

Research Plan:
**Institutional Analysis on the Interaction between
Executive Time Frame, Executive Performance
Measurement and Compensation, and Ownership**

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Abstract

Listed companies are under pressures to perform in the stock market, and previous research has implied that these pressures can impose a short-term time frame on company executives instead of a focus for the long-term benefit of their companies. Any possible short-term emphasis encouraged by stock market is, however, mediated by situation-based factors such as the perceived time frames encouraged by executive performance measurement and compensation systems, as well as the influences of owners, analysts, and company performance on the executives. To shed light on these intricate interactions, executives in companies owned by investors directly connected with the stock market (pure owners) will be interviewed in this study, and for comparison purposes, also executives in companies with owners replacing such an explicit connection with the stock market with another business oriented connection (stakeholder owners) will be targeted. Altogether four case studies are analyzed to make certain tentative comparisons between companies with these different owners and different performance levels. The study distinguishes between actors and structures as well as institutions enabling and constraining the actors, using institutional theory and Giddens' structuration theory as its preliminary theoretical frameworks. The different spatial and temporal distances between executives, analysts, owners, and board members, and the effects of those distances are elaborated on. To complement the existing analytical and quantitatively oriented evidence, the current study aims to contribute by providing empirical qualitative evidence on the interactions between performance measurement and compensation systems, perceived time frame mindset of top executives, analysts, ownership, and company performance.

Table of Contents:

1 Introduction	2
2 Actors	6
2.1 Specific actors	6
2.2 Shared attributes of and interrelationships between actors	8
3 Structures	11
3.1 Performance measurement and compensation	11
3.2 Company performance	15
3.3 Other firm-related contingent structures	16
4 Institutions and institutional contradictions	17
5 Data and methods	19
References	21

1 Introduction

The time frame of company executives has recently been called under question: Jensen, Murphy and Wruck (2004) and Graham, Harvey and Rajgopal (2005) have argued that pressures to perform in the short-term in the financial markets may lead to short-term oriented actions inside companies. For example, Graham et al. (2004) find in their study that a surprisingly large percentage of CFOs (chief financial officers) would avoid making long term value-increasing investments if those investments affected their attainment of the short-term analyst EPS (earnings per share) consensus estimate.

The use of certain executive performance measurement and compensation systems (hereafter PMCSs) has been proposed as a reason for the short-term time frame. Rappaport (2005) has called for a reform in executive compensation in order to encourage the attainment of long-term performance targets by e.g. increasing the vesting periods of stock options. However, the issue of which PMCSs encourage towards which (longer or shorter) time horizons is not straightforward. Traditionally, earnings have been conceptualized as a myopic measure, focused on the past (Ittner et al. 2003) and possibly manipulated by company representatives (see e.g. Das & Zhang 2003). Sometimes, however, easy

manipulation implies that executives do not have to expend resources in this manipulation, allowing them to concentrate on the creation of long-term value (Demski et al. 2004). Similarly, stock options have traditionally been seen as a compensation class encouraging executives towards the long-term benefit of their company (see e.g. Puffer & Weintrop 1991, Brickley et al. 1985). However, according to the evidence gathered recently, also this issue may not be straightforward. For example, executives who perceive that their companies' stock prices are formed based on the short-term focus of EPS consensus estimates may disagree with the view that stock options encourage performance for the long term (Rappaport 2005, p.69). In addition, the phenomenon of short-term stock price maximization may be strengthened by the use of stock options in executive compensation (Jensen et al. 2004).

To complement the existing analytical and quantitative evidence, the current study provides empirical qualitative evidence on the interactions perceived by top executives between performance measurement and compensation systems, perceived time frame mindset of top executives, analysts, ownership, and company performance. In the process of the research, possible impacts specific PMCSs have on the perceived time frame mindset of top executives might be uncovered. However, the approach in the current research involves acknowledging that all influences and interactions are highly situation-based and equivocal as well as filled with local tensions between multiple, diverse viewpoints. These interactions will be examined as perceived by the key actors, CEOs (chief executive officers) and CFOs themselves.

PMCSs encompass performance measures, performance standards, and compensation composition (Otley 1987, Murphy 1998). Both formal PMCSs and informal structures perceived by executives as being important will be studied. Measures studied are e.g. stock price, earnings, and cash flow. Standards include stock price related standards (e.g. standards for a desired stock price set by analysts); cash flow related standards (mostly internal standards for the acceptable and desired cash flow levels) and earnings related standards (e.g. analysts' EPS estimates as performance standards). Monetary compensation is composed of e.g. base salary, annual bonuses, stock options, LTIPs (long-term incentive plans), restricted stock, and retirement plans (Murphy 1998), non-monetary compensation

can include issues such as pride or joy of work. In addition, any other PMCSs encountered on site will be included in the study if their impact proves to be material.

The current study also analyzes the perceived interactions between owners (investors) and the perceived time frame mindset of top executives from the subjective point of view of those executives. The interactions between owners and executives are numerous: Owners can be expected to influence the selected executive PMCSs inside companies (Jensen et al. 2004) as well as the way these PMCSs are perceived by executives. Executives, on the other hand, at least in listed companies, often desire to influence the identity of owners (or owner types). The board of directors formally represents the interests of the owners and therefore key board members will also be included in the study. As opposed to the owners, the board and executives form relationships on a personal level. In addition, company performance is an important condition structuring the actions inside that company. Poor performance can lead to urgency to approach either panic or productive destruction or both, depending on the situation, and, similarly, good performance might cause an inspired approach towards excellence or a perceived safe heaven, or both.

The above issues are studied in four case settings in order to gain a detailed understanding on the phenomenon. In this way the current study adds to the largely quantitative treatment of these issues as presented above. Each case will be studied in separation in as much detail as possible, and in the end the results from these cases will be contrasted with each other to increase the depth of the study and to provide for additional explanations of the issues analyzed. This study relies preliminarily both on Giddens' (1984) structuration theory and institutional theory (e.g. DiMaggio & Powell 1983, for an application of the theory in governance issues, see Seal 2006). The emphasis is on the perceptions and experiences of the different actors: executives, analysts, owners, and board members. Also structures (mostly PMCSs) and institutions (mostly stock market listing and institutions connected with it) as well as any institutional contradictions found will be analyzed. For example, analysts can be seen as acting within institutionalized limits (Fogarty & Rogers 2005), and analysts (as well as other financial market participants) are an influential part of the institutionalized environment faced by corporate managers (Roberts et al. 2006). Usually actors move in the context created by structures, but in the process of structuration those

structures can be altered with praxis – agency embedded in institutional contradictions (Giddens 1984, Seo & Creed 2002). The distances between actors play a role enforced or mediated by PMCSs (Quattrone & Hopper 2005). Three temporally dependent components of agency are considered in this study: those focused on the past, the present, and the future (Emirbayer & Mische 1998), and these components are also related to the structures and institutions surrounding them.

The research gap can be described as follows. Jensen et al. (2004, p. 6) state as an area ripe for research the peculiar relations between analysts, company executives, and owners, who sometimes seem to be also left unduly out of the short-term oriented relations between analysts and executives. The current study analyzes the relations between these parties. The following research question is asked:

- *How do top executives perceive the interactions between their own performance measurement and compensation systems, their own time frame, analysts, and company ownership in different companies?*

The research will contribute in the following way. It presents empirical qualitative evidence on the interactions between perceived executive time frame, executive PMCSs, analysts, ownership, and company performance. Therefore, it complements the existing, mostly analytical or quantitatively oriented evidence. The study also extends previous research on the time frame orientation inherent in listed companies by bringing into this context also ownership and by examining also unlisted companies.

This paper is structured as follows. In section 2, the actors – top executives, analysts, owners and board members – are discussed in more detail. Section 3 provides a summary on the structures – mostly PMCSs and time frames encouraged by them - affecting and being affected by actors. In section 4, the institutionalized framework of stock market listing is presented. Section 5 presents data and methods. No single unifying theoretical framework is presented in this paper since the theory will mostly be allowed to unfold through the data. This kind of a structure for the paper has been chosen because the

researcher has not yet committed to any single framework, but instead has a theoretical preconception on a set of frameworks that could potentially be descriptive of case material. These frameworks generally envelop the concepts of actors, structures and institutions, and therefore this paper presents these (to some extent) overarching concepts, giving some examples of situations in which these concepts could potentially assist in structuring the data.

2 Actors

Following structuration theory (Giddens 1984), actors interact with each other, are governed by structures, and have also the potential to change structures. In the following, actors are defined as those individual actors functioning inside companies with their own interests, the interests of other actors, and the interests of the wider structures (e.g. the corporation inside which they work) in mind. In a situation characterized by praxis, actors can become (change) agents (Seo & Creed 2002).

2.1 Specific actors

The specific actors analyzed are top executives, analysts, owners, and board members. All of them can have different agendas, different backgrounds, and different structures and institutions surrounding them. Top executives are immersed into the realities of their own business that, however, is an open system itself and directly connected with its environment. The executive time frame in this study refers to *the extent to which executives perceive themselves as performing actions with favorable intended and unintended consequences for their company for the length of a certain (long or short) time horizon*. An implicit assumption here is that executive time frame is an important consideration regarding the actions and mindset of top executives. Naturally, the definition of the time frame as well as the whole assumption of its importance can be altered if the data indicates that another way of looking at these issues provides a more accurate description of reality.

Analysts are located in their own institutional environment very different from that of company executives (Fogarty & Rogers 2005). This environment is very different from the one experienced by CEOs and CFOs and also very different from the usual accounting of analysts as “impartial researchers”. Fogarty & Rogers (2005) show in their research how analysts can only be seen as working in an institutionalized domain, not under the technical-efficiency paradigm usually attached to their work.

Naturally, also owners and board members representing owners are profoundly affected by structures and institutions surrounding them. In this study, ownership structure is featured as executives perceive it and its importance. Questions that can be asked are: (1) who the controlling owners are perceived to be, (2) what is the time frame executives feel different owners encourage them towards, (3) what is the perceived concentration of ownership, and (4) which of the issues stated above in (1) through (3) are perceived as relevant for the issues studied, as executives themselves see it. The above issues are also intertwined: if ownership is concentrated, the identity and time frame of the owners (or the group they represent) potentially is more important than when the owners are diverse. Stock market listing has often been associated with a particular set of owners: diversified, “faceless” pure owners¹ without any other stake in the company except the one through their ownership. In addition, there are companies with controlling owners who simultaneously represent an important stakeholder group for that company, for example suppliers or customers. These two groups have been chosen for the study due to the potential polar opposition they represent.

Different owners exhibit varying degrees of long-term orientation. Certain pure owners (e.g. speculators) may not have any interest in the continued operations of that company as such, whereas others (e.g. pension funds) may exhibit longer term interests in the company due to their own long-term investment horizon. Representatives of other stakeholder groups (e.g. suppliers) might have a very clear interest in the long-term operations of the company,

¹ The definition of pure owners is quite close to that of “institutional investors”, usually denoted as e.g. pension funds that specialize in equity investing. However, the term “pure owners” underlines the fact that these owners are not members of any other stakeholder group, and therefore it is a wider concept (encompassing private individuals as well as institutions of any size) than that of “institutional investors” that refers to relatively large investors only.

as their business contracts may depend on the continued cooperation between the two firms. Certain retail customers, on the other hand, may base their relations with the company on a very short-term basis. Owners with a longer-term horizon towards a specific company are likely to be more committed to a longer-term value for that company, and owners with a shorter investment horizon in a specific company (day traders, pure speculators) might be interested in creating value in a specific company only if this value was present during their investment horizon, not beyond it.² Stakeholder groups with a long-term view may be blinded by the specific contracts and connections they have with the company, not paying due attention to the long-term importance of the other stakeholders as well. Certain pure owners, on the other hand, often subscribe to an objective of the maximization of total market value of the company in the long term (Jensen 2001). This can lead them to more likely serve the interests of the whole – albeit with limitations.

The board of directors is representative of the owners and therefore the time frame of the board is also analyzed. Board members may exhibit either long-term or short-term orientations, although as in the case of owners, these orientations are by no means unequivocal. Whether the board is representative of pure owners or other stakeholder groups may also influence the time frame the board exhibits in its interaction with executives.

2.2 Shared attributes of and interrelationships between actors

In order to more effectively define agency, it can be decomposed into its several components. Emirbayer and Mische (1998) consider three temporally dependent components of agency: iterational (focus on the past and sustainability of e.g. institutions), projective (focus on the future, actors' reflective consideration of future actions and creativity), and practical-evaluative (focus on practical judgment at present and responsiveness to current situations). These components outline how actors are temporally

² In fact, after speculators have exited a given company, they may prefer the stock price to fall to avoid disappointment because of an unsuccessful investment strategy (a psychological effect related to post-decisional regret).

situated and how they can be oriented towards different time frames in different situations within different structures. (Emirbayer and Mische 1998)

Also different power relations between actors play a role (see e.g. Ocasio 1994). Action entails transformative possibilities, in other words, power. According to Giddens, power is characteristic of all action, and is exercised through the media of resources (Giddens 1984, p.15-16). The actors in this study possess varying types of resources. CEOs command the resources of the company they manage in addition to the resources stemming from their backgrounds, and CFOs have resources from their finance/accounting education as well as significant influence related to the command of monetary resources in the company. Analysts have an acclaimed resource of being “outsiders” to the company and therefore impartial (see e.g. Breton & Taffler 2001, Stickel 1992) although a different view has been stated by e.g. Fogarty and Rogers (2005). Analysts also have ties to both company executives as well as the representatives of the financial markets, acting as intermediaries between these constituents. All these resources allow power to be exercised through them, and resource differentials imply power differentials. Especially resources connected with existing institutions (e.g. finance backgrounds implying a greater sensitivity to stock market listing related institutions) carry an increased potential for power.

A single actor may have agendas and motivations stemming from multiple institutionalized arrangements. The actor is simply forced to mediate between these institutionalized world views, either consciously or on an unconscious level. Structuration theory (Giddens 1984) is used to shed light on the implications for the actors having multiple targets: systems direct the actions of economic actors, but actors also have the potential to deliberately engage in actions not compatible with the existing systems, and even to change the systems they are engaged with through praxis (Seo & Creed 2002). Individual actors’ influence should not be underestimated (Scapens & Macintosh 1996). For example, actors may, in different encounters with different parties either act in a more detached or in a more personal, cooperative manner (Uzzi 1997).

In addition, the formal backgrounds the actors possess may have a bearing on which structures are perceived by them as institutionalized. For example, CFOs, due to their

(economic or financial) education and background, may potentially stress the importance of shareholders as opposed to other constituencies. Also actors' more or less heterogeneous emotions play a role in different settings (Gendron & Bédard 2006).

The environments of different actors are naturally intertwined. This can be seen in the case of analysts and executives (Tengblad 2002) for example in situations where analysts and executives jointly construct the charisma of executives (Fanelli & Grasselli 2005). Communication between parties reinforces the present state of affairs and the language and behavior in these encounters constructs reality (Hines 1988) – therefore, as these parties are in contact with each other, influences are maintained and viewpoints may converge. Meetings between analysts or fund managers and executives function as a powerful tool for a convergence of certain viewpoints and values between the different constituents (Roberts et al. 2006). However, analysts and executives also exhibit different views for example on executive role: from an analyst's point of view, an executive's motivation in encounters with analysts is to market their company to existing and potential shareholders (Kahn & Rudd 1999). Executives, on the other hand, may see their own motivation in these encounters as building a reputation in the labor market for executives (Graham et al. 2005).

Roberts and Scapens (1985) discuss accountability and accounting performance measures in the context of more and less distanced relationships between subordinates and executives. Their discussion can also be applied to the relations between e.g. executives and owners or the board. Boards and executives exhibit reciprocal relations – both parties influence each other (see e.g. Maitlis 2004). Compared with the owners who may be quite distant for executives, the board is in relatively close contact with them. Therefore, the processes of accountability are different for the relations with the board than with the owners. As executives are more in face-to-face contact with the board, the performance measures discussed between executives and board can be easier explained, elaborated and questioned. Any significance of company results is negotiable. With distant owners, the actual performance measure levels achieved are vital for assessing the success or failure of executives since the (lack of) achievements cannot be tempered with the explanations of executives (Roberts and Scapens 1985). Therefore, these distanced owners and their time frame may gain in importance relative to the time frame of the board. On the other hand,

board members have a possibility to influence the executives due to the smaller distance between these two parties. Therefore, the issue of which group – the more distanced owners or the closer board - is more important for the executive time frame formation will remain an empirical question, rising from the data. The structuring of relationships between executives and owners as well as board members will be shown in the light of the PMCSs in use. Here structuration theory will be a helpful tool in revealing certain patterns of behavior not otherwise seen (Roberts 1990).

Finally, actors can either function cooperatively or challenge each others' positions. For example, the idea of routinizing certain PMCSs in favor of non-executive board members who would be then able to get more accurate and valuable information can be in direct opposition with the idea of the CEO as being a charismatic, innovative leader whose actions are beyond the visibility of routine performance measures (Seal 2006).

3 Structures

3.1 Performance measurement and compensation

Following Giddens (1984), structures refer to those structuring properties that bind and connect social practices into social systems (Macintosh and Scapens 1990). For example, the structures inside PMCSs direct social patterns. Structures may entail varying degrees of power. It is often assumed that the formal regulatory environment (e.g. laws) is the ultimate manifestation of power of structures. However, as Giddens demonstrates, often those structures that are the most intensive and influential in structuring social activity in practice are relatively trivial and taken for granted by actors (e.g. use of language, conversational practices). (Giddens 1984, p.22) Therefore, usually performance measurement is not confined to a pre-established formal guideline: rather, this measurement is finely tuned and dependent on several contextual factors which come to play at different times in different situations, the sum of which is the final judgment on the performance of the executive in question. Similarly, compensation can consist of clearly monetary issues, but can also

include non-monetary factors such as the joy of work, pride, or extensive contact network attained through one's work as an executive.

In the current study, performance measurement systems include all systems that produce data directly or indirectly used in measurement of the performance of executives. The researched systems include (1) systems formally designed for performance measurement, as well as (2) systems respondents perceive are used for measurement, although this may not be the case formally. For example, the EPS consensus forecast may not be a formal performance standard, but executives may perceive that it is an influential benchmark against which they are being measured. PMCSs in use are enacted by executives in their work. It may, however, be premature to directly attribute any top executive perceptions or actions to the incentive effects of compensation plans (Larcker 1983). Companies relying more on option incentives might exhibit fundamental differences (such as stock market listing or different investment opportunity set) compared with companies relying less on them, and the perceptions of executives may depend more on these fundamentals than on any direct incentive effects of PMCSs. Therefore, a naïve straightforward connection between PMCSs and executive behavior will be avoided.

For the purposes of initial preparation for the field, PMCSs are classified as follows. They encompass *performance measures*, *performance standards*, and *compensation composition* (Otley 1987, Murphy 1998). Widely used *measures* are stock price, earnings, and cash flow. Whereas stock price is more of an unequivocal measure, the interpretation and meaning of earnings and cash flow depend on the specific (managerial and financial) accounting treatments in use in the focal company. However, the interpretation of all of the above measures is also mercurial since they are all embedded in a network of structures, influencing and being influenced by several constituents and locally interpreted situations. *Standards* are used to judge the acceptability of a certain level of measure attained. There are stock price related standards that can be set by analysts, the board, or executives themselves. Cash flow related standards, on the other hand, are mostly internal standards for the acceptable and desired cash flow levels. Earnings related standards encompass for example analysts' EPS estimates as performance standards, as well as any internal standards often used as a basis for bonus compensation. In the current study, *compensation*

includes all systems and structures that provide either monetary or non-monetary benefits for the rewarded. Monetary compensation is composed of base salary, annual bonuses, stock options, and other compensation practices such as restricted stock, long-term intensive plans (LTIPs), and retirement plans (Murphy 1998). Compensation also includes “softer” issues like job satisfaction and future opportunities (Avery et al. 1998), although it will be impossible to pinpoint any formal systems responsible for those kinds of benefits. Rewards can also be divided into extrinsic rewards (monetary compensation and promotion) and intrinsic rewards (derived from the work itself, e.g. feeling of achievement) (Kominis & Emmanuel 2007). Naturally, any other PMCSs encountered on site will be included in the study if their impact proves to be material for the purposes of the study. In addition, not all of the above mentioned PMCSs have to be included if they prove to be not valid.

Structural contexts can be seen as temporal – one can see them as ways of ordering time. The time frames inherent in structures potentially interact with the temporalities of actors displayed differently in different contexts, producing separate time horizons for different executives in different situations. (Emirbayer & Mische 1998) As discussed earlier, whether a specific measure encourages for the long or short time horizon is not straightforward. It is also worth noting that in listed companies there are measures (stock price) and standards (EPS estimates) that are different from the measures and standards in use in non-listed companies. In the following, the potential relation between selected measures and executive time frame encouraged will be discussed concisely. At this point, this discussion avoids the situational factors necessarily inherent in the use of these measures in order to more clearly present the complexities involved even in this simple relation. Selected situational factors will be outlined after the discussion on specific measures.

Current year’s *earnings* as a measure and budgeted earnings as a standard might focus the attention of management explicitly for the current year and the past, not necessarily beyond. Earnings are often seen as a myopic measure (Ittner et al. 2003): The focus for the past is induced as executives may aim at achieving performance that is simply stronger than the past, not focus on creating entirely novel strategies. However, as Demski et al. (2004)

point out, a measure that is traditionally and easily manipulated by executives can be useful for the long term as, after initial manipulation taken as given, the executives do not have to exert effort to achieve further manipulation of the measure, but they can, instead, focus on long-term value creation.

Stock price can potentially induce a very long-term outlook as a measure incorporating all available future information. In previous research it has been elaborated that the stock price would automatically be a long-term measure, compared, for example, with earnings (see e.g. Puffer & Weintrop 1991, Brickley et al. 1985). However, according to the evidence gathered recently, executives who perceive that their companies' stock prices are formed based on the short-term focus of EPS consensus estimates may disagree with this view (see e.g. Rappaport 2005). Jensen et al. (2004) also warn against short-term stock price maximization at the expense of long-term value reduction. If a company's equity becomes overvalued compared to the underlying value of its business, executives may feel themselves under pressure to conceal the real value of the company since a fall in the company value would be disastrous for their stock options and career opportunities. Measures these executives take to conceal the real value and the stock price divergence from it are non-value adding activities in the long term.

Cash flow measures the cash flow accumulated by company operations during a given past period. The same reasoning as for earnings is applicable here: cash flow for the current year as a measure and the budgeted cash flow as a standard might be myopic. However, if cash flows as measures are extended into the future, approaching the stock price, this myopic emphasis disappears. Stock price can be seen as an aggregated cash flow measure, incorporating all future cash flows.

The time frame encouraged by PMCSs can be seen as part of the structure of those systems: it structures the patterns according to which the actors choose to engage in activities with varying time horizons. However, other structures and institutions involved effectively mediate any time frame orientation encouraged. For example, executives may perceive that they are measured by the achievement of the EPS consensus estimate and they might consider that this benchmark directs them towards the achievement of a short-term

objective without any favorable long-term consequences. In this situation, the short-term attitude is reflected in selected actions by those executives, but it did not originate in those actors. Actually, they are thinking long-term: in order to survive in their positions in the long-term, they may be inclined to a certain extent to “play the earnings game” in the short-term. Similarly, if a part of a CEO’s compensation package consists of options vesting in three years, she may perceive that the structure of the compensation enables her actions to unfold towards the outcome for the company three years from now. The above examples show how structures can have both constraining and enabling properties. They constrain certain actions but also enable certain actions to be taken and attention devoted to selected issues considered important.

PMCSs also reproduce and define different distances between actors. Quattrone and Hopper (2005) describe these distances within the context of headquarters and subsidiaries of MNOs (multinational organizations), separating between spatial and temporal distances and acknowledging the enacted and actor-defined nature of distance. In the current study, this concept of distance can be extended to cover relationships between executives and the board or owners, as described earlier, and, on the other hand, to relationships between analysts and executives or analysts and owners. PMCSs and the structures inherent in them can assist in defining these relationships and their distance in different ways depending on the specific circumstances and structures faced by the specific actors.

3.2 Company performance

Also the overall performance of the company is a structural issue perceived to be relevant by executives. It is worth noting that different measures of performance are considered important in different companies with different owners. In listed companies, stock price appreciation might be an important performance measure, whereas in companies owned completely by their customers (cooperatives) this measure might not even be available. Earnings is potentially an important performance measure for several types of companies (listed or not). “Growth” is often stated as an objective: it can refer to growth in earnings, in market value, in market share. The use of all of the above measures is situation-based, ambiguous and conflict-laden, as the achievement of a certain measure can be in a direct

conflict with the achievement of another (Otley 1987). Therefore, even the definitions of the level of company performance and of distress are relative and situation-dependent.

Having said that the measures of performance are in no way unequivocal, it becomes clear that the way company performance affects actor mindsets and interacts with other company structures is also in no way explicit. However, the apparent influence of company performance inside a company should not be allowed to be downgraded by its intricacies. In general, most of the actors in a given company are conscious of the company performance at a general level, and this common consciousness potentially affects their mindset and actions. These effects are most notable in companies facing threats of downsizing due to poor performance – in this case, the level of performance can dictate some actors' future and these actors base their decisions and enactment of PMCSs, for example, on that information at a very personal level. On the contrary, in a well performing company these threats may not be present and therefore the enactment of PMCSs and other structures can be very different.

It is also possible to distinguish between historically achieved performance and expected performance in the future. Historically poor performance can make urgency within the company to approach either panic or productive destruction or both, depending on the influential structures and actors in that specific situation. Similarly, an achieved good performance level might cause an inspired approach towards excellence, or a perceived safe heaven, or both. Future expected performance levels can involve similar influences; however, future also adds an element of uncertainty – the level of performance in the future is unknown for all actors, although certain actors may be in a position to make better estimates on it than others.

3.3 Other firm-related contingent structures

Also the structure of the industry where the company operates is another structure worth considering. Organizational culture has been found to have an impact on performance measurement system diversity as well as its nature of use (Henri 2006), and culture can be

seen as a virtual structure influencing other structures and mediating their influence on actors.

A reasonably comprehensive study of the environments and other characteristics of the selected companies will be executed, including culture and values, industry structure, and the intensity of competition. The structures enveloping the actors will be investigated, and it will be acknowledged that different structures have a varying degree of salience to different actors.

4 Institutions and institutional contradictions

Institutions are defined as patterns of social conduct with the broadest extension in time-space within the totalities in social practices: structures deeply embedded in everyday lives (Giddens 1984 p. 17). Institutionalization theory explains how certain patterns of action become institutionalized over time as organizations seek to attain legitimacy by adopting similar processes and practices (DiMaggio & Powell 1983). For example, certain systems with structures such as certain PMCSs may become institutionalized.

Old institutionalism and neo- (new) institutionalism have often been seen as two types of institutionalist thought not readily reconciled with each other (DiMaggio & Powell 1991). Old institutionalism is more concerned with agency and actors and dynamic changes, whereas neo-institutionalism has to do with structures and institutions within which those actors operate and is implicitly directed towards isomorphism and stability. However, there have been calls to combine these two genres of thought in order more fully acknowledge the depth and width of institutionalist thought (Hirsch & Lounsbury 1997). This study does not attempt to position itself on either old or new institutionalist domain, but is more focused on finding out how the data presents itself within these two dimensions or domains.

The stock market listing is an institution in itself, but there are also institutions worth noting inside and connected with it. Such institutions include e.g. the law on stock exchange and disclosure regulations for listed companies, investor relations departments

inside companies, as well as boards of directors looking after the interests of the shareholders. Also EPS estimates are an institutionalized way of measuring the performance of firms and top executives. All of the above institutions are also manifestations of power: they enable and constrain action in certain ways (Giddens 1984).

Another powerful institution connected with listing is the shareholder value paradigm. It refers to the view according to which the purpose and objective of a stock market listed firm is the creation of value for its shareholders (Jensen 2001, Rappaport 1983). There are several secondary objectives that can be pursued in order to achieve this overriding goal, for example the consideration for customer needs and the creation of employee loyalty and satisfaction. In other words, other stakeholder groups have instrumental value in reaching the goal of shareholder value maximization (Donaldson & Preston 1995). This paradigm is presented in the business schools quite prominently (Ghoshal 2005) and it can potentially be mentally ingrained in several spheres of business and society, especially in the United States but also in Finland, profoundly influencing executives (Tengblad 2004).

It has been asserted that the short-term pressures originating from analysts' EPS forecasts would induce top management to abandon profitable long-term investments (Graham et al. 2005, Jensen et al. 2004). In this case, the institution of stock market listing and its associated structures would be heavily influencing actors' behavior inside organizations. On the other hand, the view that "long-term action" is preferable to "short-term action" is institutionalized in its own right within many types of actors and when another institution openly challenges that view, CEOs perceive a contradiction in their institutional domain. This contradiction can, consequently, encourage praxis which intends to change existing institutions (Seo & Creed 2002). For example in the United States, certain CEOs have begun contesting the authority of analysts to demand EPS estimates from company representatives (Fuller & Jensen 2002).

Institutions mediate the time frames encouraged by PMCSs. Stock options as a compensation mechanism might be used in certain situations to induce actors to think in the long-term, as stock price can be seen as a measure encouraging for the future. Shareholder value paradigm can then enforce this connection by inducing actors to concentrate on the

stock price maximization for the long term. However, if the attainment of EPS consensus estimates encourages short-term thinking, shareholder value maximization paradigm can potentially also enforce this opposite impact.

Demands from selected investors may also institutionalize certain executive time frames, as follows. The nature of work of many financial market participants is finding under-priced securities, and, since at least developed markets are relatively efficient in the long term (Fifield et al. 2005, Fama 1998), this search is only meaningful in the short term. This work leads to the effective pricing of securities, but it is reflective of a different paradigm from that of the running of a business enterprise, where the target is more likely to secure the viability of the enterprise both in the short- and in the long-term (Jensen et al. 2004, p. 81). Investors concentrated on stock-picking in the short-term can potentially spread an institutionalized view on the importance of the stock price in the short term.

5 Data and methods

Interviews will be used to collect data inside four companies in Finland. The study will concentrate on creating a relatively rich picture on the interactions presented above in connection with these companies. Qualitative methods function best in this situation, allowing multiple perspectives to be appreciated. The study could also pick certain representative situations or events describing the overall institutionalized culture or “feeling” in the organization. Any preconceptions will be avoided, and the data will be allowed to present itself as profoundly as possible.

Two of the case companies will be selected from a more distressed industry, and two other companies from a more successful industry. This would allow comparisons to be made also between industries. In addition to the dimension of past performance, the studied companies will be divided into two groups, two companies owned by pure owners and two companies owned by their stakeholders – e.g. customers or suppliers. Companies with pure owners should be stock market listed, but companies with stakeholder owners need not be.

The more distressed companies might be selected from food industry or forest industry, also other industries are possible. The more successful companies might come from banking/insurance or retail industries. Company selection can be demonstrated with the grid in Figure 1.

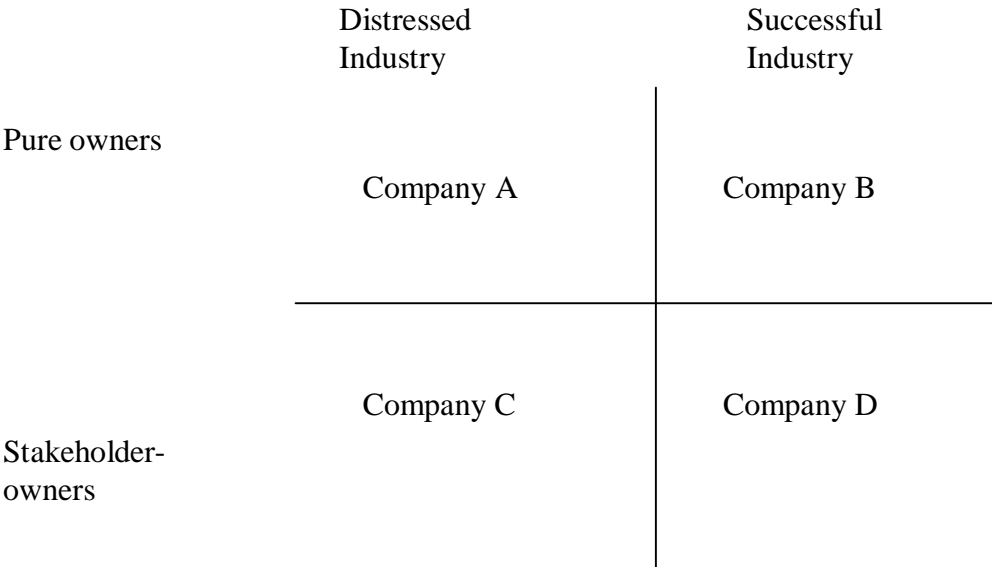


Figure 1. Case company selection.

The study will focus on top executives, especially CEOs and CFOs. Also the manager responsible for human resources should be interviewed to gain a thorough understanding on the executive PMCSs in place. In addition, analysts following the listed firms as well as board members and representatives of the most influential owners will be interviewed. However, the identity of all of the interviewees will necessarily only be revealed later and the exact interview plan will unfold as key individuals (CEOs and CFOs) indicate which individuals are closest to them and perhaps extend the most influence on their decisions relating to the issues studied. Data on company performance can be collected from company reports, and the reliability of data obtained from e.g. reports should be checked with data from other sources.

There will be about 6 - 8 people interviewed within each company (including owners and board members), and altogether there will thus be about 32 interviews. If two analysts per listed company are also interviewed, this would add 4 interviews to the total, still keeping it to a manageable level. If the researcher can do on average two interviews per week, it would take about four months to complete these interviews. Also follow-up interviews are possible in order to clarify key issues, and it would be necessary to keep in contact with company representatives also between interviews. Extra care will be taken to ensure that as many relevant viewpoints are taken into account as possible. However, the target is also to limit the amount of interviews to a manageable level. Interview questions will concern the company's explicit targets and the targets and backgrounds of the individual managers, the relations between top executives, financial analysts, owners and the board, PMCSs of top executives and the time frame they are perceived to promote. The interviews will be rather unstructured, and the executives will be asked to talk about what motivates them, what kind of aspects are the most important in their work, and how their most important stakeholders as well as the other actors surrounding them affect their work and the choices they make in their everyday work life.

The study will not reach a full-blown richness since it will concentrate on four companies instead of only one. This is because certain comparisons will be made between organizations. The comparisons will provide richness for the study, and therefore it is not essential for the researcher to become immersed in only one organization (Eisenhardt 1989). Actually, getting too much involved in one organization might potentially even narrow the perspectives attainable.

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