so, the study unpicks the general categories of financial versus non-financial measures to offer a more nuanced analysis of individual performance measures and their possible association with short-termism. The data presented are drawn from internal company documents (document groups 6 and 10; see Appendix 10.9), observed management meetings (meeting numbers 1 to 10; see Appendix 10.8) and interview data (interview questions 9, 11, 12, 12a, 12b, and 13b with codes 2.5, 2.7, 2.12, 2.13, 2.15, 2.22, and 2.23 used; see Appendix 10.7 and 10.10). The section is divided into four parts. Financial measures, non-financial measures and combination-of-measures are explored in the first three sub-sections below. The fourth presents an aggregate analysis as a conclusion to this section. Together, the section addresses the third research question: *what is the nature of the relationship between performance measures and short-termism?* By demonstrating that quantitative (financial and non-financial) measures may lead to limited foresight and

short-termist behaviour and qualitative (non-financial) measures may encourage a longer-term focus, the study calls into question the assumption that all ‘financial measures’ encourage short-termism, whilst all ‘non-financial measures’ engender a longer-term focus.

### 7.1.1 Financial Performance Measures and Short-termism

Twelve of the twenty-three store managers interviewed for this research perceived the financial quadrant of Grocer’s BSC—which comprises sales, payroll, expenses, product wastage, unknown product losses—to be the most important for reasons outlined below.<sup>84</sup> A typical comment is that “*the one that stands out the most is the finance quadrant*” (Store Manager B8: 1009-1010). As the following two quotations suggest, this perception derives, at least in part, from superiors’ symptomatic behaviours that are perhaps not intended as messages but are nonetheless interpreted by subordinates.

*“If I was to count all my emails up and go: what am I judged on? What is he asking me to do? I would say finance.”* (Store Manager B3: 1450-1451)

*“My boss probably wouldn’t say it but he will talk to us a lot more about finance than he will about any other area of the [BSC].”* (Store Manager B4: 1445-1446)

Considering the above, underperformance on financial measures was perceived to be “*more alarming*” (Store Manager B6: 1709) vis-à-vis non-financial measures, particularly given the recent closure of more than forty lossmaking stores. Furthermore, because Grocer faces mounting public pressure to reduce the amount of food waste from its stores, middle-level managers’ product wastage performance was “*quite an emotional subject across the business*” (Store Manager B2: 678-679). There was thus importance attached to financial measures at Grocer, which translated into frequent performance measure monitoring. As one manager points out, “*if it’s being measured that frequently it’s because there’s a reason for it*” (Store Manager A10:

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<sup>84</sup> Eleven store managers place emphasis on queue length for reasons detailed in the next subsection. The group loss managers, of course, focus solely on the financial performance measures of product wastage and unknown product losses.

1933). In this regard, Grocer increased the monitoring of unknown product losses from a six-monthly to a three-monthly basis when a manager exhibited underperformance.

In addition, when the financial measures are considered collectively, the financial quadrant jointly predominates with the customer quadrant due to its heavier weighting (see Figure 5.2). This creates an incentive to overachieve financial targets because *“a blue performance on the quadrant can hide the poor performance within another”* (Internal Company Document, Group 10).<sup>85</sup> But, in view of Grocer’s external environment, this was a nearly impossible task because *“the lower your sales become, the tighter all of your budgets become”* (Store Manager B2: 1489-1490). That is, the twice-yearly sales target revision has a proportional effect on cost targets. A downward revised sales budget is a source of inter-temporal tension because *“we’re thinking sales rather than size [of the store]”* (Store Manager A5: 654). For instance, store managers must still incur approximately the same expense for staff uniforms, quality refunds, and carrier bags irrespective of fluctuating sales.<sup>86</sup> Target level difficulty was thus, essentially, increased. This had a dual effect on inter-temporal trade-off decisions (see below).

On the one hand, nine store managers acknowledged that they mainly focused on ‘reviewing’ and/or ‘delivering’ sales (but see sub-section 7.1.3 for nuance). Reference was made to sales performance in each ‘Daily Meeting’ and ‘Store Meeting’ observed (see Appendix 10.8 for the meetings observed). For example, *“sales were £126,000 yesterday which is down 12% on the previous week”* (Daily Meeting 2: 26-27). However, doing so runs the risk of not performing all functions associated with the role. As one manager metaphorically notes: *“You’ve got to spin all the plates all of the time otherwise if you just concentrate on spinning one set of plates then the others start to crash down to the floor”* (Store Manager A10: 466-469). On the other hand, some store managers purposely cut costs and/or game cost targets, which runs counter to the long-term workgroup strategy. For instance, it was illustrated in sub-section 6.2.2.2 that, in order to achieve the short-term product wastage target, several store managers decided to ‘decimate’ their store’s product

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<sup>85</sup> This is because the ‘traffic lights’ map onto a four-point scale (for details, see sub-section 5.3.3.1).

<sup>86</sup> In other words, these are examples of fixed costs.

range. Table 6.4 also provides examples of store managers gaming expenses, product wastage, and unknown product losses.

Interestingly, it was noted in sub-section 5.3.1 that, during the latter stages of this investigation, each store's payroll, product wastage, and unknown product losses budgets were increased. Setting targets that are highly achievable reduced the pressure to cut costs and/or game cost targets and allowed managers the freedom and the opportunity to perform the various dimensions of their role (see sub-section 6.2.1.2). Setting highly achievable financial targets is perhaps one condition for accordance between inter-temporal tasks. As one manager notes: *"We haven't got money to throw away or unnecessarily spend but, by allowing store managers the time to step back and view their business with less focus on chasing the numbers, will pay dividends in terms of service"* (Group Change Coach A: 323-326).

However, it will be discussed in the next sub-section that the importance accorded to particular non-financial measures influenced how the extra budgetary funds were used. In sum, there is particular importance attached to financial measures at Grocer which translated into frequent monitoring and top-down pressure to achieve on-target performance which was sometimes sent via informal signals. This, together with the heavier weighting of the financial quadrant, encouraged short-termist behaviour. But, the perceived pressure to deliver on-target performance was reduced by setting highly achievable financial targets. That is, the harmful inter-temporal decision-making effect of placing particular (formal and informal) emphasis on financial measures can be reduced by the broader design of the performance measurement system. Sub-section 7.1.2 now turns attention to non-financial measures.

### **7.1.2 Non-financial Performance Measures and Short-termism**

At particular points in time, one or more non-financial measures in the BSC are labelled 'hot potatoes'. A hot potato is an underlying measure of success that contributes to the achievement of the surface-level target. For instance: *"Evening [queue length] would be one—that's a really hot potato"* (Store Manager A1: 1590). Evening queue length contributes to the achievement of the queue length target. Hot potatoes are strategically chosen by superiors as areas for improvement because they support the business priorities (see sub-section 5.1.4). Improving an underlying

measure of success causes performance to converge so that total workgroup performance is on-target or above-target. Store director A explains this process:

*“The purpose of doing that is to converge performance across a larger region. So, I may put stores under pressure to improve performance through that extra focus who, left to their own devices, wouldn’t look at it because their measure overall is green.”* (Store Director A: 356-359)

Because of the top-down pressure mentioned in the above quotation, eleven of the store managers interviewed acknowledged that they placed emphasis on evening queue length performance.<sup>87</sup> Before the increase in each store’s payroll budget, emphasising evening queue length could potentially damage the functioning of the store and other BSC measures. As evidenced by the following quotation, this is because customer assistants, who normally would be performing other tasks such as shelf-stacking, were reassigned to the checkouts to ensure that there were no queues.

*“It would be a massive drain on the store if you’re calling relief cashiers the whole time—that’s people that aren’t working cages of fresh stock that then potentially will go out of date because it hasn’t been put on the shelf for customers to buy in the evening. That affects evening availability, sales, customer loyalty, everything.”* (Store Manager A4: 1701-1705)

When each store’s payroll budget increased, at least two store managers decided to ‘overinvest’ in checkout service for the sole purpose of ensuring on-target evening queue length performance. As revealed below, these managerial actions were purposive.

*“You feel you need to overinvest in that area with money that you didn’t, well you know, a couple of months ago we didn’t have that money to be able to invest. Now, we’re investing in it and now I most probably am overinvesting to make sure that light is a green light.”* (Store Manager A3: 131-134)

*“I need to invest more sensibly. So, I’ve probably overinvested with the money.”* (Store Manager A7: 313-314)

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<sup>87</sup> Of course, the group change coaches also placed emphasis on evening queue length because they are assigned ownership of the overall queue length measure.

Though, BSC results indicate that many other store managers take a similar approach seeing as evening queue length performance often beats the 7.5% target (Internal Company Documents, Group 6). For example, during one daily meeting, a store manager discussed the queue length performance for the previous day and broke the figure down into the morning (8%), afternoon (9.2%), and evening (5.2%) components (Daily Meeting 2: 41-43). This store manager achieved the surface-level target and overachieved the evening queue length target.<sup>88</sup> However, queue length performance was inconsistent throughout the day, impacting on service quality and customer satisfaction which are said to be prerequisites of customer loyalty. Of course, here there is also the possibility that part of this overinvestment could have been more effectively allocated to other departments, namely to support the process of picking, packing, and dispatching online orders.

Overall, eight of the eleven store managers note that the top-down pressure to achieve underlying measures of success was a source of inter-temporal tension insofar as they spend a larger proportion of their time ‘reviewing’ and/or ‘delivering’ them. As one manager notes, *“the short term gets wavered a little bit when the company change their priorities because it changes your priorities”* (Store Manager A3: 2204-2207). Business priorities can change monthly to coincide with the company-wide release of information in business plans (see sub-section 6.1.2).

But, unsurprisingly, the level of attention directed towards these measures was influenced by current performance. As one store manager who has on-target evening queue length performance points out, *“it’s not my focus because we’re not one of the stores that continually fails in the evenings”* (Store Manager B8: 156-158). Underperformance was one trigger of gaming queue length (see Table 6.4), as evidenced below. However, this relationship is complicated by a manager’s relative standing in the league table, which is discussed in sub-section 7.2.1.

*“I genuinely think it’s driven through underperforming the target that would get someone to do something untoward. Because, if they were doing well, I just don’t think they would be focusing on it because it wouldn’t be something to worry about.”* (Store Manager B9: 1402-1405)

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<sup>88</sup>  $(8\%+9.2\%+5.2\%)/3=7.47\%$

More generally, sixteen store managers state that they want to spend more time focusing on improving customer satisfaction. The reasons for this are threefold. First, customer satisfaction encompasses three performance measures (see Figure 5.2), thus comprising 15% of a manager's total BSC performance score. In other words, customer satisfaction is the most heavily weighted performance measure. Second, given that Grocer's performance philosophy maintains that the causal chain begins with the customer quadrant, customer satisfaction is assumed to be a leading indicator of future financial performance (see sub-section 7.1.3). This, coupled with the suggestion that *"it's no good you trying to look at everything in one go"* (Store Manager B12: 456-457), created a tendency for some managers to want to direct their attention to measures sequentially, rather than in parallel. Third, several managers believe that Grocer signalled the importance of achieving customer satisfaction targets when the frequency with which the measure was monitored was changed from monthly to daily.

Noticeably, except for the group loss managers and the group online shopping manager, interviewees mainly orientate their discussions about non-financial measures in the BSC around the customer quadrant. Indeed, *"the small little bit of community"* (Store Manager B8: 654) which *"has only got two measures in it"* (Store Director A: 956) was referenced by no more than ten managers without being prompted. Counter to Grocer's performance philosophy (see sub-section 7.1.3), managers believe that *"I'm great at raising money for charity but that doesn't help deliver for our investors in the City"* (Store Manager B4: 1149-1151). Within the people and operational quadrants, employee satisfaction and product availability were generally viewed as more important, despite the equal weighting of the measures. As indicated in sub-section 6.1.3, employee satisfaction is *"a reflection of culture in the store"* (Store Manager B3: 160), with below-target performance remaining on the BSC until the next six-monthly measurement point. As noted in sub-section 6.1.1, product availability is an *"indicator of how well the store is set up"* (Store Manager A4: 241-242), with below-target daily performance scrutinised by the group online shopping manager. The perceived saliency of these measures created pressure for on-target performance and prompted short-termist decisions that are outlined in Table 6.4.

Grocer's formal performance evaluation system includes qualitative non-financial measures, such as personal development plans. It will be shown in sub-

section 7.2.2 that qualitative measures move managers away from excessively focusing on short-term BSC results and discourage short-termist decisions. In sum, particular non-financial targets are prioritised by Grocer because they support the business priorities. Other non-financial targets are given particular attention because, for instance, they are monitored by a group support manager. This creates pressure to achieve these non-financial targets and encourages short-termist decisions (i.e., overinvesting to achieve the measure and/or gaming the measure), particularly if the manager has underperformance on these measures. Sub-section 7.1.3 considers the BSC, in particular the causal linkages.

### **7.1.3 Balanced Scorecard and Short-termism: Are Appropriate Causal Linkages a Myth?**

Sub-section 5.3.1 stated that the intended purpose of Grocer's BSC is to encourage a balanced performance. At Grocer, a balanced performance has two dimensions. The first dimension concerns a balanced view across performance measures so that no one performance measure is considered more important than the others. As evidenced by the findings presented in sub-section 7.1.1 and sub-section 7.1.2, this dimension to having a balanced performance is not strictly adhered to. At the broadest level, there is a consensus that by *"trying to focus on everything, you don't focus on anything"* (Store Manager A4: 1999). In other words, *"it's almost like you have to prioritise some stuff to deliver"* (Group Change Coach B: 1180-1181) because Grocer's BSC has twenty performance measures. But, as store manager A10 indicated earlier, middle-level managers' activities and responsibilities are *"quite wide and various and we can't afford to get distracted, over distracted, by one small area"* (Store Manager A10: 348-350) because this may run counter to achieving Grocer's strategic priority of restoring growth to the UK business. Recall also that managers compartmentalise performance measures as short or longer term due to their monitoring frequencies (see sub-section 6.1.2). That is, performance measures that are monitored daily or weekly are called short-term measures by managers. These measures receive more attention vis-à-vis measures that are deemed longer-term—namely, employee satisfaction and unknown product losses. Longer-term measures are put on the 'backburner' until their

six-monthly point of measurement approaches. Thus, the provision of more frequent performance measurement information prompts managers to focus on the short term.

The second dimension concerns a balanced performance on each BSC measure so that above-target performance is scrutinised in a manner similar to below-target performance. All middle-level managers interviewed for this research regard underperformance as a priority to address and resolve. Store managers focused on performing back in line with the BSC performance measure(s), whilst the store director and his/her group support team focused on coaching and advising the store managers who underperform their targets. Decisions about addressing and resolving underperformance focused on: (1) the degree to which underperformance was a store-specific issue or a broader workgroup or format problem, which influenced the importance attached to reducing the variance (see third quotation below); (2) the extent to which the target was missed, which influenced the perceived urgency to correct the variance (see first quotation below); and (3) the speed with which the variance could be corrected, which highlighted where to direct attention when there were two or more performance measures showing underperformance (see second quotation below). If underperformance was a broader workgroup or format issue and/or the BSC target was marginally missed, managers felt less pressure to improve performance and had less inclination to engage in short-termism.

*“It’s talking about how red a light is. So, if you have a massively bad stock result and you lose the company, I don’t know, one hundred and fifty thousand pounds then that could be much worse than just being off-track like mine is.”*  
(Store Manager B5: 1625-1628)

*“If I see a KPI as red that would be something I would focus on if I felt I could turn it whereas, if I felt there was an amber KPI that I could turn quickly, that would probably be there as well. So, reds that I could turn, ambers that I could turn. So, I’d probably be looking at the lights that I could turn.”* (Store Manager B11: 1114-1118)

*“It hasn’t mattered that sales have been red for any store manager for the last five years because everyone is red. So, therefore, nobody is red. If everybody is red, then nobody is red.”* (Store Director A: 972-974)

This contrasts with the situation for above-target performance. None of the middle-level managers interviewed for this research indicated that they were

concerned about above-target performance. For example:

*“A blue means I need to place attention here. A red means I need to place attention here. It’s the same thing. **Is that what you do?** No. I get a blue light and go woohoo.”* (Store Director A: 1177-1192)

Indeed, above-target performance was encouraged by the dissemination of relative performance information (see sub-section 7.2.1), the performance evaluation system (see sub-section 7.2.2) and the reward system (see sub-section 7.2.3). But, above-target performance is a source of inter-temporal tension because the payoff relationship between some of the performance measures is non-linear with an inflection point that is difficult to determine.

Chapter 5 outlined that Grocer’s performance philosophy is as follows: if managers look after customers and stores operate efficiently and effectively, then sales and profits would grow. As such, the perceived causal chain begins with the measures in the community and customer quadrants, thereafter continuing through the people and operational quadrants and culminating in improved performance in the financial quadrant. But, some managers questioned whether the causal chain between each of the five quadrants holds (see sub-section 7.1.2). There were also causal chains within each of the five quadrants in the BSC. For example, within the people quadrant, absence is supposed to be a leading measure of employee satisfaction. As another example, within the customer quadrant, queue length is supposed to be a leading indicator of customer satisfaction (service). However, as indicated in the quotations below, four store managers note that this latter causal chain may not hold.

*“We had a patch through quarter two where we were around sort of eight or nine percent on [queue length] and our customer service on our [customer satisfaction] increased. So, I don’t necessarily think service and [queue length] are as linked as people believe. I think service is about the service you get when you’re served, not necessarily the two minutes you may wait on the till.”* (Store Manager B2: 835-840)

*“On the [queue length] I’ve been consistently red but on the views of my customers I’m consistently blue. So, the computer is telling me I’m rubbish but my customers are telling me I’m okay.”* (Store Manager B3: 920-922)

There are also inappropriate causal linkages between measures that do not lead to desired ends. For example, managers’ actions to improve queue length (i.e., a

measure at the beginning of the causal chain) could sometimes entail a corresponding decline in payroll (i.e., a measure at the end of the causal chain) and so they take decisions which trade-off performance measures that had temporally spaced outcomes. As another example, managers' actions to improve customer satisfaction (product availability) could sometimes entail a corresponding decline in the product wastage performance. And because the relationship between most of the performance measures was characterised by interdependence, this led to inter-temporal trade-off decisions between performance measures as evidenced in Table 6.5. In sum, both dimensions to having a balanced performance were disregarded at Grocer which could sometimes prompt short-termist decisions (i.e., prioritising certain measures and/or overachieving targets).<sup>89</sup> This was problematic because Grocer's BSC had inappropriate causal linkages among the performance measures within and between quadrants, which itself could lead to short-termist decisions.<sup>90</sup> Sub-section 7.1.4 discusses the findings presented in this section in relation to the broader literature.

#### **7.1.4 Discussion: All 'Financial Measures' Encourage Short-Termism, Whilst All 'Non-Financial Measures' Engender a Longer-Term Focus**

The literature reviewed in Section 2.3 stated that financial measurement systems that comprise accounting measures of performance supposedly cause an excessive short-term focus (e.g., Hayes and Abernathy, 1980; Hayes and Garvin, 1982; Kaplan, 1984), because the information focuses on the past, is derived from measurement rules that are often conservatively biased, and provides incomplete signals about managerial effort (Merchant, 2006; van Rinsum and Hartmann, 2007; Merchant and van der Stede, 2012). On the other hand, non-financial measures are often described as leading indicators of future financial performance (e.g., Ittner and Larcker, 1998a; Banker et al., 2000; Said et al., 2003; Nagar and Rajan, 2005; Banker and Chen, 2006; Farrel et al., 2008) and are thus supposed to overcome short-termism by prompting actions that have longer-term consequences. These assumptions lead some authors to recommend the measurement combination approach to alleviating short-termism (e.g., Kaplan and

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<sup>89</sup> That is, a balanced view across performance measures and a balanced performance on each BSC measure.

<sup>90</sup> These include the potential inverse relationships and inter-dependent relationships.

Norton, 1992; Ittner and Larcker, 1998a; Sliwka, 2002; Ittner et al., 2003a; Ittner et al., 2003b). Kaplan and Norton's (1992) BSC approach to performance measurement and management control is perhaps the most notable of this type of combination-of-measures system.

Despite the above arguments, empirical evidence regarding the effects of financial measures (compare Merchant, 1990; van der Stede, 2000) and non-financial measures (compare Moers, 2000; van Rinsum and Hartmann, 2007) on short-termism has been mixed. Indeed, few studies have empirically examined the measurement combination approach on short-termism (e.g., Marginson et al., 2010; Abernethy et al., 2013), and none have been based on the BSC. The present study addressed the conflicts and gaps in the literature by formulating and answering the following research question: *what is the nature of the relationship between performance measures and short-termism?*

Notwithstanding the rhetoric regarding the pursuit of a balanced performance at Grocer, the present study finds that particular importance attached to financial measures at Grocer (namely residual measures; see Table 2.1) translates into frequent monitoring and perceived pressure to meet targets, particularly cost targets. This, together with the heavier weighting of the financial quadrant, encourages short-termist behaviour such as gaming expenses, product wastage, and unknown product losses. This aligns with Merchant's (1990) finding that shows a positive correlation between the perceived pressure to meet financial measures and short-termism. The present study finds that the perceived pressure to meet financial measures is reduced by setting highly achievable cost targets. That is, setting highly achievable cost targets lessens the pressure for short-term results and allows managers the time and freedom to perform the various dimensions of their role. This coheres with Merchant and van der Stede's (2012: 446-447) suggestion that "targets that are more highly achievable create some room for managers to be preoccupied by longer-term initiatives." The finding also supports Merchant and Manzoni's (1989) claim that budgetary slack may reduce the incentive for managers to engage in dysfunctional behaviour. In sum, the perceived pressure to meet sales and cost targets appears to encourage short-termism at Grocer.

High priority is accorded to particular non-financial targets at Grocer because they support the business priorities, which focus on the ways in which customers' needs are changing and the level of customer service provided. Other non-financial

targets are perceived to be more important than others because, for instance, they are monitored by a group support manager (e.g., product availability) or reflect progress against the long-term workgroup strategy (e.g., employee satisfaction). But, because non-financial measures are emphasised within Grocer, this creates pressure to exhibit on-target performance and encourages short-termist decisions. The pressure for on-target performance is perhaps felt more so for employee satisfaction because results would be evident on the BSC for six months and/or if the manager has significant underperformance that is a store-specific issue. This adds further substance to Marginson et al.'s (2010) finding that using non-financial measures diagnostically leads managers to make inter-temporal trade-off decisions that prioritise the short term to the detriment of the long term. In sum, the perceived pressure to meet quantitative non-financial measures appears to encourage short-termism at Grocer.

Grocer's BSC is supposed to have causal chains within each of the five quadrants and causal chains between each of the five quadrants. The perceived causal chain begins with the measures in the community and customer quadrants, thereafter continuing through the people and operational quadrants and culminating in improved performance in the financial quadrant. Each of the quadrants is supposed to combine lagging and leading measures. However, the causal linkages within and between the measurement areas either do not hold or are inappropriate because the payoff relationships are non-linear with an inflection point that is difficult to determine. Thus, managers' actions to improve a performance measure at the beginning or middle of the causal chain (e.g., queue length) can entail a corresponding decline in the financial measures at the end of the causal chain (e.g., payroll). Supporting Banker et al.'s (2004) assertion, this leads to decisions which trade off performance measures that have temporally spaced outcomes. Moreover, the relationship between most of the BSC measures is characterised by interdependence, rather than causality. In line with Merchant and van der Stede's (2012) postulation, interdependence leads to inter-temporal trade-off decisions between performance measures. In sum, the claim that the BSC can remedy the short-termism caused by financial measures by systematically incorporating non-financial measures (e.g., Ittner et al., 2003a; Merchant and van der Stede, 2012) found little support at Grocer. Financial and (quantitative) non-financial measures appear to encourage short-termism, which is exacerbated by inappropriate causal linkages that do not lead to desired ends. This

contrasts with Malina et al.'s (2007) conclusion that statistically valid causal linkages may not be necessary to achieve desirable management behaviours.

In answering the third research question, this study contributes to the behavioural accounting literature by examining the interplay between financial and non-financial measures in a BSC. The study goes beyond the general categories of financial versus non-financial (see Marginson et al., 2010) to offer nuanced information about the nature of the relationship between individual performance measures and short-termism. The findings indicate that quantitative (financial and non-financial) measures prompt limitations of foresight and can lead to inter-temporal trade-off decisions that sacrifice the long term for the short term. This is partly because of the way in which managers compartmentalise performance measures, namely performance measures are characterised as short term if monitored daily or weekly. As such, the interplay between quantitative and qualitative measures may be important to shaping managerial short-termism as against the interplay between financial and non-financial measures previously conceived (see sub-section 2.3.3). The present study also contributes to the behavioural accounting literature by highlighting that the inappropriate causal linkages within and between measurement areas in a BSC can lead to short-termist decisions. The following section presents and discusses the findings that relate to the extent of the relationship between performance measures and short-termism.

## **7.2 An Empirical Peek Inside the Black Box of Potential**

### **Contingencies: Towards a More Holistic Understanding**

Section 7.2 explains the contingencies that reinforce or weaken the relationship between performance measures and short-termism at the individual level. This is done by establishing how, why, and in what ways relative performance information, performance evaluations, performance-based rewards, intra-organisational mobility, and individual time perspectives influence managers involvement in short-termist decisions. These five contingencies correspond with those detailed in Chapter 3, which have been linked to short-termism within different streams of academic literature. But, as Chapter 3 concluded, research into these factors is compartmentalised and often unclear or conflicting. This section is divided into six

parts. These contingencies are unpicked and explored in the first five subsections below. The sixth presents an aggregate analysis as a conclusion to this section. Together, the section addresses the fourth and final research question: *what is the extent of the relationship between performance measures and short-termism?* In demonstrating the dynamic, complex, and fluid interplay between these factors and their impact on the relationship between performance measures and short-termism within an integrated framework, the present study highlights that the inter-temporal decision-making effects of an organisation's performance measurement system depends on the context within which that system operates. In other words, short-termism may be a contingent decision behaviour.

The first sub-section considers how relative performance information complicates the relationship between performance measures and short-termism. The information presented draws upon the descriptive overview provided in sub-section 5.3.2 and the analysis of internal company documents (document group 11; see Appendix 10.9) and interview data (interview questions 11, 14a, and 14b with codes 2.5, 3.4, 3.5, 3.6, and 3.7 used; see Appendix 10.7 and 10.10).

### **7.2.1 The Ups and Downs of Contrastive Social Comparisons**

*“Before I came into retail, I thought it would be quite exciting. Naively, I thought looking at yourself and the competition of wanting not to be at the bottom would be quite healthy. But, having been in it awhile, and having seen ranked tables, it doesn't create a team spirit. They talk a lot about how they want all of us within [Grocer] to collaborate and work together for the common good. But, what I find is, when you rank stuff in that way, it does anything other than that, and actually all you want to make sure is you're not at the bottom. And, it's a bit like you're in a sea full of sharks—as long as somebody else is being eaten you're alright.”* (Store Manager B9: 1328-1336)

Nine of the twenty-three store managers are particularly critical of the dissemination of relative performance information. As stated by store manager B9 above, the league tables encourage competitive and uncooperative behaviours that undermine the core leadership capability of collaboration. Because the league tables emphasise performance differences between workgroup members, the context primes differential thinking and contrastive social comparisons ('that person is not me'). As will be illustrated below, making contrastive upward comparisons is potentially

demoralising, prompts an unfavourable self-image, and engenders negative emotions such as shame and jealousy. On the other hand, making contrastive downward comparisons appears liberating, enhances the manager's self-image, and engenders positive emotions such as pride and arrogance. When verbalised by the manager, contrastive downward comparisons undermine the core leadership capability of empathy. Consequently, this emphasis on the self, and the desire to outperform workgroup colleagues on mutually important performance dimensions, seems to influence the prevalence of inter-temporal trade-off decisions. These findings are elaborated below.

When a manager's performance was in the lower quartile of a particular league table, s/he appeared to hold in mind a negative self-image and experienced feelings of shame and jealousy. As store manager B10 explains: *"it affects your confidence, you know, with a bit of embarrassment"* (Store Manager B10: 1101-1102). In this vein, when discussing the twice-weekly league table for customer satisfaction, group change coach A recounts: *"I occasionally get store managers saying well, you know, what's 'Fred' doing down the road to suddenly get eighty? And I think there's an element of the green-eyed monster there"* (Group Change Coach A: 999-1001). League tables for most of the financial and non-financial measures in the BSC are released daily or weekly. This regularity appeared to exacerbate the negative feelings because *"if you sit at the bottom all the time, it can be really demoralising"* (Store Director B: 426). League tables are also a source of anxiety because the information identifies who is to face the continual review of progress through regular and informal discussions. As a result, managers who have performance that falls in the lower quartile of a particular league table have to contend with top-down pressure to move up in the rankings. Incidentally, avoiding weak relative performance is perhaps easier said than done because there is a league table for each of the twenty BSC measures (see Figure 5.2), and the position held in each table is affected by factors that partly lie outside the manager's control. Nonetheless, as stated in sub-section 5.3.2, league tables are a key reference point in decision-making for those with weak relative performance.

Managers with weak relative performance are considered poor performers by colleagues and sometimes superiors. In this regard, league tables are instruments of status anxiety because a manager's reputation is, at least in part, derived from his/her relative standing. As one manager states, *"we want the best [BSC] because that's how*

*we judge everyone*” (Group Loss Manager B: 658). With only one exception, all middle-level managers interviewed for this research care about their reputation and had a desire to protect or improve the reputation that they have created. A manager may gain a reputation for consistently overachieving on a certain aspect of his/her BSC performance. For example, *“I’ve got a good reputation out there for having good [employee satisfactions]”* (Store Manager A2: 1003-1004). Alternatively, a manager may gain a reputation for having the best overall BSC performance. Half of the managers interviewed sought to acquire the latter reputation because it facilitates career progression. But, for reasons detailed below, *“sometimes that vanity, that pride, is not something we should aspire to”* (Store Manager A8: 1466-1468). Overall, managers endeavoured to secure and retain a leading position in the league tables which influenced inter-temporal decisions.

When a manager outperformed other workgroup members, s/he appeared to hold in mind a positive self-image and experienced feelings of pride and arrogance. Eleven managers remark that they are driven by pride to achieve above-target performance. Because it is possible to earn so-called ‘bragging rights’, several managers appeared to take great delight in boasting about above-target achievements. For example, *“you’ll email your colleagues or text your colleagues and say ‘ah, you’re not doing great this week, are you?’ It’s just a bit of fun”* (Store Manager A9: 713-715). This behaviour, however, undermined the core leadership capability of empathy because performance measure results could have been affected by occurrences outside of the manager’s control. In this regard, a manager’s relative standing was also partly determined by other managers’ BSC performance. Store manager A8 highlights this issue below.

*“If a delivery has come in late and your availability has dropped by two percent because that delivery is late, because someone else hasn’t had that problem and is now first and you’re tenth, does that drive an improvement? No, it doesn’t. It drives an emotion. It’s not helpful.”* (Store Manager A8: 1357-1361)

Store manager A8 continues to explain that *“the emotion, if you like, drives the behaviour, and the behaviour can be damaging”* (Store Manager A8: 1376-1377). That is, imposing relative performance information onto managers via league tables induced the aforementioned social comparison process and influenced the prevalence

of inter-temporal trade-off decisions. First, some managers acknowledge gaming BSC measures to improve or retain their league table position (see Table 6.4). This behaviour stemmed from “*self-preservation*” (Store Director A: 193). Along these lines, league tables encouraged managers to achieve above-target performance. But, given the various interdependencies among the measures within and between each of the BSC quadrants, intentionally overachieving one BSC target to maintain a certain position in the league table could be harmful to other performance measures. The following quotation reveals that one store manager attempted to overachieve product availability in order to retain his leading position in the league table. However, the detailed behaviour could compromise other performance measures, as evidenced in Table 6.5. Such behaviour was more likely to occur if a manager’s reputation was coupled to a particular BSC measure.

*“I’ve had a few stores that will try and stay top with availability. I went in one yesterday, and he would just carry on the pick a lot longer by sending labels back to keep the availability up because he hit ninety-nine one day.”* (Group Online Shopping Manager: 1691-1694)

Second, as noted at the beginning of this sub-section, league tables encouraged uncooperative behaviour which undermined the core leadership capability of collaboration. This is because league tables encouraged rivalry amongst workgroup members. The rivalry situation is revealed in participants’ descriptions of workgroup members, namely ‘they are a threat’ (see below).

*“The availability figure is 82%, which is not in the top three. We’ve done a good job but need to push to get to 85% next time. The quality figure is 82% and we are the third highest in the group—[GroB store] and [GroB store] are beating us. They are a threat.”* (Store Meeting 5: 157-160)

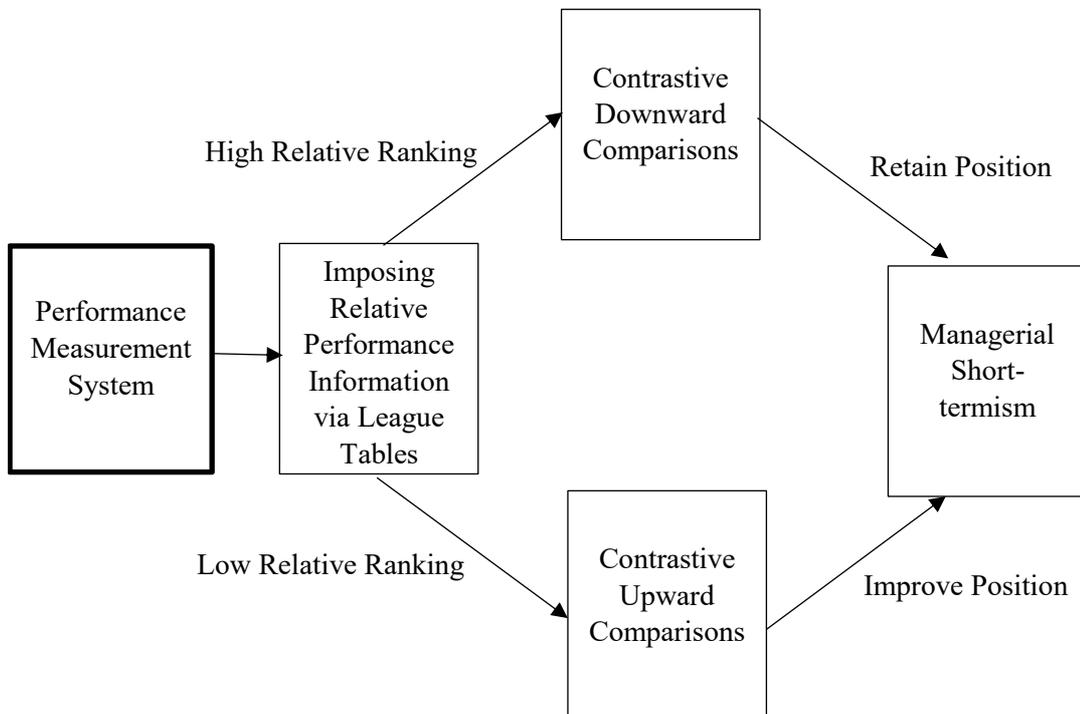
Consequently, some managers prefer to concentrate on actions to achieve BSC targets for their area of responsibility, rather than engaging in collaborations that may enhance overall performance of the broader workgroup. For example, as documented below, one store manager held surplus carrier bags, name badges, and product packaging. Rather than transferring these surplus items to store manager B7 (as the items have a limited usability period due to having a Christmas decorative theme), the store manager opted against this as s/he realises it would favourably impact store

manager B7's figures. However, transferring the surplus items would have reduced the expenditure of the broader workgroup. As will be discussed in the next subsection, this is at odds with the contents of the formal performance evaluation system.

*“We also need to stop giving spare carrier bags, uniforms and packaging to [Store Manager B7] because it's come out of this store's expenses and not [Store Manager B7's] budget” (Store Meeting 3: 161-162)*

To summarise this sub-section, information visibility is a relevant contingency factor in the relationship between performance measures and managerial short-termism. Figure 7.1 illustrates the process by which relative performance information that is placed into publicly available league tables can reinforce the relationship in question: (1) a manager with high relative ranking appeared to make contrastive downward comparisons and attempted to retain their league table position which could prompt short-termist decisions; and (2) a manager with low relative ranking appeared to make contrastive upward comparisons and attempted to improve their league table position which could prompt short-termist decisions.

**Figure 7.1:** The Social Comparison Process



Attention now turns to the extent to which formal and informal performance evaluations may influence the relationship between performance measures and short-termism. The information presented draws upon the descriptive overview provided in sub-section 5.3.3 and the analysis of internal company documents (document group 3; see Appendix 10.9) and interview data (interview question 15b with code 2.19 used; see Appendix 10.7 and 10.10).

## **7.2.2 Tensions and Disconnects in Performance Evaluations**

Inspirational Performers entails evaluating a subordinate's BSC performance alongside his/her ability to implement business plans, maintain store standards, and demonstrate values-led leadership. As described in Chapter 5, Grocer stipulates that equal weightings are to be attached to 'what' the subordinate had achieved during the quarter and 'how' s/he has utilised the appropriate leadership and/or operational skills to achieve the results on each of the four performance dimensions. However, the weightings attached to each of the performance dimensions themselves are determined subjectively by the superior. Consequently, subordinates infer that the BSC most affects their performance evaluation rating. The reasons for this inference appear threefold: (1) superiors understood the 'what' of implementing business plans and demonstrating values-led leadership to be elements of BSC performance, namely customer satisfaction and employee satisfaction respectively; (2) superiors often drew on relative performance information when rating the subordinate's level of performance, which covered only the financial and non-financial measures in the BSC; and (3) the manager's 'Inspirational Performers: Performance and Development Pack' was private, whereas information about the manager's relative performance rank on each of the financial and non-financial measures in the BSC was public. The discussion hereafter will thus be restricted to the inter-temporal decision-making effect of evaluating a subordinate's BSC performance, namely the tensions and disconnects that occur in these evaluations. It is worth noting that the issues raised here lead to the perception that the receipt of the rewards and penalties is primarily tied to the achievement of targets, which is discussed in the next sub-section.

The financial performance measure of unknown product losses could be achieved through innovation: *"We looked at, instead of just product protecting the product, why not, not have it on sale in the first place? So, what we did was we*

*photocopied a picture of the product and we put the photo into a safer case and that was visible for the customers”* (Store Manager A5: 1599-1602). As another example, product wastage could be achieved through responsiveness: *“Set up cage count trackers in the warehouse, reviewed daily and celebrated backstock reduction with the team”* (Internal Company Documents, Group 3). Accordingly, during the formal performance evaluation, superiors attribute underperformance on the BSC to ineffective use of leadership and/or operational skills. As store manager B2 explains:

*“If you’re off track he’s going to tie it into your leadership. So, he’s going to say the reason you’re off-track is because of your leadership...If you were drastically bad at waste he could say you’re not innovative enough. You’re not thinking enough about how to be different around waste. Or, you need to collaborate more. So, when you’ve got too much stock why haven’t you rung your five local stores giving them two cases each and alleviated your problem as a collaboration?”* (Store Manager B2: 2034-2054)

Subordinates remark that Inspirational Performers discouraged short-termist decisions insofar as elements of their BSC performance that could be quantified and elements that were not entirely amenable to quantification were assigned equal weighting. By assigning an equal weight, subordinates focused on the behavioural competencies underpinning the achievement of financial and non-financial targets. But, because effective use of these competencies was viewed as tantamount to target achievement, some subordinates concluded that *“I do feel that you’re under a lot of pressure and I always think that if you deliver a good [BSC] everything else is negotiable”* (Store Manager B9: 1449-1451). Linked to this, as noted in the previous sub-section, tensions between utilising some of the appropriate leadership skills to achieve BSC targets and managerial reactions to publicly available relative performance information prevailed. Only those managers who were critical of the dissemination of relative performance information appeared more likely to demonstrate the full spectrum of behavioural competencies, particularly collaborative behaviour that supported the broader workgroup.<sup>91</sup>

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<sup>91</sup> For example, store manager A5 is one of the nine store managers who is particularly critical of the dissemination of relative performance information. This may help to account for his long-termist decision that helps support the broader workgroup (see sub-section 6.2.2.1).

As outlined in sub-section 5.3.1, the annual target that was determined by Grocer's Head Office for each performance measure was broken down into a quarterly target, a monthly target, a weekly target, and often a daily target. Consequently, *"if you can't deliver it on a daily basis, you won't deliver it on a weekly basis, or a monthly basis, or a quarter, or a year"* (Store Manager A10: 251-253). The cumulative nature of achievement created pressure for on-target BSC performance in the short term. Indeed, considering underperformance, *"if you don't change it quickly, you can reach a tipping point where you can no longer achieve the fantastic green colour that you want"* (Store Manager B9: 322-326). One manager explains that the pressure for generating short-term results intensified when Grocer shortened the period over which performance was formally evaluated.

*"You had to deliver your payroll figure, and say that's fifty grand a week because we're talking some way back in the past. And, for the first six months you wrestle with it a bit and you're a couple of grand over every week and there might be some pressure with you and your boss and some attention of where you're at. And then, half way through the year, you manage to make some changes and you get it a little more in line and obviously it looks a bit more positive and you move to a position now where you're maybe a couple of grand under each week and you get to the end of the year and you're there, thank you, I've delivered my payroll figure. Now, each quarter is a kind of mini year."* (Store Manager A11: 675-684)

Store manager A11 continues to explain that *"the business is shortening its measuring point and therefore we're all getting much more focused on short-term performance"* (Store Manager A11: 666-668). This was reinforced by the continual review of progress through regular and informal evaluations, which occurred when a subordinate had below-target performance and/or weak relative performance. Thus, *"that pressure to deliver the whole suite of KPIs consistently each week"* (Store Manager A11: 728-729) encouraged managers to make inter-temporal trade-off decisions that prioritised the short term over the longer term. This was especially because informal performance evaluations focused solely on the 'what' to the exclusion of the 'how', which undermined the objective and content of Inspirational Performers. This disconnect led some subordinates to conclude that *"when it comes to the crunch, they don't really care about the how as long as the what gets delivered"* (Store Manager A4: 953-955).

Chapter 5 noted that the final part of Inspirational Performers required the subordinate to prepare a prospective narrative that outlined clear objectives and appropriate action plans on each of the performance dimensions, as well as personal goals. Chapter 6 highlighted that this objective-setting process helped subordinates to focus on the longer term and think about how to improve their BSC performance over a longer period of time. However, the prospective narrative did not influence the subordinate's performance evaluation rating, and so was something of a redundant exercise. Moreover, the process required the subordinate to be open about his/her developmental needs, which was at odds with the retrospective part of Inspirational Performers that perhaps encouraged the subordinate to explain away performance concerns to receive a satisfactory rating. And, even though it was widely acknowledged that *"it does get you to focus on, well, what is your plan for next year?"* (Store Manager B9: 1464-1467), the objectives and plans were often not implemented because of issues relating to frequent intra-organisational mobility.

To summarise this sub-section, the performance evaluation system was a relevant contingency factor in the relationship between performance measures and managerial short-termism. The formal performance evaluation system appeared to weaken the relationship between performance measures and short-termism insofar as elements of the subordinate's BSC performance that could be quantified and elements that were not entirely amenable to quantification were assigned equal weighting. However, the tensions within this system, and the disconnects with other elements of Grocer's management control system, such as informal performance evaluations, undermined this behavioural effect. The next sub-section considers how the reward/penalty system in place may influence the relationship between performance measures and short-termism. The information presented in the next sub-section draws upon the descriptive overview provided in sub-section 5.3.4 and the analysis of interview data (interview questions 11, 16c, and 16d with codes 2.5, 4.3, 4.5, 4.6, and 4.7 used; see Appendix 10.7 and 10.10).

### **7.2.3 Mixing Carrots with Sticks**

*"And, you've got to bear in mind, there's always personal interest. So, if you're a manager who wants to be promoted to a bigger store, earn more money, have a bigger car, what does that look like? And, if we've gravitated*

*into a business where that looks like a great [BSC], all of you are going to have one of those aren't you?"* (Store Manager A11: 1133-1138)

Grocer operates a 'carrot and stick' policy of offering a combination of rewards and penalties to direct and induce middle-level managers' effort. As per the opening quote above, the interviewees affirm that Grocer's formal and informal reward/penalty system directs their attention and efforts towards the financial and non-financial measures in the BSC. Whilst performance-based rewards and penalties were regarded as motivational, the impact varied across managers and with regards to what the manager was motivated to do. Some managers report that they valued the opportunity to earn monetary rewards for meeting or exceeding performance expectations "*because I'm probably a worrier and I want that pay rise at the end of the year*" (Group Loss Manager A: 1795-1796), whereas others acknowledged that "*keeping my job—it's a pretty big motivator*" (Store Manager A4: 1632-1633). At the same time, several managers considered social recognition and condemnation to be as important as the formal rewards and penalties in inducing and directing their inter-temporal efforts. The interplay between the formal and informal reward/penalty system added a further level of complexity to this issue. These findings are elaborated below.

For the annual cost-of-living adjustment and bonus that are awarded based on the performance rating that the manager received in his/her year-end evaluation, the outcome of interest was the monetary reward. Because the receipt of the monetary reward was believed to be primarily tied to the achievement of targets, as per managers' inferences about the formal performance evaluation system, "*this is where the [BSC] has become too important because, actually, it affects your mortgage and affects the car you drive*" (Store Manager A8: 1675-1676). Using Grocer's monetary reward formula, defined in sub-section 5.3.4.1, the combined cost-of-living adjustment and bonus received by a level 4 manager, whose base salary was £90,000 and was rated green in his/her year-end evaluation, was £5,400 (assuming Grocer had below-target performance).<sup>92</sup> But if this manager was rated blue instead, the size of the monetary reward increased by £5,400 to £10,800.<sup>93</sup> In either case, the key point is

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<sup>92</sup> £5,400 = (£90,000 x 2%) + (£90,000 x 40% x 50% x 20%)

<sup>93</sup> £10,800 = (£90,000 x 4%) + (£90,000 x 40% x 20%)

that this provides the context for managers to rationalise a mind-set that perpetuated self-interest and inter-temporal trade-off decisions.

For example, five store managers interviewed acknowledged that they made changes to the steps that they took to perform in line with their financial targets at yearend, such as aggressively cost cutting on payroll and expenses. This increased the likelihood that the manager would receive a green performance rating in his/her year-end evaluation, but produced results that were unsustainably high and militated against longer-term activities. As another example, two store managers report that they delayed verbally reprimanding employees for poor punctuality and/or non-adherence to Grocer's dress code policy until after employee satisfaction because *"colleagues don't remember the previous six months where everything was great. They'll remember that their manager gave them a warning for repeatedly wearing trainers to work the week before. So, absolutely, people will move those to post [employee satisfaction]"* (Store Manager A4: 505-509). This increased the likelihood that the manager would receive a blue performance rating in his/her year-end evaluation but allowed short-term problems to fester. An analogous example of this type of situation was provided in sub-section 6.2.2.1, where group loss manager B admits that he regretted changing the working pattern of employees' contracted hours to improve the customer shopping experience just before the measurement point for employee satisfaction because the decision negatively affected his performance evaluation rating which, in turn, influenced the monetary reward received.

But nine of the managers interviewed for this research did not value monetary rewards, particularly the bonus that was paid partly in cash and partly in shares deferred for three years. These managers stressed that *"the performance-related bonus is absolutely the last thing on my mind. I'm not going to say I'll refuse it, but it doesn't even come into my psyche"* (Store Manager A10: 1484-1488). Of these nine managers, four considered the size of the likely bonus award to be too trivial to direct and induce their inter-temporal efforts (illustrative quotations are given below). A further three managers believed that the bonus award would be revoked for 2014/15 because of Grocer's financial difficulties. This, incidentally, turned out to be the case.

*"I think if you'd done the questioning five years ago when we were still receiving bonuses certainly I'd probably answer it differently. But we haven't*

*really had a proper bonus for a number of years.*” (Store Manager A4: 1851-1853)

*“But, actually, when you have been paid up in shares, and the share price has devalued over three years, it literally means nothing anyway.”* (Store Manager B5: 1954-1956)

Many of the middle-level managers thus maintain that the other types of formal rewards and penalties that Grocer uses were equally or more important to earn or avoid. For example, managers valued the prospect of career progression (albeit normally also linked to a base salary increase). GroB store managers who consistently exceeded performance expectations in their quarter-end reviews were often moved to the GroA format. Moreover, level 4 managers who were performing notably well relative to their colleagues were often moved to the ‘broken’ and/or ‘complex’ stores or offered group team roles.<sup>94</sup> As one manager notes, *“I absolutely make sure that I do everything that I can to deliver. I want to better myself. I want a more challenging shop”* (Store Manager B1: 878-880). Because this reward was visible to others, the motivational impact was enhanced through the experience of social pride and recognition. For example, *“[Band] nine is the biggest store we have in Wales and there are three of them. You’d be classed as one of the best managers in Wales if you’re in there”* (Store Manager B2: 473-475). However, for reasons that will be documented in the next sub-section, intra-organisational mobility can motivate managers to sacrifice the long term for the short term.

At Grocer, ‘Supporting Your Performance’ is triggered when a manager has underperformance in his/her quarter-end review. This formal process stipulates a one-quarter deadline for the manager to improve his/her performance or risk demotion or dismissal. Five of the managers interviewed indicate that the threat of demotion or dismissal for underperformance was enough to encourage them to disproportionately focus on delivering on-target BSC results in the short term. For example, *“The thought of being performance managed, and losing my job and being put under that much pressure, is more of a driving factor to me than having a bonus”* (Store Manager A1: 1782-1784). It should be noted that none of the managers interviewed are currently going through ‘Supporting Your Performance’.

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<sup>94</sup> Without exception, this was, perhaps paradoxically, seen as a positive reward.

Grocer's informal reward/penalty system appeared to reinforce the potential for the formal reward/penalty system to induce and direct managers' inter-temporal efforts. As outlined in sub-section 7.2.1, managers endeavoured to secure and retain a leading position in the predominantly daily or weekly league tables to experience social pride and recognition which reinforced the value of internal-lateral movement. Additionally, being praised for good performance engendered long-lasting positive emotions which strengthened the effect of the formal rewards. For example:

*"If someone says to me well done, I feel absolutely over the moon."* (Store Manager A5: 1901-1902)

*"A [certificate given at a GroB meeting] gives you a great feeling because you've been recognised by somebody else or thanked by somebody else."* (Store Manager B1: 1325-1326)

To summarise this sub-section, Grocer's 'carrot and stick' incentive system is a relevant contingency factor in the relationship between performance measures and managerial short-termism. Monetary rewards that were believed to be primarily tied to the achievement of financial and non-financial targets prompted short-termist decisions, particularly if the reward was felt to be large enough and would be honoured. Career progression opportunities, as well as demotions or dismissals, also related to managers' short-termist decisions. Informal rewards and penalties (such as social pride and humiliation) reinforced the inter-temporal decision-making impact of Grocer's formal reward system. But, whilst some managers took short-termist actions out of desire to earn rewards (the carrot), others took actions out of fear of incurring penalties (the stick). The next sub-section explores how intra-organisational mobility may influence the relationship between performance measures and short-termism. The information presented draws upon the descriptive overview provided in sub-section 5.2.5 and the analysis of interview data (interview questions 1 and 17 with code 5.5 used; see Appendix 10.7 and 10.10).

#### **7.2.4 Intra-organisational Mobility: Should I Stay or Should I Go?**

All middle-level managers interviewed for this research exhibited a high rate of intra-organisational mobility. Managers had been positioned at work level three or four for

an average of seven years (range, one to twenty years), but positioned in their current role for an average of two years (range, one month to four and a half years).<sup>95</sup> Because Grocer promulgates the timescales for the different types of intra-organisational mobility, a manager's expectation about the length of time that they will remain in their current role influenced his/her inter-temporal decision-making behaviour. On the one hand, managers who expect an imminent move focused heavily on overachieving short-term BSC measures often at the expense of setting or implementing workgroup or store-specific strategies. On the other hand, managers who expect to still be in their current role in the next target-setting period deliberately underachieved some of the BSC measures that were influenced by past performance. In general, there is a feeling among managers at Grocer that *"you never get to the long term because you end up moving"* (Store Manager A1: 1887-1888). A further level of complexity is added because the frequent movement of one's superior also influenced the inter-temporal decision-making process. These findings are elaborated below.

It has been previously noted that the group loss and group change coach roles are secondments, which are intended to last for a maximum of eighteen months. Therefore, *"because I'm on a secondment role I probably want more results now"* so that *"if this role ever finished, I would have something to back up going for other roles that come out"* (Group Loss Manager A: 770-786). Similarly, placements are intended to last for a minimum of twelve weeks and provide an opportunity for the manager to gain the essential skills and experiences for internal-upward mobility. Placement managers are thus driven to achieve on-target or above-target performance in the short term to demonstrate that they can meet the responsibilities of the role sought and so pass the trial period. To maximise the likelihood of this, two managers acknowledged taking forceful and directive actions that, while advantageous to short-term BSC performance, were harmful to workplace culture over a longer period of time. The actions were taken because neither manager expected to stay in the placement setting after the trial period. The managers thus forego the long term because they did not expect to face the consequences of their short-term actions. That is, the measurement point for employee satisfaction did not fall within the placement period. So, because a manager is not held accountable for the store's BSC results when s/he moves, *"the performance of what they're leaving behind is less relevant"* (Store

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<sup>95</sup> Further details can be found in Appendix 10.6.

Manager B9: 1897-1898). Incidentally, both managers remained in the placement setting after passing the trial period. As the quotations below illustrate, if the managers had known that they were to remain in the placement setting then they may not have sacrificed the long-term interests of the store.

*“I was here on a placement—something you do before you get appointed or signed off as a store manager—and I was asked by the store director to deliver results straight away. So, when I came here, I damaged the long-term performance of the store and the store team because all I focused on was the short term. And, what I mean by that is that, when I came here, I literally reacted and acted upon everything that was broken at the time. So, yes, it did deliver a short-term output. And, when I say short term, it wasn’t a weekly it was eleven weeks, twelve weeks as an output. So, we delivered the KPIs, but at a consequence to the colleague...If I had known that I was going to stay here then maybe I would have played a longer game and done more about building relationships.”* (Store Manager A6: 935-987)

*“I went in and, I suppose, focused heavily on short-term measures with very little thought for the long-term prosperity of the shop. Probably selfishly because it was a short term kind of get in there, fix it, and get out. So, I did it for three months. I fixed the shop to my short-term measures. When I was told I was staying there, my motivations changed to the long term.”* (Group Change Coach B: 436-441)<sup>96</sup>

Grocer also sanctions internal-lateral transfers of store managers among stores within and between workgroups. When a store manager transfers to a different store, the envisioned inter-temporal regime is as follows: (1) previous managerial actions that are equivalent to ‘plastering over the cracks’ are remedied in the first year; (2) the building blocks are put in place for improving BSC measures in the second year; and (3) sustainable BSC results are observed in the final three years. This progressive agenda is reinforced by Grocer’s policy, which prescribes that store managers remain in one store for a minimum of eighteen months. So, initially, *“I could come into a shop after a store manager that has decided not to scan waste on a certain department”* (Store Manager A2: 1476-1478) and, to remedy this practice, performance measure results will get worse before they get better. Clearly, however, Grocer’s reward system can negate the agenda because *“say you went to a really hard*

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<sup>96</sup> In this quotation, group change coach B is speaking retrospectively about his experience as a store manager.

*shop that was broken and you couldn't fix it quick enough you may not get a full pay rise*" (Store Manager B2: 2210-2211). At the same time, a recurrent theme in interviewees' accounts is that the guidelines for internal-lateral transfers are not always adhered to. For instance, some middle-level managers experience an internal-lateral transfer biannually. Because the manager has to consistently exceed performance expectations in his/her quarter-end reviews to experience such frequent internal-lateral movement, it appears to create a perverse incentive to *"manipulate data to deliver a great [BSC] to say 'look, how great am I?' and then move on"* (Store Manager B9: 1273-1280). In this situation, the manager does not suffer the repercussions of any actions that s/he has taken in the short term that are detrimental in the longer term when s/he moves store (as per secondments). Quotations that link short-termism to this lack of accountability upon internal-lateral movement are given below.

*"How can you stand over longevity in terms of performance if you're running the store six months? So, you know we talked about cutting corners, fudging figures, well how could you ever say who it was? You couldn't prove it, could you? You couldn't say, well it's down to that person because they were in, well no, actually, was it them? Whose problem was it?"* (Store Manager A6: 2462-2466)

*"You always heard of situations where store managers would not count things properly to manipulate their [unknown product losses] position. And then, they would move stores and say look how well I've done. The new store manager would come in, the store would feel completely empty, and then they would count it all off and suddenly a huge [unknown product losses] bill would come in and they'd say well how come your [unknown product losses] is so bad? And, he'd say well because the last guy wasn't counting anything."* (Store Manager B9: 1273-1279)

In contrast, managers who expect to be in their current role in the next target-setting period reduce their effort on some of the BSC measures that are influenced by past performance. In other words, managers have an incentive not to exceed some targets even if they could do because *"if I achieve blue on waste then I know my budgets next year are going to be set at such a low level that I'd feel like, how the hell am I going to deliver that?"* (Store Manager B9: 1140-1142). While BSC measures that have generic targets (e.g., customer and employee satisfaction) are not subject to

such practices, managers do not withhold effort to avoid difficult targets in the future on all BSC measures that are influenced by past performance. For example, managers do not reduce their sales activity in response to target ratcheting for reasons that are twofold. First, each of the cost targets (payroll, expenses, product wastage, and unknown product losses) are calculated as a percentage of the budgeted sales performance. Therefore, if next year's sales target is lowered, then so also are each of the cost targets. Second, sales has an inverse relationship with product wastage. Thus, *"if we improve our sales like-for-like position, waste is going to decrease because that product isn't being left on our shelf and it's not going in the bin"* (Store Manager A9: 195-198).

Store directors also experience frequent internal-lateral movement, which supposedly creates an outlook among store managers of *"all I need to do is just survive my boss"* (Store Director A: 1818). The frequent movement of one's superior can thus influence inter-temporal trade-off decisions insofar as some subordinates are inclined to take actions that pacify their superior rather than focusing on actions that meet the needs of customers that shop at their store. This issue is illustrated below.

*"Let's say, for example, that a particular issue in their store is standards but I'm putting loads of pressure on [unknown product losses] and waste. But their [unknown product losses] and waste is really strong. But I'm saying that I'm going out in stores, and I'm checking waste boards, and I'm checking [unknown product losses] boards, and I'm going to talk to colleagues. That puts them under pressure to be at their best. And that may draw their attention away from the two or three things that they really need to focus on."* (Store Director A: 556-562)

To summarise this sub-section, intra-organisational mobility is a relevant contingency factor in the relationship between performance measures and managerial short-termism. Managers who expect an imminent move focus heavily on overachieving short-term BSC measures, often at the expense of setting or implementing workgroup or store-specific strategies. This is because there is no reporting mechanism at Grocer that allows the manager to benefit from the future gains associated with their past decisions when s/he experiences intra-organisational mobility, or suffer the repercussions of any actions that they have taken in the short term that are detrimental to the longer term. More frequent intra-organisational mobility of one's superior can also prompt inter-temporal trade-off decisions. The

following sub-section presents the findings that relate to the role that individual time perspectives play in the inter-temporal decision-making process. Specifically, the sub-section explores how a manager's time perspective may influence the relationship between performance measures and short-termism. The information presented draws upon the analysis of interview data (interview questions 4, 5, 6, 7, and 8 with codes 6.1 through to 6.7 used; see Appendix 10.7 and 10.10).

### **7.2.5 Putting Time in Perspective: Between-Person Variability in Inter-Temporal Responses**

Middle-level managers participation in short-termism would perhaps occur, albeit to a lesser extent, irrespective of the structure and operation of Grocer's performance measurement system. As one manager explains: *"I think it's definitely down to personality"* (Group Online Shopping Manager: 1459-1460). Time perspective is the personal preference that is related to inter-temporal decisions in the workplace.<sup>97,98</sup> Managers with a past time perspective *"use all of the learning experiences, all of the decisions I've made over the years, as reference points"* (Store Director B: 778-779) for confirming their present-day actions and decisions. Managers with a present time perspective *"like to see more immediate change in the here and now"* (Group Change Coach A: 578-579) and sometimes have vaguely defined future goals. Managers with a future time perspective prefer to *"work hard now to have a better time down the road"* (Store Manager B2: 220-221) and are better able to abstract the implications of their present-day actions and decisions. Whilst all the middle-level managers interviewed for this research allocate varying degrees of attention across the time frames, thirteen tend to overemphasise the present time frame to the exclusion or minimisation of the past and future. In contrast, five of the middle-level managers tend to overemphasise the future time frame to the exclusion or minimisation of the past and present. Overemphasising one particular time frame appears to broadly map

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<sup>97</sup> See footnote 48 for information about forming interview questions to tap into an individual's time perspective profile.

<sup>98</sup> To remind the reader, time perspective relates to the notion that individuals differ in their use of the three temporal frames: past, present, and future (Zimbardo and Boyd, 1999). When an individual develops a tendency to overemphasise one of the three temporal frames to the exclusion or minimisation of the other two, a dysfunctional cognitive temporal bias prevails. This temporal bias has been termed temporal orientation (Shipp et al., 2009).

onto a specific inter-temporal decision-making process. Table 7.1 presents each manager's time perspective profile and highlights those who purport to predominately locate themselves in the present or future.<sup>99</sup> Aspects of this table are discussed below.

**Table 7.1:** Time Perspective Profiles

Interviewee	Time Perspective			Time Orientation	
	Past	Present	Future	Present	Future
Store Manager A1	✓	✓	✓	✓✓	
Store Manager A2	✓	✓	✓		
Store Manager A3	✓	✓	✓		
Store Manager A4	✓	✓	✓	✓✓	
Store Manager A5	✓		✓		
Store Manager A6	✓	✓	✓		✓
Store Manager A7	✓	✓	✓		
Store Manager A8	✓	✓	✓		
Store Manager A9	✓	✓	✓		✓✓
Store Manager A10	✓	✓	✓	✓✓	
Store Manager A11	✓	✓	✓		
Group Loss Manager A	✓	✓	✓	✓	
Group Change Coach A	✓	✓	✓	✓✓	
Store Director A	✓		✓		
Store Manager B1	✓	✓	✓		
Store Manager B2	✓	✓	✓		
Store Manager B3	✓	✓	✓		
Store Manager B4	✓		✓		✓✓
Store Manager B5	✓	✓	✓	✓	
Store Manager B6	✓	✓		✓	
Store Manager B7		✓	✓	✓	
Store Manager B8	✓	✓	✓		✓
Store Manager B9	✓	✓	✓	✓	
Store Manager B10	✓		✓		
Store Manager B11	✓	✓	✓		
Store Manager B12	✓	✓	✓	✓	
Group Change Coach B	✓	✓	✓	✓✓	

<sup>99</sup> Table 7.1 considers all aspects of the individual's life (i.e., both personal and work life), which is linked to the inter-temporal decisions that s/he makes in work outlined in Figure 6.5. Observed differences between the way an individual's time perspective shapes the decisions that they make for themselves and those that they make within an organisation are explained.

Group Loss Manager B	✓	✓		✓✓	
Group Online Shopping Manager	✓	✓	✓	✓	
Store Director	✓		✓		✓

Except for one individual, all interviewees reported relating to the past. Regarding the workplace, the past helps the manager to set goals and devise plans to achieve them when previous actions and decisions are evaluated. Two store managers referred to past seasonal events: *“I’ve already reflected on what went well and what didn’t go so well last Christmas...you need to reflect on what you captured from last year that went well that you would want to repeat and what didn’t go as well and you’d change this year given the opportunity and the allowance to do so”* (Store Manager B6: 857-872). Regarding reducing in-store management roles (see subsection 5.1.5), one store manager had previously been through restructuring at Grocer and drew on this experience to confirm his present behaviour, as evidenced below.

*“When I was an accountant with [Grocer] in head office, I went through structure change. So, I was called into an office and told we’re moving this work to [Place] but there’s no change to your job at the moment etcetera. That process went on for two years. So my emotions and my state of mind really suffered and struggled. But, having been through it, now that the store is going through structure change, because I know what it feels like, I’m really conscious about how I communicate with the people that work in my store and how I want to keep them informed.”* (Store Manager B9: 654-665)

Twenty-five interviewees reported holding a present time perspective. On a personal level, these individuals believed that *“you have to live for the now”* (Store Manager B2: 196) and *“treat every day like it’s your last”* (Store Manager B6: 813). The present time perspective manager attended to existing performance issues and had a strong preference for daily or weekly goals. Future goals tended to be vaguely defined because *“if you give yourself something in a year’s time, it’s hard to feel that self-achievement”* (Store Manager B7: 242-243). Aspects of Grocer’s performance measurement system appear to reinforce this time perspective, namely the frequency of performance measure monitoring and informal performance evaluations. Table 7.1 shows that all the middle-level managers interviewed thought about the past and/or present. It is of note that all middle-level managers also provided a first-person account of focusing on the short term (see Figure 6.5).

Twenty-eight interviewees reported holding a future-focused time frame. Regarding the workplace, these managers were committed to working towards monthly or yearly goals and their associated rewards, often making a temporary sacrifice. The most commonly mentioned work-related goal concerned career progression. Eight of the managers suggested that they work harder in the present to achieve this goal that is salient to them. For example:

*“It’s all about what I’m going to do next. I am pushing the profitability plan because I want to get out of [GroA store].”* (Store Manager A5: 988-989)

*“I’ve travelled anything from half an hour to an hour and a half and almost your life can be overtaken by [Grocer] then because you’re sort of in work for seven and you leave work at half six in the night. If you’ve got an hour and a half either side, that’s a fair chunk of your day taken up. But I’m sort of thinking, actually, you know what when I get promoted and gradually get closer to home the reward will be then.”* (Store Manager B2: 214-220)

Other well-defined future goals include, for example, improving employee satisfaction scores. The future time perspective manager abstracts the implications of their present-day actions and decisions, which is supported by the cumulative nature of achievement at Grocer. But, interestingly, not all those who think about the future provide a first-person account of focusing on the long term in work (compare Figure 6.5 and Table 7.1). The inter-temporal issues associated with intra-organisational mobility (see sub-section 6.1.3 and sub-section 7.2.4) and Grocer’s present financial adversity (see sub-section 5.1.5 and sub-section 6.1.3) appeared to weaken four manager’s future time perspective.<sup>100</sup> The manner in which an individual’s time perspective shapes the decisions they make for themselves can thus differ from those they make within an organisation.

Managers who have the tendency to overemphasise one of the three time frames, to the exclusion or minimisation of the other two, appear to exhibit a specific inter-temporal decision-making process. Whilst none of the middle-level managers interviewed exhibited an excessive focus on the past, thirteen purported to overemphasise the present and so hold a present time orientation. Of the eleven managers who offered a first-person account of sacrificing the long term for the short

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<sup>100</sup> These are: store manager A1, store manager B7, store manager B12, and group change coach A.

term (see Figure 6.5), six fell into the present time orientation category (denoted by a double checkmark in Table 7.1). For example, store manager A4 had a present time orientation and games customer satisfaction (see Table 6.4). On the other hand, five of the middle-level managers interviewed tended to overemphasise the future time frame, and so held a future time orientation. Of the eight managers who provided a first-person account of sacrificing the short term for the long term (see Figure 6.5), two fell into the future time orientation category (denoted by a double checkmark in Table 7.1). For example, store manager B4 had a future time orientation and opted to reduce her store's contracted base to improve long-term profitability and flexibility, but to the harm of short-term BSC performance (see sub-section 6.2.2.1).

To summarise this sub-section, an individual's time perspective appears to complicate the relationship between performance measures and short-termism. By matching each manager's temporal foci with his/her inter-temporal decisions in work, the present study finds that a manager who relates to the past and/or present is likely to make short-term decisions in the workplace. Moreover, managers who have the tendency to overemphasise the present time frame, to the exclusion or minimisation of the past and future, seem likely to make short-termist decisions. However, aspects of the organisational context in which a manager's time perspective surfaces may reinforce or weaken this preference. Sub-section 7.2.6 discusses the findings presented in this section in relation to the literature reviewed in Chapter 3.

### **7.2.6 Discussion: Factors That Complicate the Relationship Between Performance Measures and Short-termism**

Chapter 3 outlined that a contingency perspective on the relationship between performance measures and short-termism may prove useful in reconciling the conflicts evident in the management accounting literature. The chapter thus examined how performance information can be disseminated, how different rewards can be allocated, how managers' employment horizons can be shaped, and how individuals can respond differently to performance information within an integrated framework of the relationship between an organisation's performance measurement system and managerial short-termism. However, regarding each contingent factor, gaps in, and concerns about, the relevant literature emerged.

Section 3.1 documented that organisations commonly impose relative performance information onto managers, which may prompt social comparisons. However, little is known about the ways in which the design of an organisation's performance measurement system may induce social comparisons and how the behavioural consequences then manifest. Section 3.2 indicated that rewards attached to financial measures likely encourage short-termism (e.g., Lavery, 2004), but it is difficult to untangle the joint influence of saliency of financial measures and incentives on managers' inter-temporal decisions. Evidence regarding the impact that reprisals have on managers' inter-temporal decisions is limited to a single study in the accounting literature (i.e., Mergenthaler et al., 2012), and accounting researchers have generally not investigated how rewards and/or reprisals attached to non-financial measures influence short-termist behaviour. Section 3.3 examined managers' employment horizons, concluding that the extent to which intra-organisational mobility influences managers' propensity to make short-termist decisions has received relatively little research attention. Finally, Section 3.4 outlined how an individual's time perspective influences their current attitudes, decisions, and behaviours. However, few studies that deploy an inter-temporal choice framework engage with this issue, and so little is known of whether an organisation's performance measurement system may reinforce or weaken a manager's temporal preference. The present study addressed these issues by formulating and answering the following research question: *what is the extent of the relationship between performance measures and short-termism?*

Regarding relative performance information, social comparisons are induced by the performance measurement system because the system publicises performance differences between workgroup members. Specifically, the system stimulates the underlying goals (i.e., self-evaluation, self-enhancement, and self-improvement) that drive the initiation of the social comparison process (Festinger, 1954; Wood et al., 1994; Collins, 1996). Because the system emphasises performance differences between managers, the context primes differential thinking and prompts contrastive social comparisons (Stapel and Koomen, 2005). However, there are examples of managers assimilating ('that person could be me') with an upward target in order to try to enhance their current performance (see sub-section 5.3.2). In line with Greenberg et al. (2007) and Hannan et al. (2013; 2014), the findings reveal that making contrastive upward comparisons is demoralising, prompts an unfavourable

self-image, and engenders negative emotions such as shame and jealousy. On the other hand, making contrastive downward comparisons is liberating, enhances the manager's self-image, and engenders positive emotions such as pride and arrogance (Greenberg et al., 2007; Hannan et al., 2013). The present findings add further substance to this literature by highlighting that the frequency with which relative performance information is prepared and disseminated influences the occurrence of social comparisons and exacerbates the emotional response thereafter.

At Grocer, league tables encourage managers to compete for non-monetary rewards—namely autonomy, reputational benefits, and bragging rights—by trying to outperform others on mutually important performance dimensions. As noted in sub-section 5.3.2, this can have a positive impact on effort exerted (see Tafkov, 2013). However, sub-section 7.2.1 demonstrated that this emphasis on the self, and a desire for one's abilities to be slightly better than other managers, can lead to gaming and trading-off BSC measures. In support of this finding, Edelman and Larkin's (2014) study reveals that feeling socially inferior to one's peers can lead to deceptive behaviour amongst academics, namely downloading one's own working paper in the SSRN repository. League tables also appear to make managers unwilling to collaborate and subsequently forgo maximising profitable joint gains, as per Garcia et al. (2006). These findings highlight the tensions between Grocer's use of league tables and the contents of its formal performance evaluation system (e.g., to demonstrate collaboration and empathy). Together, short-termism appears to be an outcome of why, how, and to what affect managers socially compare. The behavioural corollaries of contrastive social comparisons manifest through financial and non-financial BSC measures because they are the valued dimensions for comparison. The findings presented in sub-section 7.2.1 contribute to the behavioural accounting literature by suggesting that the design of an organisation's performance measurement system may induce social comparisons and so inter-temporal trade-off decisions.

Regarding performance evaluations, the weightings that are attached to the four dimensions (i.e., BSC, business plans, store standards, and values-led leadership) in a subordinate's formal performance evaluation are determined subjectively by the superior; subordinates infer that the BSC most affects their performance evaluation rating. The system discourages short-termist decisions insofar as elements of the subordinate's BSC performance that can be quantified and elements that are not entirely amenable to quantification are assigned equal weighting. By assigning an

equal weight, subordinates focus on the behaviours that underpin the achievement of financial and non-financial targets. Partial support for this finding is provided by Chow and van der Stede (2006), who find that subjective (qualitative) non-financial measures are more effective than objective (quantitative) non-financial measures and financial measures in curtailing managers' short-term focus and inclination to engage in manipulation.

Nonetheless, the findings here extend previous analyses by suggesting that the manner in which financial and non-financial BSC information is used in informal performance evaluations undermine, and even supersede, the inter-temporal effects of the formal system. The sometimes daily informal performance evaluations, which focus solely on elements of the subordinate's performance that can be quantified, prompt subordinates (store managers) to focus on the short term to remedy underperformance. This ongoing pressure for short-term results leads to inter-temporal trade-off decisions that prioritise the short term over the longer term. These findings partly align with a distinct group of RAPM studies, whose instrument focuses on the extent to which quantitative information is used to evaluate a subordinate's performance, and may imply that dysfunctional outcomes follow from the extent to which particular non-financial measures are used for evaluating the performance of subordinates in certain contexts (e.g., Hirst, 1983). In combination, the findings presented in sub-section 7.2.2 contribute to the behavioural accounting literature by showing that tensions between an organisation's formal and informal performance evaluation system can give rise to undesirable behavioural affects.

The findings that relate to the impact that Grocer's 'carrot and stick' performance-based incentive system has on managers' inter-temporal trade-off decisions aligns with the arguments put forward by agency theorists (e.g., Jensen and Meckling, 1976; Demski and Feltham, 1978; Baiman, 1990). At Grocer, managers often pursue short-term BSC results that serve their own interests at the expense of longer-term activities that would be optimal for their store or workgroup. Superior-subordinate information asymmetries facilitate this behaviour, as per one of the main tenets of agency theory. That is: "*Stores were just scanning random clothing to deliver this measure. But my boss would never know that*" (Store Manager A4: 1561-1562).

The findings suggest that monetary rewards that are believed to be primarily tied to the achievement of financial and non-financial targets can prompt short-termist

decisions, particularly if the reward is felt to be large enough and will be honoured. This extends previous findings which indicate that it is the monetary incentives that are attached to financial targets that encourage short-termism (Hoskisson et al., 1993; Wallace, 1997; Murphy and Jensen, 2011), by proposing that the argument also applies to non-financial targets. Middle-level managers also value career progression opportunities, which are awarded if the manager consistently exceeds performance expectations in his/her quarter-end reviews and has strong relative performance. Relative performance information activates informal rewards and penalties (social pride and humiliation; see above), which reinforces the motivational impact of Grocer's formal reward system. Formal penalties for underperformance also relate to managers' short-termist decisions and actions, namely the demotions or dismissals that can occur if a manager does not successfully fulfil the requirements of 'Supporting Your Performance'. This finding aligns with Souder and Bromiley (2012), who explain that the threat of reprisal following poor performance is likely to motivate managers to trade off investments in assets with more delayed benefits to maintain short-term results. In summary, the impact that different forms of rewards and penalties have on inter-temporal trade-off decisions varies across managers. The present study contributes to the literature by highlighting that whilst some managers take short-termist actions out of desire to earn rewards (the carrot), others take actions out of fear of incurring penalties (the stick) that are attached to financial and non-financial targets. The study also contributes to this literature by disentangling the reward and penalties attached to performance measures from the use of performance measures in the context of performance evaluation.

Regarding intra-organisational mobility, the evidence from Grocer suggests that managers who expect an imminent move focus heavily on overachieving short-term BSC measures, often at the expense of setting or implementing workgroup or store-specific strategies. In partial support of this finding, Campion et al. (1994) specify that job-rotation can be harmful insofar as it creates a short-term perspective with regards to problem solving by the rotated employee. Consistent with the insight offered by Mannix and Loewenstein (1993) and van Rinsum and Hartmann (2011), it is managers' prior knowledge about future mobility that triggers inter-temporal trade-off decisions. Overachieving BSC measures facilitates frequent internal-lateral transfers, which support the manager's career progression. Managers thus attempt to overachieve BSC measures to create a façade of competence in the short term, which

can increase their likelihood of securing internal-upward mobility. This aligns with Graham et al. (2005), who report that managers may exercise accounting discretion to achieve desirable earnings goals when repeatedly failing to meet targets inhibits their internal-upward mobility.

Interestingly, though, internal-lateral transfers uncouple middle-level managers' personal gain from the longer-term performance of the store/workgroup in which they are currently positioned for at least two reasons. First, there is no reporting mechanism at Grocer that allows the manager to benefit from the future gains associated with their past decisions when s/he experiences intra-organisational mobility. Second, a manager who moves to a different store/workgroup does not suffer the repercussions of any actions that they have taken in the short term that are detrimental to the longer term. Whilst this mirrors the findings of research that examines the relationship between inter-organisational mobility and managers' temporality (e.g., Mannix and Loewenstein, 1994), it extends research that examines intra-organisational mobility and inter-temporal decisions by suggesting that it is not just the manager's expectation about mobility that is a trigger, but also his/her knowledge about a lack of accountability for past decisions. As such, managers who expect to still be in their current role in the next target-setting period deliberately underachieve some of the BSC measures that are influenced by past performance (see Bevan and Hood, 2006; Bouwens and Kroos, 2011). The findings presented in sub-section 7.2.4 also extend research in this area by suggesting that more frequent intra-organisational mobility of one's superior can prompt inter-temporal trade-off decisions.

The evidence presented in sub-section 7.2.5 illustrates that a past time perspective can help individuals set goals and devise plans to achieve them when previous actions are evaluated in order to confirm behaviour or provide lessons for improvement which is consistent with Karniol and Ross (1996). The findings also indicate that individuals with a present time perspective are heavily influenced by short-range goals and attend to the relatively more certain reality of the immediate present, as per Zimbardo and Boyd (1999; 2008). By matching each manager's temporal foci with his/her inter-temporal decisions in work, the present study finds that a manager who is cognitively involved with the past and/or present is likely to take short-term actions and decisions in the workplace. Moreover, managers who have the tendency to overemphasise the present time frame, to the exclusion or

minimisation of the past and future, seem likely to make short-termist decisions. The findings indicate that managers with a future time perspective are committed to working towards distant goals and their associated rewards, often at the expense of immediate gratification, because they are better able to abstract the implications of their current actions. This supports Zimbardo and Boyd's (1999) study, which finds that individuals with a future time perspective are more likely to have well-defined future goals and consider the distant outcomes of their present behaviour. In support of Das' (1987; 1991) observation, the present study suggests that a manager who relates to the future is likely to take long-term actions and decisions. The findings presented in sub-section 7.2.5 extend previous research by suggesting that aspects of the organisational context in which a manager's time perspective surfaces may reinforce or weaken this personal preference. For example, the frequency of performance measure monitoring appears to reinforce a present time perspective profile whilst the issues associated with intra-organisational mobility appear to weaken some managers' future time perspective profile in work.

In answering the last research question, the present study contributes to the behavioural accounting literature by demonstrating the dynamic, complex, and fluid interplay between several contingency factors and their impact on the relationship between performance measures and short-termism. By using an integrated approach, the study shows that these contingency factors may not be correlated, giving rise to conflicting contingences. Specifically: (1) the dissemination of relative performance information appears to prompt social comparisons and short-termism, with more frequent dissemination exacerbating the felt emotions; (2) the tensions between an organisation's formal and informal performance evaluation system can give rise to short-termism; (3) rewards and penalties attached to financial and non-financial measures encourage short-termism, but the impact can vary across managers; (4) knowledge about frequent intra-organisational mobility (of either oneself or one's superior) and a lack of accountability for past decisions upon internal movement appears to encourage short-termism; and (5) a present time orientation appears to be linked to short-termism, but a manager's time perspective can be reinforced or weakened by elements of the organisational setting.

### 7.3 Summary and Conclusions

This research is concerned with the nature and extent of the relationship between performance measures and short-termism. The purpose of this chapter was to describe, analyse, and explain the research findings pertaining to the third and fourth research questions:

3. *What is the nature of the relationship between performance measures and short-termism?*
4. *What is the extent of the relationship between performance measures and short-termism?*

Captured in the term ‘nature’, the chapter has outlined middle-level managers’ short-termist decisions in relation to the structure and operation of an organisation’s performance measurement system. At the broadest level, financial measures and non-financial measures that are quantitative in nature encourage an excessive short-term focus and short-termism. Reasons for this include the high importance accorded to performance targets, target level difficulty, and underperformance. The occurrence of short-termism also linked to inappropriate causal linkages between performance measures within and between measurement areas. Captured in the term ‘extent’, these findings were then taken further by explaining the factors that appear particularly active in complicating the relationship between performance measures and short-termism. Namely, the way performance measurement information is disseminated, evaluated, and then rewarded, and personal time perspectives influence middle-level managers’ involvement in short-termist decisions. Together, this chapter has highlighted the nature and extent of the relationship between performance measures and short-termism. The implications of the findings from this chapter and Chapter 6 are evaluated and presented in Chapter 8. In addition to considering the implications of the findings and presenting recommendations on that basis, Chapter 8 also reflects on the whole research process, highlighting the central features of the research and examining the research design.

## **8 CONCLUSION**

This concluding chapter provides a summary of the thesis, presents the main conclusions, and discusses the contributions (theoretical and methodological) that have been made. Implications for practice from the research will also be outlined. The chapter ends with a description of the study's limitations and suggestions for further research.

### **8.1 A Study of Performance Measures and Short-termism**

The research topic addressed in the thesis was the nature and extent of the relationship between performance measures and short-termism. The study began by explaining the nature of the research topic. Essentially, although research into the relationship between performance measures and short-termism has been undertaken previously, empirical evidence is inconclusive as to the role played by financial measures (compare Merchant, 1990; van der Stede, 2000) and non-financial measures (compare Moers, 2000; van Rinsum and Hartmann, 2011) on short-termism. Specifically, several studies are unsupportive of the literature's conceptual arguments that financial measures encourage short-termism (see e.g., Marginson and McAulay, 2008) and non-financial measures prompt actions and decisions that have beneficial longer-term consequences (see e.g., Marginson et al., 2010). One explanation for the mixed results is that, apart from differentiating between financial and non-financial measures, studies tend not to differentiate further in terms of performance measures and their relationship with short-termist behaviour. There is also little or no evidence regarding the role played by a systematic or formalised arrangement of performance measures on short-termism. Moreover, those studies that have taken place are potentially problematic, insofar as they have often been premised on the assumption that the short term is a standardised period of one year, and have used proxies such as time allocation for measuring short-termist behaviour. The appropriateness of these assumptions has yet to be examined empirically. Chapter 2 concluded, therefore, that better understanding may likely derive from drilling down further into the nuances of both short-termism and performance measurement.

Considering the aforementioned conflicting findings evident in the behavioural accounting literature, the case for broadening the investigation of the performance measure-short-termism relationship was identified and discussed in Chapter 3. Adopting a contingency approach, the study employed ‘method theories’ imported from economics (i.e., agency theory) and psychology (i.e., social comparison theory, time perspective) as a meta-level conceptual system for exploring various contingencies that may determine the extent of the relationship between performance measures and short-termism. Developing an integrated framework that focused on the management control system package (see Figure 3.1), the contingencies considered include the following: how performance measurement information is disseminated; how different rewards are allocated; how managers’ employment horizons are shaped; and how individual managers respond to a performance measurement system. These factors reflect the context-embedded and messy reality of organisational life.

Following the literature review of Chapters 2 and 3, an account of the methodological strategy was provided in Chapter 4, in part, to demonstrate that the research design was appropriate to the research topic. Critical realism was considered the most appropriate paradigm through which to conceptualise and conduct a piece of research such as this, essentially for two reasons: (a) its stratified ontology could question assumptions underpinning conceptual arguments; and (b) the perspective offered a medium to get beneath surface-level observations in a bid to understand and explain why short-termism occurred. It was argued that critical realism could endorse the case study method due to its in-depth, progressive, and context-dependent nature. The methodological possibilities of critical realism for the case study approach were then explained. The methodological possibilities comprised the approach to generating data, the analysis and interpretation of the data, and the criteria used to judge research within the critical realist paradigm. The theoretical writings underpinning these directives were linked to the present study to demonstrate what is entailed in conceptualising and conducting a research project based on critical realism.

Having discussed the methodological strategy of the thesis in some depth, Chapter 5 introduced the case study company, describing its history, domestic and international businesses, core values, strategic priorities, and external environment. Essentially, it was observed that part of the organisation’s strategy was to restore growth to the UK business as a result of revenues falling in recent years. This part of

the strategy was mapped onto the organisation's performance measurement system (the BSC). Ferreira and Otley's (2009) performance management systems framework was used for guidance for describing the performance measurement system in detail, with attention given to the supposed causal relationships, the frequency of performance measure monitoring, and changes that were observed during the investigation. The main aspects of the situation that influenced managers' time horizons and inter-temporal decision-making were also identified and described in Chapter 5. The relevant issues included the characteristics of stores, the responsibilities and remits of middle-level managers, and the nature and frequency of intra-organisational mobility. Other relevant factors were the nature and frequency of relative performance information, the performance evaluation systems, and the reward/penalty systems.

Chapter 6 built upon this evidence by describing, analysing, and explaining the research findings pertaining to the conceptualisation of short-termism. The data revealed that managers understood the short term to be quarterly, the medium term as annual, and the long term to be up to four years. Of interest were the nuances within, and overlaps between, these three cuts of the temporal scale. The complicated, fluid, and somewhat individualised accounts were because the organisation's internal architecture (store characteristics, specific roles, and intra-organisational mobility) and management control practices (performance measure monitoring and performance evaluation process) influenced managers' understanding of their time horizons.

The latter sections of Chapter 6 linked managers' views about their time horizons to their involvement in inter-temporal decisions. Four types of inter-temporal decisions were observed (myopic, hypermetropic, short-termist, and long-termist). Underpinning the whole gamut of inter-temporal decisions was the relationship between inter-temporal tasks. It was found that accordance between inter-temporal tasks underpinned myopic and hypermetropic decisions, whilst tension between inter-temporal tasks underpinned short-termist and long-termist decisions. Short-termist decisions manifest through reductions in budgetary expenditure and favouring predictable goal achievement. It was evident from the discussions that managers were aware of, and able to evaluate, the expected longer-term consequences of their short-term actions. One of the main observations thus concerned the notion of intention being one way to distinguish short-termism from myopia.

Chapter 7 described, analysed, and explained the research findings pertaining to the nature (i.e., the structure and operation of individual performance measures) and extent (i.e., individual-level contingency factors that play key roles) of the relationship between performance measures and short-termism. It was evident that there was importance attached to financial and non-financial BSC targets at the case organisation. Among other things, it was observed that this translated into frequent monitoring and perceived pressure to exhibit on-target performance. This, together with inappropriate cause-and-effect relationships, was found to encourage short-termist behaviour.

The remainder of Chapter 7 considered five contingent factors that appeared to complicate the relationship between performance measures and short-termism at the individual level. The factors include: relative performance information, the performance evaluation systems, the reward/penalty systems, intra-organisational mobility, and personal time perspectives. Evidence from the case study suggests that: (1) the dissemination of relative performance information prompted social comparisons and short-termism, with more frequent dissemination exacerbating the felt emotions; (2) the tension between a formal and informal performance evaluation system can lead to short-termism; (3) rewards and penalties attached to financial and non-financial measures encouraged short-termism, but the impact varied across managers; (4) knowledge about frequent intra-organisational mobility (of either oneself or one's superior) and a lack of accountability for past decisions upon internal movement encouraged short-termism; and (5) a present time orientation appeared to be linked to short-termism, but a manager's time perspective was reinforced or weakened by elements of the organisational context. The main conclusions, contributions, and implications to be drawn from the study's findings are discussed in the next section.

## **8.2 Conclusions, Contributions, and Implications**

The present section comprises three parts: theoretical, methodological, and practical. Each part will outline the main conclusions, contributions, and implications that emerge from the study.

### 8.2.1 Theoretical

In Chapter 1, the conceptual framework for the study was outlined. This sub-section will return to that framework, demonstrating how the analysis of empirical data has introduced nuance and broadened its scope. The study contributes to the behavioural accounting literature by highlighting that the initial conceptual framework failed to capture the dynamic, fluid, and bidirectional relationships at play. In other words, a comprehensive contingency-based framework has been developed; the framework provides individual-level explanations about when, how, and why managers engage in short-termism. Table 8.1 provides a summary overview of these contributions by tracing the gaps identified in the literature reviewed to the findings outlined in the empirical chapters.

In line with the first research question, the study explored managers' understanding of their time horizons. Managers' time horizons were differentially shaped by an organisation's internal architecture (see Jaques, 1990) and management control practices (see Becker and Messner, 2013). Findings thus suggest that the short, medium, and long term are empirically messy and possibly context dependent concepts. This contributes to the literature on short-termism by highlighting that a standardised definition of the time horizons involved in short-termist behaviour may be difficult to establish (see e.g., van der Stede, 2000; Marginson et al., 2010). The findings also highlight that the association between short-termism and previously used control variables may not be straightforward, namely hierarchy (see e.g., Marginson et al., 2010). This is because managers situated at the same hierarchical level can hold different understandings about points on the temporal scale. Considering the different temporal structures inherent within an organisation's management control system (see Becker and Messner, 2013), managers' time horizons appeared to be disproportionately shaped by shorter measurement and reporting intervals. In light of this, future research may need to acquire a contextualised understanding of what constitutes a manager's short, medium, and long term through a micro-level analysis so as to not overlook when inter-temporal decisions are made.

**Table 8.1:** Overview of Theoretical Contributions

RESEARCH QUESTION	RESEARCH FINDINGS	THEORETICAL CONTRIBUTIONS
<p>Section 2.2 suggested that there was a need to explore managers’ understanding of their time horizons given that short-termism indicates that there is a time-based motive for behaviour. The first research question was thus: how do managers understand the short, medium, and long term?</p>	<p>Section 6.1 showed that managers understood the short term to be quarterly, the medium term as annual, and the long term to be up to four years. However, there were nuances within, and overlaps between, these three cuts of the temporal scale.</p>	<p>The short, medium, and long term are empirically messy and interdependent concepts. A clear definition of the time horizons in short-termist behaviour is needed to establish.</p>
<p>Section 2.2 suggested that there was a need to explore how and to what effect managers make inter-temporal trade-off decisions, as extant research had been restrictive in its consideration of the manifestation of short-termism. This led to the second research question: how do inter-temporal decisions manifest?</p>	<p>Section 6.2 showed that accordance between inter-temporal tasks underpinned myopic and hypermetropic decisions, whilst tension between inter-temporal tasks underpinned short-termist and long-termist decisions. Regarding short-termism, managers were aware of, and able to evaluate, the expected longer-term consequences of their short-term actions.</p>	<p>Short-termism is a result of a complex and complicated and complex environment. Any future definition of short-termism perhaps should not just focus on inter-temporal trade-off decisions, but also the underlying factors that underpins those actions.</p>
<p>Section 2.3 highlighted that there was a need to explore the relationship between individual financial and non-financial measures in a BSC system and short-termism to address a gap in extant literature. This led to the third research question: what is the nature of the relationship between performance measures and short-termism?</p>	<p>Section 7.1 showed that the importance attached to financial and non-financial BSC targets at the case organisation translated into frequent monitoring and perceived pressure to exhibit on-target performance. This, together with inappropriate cause-and-effect relationships, was found to encourage short-termist behaviour.</p>	<p>The interplay between financial and non-financial measures is of prime importance in the context of short-termism. Rather than a focus on financial (financial <i>and</i> non-financial) measures may lead to limited short-termist behaviour, which in turn encourages a longer-term perspective.</p>
<p>Chapter 3 highlighted that there was a need to explore the contingencies that may complicate the relationship between performance measures and short-termism in order to perhaps address disparities in the findings of extant literature. This led to the research question: what is the extent of the relationship between performance measures and short-termism?</p>	<p>Section 7.2 showed that the manner in which performance measurement information is made public within an organisation and used to evaluate and reward managers, as well as the nature of managers’ mobility within an organisation and personal time perspective profile, complicates the relationship between performance measures and short-termism.</p>	<p>The relationship between performance measures and short-termism is complicated by the organisation’s performance measurement system and the nature of the decision-making process.</p>

Short-termism has been operationalised in three main ways: (1) devoting more time to activities that influence the firm's annual profit position (e.g., Lawrence and Lorsch, 1967), (2) reducing discretionary expenditure (e.g., Merchant, 1990), and (3) favouring predictable goal achievement (e.g., Marginson and McAulay, 2008). Given the potential narrowness of these instruments, the second research question elaborated on how and to what effect managers make inter-temporal decisions.<sup>101</sup> The findings demonstrate that the decisions and actions that are evident in the managers' short-termist behaviour are driven by his/her perception of the temporal scale. For example, decimating a store's product range to minimise product wastage enables the short-term product wastage target to be achieved; however, this is to the detriment of the longer-term workgroup strategy of securing customer loyalty. Similarly, inaccurately recording stock to achieve the short-term product wastage target is detrimental to the longer term unknown product losses target. The findings illustrate the various manifestations of operational inter-temporal trade-offs which empirically complements Merchant and van der Stede's (2012) description and adds nuance to the existing instruments outlined above.

When managers are aware of the expected trade-off in such decisions, it may be said that an intention underpins their behaviour. Consequently, any future definition of short-termism perhaps should not just emphasise the inter-temporal trade-off involved in actions, but also the intention that underpins those actions. The notion of intentional decision-making provides one way to differentiate short-termism from myopia. This refines Marginson and McAulay's (2008) use of the 'detrimental inter-temporal trade-off' to distinguish between short-termism and myopia. Taken together, the first two research questions refine and elaborate what it means to engage in short-termism, thus cautioning that failure to appreciate the subtleties and nuances associated with the temporal reference points may limit a researcher's ability to empirically observe inter-temporal trade-off decisions.

The third research question focused on the nature of the relationship between individual financial and non-financial measures in a BSC and short-termism. The findings highlight that the interplay between financial and non-financial measures

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<sup>101</sup> The instruments are potentially narrow insofar as it is not always evident that an inter-temporal trade-off is captured and they do not appear to capture the theoretically manifold nature of inter-temporal trade-offs, particularly operating trade-offs (see Section 2.2).

may not be of prime importance in shaping managerial short-termism. Rather, evidence suggests that quantitative (financial *and* non-financial) measures may lead to limited foresight and short-termist behaviour, whilst qualitative (non-financial) measures may encourage a longer-term focus. Whilst indirect support for this conclusion is provided by Marginson et al. (2010), the study contributes to the existing literature by explicitly reshaping the financial/non-financial dichotomy. Taking this into account, future research may thus benefit from examining the interplay between quantitative and qualitative measures to further explore how, why, and in what ways short-termism may be offset by using qualitative performance measures.

In line with the fourth and final research question, the study explored the extent of the relationship between performance measures and short-termism. The findings start to fill in the black box of contingencies and highlight that the inter-temporal decision-making effects of an organisation's performance measurement system depend on the context within which that system operates. That is, the way performance measurement information is made public within the organisation and used to evaluate and reward managers can either strengthen or weaken managers' inclination to engage in short-termism. Also, an individual's time perspective further complicates the relationship between performance measures and short-termist behaviour. This highlights a problem with existing research, which has tended to focus only on specific aspects of the control system, such as rewards and compensation (e.g., Lavery, 2004) or standalone activities, such as performance evaluation (e.g., Merchant, 1990), as opposed to adopting a more comprehensive and integrated approach. Consequently, it is important to study the components of the management control system package (see e.g., Malmi and Brown, 2008) not only in isolation, but also recognise their links (Ferreira and Otley, 2009). The study thus contributes to the short-termism literature by highlighting the dynamic interplay between a performance measurement system and its context in shaping the inter-temporal decision-making process. Together, this study illustrates *when*, *how*, and *why* managers may engage in short-termism, which is important if the objective is to try to avoid this organisationally dysfunctional behaviour. This point is returned to in sub-section 8.2.3.

Whilst recognising the different meta-theoretical commitments of researchers and so the ways in which short-termism has been studied, the above conclusions call into question the appropriateness of assumptions that tend to underpin conceptual

arguments in the behavioural accounting literature. To reiterate, the data suggest that: (1) temporal reference points may be non-standard (as against the short term being a standardised period not exceeding one year); (2) short-termism may manifest through various guises and be underpinned by a well-thought-out approach (as against short-termism being a relatively uncomplicated/un-nuanced behaviour); and (3) the interplay between quantitative and qualitative measures may be important in shaping managerial short-termism (as against the interplay between financial and non-financial measures). The next sub-section considers the methodological contributions that have been made by this study.

### **8.2.2 Methodological**

Through adopting a qualitative approach to generating data, the study contributes to the behavioural accounting literature that investigates the relationship between performance measures and short-termism. A qualitative approach to data generation stands in contrast to prior research that has primarily used surveys (see e.g., van der Stede, 2000; Laverty, 2004; Marginson et al., 2010; Abernethy et al., 2013) and experiments (see e.g., van Rinsum and Hartmann, 2007) to investigate short-termism. Moreover, except for Marginson and McAulay (2008) and Marginson et al. (2010), researchers have tended to avoid direct measures of short-termism due to the difficulty of getting honest responses in this potentially sensitive area. Through building and establishing a rapport with participants, the present study offers rich insight into the time horizons of, and inter-temporal trade-off decisions made by, middle-level managers. The detailed, nuanced, and individualised accounts reveal a broad perspective on inter-temporal decision-making, thereby capturing the *process* through which short-termism manifests.

The study also makes methodological contributions to the broader management accounting literature through adopting a critical realist philosophical approach. As noted in Chapter 1, critical realism is an approach that has not yet been widely adopted in empirical management accounting studies and, as a result, there remains little published work in this area discussing what it entails to adopt such an approach to research. The limited guidance available considers the methodological consequences of committing to critical realism's stratified ontology for case study research (Llewellyn, 2007) and mixed methods research (Brown and Brignall, 2007;

Modell, 2009). By discussing the possibilities and practicalities of a critical realist research project in Chapter 4, the present study sought to add to this emerging area of interest. Chapter 4 outlined how critical realism's ontology and epistemology influence the research methods, techniques, and analyses that can be employed, as well as the tactics that should be used to improve the quality of research. The content of the chapter thus has scope to aid those contemplating research of this nature, particularly those who seek to use critical realism as an explanatory and linguistic device.

Building on Modell's (2017) discussion of retrodution and retrodiction, the study also introduced Bhaskar's (2010; 2014) DREI model for analysing data to the management accounting literature. Chapter 4 explained that, in critical realist research, retrodution and retrodiction should be understood as only one part of the data analysis process. That is, the process should also comprise the description of surface-level events, the elaboration and elimination of alternative explanations, and the identification of generative mechanisms. By describing and implementing Bhaskar's (2010) four-stage data analysis strategy, the study offers an original contribution to the management accounting literature. Notwithstanding these contributions, there are also several methodological limitations that deserve to be recognised. The next section discusses these limitations together with more general limitations of this study and future directions for research. First, however, the practical contributions will be derived.

### **8.2.3 Practical**

The findings from the present study have at least four implications for the design and implementation of performance measurement systems in particular, and of management control systems in general. In the circumstances encountered, managers sacrificed the long term for the short term due to the pressures to continually achieve financial measures. The argument that managers forgo longer-term betterment for shorter-term success due to financial controls appeared to also apply to non-financial measures that were quantitative in nature. The main influences on their time horizons and inter-temporal trade-off decisions in this respect were the frequency of performance measure monitoring and target tightness. More frequent performance measure monitoring shortened managers' perceptions of the temporal scale and led to

an excessive short-term focus, while less frequent performance measure monitoring lengthened managers' perceptions of the temporal scale. Consequently, it might be possible to synchronise the frequency with which performance measures are monitored with desired managerial time horizons. However, this means that organisations would need to carefully consider their choice of performance measures, given that some aspects of performance that are measured need to be monitored frequently. For example, in retail organisations, queue length needs to be monitored frequently to provide relevant information for managers. When frequent monitoring is required, organisations may need to compromise on target tightness to lessen the pressure for short-term results and circumvent short-termism. Furthermore, it is potentially important for organisations to ensure that there is consistent monitoring frequencies across, and appropriate causal linkages between, performance measures in a systematic or formalised arrangement in order to deter trading off performance measures with temporally spaced outcomes.

Second, performance evaluation and reward/penalty systems play important roles in shaping the relationship between performance measures and managers' time horizons and inter-temporal decisions. In terms of counterbalancing an excessive short-term focus, the use of non-financial measures that were qualitative in nature and derived from subjective judgement in formal performance evaluations proved pivotal. To promote managerial foresight, an organisation perhaps should thus consider incorporating measures such as developmental progress reports and subjective assessments of achievement of personal objectives into the formal evaluative process. However, there existed within the case organisation an informal process whereby subordinate managers were subject to frequent appraisals by their superior about aspects of their performance that could be quantified. These appraisals took the form of informal dialogue. By and large, subordinate managers believed that the organisation's informal system superseded the more formal system due to its timing, framing, and content. Consequently, superiors maybe should be aware of the influence exerted by signals which they emit through their actions and behaviours. Evidence from the case study indicates that misalignment between the nature of formal and informal performance evaluation systems leads to tension between inter-temporal tasks and short-termist decisions.

Furthermore, managers inferred that formal and informal rewards/penalties were primarily tied to individual target achievement/non-achievement. Despite this

inference, there existed within the case organisation a system for providing rewards based on collective achievement. Namely, bonuses were awarded on the basis of personal performance and corporate performance. In addition, managers were rewarded based on the degree of their conformity to Grocer's values, which emphasised group interested behaviour (e.g., collaboration). However, overall corporate underperformance and the overriding influence of other management control practices negated the potential positive effects of group rewards on managers' inter-temporal decisions. That is, a balance between self-interested and group-interested behaviour was not achieved. Thus, implementing group rewards without understanding the interplay between different components of a management control system may result in failure to avoid excessive self-interested behaviour and short-termism.

Third, one of the most striking features of the case study was the mobility of managers throughout the organisation. However, a high degree of intra-organisational mobility constrained managers' long-term horizons. Knowledge about mobility also encouraged short-termism because there was no reporting mechanism to hold managers accountable for their past decisions. Consequently, to mitigate short-termism in these circumstances, it may be necessary for organisations to not only emphasise an appropriate values system but also ensure that superiors' statements, actions, and behaviours are consistent with those values (Merchant and van der Stede, 2012). Broadly speaking, such cultural controls may also be necessary when an organisation disseminates relative performance information. In the circumstances encountered, the dissemination of relative performance information encouraged, among other things, uncooperative and impulsive behaviour that prompted short-termist decisions.

Fourth, an individual's time perspective was found to complicate the relationship between performance measures and short-termism. Whilst managers who held a present time orientation seemed more likely to make short-termist decisions, those who held a future-focused time frame were committed to working towards distant goals and their associated rewards. Consequently, personnel controls may be important to select and place managers with desired time horizons in appropriate jobs (Merchant and van der Stede, 2012), so that a manager's time perspective profile is a 'good fit' for the responsibility time span of the role (Jaques, 1990). The next section outlines the study's limitations and makes suggestions for further research.

### **8.3 Limitations and Future Research Opportunities**

The following caveats should be considered when interpreting the findings. First, the arguments in this thesis are based on empirical data obtained from a single case organisation. Even though critical realism provides an epistemological justification for using one case (Easton, 2000) and the case organisation was purposefully selected (Eisenhardt, 1989b), there is an opportunity for other researchers to confirm and build upon this study's findings in other contexts in order to identify other contingent factors. The case study of Grocer was conducted during a period in which the performance measurement system became central to the organisation realigning itself in the marketplace. Consequently, high priority was accorded to performance targets. Furthermore, overall corporate underperformance negated any potential effects of group rewards on managers' inter-temporal decisions. Studies where an organisation is experiencing a period of steady growth or stability would be particularly important in exploring the relationship between performance measures and short-termism in this regard. Alternatively, comparative case studies across organisations may consider the impact of industry type; especially due to a limitation of the present study in pursuing an organisation based within the retail industry, where the temporal structures inherent within the management control practices may be a feature of the industry being dynamic and fast paced. Equally, a more longitudinal study would have been advantageous in order to appreciate the process of intra-organisational mobility in more depth, rather than within a specific timeframe. Linked to these points, more attention was paid to describing and analysing how Grocer's present internal situation may complicate the relationship between performance measures and short-termism than the organisation's historical background and industry context. As these contextual factors may have affected performance measurement choices (see Chenhall, 2003), this is another limitation of this study.

Second is the choice of interviewees, in particular the choice of middle-level operational managers. Lower-level managers, as well as those situated at the apex of the organisation, could have been approached to widen the scope of the interviews and allow more exploration of any similarities and differences regarding inter-temporal decisions across hierarchical levels, given that role specific responsibilities

influenced managers' perceptions of the temporal scale and their involvement in inter-temporal decisions. Moreover, Merchant (1990) highlights that some amount of management myopia may be present even in optimally designed management control systems. Thus, interviews with top-level managers would have been helpful for separating the unintended control system side effects from those that top management tolerates or even encourages. Given the nature of the middle-level managers' roles, the examples of inter-temporal decisions encountered were operational. Another limitation of this study is that it does not capture investing inter-temporal trade-off decisions.

Third, the present analysis of the nature and extent of the relationship between performance measures and short-termism represents a first exploratory effort. Thus, as noted above, the study does not exhaustively cover all factors that may complicate the relationship between performance measures and short-termism.<sup>102</sup> In this regard, the study did not explore, for instance, issues such as the cultural origin of the manager (see Coates et al., 1995; Chow et al., 1996) and capital market pressures (see Jacobs, 1991; Porter, 1992; Bushee, 1998), which have been shown to influence the occurrence of short-termism. Future research may, therefore, consider exploring a broader set of contingencies that may lead to short-termism on a case level, identify emergent cross-case patterns concerning the role and relevance of these contingencies, and, in particular, gauge their interplay with performance measures.

Fourth, the study focused on short-termism, or managers' intentional and organisationally suboptimal behaviour that focuses on securing short-term results that precludes longer-term achievement—which was differentiated from myopia, defined as managers' limitations in the ability to foresee the future that may not necessarily entail a suboptimal inter-temporal trade-off. These definitions were entangled with performance measures, which perhaps made the subsequent analyses self-limiting. Attempts may be made to broaden the concepts so that the short term is disentangled from short-term results. Moreover, short-termism and myopia can be differentiated, and yet remain interlinked, so that the nature and interrelationships between these behavioural phenomena may benefit from future research.

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<sup>102</sup> The contingencies explored in this thesis focus on the design of the performance measurement and reward systems (elements of results controls and cultural controls), as well as personal factors (which can be influenced by elements of personnel controls) that affect managers' inter-temporal reactions to a performance measurement system.

The case of Grocer also contains some intriguing issues that are not fully addressed in this study. For example, how the application (or non-application) of the controllability principle complicates the relationship between performance measures and short-termism was not fully explored. In this regard, there were different levels of application and different types of less controllable factors at Grocer (see Section 5.2 and Section 5.3). With regard to the different levels of application, nearly all of the managers interviewed acknowledged having only partial control over the achievement of several BSC performance measures. In reference to the different types of less controllable factors, managers' lack of controllability could stem from decisions made by predecessors or from decisions made by other managers within the same workgroup. Thus, investigating the inter-temporal decision-making effects that result from the interplay between different levels of application of the controllability principle and different types of less controllable factors may be an interesting future direction of the research.

Research opportunities also stem from this study. One avenue for further research involves exploring the process through which managerial behaviours are influenced by the presence of other managers and, furthermore, its link to inter-temporal decisions. In particular, there were examples of interviewees justifying the manner in which they performed their inter-temporal tasks through notions of conforming to conventional practices or to the behaviour of other workgroup members. Investigating the experience of social influence, how it is formed, and how it comes to influence inter-temporal decisions may thus be an intriguing research project.<sup>103</sup> Such a project would complement Marginson and McAulay's (2008) study on the relationship between the level of social influence and short-termism, as well as align with Hall's (2016) suggestion of how to develop the use of psychology theories in contingency-based management accounting research.

Future research would also greatly benefit from exploring other personal orientations when considering the extent of the relationship between performance measures and short-termism. Interviews with middle-level managers reveal that other personal orientations, such as competitiveness, influenced the manner in which inter-

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<sup>103</sup> Social influence theory suggests that information from social referents, such as workgroup members, can be at least as important as objective information in guiding judgments of difficult perceptual tasks, leading to conformity of views, beliefs, and behaviours (see Asch, 1955; Turner, 1991; Lucas et al., 2006).

temporal tasks were performed. In the circumstances encountered, individual competitiveness was reinforced by the dissemination of relative performance information which fostered a competitive situation. Thus, exploring the extent to which other personal orientations complicate the relationship between performance measures and short-termism, as well as how aspects of the context may reinforce or weaken them, seems worthy of further investigation.

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## 10 APPENDIX

### 10.1 Ethical Approval Form

ETHICS 2



**FULL ETHICAL APPROVAL FORM**  
(STAFF/PHD STUDENTS) or students referring  
their form for a full ethical review

(For guidance on how to complete this form, please see Learning Central – CARBS RESEARCH ETHICS)

If your research will involve patients or patient data in the NHS then you should secure approval from the NHS National Research Ethics Service. Online applications are available on <http://www.nres.npsa.nhs.uk/applicants/>

Name of Lead Researcher: Emma Jane Pugh

School: Cardiff Business School (CARBS)

Email: PughE1@cardiff.ac.uk

Names of other Researchers: n/a

Email addresses of other Researchers: n/a

Title of Project: Performance Measurement and Managers' Temporality

Start and Estimated End Date of Project: October 2013-September 2016, with data collection August 2014-August 2015

**Aims and Objectives of the Research Project:** The objective of the project is to answer the following overarching research question: *What is the nature and extent of the relationship between performance measures and short-termism?* This question allows for an exploration of the organisational (e.g., performance measures) and individual (e.g., personality) factors that help to drive or inhibit short-term managerial behaviour. The project can be divided into three phases, with each phase aiming to explicitly answer one or more research questions. The research questions for each phase are as follows:

Phase 1:

1. Do managers perceive different types of performance measures as influential in determining their inter-temporal decision-making behaviour?
2. What situational factors beyond performance measures do managers perceive as influential in determining their inter-temporal decision-making behaviour?
3. How do managers view their own perspective on time, and does this disposition influence their involvement in inter-temporal trade-off decisions?

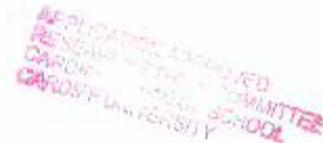
Phase 2:

4. What is the relationship between the situational factors considered in question 1 and 2, and the dispositional factor considered in question 3?

Phase 3:

5. How do managers' perceptions illuminate understanding of the relationship between situational and dispositional factors on inter-temporal decision-making behaviour, as found in phase 2?

Please indicate any sources of funding for this project: Economic and Social Research Council (ESRC) studentship



APPLICATION APPROVED  
RESEARCH ETHICS COMMITTEE  
CARDIFF BUSINESS SCHOOL  
CARDIFF UNIVERSITY

**1. Describe the methodology to be applied in the project**

Given that the factors that help to drive or inhibit short-term managerial behaviour remain unclear, a single case study approach will be used because this strategy is viewed as being valuable when attempting to examine an under-researched area. A multinational retail organisation (hereafter referred to by the pseudonym 'Metco') that operates a balanced scorecard, which combines financial and non-financial performance measures, was chosen as the case site. This is because the organisation represents an instrumental case that will allow the research questions to be answered.

The project will have a fully mixed research design, and use the dialectical pluralistic philosophical lens that is advocated by Jennifer Greene (2007) and Burke Johnson (2012). An exploratory sequential design will be used. This means that the research will first 'explore' using qualitative data (phase 1: 25 semi-structured interviews and an interpretivist stance), then secondly 'explain' using quantitative data (phase 2: 250 questionnaires and a postpositivist stance), and finally 'mix' the results to determine the extent to which the findings from phase 1 corroborate, diverge, or give meaning to the findings from phase 2 (phase 3: quantizing and qualitzing).

Phase 1: This phase will consist of approximately 25 semi-structured interviews with middle and upper management of Metco (more details about the sample are provided in the answer to question 2). The interviews will be structured by an interview guide (attached), which will set out the key themes to be covered. However, there will be latitude for further questioning to explore relevant issues in more depth and probe factors that underpin interviewees' responses. The key themes to be explored include: (1) the current role that the interviewee holds within Metco; (2) the main tasks and responsibilities that the interviewee has to undertake; (3) how the interviewee's performance in this role is monitored and assessed; (4) the interviewee's opinions about these processes; and (5) the interviewee's thoughts about their own time perspective. The interpretive stance used here will enable interviewees to recount from their frames of reference the effect that situational and dispositional factors have on their inter-temporal decisions, which will provide qualitative depth and emic insights unobtainable from phase 2. The interviews will be, with the permission of the interviewee, audio-recorded. The audio-recordings of the interviews will then be transcribed verbatim. The transcripts will be subject to a latent thematic analysis, which identifies and examines underlying assumptions, ideas, and conceptualisations to interpretively read through and beyond the data. Nvivo 10 will be used to facilitate the data analysis process.

Phase 2: This phase will consist of approximately 250 questionnaire surveys administered to middle and upper management of Metco (more details about the sample are provided in the answer to question 2). Given that the questionnaire survey will be developed as a result of the findings from phase 1, a draft questionnaire is unavailable at the present time. However, it should be noted that the broad themes will be similar to the interview topics. Moreover, a draft questionnaire can be provided to the Ethics Committee at a later date (in December 2014). The hypotheses, which will be developed as a result of phase 1, will be tested using Structural Equation Modelling using Mplus.

Phase 3: This phase will consist of quantizing the data collected from phase 1 (the translation, transformation, or conversion of qualitative data into quantitative data) and qualitzing the data collected from phase 2 (the process by which quantitative data are transformed into qualitative data).

**PLEASE ATTACH COPIES OF QUESTIONNAIRES OR INTERVIEW TOPIC GUIDES TO THIS APPLICATION**

APPLICATION FOR RESEARCH ETHICS COMMITTEE  
CARDIFF UNIVERSITY SCHOOL OF BUSINESS

**2. Describe the participant sample who will be contacted for this Research Project. You need to consider the number of participants, their age, gender, recruitment methods and exclusion/inclusion criteria**

Phase 1: For the interview phase, the participant sample will consist of (approximately) 15 middle level managers and (approximately) 10 upper level managers at Metco. Therefore, the interview participants will be educated, experienced business professionals. Given that an individual can only start full-time work once they've reached the minimum school leaving age, all of the participants will be at least 16 years of age. However, given the targeted sample (i.e., middle and upper level managers at a multinational organisation), it is expected that the participants will be, at the very least, twenty years of age. The sample will not be limited to one gender; therefore, both males and females will be invited to participate in the research project. There are, however, two inclusion criteria for middle level managers: (1) the middle level manager must manage one of the two larger 'formats' (Metco has four 'formats' in total). This criterion will be applied because a larger 'format' means that the participant will supervise more subordinates, be responsible for generating greater revenues etc., which indicates that they may be more likely to face greater pressure and be exposed to greater tensions; and (2) their proximity to Cardiff. Given the large number of managers that occupy a middle level position in Metco, this criterion will be applied because of time and monetary constraints. However, with regard to upper level managers, these inclusion criteria will be relaxed (i.e., the only inclusion criterion is that the participant occupies an upper level position).

For the interview phase, snowball sampling, which is a type of purposeful sampling, will be used. This sampling technique will allow interviewees to be selected on the basis of their hierarchical level and so their adjudged ability to answer the research questions. Participants will be initially recruited via an email which will outline the aims and objectives of the research. The email addresses will be acquired from an upper level manager who is the gatekeeper/key informant. A follow up telephone conversation and/or face-to-face meeting will be necessary at this point, especially with those at upper level positions. Regarding those who express interest, and would like to participate in the research project, a detailed information sheet (attached) will be emailed at least one month before the interview is scheduled. It is anticipated that this will provide sufficient time for the information sheet to be read, understood, and any unanswered questions addressed.

Phase 2: For the questionnaire phase, the participant sample will again consist of middle and upper level managers at Metco. It is anticipated that an electronic questionnaire survey will be administered to at least 250 individuals. Again, it is expected that all of the participants will be at least twenty years of age, and the sample will comprise both males and females. For this phase of the study, the inclusion criterion is that the participant occupies either a middle manager position (of any 'format', and at any location) or an upper level position. Participants of phase 1 will be invited to partake in the questionnaire survey at the end of their interview. Regarding those who do not participate in phase 1, middle level managers will be recruited via an email sent to a ('format'-location) mailing list. The email will consist of an information sheet, endorsement off the appropriate 'format'-location upper level manager, and a link to the questionnaire survey. Upper level managers will be recruited via a personal email, which will consist of an information sheet and a link to the questionnaire survey.

**3. Describe the method by which you intend to gain consent from participants.**

Phase 1: Individuals will receive an invitation letter via email. This invitation letter will outline the aims and objectives of the research (attached). If the individual expresses interest, an information sheet will then be emailed (attached) one month before the interview is scheduled. Before the interview is conducted, the participant will be asked (1) if they understood the information sheet, (2) if they have any unanswered questions, (3) if they agree to the interview being audio recorded,

and (4) if they would like to receive a copy of their interview transcript. The participant will also be reminded that they are free to withdraw from the interview, at any time, without giving a reason. Finally, a consent form will be signed before the commencement of the interview (attached).

**Phase 2:** Individuals will receive an overview of the research via email. This overview will consist of an information sheet and a link to the questionnaire survey.

**PLEASE ATTACH A COPY OF ALL INFORMATION WHICH WILL BE GIVEN TO PROSPECTIVE PARTICIPANTS (including invitation letter, briefing documents and, if appropriate, the consent form you will be using).**

**4. Please make a clear and concise statement of the ethical and health and safety considerations - <http://www.cf.ac.uk/osheu/index.html> - raised by the project and how you intend to deal with them (please use additional sheets where necessary)**

The main ethical concern is ensuring that the identity of Metco and the identity of each participant is protected. To this end, audio files will be retained on an external drive and kept in a locked cupboard in a locked room. The transcribed data will be anonymised using pseudonyms and securely stored in a file using a coded identification number. This file will then be stored on an external drive. Regarding the final thesis, specific store based data that are collected on Metco's balanced scorecard will not be reported, and other contextual information that may expose Metco's identity will be excluded.

Whilst the interview questions are not envisioned to cause the interviewees distress, such an eventuality may nevertheless occur. If a participant becomes upset and/or distressed during the interview, they will be asked if they would like to discontinue the interview process, and that they can withdraw their interview from the project if they wish.

There are no known health and safety risks to participation in this study.

**STUDENTS SHOULD BIND THE SIGNED AND APPROVED FORM INTO THEIR REPORT, DISSERTATION OR THESIS**

*Please complete the following in relation to your research project:*

		Yes	No	n/a
(a)	Will you describe the main details of the research process to participants in advance, so that they are informed about what to expect?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b)	Will you tell participants that their participation is voluntary?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c)	Will you obtain written consent for participation?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d)	Will you tell participants that they may withdraw from the research at any time and for any reason?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(e)	If you are using a questionnaire, will you give participants the option of omitting questions they do not want to answer?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(f)	Will you tell participants that their data will be treated with full confidentiality and that, if published, it will not be identifiable as theirs?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(g)	Will you offer to send participants findings from the research (e.g. copies of publications arising from the research)?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(h)	If working with children and young people please confirm that you have given due consideration to University guidance available at: <a href="http://www.cardiff.ac.uk/govm/eocom/resources/2010%20November%20Safeguarding%20Children%20&amp;%20VA's.doc">http://www.cardiff.ac.uk/govm/eocom/resources/2010%20November%20Safeguarding%20Children%20&amp;%20VA's.doc</a>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
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**PLEASE NOTE:**

If you have ticked **No** to any of 5(a) to 5(g), please give an explanation on a separate sheet.

(Note: N/A = not applicable)

There is an obligation on the principal researcher/student to bring to the attention of Cardiff Business School Ethics Committee any issues with ethical implications not clearly covered by the above checklist.

Signed:

(Principal Researcher/Student) *E. J. Pugh*

Print Name:

EMMA PUGH

Date:

20<sup>th</sup> July 2014

**SUPERVISOR'S DECLARATION (Student researchers only):** As the supervisor for this student project I confirm that I believe that all research ethical issues have been dealt with in accordance with University policy and the research ethics guidelines of the relevant professional organisation.

Signed:

*K. Robson*

Print Name:

KEITH ROBSON

Date:

30/7/14

*TWO copies of this form (and attachments) MUST BE OFFICIALLY STAMPED by Ms Lainey Clayton, Room F43, Cardiff Business School*

**STATEMENT OF ETHICAL APPROVAL**

This project has been considered using agreed School procedures and is now approved.

Official stamp of approval of the School Research Ethics Committee:

Date:

20/8/2014



## 10.2 Information Sheet

# INFORMATION SHEET

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**Title of research project:**

Performance Measurement and Managers' Work Time Horizons

**Name and position of researcher:**

Emma Pugh, Ph.D. student, Cardiff University

Thank you for the interest you have shown towards my Ph.D. study on performance measurement and managers' work time horizons. The following information provides an overview of the research and gives reassurance about participant involvement.

***What is the purpose of the research?***

The purpose of this research project is to understand the nature and extent of the relationship between performance measures (e.g., sales, customer satisfaction, etc.) and work time horizons.

***Why have you been invited to take part in the research?***

You have been invited to take part in the research because you either occupy a store manager position within [GroA] or [GroB], or you occupy a store director position. It should be noted that, while your contribution is greatly valued, participation in this research project is voluntary. This means that you are also free to withdraw from the research at any time, without giving a reason.

***What will you have to do?***

Participation will involve an approximately one-hour interview that covers the following themes: (1) the role that you hold within [Grocer]; (2) your main tasks and responsibilities; (3) how your performance is monitored and assessed; and (4) the thoughts you have about your own time perspective (e.g., short/long term). Interviews will be conducted in store at a time that is most convenient for you. For practical reasons, it would be preferable if the interviews could be audio recorded. This possibility will, however, be governed by your preference.

***Will everything you say remain confidential?***

All data associated with this research will be treated with the utmost confidentiality and anonymity. Ethical and legal procedures will be followed with regards to handling and storing the interview data. This means that the audio recordings and the

anonymised transcripts will only be accessible to me and will only be discussed with my supervisor. You are also welcome to view a copy of your interview transcript.

***What will happen to the information collected?***

The information collected as a result of your participation will directly contribute to the completion of my Ph.D. thesis. An anonymised summary report on the study's findings will also be produced for [Grocer], and circulated to all participants at the end of the research project.

***Who is funding and organising the research?***

The research is funded by the Economic and Social Research Council (if you would like to view my ESRC profile, go to: <http://www.walesdte.ac.uk/profiles/pathway/management-and-business-studies/#pugh-emma>). The research will be managed and conducted by myself, independently of [Grocer] plc.

***What if you need more information?***

If you require more information about my research, or if you have any unanswered questions, please do not hesitate to contact me by email. My email address is: [PughE1@cardiff.ac.uk](mailto:PughE1@cardiff.ac.uk).

*Once again, I would like to thank you for supporting my research project.  
I look forward to meeting you.*

### 10.3 Consent Form

## PARTICIPANT CONSENT FORM

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**Title of research project:**

Performance Measurement and Managers' Work Time Horizons

**Name and position of researcher:**

Emma Pugh, Ph.D. student, Cardiff University

*Please initial box*

1. I confirm that I have read and understood the information sheet (INT) July 2014 D1 for the above study.

2. I have had the opportunity to ask questions and have had these questions answered satisfactorily.

3. I understand that my participation is voluntary and that I am free to withdraw at any time without giving a reason.

4. I agree to take part in the study.

*Please tick box*

Yes                      No

5. I agree to the interview being audio recorded.

6. I would like to receive a copy of my interview transcript.

7. I agree to the use of anonymised quotes in publications.

Name of participant: \_\_\_\_\_ Date: \_\_\_\_\_ Signature: \_\_\_\_\_

Name of researcher: \_\_\_\_\_ Date: \_\_\_\_\_ Signature: \_\_\_\_\_

## 10.4 Participant Profile

# PARTICIPANT PROFILE

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**Title of research project:**

Performance Measurement and Managers' Work Time Horizons

**Name and position of researcher:**

Emma Pugh, Ph.D. student, Cardiff University

Name:

*(Not to be disclosed in transcripts and analysis  
just for any future communication)*

Age:

Job title:

Length of time employed by [Grocer] plc:

Length of time in a managerial position:  
*(i.e., department manager and above)*

Length of time in your current role:

Number of employees in your area of duty:  
*(approximately)*

## 10.5 Interviews Conducted

Track number	Interviewee (coded)	Date and time of interview	Place of interview	Duration (minutes)
1	Store Manager B1	13 <sup>th</sup> August 2014, 6pm	Store	77
2	Store Manager B2	3 <sup>rd</sup> September 2014, 2.30pm	Store	88
3	Store Manager B3	4 <sup>th</sup> September 2014, 11am	McDonald's Restaurant	99
4	Store Manager B4	5 <sup>th</sup> September 2014, 1pm	Store	102
5	Group Change Coach B	1 <sup>st</sup> October 2014, 2pm	Store	103
6	Store Manager B5	2 <sup>nd</sup> October 2014, 11am	Store	116
7	Store Manager B6	7 <sup>th</sup> October 2014, 10.30am	Store	110
8	Store Manager B7	17 <sup>th</sup> October 2014, 11am	Store	60
9	Store Manager B8	18 <sup>th</sup> October 2014, 10.30am	Store	82
10	Group Loss Manager B	21 <sup>st</sup> October 2014, 2.30pm	Store	120
11	Store Manager A1	6 <sup>th</sup> November 2014, 10am	Store	103
12	Store Manager A2	7 <sup>th</sup> November 2014, 11am	Store	60
13	Store Manager A3	18 <sup>th</sup> November 2014, 3pm	Store	94
14	Group Loss Manager A	19 <sup>th</sup> November 2014, 1pm	Costa Coffee	73
15	Store Manager A4	20 <sup>th</sup> November 2014, 11am	Store	77
16	Store Manager A5	27 <sup>th</sup> November 2014, 12.30pm	Store	96
17	Store Manager A6	2 <sup>nd</sup> December 2014, 2pm	Store	118
18	Store Director A	8 <sup>th</sup> December 2014, 6pm	Costa Coffee	84

19	Group Online Shopping Manager	17 <sup>th</sup> December 2014, 9am	Store	92
20	Group Change Coach A	13 <sup>th</sup> January 2015, 9am	Costa Coffee	96
21	Store Manager A7	20 <sup>th</sup> January 2015, 11am	Store	66
22	Store Manager A8	23 <sup>rd</sup> January 2015, 2pm	Store	116
23	Store Manager A9	26 <sup>th</sup> January 2015, 1pm	Store	50
24	Store Manager B9	3 <sup>rd</sup> February 2015, 10am	Store	63
25	Store Manager B10	10 <sup>th</sup> February 2015, 9.30am	Store	84
26	Store Manager A10	13 <sup>th</sup> February 2015, 9.30am	Store	63
27	Store Manager A11	17 <sup>th</sup> February 2015, 11am	Store	90
28	Store Manager A10	5 <sup>th</sup> March 2015, 11am	Store	69
29	Store Manager B11	5 <sup>th</sup> March 2015, 2pm	Store	81
30	Store Manager B12	20 <sup>th</sup> May 2015, 12pm	Store	87
31	Store Director B	24 <sup>th</sup> November 2015, 9am	Store	66
<b>TOTAL HOURS</b>				45 <sup>1/4</sup>

## 10.6 Biographic Information

<b>Interviewee (coded)</b>	<b>Age</b>	<b>Gender</b>	<b>Length of service (years)</b>	<b>Length of time in a managerial position (years)</b>	<b>Length of time at current work level (years)</b>	<b>Length of time in current role (years)</b>	<b>Number of employees in area of responsibility</b>
Store Manager A1	35	Male	13	13	7	1.5	300
Store Manager A2	39	Female	18	14	6	0.3	310
Store Manager A3	44	Male	28	23	5	0.4	410
Store Manager A4	43	Male	11	11	11	3	620
Store Manager A5	45	Male	26	24	3	3	290
Store Manager A6	36	Male	11	11	3	3	468
Store Manager A7	31	Male	15	10	6	0.5	500
Store Manager A8	46	Male	30	24	17	4	480
Store Manager A9	33	Female	14	10	2	2	233
Store Manager A10	60	Male	42	30	20	4	500
Store Manager A11	52	Male	33	29	20	4	550
Group Loss Manager A	35	Male	18	8	8	0.6	18
Group Change Coach A	42	Male	11	11	11	2	18
Store Director A	38	Male	22	20	3	0.8	7000
Store Manager B1	36	Female	20	14	1.5	1.5	145
Store Manager B2	31	Male	16	13	3	1.5	186
Store Manager B3	31	Male	9	8	0.9	0.9	120
Store Manager B4	42	Female	25	22	7	1.5	200

Store Manager B5	53	Male	36	34	20	3	190
Store Manager B6	38	Female	22	19	7	3	215
Store Manager B7	41	Male	13	13	4	2	142
Store Manager B8	36	Male	10	4	4	2	196
Store Manager B9	46	Male	20	11	10	4.5	270
Store Manager B10	38	Male	21	14	1	0.3	170
Store Manager B11	31	Female	13	10	5	1	220
Store Manager B12	55	Female	30	15	1	0.1	159
Group Change Coach B	37	Male	19	12	5	0.6	23
Group Loss Manager B	46	Male	17	17	5	0.6	23
Group Online Shopping Manager	30	Female	15	7	2.5	2.5	28
Store Director B	40	Male	13	13	1.5	0.75	7500

## 10.7 Interview Schedule

*Questions added to the original interview schedule are highlighted by an asterisk.*

### **Role Description**

1. Can you tell me about your role within [Grocer]?
  - (a) How long have you held this role?

### **Time Conception**

2. What are your short-, medium-, and long-term tasks and responsibilities?
  - (a) Prompt re timescales.
3. What is the relationship between your short-term and long-term tasks and responsibilities?
  - (a) Do your short-term and long-term tasks and responsibilities ever compete?
  - (b) How do you balance the demands of your short-term and long-term tasks and responsibilities?

### **Personal Orientations**

4. Considering all aspects of your life (i.e., both your personal and work life), do you tend to focus on achieving near (i.e., a matter of days or weeks) outcomes, or do you prefer to focus on achieving more distant (i.e., a matter of months or years) outcomes?
5. Does the past influence the decisions that you make in your personal and work life?
6. What is the most important goal that you have recently set for yourself?
  - (a) How are you working towards achieving your goal?
  - (b) What sacrifices have you made and/or are willing to make in order to achieve your goal?
  - (c) When do you hope to achieve your goal?
  - (d) Why is this goal important to you?
7. Do you mainly focus on the past, present, or future?
  - (a) Does this apply to both your personal and work life? If required, prompt re differences.
8. Do you think that your personality traits affect your focus on the short term and/or long term in your role within [Grocer]?

### **Performance Measures**

9. What performance targets are you responsible for achieving in your role?  
Please describe.
10. What do you do to ensure that you perform in line with your targets?
  - (a) Prompt re examples or rephrase as ‘Does the store’s/group’s [BSC] currently have any red lights? If so, what steps are you taking to change the colour?’
11. What motivates you to work towards achieving your performance targets?
12. Do you prioritise any of these performance targets? If so, which?
  - (a) What are your reasons for prioritising these performance targets?
  - (b) Does this prioritisation influence the way in which you carry out your short-term and long-term tasks and responsibilities? Prompt re how.
13. How frequently do you receive the results for the performance measures?
  - (a) What are your views about this?
  - (b) Does this influence the way in which you carry out your short-term and long-term tasks and responsibilities? Prompt re how.
14. \* How are you performing in comparison to your colleagues?
  - (a) How do you feel about this?
  - (b) Does this have any impact on the way in which you perform your short-term and long-term tasks and responsibilities? Prompt re how.
15. How is your performance monitored and assessed?
  - (a) What measures are used to monitor and assess your performance?
  - (b) What level of importance does your manager place on achieving performance targets? Prompt re does your manager prioritise any of these performance targets? If so, which and why? How do you respond to this level of importance?

### **Other Factors**

16. Can you describe the performance-related reward scheme currently in place?
  - (a) Can you give me examples of the formal (e.g., monetary) and informal (e.g., values awards) rewards that are allocated?
  - (b) How do these formal and informal rewards get allocated?
  - (c) What do you consider the advantages and disadvantages of this reward scheme?
  - (d) Does the reward scheme have any effect on the way in which you perform your short-term and long-term tasks and responsibilities? If so, how?

17. Has your role within [Grocer] changed in the past five years?
- (a) In what way has your role changed?
  - (b) Why did your role change?
  - (c) Has this role change had any effect on your short-term and/or long-term focus? If so, how?
  - (d) Do you think that your role change has affected how your colleagues who report to you perform their short-term and long-term tasks and responsibilities? Please explain.
18. What aspects of your job role, how you are managed, or other organisational factors affect your focus on the short term and/or long term?

**Interview Closure**

19. Is there anything I've not asked you about in the course of our conversation which you think is important?

## 10.8 Meetings Observed

Track number	Meeting (coded)	Nature of meeting	Frequency of meeting	Place of meeting	Date and time of meeting	Number of participants	Duration (minutes)
1	Store Meeting	Store management review the store's performance on all measures for the previous week and discuss the current week's agenda	Weekly	Store	19 <sup>th</sup> January 2015, 2pm	7	120
2	Store Meeting				26 <sup>th</sup> January 2015, 2pm	14	105
3	Store Meeting				16 <sup>th</sup> February 2015, 2.30pm	11	90
4	Store Meeting				16 <sup>th</sup> March 2015, 2.30pm	16	75
5	Store Meeting				11 <sup>th</sup> May 2015, 2pm	9	90
6	Senior Meeting	Senior store management review the store's overall position			16 <sup>th</sup> March 2015, 1pm	6	30
7	Daily Meeting	Store management review yesterday's (a.m. meeting) and the current day's (p.m. meeting) performance on daily measures	Daily		19 <sup>th</sup> January 2015, 4m	7	10
8	Daily Meeting				16 <sup>th</sup> March 2015, 9.30am	17	20
9	Daily Meeting				16 <sup>th</sup> March 2015, 3.45pm	16	15
10	Process Meeting				Store management review the store's daily performance on internal process measures	16 <sup>th</sup> March 2015, 11.15am	12
<b>TOTAL HOURS</b>							10

## 10.9 Internal Company Documents Accumulated

Track number	Type of document (coded)	Nature of document	Pages of document	Times collected	Percentage of total
1	Internal Company Newspaper	Monthly newspaper that contains business-related content (e.g., organisational changes, updates on current initiatives within the company, messages from the CEO and leadership team, etc.), as well as non-business-related content (e.g., employee stories about rowing the Atlantic, competitions, special offers, etc.)	11 <sup>a</sup>	15	28%
2	'Inspirational Performers' Implementation Workbook	Roll out plan for the 'Inspirational Performers' evaluation process. The workbook includes information on: setting meaningful objectives; developing a personal development plan; coaching performance; providing feedback; and the criteria for rating performance and contribution. Hypothetical examples are provided throughout the workbook	55	1	9%
3	'Inspirational Performers' Evaluation Pack	Performance and development pack that describes what is expected of a manager in their role. The manager outlines their objectives, how and when they are going to achieve their objectives, and how they plan to keep learning and improving. In principle, the pack evaluates a manager's	18	5 <sup>b</sup>	15%

		contribution towards helping the company achieve its vision			
4	Company Vision	The 2014-2015 vision for stores is to be a customer- and employee-focused business. There are five ways managers can achieve this vision (e.g., improving the customer shopping experience, developing employees). Achieving the vision should result in greater sales, profit, and employee ability	1	1	0.2%
5	Manager Information	Material about strategies, organisational changes, and company processes that were made available to managers (e.g., in manager handbooks, supporting poor performance manuals, action planning guides, quarterly business plans, management structure changes, etc.)	11 <sup>a</sup>	12	23%
6	Performance Results	Information on stores absolute and relative performance on all measures on a daily, weekly, monthly, quarterly, and six-monthly basis	6 <sup>a</sup>	16	16%
7	Employee Satisfaction Success Stories	Issued stories about stores that have improved their employee satisfaction score, and information on how they have achieved this	1	2	0.3%
8	Tips for Improving Employee Satisfaction	Information about understanding, acting upon, and sustaining an employee satisfaction score	5	2	2%
9	Store Memoranda	Information about the events and activities occurring in a store in any given week	3 <sup>a</sup>	4	2%

10	PowerPoint Slides	Hard copy of a presentation given by Store Manager A8 entitled “Is it really only about the numbers?”	23	1	4%
11	Internal Emails	Hard copy of an email from the Group Online Shopping Manager to Store Managers about their store’s weekly performance on an internal process measure	1	1	0.2%
<b>TOTAL</b>			135	587	100%

Notes: <sup>a</sup> This is the average number of pages in the document; <sup>b</sup> this includes four completed copies and one blank copy of the ‘Inspirational Performers’ evaluation pack.

## 10.10 Codes and Definitions

Deductive codes are indicated by an entry in the third column. When the third column is left blank, the code is inductive and derived from the data.

Code	Definition	Interview Question
<b>1. Inter-temporal decisions</b>	<b>Instances of inter-temporal decision-making events at Grocer, comprising descriptions of what constitutes the short, medium, and long term and the nature of the relationship between these temporal reference points</b>	
1.1. Short-term tasks	Description of the manager's short-term activities and responsibilities	2
1.2. Short-term definition	The time period over which the short-term tasks are performed	2a
1.3. Medium-term tasks	Description of the manager's medium-term activities and responsibilities	2
1.4. Medium-term definition	The time period over which the medium-term tasks are performed	2a
1.5. Long-term tasks	Description of the manager's long-term activities and responsibilities	2
1.6. Long-term definition	The time period over which the long-term tasks are performed	2a
1.7. Conflict	Evidence of conflict or tension between the inter-temporal tasks (i.e., the short-term tasks conflict with the longer-term tasks, or vice versa)	3, 3a
1.8. Accordance	Evidence of accordance between the inter-temporal tasks (i.e., the short-term tasks coincide with the longer-term tasks, and vice versa)	3, 3a
1.9. Focusing on the short term	Evidence of short-sighted inter-temporal decisions. The manager makes short-term decisions, but without being aware of and/or unable to	3b

	evaluate the longer-term harm (if any—the short-term decision may extrapolate into optimal long-term consequences). The decision evokes the notion of ‘limitations in the ability to foresee the future’	
1.10. Focusing on the long term	Evidence of far-sighted inter-temporal decisions. The long-term decision may not cause a loss of concentration on short-term results.	
1.11. Sacrificing the long term	Evidence of inter-temporal trade-off decisions that favour the short term. The manager is aware and able to evaluate that the inter-temporal decision is harmful to the longer term and intentionally makes the decision. The decision is demonstrably suboptimal and evokes the notion of ‘sacrificing the future’	3b
1.12. Sacrificing the short term	Evidence of inter-temporal trade-off decisions that favour the long term. The manager is aware that the inter-temporal decision is harmful to the short term and intentionally makes the decision. The decision is demonstrably suboptimal and evokes the notion of ‘sacrificing the here and now’	
<b>2. Performance measurement system</b>	<b>The composition and usage of Grocer’s performance measurement system, including causal beliefs about its linkage to inter-temporal decisions</b>	
2.1. Financial targets	Discussions about the financial targets to be achieved. The measures are denominated in currency, and either expressed as a ratio of financial numbers or as a change in financial numbers (e.g., sales growth, return on investment, net income after taxes, market-to-book value ratio, etc.)	9

2.2. Non-financial targets	Discussions about the non-financial targets to be achieved. The measures are numerically based and objectively measured (e.g., employee satisfaction scores, absenteeism rate, etc.)	9
2.3. Non-financial measures (qualitative)	Discussions about the non-financial measures to be achieved. The measures are qualitative in nature, and derived from subjective judgement (e.g., subjective assessment of achievement in personal objectives, progress against Personal Development Plan, etc.)	15a
2.4. Limited controllability	Aspects of the financial and/or non-financial target are largely outside the control of the manager	
2.5. Motives	The reasons and motivations to achieve the financial and non-financial targets. Included here are also the reasons and motivations for wanting to overachieve or underachieve the financial and non-financial targets	11
2.6. Achieving the target	Discussions about the steps that managers take to perform in line with their financial and non-financial targets	10, 10a
2.6.1 'Plastering over the crack'	Instances of managers taking a shortcut to perform back in line with their financial and/or non-financial target(s). The action enables the manager to achieve their financial and/or non-financial target(s), but does not bring to light the reasons for the former underperformance and the current performance may not be sustainable in the longer term	
2.6.2 'Fixing it forever'	Instances of managers not taking a shortcut to perform back in line with their financial and/or non-financial target(s). The action enables the manager to achieve their financial and/or	

	non-financial target(s), whilst understanding the reasons for the former underperformance so that the current performance can be maintained in the longer term	
2.6.3 Yearend tactics	Changes to the steps that managers take to perform in line with their financial and/or non-financial targets at yearend	
2.7. Causality among targets	Evidence of cause-and-effect relations among the financial and non-financial targets, as recounted by managers	9
2.8. Offsetting financial targets	Evidence of offsetting two or more financial targets (i.e., compensating for an overspend on one financial target by underspending on another financial target), and the consequences of this offsetting	
2.9. Gaming	Instances of managerial behaviour (own or others) that entails the manipulation or biasing of financial and/or non-financial targets. The behaviour occurs before performance measurement	10, 10a
2.10. Manipulating information	Instances of managerial behaviour (own or others) that has an effect on the outputs of the performance measurement system (e.g., filtering, smoothing, falsification of information). The data produced by the system, and not the process per se, is influenced	10, 10a
2.11. Changing the target levels	Evidence of the financial and/or non-financial target levels being formally or informally amended, and the reasons for, and consequences of, this amendment	
2.12. Prioritising	The prioritisation of one or more financial and/or non-financial target(s), and the reason(s) for this prioritisation	12, 12a
2.12.1. 'Hot potatoes'	A measure of success (e.g., evening queue length), which	

	constitutes a financial and/or non-financial target (e.g., queue length), that is prioritised by the manager's superior	
2.13. Prioritising > inter-temporal decisions	Discussions about whether, how, and why the prioritisation of one or more financial and/or non-financial target influences the manner in which the inter-temporal tasks are performed	12b
2.14. Frequency of measurement	The frequency with which the financial and non-financial targets are monitored, and managers views about this	13, 13a
2.15. Frequency of measurement > inter-temporal decisions	Discussions about whether, how, and why the frequency of measurement influences the manner in which the inter-temporal tasks are performed	13b
2.16. Performance evaluation (process)	Discussions about the formal performance evaluation process, including the grading criteria/thresholds, how frequently the evaluations take place, and in what manner they are conducted	15
2.17. Performance evaluation (measures)	Discussions about the measures that are used to formally assess the performance of managers	15a
2.18. Performance evaluation (weight)	The weight (actual and perceived) accorded to the different performance measures in the formal performance evaluation and the felt appropriateness of this weighting	15b
2.19. Performance evaluation > inter-temporal decisions	Discussions about whether the nature of the formal performance evaluation influences the manner in which the inter-temporal tasks are performed	15b
2.20. Informal performance evaluation	Discussions about the informal/ongoing performance evaluations, including how frequently these evaluations take place and in what manner they are conducted	
2.21. Superior's behaviour	Discussions about a superior's behaviour and attitude (both the	

	manager's superior and the manager themselves in their capacity as a superior) towards achieving performance measures (e.g., financial targets, non-financial targets, and non-financial measures)	
2.22. Advantages of having targets	The perceived benefits of having the financial and non-financial targets, as recounted by managers	
2.23. Disadvantages of having targets	The perceived drawbacks of having the financial and non-financial targets and any potential remedies to these drawbacks, as recounted by managers	
2.23.1. 'Chasing the number'	Instances of managerial behaviour (own or others) that entails an excessive preoccupation with achieving a financial and/or non-financial target	
<b>3. Social comparisons</b>	<b>Incidents of managers measuring their own performance against the performance of others, and its link to inter-temporal decisions</b>	
3.1. Relative performance	The performance measure (e.g., financial target, non-financial target, and/or non-financial measure) is used to evaluate the managers relative to each other. This benchmarking information can be private (i.e., when the manager's relative performance is known only by the manager and their line manager) or public (i.e., when the manager's relative performance is known by the manager and all their colleagues)	9, 15
3.2. Upward comparison	The manager compares him/herself to a colleague who is performing better on a performance measure (e.g., financial target, non-financial target, and/or non-financial measure)	14

3.3. Downward comparison	The manager compares him/herself to a colleague who is performing worse on a performance measure (e.g., financial target, non-financial target, and/or non-financial measure)	14
3.4. Relative standing	The manager's performance (e.g., on the financial target, non-financial target, and/or non-financial measure) vis-à-vis their colleagues, and how they feel about this	14, 14a
3.5. Competing	Evidence of a competitive work group climate. The manager is focused on outperforming their colleagues	
3.6. Judging a book by its cover	Evidence of the manager judging their colleagues' capability by their relative standing on a performance measure (e.g., financial target, non-financial target and/or non-financial measure) alone	
3.7. Social comparisons > inter-temporal decisions	Discussions about whether, how, and why social comparisons influence the manner in which the inter-temporal tasks are performed	14b
<b>4. Reward/Penalty system</b>	<b>Descriptions of Grocer's reward/penalty system, and its association with inter-temporal decisions</b>	
4.1. Rewards	The reward system within Grocer, including descriptions of the formal (e.g., monetary, promotion) and informal (e.g., recognition) performance-related rewards	16, 16a
4.2. Reward allocation	Discussions about the performance criteria/thresholds that must be met in order to receive the formal (e.g., monetary, promotion) and informal (e.g., recognition) rewards	16b
4.3. Rewards > inter-temporal decisions	Discussions about whether, how, and why the reward system influences the manner	16d

	in which the inter-temporal tasks are performed	
4.4. Penalties	The formal penalties (e.g., reduced bonus, demotion) and informal reprisals (e.g., stigma) that follow from poor performance	
4.5. Penalties > inter-temporal decisions	Discussions about whether, how, and why the penalty system influences the manner in which the inter-temporal tasks are performed	
4.6. Advantages of system	The perceived benefits of the reward/penalty system, as recounted by managers	16c
4.7. Disadvantages of system	The perceived drawbacks of the reward/penalty system, as recounted by managers	16c
<b>5. Intra-organisational mobility</b>	<b>Incidents of job mobility within Grocer, including the type and context to any role change and its linkage to inter-temporal decisions</b>	
5.1. Current role	How the manager defines his/her current role within Grocer	1
5.1.1. Level of experience	How long the manager has been in his/her current role within Grocer	1a
5.2. Role change (function)	Discussions about whether the manager has experienced any changes in role function within Grocer in the past five years	1a, 17, 17a
5.3. Role change (status)	Discussions about whether the manager has experienced any changes in status within Grocer in the past five years (i.e., upward, lateral, or downward movement)	1a, 17, 17a
5.4. Context to change	Discussions about the context in which the role change occurred (e.g., the extent of the manager's prior knowledge about the role change, who initiated the role change, the manager's performance prior to the role change, etc.)	17b
5.5. Intra-organisational mobility > inter-temporal decisions	Discussions about whether, how, and why intra-organisational mobility	17c, 17d

	influences the manner in which the inter-temporal tasks are performed	
<b>6. Personal preferences</b>	<b>The personal preferences of managers and their linkage to inter-temporal decisions made in Grocer</b>	
6.1. Past time perspective	The past influences the manager's decisions by means of confirming their current behaviour or providing lessons for improvement	5
6.2. Present time perspective	The manager attends to the relatively more certain and concrete reality of the present (i.e., a matter of days or weeks), and does not typically consider possible future consequences or reflect on past actions. The manager has vaguely defined future goals	4, 5, 6
6.3. Future time perspective	The manager is committed to working towards distant goals (i.e., a matter of months or years) and their associated rewards, often at the expense of immediate gratification. The manager is able to abstract mental representations of the implications of their current actions	4, 6
6.4. Temporal balance	The manager has the ability to switch flexibly among the three time frames (i.e., past, present, future) as most appropriate to the demands of the situation	7
6.5. Temporal orientation	The manager has the tendency to overemphasise one of the three temporal frames (i.e., past, present or future) to the exclusion or minimisation of the other two	7
6.6. Time perspective > inter-temporal decisions	Discussions about whether, how, and why the manager's temporal preference influences the manner in which the inter-temporal tasks are performed in the workplace	7

6.7. Other personal orientations > inter-temporal decisions	References to other personal orientations (own or others) and whether, how, and why these orientations influence the manner in which the inter-temporal tasks are performed in the workplace	8
<b>7. Broader context to inter-temporal decisions</b>	<b>Descriptions of the broader context in which the inter-temporal decisions are made</b>	
7.1. Stores	References to the characteristics of stores (e.g., size, location, departments, etc.), and how these characteristics may influence the manner in which the inter-temporal tasks are performed	
7.2. Investments into stores	References to the financial investments made by Grocer into stores (e.g., refurbishments, reducing product prices, increasing financial budgets, etc.)	
7.3. Attitude towards Grocer	The manager's thoughts and feelings about Grocer, including Grocer's UK-level performance and any broader corporate issues	
7.4. Cost efficiency	Grocer's approach to cost efficiency, and how this approach may influence the manner in which the inter-temporal tasks are performed	
7.5. Impacts and issues	Impacts and issues (store specific, role specific, and/or generic) that may influence the manner in which the inter-temporal tasks are performed	
7.6. Training	The formal training that Grocer has provided to the manager for them to be able to perform the inter-temporal tasks	