

Factors Affecting Goal Difficulty and Performance When Employees Select Their Own Performance Goals: Evidence from the Field

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ABSTRACT: This study examines factors influencing the difficulty of self-set goals and performance in a setting where employees were able to choose their performance goal from a menu of three choices established by management. Rewards for goal attainment were increasing in the difficulty of the goal. We develop a behavioral model of the factors expected to affect employees' goal choices and performance. Anticipated influences on goal difficulty include employees' impression management intentions, past performance, experience, and prior eligibility for rewards. We also expect performance to be related to goal difficulty. We use a unique combination of archival and questionnaire data from 476 employees at several call centers of a financial services company to test our hypotheses. All predictions are supported: the difficulty of self-set goals is negatively associated with employees' impression management intentions; employees with better past performance set more difficult goals; and both prior performance and goal difficulty are positively associated with current period performance. We conduct supplementary analysis examining the extent to which employees selected attainable goals and the impact this had on performance. We also analyze the extent to which ratcheting concerns may have influenced actual performance for those employees who attained their goal. Implications for future research and practice are discussed.

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INTRODUCTION

There is an extensive literature in both psychology (Locke and Latham 1990) and accounting (Luft and Shields 2003) on the use of performance goals as a motivational tool. Given the well-established finding that challenging goals can have positive performance effects, researchers have long been interested in the factors that affect the difficulty of goals resulting from a participative goal-setting process (Locke and Latham 2002). In particular, accounting researchers have examined the positive and negative consequences of allowing employees to actively participate in setting their own performance goals (e.g., Dunk and Nouri 1998; Young 1985), and how best to structure incentive contracts to motivate employees to set (or accept) challenging goals (e.g., Chow et al. 1994). Using a combination of archival and questionnaire data, we extend the goal-setting literature by examining factors that influence the difficulty of individuals' self-set goals and the consequences this has for performance.

We examine a unique application of goal setting where employees selected their own performance goal from a menu of three choices with the bonus for attainment increasing in the difficulty of the goal. Unlike typical participative settings where goals are established as the result of negotiations or discussions between superiors and subordinates (Merchant and Manzoni 1989), at our research site the choice of goals was entirely up to the employees. They were not required to negotiate or even discuss their goal selection with management. Indeed, managers did not learn employees' goal selection until *after* they had made their choice. Moreover, unlike budget-linear contracts (Fisher et al. 2003), performance above the selected goal was *not* rewarded at our research site. Management's intent was to provide an incentive for employees to choose a goal level that was compatible with their performance capabilities. While employee goal selection was not made public to the other workers at the organization, our discussions with management indicated that employees were likely to talk to each other about their goal selection, actual performance results, and any rewards they earned.

We use the unique features of our research site to examine two aspects of goal setting. First, we identify several factors expected to influence the difficulty of the goal chosen by employees. Based on economic and psychology theory, and findings from prior research, we predict that employees with better performance in the past will be more likely to choose *more* difficult goals (Vancouver et al. 2001; Wood and Bandura 1989). Drawing on the impression management literature (Bozeman and Kacmar 1997), we also predict that a desire to manage impressions through accomplishments (e.g., goal attainment) will have a significant effect on goal choice, controlling for experience and past performance. Specifically, we expect that employees who intend to engage in impression management if they attain their goal will select *less* difficult goals. We also examine whether the length of employees' experience at the organization is associated with impression management intentions and the difficulty of the selected goal. Second, we examine the association between goal difficulty and performance. Based on goal theory (Locke and Latham 1990) and a considerable body of empirical evidence (Locke and Latham 2002), we predict a positive association between goal difficulty and performance.

Our study was conducted at several North American call centers of a financial services firm where goals are used as a means of motivating and rewarding performance. We tested our predictions using data from 476 call center employees. Employees were responsible for collecting past due amounts from credit card clients of the firm. A brief questionnaire was used to collect data on impression management intentions and demographic information, and the firm provided actual performance data for two consecutive months. Results support all of our predictions. We find that lower performing employees expressed stronger intentions to manage impressions if they were successful in attaining their chosen goal. In turn, employees with stronger intentions to engage in impression management selected less challenging goals while employees with better past performance chose more difficult goals. We also find that more experienced employees expressed stron-

ger intentions to engage in impression management, but experience had a positive direct effect on the difficulty of the chosen goal. Consistent with goal theory, we also find a positive association between goal difficulty and performance. Finally, we also find that employees who were ineligible for a bonus in a prior period set less challenging goals.

In keeping with calls for more goal setting research employing archival or survey data (Ittner and Larcker 2001), our study makes several contributions to the goal setting literature. First, our finding that employees who intended to engage in impression management selected easier goals is contrary to prior research showing that high impression managers tend to set more difficult goals in an effort to signal competence (Ferris and Porac 1984; Frink and Ferris 1998). This result is potentially problematic given that setting less challenging goals leads to lower performance. Thus a desire to manage impressions by demonstrating competence through goal attainment may have negative implications for firm performance when employees can select their performance goals or influence the difficulty thereof. Second, our results shed further light on the numerous factors influencing goal selection in an applied setting. In particular, the effects of employee experience and eligibility for rewards in a prior period have received minimal research attention in prior research but our results show both have a significant effect on goal setting behavior. Finally, supplemental analysis indicates that employees with better performance in the past were more likely to set realistic goals (i.e., more attainable) compared to employees with a poorer performance record. Although our data does not allow us to identify *why* lower performing employees selected less attainable goals on average, the implications are troubling for organizations employing highly participative goal setting programs as the likelihood that employees will remain committed to attaining their performance goals in future periods is critically dependent upon past success with goal attainment (Locke and Latham 1990).

The remainder of the paper is organized as follows. The next section describes our research setting. Next we present our theoretical framework, hypotheses, and research questions. Then we discuss our research method, followed by the results. Finally, we discuss the implications of our findings for research and practice, and we conclude by acknowledging the limitations of our study and discussing avenues for future research.

RESEARCH SETTING

We develop our hypotheses and research questions in the context of several call center locations of a large financial services firm. Call center employees all performed the task of collecting past due amounts from credit card clients of the firm for both months included in our data set. The firm employed a unique goal-setting program in one of the months of our study whereby employees were able to select their own goal from a menu of three choices. Below we describe several features of our research site relevant to our predictions.

We had several discussions with call center representatives to improve our understanding of the work environment. Because of the structured nature of the employees' job responsibilities and their limited direct interaction with supervisors, there are limited opportunities to manage impressions at the call centers (Rao et al. 1995; Villanova and Bernardin 1989). Consistent with research conducted in similar settings (Barsness et al. 2005), we expect that employees will make the most of the impression management opportunities that do arise. Management also indicated that call center employees work in close proximity to their peers and frequently discuss how well they are doing on-the-job. This suggests that employees may attempt to impress their co-workers by discussing their success in attaining performance goals and the rewards that they receive. Management also indicated that employees could benefit from successfully creating and maintaining an impression of being competent. Examples of the benefits include being assigned to different tasks (e.g., a different client group) that offer higher potential remuneration, receiving a pay increase, or being given more responsibility (i.e., taking on managerial tasks). Also, management indicated

that call center employees value the status associated with being recognized as a good performer both by their co-workers and superiors. Thus, it appears that call center employees are motivated to manage impressions both for intrinsic and extrinsic reasons.

During the two months of our study all employees were eligible to receive bonuses determined by how well they performed relative to specific targets established for their center. The company employed goal setting and the associated rewards to motivate employees to perform well, rather than for planning purposes. In the second month of our study, call center management, in conjunction with a consulting firm, developed a goal setting program whereby employees selected their own performance goal from a menu of three choices. The amount of the bonus received for goal attainment increased with the difficulty of the goal selected by the employee. However, the incentive scheme was a variation of a budget-fixed contract (Fisher et al. 2003) where employees only received the bonus for the goal they set. If employees selected the easiest goal with a bonus payout of \$100, but performed at a level that met or exceeded a more difficult goal with a higher bonus payout, they would still only receive \$100. Thus employees could *not* increase their performance-based pay by selecting an easy goal and then exceeding it (i.e., budget slack was not rewarded). Call center management believed that this feature of the scheme would create a strong incentive for employees to select the goal that was most compatible with their ability level.¹ Moreover, consistent with goal setting research (e.g., Parker and Kyj 2006) they believed that allowing employees to select their own goal would increase goal commitment and performance.

The key performance metric used in the incentive program at the call centers for each of the two months during which we conducted our study is *E-pay usage*.² This represents the number of customer promises to pay past due credit card balances immediately, or in the near future via an electronic payment, divided by the number of non-electronic promises to pay (e.g., mailing a check).³ The firm's incentive system, which we describe in more detail in the method section, was designed to motivate employees to maximize *E-pay usage* as a percentage of total promises. To be eligible to receive a reward in either month, employees had to achieve a minimum level of *E-pays* activity (i.e., the numerator of the *E-pay usage* calculation) equal to 90 percent of the median number of *E-pays* for all employees who worked at the call center that month. This requirement was established because many employees worked on a part-time basis and management wanted to avoid paying bonuses to individuals who had high *E-pay usage* performance, but a low volume of activity.

While there may be some elements of *E-pay usage* that are outside the employee's control (e.g., the mix of customers contacted in a given month), success in convincing customers with delinquent credit card balances to make an electronic payment requires a certain skill set (e.g., persistence, persuasiveness), which would vary across employees. Accordingly, we believe that it represents a task for which employees can reasonably develop performance expectations and make informed decisions about the performance goals they believe are attainable.

¹ Research shows that incentive contracts can successfully be used to sort employees by ability level (Cadsby et al. 2007; Eriksson and Villeval 2008).

² Other performance measures tracked were: total number of promises to pay delinquent balances (including non *E-pays*), outstanding balances collected, total hours worked, overtime hours, *E-pays* per hour, total promises per hour and service quality. We were not provided with information on outstanding balances collected, overtime hours or service quality. It is possible that employees would attempt to manage impressions through some of these other metrics (e.g., overtime hours, service quality) but to the extent they do, this may reduce their tendency to use goal setting as an impression management tactic.

³ The firm would not disclose the procedures used to verify *E-pay usage* but indicated that a control system was in place to ensure the integrity of the measure for each employee.

THEORETICAL FRAMEWORK

In this section we develop a model of the factors likely to affect employee goal setting and performance at our research site. We expect that the difficulty of the goals selected by employees will be influenced by their (1) intentions to engage in impression management behavior, (2) prior performance record, and (3) length of experience at the call center. In turn, we expect a positive association between the difficulty of the goals selected by employees and performance. Our model also includes a prediction as to which employees will be most likely to engage in impression management behavior. The complete model is summarized in Figure 1.

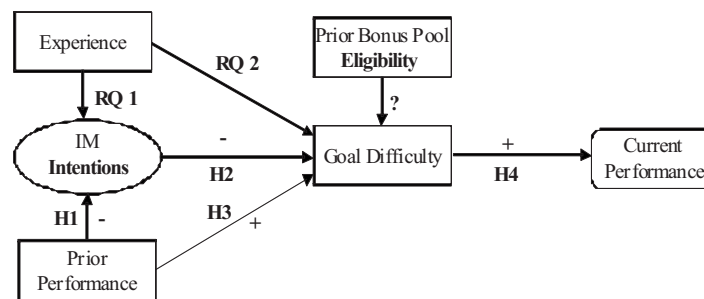
Hypotheses

Effects of Impression Management Intentions on Goal Selection

We begin the development of our model by identifying the employees most likely to engage in impression management behavior and how this will affect the difficulty of their selected performance goals. Impression management is defined as “an attempt by one person to affect the perceptions of her or him by another person target” (Schneider 1981, 25). A key element of this definition is that impression management is purposive, goal-directed behavior with individuals seeking to maintain, improve, or alter the way they are perceived by others (Goffman 1959; Leary and Kowalski 1990). For example, an employee who regularly arrives at work early and stays late in the hopes of this behavior being appreciated by her manager is engaging in impression management. Conversely, an employee who arrives for work early and stays late in an effort to clear a backlog of work that accumulated while on vacation would not be considered to be managing impressions. In this case the individual is simply fulfilling the requirements of her job.

Impression management can be directed to superiors, subordinates, or peers (Yukl and Falbe 1990). Numerous impression management tactics have been identified with three categories receiving the most research attention: ingratiation, self-promotion, and rationality (Gardner and Martinko 1988; Jones and Pittman 1982; Higgins et al. 2003). Research shows that the effective use of impression management tactics can lead to favorable outcomes such as receiving a good performance appraisal, getting a promotion, or earning a bonus (Delery and Kacmar 1998; Higgins et al. 2003; Martin 1987; Wayne and Liden 1995). However, other evidence shows there are limits to the effectiveness of impression management tactics. For example, Crant (1996) reports that impression management targets form more negative impressions of individuals who self-handicap before a success than those who do so prior to a failure.

FIGURE 1
Theoretical Model



According to [Bozeman and Kacmar \(1997\)](#), impression management behavior is driven by feedback in organizational settings, which can take many forms (e.g., a performance appraisal, informal discussions) and comes from a variety of sources (e.g., supervisors, co-workers, actual performance). In organizations that reward achievement of specific performance goals, actual performance relative to a goal will likely be an important source of feedback used by employees to monitor and manage their social identity. Consistent with this notion, [Merchant and Manzoni \(1989, 548\)](#) report that one of the reasons profit center managers in their field study tended to set highly achievable goals was that exceeding their goals made them feel like “winners.” The managers also indicated that failure to achieve their performance goals leads to “credibility losses” with negative implications for receiving promotions or raises.

When employees fail to attain a performance goal or perform poorly relative to their peers in a particular period, a discrepancy will likely exist between the desired and actual self-image. As a result, they will engage in impression management tactics to adjust how others perceive them ([Bozeman and Kacmar 1997](#); [Fandt and Ferris 1990](#)). The objective of the impression management behavior will be to influence significant others’ (e.g., supervisor, co-workers) perceptions of them as competent employees. An impression management tactic available to employees at our research site is sharing “good news” with their peers if they are successful in attaining their selected performance goal and earning the related reward. This is consistent with the field evidence from [Merchant and Manzoni \(1989\)](#) reported above showing that managers derived a positive self-image from attaining their performance goals. Performing poorly will therefore result in individuals becoming more focused on the need to manage impressions in the future to offset the resultant negative self-image. Consequently, employees who perform poorly in one period are more likely to intend to engage in impression management behavior if they are successful in attaining their selected goal. Given the foregoing, we predict that:

- H1:** There will be a negative association between the level of employees’ performance in one period and their intentions to engage in impression management behavior if they attain their selected goals in the next period.

Despite the extensive literature on goal setting, few studies in either accounting or psychology have considered how employees might use goals as an impression management tactic. Extant research suggests that when individuals are allowed to set their own performance goals, they tend to set more difficult targets in an attempt to signal competence ([Ferris and Porac 1984](#); [Frink and Ferris 1998](#); [Huber et al. 1989](#)). For example, [Ferris and Porac \(1984\)](#) find that students self-set more difficult goals for a video game task when observed by a professor compared to when no one was present. However, the study was conducted in a single-period setting with no implications (pecuniary or non-pecuniary) for failing to achieve the self-set goals. Similarly, using a single-period experiment, [Frink and Ferris \(1998\)](#) show that students who were told they would have to justify their goal choice to a team leader (i.e., be held accountable) selected significantly more difficult goals than students not held accountable in this manner. As with [Ferris and Porac \(1984\)](#), there were no consequences for students who failed to achieve their goal. [Frink and Ferris \(1998\)](#) also report results from a field study of telemarketing employees at a university fundraising center. They show that the amount of accountability pressure felt by the call-center employees to their supervisor was marginally associated ($p < 0.10$) with the difficulty of their self-set goal for revenue generated per hour. However, goal attainment was not tied to rewards in the call-center.

The research reviewed above indicates that individuals will self-set more difficult goals in an effort to signal competence. However, an important aspect of the formal goal setting programs used by organizations such as our research site, is the comparison of actual results with assigned or self-set goals as part of periodic evaluations of performance. Consistent with [Bozeman and Kacmar \(1997\)](#), in such settings we expect that employees who plan to engage in impression

management if they attain their goal, will be inclined to set goals they have a high expectancy of achieving. Moreover, research from the broader impression management literature casts doubt on the likelihood that individuals will set difficult goals as a self-promotion tactic. Tesser and Moore (1986) point out that if an unrealistically difficult goal is set but *not* achieved, then the self-promotion activity can become transparent, leading to negative attributions. Consequently, we expect that employees who intend to engage in impression management behaviors if they attain their goals will set less difficult goals to increase their likelihood of success. Accordingly, we predict that:

- H2:** There will be a negative association between employees' intentions to engage in impression management behavior if they attain their goals, and the difficulty of the goals selected.

Effects of Past Performance on Goal Selection

Research shows that individuals develop expectations about the level of performance they can achieve in future periods, based in part on how well they performed in prior periods (Bandura 1997; Klein 1991). The extent to which an individual attributes past success or failure to factors within their control (e.g., ability, effort) will have a direct effect on their performance expectancy for subsequent periods (Weiner 1985). Given the link between past performance and expectancy, numerous studies have shown a positive association between prior performance levels and the difficulty of either self-set or participatively set performance goals. For example, Brown et al. (1998) find that salespersons with higher prior sales performance tended to self-set more difficult sales goals. Similarly, in an experiment Spieker and Hinsz (2004) report that participants who performed better during a training period self-set more difficult personal goals.

Given the link between goal difficulty and the amount of the reward payout at our research setting, employees have an incentive to select a goal that is consistent with their expectations of future performance. Employees who select a goal that is below their performance capability risk incurring an opportunity cost equal to the amount of the reward they could have earned had they selected the appropriate goal, minus the reward for the chosen goal. Moreover, employees should have reasonably accurate performance expectations because of their prior experience with the *E-pay usage* metric. Based on this reasoning, we predict that:

- H3:** There will be a positive association between the level of employees' performance in one period and the difficulty of the goals selected in the next period.

Effects of Goal Difficulty on Performance

One of the most robust findings of goal setting research is the positive association between goal difficulty and performance (Hirst and Lowy 1990; Lee et al. 1997). According to goal theory, the positive performance effects of goals are attributable to higher effort, persistence, and greater focus on the task characteristics that lead to success (Locke 1991, 2001; Locke and Latham 1990). Given the nature of the task in our research setting, we expect goals will influence performance either by motivating employees to emphasize tactics or strategies most likely to lead to success in collecting overdue balances or to exert more effort (e.g., be more persuasive or persistent). Also, because rewards are contingent upon goal attainment employees have an incentive to perform at least to the level of their chosen goal. Specifically, we predict that:

- H4:** There will be a positive association between the difficulty of the goals selected by employees and their level of performance.

Research Questions

We also examine the impact of employee experience on both impression management behavior and goal setting. The effects of experience on impression management have received minimal

research attention and the few studies that have examined the issue find a non-significant association (Konovsky and Jaster 1989; Stokes et al. 1993). However, Bolino et al. (2008) note the lack of prior research in this area and call for a closer examination of how individual differences such as work experience may impact the likelihood of using impression management tactics. It may be that employees newer to an organization are those most sensitive to the need to manage impressions as they attempt to develop a reputation (e.g., competence, cooperativeness, likeability). It is also possible that more experienced employees will be more likely to recognize the benefits of successful impression management. This could be based on observing favorable outcomes enjoyed by other employees who manage impressions, or their own success in using impression management tactics in prior periods. Given the foregoing, there is reason to expect that length of experience may be associated with impression management behavior so we pose the following research question:

RQ1: Will there be an association between the length of employees' experience and their intentions to engage in impression management behavior if they attain their selected goals?

Employees' expectation of future success will likely be influenced by more than just past performance from a single period (Bandura 1997). For example, the effects of one month's poor performance on goal selection may be less influential for an employee who has worked at the call center for an extended period and performed well. More experienced employees will have a better sense of their own ability, which in turn may impact goal selection. It may also be the case that employees are more likely to stay at the call center if they are performing well and thus experience may be a proxy for that portion of ability not captured by prior performance in our setting. Because of these possibilities, we pose the following research question:

RQ2: Will there be an association between the length of employees' experience and the difficulty of their selected goals?

Control Variable

The final construct included in our model is employees' eligibility for rewards in the month prior to the selection of their performance goal. For each of the two months covered by our study, employees must attain a minimum level of *E-pay* activity to be eligible for a reward. Thus, employees may miss out on receiving a bonus in a period simply because they fail to generate a sufficient level of activity, not because they are of lower ability. Employees who were ineligible to receive a reward in the month prior to goal selection may choose less difficult goals in an attempt to increase the expectancy of earning a reward (Riedel et al. 1988). Alternatively, if employees view their ineligibility to earn a reward in a particular period as a penalty or loss, they may decide to exert higher effort, in an attempt to perform well in the subsequent period to make up for the previous "loss" (Church et al. 2008; Hannan et al. 2005). As a result they may select more difficult performance goals. Because of these possibilities, we include reward eligibility in the preceding period as an additional factor influencing the difficulty of the goals employees select in our Figure 1 model.

METHOD

Data Collection

We gathered data from employees at four call centers of a North American, Fortune 100 financial services company. A total of 911 employees worked at these four call centers (out of a total of 18 centers), and 598 (66 percent response rate) responded to our survey administered electronically on-site. Of the 598 respondents, 44 were dropped from the analysis because they

failed to meet the minimum level of activity (90 percent of median number of *E-pays* for the call center) required to be eligible for the incentive program, 20 did not answer all of the questions used in our measure of impression management, and 58 did not indicate how long they had been working at the call center. Our final data set consists of 476 employees representing a 52 percent usable response rate. The company provided us with actual performance data for two months and allowed us to conduct a brief online survey to gather demographic data, and to measure the impression management intentions of the employees.

Incentive Programs

Although the performance metric was the same (*E-pay usage*), a different incentive program was in place for each of the two months for which we have performance data. Our research team had no involvement in designing or implementing either program. Management at the research site worked with a consulting firm to determine the performance metric, set the performance goal levels, and decide on the amount of the bonus payouts.

During the first month (May), each call center, in conjunction with head office, established a unit level target for the *E-pay usage* metric described above, based on prior months' results and current economic conditions.⁴ This target was used as the call center baseline for determining bonus compensation. In both months of the study, call centers were permitted to set their own baseline targets for performance because of differences in the client base (e.g., socio-economic factors) that could affect performance on the *E-pay usage* measure. Next, five individual performance levels were selected for May, using the call center target as the baseline. The bonus payouts employed at each call center were as follows: \$100 for achieving 105 percent of the unit target, \$200 for achieving 110 percent of the unit target, \$400 for achieving 115 percent of the unit target, \$600 for achieving 125 percent of the unit target, and \$1,000 for achieving 140 percent of the unit target. According to management at the firm, these bonuses are not trivial, representing 5 to 15 percent of the employees' total monthly compensation package. To illustrate how the scheme works, an employee who achieved actual *E-pay usage* equal to 109 percent of the unit target would receive a \$100 bonus while an employee who achieved actual *E-pay usage* equal to 130 percent of the unit target would receive a \$600 bonus. Any employee whose performance was below 105 percent of target did not receive a bonus. Employees were not assigned a specific performance goal for May nor were they required to indicate which level they would attempt to achieve. Their bonus was based entirely on their actual performance relative to the pre-established levels.

Prior to the beginning of the second month (June), each call center again set a baseline unit target for *E-pay usage*, adjusted where applicable, for results in May.⁵ Three individual goal levels and bonus payouts were established for all employees of the call centers as follows: 105 percent of unit target—bonus of \$100; 110 percent of unit target—bonus of \$350, and 125 percent of unit target—bonus of \$1,000. Since baseline unit targets depended on location specific factors, management believed that the individual goal levels would be of similar difficulty across the various call centers. Employees were aware of the baseline target for their call center and the amount by which it had increased compared to May. Management decided to use only three goal levels in order to reduce the complexity of implementation.

⁴ We use the term target, or unit target, to represent the baseline performance target for the call center. We use the term goal or individual goal when discussing the incentive program for June.

⁵ The baseline unit target levels were similar across the four call centers for the two months; the largest change in June was a 13 percent increase over May with an average increase of 7 percent. As discussed in the results section the increase overall is significant.

At the beginning of June, each call center employee was given the opportunity to select one of the three performance goals, with their bonus dependent upon achieving the goal they selected. According to firm management, the primary reason for implementing the new program was that they wanted a goal setting program that would motivate the lower performing employees to significantly improve performance. Consistent with goal setting research, they hoped that employees would be committed to their performance goal because they were able to select it themselves (Parker and Kyj 2006).⁶ Research also shows a positive association between goal commitment and performance (Locke 2001). The new incentive program was thoroughly explained to employees prior to its implementation and company management indicated that they believed employees understood the details of the plan.

The incentive program used in June was an “all or nothing” system; employees who did not achieve their selected goal did not receive a bonus. This feature of the system may have created an incentive for effort-averse employees to choose an easier goal in order to increase the likelihood of earning a bonus at reduced levels of effort. However, by including actual May performance as a predictor of the difficulty of the self-set goal in June, we at least partially control for the effects of effort aversion since employees with a poorer record of past performance are more likely to be effort-averse (Darrough and Melumad 1995).

To provide an incentive for employees to select goals compatible with their performance expectations, the scheme was a budget-fixed plan with no incremental payoff once the goal level was attained (Fisher et al. 2003). For example, if an employee chose a goal of 110 percent and achieved actual performance of 127 percent of unit target, she would still only receive a bonus payout of \$350. Thus, employees who intentionally selected a goal (e.g., 110 percent) that was below the level they believed was actually attainable (e.g., 125 percent) for reasons such as effort aversion, would bear an opportunity cost equal to the payout they could have earned (e.g., \$1,000).

Variable Measurement

For the 476 employees included in our analysis, the company provided actual performance data for each of the two months as well as the goal they selected at the beginning of June. Because the call centers each set different baseline targets we calculated actual performance for each employee relative to the baseline unit target (*Percent-to-target*) each month for each location as follows: $Percent\text{-}to\text{-}target = Actual\ Employee\ E\text{-}pay\ usage / Unit\ Target\ E\text{-}pay\ usage$. The variables used for actual performance in the two months are *May Percent-to-target* and *June Percent-to-target*.⁷ The company also provided us with the actual goal selected by each employee at the beginning of June. We use an ordinal variable with three levels, *Goal Level*, in our analysis.

After employees selected a goal at the beginning of June using the company’s computerized database, they immediately (within minutes) completed an online questionnaire that we designed to capture their intentions to engage in impression management behavior if they attained their selected goals, and to gather demographic data.⁸ In developing our measure we considered several items used by other impression management researchers (e.g., Bolino and Turnley 1999; Kipnis et

⁶ The consulting firm that developed the ‘menu of goals’ approach at our research site has implemented similar programs at over 300 organizations in the United States. They indicated to us in private conversations that on average, the “menu of goals” approach produces benefits through improved performance that exceed the implementation costs. We have no data with which to assess the validity of their claims.

⁷ Because the goal choices available to employees were expressed as a percentage of the baseline target (105 percent, 110 percent, 125 percent), it is appropriate to use this same measurement approach for the key dependent variable.

⁸ Call center management did not want us to ask the impression management questions before employees selected their goals in June because they were concerned that doing so might influence the goal choices. While this timing may have created some noise in our measure of impression management because employees had to use retrospection when answering the questions, we do not believe this is a significant issue given how soon after goal selection this occurred.

al. 1980) but we concluded that the scale items used in prior studies were generally unsuitable. For example, items such as “make others aware of your talents or qualifications,” “make others aware of your unique skills and abilities,” or “let others know you have been working hard” have been used in prior studies but they fail to specifically capture intentions to use goal attainment (if successful) as an impression management tactic (Turnley and Bolino 2001). The few studies that have examined the use of goals in managing impressions did not actually measure impression management, but instead inferred it based on the difficulty of the selected goals (Ferris and Porac 1984; Frink and Ferris 1998).

Given the lack of an existing scale, we decided to develop our own two-item measure of employees’ intentions to manage impressions if they attained their goals (*IM Intentions*). The two items we asked employees to agree with were: (1) I hope my co-workers will admire any reward I earn from this program and (2) I will talk to many people about any reward I earn through this program. We believe these items represent an appropriate operationalization of our impression management construct for two reasons. First, as described in developing the hypotheses, employees’ ability to actually engage in impression management behavior is contingent upon attainment of their selected goals. Given the bonus-for-goal attainment incentive scheme used at our research site, goal attainment is implicit in each item of our measure. Second, performance results at an individual level are not ‘publicly’ disclosed at the call centers so to the extent employees hope that others will be impressed by their goal attainment, they need to actively spread the news themselves by talking about their rewards. Both items were measured using a five-point scale where employees were asked to agree or disagree (5 = strongly agree and 1 = strongly disagree).

Finally, we used our questionnaire to collect data on gender, number of years with the call center and annual income. In keeping with the request of management at our research site, we did not require employees to answer any of these demographic questions in the event that they were uncomfortable providing the requested information (e.g., income level) because of confidentiality or other concerns. While most employees answered all three questions, we disclose the number of missing responses for each item in the next section.

RESULTS

Descriptive Information

Descriptive statistics for the sample demographics are summarized in Table 1, Panel A. Over 67 percent of the employees are female, about 48 percent have been with the company for more than two years, and 83 percent have annual income of less than U.S. \$60,000. Analysis not reported indicates that neither gender nor income impacts the results for the hypotheses tests reported below. Accordingly, to simplify our results presentation and discussion, these two variables are not considered further.

Table 1, Panel B, summarizes the results for the *E-pay usage* metric and the bonuses earned by employees each month. The average *E-pay usage* target across the four call centers increased significantly ($t = 36.10$, $p < 0.001$) to 1.27 in June from 1.19 in May. The actual *E-pay usage* ratio also increased significantly ($t = 2.40$, $p < 0.05$) from 1.47 in May to 1.51 in June indicating better overall performance in the second month. The decrease in the average *percent-to-target*, our primary dependent variable, from 1.23 in May to 1.19 in June is also significant ($t = 4.03$, $p < 0.001$). However, this decline in *percent-to-target* was driven by the baseline unit target being increased significantly in June with a smaller corresponding increase in employees’ performance on the actual *E-pay usage ratio*. For employees who received a payout, the average bonus earned in June dropped to around \$458 from about \$597 in May. The decrease in the average bonus in June is likely related to the use of a more difficult baseline target, the use of fewer payout levels compared to May, and the possibility that employees chose goals that were less difficult than what they were capable of attaining. Finally, results (not tabulated) show that of the employees eligible

TABLE 1
Descriptive Information

Panel A: Demographics

	<u>Number</u>	<u>Percentage</u>
Gender		
Female	320	67.2%
Male	154	32.4%
No response	2	.4%
Total	476	100.0%
Experience		
< 1 year	155	32.6%
1–2 years	94	19.7%
2–3 years	66	13.9%
3–5 years	61	12.8%
5–10 years	76	16.0%
> 10 years	24	5.0%
Total	476	100.0%
Income		
\$40k–\$60k	395	83.0%
\$60k–\$80k	18	3.8%
>\$80k	10	2.0%
No Response	53	11.2%
Total	476	100.0%
Eligibility for May Bonus		
Eligible	304	63.9%
Not eligible	172	36.1%
Total	476	100.0%

Panel B: Targeted and Actual Performance, Bonus Payouts (n = 476, except where otherwise noted)

<u>Measure</u>	<u>Mean</u>	<u>Standard Deviation</u>
May		
<i>E-pay usage target</i> ^a	1.19	0.57
Actual <i>E-pay usage</i> ^b	1.47	0.79
Percent-to-target ^c	1.23	0.28
Average bonus ^d (n = 189)	\$596.82	\$311.29
June		
<i>E-pay usage target</i>	1.27	0.60
Actual <i>E-pay usage</i>	1.51	0.80
Percent-to-target	1.19	0.27
Average bonus (n = 275)	\$458.00	\$357.39

(continued on next page)

Panel C: Measure of Impression Management Intentions (n = 476)

Item ^e	Mean	Standard Deviation
1. I hope my co-workers will admire any reward I earn from this program	2.42	1.00
2. I will talk to many people about any reward I earn through this program	2.64	1.05
Average	2.53	0.91

^a Target for *E-pay usage* set by each unit, in conjunction with managers at head office.

^b Number of customer promises to pay past due credit card balances electronically/non-electronic promises to pay.

^c Actual *E-pay usage*/*E-pay usage* target.

^d The average amount earned by employees who received a bonus payout.

^e Participants were asked to agree with each item on a five-point scale with endpoints of 1 = “strongly disagree” and 5 = “strongly agree.”

to receive a bonus, 62 percent earned one in May while about 52 percent received one in June.

Table 1, Panel C summarizes the results for our two-item measure of employees' *IM Intentions*. The means for “I hope my co-workers will admire any reward I earn from this program” and “I will talk to many people about any reward I earn through this program” respectively are 2.42 and 2.64 (average of 2.53 for the two items) suggesting employees engaged in a moderate level of impression management. The full response scale was used for each item (1 through 5) indicating a reasonable variation in impression management behavior across employees. Because responses to the two items are highly correlated ($r = 0.58$, $p < 0.001$) we use a simple average in the results analysis.⁹

Hypotheses Tests

A review of the data shows that although the association between May performance and *IM Intentions* is negative as expected, the relation is non-monotonic. For example, the mean *IM Intentions* values for employees in the bottom two quartiles of May performance do not differ significantly from each other ($p > 0.50$) but they are significantly greater than the values for employees in each of the top two performance quartiles ($p < 0.10$). As a result of this non-monotonicity we use a median split of *May Percent-to-target* to classify employees as either high or low performers in May and examine the association between the resultant binary variable and the other variables in our model. Employees with *May Percent-to-target* performance at or above 1.20 (median) are classified as “high” performers while all others are “low.”¹⁰ We also observe a non-monotonic relation between *Experience* and *June Goal Level*. A similar percentage of employees in the first two experience categories selected the easiest goal (41 percent < 1 year; 37 percent 1–2 years), which differs significantly ($p < 0.05$) from the percentage of employees who chose the easiest goal across the remaining four experience categories (average of 24 percent). Accordingly we use a median split to categorize employees as having low or high experience. Employees with two years or less tenure at the call center are classified as “low experience” with all others categorized as “high experience.”

Table 2 presents the correlation matrix for the variables included in our Figure 1 model. The correlations between constructs are consistent with our expectations. *May Percent-to-target* is negatively associated with *IM Intentions* ($r = -0.09$, $p < 0.10$) and positively associated with *June Goal Level* ($r = 0.39$, $p < 0.01$). Employees with higher *IM Intentions* chose easier goals in

⁹ Employee responses to the impression management questions are similar across the four call center locations.

¹⁰ Average *May Percent-to-target* performance for employees in the “high” and “low” performance categories is 1.44 and 1.01, respectively; these means are significantly different ($t = 25.2$, $p < 0.001$).

TABLE 2
Correlations among Variables Included in the Figure 1 Model^a

	IM Intentions^b	Experience	May Percent-to-Target^b	May Bonus Pool Eligibility	June Goal Level^b	June Percent-to-Target^b
IM Intentions	—					
Experience ^c	0.07*	—				
May Percent-to-target	-0.09*	0.11**	—			
May Bonus Pool Eligibility ^d	-0.05	-0.08*	0.22***	—		
June Goal Level	-0.08*	0.15***	0.39***	-0.01	—	
June Percent-to-target	-0.12***	0.03	0.47***	0.14***	0.31***	—

*, **, *** $p < .05$, $p < .01$, $p < .001$, respectively.

^a The reported amounts are Pearson correlations but the non-parametric values (Kendall's tau) and significance levels are almost identical (not tabulated).

^b See Table 1 for variable definitions.

^c Experience: 0 = low experience (two years or less); 1 = high experience (more than two years).

^d May Bonus Pool Eligibility: 0 = eligible for reward in May; 1 = not eligible for reward in May.

June ($r = -0.08$, $p < 0.10$). *June Goal Level* ($r = 0.31$, $p < 0.01$) and *May Percent-to-target* ($r = 0.47$, $p < 0.01$) are both significantly associated with *June Percent-to-target*. Correlations for the associations examined in our two research questions are also significant. *Experience* is positively associated both with *IM Intentions* ($r = 0.07$, $p < 0.10$) and *June Goal Level* ($r = 0.15$, $p < 0.01$). Finally, our covariate, *May Bonus Pool Eligibility*, is positively associated with *June Percent-to-target*.

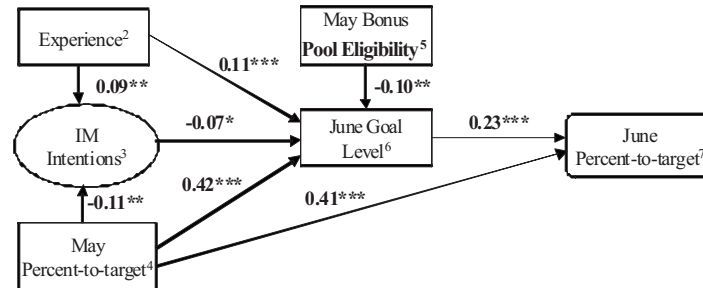
To test our predictions, we use AMOS 7.0 (a Structural Equation Modeling component of SPSS) to estimate the model presented in Figure 1. Using standard evaluation criteria, the overall model fit appears to be excellent. The Comparative Fit Index (CFI) is 0.98, the Normed Fit Index (NFI) is 0.97, and the Root Mean Square Error of Approximation (RMSEA) is 0.05, all well within the levels considered indicative of a good fit (Kline 1998).¹¹ Results for the full model including the standardized coefficients for each path are shown in Figure 2.¹²

Hypothesis 1 predicts a negative association between *May Percent-to-target* and *IM Intentions*. Consistent with this prediction, Figure 2 shows that the standardized coefficient for this path is negative (-0.11) and significant ($p < 0.05$). Employees with lower performance relative to the *E-pay usage* unit target for their call center during May were more likely to agree that they intended to engage in impression management behavior if they attained their selected goals in June. As shown in Table 3, Panel A, the mean for *IM Intentions* is 2.6 for employees with lower

¹¹ According to Kline (1998) a good fit is indicated by a CFI and NFI > 0.90 and a RMSEA of < 0.10. We also ran an alternative version of the model using our continuous measure of *May Percent-to-target* and our ordered categorical measure of *Experience* instead of the binary variables. The CFI, NFI and RMSEA values are almost identical (respectively, 0.99, 0.98 and 0.05) as are the significance levels for each path in the model.

¹² Given the ordered categorical variable used for *June Goal Level*, we test the robustness of our model by using a polyserial matrix instead of the traditional covariance matrix as the basis for our structural model using LISREL (Byrne 1998). The fit indices do not change appreciably from those reported above using the covariance matrix: CFI is 0.96; the NFI is 0.96; and RMSEA is higher at 0.097. Moreover the path coefficients and significance levels are qualitatively similar to those reported in Figure 2.

FIGURE 2
Results of Hypotheses Tests¹



¹ Path values represent standardized regression coefficients. Significance levels: *, **, *** $p < 0.05$, $p < 0.01$, $p < 0.001$, respectively.

² Binary variable (see Table 2): 0 = low experience and 1 = high experience.

³ Average of our two-item measure based on a five-point scale (see Table 1, Panel C).

⁴ Binary variable (see Table 2): 0 = low May performance and 1 = high May performance.

⁵ Binary variable (see Table 2): 0 = eligible for May rewards and 1 = ineligible for May rewards.

⁶ Three goal levels: 1 = easy (105 percent of target), 2 = moderate (110 percent of target) and 3 = difficult (125 percent of target).

⁷ See Table 1 for variable definitions.

performance in May compared to 2.4 for their higher performing counterparts. These results support H1.

Hypothesis 2 predicts a negative association between *IM Intentions* and the difficulty of the *June Goal Level* selected by employees. Consistent with the prediction, Figure 2 shows the path between *IM Intentions* and *June Goal Level* is negative and significant (-0.07 , $p < 0.10$). Panel B of Table 3 shows that the mean values for *IM Intentions* of employees choosing the 105 percent of target, 110 percent of target and 125 percent of target respectively are, 2.61, 2.57 and 2.37. The stronger the employees' intentions to engage in impression management if they attained their goal, the easier the goal they selected in June. These results support H2.

Hypothesis 3 predicts a positive association between past performance and the difficulty of the goal selected in June. Consistent with this prediction, the path in Figure 2 between *May Percent-to-target* and *June Goal Level* is positive and significant (0.42 , $p < 0.001$). Better performing employees in May selected more difficult goals in June. As shown in Panel C, Table 3, nearly 50 percent of employees with lower May performance selected the easiest goal (105 percent of target) while only 12 percent selected the most difficult goal (125 percent of target). Conversely, only 16 percent of employees with higher May performance chose the easiest goal while over 41 percent selected the most difficult goal. These results support H3.

Hypothesis 4 predicts a positive association between the difficulty of the goal selected by employees and their performance in June. Consistent with this prediction, the path in Figure 2 between *June Goal Level* and *June Percent-to-target* is positive and significant (0.23 , $p < 0.001$). Results in Panel D, Table 3 show that *June Percent-to-target* performance for employees who selected the goals of 105 percent of target, 110 percent of target and 125 percent of target are respectively, 1.07, 1.16 and 1.36. These results support H4.

TABLE 3

Goal Selection, Impression Management Intentions and May Performance

Panel A: IM Intentions by May *E-pay* Performance Level

	May <i>E-pay</i> Performance ^a			
	Low (n = 234)		High (n = 242)	
	Mean	Standard Deviation	Mean	Standard Deviation
IM Intentions ^b	2.62	0.88	2.44	0.94

Panel B: IM Intentions and June Goal Selection

	IM Intentions	
	Mean	Standard Deviation
Goal Level ^b		
105% of Target (n = 154)	2.61	0.88
110% of Target (n = 194)	2.57	0.87
125% of Target (n = 128)	2.37	0.99

Panel C: Goal Selection by May *E-pay* Performance Level

	May <i>E-pay</i> Performance					
	Low		High		Total	
	Number	%	Number	%	Number	%
Goal Level						
105% of Target	116	49.6	38	15.7	154	32.3
110% of Target	90	38.5	104	43.0	194	40.8
125% of Target	28	11.9	100	41.3	128	26.9
Total	234	100.0	242	100.0	476	100.0

Panel D: June Percent-to-Target Performance by Goal Level

	June Percent-to-Target ^b	
	Mean	Standard Deviation
Goal Level		
105% of Target (n = 154)	1.07	0.21
110% of Target (n = 194)	1.16	0.25
125% of Target (n = 128)	1.36	0.29

^a We use a median split of *May Percent-to-target* performance to create the low and high categories. Employees below the median (1.20) are classified as low *May E-pay* performers with all others as high.

^b For variable definitions see Table 1.

Research Questions

Our two research questions examine the association between employee experience at the call center and respectively, *IM Intentions* and *June Goal Level*. As shown in Figure 2, the effect of *Experience* on *IM Intentions* is positive and significant (0.09, $p < 0.05$). Results (not tabulated) show that *IM Intentions* for employees with low experience (two years or less) is 2.4 compared to 2.6 for employees with high experience (greater than two years). As discussed above, more

experienced employees may have been more likely to recognize the potential value of managing impressions if they attained their selected goal than their less experienced counterparts. As shown in Figure 2, the direct effect of *Experience* on *June Goal Level* is also positive and significant (0.11, $p < 0.01$). More experienced employees selected more difficult goals, which as noted earlier may be attributable to *Experience* proxying for that part of ability not captured by prior performance. Results (not tabulated) show that about 40 percent of the low experience employees chose the easiest goal (105 percent of target) while 22 percent chose the most difficult goal (125 percent of target). Only 24 percent of the high experience employees chose the easiest goal while about 32 percent chose the most challenging goal.

Other Significant Results

Figure 2 shows that *May Bonus Eligibility* has a negative and significant (-0.10 , $p < 0.05$) effect on *June Goal Level*. Controlling for the other determinants of *June Goal Level*, employees who did not generate a sufficient level of activity to be eligible for a reward in May, on average selected an easier goal in June. As discussed above, this result is consistent with these employees selecting a goal with a higher likelihood of attainment to avoid missing out on a reward two months in a row. Of course, earning a reward in June would require these employees to both increase their level of *E-pays* activity to meet the minimum threshold described above and attain their goal. Figure 2 also indicates that *May Percent-to-target* has a positive and significant direct effect on *June Percent-to-target* (0.41, $p < 0.001$).¹³ Thus June goal selection does not fully mediate the effects of May performance on June performance.¹⁴ We examine one possible explanation for this lack of full mediation in the next section.

Supplemental Analysis

The additional analysis presented in this section is intended to address two issues. First, as noted above, management implemented the “menu of goals” approach in combination with a bonus for goal attainment reward scheme to: (1) provide an incentive for employees to select a goal that was compatible with their performance capabilities; and (2) motivate lower performing employees to improve performance in June. Consistent with this objective, the results shown in Figure 2 indicate that past performance (*May Percent-to-target*) did have a significant effect on the difficulty level of the goals selected by employees in June, which in turn had a positive effect on performance. However, to directly evaluate the extent to which the menu of goals approach motivated employees to select goals they were capable of achieving, we examine goal attainment rates in June across the three goal levels and across employees’ level of past performance (May). We also examine *Actual E-pay usage* in May and June across May performance levels to assess whether the expected performance improvements were realized.¹⁵ We believe these issues are important to examine as the likelihood that goal-setting programs such as that used at our research site will lead to sustained motivation and effort over time, depends critically on employees actual level of success in attaining targets and experiencing performance gains (Locke and Latham 2002).

Second, as noted earlier, the average baseline target for *E-pay usage* for the call centers increased significantly in June. Prior research suggests that because of this ratcheting, call center employees may have been concerned about further increases in target difficulty in subsequent

¹³ *June Percent-to-target* performance for employees classified as having low *May Percent-to-target* performance is 1.0 compared to 1.3 for employees with high May performance.

¹⁴ If *June Goal Level* fully mediated the effect of *May Percent-to-target* on *June Percent-to-target*, the direct path between *May Percent-to-target* and *June Percent-to-target* would not be significant (Baron and Kenny 1986).

¹⁵ Recall that *Actual E-pay usage* = number of promises to pay electronically / non-electronic promises to pay.

months (Indjejikian and Nanda 1999; Leone and Rock 2002). As a result, they may have constrained the amount by which they exceeded their selected goal in an attempt to signal to management that the goals were sufficiently challenging. Because this type of performance management by employees could at least partially undermine the performance benefits of goal-setting programs such as that used at our research site, we examine the actual June results for evidence of ratcheting concerns.

Goal Attainment and June Performance Improvement

Table 4, Panel A summarizes the attainment rates for each goal level in June by May performance level (low and high). Overall attainment rates vary from about 56 percent for the easiest goal to around 61 percent for the most difficult goal with a success rate of 58 percent across all goal levels. The attainment rates do not differ across the goal levels ($\chi^2 = 1.20$, $p > 0.50$). In light of evidence suggesting organizations employ targets with achievement rates of 80 percent or more (e.g., Gibbs et al. 2004; Merchant and Manzoni 1989) 58 percent does not seem particularly high. However, as shown in Panel A, the attainment rates differ considerably across the *May E-Pay* performance levels. Employees with low *May E-Pay* performance have an average attainment rate of around 38 percent compared to 77 percent for employees with high performance in May. The overall attainment rates differ significantly between employees with low and high May performance levels ($\chi^2 = 76.7$, $p < 0.001$).¹⁶ Not surprisingly, the attainment rates for low May performers also decrease significantly as goal difficulty increases ($\chi^2 = 6.41$, $p < 0.05$). This greater tendency for employees with low May performance to select goals they could not attain at least partially explains why *June Goal Level* does not fully mediate the effects of *May Percent-to-target* on *June Percent-to-target*.

One reason for the relatively poor overall attainment rate of 38 percent for low May performers is that even the easiest goal (105 percent of target) was only attained by 45 percent of employees. Thus for some employees, even the least challenging goal was unattainable, suggesting management may have underestimated the difficulty of this goal. It may also be that compared to employees with high May performance, those with lower performance were not as well-calibrated with respect to assessing the performance level they could achieve and as a result selected a goal that was too difficult for them. However, results (not tabulated) suggest that poor calibration does not entirely account for the poor overall attainment rate for employees with low May performance. Of the 82 employees who selected either the 110 percent or 125 percent goal, and failed to attain it, only 22 percent performed well enough to attain the next highest goal. Conversely, 49 percent of employees with high May performance who failed to attain either the 110 percent or 125 percent goal, performed well enough to attain the next highest goal. Thus, those with high rather than low May performance were more likely to over-estimate the performance level they could attain in June.

One caveat to the foregoing analysis is that we cannot assess the extent to which some employees may have selected goals on an expected payoff basis. A risk-neutral employee who assessed the likelihood of attaining the most difficult goal (125 percent of target) to be 50 percent would rationally choose that goal even if she assessed the likelihood of attaining the moderate goal (110 percent of target) was 100 percent since the expected payoff is higher (\$500 versus \$350).

¹⁶ Results (not tabulated) indicate that the attainment rates (across all goal levels) for “low” *May E-pay* performers ranges from 23 percent for those in the 10th percentile to about 58 percent for those in the 50th percentile. Conversely, for “high” *May E-pay* performers, attainment rates range from 61 percent for employees in the 60th percentile to 86 percent for those in the 90th percentile.

TABLE 4
Supplemental Analysis

Panel A: Goal Attainment by May Performance Level

	May <i>E-pay</i> Performance ^a					
	Low		High		Overall	
	Selected	% Attained	Selected	% Attained	Number	% Attained
Goal Level ^b						
105% of Target	116	44.8	38	84.2	154	55.5
110% of Target	90	33.3	104	79.8	194	58.3
125% of Target	28	21.4	100	72.0	128	60.9
Total	234	37.6	242	77.3	476	57.8

Panel B: Actual *E-pay* Usage by May Performance Level

	May <i>E-pay</i> Performance ^a			
	Low (n = 234)		High (n = 242)	
	Mean	Standard Deviation	Mean	Standard Deviation
Attained June Goal				
May Actual <i>E-pay usage</i> ^c	1.19	0.66	1.74	0.83
June Actual <i>E-pay usage</i> ^c	1.51	0.85	1.78	0.86
Did not Attain June Goal				
May Actual <i>E-pay usage</i>	1.17	0.58	1.81	0.83
June Actual <i>E-pay usage</i>	1.17	0.58	1.47	0.68
Overall				
May Actual <i>E-pay usage</i>	1.17	0.61	1.76	0.83
June Actual <i>E-pay usage</i>	1.30	0.71	1.71	0.83

Panel C: June Percent-to-Target Excess over Goal for Employees Who Attained the Goal

	May <i>E-pay</i> Performance ^a		
	Low	High	Overall
	June Excess ^d (Actual-Target)	June Excess ^d (Actual-Target)	
Goal Level			
105% of target	0.11 (n = 52)	0.25 (n = 32)	0.17 (n = 84)
110% of target	0.18 (n = 30)	0.22 (n = 83)	0.21 (n = 113)
125% of target	0.31 (n = 6)	0.29 (n = 78)	0.29 (n = 78)

^a Binary variable: 0 = low performance in May and 1 = high performance in May.

^b See Table 1 for variable definition.

^c Number of customer promises to pay past due credit card balances electronically/non-electronic promises to pay.

^d Actual June Percent-to-target goal selected.

Accordingly, the magnitude of the difference in reward amounts across goal levels may also have contributed to the overall attainment rates we observe.¹⁷

We also examine *Actual E-pay usage* for May and June for low and high May performers.¹⁸ As Table 4, Panel B indicates, overall employees with low May performance significantly increased *Actual E-pay usage* from 1.18 in May to 1.30 in June ($t = 6.02, p < 0.001$). Employees with high May performance show a significant decrease in *Actual E-pay usage* declining from 1.76 in May to 1.71 in June ($t = 2.06, p < 0.05$). However, the results in Panel B show that the performance gains for employees with low May performance are driven by the 38 percent who attained their June goal. For these employees, *Actual E-pay usage* significantly increased ($t = 7.84, p < 0.001$) from 1.19 in May to 1.51 in June. Employees with low May performance, who did *not* attain their June goal, show no improvement in *Actual E-pay usage* in June compared to May (1.17 in both months). Similarly, employees with high May performance who attained their June goal (77 percent), show a significant increase ($t = 1.76, p < 0.10$) in performance from May (1.74) to June (1.78). However, those employees who did *not* attain their goal experienced a significant decrease ($t = 6.81, p < 0.001$) from May (1.81) to June (1.47).

Overall, the results suggest the menu of goals approach achieved limited success in motivating employees to select goals compatible with their ability, or to drive performance improvements. This is particularly so for the employees with lower prior performance, most of whom (62 percent) did not attain their chosen goal. Additionally, our analysis indicates the importance of employees selecting goals they were capable of achieving. On average, those who did not experienced either significant declines, or no improvement in *E-pays* performance in June.

Ratcheting Concerns

For employees who attained their goal, Table 4, Panel C, presents the amount by which they exceeded the goal (*June Excess*) for each goal level, and for the two levels of *May E-pay* performance. We interpret higher values for *June Excess* as indicative of lower ratcheting concerns. The results are not suggestive of employees' managing performance to avoid further upward adjustments of the targets. Overall, *June Excess* ranges from 0.17 for the 105 percent goal to 0.29 for the 125 percent goal. Analysis (not tabulated) indicates that the differences across goal levels are significant ($F = 3.26, p < 0.05$) but not across May performance levels.¹⁹ This pattern of results is inconsistent with ratcheting concerns influencing behavior since we would expect to see lower *June Excess* values for the more difficult goals as employees would likely be more concerned about further increases in the difficulty of goals with the largest rewards. Further results (not tabulated) show that over 50 percent of all employees who selected the 105 percent or 110 percent goal in June had actual performance that met or exceeded a higher goal, which again is inconsistent with employees constraining performance because of ratcheting concerns. Although we cannot rule out the possibility that some employees may have managed their performance because of ratcheting concerns, the evidence suggests it was not a pervasive issue.

¹⁷ We have no reason to believe that lower performing employees would be more likely to apply an expected payoff approach to goal selection than higher performing employees. As such, we do not believe this factor would account for the difference in attainment rates observed between employees with low and high May performance.

¹⁸ As noted above, because the baseline targets increased significantly from May to June any difference between *May Percent-to-target* and *June Percent-to-target* is confounded with the change in the target. Accordingly, we focus our supplemental analysis on *Actual E-pay usage* to avoid this issue.

¹⁹ Results of a regression analysis (not tabulated) show that controlling for *May Percent-to-target* and *June Goal Level, IM Intentions* are not significantly ($p = 0.26$) associated with *June Excess*. Employees who were concerned with managing impressions did not appear to constrain the extent to which they exceeded their chosen goal.

DISCUSSION AND CONCLUSIONS

Goal-setting is pervasive in organizations and has been the focus of a considerable body of research over the past several decades (Locke and Latham 2002). Our study provides new insights into factors affecting goal selection and performance in a unique setting where employees were entirely free to choose their own goal from a menu of choices with rewards increasing in the difficulty of the selected goal. While previous studies have examined the influences on the difficulty of self-set goals using archival (e.g., Brown et al. 1998) or experiment data (e.g., Wood et al. 1999), we are unaware of any research using a setting where management established the goal levels, but permitted employees to freely select from that menu. Moreover, we are unaware of any previous archival research examining the use of self-set goals in conjunction with a bonus for goal attainment incentive scheme. As a result, we believe the uniqueness of our research setting allows us to make several contributions to the goal-setting literature.

First, the results summarized in Figure 2 provide support for factors known to be associated with the difficulty of self-set goals such as prior performance, but also illustrate the role of determinants that have received limited attention in prior research. In particular, our model demonstrates that controlling for the effects of past performance, the strength of employees' intentions to manage impressions if they attain their selected goal is negatively associated with goal difficulty. This is in contrast to the results of studies showing impression management leads to setting *more* difficult goals (e.g., Frink and Ferris 1998). However, prior research has not examined the effects of impression management in settings where rewards are contingent upon goal attainment, or where there is high emphasis in the organization on goal setting programs. Moreover, we find that it is the more experienced employees who express the strongest intentions to engage in impression management. Importantly, our results suggest the possibility for impression management behavior, if unchecked, to undermine the effectiveness of highly participative goal-setting programs given the relation between goal difficulty and performance. Second, our results show that employees who are ineligible for a reward in the prior period, on average select easier goals in the subsequent period. We believe this finding is also of potential importance to designers of incentive schemes in settings such as ours where new or continuing programs are run on a monthly basis because it suggests that prior reward *ineligibility* can limit the benefits of goal-setting by leading employees to set easier goals.

Third, somewhat surprisingly, we find that even though employees were able to select their own goal, the overall attainment rate is only about 58 percent which does not compare favorably with the 80 percent goal achievement rates reported in prior research (e.g., Gibbs et al. 2004; Merchant and Manzoni 1989). Employees with lower performance in the prior month were more likely to select a goal they could not attain with a success rate of only 38 percent. In part this result appears to have been driven by the easiest goal being set by management at a level too difficult to attain for the majority (55 percent) of employees with low performance in May. However, it may also be the case that the "hands-off" approach taken by management with respect to employee goal selection is less effective for lower performing employees. Instead, these employees may need more guidance from management in selecting a goal that is more realistic (attainable) and that will motivate sustained effort over time. The importance of employees selecting attainable goals is illustrated by the significant performance improvement experienced by employees who attained their June goal.

As with all research, ours has limitations that provide opportunities for further research. First, while all predictions related to our measure of impression management intentions were supported, it had only two-items and there is clearly scope for further refinement and development. Also, we did not measure the extent to which some employees may have chosen more difficult goals in an effort to manage impressions. Future research could attempt to evaluate both goal attainment *and* goal difficulty as impression management tactics. Second, it is unclear whether the factors that

motivated goal selection at our research site would generalize to settings involving different types of employees (e.g., more senior) or incentive schemes (e.g., different payoffs across goal levels, budget linear contracts) or where the nature and frequency of impression management opportunities differs. Third, although results from our supplementary analysis suggest employees did not appear to manage performance because of ratcheting concerns, we cannot assess the performance levels they were actually capable of attaining. Thus, it may be that actual *June Percent-to-target* performance was influenced by ratcheting concerns in ways we cannot detect. Further research is needed in developing more reliable measures of ratcheting concerns.

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