



European Doctoral Programmes Association  
in Management & Business Administration

## EDAMBA JOURNAL

---

# 19<sup>th</sup> Thesis Competition 2021

**EDAMBA**

European Doctoral Programmes Association in Management and Business Administration

---

*ISSN: 1334-8078*

**EDAMBA Journal**

**Thesis Competition 2021  
Summaries**

*Editor*  
Agnes Zsokà

## Foreword from the President

**EDAMBA**, the **European Doctoral programmes Association in Management and Business Administration** has the mission to support and facilitate cooperation by providing and managing a network to exchange information, disseminate best practices and raise the quality of doctoral education among its members in Europe and beyond. For the past quarter century, **EDAMBA** has helped the participating schools to increase the quality of their Doctoral programmes, as well as to create an environment of excellence with a European perspective, all the while pursuing diversity. In many ways it has proved to be an unparalleled forum of discussion to schools that have a long established tradition of doctoral education and also to those who have recently started this new practice. The ultimate goal is to have the **EDAMBA** network reach as far and wide as possible, while at the same time maintaining the integrity of the various programmes within the network.

Currently EDAMBA has 60 doctoral programmes as members of the Association coming from 24 countries. It is governed by the General Assembly, which elects each year an Executive Committee. The main current activities of the Association are the Annual Meetings, the Research Summer Academy, the Consortium on Doctoral Supervision, the Thesis Competition.

The Annual meetings have become during the years the main platform for discussing common problems and issues, discussing impressive changes in the doctoral landscape and promoting best practices among the Directors of Doctoral programmes in the association. The Summer Academy operating since 1992 with its international dimension has been the privileged forum for dialogue on research paradigms and methodologies while building a strong scholarly network among doctoral students coming from a broad range of programmes and disciplines.

The Winter Academy launched in 2008 aims at improving the quality of doctoral supervision by fostering a dialogue among senior and junior faculty and developing competent supervisors for addressing the shortage of qualified faculty in Business and Management studies in the European Universities and Business Schools. In the steps of the Winter Academy, as a joint initiative between the EIASM and EDAMBA in shaping the new landscape of global doctoral education, EDAMBA runs a Consortium on the importance of supervision in doctoral education. A European Code of Practice for Doctoral Studies in Management and Business has just been published for consultation with our membership and wider community.

The Thesis Competition was first launched in 2003. It aims at distinguishing high-quality doctoral dissertations which have significantly contributed to new knowledge in all areas of business studies and management. The top-3 peer reviewed abstracts are given prizes and the short-list of selected abstracts is published in this EDAMBA journal. With this publication, we hope to contribute to the dissemination of distinguished doctoral dissertations from throughout our network in Europe and worldwide.

Dimitris ASSIMAKOPOULOS  
EDAMBA President

## **EDAMBA Thesis Competition 2021 - List of Reviewers**

*EDAMBA acknowledges the expertise, time and effort in the important review process of the 2021 EDAMBA Thesis Competition*

<b>ANTONIUK, Larysa</b>	Kyiv National Economic University
<b>BALATON, Karoly</b>	Miscolc University
<b>BATTEAU, Pierre</b>	Marseille University
<b>CIDEROVA, Denisa</b>	University of Economics in Bratislava
<b>COLLET, Francois</b>	ESADE Business School
<b>CSILLAG, Sara</b>	Budapest Business School
<b>DUMITRESCU, Ariadna</b>	ESADE Business School
<b>GHADERI, Mohammad</b>	Fabra University
<b>GUOFENG, Ma</b>	Tongji University
<b>HAN, Liang</b>	Henley Business School at University of Reading
<b>HE, Guanming</b>	Tongji University
<b>HELKKULA, Anu</b>	Hanken School of Economics
<b>JENSEN, Hans Siggaard</b>	Aarhus University
<b>LONGONI, Annachiara</b>	ESADE Business School
<b>MASKARIN RIBARIC, Helga</b>	Rijeka
<b>MATOS, Nancy</b>	Esan University
<b>OLYA, Hossein</b>	University of Sheffield
<b>ROBLES-FLORES,</b>	<b>José Antonio</b> Esan University
<b>SCHIOPU, Ioanna</b>	ESADE Business School
<b>SHAMSUDIN, Faridahwati</b>	University of Utara Malaysia
<b>TALIB, Asmat Nizam Abdul</b>	University of Utara Malaysia
<b>ULHOI, John Parm</b>	Aarhus University
<b>VASILJEVA, Tatjana</b>	Riseba University of Business, Arts and Technology
<b>VELASCO, Nubia</b>	Universidad de Los Andes
<b>VILLEGAS, Carolina</b>	ESADE Business School
<b>ZHONG, Ninghua</b>	Tongji University
<b>ZSOKA, Agnes</b>	Corvinus University of Budapest

## Contents

Leader-Member Exchange and Organisational Trust as Context-Related Micro-Foundations of Organisational Innovativeness <b>Jacquemod Julija, Riseba University of Business, Arts and Technology, Latvia</b>	p 6
A LOT TO LOSE: Organizational Identity and Emotions in Institutional Contexts <b>Langenbusch Christina, Erasmus University Rotterdam, ERIM, The Netherlands</b>	p 20
A New Method for the Measurement of Acceptable Health <b>Zrubka Zsombor, Corvinus University of Budapest, Hungary</b>	p 33
The Firm Value and Marketing Intensity Decision in Conditions of Financial Constraint: A Comparative Study of The United States and Latin America <b>Palomino-Tamayo Walter, Universidad Esan, Peru</b>	p 49
Participation Continuance of Users and Providers in Sharing Economy: A Moderated Mediation Model for the Two Milieus <b>Jiang Jiang, Tongji University, China</b>	p 70
The Impact of Entrepreneurship Education Awareness Seminars on Discrete Entrepreneurial Emotions And Intentions Of Business And Non-Business Students <b>Keller Pierre, Riseba University of Business, Arts and Technology, Latvia</b>	p 71
Organizing for the Digital World: A Pathway towards the Agile Marketing Capability <b>Moi Ludovica, University of Cagliari, Italy</b>	p 84
The Impact of Multiple Institutional Logics on Professional Identities of Auditors <b>Siriviriyakul Sudthasiri, The University of York, UK</b>	p 100
Finding Their Way - An Action Research Case Study on Individual Goal Striving, and Its Implications for Managerial Coaching for Performance <b>Snowdon Paul, Henley Business School at The University of Reading, UK</b>	p 115
Empirical Studies on Governance – Performance Interplay: The Investors' Perspective <b>Zakriya Mohammed, ESADE, Spain</b>	p 127

# FIRST AWARD

---

## **Leader-member exchange and organisational trust as context-related micro-foundations of organisational innovativeness"**

**Jacquemod Julija**

**Riseba University of Business, Arts and Technology**

The aim of the research is to investigate the relationship between leader-member exchange (LMX), organisational trust, and organisational innovativeness identifying context-specific factors to be considered by leaders aiming to increase organisational innovativeness. This research explores LMX as a micro-foundational factor. Mixed methodology approach was applied. The results showed that LMX plays a statistically significant role in organisational innovativeness and this is mediated by organisational trust. Generation, tenure, education, gender, and the language (native versus foreign) spoken in dyads of leader - subordinate are identified as important context factors for LMX. Fifteen behavioural leadership practices to enhance organisational innovativeness were proposed.

*Keywords:* leader-member exchange (LMX); leadership; organizational trust; organisational innovativeness, micro-foundations, context factors, mixed methodology.

**Abstract:** The aim of the research is to investigate the relationship between leader-member exchange (LMX), organisational trust, and organisational innovativeness identifying context-specific factors to be considered by leaders aiming to increase organisational innovativeness. This research explores LMX as a micro-foundational factor. Mixed methodology approach was applied. The results showed that LMX plays a statistically significant role in organisational innovativeness and this is mediated by organisational trust. Generation, tenure, education, gender, and the language (native versus foreign) spoken in dyads of leader - subordinate are identified as important context factors for LMX. Fifteen behavioural leadership practices to enhance organisational innovativeness were proposed.

## INTRODUCTION

Organizational innovativeness as a capability to produce new solutions, experiment, and engage in creative processes (Lumpkin and Dess, 2001) is emphasised by many authors as a fundamental element of survival (e.g. Little, et al., 2017) and as a ground of regional development (Ludviga, 2012). Innovation Policy Platform (IPP, 2013) states that the innovation is crucial for long-term economic growth as it fosters sustainability. Studies of organisational innovativeness suggest that innovativeness however can be mal-practiced in reality (Riivari and Lamsa, 2014). This research has an attempt to reveal the eventual reasons for it. On the micro-level, organisations consist of individuals, teams, and interaction processes between them. According to promoters of micro-foundation movement, ‘unwrapping’ the individual-level factors provides important starting point for analysis of macro-level (organisational) outcomes (Felin, et al., 2015).

The role of leadership in innovativeness was emphasised in previous studies (e.g. Ricard, et al., 2017); the attitudes and decision-making of top leadership resonate throughout the entire organization (Kaptein, 2008). It is interesting that such theory as Leader–member exchange (LMX) although it particularly focuses on the quality of dyadic relationship between the individuals - leaders and employees (Fairhurst and Uhl-Bien, 2012) was not observed in light of micro-foundation, and this study pays attention to this gap.

Yu and colleagues (2018) stress that leader–follower relationships do not exist in vacuum, moreover, leaders cannot establish high-quality exchanges with all their subordinates and trust can be the foundation upon which the exchanges are built (Savolainen, 2008). De Souza (2014) specifically argues that individuals form relationships in certain contexts. Connelly et al. (2012) conceptualises trust as a context-dependent concept; the same can be attributed to LMX (Nie, Lamsa, 2015). Thus, in this study both, leader-member exchange and trust are considered being context-dependent variables. Following Spector and Brannick (2011), demographic data can form the context variables which might explain the reasons for observed results.

The aim of the research is twofold:

- Firstly, it investigates the relationship between LMX, organisational trust and organisational innovativeness, being in line with micro-foundations movement. Moreover, it analyses the mediating role of emotional and cognitive trust on LMX – innovativeness relationship. By focusing on large-size business organisations, cross-sectional and cross-cultural comparison with the prior research can be made. Moreover, it analyses multiple relationships in a simultaneous manner as structural equation modelling method is applied. This was not done before.

- Secondly, it analyses the above relationships using the context factors for developing competing hypotheses, and it investigates their moderating role between the main variables. Moreover, by applying mixed methodology, which is rarely used approach, behavioural guidelines to business leaders for the enhancement of organisational innovativeness is proposed.

The paper is structured in the following way: literature review forms the conceptual model of the study, followed by the methodology part. Results and conclusions are present further.

## LITERATURE REVIEW

Leader-member exchange theory observes leadership in light of relationship process between the leader and the follower (Fairhurst and Uhl-Bien, 2012). High quality LMX relationships are characterised by mutual respect, trust, loyalty and emotional comfort (Bauer and Green, 1996). Subordinates of such relationship constitute the “in-group” circle (Dansereau, et al., 2013). Partners of high-LMX relationship report enhanced levels of job satisfaction and effectiveness (Gerstner and Day, 1997).

In case of “out-group members”, the quality of exchange of information and emotional support is low; more control is used from the part of the leader and less initiative from the part of subordinate is observed (Graen and Uhl – Bien, 1995). Subordinates in low-LMX receive less job benefits, possibilities for career growth, less attention, and resources, potentially leading to dissatisfaction with the job (Gerstner and Day, 1997).

According to Mayer, et al., (1995), trust is something to do with “positive” or “confident” expectations about another party and a “willingness to accept vulnerability” under conditions of interdependence and risk. Organizational trust can also be understood as positive expectations individuals have about the intent and behaviours of organizational members, the feeling of confidence and support in an employer (Gilbert and Tang, 1998). This paper adopts McAllister (1995) view, distinguishing among cognitive and emotional trust, as it depicts the longitudinal view on trust formation and summarises the views of other theories in a concise manner, furthermore, McAllister has created and validated the instrument for measuring organisational trust. The cognitive component of organizational trust consists of evaluative analysis and a certain extent of experience and knowledge about the other party (Gulati and Sytch, 2008). Cognition-based trust works best in short-term affairs, meanwhile for long-term co-operation, emotional trust is required. Emotional trust often results from congruence of values of the parties involved (Lewicki and Bunker, 1996).

The importance of organisational innovativeness to competitiveness is evident (Ruppel and Harrington, 2000). The paper follows Wang and Ahmed’s (2004) conceptualisation of organizational innovativeness distinguishing among: product, process, market, behaviour, and strategic innovativeness. Product innovativeness refers to the newness for the market of an organisation’s products and services. Market innovativeness deals with new approaches of addressing the audiences. Process innovativeness involves the usage novel methods of production and technologies. Behaviour innovativeness means stimulation of creative potential of the employees. Finally, strategy innovativeness refers to the organization’s capability to achieve its goals, being fast and flexible in the market.

Few studies have paid attention on the impact of relational leadership on members’ innovativeness directly, with exceptions (Altunogua and Gurel, 2015; Zhang and Bartol, 2010). The present study addresses this relatively understudied issue. It is hypothesised that leaders who form high LMX are more likely to uphold innovativeness compared to low-LMX leaders.

For innovativeness to occur, followers first need to engage in innovation-related processes (e.g., problem identification, information search and encoding, and generation and evaluation of ideas and solutions) that will determine the quality of the final product (Zhang and Bartol, 2010). According to Isaksen and Akkermans (2011), high LMX indicates on loyalty in dyadic relationship, which then is spread around the organisation. The second



hypothesis therefore states that LMX has a statistically significant effect on organizational trust.

In addition, it is hypothesized that organisational trust may contribute to the link between the LMX and organisational innovativeness (following Den Hartog and De Hoogh, 2009). Prior works have emphasized particularly how leadership and trust within organizations are able to facilitate innovativeness (Somech and Drach-Zahavy, 2013). Huhtala, et al. (2013) study although with the focus on organisational culture has demonstrated that ethical values of managers do enhance the culture, which, in turn serves as a basis for innovativeness. Organisational trust therefore is considered as a mediator between LMX and innovativeness.

According to De Souza (2014), individual forms relationships under certain conditions. Taking into consideration the tendencies of Latvian society to segregate according to national principle (Kaprans and Kudors, 2018), the decision was made to learn whether the usage of the native language is an impacting factor of mutual trust, LMX and innovativeness. Today's workforce consists of individuals from different generations. Research indicates on generational differences in job attitudes (e.g. Twenge, et al. 2010). This study therefore controls on the factor of age, as well as other context factors like gender, education, status within organisations, and the tenure of experience within the same firm.

## METHODOLOGY

This study quantitatively tests the links between the variables: LMX, organisational innovativeness and trust. Hierarchical regression analysis and structural equation modelling technique using SPSS and smart PLS software took place. For a qualitative part, semi-structured in-depths interviews with the leaders of large-size companies were conducted clarifying the meaning of importance of relationship quality in innovativeness. The following hypotheses were developed:

**Hypothesis 1:** LMX has a statistically significant effect on organizational innovativeness.

**Hypothesis 2:** LMX has a statistically significant effect on organizational trust.

**Hypothesis 3:** Organizational trust mediates the relationship between LMX and organisational innovativeness.

**Hypothesis 4:** Context factors, such as language spoken between the parties, belonging to generation, gender, education, status, and tenure of experience within the same organisation, moderate the relationship between the LMX, organisational trust and organisational innovativeness.

Explorative part had two **research questions**:

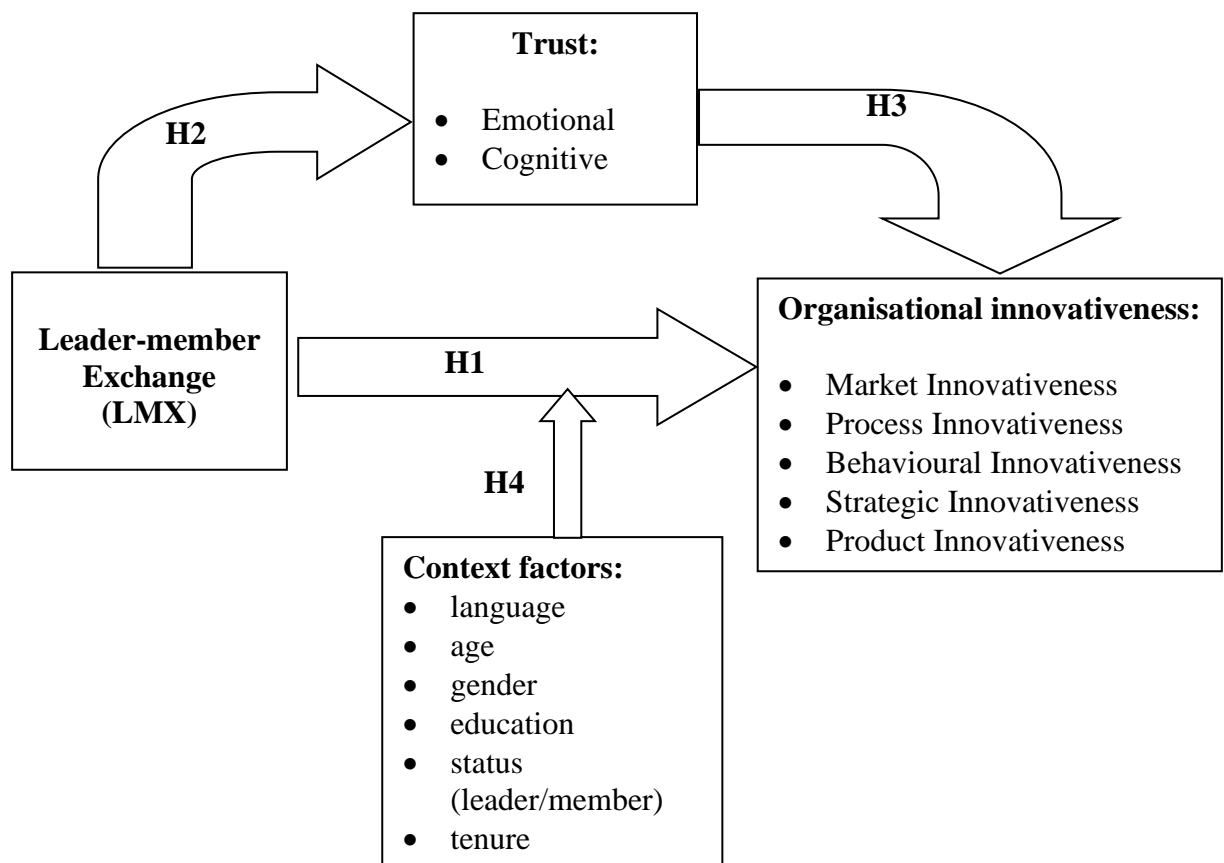
**RQ1:** How do the leaders of big-size organisations define the meaning of innovativeness and that of organisational trust?

**RQ2:** How do the leaders regard the importance of quality of their relationships with their direct subordinates in connection to organisational trust and innovativeness?

Big-size companies were chosen as, according to Eurostatistics (2016), such companies employ the biggest number of employees and they are important players in regional development, often they are “the leaders of opinion” shaping societal attitudes, drawing lines for the development, having impact on technological growth (Kooskora, 2008). According to Eurostatistics (2016), [large-size company](#) is a company, which employs more than 250 staff. Total amount of such companies in Latvia for the year 2017 was 235 (Lursoft, 2017).

Following Barlett, et al. (2001) the minimum sample size to be representative was calculated as 78. Conceptual model of the research is presented in Figure 1. The data was gathered using questionnaires (n = 405).

As qualitative part of the research tackles the depth rather than breath, a 6 - 8 cases sample can be sufficient (Yin, 2015). The interviews took place when some results revealed necessity for more explanation, thus sequential mixed methodology design was employed. A thematic analysis took place allowing comparison of the themes and construction of categories appearing from the text units. Maximal variation sampling strategy (Creswell and Tashakkori, 2007) was used in order to select participants for the qualitative analysis, which allows preserving multiple perspectives on the various type of innovativeness.



**Figure 1. Conceptual model of the research**

## RESULTS

As **quantitative results** relied on self-reported measures and information about dependent and independent variables came from the same respondent, the common method bias by Hartman one-factor test was used; that indicated on 36.6% of the variance suggesting that common-method bias was unlikely to affect the data. The internal reliability of all scales was checked by Cronbach's alpha coefficients and all scales (above 0.7), indicated on high internal consistency. Multicollinearity results showed the range between 1.05 and 2.7 and tolerance from 0.37 to 0.95 that is well above 0.2 meaning that multicollinearity is not a problem. Correlations analysis between the main variables revealed that all scales have high statistically significant correlations. (LMX-Innovativeness are correlated with .620, Trust–

Innovativeness with .521, and LMX – Trust with .554, all with significance level of  $p < 0.001$ ). The socio-demographic profile of the respondents is given in Table 1.

**Table 1. Socio-demographic profile of respondents (n=405)**

Variables	Indicators	Frequency	Percentage
Gender	male	224	55,31%
	female	181	44,69%
Language of communication between leader and member	is the native language for both	162	40%
	is the native language for one, but not for the other	177	43,71%
	is not a native language for neither	66	16,29%
Education	Secondary school or technical school	7	1,73%
	College graduate	57	14,07%
	Bachelor graduate	186	45,93%
	Master graduate	120	26,63%
	Doctoral degree	35	8,64%
Respondents age (generation)	Generation Z	81	20,00%
	Generation Y	176	43,46%
	Generation X	120	29,63%
	Baby Boomers	28	6,91%
Status in the organisation	Employee or specialist	331	81,73%
	Middle manager	57	14,07%
	Top manager	17	4,20%
Tenure	1 to 2 years	77	19,01%
	2 to 5 years	189	46,67%
	5 to 15 years	66	16,30%
	more than 15 years	73	18,02%
Industry sector	sector 1	38	9,38%
	sector 2	76	18,77%
	sector 3	46	11,36%
	sector 4	57	14,07%
	sector 5	67	16,54%
	sector 6	45	11,11%
	sector 7	76	18,77%

Table 2 summarises the results of the regressions. The industry dummies were inserted in Model 1. Dummy variables were created for the following contextual factors: language with ‘native language for both’ serving as a baseline; generation with “generation Z” as a baseline;

status with employee or specialist as a baseline and tenure with ‘1 to 2 years’ as a baseline. Adjusted R Square tells how “good” the model is at predicting or explaining the values of dependent variable (Stock and Watson, 2012).

**Table 2. Summary of the results of hierarchical regression**

Variable	Model1	Model 2	Model3	Model4	Model5	Model6	Model7	Model8	Model9
Industry Sect 2	0,47***	0,44***	0,24*	0,24*	0,27*	0,24*	0,23*	0,23*	0,18
Industry Sect 3	0,49***	0,34**	0,10	0,10	0,08	0,05	0,03	0,03	0,08
Industry Sect 4	0,33*	0,18	0,09	0,09	0,13	0,10	0,09	0,10	0,13
Industry Sect 5	0,05	-0,15	-0,21*	-0,21	-0,15	-0,16	-0,15	-0,15	-0,16
Industry Sect 6	0,60***	0,30*	0,12	0,12	0,15	0,16	0,14	0,12	0,11
Industry Sect 7	0,31*	0,18	0,15	0,15	0,19	0,18	0,18	0,18	0,19
LMX		0,56***	0,30***	0,30***	0,33***	0,34***	0,34***	0,35***	0,36***
Trust			0,41***	0,41***	0,38***	0,38***	0,38***	0,3***7	0,36***
Gender (male)				-0,01	0,00	0,01	0,01	0,01	-0,03
Geberation Y					-0,06	-0,06	-0,07	-0,07	-0,08
Geberation X					0,09	0,09	0,01	0,01	0,01
Geberation BB					0,26*	0,26*	0,16	0,16	0,18
Status (mid-manager)						-0,12	-0,14	-0,13	-0,19*
Status (top-manager)						-0,11	-0,15	-0,14	-0,24
Tenure (2 to 5 years)							-0,02	-0,02	0,00
Tenure (15 plus years)							0,23**	0,23**	0,25***
Language 2								0,06	0,05
Language 3								0,09	0,10
Education 3									-0,08
Education 4									0,30***
(Constant)	4,86	2,91	1,83	1,84	1,87	1,86	1,90	1,82	1,83
Adjusted R Square	0,06	0,33	0,46	0,46	0,47	0,47	0,48	0,48	0,53
R Square Change	0,08	0,27	0,13	0,00	0,01	0,00	0,01	0,00	0,05
F Change	5,43	162,94	93,33	0,02	3,46	1,42	5,28	0,78	20,84
Sig. F Change	0,00	0,00	0,00	0,89	0,02	0,24	0,01	0,46	0,00

\*p<0.05; \*\*p<0.01; \*\*\*p<0.001

Data shows that industry factor explains only 6% of organisational innovativeness (adjusted  $R^2 = 0.06$ ). When LMX is added (Model 2), the model explains 33% of organisational innovativeness, what is consistent with Hypothesis 1. Model 3 adds organisational trust as a predicting variable and it explains 46% of organisational innovativeness, the change is significant (sig. F = 0.00); this supports Hypotheses 2 and 3.

Adding the variables of contextual factors, the further hypotheses were tested. Model 4 shows that gender has no additional effect on innovativeness. Model 5 shows the effect of employee’s or manager’s age and is able to explain additional 1% of organisational innovativeness and this change is significant. Model 6 shows the effect of status and explains the same 47% of organisational innovativeness, thus status does not add any additional power. However, the tenure (Model 7) shows additional effect on organisational innovativeness. Moreover, respondents with tenure more than 15 years show significant effect on dependent

variable. Language of communication (Model 8) does not add any explanatory power to the model. However, the final model which adds education (Model 9) exhibits additional 5% explanatory power and it explains 53% of organisational innovativeness.

To sum up, Hypothesis 4 is supported partly. The Figure 2 below illustrates the results graphically:

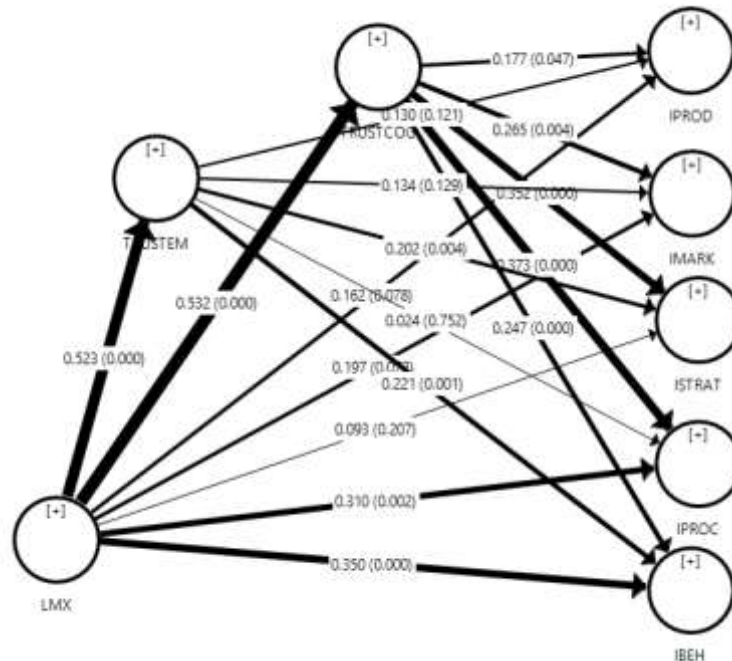


Figure 2. Full model with five dimensions of innovativeness and two dimensions of trust

Hypothesis 3 states that organisational trust has a mediating role between LMX and organisational innovativeness. In order to test the mediation Hair, et al. (2011) suggest to 1) look at total effect; and 2) exclude the mediator from the model and look at the significance of the effect. Both approaches showed the mediating role of trust. Figure 3 demonstrates graphically the model:

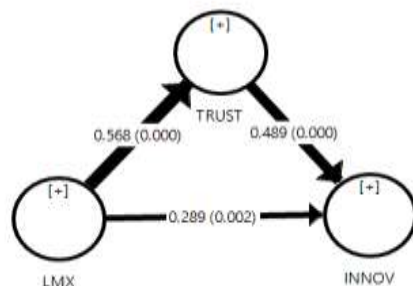


Figure 3. The full model of relationship of the concepts

To investigate the Hypothesis 4 in details the multigroup analyses were performed. Due to the limitations of volume, the tables and interpretations are not provided here, the results are provided in a conclusion part.

**Qualitative part of the research** resulted in the analysis of more than 420 minutes of transcripts and themes were structured in fifteen behavioural practices. They were further

structured in seven categories of behaviours, see table 3. The general conclusions of the interviews suggest that leaders realise the importance of innovativeness and they connect it to the organisational trust. As to LMX, it was not an easily identified concept, the answers revealed some confusion in understanding the matters of relationship quality and its importance for organisational outcomes and innovativeness in particular.

**Table 3. Categories as grouped in sub-categories**

<b>Category (Leader behaviour)</b>	<b>Sub-category (related research construct)</b>
<b>Monitoring innovativeness</b> (Recognition of innovative solutions in relation to organisational effectiveness)	<i>Encouraging innovative thinking by evaluating it</i>
	<i>Stimulating knowledge diffusion, respect for mutual competences</i>
<b>Intellectual stimulation</b> (empowering innovative choice and knowledge share)	<i>Intellectual training</i>
	<i>Stimulating personal choice and enhancing responsibility</i>
<b>Visioning</b> (innovativeness as organisational identity)	<i>Co-creating a vision, motivating to innovative solutions</i>
	<i>Dividing tasks into tangible blocks</i>
	<i>Creating an organisational culture</i>
<b>Communicating and giving feedback</b>	<i>Working on organisational identity</i>
	<i>Stimulating open and transparent communication</i>
	<i>Giving a concrete feedback to subordinates</i>
<b>Trusting</b>	<i>Stimulating open feedback to management</i>
	<i>Demonstrating trust in employee competence, delegating</i>
<b>Role – modelling</b>	<i>Role – modelling</i>
<b>Controlling</b>	<i>Allowing for mistakes but checking task assignments</i>
	<i>Control of behaviour and sanctions against inappropriate behaviour</i>

The intersection point of mixing the results of the quantitative and qualitative study is presented in relation to all three major variables of the research and is summarised in table 4.

**Table 4. Conclusions about hypotheses and research questions based on mixed-methods approach**

<b>Hypotheses and Research questions</b>	<b>Result from quantitative research (Survey – subordinate perspective; HLM and SEM analysis)</b>	<b>Result from qualitative research (interviews – leaders` perspective)</b>
<b>Hypothesis 1:</b> LMX has a statistically significant effect on organizational innovativeness	Supported: LMX explains 34 % of innovativeness.	There is no clear link between the quality of relationship and innovativeness.
<b>Hypothesis 2:</b> LMX has a statistically significant effect on organizational trust	Supported: LMX -> Trust path coefficient 0,52**	Partly Supported: LMX was associated with enhancing responsibility, delegating, and with such leaders` practices as enhancing organisational culture, minimising power distance, empowering employees. On the other hand, the practices of control were emphasised, indicating on the ambiguous nature of the concept of trust.

<p><b>Hypothesis 3:</b> Organizational trust mediates the relationship between LMX and organisational innovativeness</p>	<p>Supported: the model with trust explains 46% of organisational innovativeness (Trust accounts for 13% of OI); partly mediation VAF=49%</p>	<p>Supported: organisational trust has been clearly identified by the business leaders as an important factor contributing to innovativeness.</p>
<p><b>RQ1:</b> How do leaders of large size organisations define the meaning of innovativeness and that of organisational trust in their daily life?</p>	<p>Not addressed</p>	<p>Organisational innovativeness is considered as an important outcome; it is understood by means of support for innovation, encouraging of employees to attend various courses, seminars Organisational trust was associated with enhancing responsibility and delegating.</p>
<p><b>RQ2:</b> How do the leaders of large size organizations regard the importance of quality of their relationships with their direct subordinates in connection to organisational trust and innovativeness?</p>	<p>Not addressed</p>	<p>The term “quality of relationship” is not familiar to business leaders, but the dimensions of LMX, such as mutual trust, professional respect and loyalty were present in the discussions and considered to be important.</p>
<p><b>Hypothesis 4:</b> Contextual factors moderate the relationship between the LMX, organisational trust and organisational innovativeness</p>	<p>Supported: Generation, tenure, education: tenure and more educated employees perceive OI higher; Gender: for male employees’ emotional trust is not important; Language of communication: for diades whose language is not native for one, trust becomes essential component for innovativeness.</p>	<p>Not addressed</p>

## CONCLUSIONS

Organizational innovativeness of big-size organisations in Latvia is perceived by the employees as high. It can be assumed that employees’ responses reflect views of leaders who speak of importance of innovations in their annual meetings. Indeed, organisations in scope mostly hold international and local innovation and sustainability rewards. Industry sector, in



which organization operates, has low impact on organizational innovativeness (it accounts for only 6% of innovativeness).

LMX quality is essential for increasing organizational innovativeness and the strongest effect of LMX is revealed in the case of behaviour innovativeness, followed by its effect on process innovativeness, but the weakest effect was found on product innovativeness.

Trust within the organization is essential for establishing organisational innovativeness since it mediates the relationship between the LMX and innovativeness. More important is cognitive trust than emotional one since it shows significant impact on all components of innovativeness. Strategic and behavioral innovativeness cannot be increased without organizational trust; high LMX by itself does not have a sufficient predicting power.

Context factors (gender, language spoken between the parties, belongingness to generation, status, and experience within the same organisation) moderate the relationship between the LMX, organisational trust and organisational innovativeness, therefore context shapes the meaning of LMX and trust.

Gender groups do not reveal the difference between the perception of LMX, organisational trust and innovativeness. However, for male respondents the path between emotional trust is not significant, compared to females.

Status groups did not have significant effect on perception of organisational innovativeness, however, for the group of lower organisational status trust appears to be an essential factor. Moreover, cognitive trust has a stronger impact on innovativeness than emotional one. Middle managers are 'less sensitive' to trust factor, for them LMX itself significantly impacts innovativeness. However, in order to raise innovativeness, the respondents of the lower status must experience trust first.

The tenure within the same organisation has an impact on the evaluation of LMX. High-LMX is significantly more important for those who work for a longer period as well as those who have just started their careers.

As to the age, differences were found for generation "Z" and "Baby Boomers". For them trust is not as important for innovativeness as quality of LMX. However, for generations "X" and "Y" trust has a significant impact on innovativeness. Moreover, for generation "X" LMX does not have an impact on innovativeness, if trust is not established.

Language spoken between the leader and follower has an impact on innovativeness. Cognitive trust has an important statistical significance in all three groups (a - who reported the same native language, b - those where both partners speak a foreign languages in their dyads, and c - those, who reported that one of the parties in dyad speak a native language, and the other - not). Therefore, a presence of cognitive trust plays its role in innovativeness. However, for participants who reported having different native languages, the emotional trust plays bigger role in innovativeness compared to those who speak the same native language. LMX as a predictor of innovativeness is particularly important for the group of participants who reported using the same native language as their direct supervisors. It suggests that relationship between LMX and innovativeness is particularly strong for people who use the same language platform. This reflects today's socio-political situation of Latvia. If language diversity exists, trust becomes a crucial factor for ensuring innovativeness.

Mixing the data of quantitative and qualitative parts, fifteen leadership behaviours were distinguished, thus forming a behavioural guideline model for business leaders in adapting the LMX for the purposes of enhancing the organisational innovativeness.



The **implications of this research** is summarised as follows:

*Scientific novelty* - detailed analysis of LMX-organisational trust- innovativeness relationship is performed: specific impact on 5 dimensions of organisational innovativeness is detected; different effects of cognitive and emotional trust are revealed; phenomena are investigated from the contextual perspective; wholistic description of the phenomenon by applying a mixed methodology approach (combining followers' perspective with leaders' perspective) took place; relationships are investigated in large-size business organisation where innovativeness is a core of survival; LMX is observed in light of micro-foundation theory.

*Practical novelty* – model proposes 15 leadership behavioural guidelines for ensuring organisational innovativeness. It stresses that managers should be aware of the importance of their relationship quality with subordinates and involve bigger number of employees in building high LMX; In order to strengthen awareness of leadership relationship in business life, particular attention should be directed at developing and implementing skills that foster relationship quality. In the study programs and seminars for the business leaders teaching the essence of the quality of relationship and paying particular attention to such virtues as care, respect, and trust should take place. Research underlines the importance of use of native language, and the study can therefore serve the policy-makers to come up to further decisions as to local business developments.

*Limitations:* only large businesses were involved in this study limiting the generalizability of the findings. Another limitation is connected to dealing with social desirability bias as respondents could fear being controlled by means of surveys. Limitation tackles the methodology of the study: a cross-sectional research design takes a snapshot answers, not allowing for the conclusions of longitudinal changes.

The following directions are proposed for the *further studies*: Longitudinal research design could be used since it enables meaningful changes in LMX and organisational trust relations to be captured. The current research has prepared grounds to address further which exactly aspects of LMX are more important for organisational outcomes. Focus on sustainable innovations can be taken in the further studies.

## ***REFERENCES***

- Altunoglu, A.E., Gurel, E..B. (2015). Effects of Leader–Member Exchange and Perceived Organizational Support on Organizational Innovation: The Case of Technopark. *Social and Behavioral Sciences*, 207, 175 – 181.
- Bauer, T. N., Green, S. G. (1996). Development of leader-member exchange: A longitudinal test. *Academy of management journal*, 39(6), 1538-1567.
- Cogliser, C.C., Schriesheim, C., Scandura, T.A., and Gardner, W.L. (2009). Balance in Leader and Follower Perceptions of Leader–Member Exchange: Relationships with Performance and Work Attitudes. *The Leadership Quarterly*, 20(3), 452-465.
- Connelly, B. L., Miller, T. & Devers, C. E., 2012. Under A cloud of suspicion: Trust, distrust, and Interactive effect in interorganizational contracting. *Strategic Management Journal*, 33(7), 820-833.
- Creswell, J.W., Tashakkori, A. (2007). Developing Publishable Mixed Methods Manuscripts. *Journal of Mixed Methods Research*, 1(2), 107-111.
- Dansereau, F., Seitz, S. R., Chiu, C.-T., Shaughnessy, B., and Yammarino, F. J. (2013). What

- makes leadership, leadership? Using self-expansion theory to integrate traditional and contemporary approaches. *The Leadership Quarterly* 24, 798- 821.
- Den Hartog, D. N., De Hoogh, A. H. (2009). Empowering behaviour and leader fairness and integrity: Studying perceptions of ethical leader behaviour from a levels-of-analysis perspective. *European Journal of Work Organizational Psychology*, 18(2), 199-230.
- De Souza, D. E. (2014). Culture, context and society: The underexplored potential of critical realism as a philosophical framework for theory and practice. *Journal of Social psychology*, 17, 141-151.
- Dulebohn, J.H., Bommer, W.H., Liden, R.C., Brouer, R.L., and Ferris, G.R. (2012). A Meta-Analysis of Antecedents and Consequences of Leader-Member Exchange: Integrating the Past With an Eye Toward the Future, *Journal of Management*, 38, 1715-1759.
- European Commission Report (2012). Available: :  
[https://ec.europa.eu/economy\\_finance/publications/european\\_economy/2012](https://ec.europa.eu/economy_finance/publications/european_economy/2012)
- Eurostat Statistics Explained (2016). <https://ec.europa.eu/eurostat/data/database>
- Felin, T., Foss, N. J., Ployhart, R. E. (2015). The Microfoundations Movement in Strategy and Organization Theory. *The Academy of Management Annals*, 9(1), 575-632.
- Gerstner, C. R., Day, D. V. (1997). Meta-analytic review of leader– member exchange theory: Correlates and construct issues. *Journal of Applied Psychology*, 82, 827– 844.
- Graen, G.B., Uhl-Bien, M. (1995). Relationship-Based Approach to Leadership: Development of Leader-Member Exchange (LMX) Theory of Leadership over 25 Years: Applying a Multi-Level Multi-Domain Perspective. *Leadership Quarterly*, 6, 219-247.
- Kaptein, M. (2008). Developing and testing a measure for the ethical culture of organisations; the corporate ethics virtue model. *Journal of Organisational Behaviour*, 29(7), 923-47.
- Kooskora, M., 2008. *Understanding Corporate Moral Development in the Context of Rapid and Radical Changes. The Case of Estonia*. Academic dissertation defended in University of Jyväskylä.
- Lewicki, R. J., Tomlinson, E. C., and Gillespie, N., 2006. Models of interpersonal trust development: Theoretical approaches, empirical evidence, and future directions. *Journal of management*, 32(6), 991-1022.
- Liden, R. C., Maslyn, J. M. (1998). Multidimensionality of leader-member exchange: An empirical assessment through scale development. *Journal of management*, 24(1), 43-72.
- Lord, R. G., Maher, K. J. (1991). Cognitive theory in industrial and organizational psychology. *Handbook of industrial and organizational psychology*, 2, 1-62.
- Lursoft (2017) ., <https://www.lursoft.lv/lv/uznemumu-registrs>, accessed: march, 2019.
- Maslyn, J.M., Uhl-Bien, M. (2001). Leader–member exchange and its dimensions: Effects of self-effort and other's effort on relationship quality. *Journal of Applied Psychology*, 86(4), 697-708.
- McAllister, D.J., 1995. Affect- and Cognition-based Trust as Foundations for Interpersonal Cooperation in Organisations. *Academy of Management Journal*. 38(1), 24 – 59.
- Molina-Azorín, J. F. (2014). Microfoundations of strategic management: Toward micro-macro research in the resource-based theory. *Business Research Quarterly*, 17, 102-114.
- Nie, D., Lamsa, A. M. (2015). The leader–member exchange theory in the Chinese context and the ethical challenge of guanxi, *Journal of Business Ethics*, 128 (4), 851-861.
- Pueetaite, R., Novelskaite, R. (2014). The Mediating Effect of Organisational Trust in the

- Relationship Between Leader Member Exchange and Organisational Innovativeness. *Economics and Management*. 19 (2), 194 – 201.
- Ricard, L. M., Klijn, E. H., Lewis, J. M., and Ysa, T. (2017). Assessing public leadership styles for innovation: A comparison of Copenhagen, Rotterdam and Barcelona. *Public Management Review*, 19(2), 134-156.
- Riivari, E., Lamsa, A. M. (2014). Does it pay to be ethical? Examining the relationship between organisations' ethical culture and innovativeness. *Journal of Business Ethics*, 124 (1), 1-17.
- Sparrowe, R.T., Liden, R.C. (1997). Process and Structure in Leader-Member Exchange. *Academy of Management Review*. 22(2), 522-55.
- Uhl-Bien, M., Riggio, R.E., Lowe, K.B., Carsten, M.K. (2014). Followership theory: A review and research agenda. *The Leadership Quarterly*, 25(1), 83-104.
- Wang, C. L., Ahmed, P. K., 2004. The development and validation of the organizational innovativeness construct using confirmatory factor analysis. *European Journal of Innovation Management* 7,303–313.
- Yin, R.K. (2015). *Qualitative Research from Start to Finish*. New York: Guilford Press.
- Yu, A., Matta, F. K., Cornfield, B., 2018. Is Leader-member exchange differentiation beneficial or detrimental for group effectiveness? A meta-analytic investigation and theoretical integration. *Academy of Management Journal*, 61(3),1158-1188.

# FIRST AWARD

---

## **A LOT TO LOSE** **Organizational identity and emotions in institutional contexts**

**LANGENBUSCH CHRISTINA**  
**ERASMUS University Rotterdam, ERIM**

### **Abstract**

*The aim of this dissertation is to analytically draw emotions out of the closet and examine the complex, informal processes of organizational life that are often neglected in formal business and management studies. A systematic literature review and critical synthesis investigates how organizational identity relates to value creation and destruction, and provides an actionable locus model for management. A case study conducted in a forced displacement context sheds light on the sensemaking and coping activities of different stakeholder groups, uncovering hidden mechanisms at play in a hyper-complex multi-level stakeholder situation and offers recommendations for action.*

### **Introduction**

The purpose of the dissertation is to investigate the complex and informal processes in organizational life that often define an organization and a setting of collaborating organizations just as much as their basic operational premises. To examine these phenomena on various levels of analysis and through diverse perspectives the thesis contains two main studies. First, a systematic literature review (SLR) on organizational identity (OI) and its value creation and second, a case study investigating the hidden and hyper-complex mechanism at play in the context of the grand challenge forced displacement and its local manifestation in the European refugee response crisis on the Greek islands of Lesbos. The two studies highlight different perspectives on the macro, meso, and micro levels of identity and their implications in terms of value creation and destruction.

### **Organizational identity and value creation** **A systematic literature review and critical synthesis**

OI is a significant field in management and marketing studies and is often referred to as being central to the study of human and organizational behavior (Albert & Whetten, 1985). As a concept, OI has received and is still receiving significant attention from academics and practitioners (Corley et al., 2006; He & Balmer, 2007; Pratt et al., 2016). Most scholars depart from the seminal definition of Albert and Whetten (1985) who define OI as characteristics which are perceived and believed to be central, distinctive, and enduring, and oftentimes couple this definition with further aspects. Intensive theory building has been taking place in various research communities and disciplines (He & Balmer, 2007).

From a practitioner perspective organizations exist to create value, whether economic (in the private sector), societal (in the public sector) or idealistic value (in the non-governmental sector). Thus, OI must contain some sort of value proposition if it is going to be worth the effort. However, scholars have yet to agree on a coherent definition of the concept of OI and on how identity works to the advantage (or disadvantage) of organizations. The amount of literature on OI, as well as on value creation as a subject, is extensive. Nevertheless, the literature on value creation through OI specifically is very limited. While the activation of value creation through the development and fostering of OI is a matter that is gaining attention in practice, there is no dedicated academic study on the topic. Therefore, the aim of the systematic review is to scientifically inquire whether and how OI can activate value creation, and results in the following three research questions:

1. Does OI create value?
2. What are the different kinds of value that can be created through OI?
3. What are the cause-and-effect relations of OI regarding its surrounding conditions and value creation?

### **Review method & findings**

The study follows the research protocol developed by Briner, Denyer and Tranfield on conducting systematic reviews in business and management (Briner & Denyer, 2012; Denyer & Tranfield, 2009; Tranfield et al., 2003). A run of the OI search string resulted in 4,238 articles. After the application of the defined exclusion criteria 188 articles remained as the data set. OI is a metaphor that contains different understandings and is considered through different perspectives depending on the research tradition in which it is investigated (Cornelissen 2006). The SLR clusters and harness the myriad of OI definitions towards six different research traditions. The study tackles the controversy of the OI definition by introducing a locus categorization, which instead of providing another definition, identifies where OI manifests and thus makes the OI construct more tangible and manageable.

Locus can be the place, locality, or situation where OI is rooted. Accordingly, OI may reside in the narrative locus (orchestrated storytelling), the cognitive locus (perception of the organization's members), the group-membership locus (shared group cognition), the discourse locus (collective discourse), the behavior locus (behavior of organizational members), and the institutional locus (functioning of the organization as one entity). After introducing the locus categorization to manage the many definitions of OI, the study also uses this categorization to capture and cluster the value created by OI (Table 1).

Clustering the various types of value creation along the same categorization, does not necessarily mean that the manifestation of the OI and the value it facilitates reside in the same locus category. To illustrate this point: if OI is considered to have its locus in the perceptions and beliefs about an organization, the value it facilitates can manifest itself in the behavior of its members and the created value has thus a behavior locus.

Furthermore, the study reveals where underlying cause-and-effect mechanism are already known. It is here where the study discovers that the relation between OI and value creation is a double-edged sword, with many mechanisms surrounding the OI construct actually destroying value or acting as a block to further value creation (Dutton & Dukerich, 1991; Livengood & Reger, 2010). Leading to the surprising finding that when treated inadequately OI can destroy value, or even the entire organization (Fiol et al., 2009).

For OI to be able to activate value creation it needs to be strong (central, distinctive, and enduring) (Melewar & Karaosmanoglu, 2006; Simoes et al., 2005), yet on the other hand, a strong identity is the biggest hindrance to often much needed change (Brown, 2001).



Moreover, there is consensus that multiple identities exist in organizations (He, 2012; Pratt & Foreman, 2000). To be able to manage and regulate them as part of the organization's steering and strategizing processes, it is important to understand the interaction of sub-identities and at the same time being aware of the various levels of analysis of OI: organizational (macro), group (meso), and individual (micro) levels. A possible solution for this dilemma could be the use of a meta-identity, which has a unifying effect (Voss et al., 2006) and still leaves space for organizational members to adapt and evolve.

Table 1 Locus-schematic view of OI and its value creation

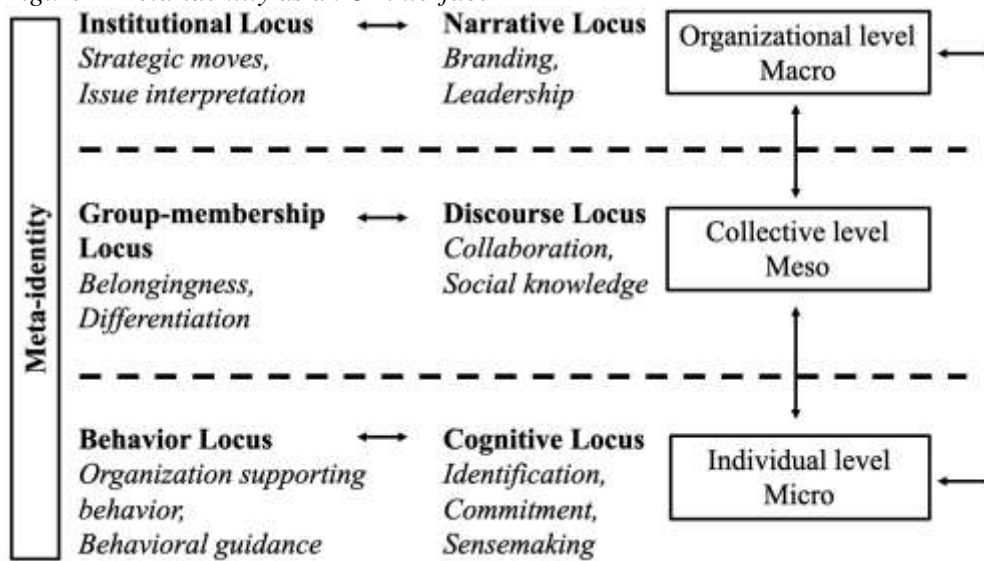
Research tradition	Locus	Level of analysis	Conception of value creation	Types of value creation
Organizational communication	Narrative	Organization (macro)	Content and result of organizational narrative	Branding, Visual identity, Access to financial resources, Effective leadership
Cognitive framing	Cognitive	Individual (micro)	Perceptions, emotions & attitudes of organizational stakeholders	Identification of organizational members, Reduction of ambiguity, Commitment & loyalty, Sensemaking & issue-interpretation, Belief, Motivation, Awareness & learning
Social identity	Group-membership	Collective (meso)	In-group collective cognition and behavior	Belongingness, Customer identification, Tool for differentiation
Discursive psychology	Discourse	Collective (meso)	Content and result of collective conversation	Effective collaboration, Social knowledge
Organizational behavior	Behavior	Individual (micro)	Behavior of organizational members	Organization supporting behavior, Guide for action, Guide for <i>how</i> things are done <i>here</i>
Institutional theory	Institutional	Organization (macro)	Functioning of organization as an entity	Issue interpretation & decision making, Providing & guiding strategic moves, Managing change, Instrument of power & control, Financial success, Defining organizational form & culture, Solution for identity conflicts, Products and material facts, Social value

Following an evidence-based management approach, to make sound decisions in a complex environment, all loci of OI have to be brought together (Rousseau, 2012). Therefore, the study proposes the idea of an OI interface (Figure 1) where the different perspectives of OI are mapped and where OI is jointly defined and managed by all stakeholders.

This interface is not be considered as an object but rather as an ever-present evolving construct. The main imperative of this interface is to create awareness of the various loci

housing OI, e.g. making it conscious in stakeholders' mind so that they can act in full awareness of it when jointly defining, managing, and using it.

Figure 1 Meta-identity as an OI interface



### Contribution of the SLR & conclusion

The main contribution of the systematic review on OI and its value creation is the multi-level, multi-theory framework that categorizes OI based on the locus where it manifests, thus whether OI primarily resides in a narrative, cognitions, group-membership, discourse, behavior, or institutional locus (Table 1). The review synthesizes the various understandings and findings of OI from different research traditions regarding value creation with the underlying cause-and-effect mechanisms and reveals that many mechanisms surrounding the OI construct actually destroy value or act as a block to further value creation. The most frequent causal relation found is that OI needs to be strong to create value (Melewar & Karaosmanoglu, 2006; Simoes et al., 2005). However, when an OI is very pronounced it usually also acts as a hindrance to change (Brown, 2001). This interplay of having a binding function in the form of an OI and at the same time having enough room to interact and collaborate with other organizations that may have a very different identity and value set is not only highly relevant in many corporate realities such as mergers and acquisitions, but also crucial for other organizational forms such as the ones in the following case study.

### Emotions in institutional contexts

#### A case study of the European refugee response crisis

Management studies have examined grand challenges (Eisenhardt et al., 2016; George et al., 2016) such as climate change (Wright & Nyberg, 2017), poverty alleviation (Banerjee et al., 2011), conflicts and wars (De Rond & Lok, 2016), and forced displacement (Kornberger et al., 2018) with the rationale that extreme contexts provide a burning glass for otherwise difficult to obtain management phenomena and reveal “human and organizational behaviors and [...] processes otherwise impeded by bureaucracy, power plays, and politicking” (Hällgren et al., 2018: p. 112).

However, an under-researched issue in the study of grand societal challenges is how their local manifestations can trigger deeply felt emotions in individuals on the ground and how



such emotions impact an individual's sensemaking and subsequent actions. Drawing on an in-depth field study of governmental, private and non-governmental responses to asylum seekers arriving on the Greek island of Lesbos, the case study draws out the various challenges that stakeholders encounter, the ambivalent emotions that such circumstances provoke, and the sensemaking processes and coping strategies they use to understand the situation and make it bearable. Informed by these findings, the case study proposes a more general process model that details the sensemaking trajectories that various role identities in the setting (professionals, volunteers, and citizen) go through over time as they cope with the suffering and the overwhelming and systemic nature of the grand challenge they are dealing with on the ground.

### **Theoretical background**

Grand societal challenges are typically characterized by significant imbalances of power (Berrone et al., 2016) and cannot be solved by a single actor or nation, requiring long-term multi-actor engagement (Eisenhardt et al., 2016; Ferraro et al., 2015). Few studies have investigated the micro-level challenges faced by individual stakeholders with differing identities (Hällgren et al., 2018). From a micro-level perspective, individuals working on grand challenges are often intensely emotionally involved. Such heightened emotions may derive from the dramatic nature of the situation and the human suffering involved (De Rond & Lok, 2016), or from the strong involvement of the individual in the role they play and the contribution they make (Schabram & Maitlis, 2017).

Individuals who are confronted with grand challenges at a local level experience breaking points in their sensemaking through surprise and emotions of disruption and discomfort, which trigger individual sensemaking processes (Holt & Cornelissen, 2014; Maitlis & Christianson, 2014). They are faced with the micro-level challenge of making sense in their own way of the situation they face (De Rond & Lok, 2016; Hällgren et al., 2018).

Emotions are considered a crucial part of the sensemaking process about grand challenges at the individual and collective levels (Creed et al., 2014; De Rond & Lok, 2016) that ultimately affect behavior (Maitlis & Christianson, 2014). However, there is little research that draws together the macro level of grand societal challenges with the micro perspective on individuals' sensemaking and coping behaviors in extreme and, for individuals, seemingly paradoxical contexts.

### **Research setting: The European refugee response crisis on Lesbos**

The Greek island of Lesbos was confronted with over 500,000 refugees in 2015, marking the onset of the so-called "European refugee crisis." During the first months of the crisis, a complex amalgamation of local, national, European and global organizations arrived on the island and started to organize relief efforts for refugees in an ad hoc manner. A year later, the EU-Turkey agreement acted as a game changer by blocking this migration route via Lesbos into Europe. As a result, the number of boats arriving with refugees dropped significantly from the first day that the agreement came into effect. However, prevailing policy frameworks, prevent the through-flow of asylum seekers from the Greek islands to the mainland or the rest of Europe. Various voices have been expressing their despair about the situation and reporting about the emotional trauma this entails not only for refugees and the local population but also for people who come to work as part of the refugee response.

Refugee numbers continue to exceed the available housing and processing capacity, and the majority of refugees do not have appropriate accommodation and sanitation, leading to inadequate provision of psychosocial support, education and other critical support services. “In the Moria hotspot on the Greek island of Lesbos this limbo often takes the form of protracted encampment in hyper-precarious conditions” (Pascucci & Patchett, 2018: p. 326), exacerbating the trauma of many refugees, especially children (Médecins Sans Frontières, 2018). This has caused distress in aid workers as a typical reaction to them experiencing their work as pointless (De Rond & Lok, 2016) and the deteriorating mental health of large numbers of camp inhabitants (Smith 2017). A crisis situation with so many resources in form of work power and funding available could be expected to be intrinsically dynamic. However, the setting turned out to be in fact static and continued to be a challenging humanitarian setting, requiring complex responses from international and national governmental organizations (GOs), the local municipality, non-governmental organizations (NGOs) and citizens on the ground.

The stakeholder-complexity of the setting involves local residents of Lesbos, arriving refugees, the Lesbos municipality, transnational security organizations (TSO) (e.g. Frontex, European Asylum Support Office, Europol), the Greek state (e.g. Greek Asylum Service, Center for Diseases Control and Prevention), international organizations (UNHCR and the International Organization for Migration), NGOs (ranging from prominent international NGOs to local and grassroots NGOs), as well as independent volunteers, activists, anarchists, researchers and the media, who all have their own motivations, organizational identities and diverse ways of approaching this crisis. The context is further characterized by extensive bureaucratic and legal constraints on people’s ability to make a substantial difference. For people who come to work in the refugee context on Lesbos, the many ambiguities and paradoxes are hard to understand, creating fertile ground for intense and often ambivalent emotions.

The study thus explores the following research question: How do people make sense of a grand societal challenge on the ground, what emotions do they form and how do they cope?

### **Case study method**

The qualitative fieldwork followed a case study methodology (Yin 2013) and took place on Lesbos and its refugee sites, as well as the tourist hotspot of Molyvos, whose economy has been significantly affected. Data collection consists of 63 in-depth interviews with all stakeholder groups including TSOs, GOs, NGOs, anarchistic activist groups, independent volunteers, refugees, as well as the local population. Furthermore, data collection entailed participative and non-participative observations at the Moria hotspot and refugee camp, the Kara Tepe hospitality center and one semi-formal refugee camp, as well as in various community centers and NGOs. Eight inter-organizational meetings which had been organized to share information were attended, as well as inter-organizational meetings which facilitated collaboration and information exchange between organizations for specific services such as basic needs, education or legal support were attended. Informal talks provided complementary insights. A qualitative and abductive approach (Alvesson & Kärreman, 2007; Locke et al., 2008; Mantere & Ketokivi, 2013) was applied for the data analysis process.

#### *Comparison across groups*

Early insights from the data collection suggested variations in the emotional responses to challenges across different stakeholder groups and in how they coped with the distressing

environment. This facilitated the differentiation into three role identity groups: citizens, volunteers and professionals (Table 2).

*Table 2 Number of interviews per role identity*

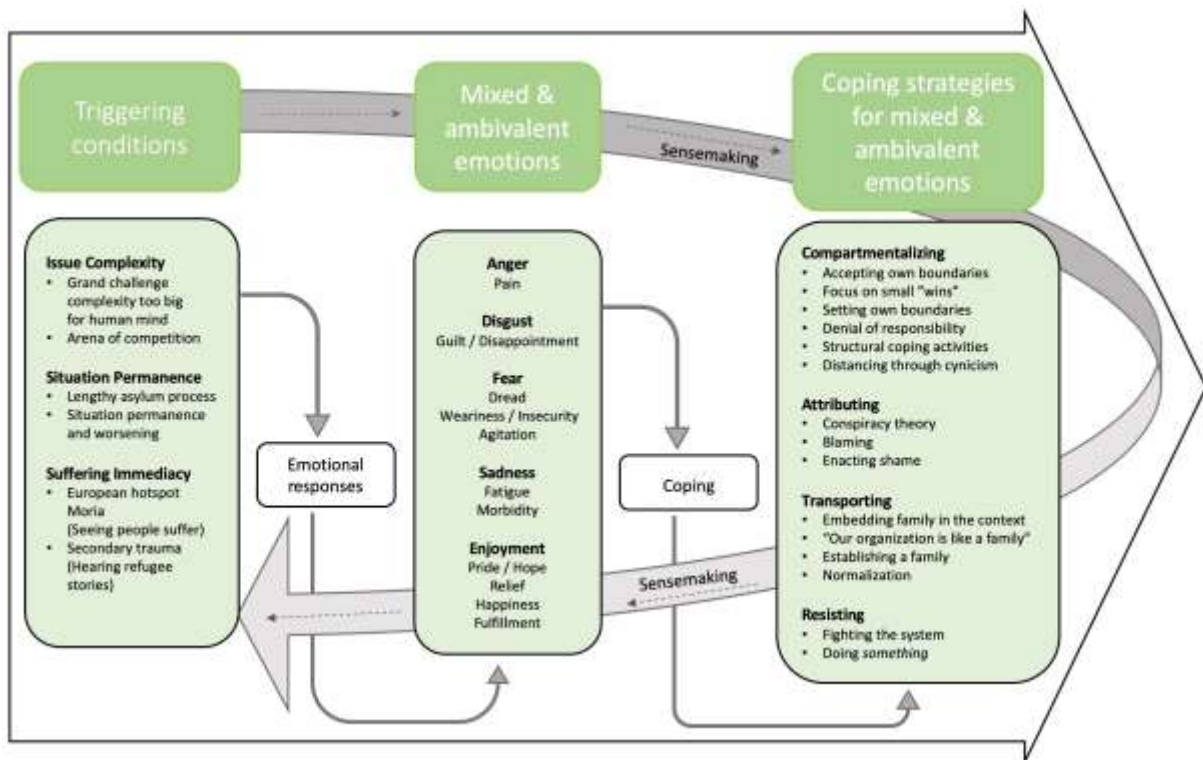
Number of interviews	Role identity	Approach due to role identity
19	Citizens	It’s my home
22	Volunteers	It’s my cause
22	Professionals	It’s my job

Citizens (“It’s my home”-approach) are the only stakeholders who did not deliberately choose to be embedded in the context. The group of volunteers (“It’s my cause”-approach) is a very heterogenous group and includes short-term, long-term and independent volunteers. Volunteers often start by squeezing in a two-week holiday with “meaning” and come back later for a longer period. The role identity group of professionals is mainly composed of TSOs, GOs and long-standing aid workers (“It’s my job”-approach) who are used to walking in and out of humanitarian crises as they work from mission to mission.

**Findings**

The study revealed three main triggering conditions for strongly felt emotions: the highly complex nature of the grand societal challenge of forced displacement, the permanence of an emergency situation regarding the living conditions for refugees, and the suffering immediacy experienced when working in such an emergency context (Figure 2). These conditions triggered mixed and ambivalent emotions in all stakeholder groups.

**Figure 2 Overall process model coping with mixed and ambivalent emotions**



What makes mixed, particularly ambivalent, emotions so relevant, is the role they play in guiding action. Especially breaking points that triggered people’s sensemaking in the setting of Lesbos (complexity of the issue, permanence of the situation, immediacy of the suffering) seemed to question humanity in general and European values specifically. Interviewees often described the setting as highly ambivalent e.g., being in Europe, having EU-funding available and at the same time witnessing the suffering of vulnerable people. Interviewees often became highly emotionally charged, with emotions that were extreme in valence, closely linked, mixed and often contradictory.

Mixed and ambivalent emotions led to various coping mechanism which could be grouped into rather passive coping strategies like “compartmentalizing” and “attributing” up to rather active coping mechanisms that challenged the actual psychological stressors like “resisting”, in which the most targeted form was a behavior coded as “fighting the system”. Interestingly, this coping mechanism was found in anarchistic groups and among professionals, including TSO employees and local governmental actors alike, as well as throughout NGO volunteers. Having identified the triggering conditions for mixed and ambivalent emotions and coping mechanisms, the study found that the sensemaking process was not linear, but rather a cyclical process model in which various coping mechanism produced realities that had to be made sense of and coped with once more. The final result of the analysis was a description of prototypical pathways (Table 3) along the three role identities: citizens, volunteers and professionals.

*Table 3 Six coping pathways*

Role identity	Sensemaking Passive Coping	Sensemaking Active Coping
Citizens	<b>Attributing path</b> Blaming others	<b>Identity path</b> Exercising Greek hospitality and humanism
Volunteers	<b>Reframing path</b> Shifting focus	<b>Independence path</b> Emancipation from organizations
Professionals	<b>Sandbox path</b> Focusing on agency	<b>System solution path</b> Adjusting career

*Example 1 Active coping of citizens – Excerpt from the identity path*

Crucial pillars of the existence of citizens were directly affected: income streams, property, values, identity. Many citizens expressed desperation and felt abandoned by their government and by the EU, not only in relation to the emergency response in 2015, but also economically in the years that followed when tourism moved away, and businesses collapsed. At the same time, many citizens perceived it as a disgrace that refugees were forced to live under dire conditions on their island, as this was utterly opposed to what they considered to be a part of their proud Greek identity – their renowned hospitality. Some citizens then also coped with the situation rather actively by embarking on a coping journey, which the study refers to as an "identity path." Their actions stemmed from the pride of being descendants of humanist philosophers and Greek culture with its famous hospitality, while being aware that their ancestors were themselves refugees from the Ottoman Empire. These identity-related emotions of pride were mixed with emotions of anger about the lack of an EU response in 2015. When a response occurred that was not in line with their values, they coped actively by resisting and exercising their values of Greek hospitality and humanism by e.g. building their own "ideal" refugee camp.

*Example 2 Passive coping of professionals – Excerpt from the sandbox path*

Professionals had seen settings similar to those on Lesbos many times in other parts of the world. On this path, professionals were simultaneously trying to cope with the immediacy of the suffering when directly dealing with individual refugees, the complexity of the issue and the permanence of the situation. "The sandbox path" of coping radiates around focusing on agency in closely defined boundaries. The study found that a common coping mechanism among the group of professionals involved was drawing boundaries of one's own responsibility. This helped the individual establish distance between themselves and the triggering conditions. As professionals, they approached things with an "It's my job" attitude and therefore often coped by compartmentalizing and structural coping through regular feedback sessions and fixed scheduled physical workout sessions. The focus remained exclusively on narrowly defined tasks and small "wins", creating clearly defined agency sandboxes for individuals and organizations.



## Contribution of the case study & conclusion

The main contributions of the case study are threefold. First, the study offers an account of grand challenges on a human scale, detailing how people make sense of a complex tragedy. Second, the chapter identifies “role identities” and builds theory on how identity influence the way that individuals make sense of their situation, resulting in six coping paths. This insight enables stakeholder organizations to prepare their staff for the individual coping journeys that they are likely to embark on. With this support, organizations can enable their staff to create greater value, both in the context and for themselves. Third, the study furthermore revealed the influence of “ambivalent emotions” which, once constructed by individuals as part of their sensemaking, helps them cope in a way that is simultaneously involved and dispassionate.

As management and organization studies tend to be conducted more often in extreme contexts, the probability that researchers will experience strong emotions themselves increases (De Rond & Lok, 2016; Hällgren et al., 2018). Therefore, the case study also serves as a background for methodological considerations that lead to a guideline for theory development.

The author draws on her own experiences while conducting the case study in the aftermath of the so-called European refugee crisis. The methodological reflections elaborate on how emotions of the researcher led to the methodological development of the metaphor of a “settled emergency” to describe the multifaceted but static situation in this grand challenge context.

This “settled emergency” metaphor describes how the context seems to revolve mainly around a paradoxical inertness of the situation. As stakeholders were trying to end an emergency, the situation should have been intrinsically dynamic, but it was in fact static. The metaphor of a “settled emergency” is made of six components: 1. a circle of blame in a competitive arena; 2. profiteering of stakeholders from the status quo; 3. fear of punishment when tackling the fundamentals; 4. no capacity building taking place (in the case of Lesbos); 5. high staff turnover; and 6. boredom.

As metaphors also play a crucial role in the theory building process itself, the second part of the methodological reflection elaborates on the abductive leaps in the theory development and how through thought trails and feel trails different metaphors were dismissed in the process and a decision about which of the metaphors was most meaningful could be made. This led to the conclusion that part of the aptness of a metaphor is its ability to transport intuitive emotional understanding of the depicted phenomena. The proposed “settled emergency” metaphor serves as an apt description for a hyper-complex context and provides important vocabulary for a situation that also exists in other organizational and managerial contexts where an unbearable situation is perpetuated by informal dynamics and a great deal more than “a lot” can be lost.

## References

- Albert, S., & Whetten, D. A. (1985). Organizational identity. *Research in Organizational Behavior*, 7, 263-295.
- Alvesson, M., & Kärreman, D. (2007). Constructing mystery: Empirical matters in theory development. *Academy of Management Review*, 32(4), 1265-1281.
- Banerjee, A. V., Banerjee, A., & Duflo, E. (2011). *Poor economics: A radical rethinking of the way to fight global poverty*. New York, NY: Public Affairs.
- Berrone, P., Gelabert, L., Massa-Saluzzo, F., & Rousseau, H. E. (2016). Understanding community dynamics in the study of grand challenges: How nonprofits, institutional

- actors, and the community fabric interact to influence income inequality. *Academy of Management Journal*, 59, 1940-1964.
- Briner, R. B., & Denyer, D. (2012). Systematic review and evidence synthesis as a practice and scholarship tool. *Handbook of evidence-based management: Companies, classrooms and research*, 112-129.
- Brown, A. D. (2001). Organization studies and identity: Towards a research agenda. *Human Relations*, 54(1), 113-121.
- Corley, K., Harquail, C., Pratt, M., Glynn, M., Fiol, C. M., & Hatch, M. (2006). Guiding organizational identity through aged adolescence. *Journal of Management Inquiry*, 15(2), 85-99.
- Creed, W. D., Hudson B. A., Okhuysen G., & Smith-Crowe K. (2014). Swimming in a sea of shame: Emotion in institutional maintenance and disruption. *Academy of Management Review*, 39(3), 275-301.
- Cornelissen, J. P. (2006). Metaphor and the dynamics of knowledge in organization theory: A case study of the organizational identity metaphor. *Journal of Management Studies*, 43(4), 683-709.
- De Rond, M., & Lok, J. (2016). Some things can never be unseen: The role of context in psychological injury at war. *Academy of Management Journal*, 59(6), 1965-1993.
- Denyer, D., & Tranfield, D. (2009). Producing a systematic review. In Buchanan, D. A. & Bryman A. (Eds.), *The Sage Handbook of Organizational Research Methods*. Thousand Oaks, CA: Sage Publications Ltd., 671-689.
- Dutton, J. E., & Dukerich, J. M. (1991). Keeping an eye on the mirror: Image and identity in organizational adaptation. *Academy of Management Journal*, 34(3), 517-554.
- Eisenhardt, K. M., Graebner, M. E., & Sonenshein, S. (2016). Grand challenges and inductive methods: Rigor without rigor mortis. From the Editors. *Academy of Management Journal*, 59(4), 1113-1123.
- Ferraro, F., Etzion, D., & Gehman, J. (2015). Tackling grand challenges pragmatically: Robust action revisited. *Organization Studies* 36(3), 363-390.
- George, G., Howard-Grenville, J., Joshi, A., & Tihanyi, L. (2016). Understanding and tackling societal grand challenges through management research. *Academy of Management Journal*, 59(6), 1880.
- Fiol, C. M., Pratt, M. G., & O'Connor, E.J. (2009). Managing intractable identity conflicts. *Academy of Management Review*, 34(1), 32-55.
- Hällgren, M., Rouleau, L., & De Rond, M. (2018). A matter of life or death: How extreme context research matters for management and organization studies. *Academy of Management Annals*, 12(1), 111-153.
- He, H. (2012). Corporate identity anchors: A managerial cognition perspective. *European Journal of Marketing*, 46(5), 609-625.
- He, H., & Balmer, J. M. T. (2007). Identity studies: Multiple perspectives and implications for corporate-level marketing. *European Journal of Marketing*, 41(7-8), 765-785.
- Holt, R., & Cornelissen, J. P. (2014). Sensemaking revisited. *Management Learning*, 45(5), 525-539.
- Kornberger, M., Leixnering, S., Meyer, R. E., & Höllerer, M. A. (2018). Rethinking the sharing economy: The nature and organization of sharing in the 2015 refugee crisis. *Academy of Management Discoveries*, 4(3), 314-335.
- Livengood, R. S., & Reger, R. K. (2010). That's our turf! Identity domains and competitive dynamics. *Academy of Management Review*, 35(1), 48-66.
- Locke, K., Golden-Biddle, K., & Feldman, M. S. (2008). Perspective – Making doubt generative: Rethinking the role of doubt in the research process. *Organization Science*, 19(6), 907-918.

- Maitlis, S., & Christianson, M. (2014). Sensemaking in organizations: Taking stock and moving forward. *The Academy of Management Annals*, 8(1), 57-125
- Mantere, S., & Ketokivi, M. (2013). Reasoning in organization science. *Academy of Management Review*, 38(1), 70-89.
- Médecins Sans Frontières (2017, October). Report. *Confronting the mental health emergency on Samos and Lesbos. Why the containment of asylum seekers on the Greek islands must end*. Retrieved from: <https://www.aerzte-ohne-grenzen.de/document/greece-confronting-mental-health-emergency-samos-and-lesvos>.
- Melewar, T. C., & Karaosmanoglu, E. (2006). Seven dimensions of corporate identity: A categorisation from the practitioners' perspectives. *European Journal of Marketing*, 40(7-8), 846-869.
- Pascucci, E., & Patchett, E. (2018). Hotspots: Questioning the future of Europe through its borders. *Journal of Contemporary European Research*, 14(4), 324-329.
- Pratt, M. G., & Foreman, P. O. (2000). Conclusion: Identity dialogues. *Academy of Management Review*, 25(1), 141-152.
- Pratt, M. G., Schultz, M., Ashforth, B. E., & Ravasi, D. (2016). Organizational identity: Mapping where we have been, where we are, and where we might go. In *Oxford Handbook of Organizational Identity* (pp. 1-19). Oxford: Oxford University Press.
- Rousseau, D. M. (2012). *The Oxford Handbook of Evidence-based Management*. Oxford: Oxford University Press.
- Schabram, K., & Maitlis, S. (2017). Negotiating the challenges of a calling: Emotion and enacted sensemaking in animal shelter work. *Academy of Management Journal*, 60(2), 584-609.
- Simoes, C., Dibb, S., & Fisk, R. P. (2005). Managing corporate identity: An internal perspective. *Journal of the Academy of Marketing Science*, 33(2), 153-168
- Smith, H. (2017, December 22). The Guardian. "Welcome to prison": winter hits in one of Greece's worst refugee camps. Retrieved from: <https://www.theguardian.com/world/2017/dec/22/this-isnt-europe-life-greece-worst-refugee-camps>.
- Tranfield, D., Denyer, D., & Smart, P. (2003). Towards a methodology for developing evidence-informed management knowledge by means of systematic review. *British Journal of Management*, 14(3), 207-222.
- Wright, C., & Nyberg, D. (2017). An inconvenient truth: How organizations translate climate change into business as usual. *Academy of Management Journal*, 60, 1633-1661.
- Voss, Z. G., Cable, D. M., & Voss, G. B. (2006). Organizational identity and firm performance: What happens when leaders disagree about "who we are?". *Organization Science*, 17(6), 741-755.
- Yin, R. K. (2013). *Case study research: Design and methods*. Thousand Oaks, CA: Sage publications.



# SECOND AWARD

---

## A New Method for the Measurement of Acceptable Health

Zrubka Zsombor  
Corvinus University of Budapest

### *Abstract*

In health economic evaluations quality-adjusted life years (qalys) measure health gains. Qalys are usually calculated from utilities using the eq-5d instrument. One qaly measures the same health gain in any condition, while people prioritize severe and younger patients when allocating scarce resources.

This thesis describes the development of a novel health outcome measure, acceptability: the proportion of people, who consider given health states acceptable in given ages, which quantifies health preferences concerning severity and age. An adaptive survey algorithm was developed, acceptability for eq-5d health states was estimated between 30-80 years and its measurement properties and determinants were explored.

## BACKGROUND

Sustainable financing of healthcare is one of the key challenges of developed economies. Decision-makers may need to introduce new decision-methods in order to maintain equitable and legitimized allocation of resources despite the growing fiscal pressure. While in the past decades the quality adjusted life year (QALY) has been adopted by an increasing number of countries for the measurement of health gains, it has been widely criticised in the same time. Amending the QALY concept and new ways of measuring health outcomes became recently intense areas of research in the field of health economics.

The research of acceptable health (AH) started in the Netherlands as well as at the Corvinus University of Budapest, approximately 10 years ago. AH, applied together with sufficientarian theory – a novel theory of justice in the field of health economics – aims to provide a transparent picture for decision-makers about the society's age and disease severity related preferences.

Wouters et al. have explored a potential normative model of applying AH in decision-making about health resource allocation. (Wouters et al., 2017) According to their conclusions, the deterioration of health with age is a natural process, that affects everyone, therefore applying AH can be a suitable point-of reference in health financing decision making. It is acceptable morally if we do not make efforts to achieve perfect health, but we aim to maximise the number of patients achieving AH. Applying the AH principle is acceptable, if there is considerable difference between the utility of acceptable and not acceptable states. However, we do not yet have practically feasible measures of the acceptability threshold, as we don't know

the utility differences between acceptable and not acceptable HSs. This thesis aims to find answers to these questions.

## Goals

1. Goal 1.: developing new measurement methods for AH, which are more accurate than previous techniques.

1.1. *Joint evaluation ( JE ) of the acceptability of discrete health states:* instead of asking the acceptability of HSs by dimension (separate evaluation), we evaluate the acceptability of joint HSs displayed as vignettes containing different levels of the five EQ-5D dimensions, using an adaptive algorithm that selects questions based on the previous answers of respondents. In JE we aim to obtain a yes/no answers for all elements of the acceptability matrix (E-matrix). The E-matrix consists the acceptability information of 243 HSs (constructed from the three levels on the five dimensions of the EQ-5D) across six ages from 30 to 80 years in 10-year intervals.

1.1.1. *Hypothesis 1 (H<sub>1</sub>): Using the adaptive algorithm, all elements of the E-matrix can be unequivocally determined for 90% of respondents.*

1.1.2. *Hypothesis 2 (H<sub>2</sub>): With JE , people consider less problems acceptable compared to separate evaluation.*

1.2. Overall assessment of AH using the EQ VAS: the EQ VAS measures AH on a continuous scale on which 0 indicates the worst and 100 indicates the best imaginable health state.

1.2.1. *Hypothesis 3 (H<sub>3</sub>): When measured with the EQ VAS, people consider worst HSs acceptable at older ages than at younger ages.*

2. Goal 2.: Exploring the association of AH and happiness.

2.1. Measuring the association of the acceptability of individuals' HSs and their happiness.

2.1.1. *Hypothesis 4 (H<sub>4</sub>): In acceptable states the level of health influences peoples' happiness to a lesser extent than in not acceptable HSs.*

2.2. Exploring the factors that affect the acceptability of individuals' health states

2.2.1. *Hypothesis 5 (H<sub>5</sub>): Older individuals are more likely to consider their health acceptable than younger ones*

2.2.2. *Hypothesis 6 (H<sub>6</sub>): Individuals with worse subjective health consider their condition less acceptable than ones indicating better subjective health.*

## METHODS

### EQ-5D-3L

We used the modified EQ-5D-3L questionnaire for the assessment of AH. EQ-5D is the most frequently applied generic quality of life measure in health economic analyses. (Brazier et al.,

2019) The EQ-5D-3L version of the instrument measures 3 problem levels (1: no problem, 2: moderate problems, 3: extreme problems) in five health dimensions (mobility, self-care, usual activities, pain/discomfort, anxiety/depression), so it describes 243 ( $3^5$ ) discrete health states. Each health state is denoted by a five-digit number called EQ-5D-3L profile, which indicates the problem levels in the five dimensions. For example, the EQ-5D-3L profile “21121” denotes a health state characterised by moderate problems in the mobility and pain / discomfort dimensions. (EuroQoL Group, 1990) We may render utility values (EQ-5D-3L index) reflecting the general population’s preferences to each EQ-5D-3L profile (value set). Perfect health is indicated by 1, death by 0 and worse-than-death HSs by negative numbers. We use the health-related utility values to calculate the quality adjusted life years (QALYs), which are used as the standard measure of health outcomes in health economic analyses. The numeric sum of the problem levels in the EQ-5D-3L profiles is denoted as the „misery index”, (Augustovski et al., 2013) which serves as an estimate of disease severity, but it is not suitable for QALY calculations. A health-thermometer (EQ VAS) is also part of the EQ-5D questionnaire, on which respondents can indicate their current health status between the worst and best (0-100) imaginable health.

## Acceptable Health (AH)

### The history of AH measurements

Theories of justice concerned with the equitable allocation of health resources take perfect health as a reference-point and compare health losses or gains to perfect health with utility 1. The concept of AH assumes that with time, certain health problems are considered natural by people as a normal part of ageing, which may be taken into consideration when allocating scarce resources - and taken as a point of reference rather than perfect health states. (Wouters et al., 2017)

So far, three studies focused on the measurement of AH (Brouwer et al., 2005, Pentek et al., 2014, Wouters et al., 2015). In all three studies, the acceptability of health problems was measured by the EQ-5D-3L questionnaire. In all three studies, the acceptability of health problems was asked in 10-year-age bands, separately by each EQ-5D-3L dimension (separate evaluation: SE ), according to the following wording:

*„Please indicate, from what age do you consider the below indicated problem levels acceptable?”*

All three studies have shown, that people consider health problems increasingly acceptable with age. However, their main weakness was that they evaluated the acceptability of health problems *separately* by each dimension, while in reality problems are experienced in combination, and their *JE* is likely to affect their acceptability.

For summarizing their results, the authors constructed the following measures of AH:

Aggregate Acceptable Health Curve ( $AHC_{aggregate}$ ): the main assumption is that the health state aggregated from the problems that are acceptable separately in each dimension would also be acceptable by the respondent. The sample’s  $AHC_{aggregate}$  is constructed from the mean EQ-5D-3L index values of the individual  $AHC_{aggregate}$  health states.

Worst Acceptable Health Curve ( $AHC_{worst}$ ): the main assumption is that problems in each EQ-5D-3L dimension are acceptable only in the presence of perfect health in other dimensions.

Since health problems in several dimensions may be indicated as acceptable in a certain age, the sample’s  $AHC_{worst}$  is constructed from the lowest individual  $AHC_{worst}$  values in each age.

Profiles’ Acceptable Health Curve ( $AHC_{profiles}$ ): the mean age from which EQ-5D-3L profiles are considered acceptable by the sample is plotted against their EQ-5D-3L index values.

## New methods for the measurement of AH

We developed a new method for the measurement of AH, in which problems were not introduced to respondents separately, but jointly in form of HSs of combined problems as well as an age, as displayed in figure 1.

### Figure 1 Joint evaluation (JE) task

We would like to ask, whether some concrete health states are acceptable in your opinion?  
Please imagine the health state below, check the box if acceptable, and press the SEND button

<p><b>At 70 years of age, permanently</b>          Having some problems in walking about          Having no problems with self-care          Having no problems with performing usual activities          Having moderate pain or discomfort          Not being anxious or depressed</p>	<p>Is this health state acceptable?</p> <p><input checked="" type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p> <p style="text-align: center; background-color: #cccccc; padding: 5px;">SEND</p>
--	--

Source: (Xxx, 2018b)

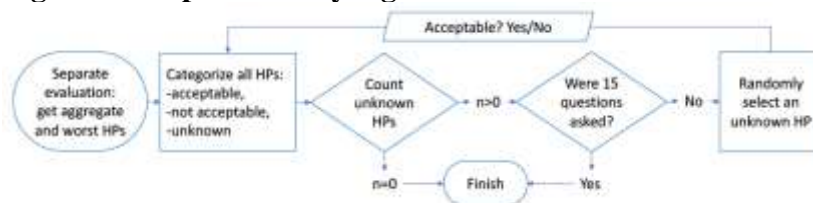
Taking the 243 EQ-5D-3L profiles in 6 ages in the 30 to 80 years range provides 1458 health states, which we denote as the acceptability matrix (*E-matrix*) hereinafter. In order to get as much information as possible from each respondent about the 1458 cells of the E-matrix, we applied an adaptive survey algorithm. The adaptive algorithm made deductions about the acceptability of several HSs based on a single answer from respondents, according to the following assumptions:

Each EQ-5D dimensions were treated as an ordinal variable: in case a profile was acceptable in a certain age, then we considered every profile acceptable in which the level of any problem was the same or lower than the profile in question (better health states). In case a profile was not acceptable, then those profiles were not acceptable either, which had the same or higher level of problems in any dimension. The acceptability of profiles which had both higher and lower levels of problems compared to the evaluated profile could not be deducted without knowing the respondent's preference.

Health deteriorates with age in a monotonous fashion: if a health state is was acceptable in a certain age, then the same or better HSs were not acceptable either in the same or younger ages. If a health state was acceptable in an age, then the same or better HSs were acceptable in older ages as well.

The performance of the adaptive survey algorithm was tested via computer simulation on the  $AHC_{aggregate}$  profiles from a sample of 9260 respondents obtained in a previous study. After SE, HSs with unknown acceptability were chosen randomly, and their acceptability was determined randomly with  $p=0.5$  probability as yes or no according to the process depicted in figure 2.

### Figure 2 Adaptive survey algorithm



According to the simulation, with 15 randomly selected questions the acceptability of the 1458 HSs could be fully determined for 90% of the subjects. The overall proportion of unknown states was 0.4%, which result was only minimally improved by further questions. Keeping the effort required from participants when completing the evaluation task reasonable, we decided to apply a modul of 15 questions during JE .

For summarizing results of JE, we created the Joint Acceptable Health Curve ( $AHC_{joint}$ ). We rendered the EQ-5D-3L index (UK-TTO value set) to all HSs that were considered acceptable after the JE, and for each age, we selected the health state with lowest EQ-5D-3L index value as the individual  $AHC_{joint}$ , and from the average of individual values, we constructed the sample  $AHC_{joint}$ .

The other new method for measuring AH was the modified EQ VAS, on which our subjects indicated between the best (100) and worst (0) imaginable health the level of health that they considered still acceptable in the six age groups. The acceptable VAS expresses the level of AH with a single numeric value. From the averages of individual acceptable VAS values, we constructed the VAS Acceptable Health Curve ( $AHC_{vas}$ ).

#### Data collection

In early 2018, we performed a cross-sectional survey via personal interviews among 200 members of the Hungarian general population selected by convenience sampling. Subjects provided written consent, and data were collected anonymously. The research plan was approved by the Ethical Committee of the National Research Council (ETT-TUKEB) under the identifier: 5111-2-2018/EKU.

We collected the following information via an electronic questionnaire:

- Participant information and consent
- SE of AH
- JE of AH
- Persons imagined during the evaluation of AH

Furthermore, we applied a paper-pencil questionnaire for recording the self-evaluated health of subjects via the EQ VAS and AH in age groups from 30 to 80 years in 10-year-intervals via the modified EQ VAS. We also recorded the health status of respondents via the EQ-5D-3L questionnaire (EuroQoL Group, 1990). We analysed separately moderate and severe problems by each dimension, and also created an „any problem” category by counting moderate and severe problems together. In a separate variable, we recorded if respondents indicated any problems in any of the dimensions. We also recorded the health state utilities (EQ-5D-3L index values) for each individual.

For describing the socio-demographic status of respondents, we recorded the following data: age (and age group), gender, family status (married: married or lives in domestic partnership, vs. not married: single, divorced or widowed), education (tertiary: university or college degree, other: primary or secondary education), employment (employed: full or part-time, not employed: pensioner, student, housemaker), household income per capita. Based on data from the Central Statistical Office of Hungary, (KSH, 2015) we grouped respondents in the first two quintiles as having high income and ones in the remaining three quintiles as having low income.

We described the lifestyle of respondents with behaviours associated with health risks: overweight (body mass index (BMI) >25) (Garrow, 1981)), smoking (at any quantity) (Schane et al., 2010)), excessive alcohol intake (men: >14 drinks / week or >4 drinks / occasion, women >7 drinks / week, or >3 drinks/occasion (NIAAA)), lack of exercise (<150 minutes light exercise / week (WHO)).

Furthermore, we asked questions potentially related to health attitudes: expected life span (own lifespan estimated by the respondent), life span of close relatives (<75 years, ≥75 years), informal caregiver status (ones who have provided care for free for at least 6 weeks for relatives or close friends), as well as the use of healthcare services during the 3 months preceding the interview.

We also recorded happiness on a 0-10 point numeric scale, which is one of the simplest and most frequently used measure of subjective wellbeing. (Veenhoven, 2009, Veenhoven, 2012)



## Statistical methods and hypothesis testing

We analysed the dataset by descriptive methods as well as econometric models using the Stata 14 statistical software package. The methods used for testing the six hypotheses are described below:

**H<sub>1</sub>:** *With the adaptive survey we can determine the acceptability of all cells of the E-matrix in 90% of subjects.* During the preparatory simulation, we managed to determine the acceptability of all HSs in 90% of the 9260 individuals, from whom  $AHC_{aggregate}$  curves were available. We expected the same results from the interviews conducted with real respondents. We tested the hypothesis using the 95% exact binomial confidence interval. The expected value was  $\pi_0=0,9$ ,  $\pi_1$  is the proportion of respondents, for whom the acceptability can be determined for all cells of the E-matrix.

We tested the following hypotheses:

$$H_0: \pi_1=0,9$$

$$H_{alt}: \pi_1 \neq 0,9$$

Our  $H_1$  hypothesis can be accepted in case  $H_0$  is accepted.

**H<sub>2</sub>:** *When assessed via JE, people consider fewer problems acceptable compared to separate evaluation.* Due to the non-normal distribution of the data, we tested the hypothesis by comparing median values of the  $AHC_{aggregate}$  from SE ( $M_{aggregate}$ ) and  $AHC_{joint}$  from JE ( $M_{joint}$ ) via the sign test, using  $p=0.05$  significance level. Median values of the curves at all ages were tested jointly.

$$H_0: M_{aggregate}=M_{joint}$$

$$H_{alt}: M_{aggregate} < M_{joint}$$

$H_2$  can be accepted if  $H_0$  is rejected and  $H_{alt}$  is accepted.

**H<sub>3</sub>:** *When measured with the EQ VAS, people consider worse HSs acceptable in older ages than in younger ages.* Due to the high inter-individual variance of the level as well as slope of  $AHC_{vas}$ , we tested the hypothesis using the following multi-level regression model:

$$AHC_{vas_{ik}} = \alpha + \beta age_{AHS_{ik}} + \gamma X_i + \delta age_{AHS_{ik}} * X_i + \mu_i + \tau_i * age_{AHS_{ik}} + \varepsilon_{ik}, \quad (1)$$

where  $age_{AHS_{ik}}$  denotes age  $k$ , when respondent  $i$  evaluates AH. We centred  $age_{AHS}$  at 30 years, therefore the intercept denoted with  $\alpha$  represented the mean  $AHC_{vas}$  at  $age_{AHS}$  30. The individual variation of the level of  $AHC_{vas}$  is denoted by  $\mu$ , while  $\beta$  indicates the acceptable deterioration rate of health (ADR), and  $\tau$  indicates the individual component of ADR. The vector  $X_i$  indicates the explanatory variables of individual respondent characteristics, the  $\gamma$  and  $\delta$  coefficients denote the effect of individual explanatory variables on the level and slope of  $AHC_{vas}$ , respectively. Individual variance of the level and slope are denoted by  $\mu$  and  $\tau$  respectively, which were modelled as random effects. We evaluated  $H_3$  based on the parameter value of  $\beta$ :

$$H_0: \beta=0$$

$$H_{alt}: \beta < 0$$

$H_3$  can be accepted if  $H_0$  is rejected and  $H_{alt}$  is accepted.

When evaluating the association of AH and happiness, the question was whether respondents considered their own health acceptable or not. Therefore, we created two new variables, and coined two new terms:

“*Relative health*” is the difference between the self-rated health of respondents and the level of AH indicated for his/her own age group (e.g.  $age_{AHS}$  40 for a respondent from the 35-44 age group), measured on EQ VAS.

In “*acceptable health status*” (AHS), respondents’ own health status was evaluated as better than what they considered acceptable for their own age. In the “*not acceptable health status*” (nAHS) group, the own health of respondents was evaluated as worse than what they considered acceptable for their own age.

**H<sub>4</sub>:** In AHS, the level of subjective health influences happiness to a smaller extent than in nAHS. We tested this hypothesis with the following multivariable regression model:

$$h = \alpha + \beta na + \gamma eqvas + \delta na * eqvas + \mu age + \theta age * eqvas + \lambda X + \varepsilon$$

(2)

where  $h$  denotes happiness,  $\alpha$  is the intercept,  $na$  denotes the binary variable of HS with value of 1 if the individual is in nAHS, and 0 if the individual has AHS;  $eqvas$  is the individuals' self-rated health score on the EQ VAS,  $age$  is respondents' age centred at 18 years and  $X$  is the vector of other explanatory variables. We evaluated  $H_4$  based on the parameter value of  $\delta$ :

$$H_0: \delta=0$$

$$H_{alt}: \delta>0$$

$H_4$  can be accepted if  $H_0$  is rejected and  $H_{alt}$  is accepted.

**H<sub>5</sub>:** Older individuals are more likely to consider their health acceptable than younger ones.

**H<sub>6</sub>:** Individuals with more severe conditions consider their health less acceptable than healthier ones. We tested  $H_5$  and  $H_6$  hypotheses using the following logistic regression model:

$$\text{logit}_{p_A} = \alpha + \beta age + \gamma eqvas + \delta X + \varepsilon \quad (3)$$

where  $\text{logit}_{p_A} = \log(p_A/(1-p_A))$ ,  $p_A$  is the probability that an individual considers his/her health state acceptable,  $age$  is the age of respondents centred at 18 years,  $eqvas$  is the self-rated current health of respondents measured on the EQ VAS scale. We tested the  $H_5$  hypothesis based on the parameter value of  $\beta$ :

$$H_0: \beta=0$$

$$H_{alt}: \beta>0$$

$H_5$  can be accepted if  $H_0$  is rejected and  $H_{alt}$  is accepted.

We tested the  $H_6$  hypothesis based on the parameter value of  $\gamma$ :

$$H_0: \gamma=0$$

$$H_{alt}: \gamma>0$$

$H_6$  can be accepted if  $H_0$  is rejected and  $H_{alt}$  is accepted.

## RESULTS

### Sample characteristics

The survey was completed by 200 respondents. Mean age was 43,3 years ( $\pm$ SD: 17,3 years). The main socio-demographic characteristics of our respondents are summarized in Table 1.

**Table 1 Sample characteristics**

Variable	Category	N	%
Age (n=200)	18-24	24	12,00
	25-34	54	27,00
	35-44	32	16,00
	45-54	43	21,50
	55-64	20	10,00
	65-74	16	8,00
	75+	11	5,50
Gender (n=189)	Male	79	41,80
	Female	110	58,20
Education (n=199)	Primary	9	4,52
	Secondary	73	36,68
	Tertiary	117	58,79
Household income per capita (n=194)	$\leq$ 52 th HUF	5	2,51
	53-74 th HUF	12	6,03
	75-94 th HUF	27	13,57
	95-128 th HUF	35	17,59
	$\geq$ 129 th HUF	120	60,30

Percentages were calculated from the number of respondents with available data

Based on the EQ-5D-3L dimensions, 44% of respondents indicated the presence of any health problems. Severe problems were reported by 4,5% of respondents. The mean level of happiness was 7,3 ( $\pm$ SD: 2,0), with level 8 reported most frequently.

For 32 of the 200 respondents, data indicating self-rated health or AH were missing, therefore we analysed the association of AH and happiness on a sample of 168 individuals. On average, respondents scored the level of their own health 1,95 points lower ( $\pm$ SD: 13,732), than the health they considered acceptable for their age. From the sample 88 respondents considered (52.4%) their own health as better, while 80 (47,6%) as worse than acceptable for their age.

### Measuring AH

#### Efficiency of the adaptive survey ( $H_1$ )

We evaluated the acceptability of 1458 discrete HSs for each of the 200 respondents. Altogether we collected 291600 data points. After separate evaluation, 91,7% of HSs were not acceptable, 1,3% were acceptable and for 7,1% the acceptability was unknown. During JE, the algorithm asked on average 11,09 questions from each respondent. For 43,5% of respondents, (n=87) 15 or fewer questions were sufficient to evaluate the acceptability of all HSs of their *E-matrix* in question.

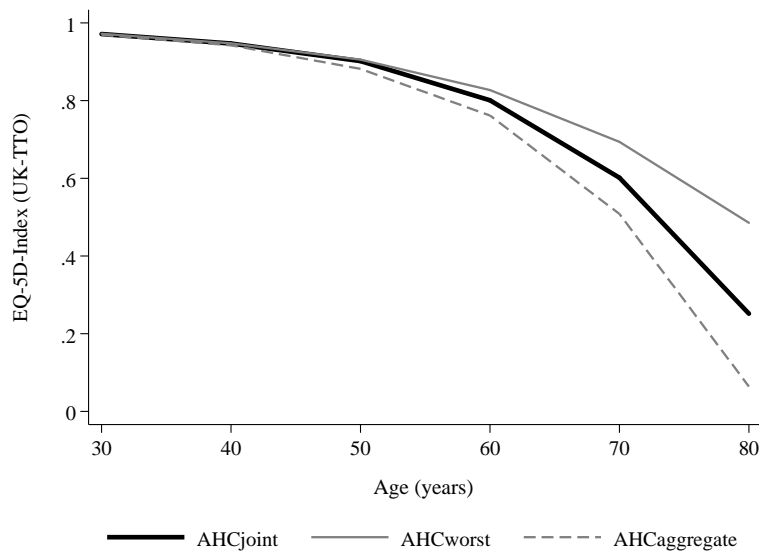
The first hypothesis ( $H_1$ ) of the research was that the acceptability of all HSs could be fully determined for 90% of individuals. In case of 200 respondents, the 95% exact binomial confidence interval for the 90% acceptability rate falls between 85,0-93,8%. Our results fell below the lower 95% CI limit, outside the expected range. Therefore, we did not accept our  $H_1$  hypothesis: the efficiency of the adaptive survey was inferior compared to our expectations.

#### Acceptability of health states by joint evaluation ( $H_2$ )

The  $AHC_{aggregate}$  of SE and  $AHC_{joint}$  of JE are compared in Figure 3.



**Figure 3 Comparison of acceptable health curves (AHCs)**



The second hypothesis ( $H_2$ ) was that by JE people considered fewer health problems acceptable when compared to separate evaluation, meaning that median values of  $AHC_{aggregate}$  are lower than those of the  $AHC_{joint}$ . The results of the sign test of the differences of medians ( $M_{aggregate}$ ,  $M_{joint}$ ) were summarized in table 2.

**Table 2 Comparing the results of joint evaluation (JE) vs separate evaluation (SE)**

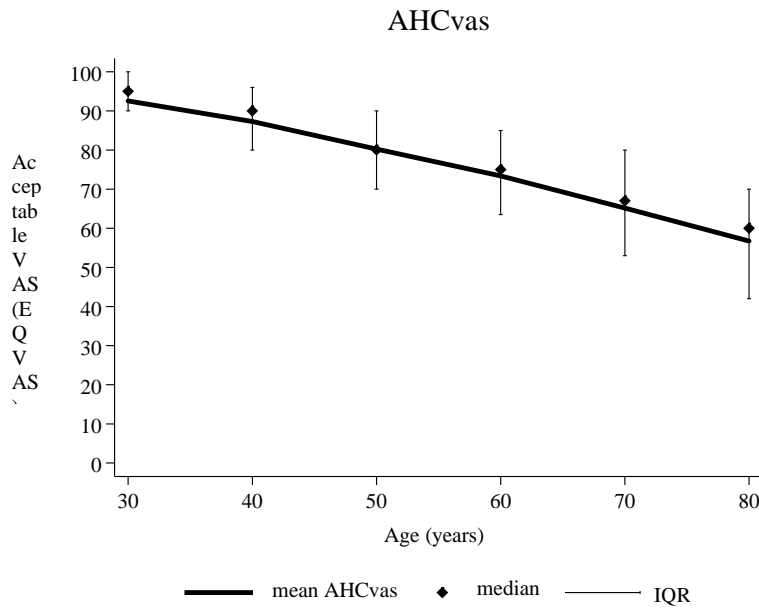
$M_{joint}-M_{aggregate}$	Outcome (N)	Expected (N)
>0	148	74
<0	0	74
=0	52	0
<b>Total</b>	<b>200</b>	<b>200</b>

If  $M_{joint} > M_{aggregate}$ , the exact binomial probability of the result ( $M_{joint} - M_{aggregate} > 0$ ,  $N=148$ ) is  $p < 0,001$ , therefore we rejected the null-hypothesis ( $H_0: M_{aggregate} = M_{joint}$ ) and accepted the alternative hypothesis ( $H_{alt}: M_{aggregate} < M_{joint}$ ). So, we could accept  $H_2$ : with JE people consider fewer health problems acceptable than with separate evaluation.

Measuring AH with the adapted EQ VAS instrument ( $H_3$ )

We had acceptable VAS data from 196 respondents in at least one age. The acceptable VAS curve ( $AHC_{vas}$ ) is shown in Figure 4.

**Figure 4 Acceptable VAS curve ( $AHC_{vas}$ )**



We analysed the  $AHC_{vas}$  via multilevel regression. Results are summarized in the table on the following page. In the baseline model (M1) the intercepts and slopes of individual  $AHC_{vas}$  curves differed significantly.  $AHC_{vas}$  showed on average 7,2 points decline in every 10 years. ( $\beta_{ageAH} = -0,723$ ,  $p < 0,001$ ). Since in all further models including explanatory variables the  $\beta_{ageAH}$  was significant and negative, we accepted  $H_3$ : people consider worse HSs acceptable in older ages compared to younger ages.

**Table 3 Determinants of AH: regression analysis of  $AHC_{vas}$**

		M1	M5
1st level parameters	Intercept	93,87***	96,71***
	$age_{AH}$	-0,723***	-0,734***
2nd level parameters: intercept	Respondents age: 18-34		-4,636***
	Respondents age: 65+		2,673
	Female gender		0,686
	Tertiary education		-0,856
	Self-rated health (EQ VAS) <sup>i</sup>		0,271***
	High risk alcohol consumption		0,047
	Smoking		2,553*
	Lack of exercise		0,305
	Body mass index > 25		3,501***
	Persons imagined: own and others		-2,825*
	Persons imagined: others		-2,640*
	Closest relatives' life span >75years		-3,061**
	Informal caregiver		-1,123
2nd level parameters: slope	Respondents age: 18-34		0,104*
	Respondents age: 65+		-0,018
	Female gender		0,002
	Tertiary education		0,012
	Self-rated health (EQ VAS) <sup>i</sup>		0,007***
	High risk alcohol consumption		0,143*
	Smoking		-0,042
	Lack of exercise		-0,140***
	Body mass index > 25		0,070
	Persons imagined: own and others		-0,034
	Persons imagined: others		-0,142**
	Closest relatives' life span >75years		0,007
	Informal caregiver		0,166***
Random effects parameters	Variance ( $age_{AH}$ )	0,117***	0,0912***
	Variance (Intercept)	75,483***	52,875***
	Covariance (Intercept, $age_{AH}$ )	0,041	-0,283
	AIC	7657,35	7352,86
	Observations (N)	1145	1109
	Number of respondents	194	188

\*\*\* p<0,01, \*\* p<0,05, \* p<0,1

i: Self-rated health was measured on the EQ VAS scale and centred to the sample mean.

Source: (Xxx et al., 2019)

In the full model (M5) AH (the level and/or slope of  $AHC_{vas}$ ) were significantly influenced by respondents' age, self-rated health, lifestyle, and the way they imagined the reference person when evaluating the acceptability of health problems, as well as close relatives' life-span, and their informal caregiver status.

The association of AH and happiness ( $H_4$ )

We evaluated the association between AH and happiness in a linear regression model built in gradual steps, by continuously checking model specification and assumptions. Main results are summarized in table 4.

Interpretation of M10: if an individual has AHS, then self-rated health does not influence the level of happiness. Based on the coefficients of the model, we could accept  $H_4$ , since the  $\delta$  parameter denoting the interaction of subjective health and AH in explaining happiness was significant and positive (p<0,05). However, after excluding outliers based on Cook's D, leverage, dfbeta, and standardized residuals and extremes of happiness, the coefficients did not remain significant. The results were not significant even after excluding 3 cases with the highest leverage values. *Therefore,  $H_4$  could not be accepted with certainty.*

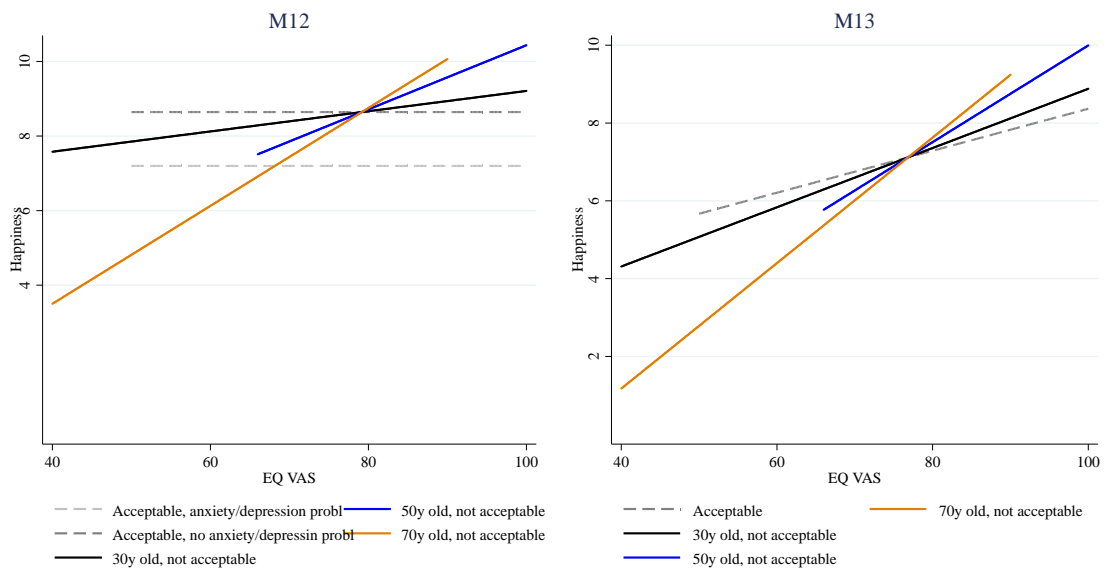
**Table 4 Regressoin analysis of acceptable health (AH) and happiness**

	M10	M12	M13
Not acceptable	-3,969*		
Not acceptable * Age		-0,179**	-0,142
Age (centred at 18 years)	-0,066		
EQ VAS (0-100)	-0,010		0,054**
Age*EQ VAS	0,001		
Not acceptable*EQ VAS	0,049*		
Not acceptable* EQ VAS * Age		0,002**	0,002**
High income	-0,953**	-0,789*	
Usual activities	-1,279*	-1,716**	
Anxiety / depression	-1,271**	-1,446**	
Intercept	8,698**	8,644**	2,973**
F	14,63	22,156	27,487
p	<0,001	<0,001	<0,001
R <sup>2</sup>	0,427	0,409	0,336
Adjusted R <sup>2</sup>	0,398	0,391	0,324

\* p<0,05, \*\* p<0,01

The interpretation of M12: in AH, self-rated health does not influence happiness, while in not AH, health influences happiness to a smaller extent in younger respondents, while to a much greater extent in older ones. Furthermore, happiness is significantly influenced by household income, and the level of problems in the anxiety / depression and usual activities dimensions. Since the last three variables are important determinants of health, in M13 they were exchanged for self-rated health, the effect of which thus became significant on happiness. The interpretation of M13: in AHS the improvement of health affects happiness only to a moderate extent, while in not nAHS the effect of self-rated health on happiness is the greater the older the individual is. The model was homoscedastic (Breusch-Pagan test), its specification was acceptable (Ramsey-RESET test), but the effect of AH did not remain significant after the exclusion of the 3 observations with the highest leverage values, therefore the measurement should be repeated on a larger sample. Figure 5 illustrates the association between health and happiness, based on the parameters of M12 and M13. Lines were drawn in the EQ VAS ranges measured in the sample.

**Figure 5 Association of acceptable health (AH) and happiness**



The association between AH and lifestyle (H<sub>5</sub>, H<sub>6</sub>)

Table 5 summarizes the results of the logistic regression analysis (M14). The acceptability of the health status of respondents was influenced significantly by age, self-rated health, overweight and smoking status. AHS was denoted by the value of 1, while nAHS was denoted by the value of 0. The interpretation of results is the following: *the older individuals were or the better their self-rated health was, the greater the chance was that they considered their own health state acceptable. Based on this result we could accept H<sub>5</sub> and H<sub>6</sub>.*

**Table 5. Regression analysis: the acceptability of own health**

Logistic regression (the acceptability of own health status)	M14
Age (years)	.083**
EQ VAS	.054*
Female gender	.393
Married	-.139
Employed	-.024
Has a diploma	-.510
High income	-.065
Overweight	-1,491**
Smoker	-1,311*
High-risk alcohol consumption	.680
Lack of exercise	-.546
Expected life-span	-.027
Relatives life-span	.052
Informal caregiver	-.517
Have used health services in the past 3 months	-.703
Mobility problems	.538
Self-care problems	.236
Problems with usual activities	.553
Pain / discomfort	-.817
Anxiety / depression	.359
Intercept	2,107*
LR Chi <sup>2</sup> <sub>(20)</sub>	62,91
p	<0,001

\* p<0,05, \*\* p<0,01

C

## ONCLUSIONS

AH is a new health measurement method that reflects societal priorities concerning age and disease severity.

Main results of the thesis:

- People consider health problems increasingly acceptable with age. Mild health problems are more acceptable than more severe ones.
- AH can be measured more precisely using the JE method, than with SE. JE is feasible in practice and provides reasonably accurate measures about the acceptability of health states.
- EQ VAS is a convenient method to measure AH

Areas of further research:

- Before the adoption of the AH principle in real practice, the interpretability, reliability and consistency of its method needs to be further developed.
- In addition to determining acceptability from the society's perspective, it is important to measure from the individuals' perspective as well, in order to verify the assumption that maximising AHSs from the society's perspective simultaneously result in the maximisation of individual wellbeing.

## REFERENCES

AUGUSTOVSKI, F. et al 2013. Lead versus lag-time trade-off variants: does it make any difference? *Eur J Health Econ*, 14 Suppl 1, S25-31. <https://doi.org/10.1007/s10198-013-0505-0>

BRAZIER, J. E. et al. 2019. Future Directions in Valuing Benefits for Estimating QALYs: Is Time Up for the EQ-5D? *Value Health*, 22, 62-68. <https://doi.org/10.1007/s10198-017-0931-5>



- BROUWER, W. B., et al. 2005. Acceptability of less than perfect health states. *Soc Sci Med*, 60, 237-46. <https://doi.org/10.1016/j.socscimed.2004.04.032>
- DANIELS, N. 2000. Accountability for reasonableness - Establishing a fair process for priority setting is easier than agreeing on principles. *British Medical Journal*, 321, 1300-1301. <https://doi.org/10.1136/bmj.321.7272.1300>
- DANIELS, N. & SABIN, J. 1997. Limits to health care: fair procedures, democratic deliberation, and the legitimacy problem for insurers. *Philos Public Aff*, 26, 303-50. <https://doi.org/10.1111/j.1088-4963.1997.tb00082.x>
- EUROQOL GROUP 1990. EuroQol--a new facility for the measurement of health-related quality of life. *Health Policy*, 16, 199-208. [https://doi.org/10.1016/0168-8510\(90\)90421-9](https://doi.org/10.1016/0168-8510(90)90421-9)
- GARROW, J. 1981. *Treat obesity seriously: a clinical manual*, Edinburgh, Churchill Livingstone.
- KSH, H. C. S. O. 2015. Time series of annual data - Income and living conditions.
- MARSH, K., M, et al. 2016. Multiple Criteria Decision Analysis for Health Care Decision Making--Emerging Good Practices: Report 2 of the ISPOR MCDA Emerging Good Practices Task Force. *Value Health*, 19, 125-37. <https://doi.org/10.1016/j.jval.2015.12.003>
- NIAAA, Alcohol facts and Statistics [Online]. Available: <https://www.niaaa.nih.gov/alcohol-health/overview-alcohol-consumption/alcohol-facts-and-statistics> [Accessed 2017.10.01.].
- PENTEK, M., et al. 2014. Acceptability of less than perfect health states in rheumatoid arthritis: the patients' perspective. *Eur J Health Econ*, 15 Suppl 1, S73-82. <https://doi.org/10.1007/s10198-014-0596-2>
- SCHANE, R. E., et al. 2010. Health effects of light and intermittent smoking: a review. *Circulation*, 121, 1518-22. <https://doi.org/10.1161/CIRCULATIONAHA.109.904235>
- THOKALA, P., et al. 2016. Multiple Criteria Decision Analysis for Health Care Decision Making--An Introduction: Report 1 of the ISPOR MCDA Emerging Good Practices Task Force. *Value Health*, 19, 1-13. <https://doi.org/10.1016/j.jval.2015.12.003>
- VEENHOVEN, R. 2009. International scale interval study: Improving the comparability of responses to survey questions about happiness. In: MOLLER, V. & HUSCHKA, D. (eds.) *Quality of life and the millenium challenge: Advances in quality of life studies, theory and research*. vol. 35. ed.: Springer. [https://doi.org/10.1007/978-94-007-0753-5\\_3661](https://doi.org/10.1007/978-94-007-0753-5_3661)
- VEENHOVEN, R. 2012. Happiness: Also Known as “Life Satisfaction” and “Subjective Well-Being”. In: LAND, K. C., MICHALOS, A. C. & SIRGY, J. M. (eds.) *Handbook of Social Indicators and Quality of Life Research*. Dordrecht: Springer.
- WHO, Recommended levels of physical activity for adults aged 18 - 64 years [Online]. Available: [https://www.who.int/dietphysicalactivity/factsheet\\_adults/en/](https://www.who.int/dietphysicalactivity/factsheet_adults/en/) [Accessed 2017.10.01.].
- WOUTERS, S., et al. 2015. Are all health gains equally important? An exploration of acceptable health as a reference point in health care priority setting. *Health Qual Life Outcomes*, 13, 79. <https://doi.org/10.1186/s12955-015-0277-6>
- WOUTERS, S., et al. 2017. Acceptable health and priority weighting: Discussing a reference-level approach using sufficientarian reasoning. *Soc Sci Med*, 181, 158-167. <https://doi.org/10.1016/j.socscimed.2017.03.051>
- XXX., et al. 2019. Determinants of the acceptability of health problems in different ages: exploring a new application of the EQ VAS. *The European Journal of Health Economics*, <https://doi.org/10.1007/s10198-019-01060-3>

XXX., et al. 2018c. Prm171 - Determinants of the Acceptability of Health Problems in Different Ages: Exploring a New Application of the EQ VAS. *Value in Health*, 21, S385. <https://doi.org/10.1016/j.jval.2018.09.2290>

# THIRD AWARD

---

## **The Firm Value and Marketing Intensity Decision in Conditions of Financial Constraint: A Comparative Study of the United States and Latin America**

**Palomino-Tamayo Walter**  
**Universidad Esan**

### ***Abstract***

Managers generally have to face their marketing decisions under the pressure of financial constraints with limited assurance of the outcomes in a volatile environment. Using a conceptual framework grounded in agency theory, the authors develop a model and test it using a panel dataset from the U.S. and five Latin American countries. The results indicate that financial constraint negatively impacts marketing intensity and ultimately negatively affects firm value and performance. Furthermore, this study confirms the effect of three moderators; market sensitivity, country governance quality, and country economic development distance; on the relationship between financial constraint and marketing intensity.

### **INTRODUCTION**

Recessions, supply chain breaks, market lockouts, intense global competition, and pressure from financial markets on managers to achieve quarterly results that meet stock analysts' expectations (Mizik and Jacobson 2007) encompass factors of today's international marketing environment. This scenario increases the tendency of financial areas of companies to impose pressure on marketing departments to reduce budgets and demonstrate value to shareholders (Edeling and Fisher 2016; Mizik and Jacobson 2007). Indeed, our research to study this phenomenon in an international setting also includes the financial constraint concept of a temporary restriction of internally generated funds (Fazzari, Hubbard, and Petersen 1987). This leads to a reduction in resources for investments that enable managers to achieve their financial goals. We suggest that this reduction also reduces marketing intensity which is defined as the effort made by the company in marketing, including advertising, intended to increase brand and firm awareness, to achieve loyalty and establish customer relationships, and to drive investments in distribution and activities that promote trade.

Our study posits three research questions to be addressed: Do financial constraints impact the marketing intensity during the year and subsequently influence firm performance and firm value in an international setting? Do the effects of financial constraints on marketing intensity and the subsequent influence on firm performance and firm value vary between a developed country and an emerging country? Do market sensitivity, economic development, and governance quality explain countries' differences in marketing intensity decisions in the presence of financial constraints?.

Then, to answer these questions we review the effect of financial constraints in an international setting. In fact, the financial literature presents empirical evidence that macroeconomic variations and crises, drive in firm financial constraints (Campello, Graham, and Harvey 2010). Moreover, macroeconomic volatility is frequent in the Latin American (LA) economic environment, and has one of the highest levels worldwide. This volatility may result in a pressure on firms that leads to reductions in marketing intensity.

In the same way, our research attempts to answer these questions with a novel perspective on the global scenario of intense pressure to achieve short-term results and to demonstrate the value of marketing investments. Most budgeting literature provides a static view of annual marketing budgets, with their creation as the natural ending point. But little is known about the dynamic process of executing a marketing budget that examines financials throughout the year and when a financial crisis impacts a firm as a result, planned marketing budget is reduced. This phenomenon deserves considerably more attention in today's international context.

Consequently, answering the research questions, this study makes three contributions to the emerging literature in an international setting. First, we propose a model that aids in understanding the marketing intensity decision in an international scenario with financial constraints, and its further consequences on firm value and performance. To the best of our knowledge, prior literature has not studied this yet. Second, manager's decisions depend on environmental factors and risk preferences. It is clear that these environmental factors, including economic, institutional, and political factors, are very different in LA than in the US. For this reason, we contribute by introducing three moderators to reveal the differences in the LA context that, to some extent, impact business risks, and therefore, manager behavior. The first moderator is market sensitivity, defined as the behavioral response of the market to brand policy and marketing strategy (Lambin 2006). The second moderator is country governance quality, defined as the exercise of authority in a country through traditions and institutions, the process of selecting, monitoring, and replacing governments, the capacity of the government to effectively formulate and implement sound policies, and respect for citizens and institutions (Worldbank 2019). The third moderator is country economic development distance, defined as the difference in the level of economic development between countries (Hakanson and Ambos 2010). This has not been previously studied in an international setting in the marketing literature. Third, in previous literature, research on the relationship between marketing intensity and firm value finds contradictory results. In theory, the relationship should be positive; however, Edeling and Fisher's (2016) meta-analysis shows that 23% of the observations are negative in a sample of studies primarily from the US. There are few studies in an international scenario, and they present negative or non-significant relationships (Han and Manry 2004). Therefore, there is no clear evidence regarding the relationship between marketing intensity and firm value in an international context. Indeed, the conceptual framework is based on agency theory and the hidden action model approach that assumes the principal and agent act in their self-interests, each having different goals and risks. Consequently, agents can maximize their goals by performing hidden actions possibly detrimental to the principal's interests.

## **LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK**

This review incorporates marketing and finance research trends, looking for studies that explain the relationship between financial constraints and marketing, presented in Table 1. showing scarcity of literature. By contrast, research data in financial literature on the concept of financial constriction is abundant given the seminal work of Fazzari, Hubbard, and Petersen (1987). However, marketing and marketing-finance interface literature have not paid

attention to the impact of this financial constraint on marketing decisions. Besides, analyzing Table 1. we see that all the studies are empirical without any theoretical support. Although, the references do not exhibit direct relation between financial constraint-marketing intensity, they are related in some way to marketing intensity efforts. To the best of our knowledge, previous marketing literature has not studied the relation between financial constraints and marketing intensity. The desire to fill this knowledge gap is the impetus for our study, and the model that we propose next is intended to provide a better understanding of this relationship in an international scenario.

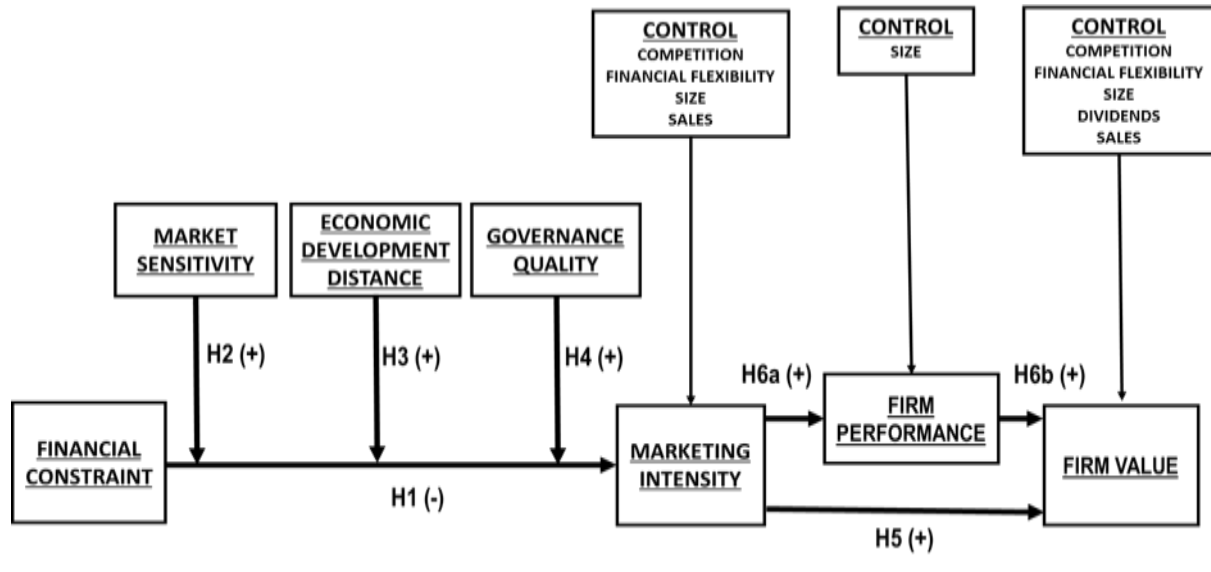
**Table 1.** Relevant Literature of Financial Constraint Impact on Marketing

Study	Country Sample	Marketing Construct Impacted	Theoretical Perspective	Key Findings
(Musso and Schiavo 2008)	France	Sales Growth	Empirical	Financial constraints increase the probability of exiting the market, positively related with productivity growth in the short-run, and negatively with sales growth.
(Fee, Hadlock, and Pierce 2009).	USA Multinational Firms	Advertising Spending	Empirical	Positive relation between firm's advertising spending in the USA and foreign cash flow, in constrained firms.
(Gorodnichenko and Schnitzer 2013)	27 Transitional countries	Technology and Product Innovation	Empirical	Financial constraints restrain the ability of domestically owned firms to innovate (excluding R&D)
(Luo, Jiang, and Cai 2014)	USA	Advertising-Cash Flow sensitivity	Empirical	Financially constraint firms have lower advertising-cash flow sensitivity during high sentiment periods.
(Jinjarak and Wignaraja 2016)	SME's Chile, Israel, Korea, Mexico, Thailand, and Turkey	Export Share in Firm Sales	Empirical	Financial constraint on SME impact negatively on export share in firm sales
(Mishra and Ewing 2020)	USA	Intangible Investments	Empirical	Intangible investment positively affects future sales. Financial constraint impact negatively on future intangible investments components: R&D, 30 per cent of selling and general administrative expense, and other intangibles.
This Study	USA, LA (Brazil, Chile, Colombia, Mexico and Peru)	Marketing Intensity	Agency Theory	Financial constraint negatively affects marketing intensity (moderated by market sensitivity, governance quality and economic development distance), and subsequently affected firm value and performance.

## PROPOSED CONCEPTUAL FRAMEWORK

We developed a conceptual framework (Figure 1) to improve our understanding of the effect of financial constraints on marketing intensity and firm value in an international context. We posit that managers in a situation with financial constraints will act according to their self-interests, preserving their short-term goals by reducing marketing intensity as a hidden action. This leads to our first hypothesis (H1). Subsequently, the marketing intensity reduction may impact firm value (H5) and firm performance (H6a) and subsequently firm value (H6b).

**Figure 1. Conceptual Model: Marketing Intensity Decision under Financial Constraint**



### Impact of Financial Constraint on Marketing Intensity

Financial literature shows that managers perform hidden actions to increase profits in the short term (Mizik and Jacobson 2007) at the expense of long-term results. We expect, according to agency theory, when firms experience financial constraints, short term profitability can be a difficult task. Managers might reduce marketing intensity as a hidden action to achieve profit objectives in the short term because it is viewed as discretionary spending. Moreover, there is some evidence that financial constraints may affect marketing intensity as financial literature presents relationships with marketing efforts, which are part of the marketing intensity.

In addition, Financial literature shows that, when firms are under pressure to produce earnings, managers can use accrual management accounting practices or real actions to achieve objectives. However, managers prefer real actions (hidden actions) to accounting-based procedures (Graham et al. 2005). Real actions are discretionary expense reductions, such as marketing, R&D, travels, and maintenance (Campello, Graham, and Harvey 2010). Additional actions include delays in starting new projects, price discounts, or more lenient credit terms to temporarily increase sales. Financial literature does not indicate that this behavior should be different when firms experienced financial constraints. A comprehensive survey after the 2008 global financial crisis, indicated that companies under financial constraints reduce marketing intensity by 9.1% (Campello, Graham, and Harvey 2010). The first option, not the only one, is to reduce marketing intensity by reducing spending (Graham, Harvey, and Rajgopal 2004). Hence, we posit the following hypothesis:

H1: Financial constraint negatively affects marketing intensity.

### Market Sensitivity's Moderating Effect

Managers make different decisions depending on market behavior, such as market sensitivity. Because agency theory assumes that environmental factors partly determine outcomes, market behavior affects the principal-agent relationship. Specifically, the market sector is an essential contingency variable. Because this variable drives differentiated behavior, we include it in our model.

This difference in behavior depending on the market sector is evident in many marketing activities. The literature is extensive, showing that advertising presents distinct sensitivities



depending on the market sector (Sethuraman, Tellis, and Briesch, 2011). However, not only advertising presents different market sector sensitivities, selling activities as well. Certain markets may have high sales to personal selling elasticities; some are as high as 0.788, which is significantly higher than less-sensitive markets, with elasticities as low as 0.217 (Albers, Mantrala, and Sridhar 2010). Therefore, markets in which firm-client relationships tend to be more long-term exhibit higher sensitivity. In these cases, managers are more careful with changes in marketing intensity, because such changes may affect their results in both the short and long term.

Based on agency theory, we hypothesize that in sensitive markets, agents may be conservative in reducing firm marketing intensity, because they perceive high risk. Managers will choose to keep marketing intensity when financial constraints are increasing or ongoing. In this case, as agency theory predicts, agents will favor a low-risk action. We thus propose the following hypothesis:

H2: Financial constraint has a stronger negative impact on marketing intensity when companies operate in less-sensitive markets.

### **Governance Quality's Moderating Effect**

Because agency theory assumes that environmental factors determine a portion of the outcome, we include a country's governance quality each year to capture the environmental differences firms face. These factors are beyond the control of the principal or agent, and force them to consider the environmental risk together with their personal risk profile when making decisions. Daniel, Cieslewicz, and Pourjalali (2012) find that a country's institutional environment influences corporate governance practices in firms. Similarly, Groșanu et al. (2015) conclude that various characteristics of country-level governance influence internal business environments. Research in international business has recognized the differential effect of country-level governance quality on firm activity. Higher governance quality, is positively associated with higher credit ratings (Ozturk 2016), which implies that high-quality governance leads to higher credit ratings and lower risk, as in the case of developed countries. In contrast, low-quality governance in emerging countries leads to lower credit ratings and result in higher risk.

Compared to the US, we expect that managers will face an environment with higher risk in emerging LA countries with low-quality governance. If the firm experiences financial constraints, managers will face the worst situation of simultaneous higher systematic and idiosyncratic risk. Consequently, the environment may deter managers from reducing marketing intensity, because in a condition of financial constraint, uncertain environment of low-quality governance, and high risk, they maintain stability while reducing risk. Therefore, we propose the following hypothesis:

H3: Financial constraint has a stronger negative impact on marketing intensity when firms operate in countries with higher governance quality.

### **Economic Development Distance's Moderating Effect**

Lower disposable income, a characteristic of emerging countries, is associated with lower purchase frequency, fewer clients, and lower contribution margins compared with income in developed countries (Kumar and Pansari 2016). The limited earning power in emerging markets imposed poor infrastructural development on markets and transportation (Lenartowicz and Balasubramanian 2009). Other studies indicate an association between economic development and the distribution infrastructure and clients. In the insurance sector, a country's penetration is related to the country's GDP per capita (Zheng, Liu, and Deng, 2009). For several products and services, the average penetration potential for developing countries is about one-third of that for developed countries (Talukdar, Sudhir, and Ainslie

2002). Consequently, greater penetration in developed countries with higher GDP per capita, such as the US, means more customers than in emerging markets like LA.

According to the hidden actions model of agency theory, the agent (manager) is risk-averse. Therefore, we posit that in countries with lower GDP per capita or lower economic development, in the presence of financial constraints, managers will perceive a reduction in marketing intensity as risky, because with fewer potential clients, it would be difficult to compensate for the loss of clients due to a reduction. Consequently, managers will attempt to maintain marketing intensity or make only minor reductions. Conversely, managers from countries with high economic development, larger markets, and greater market penetration have opportunities to replace clients. Thus, we formulate the following hypothesis:

H4: Financial constraints have a weaker negative impact on marketing intensity when firms operate in countries with greater economic development distance from the US.

### **Financial Constraint effect on Marketing Intensity. Subsequent Impact on Firm Value and Performance.**

Prior studies in the US show that investments in marketing determine firm financial outcomes such as firm performance (Capon, Farley, and Hoenig 1990) and firm value (Edeling and Fisher 2016; Conchar, Crask, and Zinkhan 2005). Agency relationships can become troublesome when managers acting as agents and shareholders acting as principals have conflicting goals. Managers are pressured to achieve short-term profitability to show their professional competence, and shareholders aim for firm value (Mizik 2010). In a firm with financial constraints, agency problems can arise and conflicting goals may force managers to take hidden actions and act opportunistically, possibly withholding information from shareholders. We posit that a reduction in marketing intensity due to financial constraints will ultimately affect the firm's financial outcomes. Consequently, according to agency theory, marketing intensity information will be available to shareholders sooner or later through the results of sales or performance. We hypothesize the effects of greater or lesser financial constraints will produce an inverse impact on marketing intensity and, subsequently, a negative effect on firm value and performance. Therefore, we propose the following hypotheses:

H5: The higher a firm's marketing intensity, the higher its value.

H6a: The higher a firm's marketing intensity, the higher its performance.

H6b: The higher the firm's performance is, the higher the firm's value.

## **RESEARCH METHODOLOGY**

### **Data Description**

To test our hypotheses, we use nine years of data from 2009 to 2017. The countries classified as emerging stock markets are Brazil, Chile, Colombia, Mexico, and Peru. For the US, our sample is from the US S&P 500 Index, and the sample for LA includes all firms in the stock exchange market database for which complete information is available (marketing intensity and stock price). The data were collected manually from different sources, such as the stock exchange websites, Bloomberg, and financial statements published on company websites when available. We include companies that quote their equity shares in the capital markets of their country of origin and that report marketing intensity data separately from operational

expenses. We exclude the financial industry, because the financial variables we study are central elements of their business (Malshe and Agarwal 2015).

### **Measures**

The literature supports our choice of variables, which were previously used in a similar nomological context, guaranteeing the validity of the measures. We present the variables in Table 2. All variables were deflated using the annual consumer inflation rate (Malshe and Agarwal 2015) of each country to avoid monetary bias, which is a characteristic of emerging markets. Each measures were discussed y analyzed the theoretical support in the original manuscript, not included here because of space limitations.

**Table 2. Definitions, Measurements and Supporting Literature of Variables Used in the Mode**

<b>Variables</b>	<b>Definition</b>	<b>Measurement</b>	<b>Supporting Literature</b>
Financial Constraint (CONSTRIC)	Temporary restriction of internally generated funds	Additive inverse operating cash flow scaled by total assets (less flow, greater Constraint)	(Ughetto 2016)
Marketing Intensity (MKTIN)	The effort made by the company in marketing, including advertising intended to increase brand and firm recall, attempts to achieve loyalty and establish customer relationships, and investments in distribution and activities that promote trade.	Total marketing expenses scaled by total assets	(Mizik 2010; Mizik and Jacobson 2007)
Market Sensitivity (SENS)	Behavioral response of the market to brand policy and marketing strategy	Standardized coefficient from the regression of marketing intensity and sales	(Carpenter and Fredrickson 2001; Lambin 2006)
Economic Development Distance (ECDEVDIS)	The difference in the level of economic development between countries	*%Difference in GDP per capita in dollars between LA countries and the US each year.	(Hakanson and Ambos 2010; Kumar and Pensari 2016)
Governance Quality (GOVQUAL)	The exercise of authority in a country through traditions and institutions, the process of selecting, monitoring, and replacing governments; the capacity of the government to effectively formulate and implement sound policies; and respect for citizens and institutions, according to the Worldwide Governance Indicators	The difference between the US and country indicator for each year (mean of six "Worldwide Governance Indicators" collected by the World Bank)	(Hakanson and Ambos 2010; Worldbank 2019)
Firm Performance (PERFORM)	Earnings before interest, taxes, depreciation, and amortization is a measure of firm operating performance that excludes financing, tax, and accounting costs.	EBITDA scaled by total assets	(Mizik and Jacobson 2007)
Firm Value (FAVULE)	Value of the company in the financial market.	Tobin's q = $\frac{\text{Stock price} \times N^{\circ} \text{stocks} + \text{Debt}}{\text{Book Value of Total Assets}}$	(Srinivasan and Hanssens 2009)
Competition (COMPET)	Rivalry among sellers trying to achieve such goals as increasing profits, market share, and sales volume by varying the elements of the marketing mix (AMA Dictionary).	Lerner Index = $\frac{\text{Sales} - \text{Operating expenses}}{\text{Sales}}$	(Fungáčová, Shamshur, and Weill 2017)
Financial Flexibility (FINFLEX)	A firm's ability to have financial resources that allow it to respond quickly and effectively to competitive environments.	Total debt divided by total assets	(Edeling & Fisher, 2016)
Size (SIZE)	Dimension or size of the firm.	Log (Total assets)	(McAlister et al. 2016; Malshe and Agarwal, 2015; Edeling and Fisher, 2016)
Dividends (DIVID)	Distribution of a firm's net profits to its shareholders	Dividends scaled by assets	(Ohlson 1995).
Sales (SALES)	Money received by the firm for the exchange of goods and services in a year	Total sales scaled by assets	(Edeling and Fischer 2016)

**RESULTS**

### **Descriptive Statistics and Cross-National Differences**

As expected, on average, LA firms have greater financial constraints than US firms, indicating that LA is an exciting context for studying this phenomenon. Marketing intensity is higher, better performance and greater firm value in the US than in LA, so American firms have greater slack for reducing marketing expenses. Despite the common historical and cultural heritage of LA countries, each has its own legal system and macroeconomic conditions. Consequently, we must consider these differences because they can affect the results of a comparative study. In Table 3, we compare the main variables.

### **Hypothesis Testing**

We first estimate the model separately using the US sample and the entire LA sample (five countries). Next, we estimate the models for each of the five LA countries (see Table 4). The results of both the US and LA samples support the tested hypothesis. H1 as expected. Although the direction is negative as hypothesized, H1 was not supported in the Chile sample and was only marginally supported in the Colombia sample; both countries had the lowest mean marketing intensity and little room for cuts when financial constraints occur. Hypothesis H5 was partially supported in the US and supported for samples. The relationships were positive and significant in LA countries (see Table 4) except for Chile and Colombia. In line with the model, H6a posits that marketing intensity impacts firm performance. Both the US and LA samples supported this hypothesis.

**Table 3. Country Comparison of Main Variables**

	<u>USA</u>		<u>Latin America</u>		<u>USA vs LA</u>		<u>Chile</u>		<u>Mexico</u>		<u>Colombia</u>		<u>Brasil</u>	
	Mean	Std. Dev	Mean	Std. Dev	t-Test	Mean	Mean	Mean	Mean	Mean	Mean	Mean	Mean	Mean
CONSTRIC	-.149	.078	-.073	.089	-13.99***	-.032	-.076	-.062	-.080					
SENS	.450	.498	.397	.489	1.70 <sup>†</sup>	.381	.312	.624	.358					
MKTIN	.101	.089	.080	.104	3.19**	.058	.094	.061	.084					
FPERFORM	.165	.089	.119	.118	6.58***	.093	.155	.097	.116					
FVALUE	3.171	1.864	1.398	.827	22.61***	1.23	1.45	1.08	1.59					
COMPETENCE	-.569	.225	-.754	.453	6.99***	-.778	-.725	-.727	-.748					
FLEX	.545	.274	.533	.198	.88	.486	.509	.481	.598					
ASSETS (MII USD)	21,251	32,624	5,714	19,117	11.27***	3,521	6,375	6,042	9,203					

	<u>Cl vs Mx</u>		<u>Cl vs Bz</u>		<u>Cl vs Pe</u>		<u>Cb vs Mx</u>		<u>Cb vs Bz</u>		<u>Cb vs Pe</u>		<u>Mx vs Bz</u>		<u>Mx vs Pe</u>	
	t-Test	t-Test	t-Test	t-Test	t-Test	t-Test	t-Test	t-Test	t-Test	t-Test	t-Test	t-Test	t-Test	t-Test	t-Test	
CONSTRIC	5.25***	3.26**	8.00***	9.40***	1.33	2.08*	3.81***	-.53	2.57*							
SENS	1.44	-4.55***	.69	-1.72 <sup>†</sup>	5.25***	5.44***	3.28**	-1.05	-2.89**							
MKTIN	-3.56***	-.29	-3.63***	-4.42***	-2.62**	-2.24*	-3.04**	1.07	-.11							
FPERFORM	-5.66***	.32	-2.92**	-5.05***	-4.30***	-1.71 <sup>†</sup>	-3.49***	3.96***	1.47							
FVALUE	-1.86 <sup>†</sup>	1.11	-5.83***	-.09	-2.51*	-5.31***	-1.05	-2.57*	1.95*							
COMPET.	-1.26	-1.10	-.99	-.23	-.04	0.50	.93	.62	1.08							
FLEX	-1.14	-0.23	-7.63***	.67	-1.13	-5.62***	.27	-4.80***	1.70 <sup>†</sup>							
ASSETS	-0.83	-1.06	-3.68***	1.64 <sup>†</sup>	.25	-1.44	2.30*	1.97*	2.24*							

Notes: Significance \*\*\* at 0.001, \*\* at 0.01, \* at 0.05, and <sup>†</sup> at 0.10 (two-tailed)

Mx = Mexico, Cl = Chile, Cb = Colombia, Bz = Brasil & Pe = Peru



H6a received support from all LA samples except for Mexico; however, the direct relationship is significant (Hypothesis H5) for this country. Consequently, this direct route prevailed over the indirect relationship through firm performance. Further, H6b proposes that firm performance impacts firm value. This hypothesis received support from the and LA samples. From Model 3 totally mediated ( $R^2=.327$ ) from Model 2 partially mediated ( $R^2=.349$ ); therefore, the partially mediation model (Model 2) is preferred.

The estimator for simultaneous equations, seemingly unrelated regression (SUR), provides a consistent and efficient estimate (Kumar and Pensari 2016). To assure consistency, we use another estimation method, ordinary least squares (OLS) (see Table 5, MODEL 1 OLS and MODEL 2 OLS). Thus, the hypotheses are supported with no difference in the conclusions between the SUR and OLS estimations.

Table 4. Results Estimations from SUR (Seemingly Unrelated Regression) – Standardized Coefficients

	USA	LA	Chile	Colombia	Mexico	Brasil	Peru
<b>Dependent var.: MKTIN</b>							
CONSTRIC (H1)	-.404***	-.250***	-.013	-.152 <sup>†</sup>	-.304*	-.218***	-.419***
COMPET	.691***	.091***	1.102***	-.034	.254*	.027	.725***
FINFLEX	.011	-.049 <sup>†</sup>	-.031	-.204**	-.269***	.102**	.126 <sup>†</sup>
SIZE	-.199***	-.087***	.075	.232**	.180**	-.236***	-.461***
SALES	.277***	.436***	.593***	.247***	.237**	.558***	.405***
Chi <sup>2</sup> (DF)	213(5)***	691(5)***	108(5)***	77(5)***	65(5)***	434(5)***	318(5)***
<b>Dependen5 var.: PERFORM</b>							
MKTIN (H6a)	.309***	.406***	.221***	.257***	.152	.389***	.592***
SIZE	-.151**	.103***	.036	.175***	.390*	.112*	.359***
Chi <sup>2</sup> (DF)	64(2)***	272(2)***	15(2)**	26(2)***	7(2)*	157(2)***	263(2)***
<b>Dependent var.: FVALUE</b>							
PERFORM (H6b)	1.263***	.215***	.515***	.458***	.050*	.438***	.316***
MKTIN (H5)	.199 <sup>†</sup>	.227***	-.013	.028	.124*	.219***	.147***
COMPET	.382 <sup>†</sup>	.090***	.357**	-.058	.233*	.152***	-.062
FINFLEX	-.011	.076**	.066	.017	.038	-.026	.186***
SIZE	-.256*	.098***	.134***	.118***	.113*	-.213***	.171**
DIVID	-.214 <sup>†</sup>	.431***	.150***	.180**	.018	.513***	.192***
SALES	.339**	.032	.240**	.010	.123*	.069 <sup>†</sup>	-.030
Chi <sup>2</sup> (DF)	212(7)***	1371(7)***	259(7)***	174(7)***	30(7)***	1146(7)***	254(7)***
n	307	1,499	291	117	157	632	302
Number of firms	37	219	51	26	33	73	36
Average years	8.3	6.8	5.7	4.5	4.8	8.7	8.4
Years	2009-2017	2009-2017	2009-2017	2009-2017	2009-2017	2009-2017	2009 - 2017

Notes: Significance \*\*\* at .001, \*\* at .01, \* at .05, and <sup>†</sup> at .10 (two-tailed)

Sample: By GICS sectors: consumer discretionary (24%), consumer staples (22%), materials (17%), industrials (10%), utilities (9%), information technology (8%), healthcare (3%), energy (3%), telecom (2%), and other (2%). By country is Brazil (35%), USA (17%), Peru (17%), Chile (16%), Mexico (9%), and Colombia (7%).

Table 5. Results Estimations All Countries – Standardized Coefficients

	MODEL 1 SUR	MODEL 1 OLS	MODEL 2 SUR	MODEL 2 OLS	MODEL 3 SUR	Hypothesis
<b>Dependent var.: MKTIN</b>						
CONSTRIC (H1)	-.295***	-.233***	-.403***	-.278***	-.300***	Supported
CONST*SENS (H2)			.108***	.106***	.105***	Supported
CONST*ECDEVDIS (H3)			.245**	.157*	.175*	Supported
CONST*GOVQUAL (H4)			-.171**	-.155**	-.194***	Supported
SENS			-.140***	-.145***	-.128***	
ECDEVDIS			-.051	-.066	-.036	
GOVQUAL			.012	.024	-.009	
SALES	.398***	.407***	.385***	.396***	.396***	
COMPET	.121***	.156***	.085***	.124***	.099***	
FINFLEX	.025	.028	.032	.030	.023	
SIZE	-.103***	.094***	-.127***	-.105***	-.094***	
Chi <sup>2</sup> or F (DF)	825(5)***	148(5)***	1057(11)***	86(11)***	979(11)***	
<b>Dependent var.: PERFORM</b>						
MKTIN (H6a)	.430***	.324***	.424***	.324***	.430***	Supported
SIZE	.116**	.104***	.116***	.104***	.116***	
Chi <sup>2</sup> or F (DF)	389(2)***	109(2)***	373(2)***	368(2)***	383(2)***	
<b>Dependent var.: FVALUE</b>						
PERFORM (H6b)	.497***	.361***	.496***	.361***	.593***	Supported
MKTIN (H5)	.349***	.195***	.384***	.195***	.195***	Supported
SALES	.051†	.064**	.035	.064**	.189***	
COMPET	.232***	.179***	.226***	.179***	.293***	
FINFLEX	-.013	-.009	-.013	-.009	.010	
DIVID	.199***	.150***	.196***	.150***	.227***	
SIZE	.238***	.171***	.239***	.171***	.214***	
Chi <sup>2</sup> or F (DF)	1177(7)***	141(7)***	1118(7)***	141(7)***	943(6)***	
n	1,806	1,806	1,806	1,435	1,435	
Number of firms	256	256	256	256	256	
Average years	7	7	7	7	7	
Years	2009-2017	2009-2017	2009-2017	2009-2017	2009-2017	

Notes: Significance \*\*\* at .001, \*\* at .01, \* at .05, and † at .10 (two-tailed)

$$(Eq.1) MKT_{i,t} = \beta_1 - \beta_2 CONSTR_{i,t} + \beta_3 CONSTR_{i,t} \times SENS_{i,t} + \beta_4 CONSTR_{i,t} \times ECDEVDIS_{i,t} + \beta_5 CONSTR_{i,t} \times GOVQUAL_{i,t} + \beta_6 SENS_{i,t} + \beta_7 ECDEVDIS_{i,t} + \beta_8 GOVQUAL_{i,t} + \beta_9 CONTROL_{i,t} + \epsilon_{i,t}$$

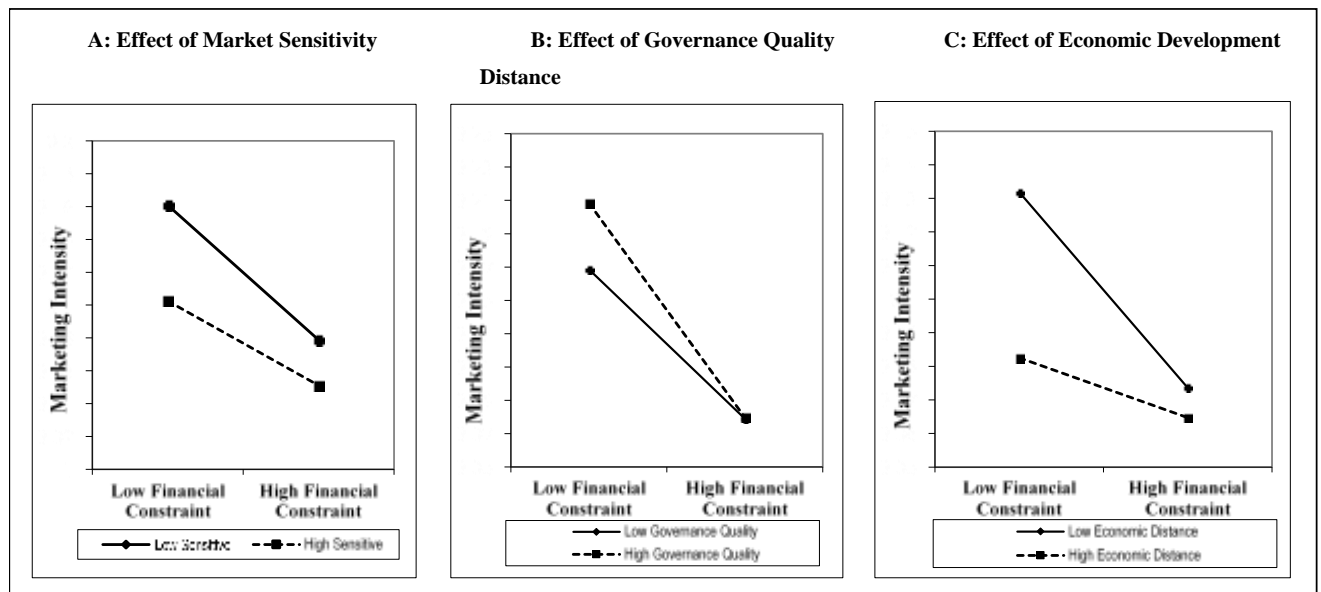
$$(Eq.2) FVALUE_{i,t} = \beta_{10} + \beta_{11} MKT_{i,t} + \beta_{12} CONTROL_{i,t} + \epsilon_{3,t}$$

$$(Eq.3) PERFORM_{i,t} = \beta_{13} + \beta_{14} MKT_{i,t} + \beta_{15} CONTROL_{i,t} + \epsilon_{2,t}$$

## Moderating Effects

Examining the moderating effects (see Model 2, Table 5) all parameters are significant and the sign hypothesized. For market sensitivity H2( $\beta_3=.108$ ,  $p<.001$ ), the governance quality, H4( $\beta_5=-.171$ ,  $p<.01$ ), and the economic development distance H3( $\beta_4=.245$ ,  $p<.01$ ). Finally, estimating model 2 with the three moderators improves the model fit: the base model 1 in equation 1 has an  $R^2$  of .286 while the full model has an  $R^2$  of .315, confirming the moderating effects. To further analyze the interactions, we plot the effect of moderators (Figure 2.).

Figure 2. Interpretation of Moderating Effects on the Financial Constraint – Marketing Intensity Relationship



## Matching Procedure Comparison Between the US and LA

We conduct a matching procedure (see Table 6.) as a causality test (Imbens and Rubin 2015) to obtain a meaningful comparison of the findings for LA and US firms. We conclude, as expected, that there are differences in comparable firms in the US and LA in terms of these three (dependent) variables. There is no correlation between the unobservable variables that affect the treatment and outcome for the three equations, indicating there is no endogeneity problem.

**Table 6. Matching procedure comparison Between the US and LA**

PROCEDURES	RESULTS	CONCLUSION
The average treatment effect (ATE) calculated WITH the nearest neighbor matching estimator and the Mahalanobis distance.	Eq. 1 (b= .017, z=3.23, p<.01), Eq. 2 (b=1.532, z=13.43, p<.001) Eq. 3 (b=.073, z=4.15, p<.001)	Causal difference between US and LA firms.
Endogenous treatment-effect estimation	Eq. 1 (chi <sup>2</sup> (2)=.27, p>.10) Eq. 2 (chi <sup>2</sup> (2)=3.11, p>.10) Eq. 3 (chi <sup>2</sup> (2)=.27, p>.10)	No endogeneity problem

### Consistency Analysis

The literature suggests alternative estimations should be performed (see Table 7.) to ensure the results of the model are reliable (Edeling and Fisher 2015). The results did not alter the original findings, and confirm that reversibility, measurements validity and endogeneity are not a concern.

**Table 7. Summary of Consistency Test Results**

CONSISTENCY ANALYSIS	RESULTS	CONCLUSION
1. Collinearity tests on each equation	equation 1 VIF = 1.12, equation 2 VIF = 1.01, equation 3 VIF = 1.29 ecuación 1 w/modert. VIF = 4.77	No collinearity risk
2. Model re-estimation with variables lagged 1 year (CONSTR y MKT))	Eq. 1 : Chi2(5)= 553, p<0.0000 Eq. 2 : Chi2(2)= 263, p<0.0000 Eq. 2 : Chi2(7)= 1400, p<0.0000	No change in conclusions, no reversibility
3. Model re-estimation with variables CONSTR lagged 1 year.	Eq. 1 : Chi2(5)= 678, p<0.0000 Eq. 2 : Chi2(2)= 327, p<0.0000 Eq. 2 : Chi2(7)= 957, p<0.0000	No change in conclusions, no reversibility.
4. Alternative measurements SENS (B2B/B2C and low/high index)	H1: ( $\beta = -.378$ p<.001) H2: ( $\beta = .427$ , p<.001)	No change in conclusions
5. Alternative measurements Financial Constraint (PCA index operational cash flow, dividends, and cash assets)	H1: ( $\beta = -.445$ p<.001) H2: ( $\beta = .089$ , p<.001)	No change in conclusions
6. Model estimation with alternative estimators of simultaneous equations SUR and OLS. Hausman test	Test = Ho. Difference in coefficients is not systematic chi2(5) = -532 , it cannot be rejected, it is accepted Ho.	Endogeneity is not a problem, SUR is an efficient estimator
7. Estimation with the generalized method of moments. Arellano Bond test in two stages, 2nd order error autocorrelation.	2nd order errors Eq. 1: (z=-1.7067, p=0.0879) 2nd order errors Eq. 2: (z=-1.5736, p=0.1156) 2nd order errors Eq. 3: (z=.64781, p=0.5171)	No Endogeneity risk

## **DISCUSSION**

### **Theoretical Implications**

These research results provide a novel perspective to explain the dynamics and effects of marketing decisions under financial constraints, where previous studies emphasize the budgeting process and neglect the execution process. Our findings differ from previous studies by extending the field with additional variables and moderators, which explain differences in international markets, but previous studies considered a boundary condition. This research expands the spatial boundaries of agency theory by testing the theory in a particular context of marketing decisions under financial constraint, adding this financial phenomenon to the marketing-finance literature. Drawing on agency theory, we propose that marketing intensity decisions are negatively affected by the financial constraint experienced by firms, that market and country conditions also moderate these decisions, and that these decisions, in turn, affect firm value and performance, this contribute to the literature on agency theory.

We confirm the negative impact of financial constraint on marketing intensity in all the samples and countries except Chile. Our results indicate that U.S. firms experience a higher negative effect than Latin American firms because U.S. firms face lower risk; this finding accords with our theoretical argument about the effect of risk on managers' behavior. This result contributes to explaining the contradictory results in earlier studies (Edeling and Fisher 2016; Han and Manry 2004).

Our results show that in the international context of foreign markets, in which the environment of emerging countries in Latin America differs from that in the U.S., Latin American firms experience different risk levels, and, accordingly, the pressures on managers' behavior are different. Additionally, this study fills the gap of scarce literature on an international context. We found that decisions may differ between countries within Latin America, because they face different risks. Further, we verify that market characteristics and the macroeconomic environment may affect the risks faced by the agent and by the principal and limit agents' decisions. Our research confirms the moderating effect of market sensitivity, country governance quality, and country economic development on the relationship between financial constraint and marketing intensity. Given that agency theory predicts that market sensitivity should influence managers' risk when managers act as agents, while the relationship in Latin America was as expected. Additionally, our study confirms that the governance quality of a country influences risk (Ozturk 2016) and that firms in countries with higher governance quality show higher marketing intensity, as in the case of U.S. firms; this also explains the lower marketing intensity of firms in Latin American countries.

What is more, the economic development affects the availability of customers and the distribution infrastructure in a country (Kumar and Pensari 2016), which may limit the degree of risk in the decisions made by agents. Finally, as stated above, this research contributes a new perspective on the reduction of marketing intensity during the execution period and the subsequent effect on the future health of a firm. Our conclusions align with those of prior research in the U.S. setting (Mizik 2010) investigating other situations that lead to reductions in marketing intensity.

### **Managerial Implications**

This work has implications for managers as they assign marketing budgets to international markets when a firm faces the presence of financial constraints. Managers must recognize the different magnitudes of the effect of decreasing marketing intensity in an international setting



under financial constraints, as well as the moderating effects of market and economic environmental factors.

Managers should be aware of a country's economic development. In countries with larger economic development distance (EDD) from the US that are less developed and have fewer customers, such as Peru (mean EDD=.885) and Colombia (mean EDD=.872) there are fewer alternative customers due to the lack of a distribution infrastructure and lower penetration.

Before making any drastic decisions, managers should consider the firm's sensitivity before decreasing its marketing intensity. More sensitive companies have greater difficulty achieving results because a significant reduction in marketing intensity will be evident to shareholders (e.g., a reduction in the sales force or sponsorship).

Additionally, this work has implications for shareholders who focus not only on short-term results but make a general assessment of the company. A focus on short-term results may lead to hidden actions by managers, affecting the future value of their shares. Investors should be aware that excessive pressure for short-term financial results will impact firm value and their interests. This is critical in global companies, where it is difficult for the corporate office to monitor managers' hidden actions.

Managers should seriously consider whether the firm has sufficient strategic flexibility in terms of financial leverage and credit lines. In these cases, firms must develop a contingency plan to prepare for difficult times. This process is part of the CFO's job. We hope this international and interdisciplinary work provides a better understanding of the phenomenon and encourages managers to look at marketing and finance as parts of a collective process rather than adversaries competing for resources (Conchar, Crask, and Zinkhan 2005).

## **LIMITATIONS AND FURTHER RESEARCH**

The marketing intensity data from a financial database cannot be broken down into its constitutive activities, such as above the line and below the line activities, digital marketing and interface relationships, and promotions. Likely, the marketing intensity variable does not include price discounts, promotions, rebates, or bonuses. This limitation, caused by the coarse nature of the marketing intensity measurement, should be addressed with further experimental research. For example, managers could be exposed to scenarios of different marketing activity choices in the presence of financial constraints; further experimental research on choices of these types of promotion activities should be helpful.

It is important to notice that the cultural components of the home country can also influence the manager's reactions. This study does not include cultural variables as Hofstede's dimensions because to get a variation, more countries from different cultures are necessary. This provides an opportunity for future research using global data to explore the home country culture influence in marketing intensity.

## REFERENCES

- Albers, Sönke, Murali K. Mantrala, and Shrihari Sridhar (2010), "Personal Selling Elasticities: A Meta-Analysis," *Journal of Marketing Research*, 47 (5), 840–853.
- Campello, Murillo, John Graham, and Campbell Harvey (2010), "The Real Effects of Financial Constraints: Evidence from a Financial Crisis." *Journal of financial Economics*, 97 (3), 470-487.
- Capon, Noel, John U. Farley, and Scott Hoenig (1990), "Determinants of Financial Performance: A Meta-Analysis," *Management Science*, 36 (10), 1143–1159.
- Carpenter, M. A., & Fredrickson, J. W. (2001). Top management teams, global strategic posture, and the moderating role of uncertainty. *Academy of Management journal*, 44(3), 533-545
- Conchar, Margy P., Melvin R. Crask, and George M. Zinkhan (2005), "Market valuation models of the effect of advertising and promotional spending: a review and meta-analysis," *Journal of the Academy of Marketing Science*, 33 (4), 445-460.
- Daniel, S. J., Cieslewicz, J. K., & Pourjalali, H. (2012), "The impact of national economic culture and country-level institutional environment on corporate governance practices," *Management International Review*, 52(3), 365-394.
- Edeling, Alexander and Marc Fischer (2016), "Marketing's Impact on Firm Value: Generalizations from a Meta-Analysis," *Journal of Marketing Research*, 53 (4), 515–34.
- Fazzari, Steven, R. Glenn Hubbard, and Bruce C. Petersen (1987), "Financing constraints and corporate investment,"
- Gorodnichenko, Y., and Schnitzer, M. (2013), "Financial constraints and innovation: Why poor countries don't catch up," *Journal of the European Economic Association*, 11(5), 1115-1152.
- Graham, John, Campbell Harvey, and Shiva Rajgopal (2004), "The Economic Implications of Corporate Financial Reporting." *Journal of Accounting and Economics*, 40 (1), 3-73.
- Groșanu, A., Boța-Avram, C., Răchișan, P. R., Vesselinov, R., & Tiron-Tudor, A. (2015), "The influence of country-level governance on business environment and entrepreneurship: A global perspective," *Amfiteatru Economic Journal*, 17(38), 60-75.
- Hakanson, L., and Ambos, B. (2010), "The antecedents of psychic distance," *Journal of International Management*, 16(3), 195-210.
- Han, Bong H. and David Manry (2004), "The Value-Relevance of R&D and Advertising Expenditures: Evidence from Korea," *The International Journal of Accounting*, 39 (2), 155–73.
- Imbens, Guido W., and Donald B. Rubin. (2015), "Causal inference in statistics, social, and biomedical sciences," *Cambridge University Press*.
- Jinjarak, Y., and Wignaraja, G. (2016), "An Empirical Assessment of the Export—Financial Constraint Relationship: How Different are Small and Medium Enterprises?," *World development*, 79, 152-163.
- Kumar, V. and Anita Pansari (2016), "National Culture, Economy, and Customer Lifetime Value: Assessing the Relative Impact of the Drivers of Customer Lifetime Value for a Global Retailer," *Journal of International Marketing*, 24 (1), 1–21.

- Lambin, J. J. (2006). *Marketing Estratégico*; Editorial Mc Graw-Hill.
- Lenartowicz, T., and Balasubramanian, S. (2009), “Practices and performance of small retail stores in developing economies,” *Journal of International Marketing*, 17(1), 58-90.
- Luo, Miao, Daniel X. Jiang, and Jun Cai (2015), “Investor Sentiment, Product Features, and Advertising Investment Sensitivities,” *Asia-Pacific Journal of Financial Studies*, 43 (6), 798-837.
- Malshe, Ashwin and Manoj Agarwal (2015), “From Finance to Marketing: Impact of Financial Leverage on Customer Satisfaction,” *Journal of Marketing*, 79 (5), 21-38.
- Mishra, S., and Ewing, M. T. (2020), “Financial constraints and marketing investment: evidence from text analysis,” *European Journal of Marketing*.
- Mizik, Natalie (2010), “The Theory and Practice of Myopic Management,” *Journal of Marketing Research*, 47 (4), 594–611.
- Mizik, Natalie and Robert Jacobson (2007), “Myopic Marketing Management: Evidence of the Phenomenon and Its Long-Term Performance Consequences in the SEO Context,” *Marketing Science*, 26 (3), 361–79.
- Musso, P., and Schiavo, S. (2008). The impact of financial constraints on firm survival and growth,” *Journal of Evolutionary Economics*, 18(2), 135-149.
- Ozturk, H. (2016), “Reliance of Sovereign Credit Ratings on Governance Indicators,” *The European Journal of Development Research*, 28(2), 184-212.
- Sethuraman, Raj, Gerard J Tellis, and Richard A Briesch (2011), “How Well Does Advertising Work? Generalizations from Meta-Analysis of Brand Advertising Elasticities,” *Journal of Marketing Research*, 48 (3), 457–471.
- Srinivasan, Shuba and Dominique M Hanssens (2009), “Marketing and Firm Value: Metrics, Methods, Findings, and Future Directions,” *Journal of Marketing Research*, 46 (3),293–312.
- Talukdar, D., Sudhir, K., and Ainslie, A. (2002), “Investigating new product diffusion across products and countries,” *Marketing Science*, 21(1), 97-114.
- Ughetto, Elisa (2016), “Investments, Financing Constraints and Buyouts: the Effect of Private Equity Investors on the Sensitivity of Investments to Cash Flow,” *The Manchester School*, 84 (1), 25–54.
- World Bank (2019). “Worldwide Governance Indicators,” (accessed April 16, 2019). <http://info.worldbank.org/governance/wgi/#home>
- Zheng, W., Liu, Y., and Deng, Y. (2009), “A comparative study of international insurance Markets,” *The Geneva Papers on Risk and Insurance-Issues and Practice*, 34(1), 85-99.

## **Distinguished papers (listed in alphabetical order)**

# Participation continuance of users and providers in sharing economy: A moderated mediation model for the two milieus

**Jiang Jiang**  
**Tongji University**

## **Abstract**

*This paper reports a series of three studies to clarify and compare the motivational and trust-based participation continuance intention (PCI) in the context of peer-to-peer ride-sharing services from the perspectives of users and providers. The results show that while innovativeness negatively moderates the relationship between economic-benefits and PCI for both user and provider groups, it moderates the relationship between social-hedonic-value and PCI for only the provider group. This paper empirically validates an extended model of PCI formation considering innovativeness and role-heterogeneity of the two studied groups in the SE context. It offers several theoretical and practical implications.*

# THE IMPACT OF ENTREPRENEURSHIP EDUCATION AWARENESS SEMINARS ON DISCRETE ENTREPRENEURIAL EMOTIONS AND INTENTIONS OF BUSINESS AND NON-BUSINESS STUDENTS

**Keller Pierre**  
**Riseba University of Business, Arts and Technology**

## ***Abstract:***

This dissertation investigates the role of discrete entrepreneurial emotions in the context of entrepreneurship awareness seminars, demonstrates how those emotions help predicting entrepreneurial intentions and answers the question of how to manage Entrepreneurship Education effectively in order to stimulate emotions. As a consequence, this research creates a major scientific novelty with regard to the affect-intention relationship, explaining additional variance in entrepreneurial intention, which helps understanding the drivers of entrepreneurial behaviour better. Within this approach, the author introduces the combination of the Affect Infusion Model and the Theory of Planned Behaviour, offering research agenda for future research.

## **Research purpose**

The past thirty years have seen increasingly rapid advances in the research field of **Entrepreneurship Education (EE)** (Martin, McNally & Kay, 2013). Nowadays, EE is an accepted sub-field of entrepreneurship research in scope of well-established and reputable scientific journals (Jones & Matlay, 2011).

According to Robinson and Josien (2014), EE can act as a key success factor when it comes to entrepreneurial action, i.e. business foundations, and/or innovative products and services. Especially Higher Education Institutions lay foundations for potential entrepreneurial activity among young people. In this case, EE at Higher Education Institutions can foster **entrepreneurial intention (EI)** of students; and these intentions are valid proxies of later entrepreneurial action (Rauch & Hulsink, 2015), explaining about 30% of the variance in subsequent behaviour (Armitage & Conner, 2001). For this reason, investigations of intention in the contexts of entrepreneurship and EE gained popularity, especially since entrepreneurial action is known to bring positive effects for the students themselves, their future employers, and economies (Charney & Libecap, 2000).

As part of these investigations, entrepreneurship researchers have been consistently enriching scholarly knowledge by adopting theories and insights from other disciplines to understand how prospective entrepreneurs learn and engage in entrepreneurial action (e.g., Iakovleva, Kolvereid & Stephan, 2011). This dissertation follows that approach and contributes by these means to the field of entrepreneurship research drawing insights from psychology and education. According to Gorgievski and Stephan (2016), psychology contains high opportunities for receiving a deeper insight into the drivers of entrepreneurial action. In this context, the purpose and major theoretical significance of this dissertation is the contribution to the **Theory of Planned Behaviour (TPB)** (Ajzen, 1991), a central theory in EE impact research.

In **EE impact research**, the TPB remains the central theory with regard to measuring EI (Nabi et al., 2017). Studies such as the one by Kautonen, Gelderen, and Fink (2015) further

showed the applicability of this theory in measuring variations in behaviour. Numerous studies have also already proven the robustness of the TPB in entrepreneurship and EE research in different contexts (see, e.g., Schlaegel & Koenig, 2014). However, a call for investigating the **affect-intention relationship** more deeply is observable in recent EE literature, as affect may increase the proportion of variance explained in EI (Grégoire et al., 2015). In addition, and due to the results of the systematic literature review of this dissertation, it became clear that affective learning outcomes constitute only a fraction of EE impact research in comparison to cognitive and skill-based ones. This dissertation thus focused on this detected research gap. In doing so, the theoretical framework of the dissertation refers to the **Affect Infusion Model (AIM)** (Forgas, 1995). Through this, emotion-based variables being appropriate for the integration into this dissertation's EE impact study could be identified in order to measure discrete entrepreneurial emotions and EI. Ultimately, this approach tried to generate novel evidence on the affect-intention relationship including the aim of increasing the proportion of variance explained in intention. Being more specific, this study formulates a novel proposition that suggests combining the **Affect Infusion Model (AIM)** (Forgas, 1995) with the TPB.

In line with this investigation, analyses of specific contextual circumstances – including the student group, lecturer's authenticity and especially the conducted teaching method – possibly influencing discrete entrepreneurial emotions, EI and their bilateral relationship were part of this research in order to derive best practice guidelines for Higher Education Institutions in order to maximise effectiveness and efficiency of EE.

With regard to contextual factors potentially having effects on affective learning outcomes, EE research rather tended to focus on business students than to include **non-business**. In connection with this, Bergmann et al. (2018) emphasise the importance of spreading EE across non-business disciplines because, on the one hand, they have high creative potential, and, on the other hand, tend to lack entrepreneurial competencies. The author of this dissertation decided to follow this research call by investigating if different disciplinary backgrounds might have an influence on affective learning outcomes in order to understand EI and action better.

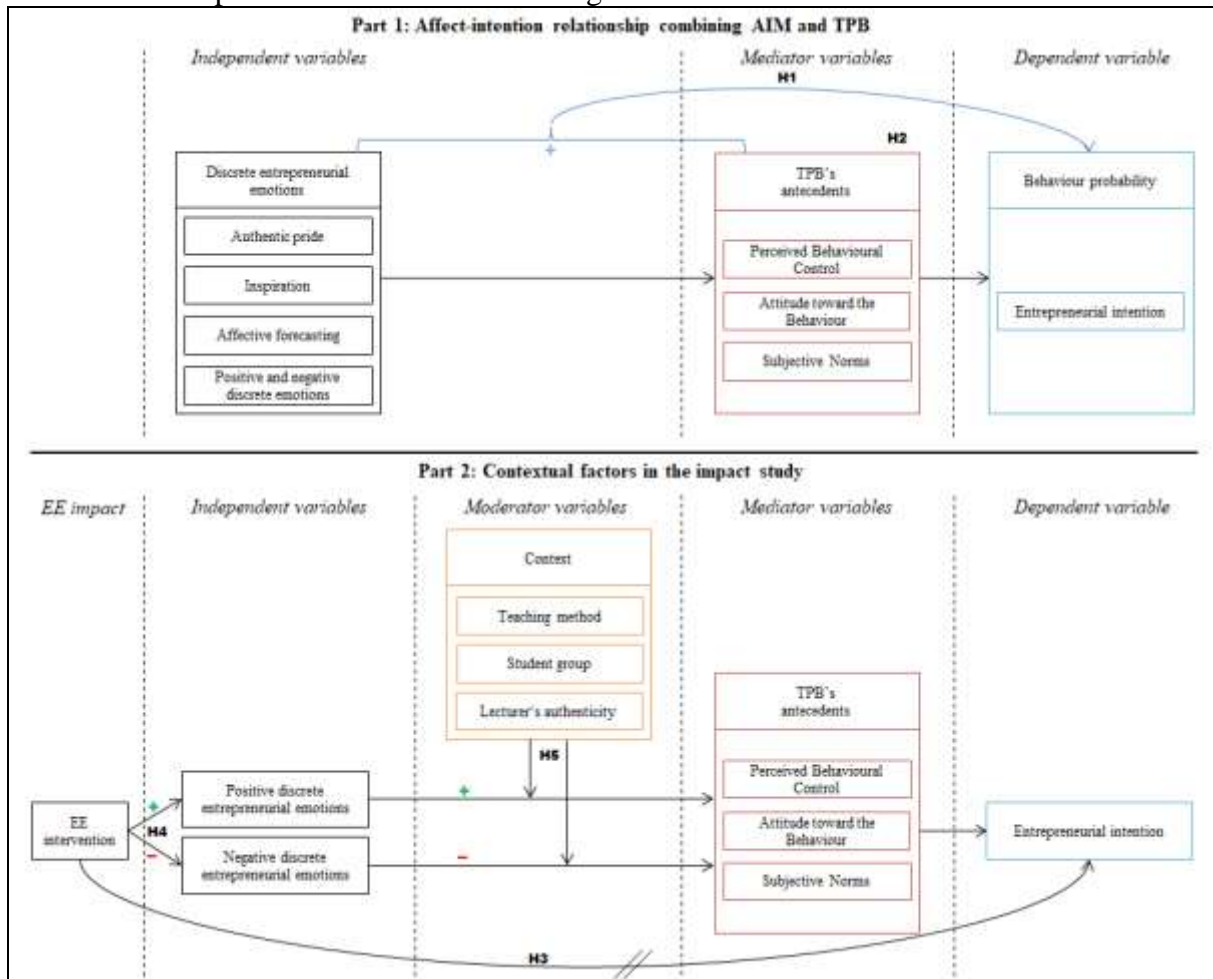
In addition, the **investigation of different teaching methods (traditional and experiential)**, i.e., combining knowledge from entrepreneurship and pedagogy and, thus, dealing with the criticism of a **lacking linkage of EE with pedagogical theories** (Fayolle & Gailly, 2015), constitutes another major contribution of this research – especially through the empirical investigation made, which is scarce (Piperopoulos & Dimov, 2015). The new insight provided thus can help changing current educational practices to sensitise students for entrepreneurship more effectively.

Another contextual factor is the **duration of EE interventions**. Scientists call for an investigation of short trigger events, as it remains under-researched if the emergence of affective learning outcomes is also possible in this context (Lorz, 2011). This investigation implies the purpose of improving efficiency of teaching in Higher Education Institutions, as effective **awareness seminars** save time and other resources in comparison to longer EE interventions (e.g. lasting one semester). Such awareness seminars strive to the constructivist model, assuming that intention evolves and only needs a trigger event, and try to increase the attractiveness of entrepreneurship as a career path among higher education students (Krueger, 2015). These seminars focus on **affective** instead of skill-based learning outcomes due to the short time frame being inappropriate for transferring substantial knowledge and skills (Johansen & Schanke, 2013). Detecting the research gap of affective learning outcomes in the context of trigger events follows the research outlooks by Baron (2008), Lackéus (2014), Zampetakis et al. (2015), and Nabi et al. (2017).



Finally, **lecturer's authenticity** represents the fourth investigated contextual reason possibly influencing the learning outcomes of EE interventions and is closely linked to the investigation of affective learning outcomes in trigger events. It seems obvious that reaching significant effects on entrepreneurial affect and intention is easier to reach with the help of an authentic lecturer (e.g. an entrepreneur), portraying a role model serving as a facilitator (Wright, 2013). Broadening the scholarly knowledge about lecturer's authenticity can improve the effectiveness of teaching entrepreneurship in Higher Education Institutions.

The conceptual framework summarizing the described research is illustrated below:



**Figure 1: The Conceptual Framework of the Dissertation**

The two main investigations ‘affect-intention relationship’ and ‘contextual factors’ imply the following **research hypotheses**:

Part 1: Affect-intention relationship combining Affect Infusion Model and Theory of Planned Behaviour

H1: Discrete entrepreneurial emotions increase the proportion of variance explained in EI in addition to the variance Theory of Planned Behaviour's antecedents explain.

H2: Theory of Planned Behaviour's antecedents (‘attitude toward the behaviour’ (H2a), ‘subjective norms’ (H2b) and ‘perceived behavioural control’ (H2c)) mediate the effect of discrete entrepreneurial emotions on EI.

Part 2: Contextual factors in the impact study

H3: Participation in an Entrepreneurship Education awareness seminar has no significant effect on students' EI.

H4: Participation in an Entrepreneurship Education awareness seminar increases students' ‘positive discrete entrepreneurial emotions’ (H4a) and decreases students' ‘negative discrete entrepreneurial emotions’ (H4b).

H5: Contextual factors ('teaching method' (H5a), 'student group' (H5b) and lecturer's authenticity (H5c)) moderate the effect of discrete emotions on the three antecedents of the Theory of Planned Behaviour.

## Research method

As part of the theoretical part of the study, a thematic delineation of different subcategories of studies in EE was reached through a systematic literature review and the use of citation analysis and subsequent co-citation analysis. The methodology of selecting research articles is illustrated below:

**Table 1**  
**Methodology of selecting research articles in EE for citation analysis**

Selection process of relevant literature sources								
<b>Database</b>	Academic OneFile	EBSCO	Elsevier	Google Scholar	JSTOR	Research Gate	Science Direct	Scopus
<b>Keyword</b>	Entrepreneurial emotion, Entrepreneurial intention, Entrepreneurship education, Experiential, Learning outcomes, Lecturer authenticity, Teaching method, Teaching model, Theory of Planned Behaviour.							
<b>Objective quality criteria</b>	Journal ranking according to Chartered Association of Business Schools' Academic Journal Guide 2018, h-index of the author(s), year of publication.							
<b>Subjective quality criterion No.1</b>	Evaluation of title, keywords, and abstract according to relevance for EE impact studies.							
<b>Number of potential literature sources for citation analysis: 144</b>								
<b>Data cleaning</b>	Re-check of the citation correctness (year, author/s, title, journal, pages), elimination of duplicate documents (4).							
<b>Subjective quality criterion No.2</b>	Critical review of the whole document regarding its relevance for EE impact studies and its scientific standard.							
<b>Number of sources used for citation analysis: 79. Number of sources refused: 65.</b>								

Starting with the initially selected 79 research articles, a **calculation of the scientific impact** was the first analytical step; citations were used as indicator of the most influential research articles that have shaped the field (Xi et al., 2015). For this purpose, citation analysis was employed. In addition, following the procedure of Liñán and Fayolle (2015), an analysis of cross-citations was conducted in the range of the 26 (indicating the upper third of the initial sample) most influential research articles selected in the core field of EE in order to identify groups of similar topics, classify the research articles into these groups, and highlight influential contributions inside these groups (Shafique, 2013). For a closer examination, a critical review of the 26 selected studies regarding their content followed (Liñán & Fayolle, 2015), serving as a basis for indentifying research gaps regarding the course characteristics of formerly organised EE interventions, the methodology chosen and the variables selected. The main findings of the review were used for the theoretical foundation of the dissertations' conceptual framework, research design, and methodology and are the following:

- Using ex-ante- **and** ex-post-surveys in order to prove possible intention and emotion variance.
- Using **compulsory courses** in a less strictly manner in order to deal with self-selection bias, advising students to join a course because it is part of the exam, and giving students positive incentives to join the course (bonus points).
- Using **awareness seminars** as a decisional point towards entrepreneurship or vice versa, e.g., by considering variances in EI or entrepreneurial emotions.
- Exploring which teaching methods lead to positive learning outcomes, splitting the treatment group into **sub-groups with different teaching methods**.
- Investigating how interventions may lead to different learning outcomes depending on the **students' disciplinary background**.
- Investigating the **relationship between entrepreneurial emotions and EI** by using AIM and TPB as theoretical anchors with the goal of contributing to the TPB and increasing the proportion of variance explained in EI.
- Investigating whether **role-models (entrepreneurs) with high authenticity** increase the positive effect on students' entrepreneurial emotions and EI.

The methodological basis of the dissertation's empirical part is **quantitative research**. In August 2018, a pre-test of the survey was done in the context of an 'Entrepreneurship Summer School' in order to test the chosen items/scales and, thus, to find ways of improving in the survey. The variable operationalisation, which was part of this research step, is summarized in the following figure:

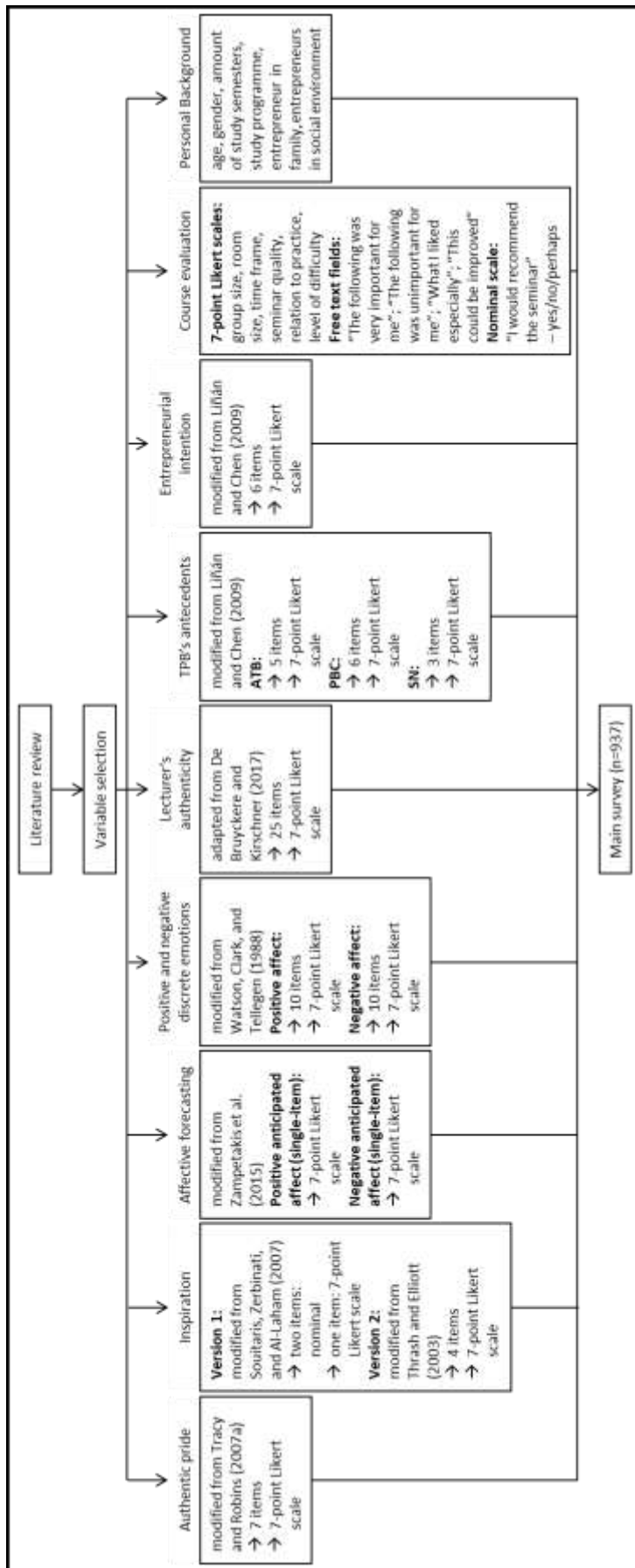
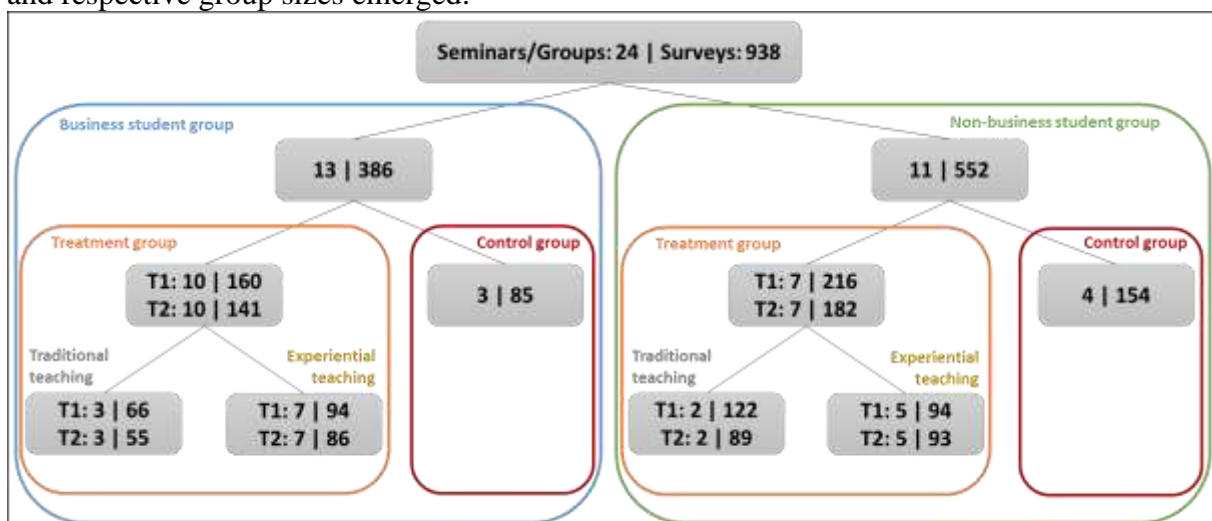


Figure 2: Variable operationalisation process

As Figure 2 shows, most variables of the conceptual framework were measured using a **7-point Likert scale**. In addition, the variables constitute multi-item measurements, which are beneficial in terms of reliability (Lorz, Mueller & Volery, 2013).

The primary research part of this study started in mid-October 2018, portraying the start of the academic term at the University of Applied Sciences Kaiserslautern, Germany, where data collection occurred. The surveys were distributed both before (ex-ante) and after (ex-post) 17 organised three hours lasting EE awareness seminars to their participants at the university's three campuses. The seminars either based on a traditional teaching method (classic entrepreneurship lecture) or an experiential teaching method (Business Model Canvas workshop). By definition, the dissertation followed a **quasi-experimental design within a laboratory setting**, using the classroom as a controlled setting for conventional laboratory experiments (classroom experiment) (Hsu, Simmons & Wieland, 2017). This approach is in line with recent recommendations of scientists in EE striving to strengthen methodological rigour (see, e.g., Lorz, Mueller & Volery, 2013) and based on positive lessons learned from several reputable contributions in EE (e.g., Souitaris, Zerbinati, and Al-Laham (2007); Nabi et al. (2017)).

376 students joined and filled-out the ex-ante (T1) survey within the 17 organised awareness seminars (five based on the traditional and twelve based on the experiential teaching method); resulting in 323 valid ex-post (T2) surveys. Seven seminars were held in non-business study programmes (216 students filled-out the ex-ante and 182 filled-out the ex-post survey) and ten in business administration programme (160 students filled-out the ex-ante and 141 filled-out the ex-post survey). Apart from that, the control group consists of 239 students; 85 from business administration and 154 from non-business courses. With regard to the latter, both the treatment and the control groups came from very diverse study programmes, including IT (49%), engineering (31%), pharmacy (10%), applied life sciences (8%), and logistics (2%). As a result of the 24 data collections made, the following groups and respective group sizes emerged:

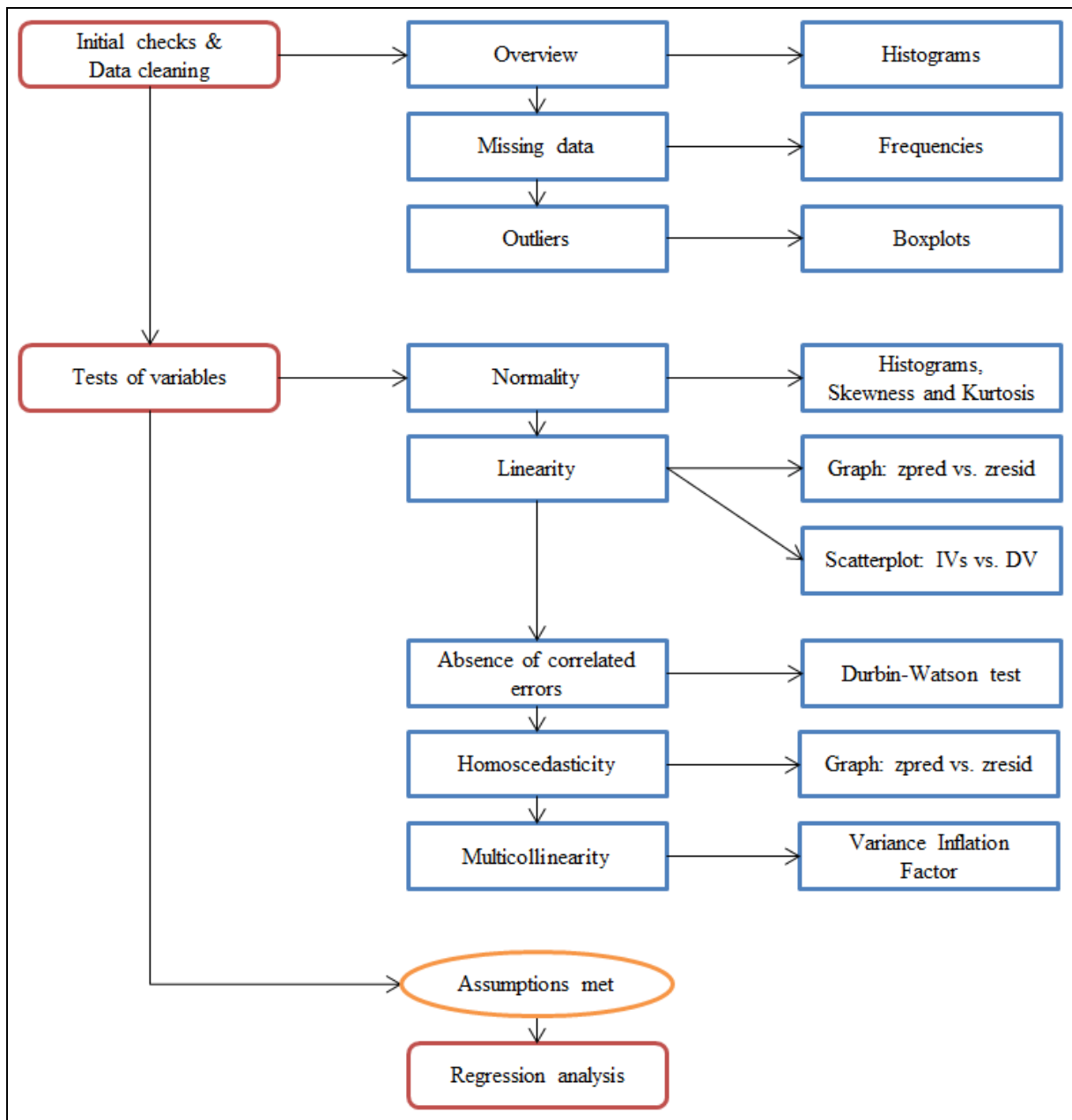


**Figure 3: Distribution of valid surveys and data collections across the sub-groups**

This high amount of valid surveys collected in a time range of over one year provided a strong basis for further data analysis.

## Major results

In the beginning of the analysis, initial checks and subsequent steps of testing the variables were made, like it is observable in the following figure:



**Figure 4: Summary of the steps made for testing the variables**

As a result of the initial checks and tests of variables, acceptable results were obtained and assumptions for subsequent data analysis, predominantly performed using predominantly (stepwise) multiple linear regression models and difference-in-differences framework (including t-tests), were met. Prior to that, factor analysis and scales reliability tests of authentic pride, positive and negative affect schedule (PANAS), inspiration, TPB's antecedents, EI, and lecturer's authenticity were conducted. The following major results were achieved:

**Table 2  
Summary of the hypothesis tests**

Hypothesis	Result
1   Discrete entrepreneurial emotions increase the proportion of variance explained in EI in addition to the variance TPB's antecedents explain.	Support

2a	TPB's antecedent 'attitude toward the behaviour' mediates the effect of discrete entrepreneurial emotions on EI.	Partial support
2b	TPB's antecedent 'subjective norms' mediates the effect of discrete entrepreneurial emotions on EI.	No support
2c	TPB's antecedent 'perceived behavioural control' mediates the effect of discrete entrepreneurial emotions on EI.	No support
3	Participation in an EE awareness seminar has no significant effect on students' EI.	Support
4a	Participation in an EE awareness seminar increases students' positive discrete entrepreneurial emotions.	No support
4b	Participation in an EE awareness seminar decreases students' negative discrete entrepreneurial emotions.	Partial support
5a	The teaching method moderates the effect of discrete emotions on the three antecedents of the TPB.	Partial support for attitude towards the behaviour & perceived behavioural control, no support for subjective norms
5b	The student group moderates the effect of discrete emotions on the three antecedents of the TPB.	Partial support for attitude towards the behaviour, perceived behavioural control & subjective norms
5c	Lecturers' authenticity moderates the effect of discrete emotions on the three antecedents of the TPB.	Partial support for attitude towards the behaviour, no support for perceived behavioural control & subjective norms

Through the support of **H1**, this doctoral study generates novel results with regard to predicting entrepreneurial behaviour: discrete entrepreneurial emotions **do affect EI** and increase the proportion of variance explained **by 2.6%** (73.3% instead of 70.7%). Therefore, the combination of the AIM and the TPB help researchers to make predictions on entrepreneurial behaviour more precise. Consequently, Ajzen's (2011) statement highlighting that it is not necessary to add variables to TPB's antecedents with the aim of improving the prediction of intention can be refuted in the context of **entrepreneurial** intention: the empirical results out of the combination of AIM and TPB confirm the hypothesised higher proportion of variance explained in EI, giving researchers incentives to deepen research on the AIM-TPB-relationship in the future.

The partial support of **H2** provides empirical knowledge on the relationship of current and chronic feelings and how those interact together with intention. These findings help facilitate the understanding of changes in attitudes and intention, being part of a glut of research directions besides EE. More precisely, this doctoral dissertation helps understanding TPB's antecedents better, especially attitudes toward the behaviour: through discrete emotions, the prediction of (changes in) attitudes is possible. This can be considered as a meaningful finding, considering the impact TPB has in several disciplinary fields.

The findings of **H3** and **H4** further increase our knowledge about the effects of EE awareness seminars, being considered as an under-researched methodological approach. Like it was assumed in the derivation of hypotheses, the short time frame of the intervention (3 hours) does not fit to the teaching objective 'increase students' EI' because no significant changes in EI were observed (H3). EE awareness seminars should rather be considered as a trigger event for students from diverse backgrounds having little prior entrepreneurial contact, with the aim of inspiring them for entrepreneurial behaviour, and to awaken students' courage



to deal with entrepreneurship as a possible career path. Taking the missing support for H4a and the support for H4b, these trigger events seem to be helpful interventions with regard to decreasing negative emotions instead of increasing positive emotions; students' existing inexperience being attached to negative emotions, which can be increased through the EE intervention, could be the reason for this result. From a theoretical perspective, the findings of H4 relate to affect-as-information theory (being part of the AIM): affective feelings, which provide a source of information about the object of judgement by definition, can already change significantly through a trigger event.

Partial support for **H5** shows how contextual factors like the teaching method, the student group, and authentic teaching can influence the effect of EE awareness seminars. These results thus answer the research question how to manage EE awareness seminars effectively. More precisely, the experiential teaching method tends to generate superior results in comparison to the traditional teaching method. Consequently, effectiveness of EE awareness seminars can be increased using the former teaching method. These results further serve as empirical evidence for the superiority of the constructivistic model in comparison to the behaviouristic model in the context of EE awareness seminars, which provides researchers with knowledge about an under-researched phenomenon. Concretely, students rather should receive a trigger motivating them intrinsically (experiential teaching approach) instead of making students part of highly controlled lectures where they only get motivated extrinsically (traditional teaching approach). With regard to the student group, differences of the disciplinary background do not seem to play a crucial role in the conception of EE interventions. In addition, lecturers' authenticity further increased our understanding on effective EE interventions: despite varying results regarding the significance of the results, the common tendency shows a positive effect of high lecturers' authenticity on students' affective learning outcomes; authenticity thus increases effectiveness of teaching even in a short intervention lasting three hours. In summary, the results of H5 can help changing current educational practices to sensitise people for entrepreneurship within an awareness seminar more effectively. Besides, a research agenda focusing on lecturers' authenticity, AIM, and TPB simultaneously opens up, having potential to explain changes in current and chronic feelings as well as in EI better. This research shows a close connection to recent investigations of role models, which are rather able to inspire others (see Fellnhöfer & Mueller, 2018).

## Research implications

This dissertation **contributes to Higher Education Institutions' managerial applications** to answer the following practical questions: How to make EE interventions more efficient and effective? How to inspire students from different disciplines to act entrepreneurially? How to be a more effective lecturer of entrepreneurial disciplines?

Therefore, by shedding light on how to educate prospective entrepreneurs, findings of this dissertation are applicable also to education management in deriving practical recommendations for Higher Education Institutions in Germany how to **improve EE in terms of effectiveness and efficiency**. In addition, it offers specific recommendations on **teaching entrepreneurship to non-business students**. In the country of investigation, Germany, as well as in other countries around the world, business administration or business management faculties are only a fraction of a range of faculties at a Higher Education Institution where entrepreneurship can be taught; sometimes a smaller, sometimes a bigger one. However, the crucial point is the entrepreneurial potential of non-business students who deserve greater attention in EE research. In this vein, a widespread implementation of EE in non-business faculties at Higher Education Institutions could stimulate discrete entrepreneurial emotions of

non-business students, which, in turn, can lead to greater entrepreneurial intention. This can further result in higher entrepreneurial action, as entrepreneurial intention is a valid proxy of it (Rauch & Hulsink, 2015) – even after a substantial time lag (Liñán, Rodríguez-Cohard & Guzmán, 2011). Ultimately, entrepreneurial action creates innovation, economic growth, and competitiveness (see, e.g., Baumgartner, Puetz & Seidl 2013), highlighting the significance of the insights provided by this dissertation regarding the affect-intention relationship. Those insights are vital part of entrepreneurship, because we can understand the very first step of the entrepreneurial process better, helping us to arouse positive effects on discrete entrepreneurial emotions, entrepreneurial intention and action.

Referring to the aim of higher effectiveness of EE, the **investigation of different teaching methods to strengthen the effect on students' discrete entrepreneurial emotions and intentions** may be a valuable research direction. The investigation of **lecturer's authenticity** belongs to the same direction, as it sheds new light on measures to improve teaching practice. Having an authentic lecturer can be of major relevance for students' learning outcomes. As an example of future use in management practice, Higher Education Institutions could integrate reliable scales measuring lecturer's authenticity into the students' course feedback forms in order to implement some best practice guidelines. These guidelines, in turn, can serve as an orientation for lecturers: on the one hand, what kind of teaching students like (e.g., if a lecturer makes his first steps as a lecturer and complies his first study materials), and on the other hand, to which degree they followed these guidelines so far (e.g., if a more experienced lecturer notices that his style of teaching is old-fashioned, or that his teaching method including the used materials do not really fit to the expectations and needs of the students). As the results of this dissertation show that lecturer's authenticity generates positive effects for affective learning outcomes, Higher Education Institutions could investigate if these effects also hold for cognitive and skill-based ones. As the strength and success of their graduates is a quality feature of every Higher Education Institution, more effective teaching through higher lecturer's authenticity would generate a competitive advantage for Higher Education Institutions.

Finally, this dissertation implies important theoretical outcomes, especially by creating a **major scientific novelty with regard to the affect-intention relationship**, explaining additional variance in EI, which helps understanding the very first step of the entrepreneurial process better. Within this approach, the author introduces the combination of the AIM and the TPB, offering research agenda for future research. In this endeavor, more discrete entrepreneurial emotions as possible variables in EE impact studies could be observed. This dissertation predominantly used multi-item scales measuring positive discrete entrepreneurial emotions (inspiration, pride), wherefore it seems promising to measure specific negative discrete entrepreneurial emotions (e.g., fear) not with the PANAS scale but also with multi-item scales. Besides discrete entrepreneurial emotions, future studies could investigate how mood and temperament influence individuals in their evaluation of entrepreneurship as a career option. Besides these investigations being the part of the entrepreneurial process before concrete entrepreneurial behaviour, future studies may also focus on affect within or after concrete entrepreneurial behaviour.

## References

The PhD thesis is based on 260 bibliographical sources. This summary of the PhD thesis refers to 38 of these sources as listed below:

1. Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes*, 50(2), 179-211.

2. Ajzen, I. (2011). The theory of planned behaviour: reactions and reflections. *Psychology and Health, 26*(9), 1113-1127.
3. Armitage, C. J., & Conner, M. (2001). Efficacy of the theory of planned behaviour: A meta-analytic review. *British journal of social psychology, 40*(4), 471-499.
4. Baron, R. A. (2008). The role of affect in the entrepreneurial process. *Academy of Management Review, 33*(2), 328-340.
5. Baumgartner, D., Puetz, M., & Seidl, I. (2013). What kind of entrepreneurship drives regional development in European non-core regions? A literature review on empirical entrepreneurship research. *European Planning Studies, 21*(8), 1095-1127.
6. Bergmann, H., Geissler, M., Hundt, C., & Grave, B. (2018). The climate for entrepreneurship at higher education institutions. *Research Policy, 47*(4), 700-716.
7. Charney, A., & Libecap, G. D. (2000). The impact of entrepreneurship education: an evaluation of the Berger Entrepreneurship Program at the University of Arizona, 1985-1999. Kansas City, MI: *The Kauffman Center for Entrepreneurial Leadership*.
8. De Bruyckere, P., & Kirschner, P. A. (2017). Measuring teacher authenticity: Criteria students use in their perception of teacher authenticity. *Cogent Education, 4*(1), 1354573.
9. Fayolle, A., & Gailly, B. (2015). The impact of entrepreneurship education on entrepreneurial attitudes and intention: Hysteresis and persistence. *Journal of Small Business Management, 53*(1), 75-93.
10. Forgas, J. P. (1995). Mood and judgment: the affect infusion model (AIM). *Psychological Bulletin, 117*(1), 39-66.
11. Gorgievski, M. J., & Stephan, U. (2016). Advancing the psychology of entrepreneurship: A review of the psychological literature and an introduction. *Applied Psychology, 65*(3), 437-468.
12. Grégoire, D. A., Cornelissen, J., Dimov, D., & Burg, E. (2015). The mind in the middle: Taking stock of affect and cognition research in entrepreneurship. *International Journal of Management Reviews, 17*(2), 125-142.
13. Hsu, D. K., Simmons, S. A., & Wieland, A. M. (2017). Designing entrepreneurship experiments: a review, typology, and research agenda. *Organizational Research Methods, 20*(3), 379-412.
14. Iakovleva, T., Kolvereid, L., & Stephan, U. (2011). Entrepreneurial intentions in developing and developed countries. *Education + Training, 53*(5), 353-370.
15. Johansen, V., & Schanke, T. (2013). Entrepreneurship education in secondary education and training. *Scandinavian Journal of Educational Research, 57*(4), 357-368.
16. Jones, C., & Matlay, H. (2011). Understanding the heterogeneity of entrepreneurship education: going beyond Gartner. *Education + Training, 53*(8/9), 692-703.
17. Kautonen, T., Gelderen, M. van, & Fink, M. (2015). Robustness of the theory of planned behavior in predicting entrepreneurial intentions and actions. *Entrepreneurship, Theory and Practice, 39*(3), 655-674.
18. Krueger, N. F. (2015). A Copernican revolution in entrepreneurial education: OECD Thematic Paper on Entrepreneurship Education into Practice, Part 1: Entrepreneurial Mindset.
19. Lackéus, M. (2014). An emotion based approach to assessing entrepreneurial education. *The International Journal of Management Education, 12*(3), 374-396.
20. Liñán, F., & Chen, Y. W. (2009). Development and Cross-Cultural application of a specific instrument to measure entrepreneurial intentions. *Entrepreneurship, Theory and Practice, 33*(3), 593-617.

21. Liñán, F., & Fayolle, A. (2015). A systematic literature review on entrepreneurial intentions: citation, thematic analyses, and research agenda. *International Entrepreneurship and Management Journal*, 11(4), 907-933.
22. Liñán, F., Rodríguez-Cohard, J. C., & Guzmán, J. (2011). Temporal stability of entrepreneurial intentions: a longitudinal study. In O. J. Borch, A. Fayolle, P. Kyrö, & E. Ljunggren (Eds.), *Entrepreneurship Research in Europe: Evolving Concepts and Processes* (pp. 34–55). Cheltenham, UK: *Edward Elgar*.
23. Lorz, M. (2011). The impact of entrepreneurship education on entrepreneurial intention, Doctoral dissertation: *University of St. Gallen*.
24. Lorz, M., Mueller, S., & Volery, T. (2013). Entrepreneurship education: a systematic review of the methods in impact studies. *Journal of Enterprising Culture*, 21(2), 123-151.
25. Martin, B. C., McNally, J. J., & Kay, M. J. (2013). Examining the formation of human capital in entrepreneurship: A meta-analysis of entrepreneurship education outcomes. *Journal of Business Venturing*, 28(2), 211-224.
26. Nabi, G., Liñán, F., Fayolle, A., Krueger, N. F., & Walmsley, A. (2017). The impact of entrepreneurship education in higher education: A systematic review and research agenda. *Academy of Management, Learning and Education*, 16(2), 277-299.
27. Piperopoulos, P., & Dimov, D. (2015). Burst bubbles or build steam? Entrepreneurship education, entrepreneurial self-efficacy, and entrepreneurial intentions. *Journal of Small Business Management*, 53(4), 970-985.
28. Rauch, A., & Hulsink, W. (2015). Putting entrepreneurship education where the intention to act lies: An investigation into the impact of entrepreneurship education on entrepreneurial behavior. *Academy of Management, Learning and Education*, 14(2), 187-204.
29. Robinson, P., & Josien, L. (2014). Entrepreneurial education: using “the challenge” in theory and practice. *Journal of Entrepreneurship Education*, 17(2), 172-185.
30. Schlaegel, C., & Koenig, M. (2014). Determinants of entrepreneurial intent: a meta-analytic test and integration of competing models. *Entrepreneurship, Theory and Practice*, 38(2), 291-332.
31. Shafique, M. (2013). Thinking inside the box? Intellectual structure of the knowledge base of innovation research (1988–2008). *Strategic Management Journal*, 34(1), 62-93.
32. Souitaris, V., Zerbinati, S., & Al-Laham, A. (2007). Do entrepreneurship programmes raise entrepreneurial intention of science and engineering students? The effect of learning, inspiration and resources. *Journal of Business Venturing*, 22(4), 566-591.
33. Thrash, T. M., & Elliot, A. J. (2003). Inspiration as a psychological construct. *Journal of personality and social psychology*, 84(4), 871-889.
34. Tracy, J. L., & Robins, R. W. (2007). The psychological structure of pride: a tale of two facets. *Journal of personality and social psychology*, 92(3), 506-525.
35. Watson, D., Clark, L. A., & Tellegen, A. (1988). Development and validation of brief measures of positive and negative affect: the PANAS scales. *Journal of personality and social psychology*, 54(6), 1063-1070.
36. Wright, C. (2013). Authenticity in teaching and leadership. *Journal of Accounting and Finance*, 13(2), 36-44.
37. Xi, J. M., Kraus, S., Filser, M., & Kellermanns, F. W. (2015). Mapping the field of family business research: past trends and future directions. *International Entrepreneurship and Management Journal*, 11(1), 113-132.
38. Zampetakis, L. A., Lerakis, M., Kafetsios, K., & Moustakis, V. (2015). Investigating the emotional impact of entrepreneurship programs. *Journal of Business Venturing Insights*, 4(2015), 38-41.

# Organizing for the digital world: a pathway towards the Agile Marketing Capability

Moi Ludovica  
University of Cagliari

## *Abstract*

This thesis offers three main contributions that further our understanding of how agility intersects in the field of marketing capabilities, thereby proposing a new marketing capability, the *Agile Marketing Capability* (AMC). First, it presents a comprehensive conceptualization of the key theorizing elements of AMC. Second, using a single-case study approach, it shows an empirical investigation of AMC in a digital, international marketing setting. Third, it deepens the knowledge on AMC through a multiple-case study method, by showing how organizations exhibit progressive maturity levels in the development and management of AMC.

## INTRODUCTION

Marketing capabilities epitomize the means through which organizations learn and exploit marketing knowledge to respond to environmental changes quickly and efficiently (Barrales-Molina et al., 2014; Guo et al., 2018; Xu et al., 2018). However, current dynamic and turbulent business contexts, marked by digitalization, high competition, and fluctuating customer demand, affect how firms approach to change. Firms perform under conditions of heightened uncertainty and are continuously exposed to new information from the marketplace. Thus, they are required to improve their capacity to respond to new conditions in a quicker and more effective manner. Particularly, they need to constantly redefine and adapt their marketing capabilities to changing market conditions (Day, 2011; Kachouie et al., 2018), increasingly striving to learn how to be more *agile* in adapting to ever-changing business scenarios (Asseraf et al., 2019; Hagen et al., 2019; Osei et al., 2019).

Agility is a firm's dynamic capability "to manage uncertainty [...] to efficiently and effectively redeploy/redirect its resources to value-creating and value protecting (and capturing) higher-yield activities as internal and external circumstances warrant" (Teece et al., 2016; p. 8).

Despite this topic's salience, academic attention on agility in marketing capabilities research stream is still in its infancy. Most of research on agility lays beyond the marketing field (e.g., supply chain, software development) (e.g., Gunasekaran and Yusuf, 2002; Lee, 2004; Swafford et al., 2006). Only recently, agility started gaining attention even in marketing studies, thanks to the increasing adoption of the agile practices by marketing teams and the emergence of Agile Marketing approach. Agile Marketing is an emerging marketing approach based on adopting agile practices (i.e., practices originally rooted in software development processes to design software greater adjusted to changes in users' needs). It implies greater customer engagement and value, speed towards market demand, and greater ability to adapt to change (Accardi-Petersen, 2011).

The academic attention to this topic in the marketing field is overall still in its infancy. As a result, few theoretical and empirical studies address agility in marketing settings, and there



is unclear understanding of the advantages and benefits that the employment of agile approaches could generate on existing marketing capabilities of organizations.

This thesis's ultimate goal is then to explain how the concept of agility intersects in the field of marketing capabilities to deepen the understanding of a new marketing capability: the *Agile Marketing Capability*.

This dissertation consists of three studies that address the following research questions:

- What are the key theoretical underpinnings of the Agile Marketing Capability? (Study 1);
- What are the key dimensions of the Agile Marketing Capability in a digital and international marketing context? (Study 2);
- 
- How different organizations pursue and implement the Agile Marketing Capability? (Study 3).

The first study inquires how the Agile Marketing Capability can be formally theorized and conceptualized, identifying its key theorizing elements and putting the basis for its further exploration and analysis. The second and third studies aim to extend the theoretical and empirical knowledge on the Agile Marketing Capability by empirically investigating such capability in different research contexts. Notably, the second study provides an initial empirical investigation of the Agile Marketing Capability through a pilot single-case study. Finally, the third study deepens and verifies the replication of emergent findings found in the single-case study analysis, by empirically exploring the Agile Marketing Capability in different organizations through a multiple-case study.

## **THEORETICAL FRAMEWORK**

Agility is rooted in the theory of dynamic capabilities (Teece et al., 2016). Literature outlines some essential aspects of agility: “entrepreneurial”, that is, the ability to be proactive towards customers, and to anticipate business opportunities through new products and services, disruptive innovation, new positioning and strategy; “adaptive”, that is, the resilient and defensive attitude of firms which protect themselves from market threats or challenges and recover from them (Lee et al., 2015; Overby et al., 2006).

Marketing scholars extensively recognize the key role of the marketing function in developing a firm's dynamic capabilities. Thus, they conceptualized the “dynamic marketing capabilities”, which “reflect human capital, social capital, and the cognition of managers involved in the creation, use, and integration of market knowledge and marketing resources in order to match and create market and technological change” (Bruni and Verona, 2009; p. 7). Such capabilities enhance the organization's responsiveness and cross-functional efficiency in reconfiguring resources and capabilities according to market-related changes to deliver higher customer value (Barrales-Molina et al., 2014; Bruni and Verona, 2009; Kachouie et al., 2018; Xu et al., 2018). Moreover, scholars conceptualized the “adaptive marketing capabilities” (Day, 2011), namely, “the extensible ability to proactively sense and act on market signals, continuously learn from market experiments, and integrate and coordinate social network resources to adapt to market changes and predict industry trends” (Guo et al., 2018; p. 81).

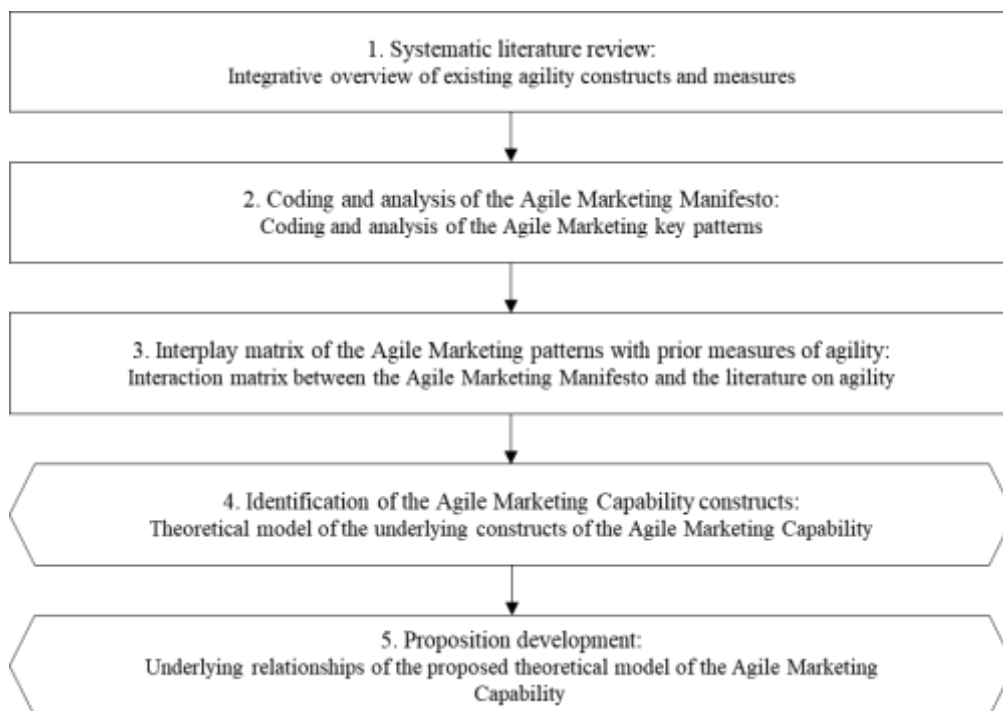
Scholarly attention towards agility has recently gained a momentum even in marketing domain. When extended to marketing, agility enhances the firm's ability to manage market demand through prompt adjustments according to environmental changes (Matthyssens et al., 2005). Marketing agility is praised for making the organization more sensitive to market needs (Hagen et al., 2019). Interestingly, agile practices (e.g., greater speed in addressing events, coordination, customer engagement, flexibility, transparency) that originated from the

Agile Development Manifesto (Ewel, 2013) found echoes in marketing departments, culminating in the publication of the Agile Marketing Manifesto ([agilemarketingmanifesto.org](http://agilemarketingmanifesto.org)). This manifesto provided the impulse for the diffusion of the Agile Marketing approach, whose ultimate aim is to allow marketing functions to respond and adapt quickly and cost-efficiently to market changes (Accardi-Petersen, 2011).

## METHODOLOGY

The first study inquires how the Agile Marketing Capability can be formally theorized and conceptualized. It unfolds a stepwise theorization process (Greenwood et al., 2002) grounded in construct-development practices (e.g., Hoehle and Venkatesh, 2015; MacKenzie et al., 2011). Notably, the following steps were carried out (see Figure 1): 1) a systematic literature review of agility constructs, to outline an integrative overview of existing agility measures and constructs; 2) an in-depth coding and analysis of the Agile Marketing Manifesto to look for key patterns of the Agile Marketing approach; 3) an interplay matrix between the Agile Marketing Manifesto and prior literature, to relate Agile Marketing patterns to prior measures and constructs of agility based on the similarity of conceptual domains; 4) the identification of the Agile Marketing Capability constructs, streamlined into a theoretical model, to point out the underlying key constructs embedded in the Agile Marketing Capability; 5) proposition development, to postulate the underlying relationships of the proposed theoretical model.

**Figure 1.** Outline of construct development process



Drawing on the first study, the second study provides an initial empirical investigation of the Agile Marketing Capability. This research adopts a qualitative research design, and unfolds a theory building process based on an in-depth exploratory single-case study (Eisenhardt, 1989; Yin, 1994). It focuses the attention on *Spotahome*, a digital and international start-up leader in the online booking for non-vacation home rentals.

To ensure data triangulation and enrich research findings, data were collected from



different sources (Miles and Huberman, 1984): semi-structured interviews with key respondents highly knowledgeable in marketing field (primary data) (Table 1); Spotalhome social networks and official website, and archival documents (secondary data) (Table 2).

**Table 1.** Summary of primary data sources

Source	Position	Interview time span (minutes)
Semi-structured interview	Head of Brand and Communications	28
Semi-structured interview	Brand and Communications Executive	31
Semi-structured interview	Head of Digital Performance Marketing	33
Semi-structured interview	Head of Insights and Analytics	18
Semi-structured interview	SEO Manager	33
Semi-structured interview	Growth and User Acquisition Coordinator	32

**Table 2.** Summary of secondary data sources

Source	Type	Number of items
Social networks	Posts on Facebook and Instagram	261 posts on Facebook 712 posts on Instagram
Official website	Web page	5

In this study, a within-case analysis was performed (Eisenhardt, 1989), looking for theoretical concepts emerging during the coding process (Gibbs, 2007).

The third study further extends the body of knowledge of agile approaches and capabilities in marketing field by looking at how different organizations pursue and implement an Agile Marketing Capability. It performs a theory-building process based on an exploratory multiple-case study (Eisenhardt, 1989; Eisenhardt and Graebner, 2007) in the context of MICE tourism (Meetings, Incentives, Conferences, Exhibitions). The subset of organizations to be involved in the research was selected within the Sardinia MICE network. The network was founded in 2013, and plays an important role in current tourism landscape of Sardinia. Cases were selected from an initial list of 34 members within the network (e.g., hotels & premises, services, DMCs – PCO). We stopped case selection at 16 cases, when theoretical saturation was reached (Table 3).

**Table 3.** Summary of the selected cases

Case Study	Case Description
Case-1	Hotel&Premises
Case-2	Hotel&Premises
Case-3	DMC-PCO
Case-4	DMC-PCO
Case-5	Services
Case-6	Hotel&Premises
Case-7	Hotel&Premises
Case-8	Hotel&Premises
Case-9	Services
Case-10	Services
Case-11	DMC-PCO
Case-12	DMC-PCO
Case-13	DMC-PCO

Case-14	Hotel&Premises
Case-15	Hotel&Premises
Case-16	Hotel&Premises

Primary data were collected through semi-structured interviews with key informants for MICE sector in the selected cases (Table 4), whereas secondary data were gathered from from social networking sites (e.g., Facebook, Instagram), official website, and archival data (e.g., documents, reports, meeting notes) (Table 5).

**Table 4.** Summary of primary data sources.

Case study	Source	Position	Interview time span (minutes)
Case-1	Semi-structured interview	General Manager	53 minutes
Case-2	Semi-structured interview	Sales Manager	47 minutes
Case-3	Semi-structured interview	Sales Manager	25 minutes
Case-4	Semi-structured interview	General Manager	29 minutes
Case-5	Semi-structured interview	CEO	33 minutes
Case-6	Semi-structured interview	Commercial Manager	41 minutes
Case-7	Semi-structured interview	General Manager	35 minutes
Case-8	Semi-structured interview	CEO	48 minutes
Case-9	Semi-structured interview	Commercial Manager	25 minutes
Case-10	Semi-structured interview	CEO	61 minutes
Case-11	Semi-structured interview	Project Manager	37 minutes
Case-12	Semi-structured interview	CEO	25 minutes
Case-13	Semi-structured interview	Project Manager	30 minutes
Case-14	Semi-structured interview	Marketing and Communication Manager	39 minutes
Case-15	Semi-structured interview	Sales Manager	24 minutes
Case-16	Semi-structured interview	General Manager	16 minutes

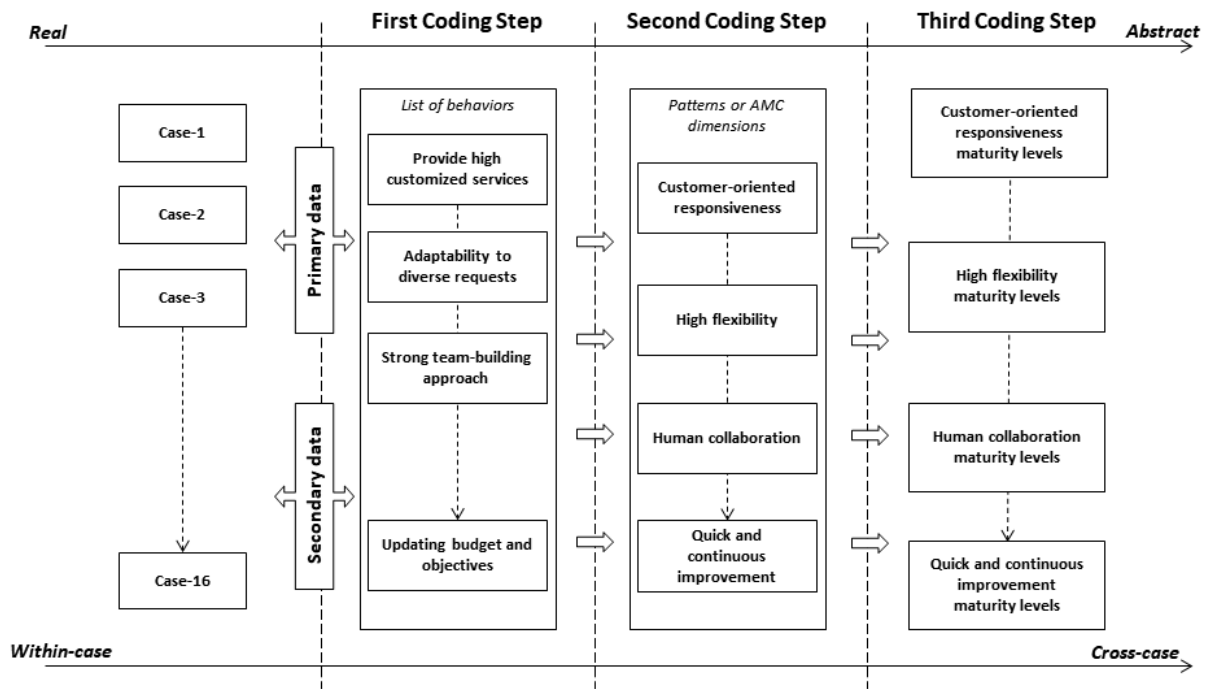
**Table 5.** Summary of secondary data sources

Case study	Source	Type	Number of items
Case-1	Social networks	Posts on Facebook and Instagram	663 posts on Facebook 102 posts on Instagram
	Official website	Web page	3 captures
Case-2	Social networks	Posts on Facebook and Instagram	67 posts on Facebook 216 posts on Instagram
	Official website	Web page	3 captures
Case-3	Social networks	Posts on Facebook and Instagram	162 posts on Facebook
	Official website	Web page	1 capture
Case-4	Social networks	Posts on Facebook and Instagram	83 posts on Facebook 35 posts on Instagram
	Official website	Web page	5 captures
Case-5	Social networks	Posts on Facebook and Instagram	975 posts on Facebook 87 posts on Instagram
	Official website	Web page	7 captures
Case-6	Social networks	Posts on Facebook and Instagram	392 posts on Facebook
	Official website	Web page	5 captures

Case-7	Social networks	Posts on Facebook and Instagram	1371 posts on Facebook 351 post on Instagram
	Official website	Web page	3 captures
Case-8	Social networks	Posts on Facebook and Instagram	1160 posts on Facebook 140 posts on Instagram
	Official website	Web page	8 captures
Case-9	Social networks	Posts on Facebook and Instagram	3713 posts on Facebook 741 posts on Facebook
	Official website	Web page	7 captures
Case-10	Social networks	Posts on Facebook and Instagram	NA
	Official website	Web page	4 captures
Case-11	Social networks	Posts on Facebook and Instagram	54 posts on Facebook 53 posts on Instagram
	Official website	Web page	12 captures
Case-12	Social networks	Posts on Facebook and Instagram	76 posts on Facebook
	Official website	Web page	7 captures
Case-13	Social networks	Posts on Facebook and Instagram	269 posts on Facebook 25 posts on Instagram
	Official website	Web page	10 captures
Case-14	Social networks	Posts on Facebook and Instagram	2859 posts on Facebook 747 posts on Instagram
	Official website	Web page	5 captures
Case-15	Social networks	Posts on Facebook and Instagram	677 posts on Facebook 108 posts on Instagram
	Official website	Web page	2 captures
Case-16	Social networks	Posts on Facebook and Instagram	1356 posts on Facebook 55 posts on Instagram
	Official website	Web page	4 captures

Both within- and between-case analyses were performed (Eisenhardt, 1989; Eisenhardt and Graebner, 2007). We carried out data analysis process in three coding stages, starting from the particular analysis until moving to the more general one (Saldaña, 2015) (see Figure 2).

**Figure 2.** Overview of data analysis process



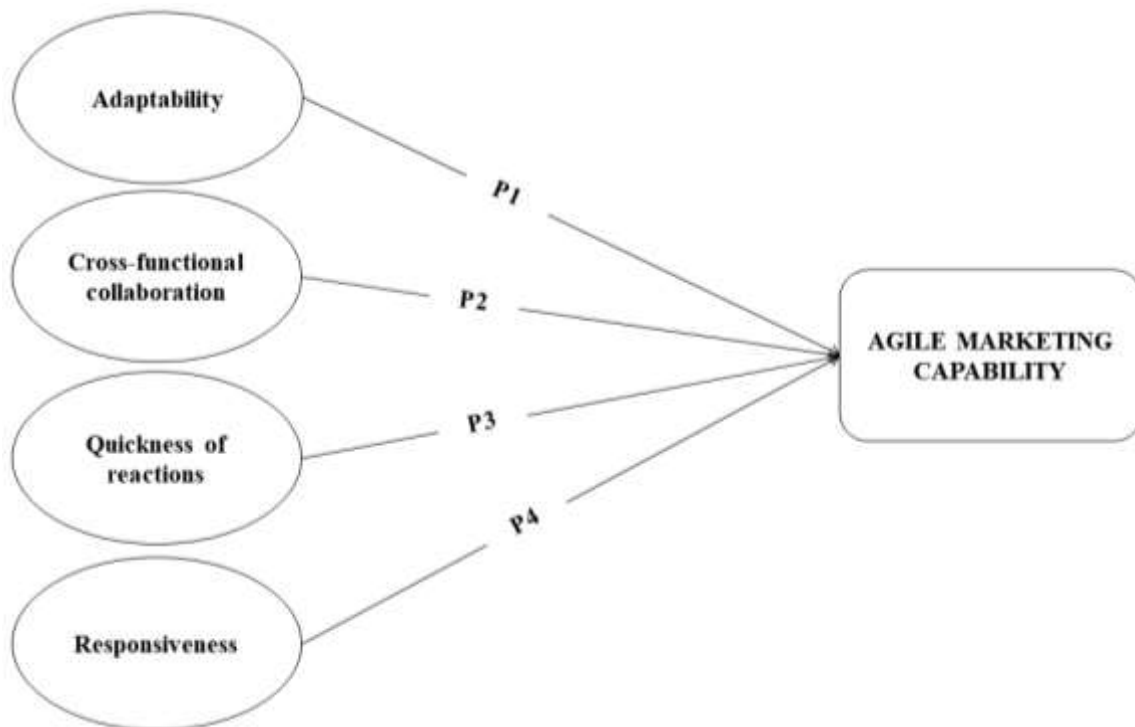
## FINDINGS

**Study 1.** The outcomes of the first study identify the core dimensions or constructs of the Agile Marketing Capability: adaptability, cross-functional collaboration, quickness of reactions, responsiveness. The Agile Marketing Capability can be then defined as follows:

*The Agile Marketing Capability is the firm's marketing capability resulting from the ability of the marketing function to 1) respond to change through an adaptive and flexible approach; 2) create close relationships among people, and a collaborative working environment; 3) continuously and quickly adjust and deliver marketing programs; 4) constantly sense and respond to customer-related changes.*

This conceptualization highlights the key theorizing elements of the Agile Marketing Capability, posited to be positively related to a firm's Agile Marketing Capability level. Figure 3 displays the theoretical model graphically.

**Figure 3.** Theoretical model of the Agile Marketing Capability



The first construct proposed in conceptualizing the Agile Marketing Capability corresponds to “adaptability”, here defined as the degree to which marketing function develops the ability to respond to change through an adaptive and flexible approach. Adaptability is posited to have a positive effect on the Agile Marketing Capability, consequently:

*Proposition 1 (P1). Increasing marketing function’s adaptability will enhance the Agile Marketing Capability.*

The second construct proposed to conceptualize the Agile Marketing Capability is represented by “cross-functional collaboration”, here portrayed as the degree to which marketing function develops the ability to create close relationships among people and a collaborative working environment. Cross-functional collaboration is posited to have a positive effect on the Agile Marketing Capability, hence:

*Proposition 2 (P2). Increasing marketing function’s cross-functional collaboration will enhance the Agile Marketing Capability.*

The third construct proposed to conceptualize the Agile Marketing Capability is represented by “quickness of reactions”, here defined as the degree to which marketing function develops the ability to continuously and quickly adjust and deliver marketing programs. Quickness of reactions is posited to have a positive effect on the Agile Marketing Capability, therefore:

*Proposition 3 (P3). Increasing marketing function’s quickness of reaction will enhance the Agile Marketing Capability.*

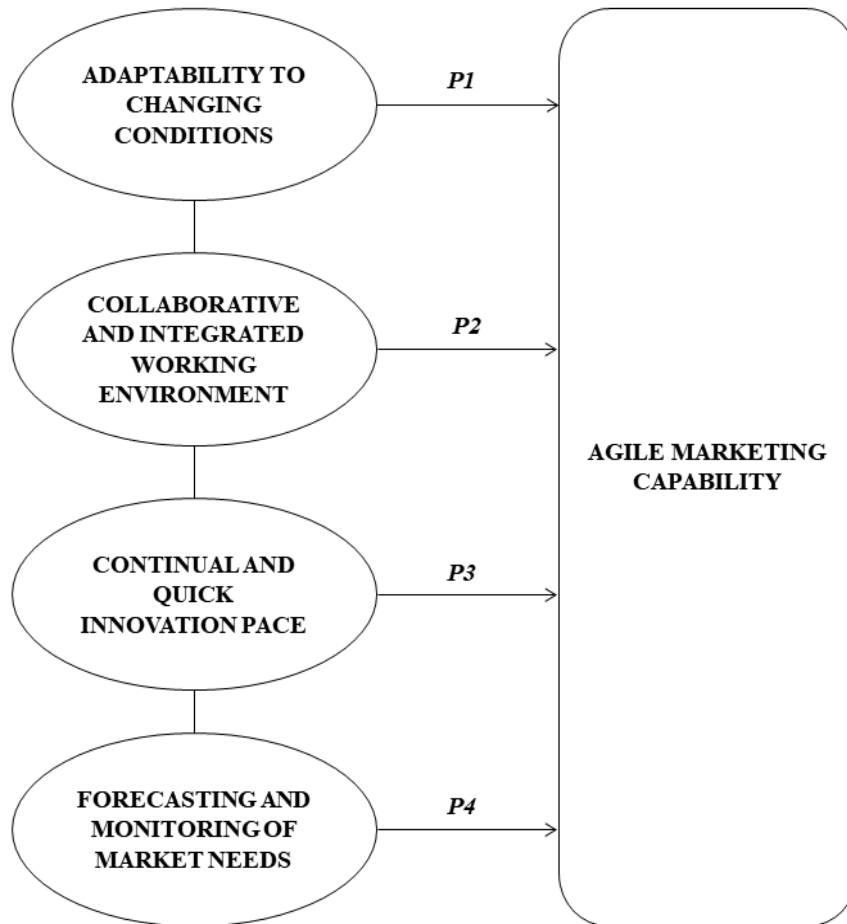
The fourth construct proposed to conceptualize the Agile Marketing Capability corresponds to “responsiveness”, defined as the degree to which the marketing function develops the ability to constantly sense and respond to customer-related changes. Responsiveness is posited to have a positive effect on the Agile Marketing Capability, accordingly:

*Proposition 4 (P4). Increasing marketing function’s responsiveness will enhance the Agile Marketing Capability.*

**Study 2.** Evidence from the second study analysis provides interesting insights, actions, and guidelines on how firms performing in international marketing contexts influenced by the power of digital transformation should practically develop and implement agility, thus fostering an Agile Marketing Capability. Notably, this research’s outcomes reveal the “adaptability to changing conditions”, which means to easily adapt to changing international customer needs and contexts. Also, an Agile Marketing Capability implies a “collaborative and integrated working environment”, that is, to create close and trust-based, outside-in and inside-out relationships among people and departments. Furthermore, it is required a “continual and quick innovation pace”, to constantly and quickly innovate, make improvements, update marketing plans, and deliver new marketing programs. Finally, the Agile Marketing Capability entails the “forecasting and monitoring of market needs”, which corresponds to sense and respond to market needs, in a proactive or reactive way, for greater customer satisfaction.

This study’s findings are organized in a theoretical framework in which the key dimensions of the Agile Marketing Capability are depicted (Figure 4).

**Figure 4.** The Agile Marketing Capability Framework



**Study 3.** Empirical evidence from this study discloses the multiple ways through which different organizations undertake to address customer requests and needs, to coordinate roles for achieving customer satisfaction, to identify gaps or weaknesses in their performance and plan new or improved activities. The analysis reveals and confirms that four main aspects contribute collectively to define an Agile Marketing Capability: “customer-oriented responsiveness”, “high flexibility”, “human collaboration”, “quick and continuous improvement”. The empirical analysis also reveals that, despite being overall committed in these aspects, there is a great heterogeneity across organizations regarding actions, initiatives and behaviors executed. Thus, not all organizations display to be mature (or ready) in the same way in addressing customer requests and needs and adapting to changing conditions with the same speed of adjustment. In other words, organizations are differently agile in their marketing capabilities.

The results of this work are then synthesized in a framework, the Agile Marketing Capability maturity framework, which highlights progressive behaviors, actions and practices related to the Agile Marketing Capability across different maturity levels, where maturity refers to a condition of being overall “complete”, “perfect” or “ready” in the development of the capability (Lahrman et al., 2010). (Figure 5).



**Figure 5.** The Agile Marketing Capability maturity framework: behaviors and maturity levels

Maturity levels Dimensions	Level 1 - Initial Agility	Level 2 - Managed Agility	Level 3 - Defined Agility	Level 4 - Proactive Agility
<b>Customer-orientated responsiveness</b>	<ul style="list-style-type: none"> <li>-No engagement in communication with customers</li> <li>-No use of technology to communicate with customers</li> <li>-No provision of customer experience</li> <li>-No collection of information through databases</li> <li>-No improvements for being more reactive towards clients</li> </ul>	<ul style="list-style-type: none"> <li>-Unit-level attention towards customers</li> <li>-Regular procedures in addressing customer requests</li> <li>-Limited use of technology for attracting customers</li> <li>-Limited customer experience</li> </ul>	<ul style="list-style-type: none"> <li>-Outbound (one-way) communication with customers</li> <li>-Partial provision of customer experience</li> <li>-Improvement of quality services to address customer requests</li> <li>-Direct feedback from customers about issues</li> </ul>	<ul style="list-style-type: none"> <li>-Integrated use of technology for inbound communication</li> <li>-Provision of personalized experiences</li> <li>-Corrective actions based on customer feedbacks received</li> <li>-Proactively define customer plans</li> </ul>
<b>High flexibility</b>	<ul style="list-style-type: none"> <li>- Specific individual committed to develop marketing plans</li> <li>-Difficulty in making adjustments of marketing operations</li> <li>-Lack of full information to make adjustments and improve performance</li> </ul>	<ul style="list-style-type: none"> <li>-Regular processes/procedures in marketing activities</li> <li>-Outline plan for key marketing activities</li> <li>-When responding to change, no proper synergies throughout the firm</li> <li>-Limited skills/resources to make improvements/adjustments</li> </ul>	<ul style="list-style-type: none"> <li>-Proper synergies between people and new marketing objectives</li> <li>-Adapt competencies to new conditions</li> <li>-Quality-based adaptability</li> <li>-Make adjustments of existing marketing processes</li> </ul>	<ul style="list-style-type: none"> <li>-Proactive actions to adapt marketing performance to new conditions</li> <li>-Adjust easily marketing activities to new qualitative and quantitative business objectives</li> <li>-Alignment of marketing staff to find alternative solutions to new conditions</li> </ul>
<b>Human collaboration</b>	<ul style="list-style-type: none"> <li>-Limited collaboration</li> <li>-Individual efforts/commitment in the main marketing tasks</li> <li>-No integration of communication through IT throughout the organization</li> </ul>	<ul style="list-style-type: none"> <li>-Encoded processes and procedures to coordinate roles and tasks</li> <li>-Limited sharing of competencies</li> <li>-Unit-level communication, coordination and staffing</li> </ul>	<ul style="list-style-type: none"> <li>-Investments in increasing competencies</li> <li>-Proper synergies among teams and departments to deal with new conditions</li> <li>-Communications to coordinate efforts of existing marketing processes</li> </ul>	<ul style="list-style-type: none"> <li>-Teams engage in defining a roadmap of marketing performance</li> <li>-Team-oriented qualitative and quantitative goals</li> <li>-Active participation of people in decision-making</li> </ul>
<b>Quick and continuous improvement</b>	<ul style="list-style-type: none"> <li>-No forecast of objectives and results to make improvements</li> <li>-Lack of proper improvement strategy</li> <li>-Lack of quick access to information on customers</li> </ul>	<ul style="list-style-type: none"> <li>-Keep the results achieved in a consistent manner</li> <li>-Limited marketing feedbacks (unit-level)</li> <li>-New marketing programs mainly based on greater volumes</li> <li>-Limited investment on new resources, people and technologies</li> </ul>	<ul style="list-style-type: none"> <li>-Peer reviews and evaluation mechanisms among teams</li> <li>-Coordinate efforts in response to unexpected changes</li> <li>-When people report problems, teams are align to solve them</li> <li>-Improve existing processes and procedures</li> <li>-Regular optimization of services and resources</li> </ul>	<ul style="list-style-type: none"> <li>-Proper qualitative and quantitative evaluation techniques to improve marketing performance</li> <li>-Ad-hoc tests to improve the performance of marketing processes</li> <li>-Quickly implement corrective actions to improve performance</li> </ul>

## DISCUSSION AND IMPLICATIONS

This thesis's overarching contributions considerably extend the literature on dynamic capabilities and marketing capabilities both from a theoretical and empirical perspective in several ways.

With the first study, it has been inquired an initial formal theorization and conceptualization of the Agile Marketing Capability to put the basis for its further empirical exploration and analysis. Thanks to a stepwise theorization process grounded in the construct development practices, this study's outcomes advance a solid body of knowledge of agility in the field of marketing capabilities. Since the relevance of agility is evident both in research and practice in numerous fields (e.g., Gunasekaran and Yusuf, 2002; Lee, 2004; Swafford et al., 2006), but remains still under-explored in marketing studies, this work contributed to extend prior research by performing a specific marketing-oriented analysis and conceptualization of agility, developing a holistic theoretical model that conceptualizes the key constructs of the Agile Marketing Capability and identifies its key theorizing elements.

With the second study, it has been performed an initial empirical investigation of agile capability in the marketing field looking at a high representative context, that is, a digital and international marketing setting. Indeed, prior research argues about the importance for marketing to employ agility, particularly in dynamic and international business contexts marked by digitalization (e.g. Asseraf et al., Hagen et al., 2019; Osei et al., 2019), but does not properly explain how agile capabilities empirically take place particularly in digital and international marketing settings, where being agile is a prominent requirement. Hence, the analysis conducted with this second study based on an in-depth exploratory single-case study (Eisenhardt, 1989; Miles and Huberman, 1984; Yin, 1994), contributed to extending prior literature by identifying an initial framework and some propositions which explain what actions are needed to foster marketing-focused agile capabilities, thus pursuing and implementing an Agile Marketing Capability.

With the last study, it has been further extended the body of knowledge of agile approaches and capabilities in marketing field by looking at how different organizations pursue and implement the Agile Marketing Capability. Since prior research extensively acknowledges the importance for organizations to be agile as the new imperative of marketing approaches (Accardi-Petersen, 2011; Ewel, 2013), but does not properly shed light on the benefits that could derive from employing agile approaches and capabilities in marketing, and the impact that these could generate on enhancing extant marketing capabilities of organizations, the contributions of this study are significant. Thanks to the analysis performed with this third study based on a multiple-case study research design (Eisenhardt, 1989), not only we verified the replication of the emergent findings found in the single-case study analysis by examining how different organizations implement and pursue an Agile Marketing Capability, but we further extended and deepened the proposed dimensions of the Agile Marketing Capability, thus developing the Agile Marketing Capability maturity framework. Hence, this work contributed to extending prior literature by explaining progressive behaviors and actions that facilitate the stepwise development, improvement and management of the Agile Marketing Capability, synthesized in a maturity framework.

This thesis has crucial implications also from a managerial perspective. Managers and practitioners are constantly looking for new and more effective ways to cope with ever-changing business contexts. The findings of the studies presented in this dissertation suggest that managers and practitioners should recognize that new trends of marketing capabilities are shifting towards agility concept and should be trained to take the proper actions to foster the employment of Agile Marketing capabilities. This thesis provides crucial conceptual and practical guidelines for them to be better informed during the planning of proper actions towards the development of Agile Marketing Capabilities. Thus, it could help managers and practitioners in orienting their behaviors towards marketing activities that can be reconfigured and adapted to customers' preferences at short notice.

The outcomes of this work has suggested that this topic is particularly true for managers operating in digital and international contexts, where it is extremely important to increase awareness about how to practically employ agility in their marketing activities, and learn how to pursue quicker, more flexible, and customer-responsive marketing strategies, operations and tactics. By developing Agile Marketing capabilities, practitioners and international marketers who perform in digital and international contexts could actually improve their abilities in exploiting digital technologies in their marketing activities to better satisfy customers in international and high dynamic contexts. However, these studies' findings also extend to other contexts, and are not limited to digital and international marketing settings. Rather, this work has revealed that such a topic is interesting for all organizations preparing for Agile Marketing capabilities development.

In summary, the present thesis not only has extensively explained what key strategic aspects and actions are needed to develop an Agile Marketing Capability. More interestingly, it has shed light on crucial practical guidelines for those organizations that recognize to have some gaps or areas of underperformance in their Agile Marketing capabilities, suggesting potential improvement actions to achieve higher levels of performance, reactivity to market changes and competitiveness. Actually, the development of marketing-focused agile capabilities is a continuous path, thus organizations should constantly make increasing efforts to become more agile and then improve their marketing performance.

## **LIMITATIONS**

Given that little was known about Agile Marketing from an academic perspective, choosing qualitative and theory-building methodological approaches has been considered the proper choice to start building the Agile Marketing Capability. The exploratory design of this research suggests interesting avenues for further theoretical and empirical research towards this topic.

Future research should develop proper measurement scales for the proposed dimensions of the Agile Marketing Capability. Thus, the proposed framework of the Agile Marketing Capability, largely discussed along this work from both a theoretical and empirical perspective, would be empirically tested and validated and extended to other research settings, increasing the outcomes of this thesis to larger populations.

Furthermore, future research could better clarify how, among all marketing

capabilities, the Agile Marketing Capability may be positioned to capture its relevance and distinctive value. Hence, future research should try to embed the Agile Marketing Capability within an overarching nomological network, including potential antecedents and consequences, to analyze its predictive ability (Peter and Churchill Jr, 1986). Actually, “learning more about a theoretical construct is a matter of elaborating the nomological network in which it occur, or of increasing the definiteness of the components” (MacKenzie et al., 2011; p. 321). By identifying potential antecedents, future researchers could investigate the extent to which these antecedents may affect the Agile Marketing Capability dimensions. By identifying its potential consequences, they could understand how the Agile Marketing Capability impact on, for instance, firm performance or innovation performance, and then measure how the Agile Marketing Capability actually differentiate from existing marketing capabilities.

## References

- Accardi-Petersen, M. (2011). *How to Get Moving in Agile*. In M. Accardi-Petersen (A c. Di), *Agile Marketing*. Berkeley, CA: Apress, pp. 171–187.
- Asseraf, Y., Lages, L. F., & Shoham, A. (2019). Assessing the drivers and impact of international marketing agility. *International Marketing Review*, 36(2), pp. 289–315.
- Barrales-Molina, V., Martínez-López, F.J., & Gázquez-Abad, J.C. (2014). Dynamic marketing capabilities: Toward an integrative framework. *International Journal of Management Reviews*, 16(4), pp. 397–416.
- Bruni, D. S., & Verona, G. (2009). Dynamic marketing capabilities in Science-based firms: An exploratory investigation of the pharmaceutical industry. *British Journal of management*, 20, pp. 101–117.
- Day, G. S. (2011). Closing the marketing capabilities gap. *Journal of marketing*, 75(4), pp. 183–195.
- Eisenhardt, K. M. (1989). Building theories from case study research. *Academy of management review*, 14(4), pp. 532–550.
- Ewel, J. (2013). *Getting Started With Agile Marketing*. Retrieved from <http://www.agilemarketing.net/>
- Gibbs, G. R. (2007). *Thematic coding and categorizing*. Analyzing qualitative data. London: Sage, 38–56.
- Eisenhardt, K.M., & Graebner, M.E. (2007). Theory building from cases: Opportunities and challenges. *Academy of Management Journal*, 50(1), pp. 25–32.
- Greenwood, R., Suddaby, R., & Hinings, C.R. (2002). Theorizing change: The role of professional associations in the transformation of institutionalized fields. *Academy of Management Journal*, 45(1), pp. 58-80.
- Gunasekaran, A., & Yusuf, Y.Y. (2002). Agile manufacturing: a taxonomy of strategic and technological imperatives. *International Journal of Production Research*, 40(6), pp. 1357–1385.
- Guo, H., Xu, H., Tang, C., Liu-Thompkins, Y., Guo, Z., & Dong, B. (2018). Comparing the impact of different marketing capabilities: Empirical evidence from B2B firms in China. *Journal of Business Research*, 93, pp. 79–89.

- Hagen, B., Zucchella, A., & Ghauri, P. N. (2019). From fragile to agile: marketing as a key driver of entrepreneurial internationalization. *International Marketing Review*, 36(2), pp. 260–288.
- Hoehle, H., & Venkatesh, V. (2015). Mobile Application Usability: Conceptualization and Instrument Development. *MIS Quarterly*, 39(2), pp. 435-472.
- Kachouie, R., Mavondo, F., & Sands, S. (2018). Dynamic marketing capabilities view on creating market change. *European Journal of Marketing*, 52(5–6), pp. 1007–1036.
- Lahrman, G., Marx, F., Winter, R., & Wortmann, F. (2010). Business intelligence maturity models: an overview. In: *Information Technology and Innovation Trends in Organizations, Proceedings of the VII Conference of the Italian Chapter of AIS (ItAIS 2010)*, Naples, Italy, 8–9 October 2010. D’Atri, A., Ferrara, M., George, J., Spagnoletti, P., Eds., Italian Chapter of AIS: Naples, Italy, 2010.
- Lee, H.L. (2004). The triple-A supply chain. *Harvard Business Review*, 82(10), pp. 102–113.
- Lee, O.-K., Sambamurthy, V., Lim, K. H., & Wei, K. K. (2015). How does IT ambidexterity impact organizational agility? *Information Systems Research*, 26(2), pp. 398–417.
- MacKenzie, S.B., Podsakoff, P.M., & Podsakoff, N.P. (2011). Construct measurement and validation procedures in MIS and behavioral research: Integrating new and existing techniques. *MIS Quarterly*, 35(2), pp. 293-334.
- Matthyssens, P., Pauwels, P., & Vandenbempt, K. (2005). Strategic flexibility, rigidity and barriers to the development of absorptive capacity in business markets: Themes and research perspectives. *Industrial Marketing Management*, 34(6), pp. 547–554.
- Miles, M. B., & Huberman, A. M. (1984). *Qualitative data analysis: A sourcebook of new methods*. In *Qualitative data analysis: a sourcebook of new methods*. Sage publications.
- Osei, C., Amankwah-Amoah, J., Khan, Z., Omar, M., & Gutu, M. (2019). Developing and deploying marketing agility in an emerging economy: The case of Blue Skies. *International Marketing Review*, 36(2), pp. 190–212.
- Overby, E., Bharadwaj, A., & Sambamurthy, V. (2006). Enterprise agility and the enabling role of information technology. *European Journal of Information Systems*, 15(2), pp. 120–131.
- Peter, J. P., & Churchill Jr, G. A. (1986). Relationships among research design choices and psychometric properties of rating scales: A meta-analysis. *Journal of Marketing Research*, 23(1), pp. 1–10.
- Saldaña, J. (2015). *The coding manual for qualitative researchers*. Sage.
- Swafford, P. M., Ghosh, S., & Murthy, N. (2006). The antecedents of supply chain agility of a firm: scale development and model testing. *Journal of Operations Management*, 24(2), pp. 170–188.
- Teece, D. J., Peteraf, M., & Leih, S. (2016). Dynamic capabilities and organizational agility: Risk, uncertainty, and strategy in the innovation economy. *California Management Review*, 58(4), pp. 13–35.
- Xu, H., Guo, H., Zhang, J., & Dang, A. (2018). Facilitating dynamic marketing capabilities development for domestic and foreign firms in an emerging economy. *Journal of Business Research*, 86, pp. 141–152.



Yin, R. K. (1994). *Case Study Research: Design and Methods* (Applied Social Research Methods, Vol. 5). Sage Publications, Beverly Hills, CA. Rick Rantz Leading urban institutions of higher education in the new millennium Leadership & Organization Development Journal, 23(8), 2002.

### **Websites**

<http://agilemarketingmanifesto.org/>

# **The impact of multiple institutional logics on professional identities of auditors**

**Siriviriyakul Sudthasiri, The University of York**

## ***Abstract:***

This research explores the impact of multiple institutional logics on individual auditors and their professional identities. Based on 27 semi-structured interviews and participant-produced drawings of statutory, external auditors in the UK, the findings demonstrated coexistence of the three institutional logics including technical, ethical, and commercial logics, highlighting their tensions and complementarity as experienced by individual auditors. Participants constructed three forms of professional identities including a guardian of public interests, an advisor, and a value-added watchdog. The main institutional logics shaping these identities were the ethical and/or commercial ones. This thesis also has a methodological contribution regarding the drawing method.

## **1. Introduction**

A statutory, external auditor provides the shareholders reasonable assurance on the truth and fairness of a company's financial statements (ICAEW, 2006). They also protect other stakeholders in the society who rely on the credibility of the company's financial information such as employees, creditors, investors, and regulators (Johnstone, Sutton and Warfield, 2001; ICAEW, 2006). Thus, an auditing profession plays a crucial role behind the successful operation of the public capital market and the economy (Johnstone, Sutton and Warfield, 2001). The accounting professional bodies require that chartered accountants possess technical knowledge and professional skills, as well as follow rules and standards including the code of ethics (ICAEW, 2019). Moreover, auditors nowadays are increasingly faced with the growing commercial value in an auditing profession with strong business competition, profitability maximisation, and service expansion (Hanlon, 1996; Zeff, 2003a; Guo, 2016; Sweeney and McGarry, 2011; Spence and Carter, 2014). Accordingly, individual auditors are in the midst of multiple, potentially competing institutional logics (Thornton and Ocasio, 1999) or the macro-level values, assumptions, beliefs, and ideologies which guide appropriate behaviours for individuals.

This thesis focuses on the impact of such institutional pluralism at the macro-level in the auditing profession on the professional identities of individual auditors at the micro-level. In particular, the purposes of this research are to investigate how individual auditors experience, respond to, and negotiate among the multiple institutional logics in their profession, as well as how these logics shape the construction of their professional identities. Accordingly, the research questions of this thesis are as follows.

- 1.) To what extent do individual auditors experience tensions, conflicts, or contradiction among the multiple institutional logics in the auditing profession?
- 2.) How do individual auditors negotiate, balance, and position themselves among the multiple institutional logics in the auditing profession?



3.) How do individual auditors construct their professional identities in relation to the multiple institutional logics in the auditing profession?

In the next section, the research methodology employed in this thesis is explained. Then, the main research results are examined. Finally, this paper concludes with the discussion and implications of the findings to both academics and practitioners.

## 2. Methodology

This thesis sees identities from the interpretivist strand where they are constructed through social interactions and seen as dynamic, changing, and negotiable rather than static or fixed (Alvesson, Ashcraft and Thomas, 2008; Corlett et al., 2017). Accordingly, an interpretivist, qualitative approach of research methodology was employed. Data were collected using semi-structured interviews and participant-produced drawings. To begin with, the method of interviews was chosen to gain in-depth, detailed understanding regarding experiences, opinions, feelings, values, mechanisms, and behaviours of participants. The semi-structured type of interviews enabled a researcher to have flexibility in the questions and yet some control over the focus and scope. The interviews helped to answer the 'what', 'how', and 'why' questions which fit with the purposes of this study, for example, how individual auditors reacted to multiple institutional logics, what forms of professional identities they saw themselves in relation to the three logics, and why they embraced certain logic(s) over the other(s). Moreover, semi-structured interviews matched well with the exploratory, inductive nature of this research in which a researcher could probe the answers from the participants further, asking them to discuss in depth or build more on their initial answers (Rowley, 2012; Creswell, 2014).

The interviews were conducted at the participants' offices, cafes, or restaurants. Each interview lasted approximately one hour. Participants were asked around the topics of how they came into the profession, the main objectives of their work, their motivation and demotivation, the importance of clients and client relationship, characteristics of successful auditors, auditor independence, different goals and stakeholders in their work, professionalism, service expansion, as well as the current state and standing of the profession. Critical incident technique (Butterfield et al., 2005) was also used in which participants were asked about key experiences or events that clearly and specifically illustrated their answers, for instance, when they experienced very difficult clients and how they dealt with these cases.

Furthermore, a method of participant-produced drawings (Kearney and Hyle, 2004) was also employed as part of the interviews. The reasons behind this were to help access experience, feelings, and opinions that were not easily represented by words alone (Bagnoli, 2009; Guillemin and Drew, 2010; Ward and Shortt, 2012) especially for the abstract concepts of identities and institutional logics. Drawings also fostered participants' reflexivity (Bagnoli, 2009) and stimulated further conversations in the interviews (Kearney and Hyle, 2004; Pain, 2012; Ward and Shortt, 2012). In addition, this visual method enabled the data to emerge from the participants' own perspective (Bagnoli, 2009; Pain, 2012). Not only that it helped to empower the participants and encourage their active participation (Guillemin and Drew, 2010; Pain, 2012), but also reduced the researcher's influence as participants could frame, reflect, and discuss the subject matter freely by themselves through their own drawings (Kearney and Hyle, 2004). As with the epistemological underpinning of interpretivism of this research, the free drawings enabled a researcher to understand the participants' socially-constructed

world and meanings from their perspective (Schwandt, 1994; Scherer, Does and Marti, 2016).

For each interview, the participant-produced drawing was conducted at the beginning, after some warm-up interview questions. A participant was asked to draw anything that represented 'being an auditor' to them on a given piece of A3 paper and discussed their drawing afterwards. They were also reminded that they would not be judged on their artistic ability. Then, the verbal interview continued, with occasional referrals back to the drawing by the researcher or the participant.

Participants included external, statutory auditors working in the small, medium, and big-four audit firms in the UK. This extended an existing body of literature which heavily centres on only large firms (Hanlon, 1996; Kosmala and Herrbach, 2006; Sweeney and McGarry, 2011; Spence and Carter, 2014; Bévort and Suddaby, 2016). All participants had at least three years of work experience in statutory auditing. The cut-point number of three years is in line with the minimum work experience required for achieving chartered accountancy qualification (ICAEW, 2019), thus representing a time period for familiarising with auditing and being an auditor. Participants were recruited from personal and professional networks, as well as via a snowballing technique (Biernacki and Waldorf, 1981). The sample size was determined by the data saturation point (Creswell, 2014). Overall, the research sample consisted of 27 auditors with 16 males and 11 females in the ages ranged between 21-30 to 61-70. Their positions spanned from Audit Associate to Audit Partner. A slightly higher number of males in this study represented a larger proportion of male professionals in the accountancy workforce in general (Khalifa, 2013).

Interview data were transcribed in full (verbatim) and then analysed by thematic analysis (Braun and Clarke, 2006; Miles, Huberman and Saldana, 2014). Regarding visual data, the verbal discussion of drawings was transcribed and thematically analysed along with other verbal interview data. As such, the visual method was implemented here not necessarily to create drawings as the 'end product' in themselves, but rather as a tool or 'catalyst' (Vince and Broussine, 1996: 9) to help participants reflect and generate the conversations on abstract, ineffable issues that might be difficult to have in normal interviews alone (Bagnoli, 2009; Guillemin and Drew, 2010; Ward and Shortt, 2012). As with verbal data, any names or identifiable attributes in the drawings were removed and replaced with pseudonyms to ensure the anonymity and confidentiality of participants (Bagnoli, 2009; Creswell, 2014). A qualitative data analysis software 'NVivo 12 Pro' was used throughout the process.

### 3. Results

#### The coexistence of three institutional logics

Within the auditing profession, there are two main institutional logics in the existing literature including the professional logic and the commercial logic (Gendron, 2002; Spence and Carter, 2014). The professional logic involves the values of an ideal professional including the possession of technical knowledge, the identification with a community of practice, self-regulation and professional autonomy, and the dedication to public interests. The commercial logic represents the emphasis on business, profitability, efficiency, and client interests (Gendron, 2002; Spence and Carter, 2014). Although both institutional logics coexist in the auditing profession, many scholars point to the growing

dominance of the commercial logic over the professional one (Hanlon, 1996; Sweeney and McGarry, 2011; Spence and Carter, 2014; Guo, 2016).

This thesis further classified the institutional logics in the auditing profession into three separate logics. In particular, a professional logic as referred to in the literature (Gendron, 2002; Spence and Carter, 2014) contains both technical and ethical aspects. This research intentionally separated these two sets of values into different institutional logics namely a technical logic and an ethical logic. This was because technical knowledge and rule compliance do not necessarily guarantee ethics and morality (Sikka and Willmott, 2013; Zeff, 2003b; Spence and Carter, 2014).

Findings reported the coexistence of these three institutional logics. Firstly, a technical logic was found in the data in terms of a chartered accountancy qualification, the technical accounting and auditing knowledge, expertise and experience, and the conformity with professional rules, standards and laws. Secondly, an ethical logic was manifested in the data through topics about the public interests, integrity, objectivity, professional scepticism, autonomy, and independence. Thirdly, a commercial logic was shown in the data regarding issues around client relationship, serving and adding values to the clients, profitability, non-audit service provision, personal remuneration, efficiency, and meeting deadlines. Altogether, the three institutional logics in the auditing profession found in this thesis and their definitions are shown Figure 1.

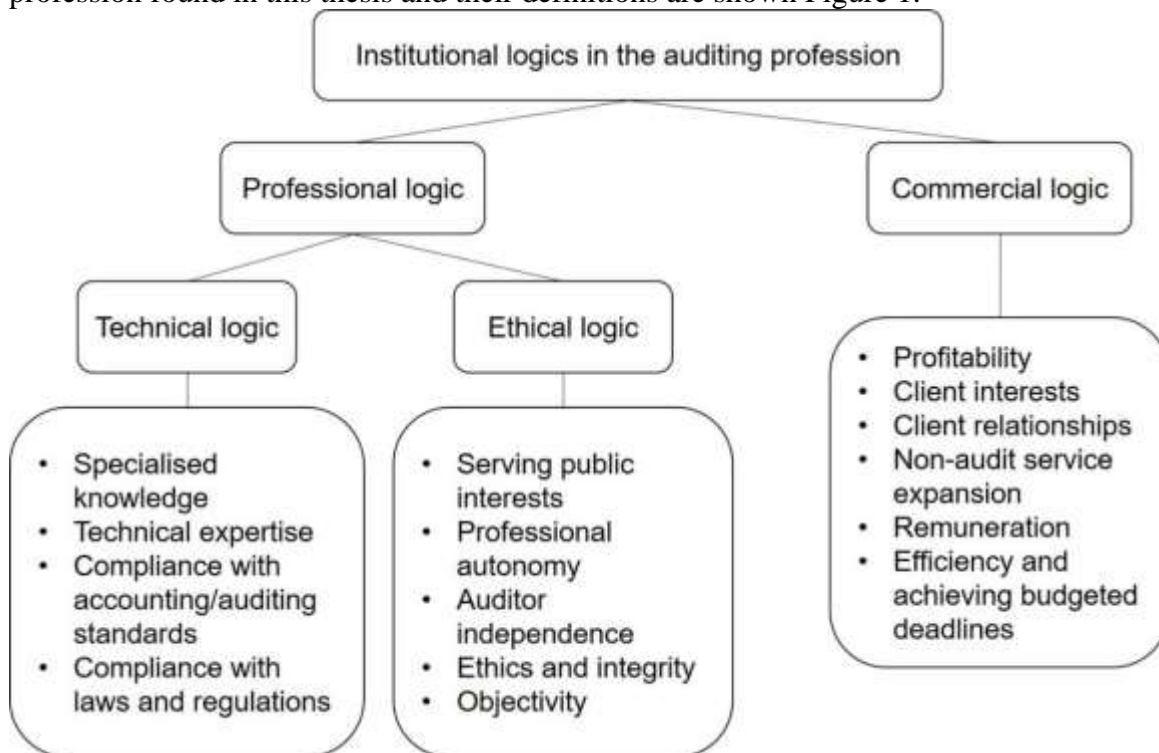


Figure 1: Three institutional logics in the auditing profession

The three institutional logics were portrayed in the visual data as well. For instance, the pictures of a laptop with financial statements, police handcuff, and Dollar signs represent technical attentiveness to details, a duty to protect the society from financial crimes, and the monetary reward, which reflect the technical, ethical, and commercial logics respectively (Figure 2).

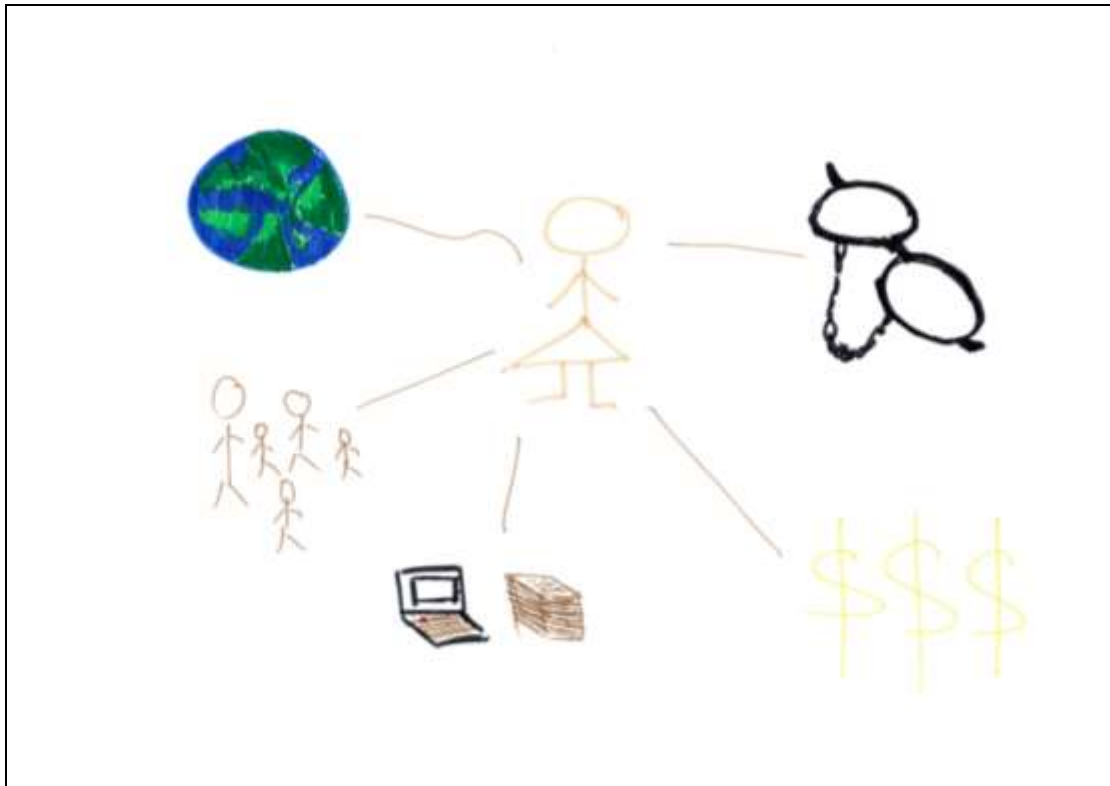


Figure 2: Sabrina<sup>1</sup>'s drawing

#### Tensions among multiple institutional logics

The data showed that individual auditors experienced tensions or conflicts among different institutional logics. This prompted them to identify with one or two logic(s) and distance from the other(s). For example, when they strongly disagreed with the client on material mistakes in the accounts and decided to issue an unclean audit report which hugely upset the client and subsequently made them lose the client, they embraced the technical and ethical logics, but distanced from the commercial logic. On the other hand, when they were under pressing time pressure to finish the work within the deadline and cut some corners, the ethical logic was compromised to the benefit of the commercial logic. The main sources of tensions among these multiple institutional logics included the external forces between different bodies such as the regulators and the market, the dynamic of the auditing profession itself where the clients were the party who selected and paid the auditors, and the time constraint especially during busy seasons.

#### Complementarity among multiple institutional logics

The findings also demonstrated that institutional logics in the auditing profession can complement one another as well. In particular, three types of complementarity were found in the data including the 'facilitating', 'by-product', and 'stand-alone' nature. Figure 3 illustrates the definitions of these three styles of complementary relationships among multiple institutional logics.

---

<sup>1</sup> All names here are Pseudonyms

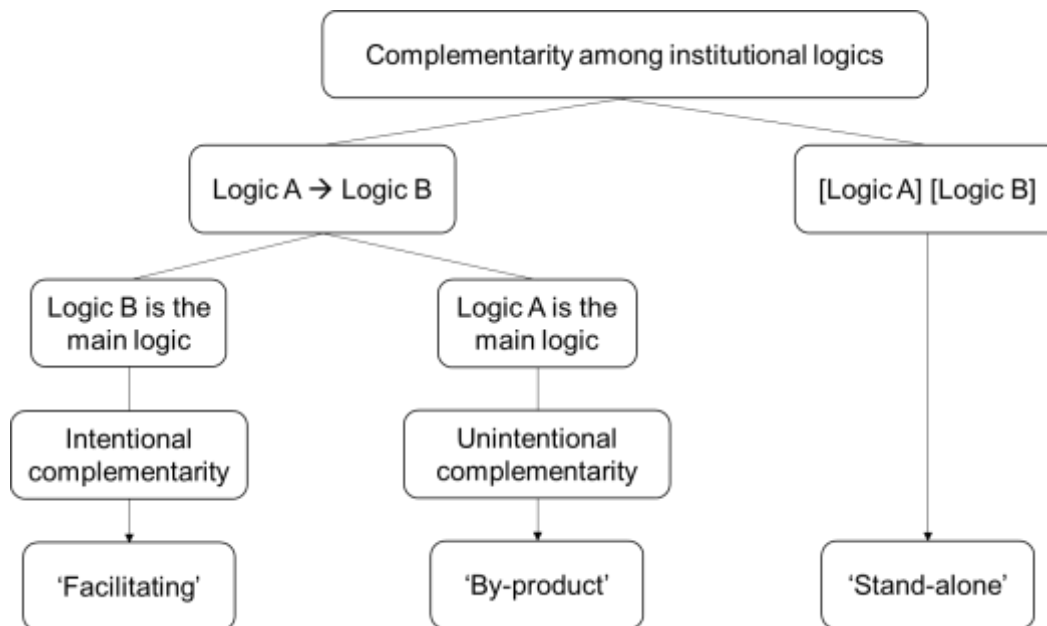


Figure 3: Three types of complementarity among institutional logics

Firstly, the facilitating nature was when an individual auditor intentionally complied with one logic in order to identify with another logic which was the key logic for them. For instance, a participant built a good client relationship to obtain more technical information about the client's business so as to better assess the audit risk. In this case, a commercial logic in terms of the client relationship was embraced intentionally as a stepping-stone to promote a technical logic in a form of a better assessment of audit risk, which was an end goal for this complementarity. Secondly, the by-product nature happened when a compliance with a key logic accidentally strengthened another logic. For example, a firm stance on an ethical ground and integrity by the auditor additionally helped to earn respect from the client. In this example, a main institutional logic was an ethical logic where the participant strongly adhered to. A commercial logic in terms of the client respect was simply a by-product that emerged from this main ethical logic. Note that the surrounding details were taken into account when determining the participants' intentionality and classification of complementarity types. Thirdly, the stand-alone type represented the cases where different logics were identified alone without any logic reinforcing the other. An example of this type was when an individual auditor made sure that the audit work was technically correct and commercially efficient at the same time. In this case, the compliance with a technical logic did not automatically strengthen the value of a commercial logic, and vice versa.

This research also reported the mechanisms that participants employed to minimise tensions and encourage complementarity among multiple institutional logics. Some mechanisms were suitable for individual auditors at all levels including building and maintaining good client relationships and communication, ensuring independence at all times, dealing with time pressure well, and involving a third person when having an argument or a difficult situation with the client. The rest of the mechanisms were more applicable for individual auditors at the top of the audit firms including reinvesting commercial gains properly and choosing the right clients.

#### Three professional identities of individual auditors

This thesis found three forms of professional identities of individual auditors including ‘a guardian of public interests’, ‘an advisor’, and ‘a value-added watchdog’. The key institutional logics that shaped these identities were an ethical logic and/or a commercial logic. The definitions of these three professional identities and their underlying institutional logics are presented in Figure 4.

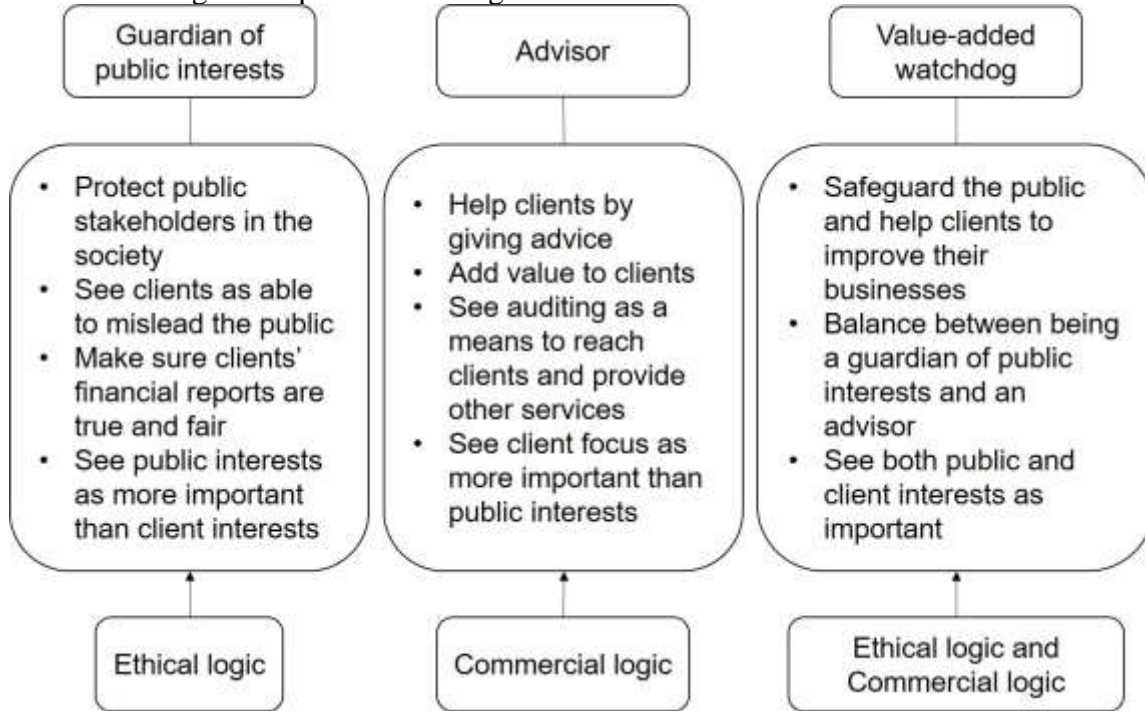


Figure 4: Three professional identities of individual auditors

Firstly, some participants saw themselves as the guardians of public interests who protected the public stakeholders in the society such as investors, shareholders, creditors, employees, and suppliers who relied on the truth and fairness of financial information for their decision making. As such, these participants strongly felt the responsibility to safeguard the public from being misled by the companies or organisations they audited. They prioritised the public interests as more important than the client interests. The main institutional logic that shaped their professional identity construction was an ethical logic. Their drawings also represented this public guardianship, for example, through pictures of a police officer (Figure 5) and a bird overseeing the world (Figure 6).



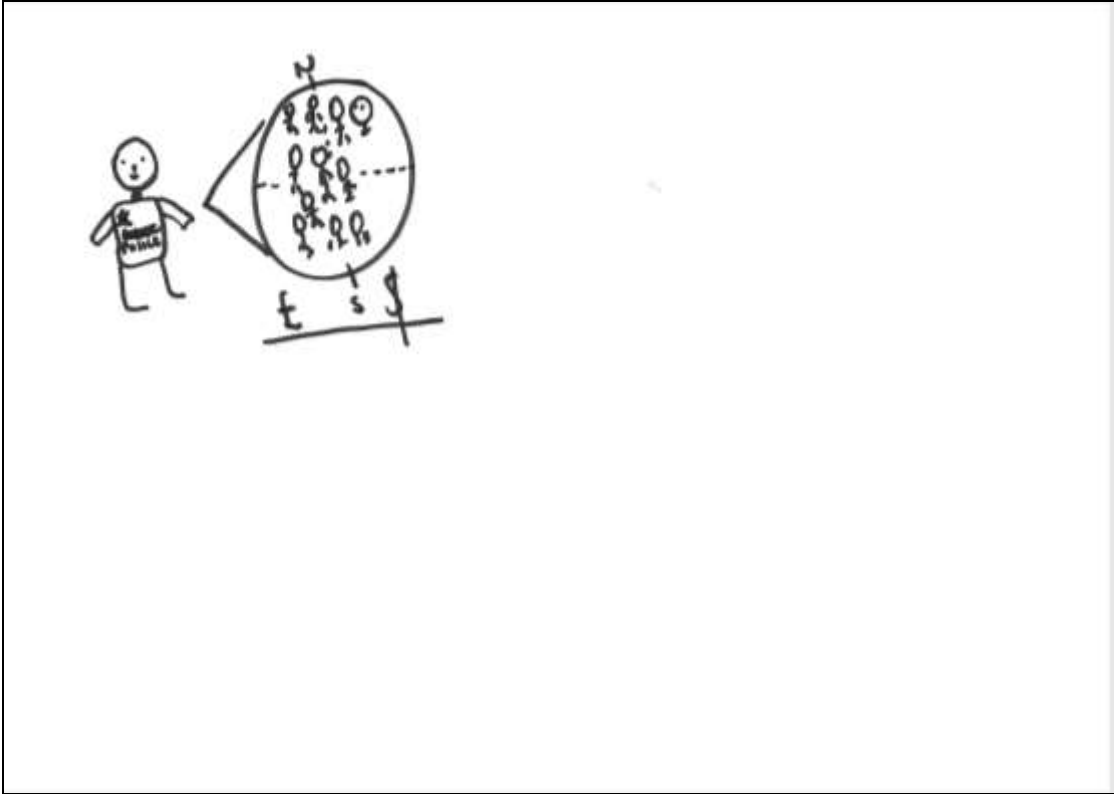


Figure 5: Judy's drawing

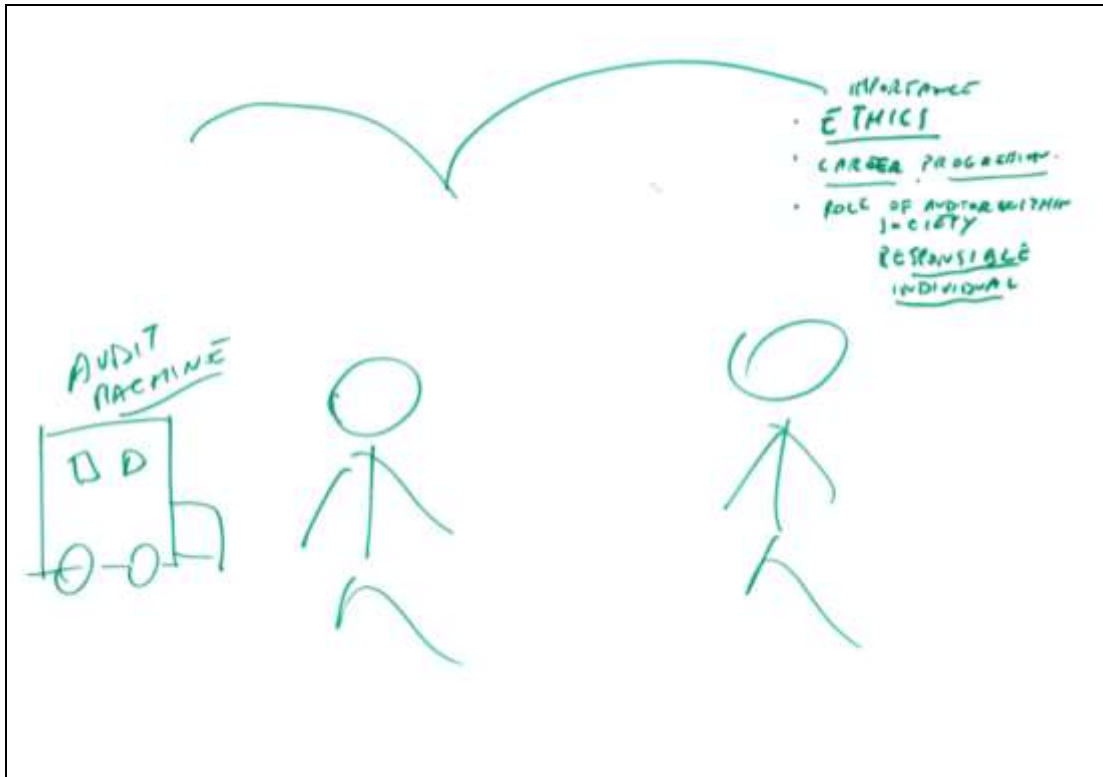


Figure 6: Kenneth's drawing



With the recent incidents of audit scandals in the UK, this identity of a guardian of public interests may be challenged. Participants in this group thus performed certain forms of identity work (Sveningsson and Alvesson, 2003) to resolve this identity threat (Kyratsis et al., 2017) by claiming that the auditing profession has now become more scrutinised with better audit quality and independence, that the audit scandals in the news were just a small proportion of the whole profession, and that the public misunderstood the scope and level of auditor assurance. In this way, these individual auditors could secure their professional identity of a guardian of public interests.

Secondly, several participants saw themselves as being advisors to their clients. In contrast to being guardians of public interests, these individual auditors only viewed auditing as a means to reach clients and offer other non-audit services such as tax and IT advisory. They strongly rejected the notion of being a traditional public watchdog who simply did a compliance function which, in their opinion, was associated with lower status. They reframed themselves as business advisors who could add value to clients. The viability of non-audit service provision enabled them to become business advisors to the clients either directly or indirectly. Thus, these participants tried to legitimise the provision of non-audit services to maintain their advisor identity, for example, by referring to strict independence procedures in place. The public interests were seen as secondary to serving the clients. Accordingly, they significantly embraced a commercial logic into their professional identity construction. This advisor identity was also depicted in their drawings, for instance, through a picture of hands between an auditor and a circle of clients (Figure 7).

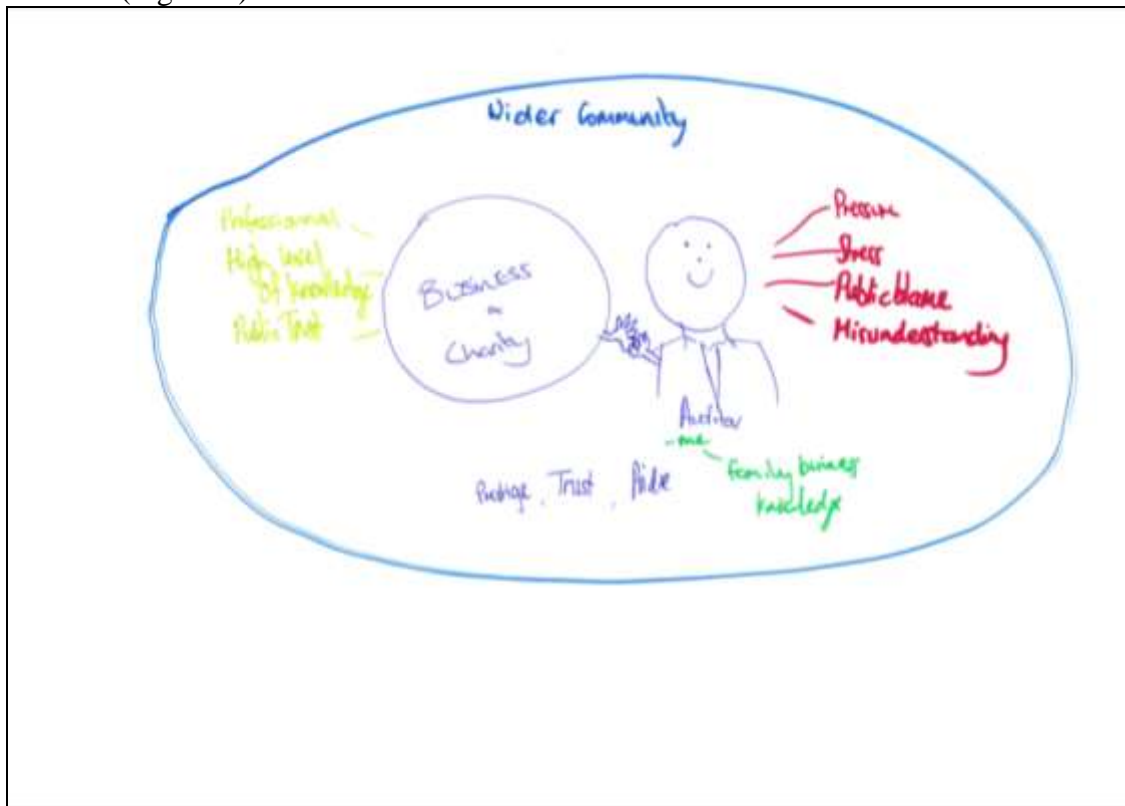


Figure 7: Titus's drawing

Thirdly, many participants represented an identity of a value-added watchdog. This demonstrated a form of a hybrid identity (Meyer and Hammerschmid, 2006; McGivern et

al., 2015) between being a guardian of public interests and an advisor. They felt the responsibility to safeguard the public, ensuring the truth and fairness of financial reporting as well as wanted to help and add value to the clients at the same time. The public and client interests were both valued. The main institutional logics that shaped this value-added watchdog identity were the ethical logic and the commercial logic. Participants enacted certain forms of identity work to keep the balance between the two logics, for example, maintaining independence and drawing boundaries to the clients when giving them advice. This value-added watchdog identity was also illustrated in their drawings. For instance, Ian drew a picture of himself, thinking 'How can I help the client and challenge [them] at the same time', demonstrating a mixed identity between an advisor and a watchdog (Figure 8).



Figure 8: Ian's drawing

#### 4. Discussion and Implications

This research has four key contributions. Firstly, it discovered how multiple institutional logics shaped the construction of professional identities of individual auditors. Prior studies have studied the impact of institutional logics on individual identities but in other fields beyond accounting and auditing such as in medicine (McGivern et al., 2015; Kyratsis et al., 2017) and public sector (Meyer and Hammerschmid, 2006). The exceptions are Bévort and Suddaby (2016) and Guo (2016). Nevertheless, Bévort and

Suddaby (2016) only study the case of accountants who progress to managerial positions in a firm during a restructuring process, and Guo (2016) focuses on the professional identity as projected by field-level players in the auditing profession. This thesis investigated the professional identities from the point of view of individual auditors themselves in general regardless of their positions or internal structures of their firms.

Secondly, this thesis has explicitly broken down the technical and ethical values under the umbrella of the professional logic in the literature (Gendron, 2002; Spence and Carter, 2014) into two separate institutional logics, arguing that being technically correct or simply following rules or standards does not necessarily guarantee ethics. Findings supported the distinction between these two logics in that individual auditors could identify with a technical logic but distance from an ethical one, and vice versa. Furthermore, this research also found that an ethical logic played a more significant role in shaping professional identities of individual auditors than a technical logic. Thus, by separating the two logics, this study offers a clearer understanding of the macro-level values that individual auditors are embedded in, and how these impact their professional identity construction.

Thirdly, in contrast to the prevalent assumption held by most scholars in the accounting and auditing field (Gendron, 2002; Spence and Carter, 2014; Sweeney and McGarry, 2011), this thesis found that institutional logics do not necessarily contradict or compete with one another. Instead, their relationships can be complementary. Moreover, this thesis contributes to the institutional theory by classifying the complementarity of institutional logics in the auditing profession into three types including the facilitating, the by-product, and the stand-alone nature. The classification was built on the existing literature in other contexts beyond accounting and auditing (Goodrick and Reay, 2011; Smets et al., 2015), but further included the dimension of individual's intentionality. Thus, this thesis emphasises the level of agency that individuals exercise when responding to institutional logics (Lok, 2010; Bévort and Suddaby, 2016). Furthermore, this research also reported the mechanisms that individual auditors could employ to minimise tensions and promote complementarity among multiple institutional logics. With many possible ways to encourage complementarity, the commercial logic was seen here as not necessarily damaging the professional values as most scholars usually portray (Hanlon, 1996; Fogarty, 2014; Sikka, 2015). Accordingly, the complementarity of institutional logics explained why the hybrid identity of a value-added watchdog drawing from ethical and commercial logics was viable. To date, this thesis is the first to identify a hybrid identity from different institutional logics in the field of auditing and accounting.

Fourthly, this research also has a methodological contribution regarding the use of participant-produced drawings to study the relationship between a macro-level construct of institutional logics and a micro-level construct regarding identities of individuals. It was found that this visual method, along with the semi-structured interviews enabled participants to reflect and conceptualise abstract ideas of institutional logics and identities better. Drawings varied from descriptive pictures, metaphors, relational maps, and timeline trajectory. They helped to encourage further discussion containing valuable points, some of which would not be possible to reach by normal interviews alone. For example, by asking participants to compare their drawings with the imagined ones if they had done this activity when they started their career, it brought out a more personal account in how they have seen the change of the auditing profession through their own

perspective. Thus, the participant-produced drawing method can provide a useful platform to study how institutional logics are perceived and interpreted by individuals as well as the implications for their identities.

Apart from the aforementioned theoretical and methodological contributions, this thesis also has practical implications. To begin with, findings demonstrated that the commercial logic has crept into the auditing profession nowadays not only at the behavioural level, but also at the very identity of professionals as many of them saw themselves as business advisors or value-added watchdogs. Thus, educational institutions, professional bodies, and audit firms may need to adapt their trainings and educations accordingly. For example, in addition to technical skills, the communication, relationship-building, and advisory skills may be necessary to cater to these auditors.

Next, this thesis found many instances where the ethical logic was compromised, although the technical logic was embraced. This was alarming and raised concerns to the professional bodies and regulators that the existing rules, standards, or laws may not be enough to ensure ethics and integrity in auditing. In this regard, it may need a national reform on ethics education and development where the issue of ethics is ingrained into individuals since childhood. Nevertheless, it certainly takes time, cooperation, and transformation in a large scale. One simpler and more realistic way is to encourage the complementarity among different institutional logics. Different types of complementarity as well as the mechanisms reported in this thesis that help minimise the tensions and promote such complementarity can be a good starting point.

Moreover, the dynamic of an auditing profession where clients chose and pay auditors was reported here as one of the main sources of tensions among multiple institutional logics. This has implications for policy makers in that there should be some change that would make the audit firms become less dependent on the fees from audit clients. For instance, the third party such as the government or the professional institutes may get involved and act as a central allocator of audit contracts to clients instead of the clients choosing audit firms by themselves.

Finally, this research found that busy seasons were the context where participants tended to cut corners for the sake of meeting deadlines. This has implications for audit firms, professional institutes, and policy makers in that more attention should be paid to the amount of work that auditors are responsible to do. Audit firms should not accept or be allowed to accept too many audit clients than their realistic staff capacity. The staff allocation to different projects should be reasonable for them to exercise enough judgements and professional scepticism. Ultimately, this will help with the audit quality as well as the work-life balance of individual auditors which potentially may keep them and their talents in the profession longer.

## References

- Alvesson, M., Ashcraft, K. and Thomas, R. (2008). Identity Matters: Reflections on the Construction of Identity Scholarship in Organization Studies. *Organization*, 15(1), pp.5-28.
- Bagnoli, A. (2009). Beyond the standard interview: the use of graphic elicitation and arts-based methods. *Qualitative Research*, 9(5), pp.547-570.
- Bévort, F. and Suddaby, R. (2016). Scripting professional identities: how individuals make sense of contradictory institutional logics. *Journal of Professions and Organization*, 3(1), pp.17-38.
- Biernacki, P. and Waldorf, D. (1981). Snowball sampling: Problems and techniques of chain referral sampling. *Sociological Methods and Research*, 10(2), pp.141-163.
- Braun, V. and Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology*, 3(2), pp.77-101.
- Butterfield, L., Borgen, W., Amundson, N. and Maglio, A. (2005). Fifty years of the critical incident technique: 1954-2004 and beyond. *Qualitative Research*, 5(4), pp.475-497.
- Corlett, S., McInnes, P., Coupland, C. and Sheep, M. (2017). Exploring the Registers of Identity Research. *International Journal of Management Reviews*, 19(3), pp.261-272.
- Creswell, J. (2014). *Research Design: Qualitative, Quantitative, and Mixed Methods Approaches*. 4th ed. London: SAGE.
- Fogarty, T. (2014). The bloom is off the rose: Deprofessionalization in Public Accounting. In: S. Mintz, ed., *Accounting for the Public Interest: Perspectives on Accountability, Professionalism and Role in Society*. New York, NY: Springer, pp.51-72.
- Gendron, Y. (2002). On the role of the organization in auditors' client-acceptance decisions. *Accounting, Organizations and Society*, 27(7), pp.659-684.
- Goodrick, E. and Reay, T. (2011). Constellations of Institutional Logics: Changes in the Professional Work of Pharmacists. *Work and Occupations*, 38(3), pp.372-416.
- Guillemin, M. and Drew, S. (2010). Questions of process in participant-generated visual methodologies. *Visual Studies*, 25(2), pp.175-188.
- Guo, K. (2016). The Institutionalization of Commercialism in the Accounting Profession: An Identity-Experimentation Perspective. *Auditing: A Journal of Practice & Theory*, 35(3), pp.99-117.
- Hanlon, G. (1996). "Casino Capitalism" and the Rise of the "Commercialised" Service Class - An Examination of the Accountant. *Critical Perspectives on Accounting*, 7(3), pp.339-363.
- ICAEW (2006). Fundamentals – Audit Purpose. *Audit Quality Forum*, July 2006. [Online]. Available at: <https://www.icaew.com/-/media/corporate/files/technical/audit-and-assurance/audit-quality/audit-quality-forum-fundamentals/fundamentals-audit-purpose.ashx> [Accessed 3 May 2019].
- ICAEW (2019). *How to become a chartered accountant*. [Online]. ICAEW. Available at: <http://careers.icaew.com/en/how-to-become-a-chartered-accountant> [Accessed 17 September 2019].
- Johnstone, K., Sutton, M. and Warfield, T. (2001). Antecedents and Consequences of Independence Risk: Framework for Analysis. *Accounting Horizons*, 15(1), pp.1-18.



- Kearney, K. and Hyle, A. (2004). Drawing out emotions: the use of participant-produced drawings in qualitative inquiry. *Qualitative Research*, 4(3), pp.361-382.
- Khalifa, R. (2013). Intra-professional hierarchies: the gendering of accounting specialisms in UK accountancy. *Accounting, Auditing & Accountability Journal*, 26(8), pp.1212-1245.
- Kosmala, K. and Herrbach, O. (2006). The ambivalence of professional identity: On cynicism and jouissance in audit firms. *Human Relations*, 59(10), pp.1393-1428.
- Kyratsis, Y., Atun, R., Phillips, N., Tracey, P. and George, G. (2017). Health Systems in Transition: Professional Identity Work in the Context of Shifting Institutional Logics. *Academy of Management Journal*, 60(2), pp.610-641.
- Lok, J. (2010). Institutional Logics as Identity Projects. *Academy of Management Journal*, 53(6), pp.1305-1335.
- McGivern, G., Currie, G., Ferlie, E., Fitzgerald, L. and Waring, J. (2015). Hybrid manager-professionals' identity work: the maintenance and hybridization of medical professionalism in managerial contexts. *Public Administration*, 93(2), pp.412-432.
- Meyer, R. and Hammerschmid, G. (2006). Changing Institutional Logics and Executive Identities: A Managerial Challenge to Public Administration in Austria. *American Behavioral Scientist*, 49(7), pp.1000-1014.
- Miles, M., Huberman, A. and Saldana, J. (2014). *Qualitative Data Analysis: A Methods Sourcebook*. 3rd ed. Thousand Oaks, California: Sage.
- Pain, H. (2012). A Literature Review to Evaluate the Choice and Use of Visual Methods. *International Journal of Qualitative Methods*, 11(4), pp.303-319.
- Rowley, J. (2012). Conducting research interviews. *Management Research Review*, 35(3/4), pp.260-271.
- Scherer, A., Does, E. and Marti, E. (2016). Epistemology: Philosophical foundations and organizational controversies. In: R. Mir, H. Willmott and M. Greenwood, ed., *The Routledge Companion to Philosophy in Organization Studies*, 1st ed. New York: Routledge, pp.33-50.
- Schwandt, T. (1994). Constructivist, Interpretivist Approaches to Human Inquiry. In: N. Denzin and Y. Lincoln, ed., *Handbook of Qualitative Research*, 1st ed. Thousand Oaks, California: Sage Publications, pp.118-137.
- Sikka, P. (2015). The corrosive effects of neoliberalism on the UK financial crises and auditing practices: A dead-end for reforms. *Accounting Forum*, 39(1), pp.1-18.
- Sikka, P. and Willmott, H. (2013). The tax avoidance industry: accountancy firms on the make. *Critical perspectives on international business*, 9(4), pp.415-443.
- Smets, M., Jarzabkowski, P., Burke, G. and Spee, P. (2015). Reinsurance Trading in Lloyd's of London: Balancing Conflicting-yet-Complementary Logics in Practice. *Academy of Management Journal*, 58(3), pp.932-970.
- Spence, C. and Carter, C. (2014). An exploration of the professional habitus in the Big 4 accounting firms. *Work, employment and society*, 28(6), pp.946-962.
- Sveningsson, S. and Alvesson, M. (2003). Managing Managerial Identities: Organizational Fragmentation, Discourse and Identity Struggle. *Human Relations*, 56(10), pp.1163-1193.
- Sweeney, B. and McGarry, C. (2011). Commercial and Professional Audit Goals: Inculcation of Audit Seniors. *International Journal of Auditing*, 15(3), pp.316-332.

Thornton, P. and Ocasio, W. (1999). Institutional Logics and the Historical Contingency of Power in Organizations: Executive Succession in the Higher Education Publishing Industry, 1958– 1990. *American Journal of Sociology*, 105(3), pp.801-843.

Vince, R. and Broussine, M. (1996). Paradox, Defense and Attachment: Accessing and Working with Emotions and Relations Underlying Organizational Change. *Organization Studies*, 17(1), pp.1-21.

Ward, J. and Shortt, H. (2012). Evaluation in management education: A visual approach to drawing out emotion in student learning. *Management Learning*, 44(5), pp.435-452.

Zeff, S. (2003a). How the U.S. Accounting Profession Got Where It Is Today: Part I. *Accounting Horizons*, 17(3), pp.189-205.

Zeff, S. (2003b). How the U.S. Accounting Profession Got Where It Is Today: Part II. *Accounting Horizons*, 17(4), pp.267-286.



# *Finding Their Way* - An Action Research Case Study on Individual Goal Striving, and its Implications for Managerial Coaching for Performance

**Snowdon Paul**  
**Henley Business School at the University Of Reading**

## ***Abstract:***

This paper explores the role of self-regulation, goals, and coaching in a year-long multiple case-study with two Canadian sales organizations. The results from this qualitative action research project indicate that goal striving in a complex, uncertain environment is an iterative, emergent process of *finding your way*. A framework – the Goal Pursuit Cycle (GPC) – was developed to describe the wayfinding process. Constructs of Identity, Emotions, Choices, Actions, and Results were present in the GPC and influenced each other. Findings provide support for self-regulation as an organizing framework for coaching and highlight key reasons why managers avoid coaching their people.

## **Introduction**

Sales revenue is the fuel that keeps business running. Without revenue, a business cannot survive, and it is the sales teams that are tasked with delivering the fuel, every month, every quarter, every year. In the popular literature, sales coaching is widely recognized as a vital ingredient for the success of any sales team, yet in the academic literature, research on managerial coaching is still in its infancy (Dahling et al., 2015). Additionally, the research community acknowledges a lack of agreement on the organizing framework(s) for coaching (Gregory et al., 2011). Indeed, a number of leading researchers (Grant & Cavanaugh, 2004; Hagen, 2012; Hamlin, Ellinger, & Beattie, 2006; Mclean, Yang, Kuo, Tolbert, & Larkin, 2005, Cassidy & Medsker, 2009; Pousa, 2012; Pousa & Mathieu, 2014) have identified that the domain of employee coaching is in need of scientific rigour both for construct clarity and theory development (Pousa & Mathieu, 2014). Gregory et al. (2011) called for control theory, which sits at the heart of self-regulation, as a potential organizing framework for coaching. However the proposal to use self-regulation as an organizing construct is not without detractors, as goals themselves, which are a central tenet of self-regulation, have been deemed controversial and counter-productive by some researchers in the coaching domain (David et al., 2016). Not surprisingly, there have been few articles that link goal theory to executive coaching (David et al., 2016).

From a business application perspective, Turner and McCarthy (2015) highlight that there is little evidence of the factors that influence the day-to-day decisions by managers to

take advantage of coachable moments, and most managers have never been trained as coaches (Longenecker, 2010). Equally, even if managers have been trained as coaches, they may choose to avoid having a coaching conversation with an employee if they perceive risk in how the employee will react to the coaching (Turner & McCarthy, 2015).

Thus, this thesis focused on answering three research questions related to the gaps and controversies noted above. First, to investigate the usefulness of control theory as an organizing framework for managerial coaching, this study focused on the employee's journey to achieve goals, and the characteristics of those who were high performers. By focusing on *how* an individual pursued goals, and the characteristics of those who successfully achieved their goals, insights into the appropriateness of control theory as a coaching framework could be developed. Because action research methodology was used to structure the data collection process, the study was also able to opportunistically uncover factors that influence a manager's choice to coach. As a result, the following research questions (RQ) were investigated:

- RQ1: 'How do individuals strive for goals in complex, uncertain environments?'
- RQ2: 'What are the goal striving characteristics of high performing individuals in complex, uncertain environments?'
- RQ3: 'What influences a manager's choice to coach?'

### **Theoretical Framework**

Managerial coaching is a tool that a supervisor uses to improve an employee's existing skills, competence, or performance (Hamlin et al., 2006), and Ellinger, Ellinger, & Keller (2005) indicate that supervisory coaching is a form of learning that creates growth and improvement in an employee (Lee, 2020). Goals, and the achievement of goals, are therefore central to managerial coaching.

In studying goals that were either assigned to an individual, were participatively set with others, or were self-set, Locke and Latham (1990) identified a linear relationship between the degree of goal difficulty and performance. They identified that specific, difficult goals led to higher performance as compared to having no goals, or vague goals. They also found that performance feedback, participation in decision making, and competition only affected performance to the extent that they lead to the setting of a specific, higher goal (Locke & Latham, 2013). Additionally, Locke and Latham's research found that the goal-performance relationship was mediated by an individual's choices of the goal directed activities they worked on, the effort they put forth on those activities, their persistence over time, and the task strategy they used to achieve the goal. They also found that the goal-performance relationship was moderated by the individual's ability to complete the tasks needed to attain the goal, objective feedback of their performance relative to the goal, the individual's commitment to attaining the goal itself, and their access to the situational resources need to complete the task (Latham et al., 2016).

Karoly (1993) introduced control theory into the self-regulation literature, which brought the cybernetics concept of the negative feedback loop as a central principle of self-regulation (Lord et al., 2010; Ballard et al., 2016; Neal et al., 2017). In this model, it is assumed that an individual is focused on achieving a specified goal and that they monitor their progress towards their goal. Any discrepancies towards the goal, a 'goal

performance discrepancy' (GPD), cause the individual to react and make a choice to either continue along the current pathway towards the goal or change their pathway. The choice that the individual makes is also affected by their environment, and these environmental constraints can also influence the choice of action. Once a final decision has been made (which can be either a reactive decision or a proactive decision), the individual engages in the activity, receives feedback on their performance, and uses this as an input to re-enter the feedback circuit (Carver & Scheier, 1990; Lord et al., 2010; Neal et al., 2017). Each loop through the negative feedback cycle is a journey to reduce or eliminate a GPD. Positive feedback loops are also possible, but in this case, it is the framing of the challenge that shifts. With positive feedback loops, one is reaching, or striving, for higher goals and creating a positive discrepancy related to a desired future state, rather than eliminating a failure or reducing a negative gap (Lord et al., 2010).

Control theory also assumes a hierarchical structure of goals, with short term goals (proximal goals) lower in the hierarchy and more abstract, longer term goals (distal goals) at the top of the hierarchical structure (Kanfer, 2012). Within the hierarchy, a series of parent-child relationships exist between goals and sub-goals. The parent goal explains why an action is taken, while moving down a level explains how the parent goal is to be achieved or a GPD to be resolved (Lord & Levy, 1994). Thus, it is through achieving proximal goals that distal goals are achieved.

By examining the literature of goal setting, self-regulation, there is clear evidence of the role goals play in goal pursuit, and the role of self-regulation in achieving goals. Yet, in the published coaching literature there is little evidence of researchers studying these phenomena together (Gregory et al., 2011; David et al., 2016). It is within this gap that this study was conducted, and through this research, contributions to the managerial coaching literature, and action research literature, were made.

## **Research Design**

This study utilized a multiple case study design with two Canadian sales organizations. It adopted a subjectivist ontology and a constructivist epistemology. Action research methodology was used to collect data and a constructivist grounded approach to analyze it. This was an *intensive* case study design due to the interpretive nature of the data analysis and the constructivist sense-making process that was used to interpret the meaning of each individual's stories that were told during the interviews (Eriksson & Kovalainen, 2008). The goal of the analysis was to create what Stake (1995) called *naturalistic generalization*, whereby the evidence presented resonated with the readers' tacit knowledge, and allowed the reader to extend the insights from the case to other instances (Eriksson & Kovalainen, 2008). An intensive case study was also appropriate given the use of action research methodology. Sinkovics & Alfoldi (2012) note that in an intensive case study, it is natural for the initial research question to evolve, or be replaced during the middle of the study, and this did occur in this study, whereby all of the research questions evolved based on the action research cycles.

Charmazian grounded theory methodology (GTM) was used for theory generation. Central to this tradition is the notion that meaning is constructed, and that the experiences of the constructor influence the very constructions being made (Morse et al., 2016). Charmazian GTM is also noted for its use of gerunds (nouns that refer to an active state) and of its ability to create models that are rich with a sense of social, behavioural and psychosocial action (Apramian et al., 2017). Because of this, Charmaz (2006) notes that when adopting a constructivist approach to research, social scientists must incorporate a reflexive stance throughout the research process, to be aware of their own experiences, and how these may be affecting their actions (and interpretations). This reflexivity aligns with the use of ‘spirals of self-reflection’ that action researchers incorporate in their sensemaking processes (Kemmis, McTaggart and Nixon, 2014), and in recent years, there has been an increase in the interplay between action research and constructivist researchers due to a resonance between their paradigms (Gergen & Gergen, 2008; Teram, 2014).

### **Data Collection**

The unit of analysis was the individual. However, the focus of ‘the individual’ shifted depending on the research question. For those questions focused on goal pursuit, the individual employee was the unit of the analysis, while the unit of analysis shifted to the manager for the one research question that examined the factors that influence a manager’s choice to coach. Data for this study was collected via participant interviews, intervention workshops, reflective thinking exercises, field notes written after the interviews, and the memoing that occurred during the coding process. Over the course of the year-long study, 41 interviews were conducted across two organizations. These interviews occurred approximately once per quarter, subject to participant’s availability. In all cases, the interviews were semi-structured, with the interview questions being sent to the individuals in advance. The interviews lasted between 30-60 minutes, and all interviews were recorded and transcribed for data analysis.

Because action research methodology was used to implement the research design, each intervention operated as a data collection cycle and followed the ‘spiral of action research cycles’ model (Coghlan and Brannick, 2014). A total of seven interventions were introduced in this study and were evolved based on the insights derived from using Mezirow’s (1991) critical self-reflection technique (Content-Process-Premise).

Data analysis followed a constructivist grounded approach, which focused on inductive coding, iterative re-coding and through a process of constant comparison, category and theoretical saturation occurred. Coding began with incident-by-incident coding, rather than line-by-line coding. Initially, a Glaserian approach to coding was used, as this allowed greater context to be associated with each code. Following the open coding, core categories were generated. This was an iterative process of constant comparison to rationalize the codes and create a logical structure. Yet while the logical structure captured the *content* of the data, it failed to capture the *spirit* of it. As a result, a decision was taken to shift to Charmazian GTM for the theory generation stage, and with the

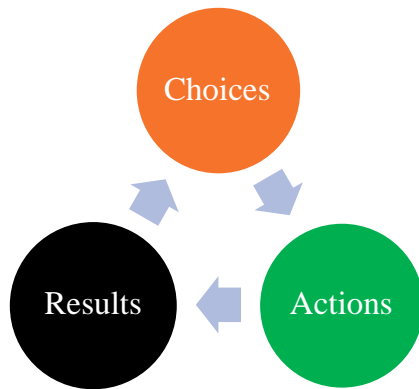
application of abductive thinking and the incorporation of gerunds, the models came alive and the voices of the participants sounded out.

## Major Results

### **RQ 1: How do individuals pursue goals in complex, uncertain environments?**

An individual pursued goals by engaging a meta goal-pursuit process, coined the ‘Goal Pursuit Cycle (GPC)’. The GPC was an iterative cycle that comprised of Choices, Actions, and Results, whereby Choices led to Actions, Actions led to Results, and Results led to a new set of Choices (see Figure 1). Low performers in the study were often unaware of the Choices they were making, or how to alter the Actions they took. Intermediate performers in the study were typically clear on the Choices and Actions that led to the Results they experienced, however they were often unable to generate meaningful *new* Choices that would lead to *different* Actions and Results. Whereas high performers in the study were able to self-reflect on their Choices and Actions and develop alternative strategies to create better Results.

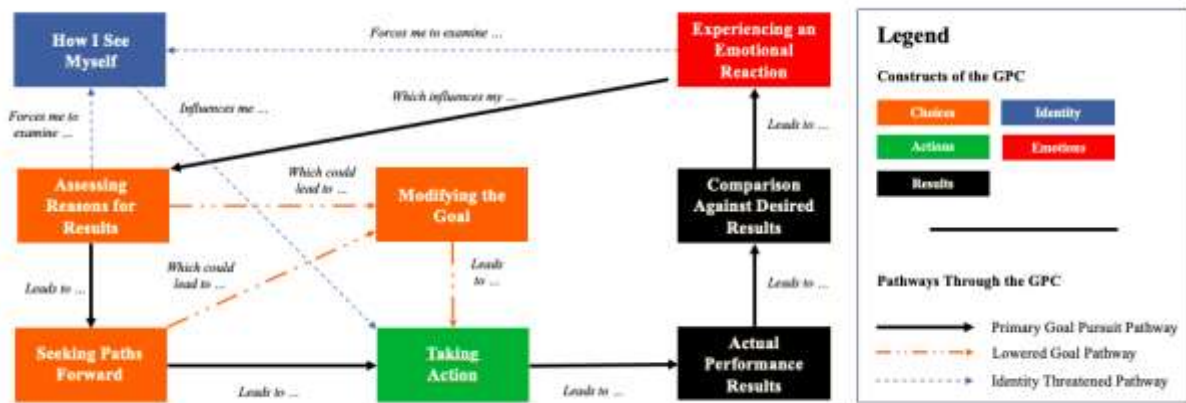
**Figure 1: The Goal Pursuit Cycle**



While Choices, Actions, and Results were at the heart of the GPC, an individual’s movement through the GPC was also influenced by their Emotions and Identity. An individual’s Emotions influenced one of three core Choices they made: the choice of failure attribution, the choice of new goal pursuit strategies, and/or the choice to modify the goal. With each movement through the GPC, the individual made a determination of whether they could further influence the results they obtained. Individuals continued operating in this iterative movement towards their goal, until they began to consistently miss their targets. When this occurred, they would lower the goal difficulty (to increase the likelihood of success), proceed to make choices about how to move forward, engage

in specific actions, and monitor their results as they re-entered the GPC. However, if the failure to progress towards the reduced goal continued, then eventually the individual's Identity was threatened. This in turn led to specific actions to reduce the threat to one's Identity, which at times included the abandonment of the goal itself. Figure 2 illustrates how an individual experiences the GPC, and how Identity, Emotions, Choices, Actions, and Results influence the goal pursuit.

**Figure 2: How an Individual Experiences the Goal Pursuit Cycle**

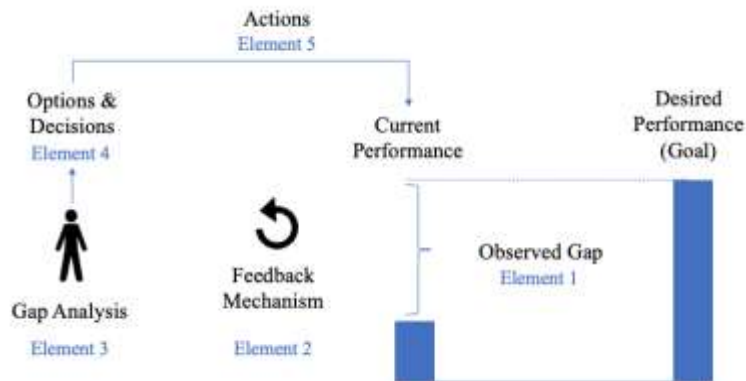


**The GPC as a Team Performance Tool**

The GPC can also be envisioned as a process to be managed, and a means to coach for performance. In this application, the GPC had five elements (see Figure 3). These were: 1) an observable gap, 2) a feedback mechanism, 3) a gap analysis, 4) generation of options and decisions, and 5) actions. Each of these elements fed the next, and since the GPC operated as a goal pursuit cycle, the effectiveness of the pursuit was limited by the weakest element. In this regard, the GPC acted as a diagnostic tool for the leader to identify which part of the team's regulatory processes were the weakest, which then allowed them to focus their energies on rectifying that. In this study, one of the managers, who was overseeing two separate sales teams, conducted a natural experiment. One sales team had the GPC applied as a management system for goal pursuit, while the second team did not. The team that had the GPC applied as a management system achieved their sales quota in six months, while the 'control group', who did not have the GPC applied as a management system, failed to achieve their annual sales quota. It is important to note that this was not a controlled experiment; it was a spontaneous intervention that the manager conceived and implemented on their own as a result of participating in the action research process. Clearly, many factors could have influenced this dramatic result, however it does highlight that if a manager chooses to apply the GPC as a management system, it is possible to achieve a positive outcome.



**Figure 3: Using The Goal Pursuit Cycle (GPC) as a Management System**



**RQ 2: What are the goal striving characteristics of high performing individuals in complex, uncertain environments?**

Every employee moved through the GPC, but not all achieved their goals. In examining the characteristics of those who did achieve their goals, four themes emerged: goal focus, persistence, self-reflexivity, and growth mindset. High performers demonstrated all four of these characteristics, and did it on their own (with minimal, if any managerial coaching). They were clear about their goals, were committed to achieving them, and made conscious decisions about what they worked on each day to achieve their goals. They were also persistent in working through issues and had a burning desire to succeed. But what set high performers apart was that when faced with setbacks, they had the ability to self-reflect on why they were failing, to see patterns, and to experiment with new activities to achieve their goal. In this way, they demonstrated a learning orientation and growth mindset. Middle performers were also highly focused on their goal and were diligent with their work. However, they lacked the ability to self-reflect and experiment on their own. They needed the manager to coach them to self-reflect and develop new paths forward. Interestingly, middle performers didn't always seek coaching and this affected their ability to achieve their goals. Low performers had goals, but struggled with persistence, self-reflexivity, and growth mindset. They also tended to avoid coaching and refrained from seeking support from their manager.

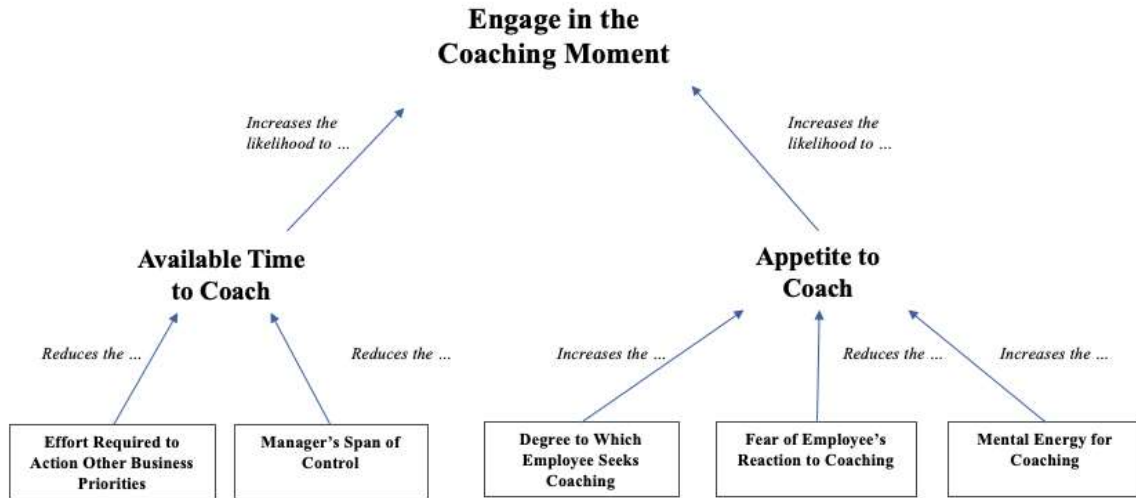
**RQ 3: What influences a manager's choice to coach?**

A 'coaching moment' occurred when a manager seized the opportunity to coach their employee. The manager's choice to engage in the coaching moment was influenced by two constructs – Available Time to Coach and Appetite to Coach. The Available Time to Coach was influenced by the manager's span of control (the number of direct reports they are managing), and the effort they needed to put forth on other business priorities. The greater their span of control, and the greater the amount of effort needed to support other business priorities, the lower the likelihood that they would have Available Time to Coach. The Appetite to Coach an employee was influenced by the degree to which the employee sought out coaching, the fear that the manager had about the employee's potential reaction to the coaching, and the mental energy that the leader had to engage in the coaching moment. An employee that proactively sought out coaching, was more likely to be coached by the manager. Similarly, if the manager had the mental energy to coach, they were more likely to do so. However, if the manager feared the employee's



response to coaching, then they were less likely to have an appetite to coach that person. In this study, when the manager chose to engage in the coaching moment, positive outcomes were generated.

**Figure 4: A Manager’s Path to Engage in the Coaching Moment**



## Implications for Theory and Practice

### Contributions to Theory

An important gap in the coaching literature centered around the lack of coaching construct clarity (Pousa & Mathieu, 2015), the call for control theory to be a possible organizing framework for coaching (Gregory et al., 2011), and the fact that there is a paucity of papers that study goals in coaching (David et al., 2016). The central insights from this study were: 1) that every individual moved through the GPC in their goal pursuit journey, 2) that the GPC was an expression of self-regulation in the language of business, and 3) that an individual’s pursuit of a goal was governed by self-regulatory processes. And because managerial coaching is a developmental process that is a *goal-oriented interaction* that managers do when interacting with employees to improve their performance (Ellinger and Kim, 2014), and the GPC is *how* an individual pursues a goal, this study provides support that a self-regulatory model (such as the GPC) would be a beneficial framework for goal-oriented coaching in the workplace. Thus, it contributes to the gaps identified by Pousa & Mathieu (2015) and Gregory et al., (2011). And since self-regulation is a goal directed mechanism, it also supports the use of goals in coaching, which contributes to the gap identified by David et al., (2016).

An additional gap in the coaching literature was that there has been little evidence of the factors that influence the day-to-day decisions by managers to engage in coachable moments (Turner and McCarthy, 2015). In their research they found six broad themes that influenced this choice: 1) the awareness of the coach of a coachable moment, 2) the

employee's openness to coaching, 3) the relationship and level of trust between the manager and coachee, 4) the available time the manager had to coach, 5) the location for the coaching moment, and 6) the coach's skills themselves. Figure 4 - The Manager's Path to the Coaching Moment - highlighted two constructs that influenced the manager's choice to coach. This model articulated that a manager needed to have both an 'Appetite to Coach' and the 'Time to Coach', and that the degree to which these were present influenced the amount of coaching the manager engaged in. The 'Appetite to Coach' construct showed that a manager's desire to coach was influenced by the degree to which the employee sought out coaching, the manager's own fear about how the employee would react to the coaching, and the mental energy that the manager had to conduct the coaching. This notion of managerial fear influencing the choice of coaching was highlighted in a study by Turner and McCarthy (2015), as was the need for 'available time' to coach, and this model supports those findings from their study. However, their study did not discuss the concept of the 'mental energy' that the manager needs in order to engage in the coaching moment, nor the degree to which an employee proactively seeks out coaching, so in this regard, new insights into the factors that influence a manager's choice to coach were contributed to the literature.

### **Contributions to Methodology**

One of the main critiques of action research (AR) is that it does not lend itself to theory generation and that little is written about how to do it in the AR literature (Bryant and Charmaz, 2007). Many action researchers have integrated grounded theory into their research methodology (Gergen & Gergen, 2008; Teram, 2014), and consequently grounded theory methodology was used to add rigor to the data analysis and enable theory generation. Since little has been written in the action research literature about how to generate theory, this study makes a methodological contribution to the action research literature by articulating processes on how to increase the adoption rate of interventions and how to abductively generate theory.

### **Contributions to Practice**

One of the strengths of GTM is its ability to generate middle range theory; theory that is rooted to specific social phenomena or that is situated in its context (Eriksson and Kovalainen, 2008). In this regard, the models developed during this study have a very practical orientation that can aid managers in their daily work.

For instance, the various expressions of the GPC can act as a blueprint for a coaching conversation with an individual. By highlighting Choices, Actions, Results, Identity, and Emotions in a single causal model, it allows the manager and the individual to discuss how the various elements are being experienced and how they are affecting the employee's performance. It opens the door for a deeper coaching conversation, and to increase the awareness of both the manager and the employee on the importance of these elements in their goal pursuit.

Understanding the manager's path to the coaching moment also acts as a self-reflexive tool for leaders. By critically examining what is holding them back from coaching their employees, they can identify issues and take corrective actions. This model is also useful

for leaders of leaders, who need to improve the coaching outcomes of their direct reports. With a few simple coaching questions, this model can form the basis of a very different coaching conversation between a manager and their manager. For instance, to explore the factor 'Fear of Employee's Reaction to Coaching', the manager's manager could engage them in a powerful coaching conversation by asking questions such as 'Who on your team is the least likely to respond to coaching?', 'What do you believe their reaction to coaching would be?', 'Where else do these [employee's] reactions/behaviours/mindsets show up in their work?'. In this way it becomes a tool to coach the coach.

From an HR/OD perspective, the models in this study provide direction on possible topics of professional development within their workforce. The high performer model highlights the competencies that can be strengthened through training programs and through managerial coaching efforts. The various GPC models can also be deployed as a process oriented coaching framework that can be used to increase individual and team performance.

### **Limitations**

This thesis generated middle-range theory regarding how individuals pursue goals, the characteristics of high performers, and what influences a manager's choice to coach. While much was accomplished, there is a need to explore the transferability of these models in other organizations, with different types of teams, and with individuals in non-sales roles.

### **References**

- Apramian, T., Cristancho, S., Watling, C. and Lingard, L., 2017. (Re) Grounding grounded theory: a close reading of theory in four schools. *Qualitative research*, 17(4), pp.359-376.
- Ballard, T. et al., 2016. An integrative formal model of motivation and decision making: The MGPM\*. *Journal of Applied Psychology*, 101(9), pp.1240–1265.
- Bates, R. & Chen, H.-C., 2004. Human resource development value orientations: a construct validation study. *Human Resource Development International*, 7(3), pp.351–370.
- Bryant, A. and Charmaz, K. eds., 2007. *The Sage handbook of grounded theory*. Sage.
- Carver, C.S. & Scheier, M.F., 1990. Origins and functions of positive and negative affect: A control-process view. *Psychological Review*, 97(1), pp.19–35.
- Charmaz, K., 2006. *Constructing grounded theory: methods for the 21st century*, London, UK: SAGE.
- Coghlan, D. & Brannick, T., 2014. *Doing action research in your own organization*, Thousand Oaks, CA: Sage.
- Coghlan, D. and Brydon-Miller, M. eds., 2014. *The SAGE encyclopedia of action research*. Sage.
- Cox, E., Bachkirova, T. & Clutterbuck, D., 2014. *The complete handbook of coaching*, Los Angeles, CA: SAGE.

- Dahling, J.J. et al., 2015. Does Coaching Matter? A Multilevel Model Linking Managerial Coaching Skill and Frequency to Sales Goal Attainment. *Personnel Psychology*, 69(4), pp.863–894.
- David, S., Clutterbuck, D., Megginson, D. et al. (2016). New Perspectives on Goal Setting in Coaching Practice: An Integrated Model of Goal-focused Coaching“. In: *Beyond goals: effective strategies for coaching and mentoring*. Routledge, pp. 55–83.
- Ellinger, A.D., Hamlin, R.G. & Beattie, R.S., 2008. Behavioural indicators of ineffective managerial coaching. *Journal of European Industrial Training*, 32(4), pp.240–257.
- Ellinger, A.D. & Kim, S., 2014. Coaching and Human Resource Development: Examining Relevant Theories, Coaching Genres, and Scales to Advance Research and Practice. *Advances in Developing Human Resources*, 16(2), pp.127–138.
- Eriksson Päivi & Kovalainen, A., 2008. Case Study Research. In *Qualitative methods in business research*. London: SAGE, pp. 115–136.
- Gergen, K.J. & Gergen, M.M., 2008. Social Construction and Psychological Inquiry. In J. A. Holstein & J. F. Gubrium, eds. *Handbook of constructionist research*. New York, NY: Guilford Press, pp. 171–188.
- Gregory, J.B., Beck, J.W. & Carr, A.E., 2011. Goals, feedback, and self-regulation: Control theory as a natural framework for executive coaching. *Consulting Psychology Journal: Practice and Research*, 63(1), pp.26–38.
- Hamlin, R.G., Ellinger, A.D. & Beattie, R.S., 2006. Coaching at the heart of managerial effectiveness: A cross-cultural study of managerial behaviours. *Human Resource Development International*, 9(3), pp.305–331.
- Johnson, R.E., Chang, C.-H. & Lord, R.G., 2006. Moving from cognition to behavior: What the research says. *Psychological Bulletin*, 132(3), pp.381–415.
- Kanfer, R., 2012. Work motivation: Theory, practice, and future directions.
- Kemmis, S. et al. (2014) *The action research planner : doing critical participatory action research / by Stephen Kemmis, Robin McTaggart, Rhonda Nixon*. 1st ed. 2014. [Online]. Singapore: Springer Singapore.
- Latham, G.P. & Locke, E.A., 2013. New Developments in and Directions for Goal-Setting Research. *European Psychologist*, 12(4), pp.290–300.
- Latham, G., Seijts, G. & Slocum, J., 2016. The goal setting and goal orientation labyrinth. *Organizational Dynamics*, 45(4), pp.271–277.
- Lee, D. (2020) Comparing empowering, transformational, and transactional leadership on supervisory coaching and job performance: A multilevel perspective. *PsyCh journal (Victoria, Australia)*. [Online] 9 (5), 668–681.
- Locke, E.A. & Latham, G.P., 2002. Building a practically useful theory of goal setting and task motivation: A 35-year odyssey. *American Psychologist*, 57(9), pp.705–717.
- Longenecker, C.O., 2010. Coaching for better results: key practices of high performance leaders. *Industrial and Commercial Training*, 42(1), pp.32–40.
- Lord, R.G. & Levy, P.E., 1994. Moving from Cognition to Action: A Control Theory Perspective. *Applied Psychology*, 43(3), pp.335–367.
- Lord, R.G. et al., 2010. Self-Regulation at Work. *Annual Review of Psychology*, 61(1), pp.543–568.

- Mezirow, J., 1991. *Transformative dimensions of adult learning*, San Fransisco, CA, CA: Jossey-Bass.
- Morse, J.M. et al., 2016. Shifting the Grounds Constructivist Grounded Theory Methods. In *Developing grounded theory: the second generation*. London: Routledge, Taylor et Francis Group, pp. 127–193.
- Neal, A., Ballard, T. & Vancouver, J.B., 2017. Dynamic Self-Regulation and Multiple-Goal Pursuit. *Annual Review of Organizational Psychology and Organizational Behavior*, 4(1), pp.401–423.
- Pousa, C. & Mathieu, A., 2014. Boosting customer orientation through coaching: a Canadian study. *International Journal of Bank Marketing*, 32(1), pp.60–81.
- Pousa, C. & Mathieu, A., 2014. The Influence of Coaching on Employee Performance: Results From Two International Quantitative Studies. *Performance Improvement Quarterly*, 27(3), pp.75–92.
- Pousa, C. & Mathieu, A., 2015. Is managerial coaching a source of competitive advantage? Promoting employee self-regulation through coaching. *Coaching: An International Journal of Theory, Research and Practice*, 8(1), pp.20–35.
- Sinkovics, R.R. & Alfoldi, E.A., 2012. Progressive Focusing and Trustworthiness in Qualitative Research. *Management International Review*, 52(6), pp.817–845.
- Teram, E., 2014. Integrating Grounded Theory. In D. Coghlan, & M. Brydon-Miller, eds. *The SAGE encyclopedia of action research*. SAGE Publ., pp. 450–451.
- Turner, C. & McCarthy, G., 2015. Coachable moments: identifying factors that influence managers to take advantage of coachable moments in day-to-day management. *International Journal of Evidence Based Coaching and Mentoring*, 13(1), pp.1–13.

# **Empirical Studies on Governance – Performance Interplay: The Investors' Perspective**

**Zakriya Mohammed**  
**ESADE**

## *Abstract*

Through three essays, this research aims to understand the relationship between corporate governance and performance by tracing its evolution over time and revisiting the methodological issues faced in measuring corporate governance. Unlike the past when good governance stocks outperformed poor ones, the first essay reveals the outperformance of poor governance stocks following the global financial crisis of 2008-09. The essay proposes a new unequal-weighted measure of corporate governance. The third essay, meanwhile, takes a broader stakeholders' view of governance by considering environmental, social and governance (ESG) characteristics together and applies selective approach to measure corporate sustainability as an ESG subset.

## **1. INTRODUCTION**

With multiple cases of bankruptcies amid financial crises witnessed in the last two decades, more and more investors are demanding improved governance structures. The use of good governance practices should translate into superior financial performances for firms and accordingly benefit its shareholders. However, are good governance firms actually creating more wealth than the poorly governed ones? The main focus of this research is on studying how well the investors understand a firm's governance quality, and how do they react to it.

To begin with, this thesis examines whether investors can employ governance information to create investment strategies that can beat the markets. We do so by first examining if the disappearance of the relationship between governance and returns, shown in Bebchuk, Cohen, and Wang (2013), remains persistent after the 2007-2008 global financial crisis. Using anti-takeover provisions (ATPs) data from 1990 to 2018, we find that the disappearance of governance – returns relationship after 2001 is in fact temporary. Poor governance stocks outperform the good governance ones after 2008, in sharp contrast to the outperformance of good governance stocks seen in 1990s. The natural question then is what causes this change. We explore information flow-based explanation and find that a combination of investors' high prudence toward poor governance stocks and their increased awareness of investment horizon-based tailored governance preferences played an important role in the appearance of new governance – returns relation.

Next, this thesis highlights methodological issues in measuring corporate governance when ATPs are assigned equal weights (à la Bebchuk, Cohen, and Ferrell, 2009; Gompers, Ishii, and Metrick, 2003). As an alternative, we propose an unequal-weighted

measure that accounts for the relevance and importance of its individual anti-takeover components. The results, using the ATPs data from 2007 to 2018, show that value implications for both the firms and their investors are quite different when the relevance of each ATP is identified and included as weights in the governance measure.

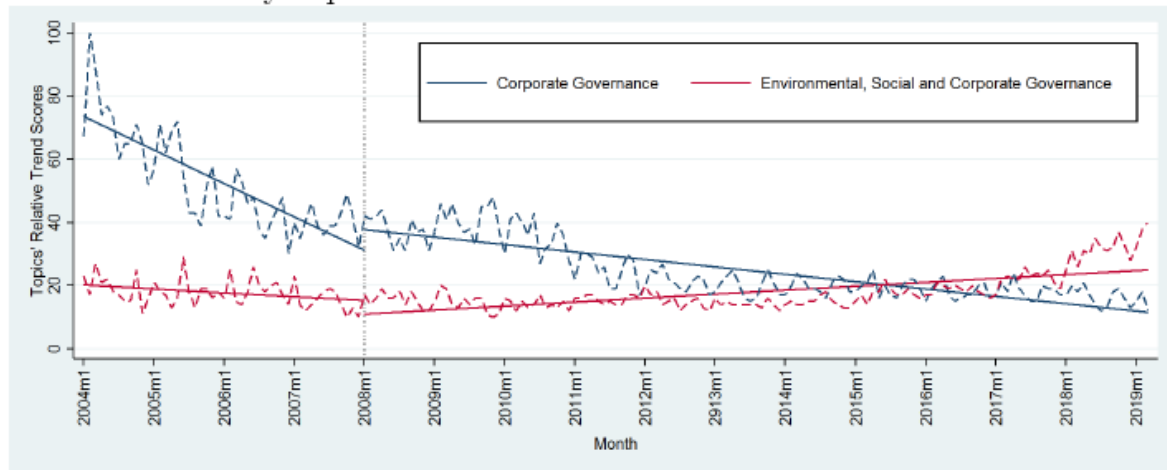
Lastly, this thesis considers a more holistic stakeholder view instead of shareholders' perspective captured by corporate governance characteristics such as ATPs. In recent years, the attention towards environmental, social and governance (ESG) information has increased considerably in comparison to the corporate governance characteristics. Figure 1 shows plots comparing corporate governance and ESG using Google Trends data. Similarly, from institutional investors point of view as well, ESG integration in investment decisions have grown in recent years (Ailman et al., 2017). So, we examine measurement issues related to the ESG characteristics to determine what is essentially value relevant for both the firms and their investors. Our results show that only corporate sustainability-relevant ESG initiatives are important for corporate valuation.



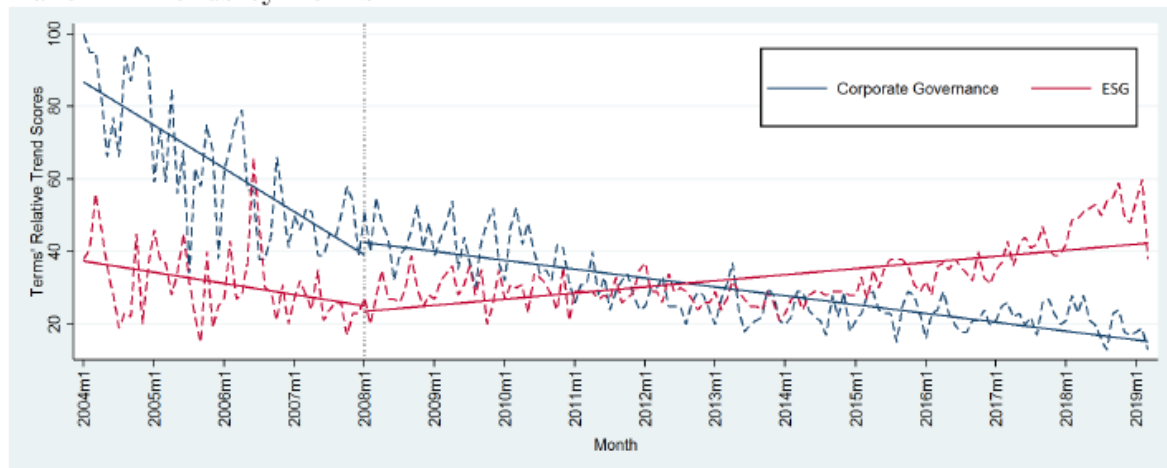
### Figure 1 Corporate governance and ESG popularity trends

This figure compares the google trends for the topics (Panel A) and terms (Panel B) as available for comparison on Google Trends. The trend plots start in January 2004 and end in January 2019. The fitted trend lines are plotted separately for pre-2008 and post-2008 years (indicated by the dotted vertical line) to show the impact of global financial crisis on these topics and terms.

Panel A: Trends by Topics.



Panel B: Trends by Terms.



## 2. RELEVANCE AND BACKGROUND

Institutional investors consider corporate governance to be an important factor. On one hand, institutional investors intervene in the investee firms' governance through voice and exit (McCahery, Sautner, and Starks, 2016). On the other hand, institutional investors also react to firm's corporate governance quality when making their investment decisions. This is reflected by the fact that the market for corporate governance ratings has snowballed in last two decades with the institutional investors being their major clientele

(Daines, Gow, and Larcker, 2010). Can these investors reliably use aggregate index measures or governance rankings to create investment strategies that generate abnormal returns? Can they also use these governance indices or rankings as a means of differentiating the good governance firms from the poorly governed ones? This study centrally focuses on these questions while also revealing methodological and conceptual complexities that accompany the use of aggregated governance measures such as the G-Index (Gompers, Ishii, and Metrick, 2003), the E-Index (Bebchuk, Cohen, and Ferrell, 2009), and Gov-Score (Brown and Caylor, 2006), as well as the aggregated ESG measures (Lins, Servaes, and Tamayo, 2017).

All across the globe, academic researchers as well as investment advisors have dedicated a lot of effort in trying to capture the governance quality of public companies using different measures (for e.g., Erkens, Hung, and Matos, 2012). Country-wide factors notwithstanding, studies on firm-specific characteristics in corporate governance have shown that features such as director ownership (Bhagat and Bolton, 2013), board characteristics (Eisenberg, Sundgren, and Wells, 1998) and other directorship aspects (Bushee, Carter, and Gerakos, 2013) are key to capture internal governance mechanisms and measure its quality. But instead of individual firm characteristics, the first two studies presented in this research project explore firm-specific aggregated governance and their practical utility. Using cross-sectional variations in governance qualities of different publicly traded firms within a single country (i.e. United States), the aim is to assess whether the measures available to institutional investors to differentiate and identify the good governance firms from poorly governed ones are actually useful or not.

Similarly, in recent decades, there is an upsurge in interest shown towards firms' ESG quality (Edmans and Ioannou, 2019; Starks, 2009). While different streams of literature uses different names for the ESG-based measures, they essentially reflect CSR performance (Lins, Servaes, and Tamayo, 2017; Humphrey, Lee, and Shen, 2012). However, there is no clear consensus on whether ESG screens can create value for investors (Humphrey, Lee, and Shen, 2012; Fulton, Kahn, and Sharples, 2012). Thus, a part of this research project also sheds light on the benefits of ESG quality by accounting for the differential impacts that the individual ESG activities can have on firms' survival (Fatemi, Fooladi, and Tehranian, 2015).

### **3. CORPORATE GOVERNANCE**

Corporate governance broadly refers to the policies and processes undertaken by companies to make sure that its business activities are focused towards mutual benefit of the corporation, its owners and the society at large within the existing legal setup. This expansive conceptualization of corporate governance has resulted in different streams of literature seeing it from different perspectives. Taking investors' perspective, corporate governance is aimed at ensuring timely corporate disclosures (or, transparency) and legal rights of shareholders (La Porta et al., 2000). Or, simply, it deals with companies' policies that assure investors of obtaining returns on their investments (Shleifer and Vishny, 1997).

### 3.1. Measuring Corporate Governance

Thus far, existing literature has identified multiple firm characteristics that can be indicative of effective corporate governance:

- a. Ownership structure: Ownership structure, on its own has been widely investigated in different studies as a corporate governance practice. Using the agency theory as its backbone, research has shown that higher percentage ownership can lead to better board effectiveness and consequently, improved monitoring of firms (Chung and Lee, 2020).
- b. Board of Directors (BoD) size and other attributes: BoD's experience, composition, structure and other features all have been suggested as governance practices that increase effectiveness of board monitoring (Cornelli and Karakas, 2012).
- c. BoD composition: There is a vast literature that has focused on the importance of independent directors within firms. As an indicator of corporate governance quality, many empirical papers have examined its effect along with other directors' characteristics on firm performances (e.g., Bhagat and Bolton, 2013).
- d. CEO Duality: By separating the management decisions from control, agency theory propagates reduction of agency costs and improvement of firm performance (Jensen and Meckling, 1976). However, empirical evidence relating CEO duality to firm performances have been far a few (Yang and Zhao, 2014).
- e. Audit Committee composition and attributes: Similar to BoD, Audit committees play a big role in ensuring accountability and transparency. The importance of having independent auditors and those who are committed to the cause by ensuring regular meetings, has been evidenced widely (Jiraporn, Singh, and Lee, 2009).
- f. Executive compensation arrangements: Several studies have examined CEO pays and other compensation arrangements such as bonuses and employee stock option plans for their effect on company performance (e.g., Cuñat, Gine, and Guadalupe, 2016; Larcker, Richardson, and Tuna, 2007).
- g. Shareholder Voting: Any obstruction to the shareholder activism and/or use of a provision that decreases their voting power is viewed in theory as opposed to good governance practice (Cuñat, Gine, and Guadalupe, 2012; Gillan and Starks, 2000).

While some papers consider each of these characteristics separately, others use them together as multiple proxies for broadly representing corporate governance. Lo, Wong, and Firth (2010), for example, employ board independence, CEO Duality and audit committee compositions to show that good governance quality can deter earnings manipulations using related-party sales. Similarly, Core, Holthausen, and Larcker (1999) use the measures of board and ownership structures as proxies for corporate governance to show its effect on CEO compensation.

While the list of characteristics presented above is not exhaustive, it covers most of the governance mechanisms that finance literature has studied. Of course, many more other firm-specific characteristics can directly or indirectly impact the monitoring of management by BoD and the shareholders (see Gillan, 2006 for a full review).

### **3.2. Anti-Takeover Provisions**

Institutional investors' interest in corporate governance information grew many-fold with the failures that accompanied the corporate scandals of the early 2000s. The corporate bylaws and charter provisions are of particular interest to the investors as they can be employed by the management to potentially influence the market for corporate control (Ruback and Jensen, 1983). For example, staggered boards provision, which restricts board members' elections to occur in smaller groups, can deter potential takeover bids as the acquirer cannot take immediate control of the board. While such provisions can give more power to the board during takeover negotiations, they can also incentivize managerial entrenchment (Jarrell, Brickley, and Netter, 1988).

In theory, the presence of ATPs such as staggered board reduce firm value, due to their associated agency costs (Jensen and Meckling, 1976). Nevertheless, their incidence in firms has grown over the years as they have been shown to have positive effect on takeover bids (Sokolyk, 2011). Given the fact that the shareholders' proposals related to these provisions have grown over the years (Gillan and Starks, 2000), investors seem keen to influence the governance characteristics of their investee firms. Along with the presence of dual class stocks structure, ATPs such as the poison pills, staggered boards, blank-check preferred stock, limited ability to call special meetings or for written consent, and supermajority voting requirements are commonly identified as entrenching devices. For this reason, such ATPs have been voted down by the shareholders in majority of cases (Bebchuk, Cohen, and Ferrell, 2009).

Several papers have studied the impact of individual ATPs to show their importance for the firm and its investors. A series of papers starting with Bebchuk and Cohen (2005) and followed by Cremers, Litov, and Sepe (2017) and Daines, Li, and Wang (2018) have debated the effect of staggered boards on shareholder value. On one hand, staggered boards can promote managerial entrenchment and have negative effect on firm value, especially if they are present along with the poison pills, by preventing possible takeovers of loss-making firms (Bebchuk and Cohen, 2005). On the other hand, staggered boards could increase firm value by inhibiting managerial myopia when managers are free to pursue long-term goals without constant pressure from the board members (Cremers, Litov, and Sepe, 2017). Amihud, Schmid, and Solomon (2017) try to settle this debate by claiming that while the empirical evidence for both positive and negative effects of staggered boards on firm value may hold under specific conditions, overall this effect is statistically insignificant. Similarly, literature has widely debated other ATPs such as the golden parachutes and poison pills.

### **3.3. Corporate Governance Indices**

Despite being insightful, studying each governance characteristic or ATPs separately cannot necessarily represent overall governance quality of the firms. Moreover, as shown previously, there is mixed empirical evidence when it comes to the benefits associated with each ATP individually. Hence, the need for aggregated corporate governance indices (Gompers, Ishii, and Metrick, 2003). Several governance indices have been conceptualized by commercial rating agencies and academic scholars. The degree to which these indices are good indicators of firms' governance quality can considerably constrain their practical applications (Bhagat, Bolton, and Romano, 2008). What separates most of these indices in terms of its construction, is mainly the corporate

governance features that each of them combine (Black et al., 2017). While some indices have given relatively more importance to either internal governance features or external governance characteristics, there are others which combine both of these features in their composition (Beiner et al., 2006). However, all these indices employ equal weighted methodology, with the index formed as a sum of the presence of all the individual governance constituents. Although index weights are important, due to the complexities that arise when measuring them (Nerantzidis, 2018), very few scholars have attempted to construct unequal weighted indices.

Scholarly research on corporate governance indices and their construction was driven by the need to measure governance quality. Several rating agencies followed the suit by introducing their own proprietary indices based on their assessment criteria. These developments have led to a growing demand from both buy-side (i.e., institutional investors) and sell-side (i.e., firms themselves who want to signal their governance quality to investors) participants. Gompers, Ishii, and Metrick's (2003) G-Index was the first-of-a-kind company-specific aggregate measure of corporate governance constructed using ATPs. Higher G-Index values depicted more leeway for the managers to pursue their own interests (i.e., poor corporate governance). Subsequently, Bebchuk, Cohen, and Ferrell (2009) introduced E-Index using a subset of six indicators from the original G-Index provisions. These six takeover-defense provisions were identified for their ability to contribute the most to managerial entrenchment (hence, the name Entrenchment Index or E-Index). E-index constituted of staggered boards, limits to amend shareholder bylaws, supermajority requirements for mergers, limits to charter amendments, poison pills, and golden parachutes. Alternatively, Brown and Caylor (2006) introduced Gov-Score using more governance mechanisms than the ATP-focused G-Index and E-Index. By using a comprehensive set of 51 factors, Gov-Score was proposed to provide a better measure of corporate governance quality as it was not restricted to only the ATPs and included additional board composition and executive compensation indicators. In contrast, focusing on parsimony instead of exhaustivity, Cremers and Nair (2005) construct an Alternative Takeover Protection Index by considering only a set of three main ATPs.

In addition to those scholarly corporate governance indices, there are commercial rankings and indices by private research and advisory agencies that rate companies' governance qualities. For example, Institutional Shareholder Services (ISS), GovernanceMetrics International (GMI), Thomson Reuters, and The Corporate Library (TCL) have all been collecting data on a wide range of governance issues in order to provide investors, policymakers, and regulators with governance rankings. Daines, Gow, and Larcker (2010) show that commercial corporate governance ratings and indices do not necessarily measure what they ought to. This shows that the methodologies employed by these commercial rating agencies have further scope for improvements.

### **3.4. ESG Indices**

Although the idea of ethical investing and social responsibility has been widely prevalent for many years, research in this area was severely constrained by the lack of data on corporate social initiatives and controversies. While some of the early proponents were skeptical about the benefits of socially responsible investing (SRI), others considered that

it is possible to be socially responsible and economically viable at the same time (Hamilton, Jo, and Statman, 1993). Hylton (1992) went as far as to declare that more aggressively SRI is practiced, the more one would expect ethical investing to be economically unattractive. Corson and Van Dyck (1992), in contrast, show that ethical investing need not necessarily be harmful for investors as environmental and social activities may potentially just be a part of an extended set of firms' fundamentals.

More recently, ethical investing has gone mainstream and data providers such as MSCI KLD, Sustainalytics, Thomson Reuters, ISS, and Bloomberg have all started actively collecting ESG data and disseminating their ratings. In academic research, while some scholars prefer to use proprietary ESG ratings provided by these agencies (for e.g., Ferrell, Liang, and Renneboog, 2016), others segregate all the available ESG data to measure ESG indices on their own. In some cases, even individual ESG characteristics and proposals have been separately considered to study their financial outcomes (Flammer, 2015; Krüger, 2015). While most evidence points to the benefits of ESG (or, CSR) performance for both the firms and their shareholders (Ferrell, Liang, and Renneboog, 2016; Flammer, 2015), its negative impact for certain stakeholders such as the debtholders (Dumitrescu, El Hefnawy, and Zakriya, 2019) has also been documented.

#### **4. OBJECTIVES AND CONTRIBUTIONS OF EACH STUDY**

The central objectives and contributions for each of the three research projects presented in this research are summarized as follows:

##### **4.1. Study I: Governance, Information Flow, and Stock Returns**

This study identifies multiple structural breaks in the relationship between corporate governance and stock returns, and provides an investor-centric explanation for the second structural break.

**Contributions:** We contribute to the literature by showing that there are two structural breaks in the governance – returns correlation i.e. a) its disappearance, and b) its reappearance in the opposite direction. Using a natural experiment that captures the changes in institutional investors' governance preferences and its resultant impact on stock returns, we provide a possible explanation for the second structural break in the form of investor learning hypothesis. Under this hypothesis, beyond the initial learning or first break point, the repeated exposure to governance signals facilitates institutional investors to further appreciate the differences in good and poor governance firms, so that their expectations of returns from poor governance firms change. Our results from the natural experiment support this hypothesis. The proportion of short-term investors increases in the poorly governed firms after the critical investor learning point. And, governance-based hedge portfolios show possible trading benefits from poor governance stocks, with the portfolio of these stocks consistently outperforming good governance portfolio beyond the investor learning point (i.e. January-2008). By evidencing the reappearance of governance pricing anomaly that was reported to have disappeared in the past, we also contribute to a growing literature that explores rational and behaviour theories of asset pricing anomalies. Thus, in some ways, we also address market efficiency and its fragility.



#### **4.2. Study II: The Corporate Governance Performance Puzzle: New Insights**

This study sheds light on the corporate governance performance puzzle by exploring an unequally weighted governance index.

**Contributions:** Using a novel unequal-weighted approach that dynamically accounts for the heterogeneity of individual anti-takeover components, we show that our proposed nG (new Governance) Index is less prone to erroneous inferences than a comparable equal-weighted index (such as G-Index, E-Index etc.) is. Previous governance indices, being equal-weighted, did not possess requisite dynamism to trace the evolution of governance landscape that was

induced by the government interventions and media influences. Given that recent research has shown that these indices are not associated with abnormal returns beyond the early 2000s, our findings reveal that when individual provision's weights are captured in an index, governance-based hedges can still generate abnormal returns for investors in recent years. Additionally, this study contributes by highlighting that the information content of all governance provisions are not the same.

#### **4.3. Study III: Sustain & Deliver: Capturing the Valuation Effects of Corporate Sustainability**

This study probes the environmental, governance and social characteristics to identify a corporate sustainability measure that can have implications for the value of the firms.

**Contributions:** In this study, we contribute to the literature by examining individual environmental, social and governance (ESG) factors that are commonly combined in the related literature to measure corporate social responsibility (CSR) or ESG performance. Inspired by the Bebchuk, Cohen, and Ferrell (2009) paper that introduces E-Index as a subset of G-Index introduced in Gompers, Ishii, and Metrick (2003), we identify a subset of ESG indicators that converge towards the concept of corporate sustainability. This identified subset completely explains the CSR's valuation benefits, while also shedding some light on its stock market performance. In contrast, the remaining indicators have no impact on both the accounting- and stock market-based valuations of the firm. Since this is the first study to apply an industry-neutral selection of ESG indicators, it has implications for both the firms and their ESG-rating providers. By focusing attention on the sustainable aspects of ESG, managers can take value-relevant decisions and the rating agencies can provide value-enhancing investment advisory services.

## **5. CONCLUDING REMARKS**

This research shows that governance and ESG information cannot be ignored by the investors. When it comes to corporate governance, we show that the governance pricing anomaly continues to exist. In recent years, poor governance stocks outperform good governance ones. In theory, this may be driven by increased investor sensitivity to governance information, changing governance preferences of investors, or both. Indeed, our results show that both these factors may have acted in tandem following the 2008 global financial crisis to help institutional investors recognize governance risks and adjust their trading strategies. Through sophisticated learning, investors are able to identify profitable governance-based investment strategies that had earlier disappeared (i.e.,



before 2008). When it comes to ESG characteristics, we show that investors cannot blindly pay attention to all the ESG strengths or controversies that are commonly reported by the rating agencies. By focusing on important sustainability-relevant ESG subset, investors are more likely to generate abnormal returns. Similarly, managers should also not take it for granted that all ESG investments are beneficial and all ESG controversies are costly.

Since many governance rating agencies apply subjective weights in index construction, this research also has the potential to contribute to the industry by showing that a neutral and objective weight extraction can be useful. Furthermore, the preliminary analysis in the thesis, which employs machine learning tools, can be used by ranking agencies to design advanced weight-extraction techniques for their proprietary products. For ESG rating agencies as well, this research has important takeaways. While industry-based ESG rating has been widely implemented following the evidence on materiality by Khan, Serafeim, and Yoon (2016), industry-neutral ESG criteria selection is vastly understudied. Here, we make first such attempt to identify important non-industry specific ESG indicators and show that the valuation effect of these are different from others.

This research also makes important contributions to the academia. The topic in focus, i.e., corporate governance and sustainability, is widely studied across many literature streams including finance, economics, accounting, and strategy. Thus, the indices introduced (i.e., the unequal weighted governance measure, nG-Index; and the corporate sustainability measure, SUS-Index) can be used by researchers in multiple fields to raise important research questions. Using the findings of this research as a launch pad, our future research agenda aims to shed further light on the underlying mechanisms that make the corporate governance and ESG data influential for risk and return. Although the idea of doing well by doing good is currently widely popular, it is not clear whether and how firms will be able to achieve this. Thus, our goal will be to provide insights by identifying those conditions and firm characteristics that directly influence both the stakeholder and shareholder-orientations of the firms.

## **References**

- Ailman, C., Edkins, M., Mitchem, K., Eliopoulos, T., Guillot, J., 2017. The next wave of ESG integration: Lessons from institutional investors. *Journal of Applied Corporate Finance* 29 (2), 32-43.
- Amihud, Y., Schmid, M., Solomon, S. D., 2017. Settling the staggered board debate. *University of Pennsylvania Law Review* 166, 1475.
- Bebchuk, L., Cohen, A., 2005. The costs of entrenched boards. *Journal of Financial Economics* 78 (2), 409-433.
- Bebchuk, L., Cohen, A., Ferrell, A., 2009. What matters in corporate governance? *Review of Financial Studies* 22 (2), 783- 827.
- Bebchuk, L., Cohen, A., Wang, C. C., 2013. Learning and the disappearing association between governance and returns. *Journal of Financial Economics* 108 (2), 323-348.

- Beiner, S., Drobetz, W., Schmid, M. M., Zimmermann, H., 2006. An integrated framework of corporate governance and firm valuation. *European Financial Management* 12 (2), 249-283.
- Bhagat, S., Bolton, B., 2013. Director ownership, governance, and performance. *Journal of Financial and Quantitative Analysis* 48 (01), 105-135.
- Bhagat, S., Bolton, B., Romano, R., 2008. The promise and peril of corporate governance indices. *Columbia Law Review* 108, 1803-1882.
- Black, B., De Carvalho, A. G., Khanna, V., Kim, W., Yurtoglu, B., 2017. Corporate governance indices and construct validity. *Corporate Governance: An International Review* 25 (6), 397-410.
- Brown, L. D., Caylor, M. L., 2006. Corporate governance and firm valuation. *Journal of Accounting and Public Policy* 25 (4), 409-434.
- Bushee, B. J., Carter, M. E., Gerakos, J., 2013. Institutional investor preferences for corporate governance mechanisms. *Journal of Management Accounting Research* 26 (2), 123-149.
- Chung, K. H., Lee, C., 2020. Voting methods for director election, monitoring costs, and institutional ownership. *Journal of Banking and Finance*, 105738.
- Core, J. E., Holthausen, R. W., Larcker, D. F., 1999. Corporate governance, chief executive officer compensation, and firm performance. *Journal of Financial Economics* 51 (3), 371-406.
- Cornelli, F., Karakas, O., 2012. Corporate governance of LBOs: The role of boards. Unpublished working paper, [https://papers.ssrn.com/abstract\\_id=1875649](https://papers.ssrn.com/abstract_id=1875649).
- Corson, B. C., Van Dyck, T., 1992. Socially responsible investing and financial return: Albatross or scapegoat? *Journal of Investing* 1 (2), 23-28.
- Cremers, K., Nair, V. B., 2005. Governance mechanisms and equity prices. *Journal of Finance* 60 (6), 2859-2894.
- Cremers, K. M., Litov, L. P., Sepe, S. M., 2017. Staggered boards and long-term firm value, revisited. *Journal of Financial Economics* 126 (2), 422-444.
- Cuñat, V., Gine, M., Guadalupe, M., 2012. The vote is cast: The effect of corporate governance on shareholder value. *Journal of Finance* 67 (5), 1943-1977.
- Cuñat, V., Gine, M., Guadalupe, M., 2016. Say pays! shareholder voice and firm performance. *Review of Finance* 20 (5), 1799-1834.
- Daines, R., Li, S. X., Wang, C. C., 2018. Can staggered boards improve value? Evidence from the massachusetts natural experiment. Unpublished working paper, Available at: <http://ssrn.com/abstract=2836463>.
- Daines, R. M., Gow, I. D., Larcker, D. F., 2010. Rating the ratings: How good are commercial governance ratings? *Journal of Financial Economics* 98 (3), 439-461.
- Dumitrescu, A., El Hefnawy, M., Zakriya, M., 2019. Golden geese or black sheep: Are stakeholders the saviors or saboteurs of financial distress? *Finance Research Letters*, 101371.
- Edmans, A., Ioannou, I., 2019. Future leaders, take note: finance and sustainability go together. *Financial Times* June 17, <https://www.ft.com/content/54f96d4e-82ec-11e9-9935-ad75bb96c849>.
- Erkens, D. H., Hung, M., Matos, P., 2012. Corporate governance in the 2007-2008 financial crisis: Evidence from financial institutions worldwide. *Journal of Corporate Finance* 18 (2), 389-411.

- Fatemi, A., Fooladi, I., Tehranian, H., 2015. Valuation effects of corporate social responsibility. *Journal of Banking and Finance* 59, 182-192.
- Ferrell, A., Liang, H., Renneboog, L., 2016. Socially responsible firms. *Journal of Financial Economics* 122 (3), 585-606.
- Flammer, C., 2015. Does corporate social responsibility lead to superior financial performance? A regression discontinuity approach. *Management Science* 61 (11), 2549-2568.
- Fulton, M., Kahn, B. M., Sharples, C., 2012. Sustainable investing: Establishing long-term value and performance. Unpublished working paper, <http://ssrn.com/abstract=2222740>.
- Gillan, S. L., 2006. Recent developments in corporate governance: An overview. *Journal of Corporate Finance* 12 (3), 381-402.
- Gillan, S. L., Starks, L. T., 2000. Corporate governance proposals and shareholder activism: The role of institutional investors. *Journal of Financial Economics* 57 (2), 275-305.
- Gompers, P. A., Ishii, J. L., Metrick, A., 2003. Corporate governance and equity prices. *Quarterly Journal of Economics* 118 (1), 107-155.
- Hamilton, S., Jo, H., Statman, M., 1993. Doing well while doing good? The investment performance of socially responsible mutual funds. *Financial Analysts Journal* 49 (6), 62-66.
- Humphrey, J. E., Lee, D. D., Shen, Y., 2012. Does it cost to be sustainable? *Journal of Corporate Finance* 18 (3), 626-639.
- Hylton, M. O., 1992. Socially responsible investing: Doing good versus doing well in an inefficient market. *American University Law Review* 42, 1.
- Iliev, P., Lins, K. V., Miller, D. P., Roth, L., 2015. Shareholder voting and corporate governance around the world. *Review of Financial Studies* 28 (8), 2167-2202.
- Jarrell, G. A., Brickley, J. A., Netter, J. M., 1988. The market for corporate control: The empirical evidence since 1980. *Journal of Economic Perspectives* 2 (1), 49-68.
- Jensen, M. C., Meckling, W. H., 1976. Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics* 3 (4), 305-360.
- Jiraporn, P., Singh, M., Lee, C. I., 2009. Ineffective corporate governance: Director busyness and board committee memberships. *Journal of Banking and Finance* 33 (5), 819-828.
- Krüger, P., 2015. Corporate goodness and shareholder wealth. *Journal of Financial Economics* 115 (2), 304-329.
- La Porta, R., Lopez-de Silanes, F., Shleifer, A., Vishny, R., 2000. Investor protection and corporate governance. *Journal of Financial Economics* 58 (1), 3-27.
- Larcker, D. F., Richardson, S. A., Tuna, I., 2007. Corporate governance, accounting outcomes, and organizational performance. *Accounting Review* 82 (4), 963-1008.
- Lins, K. V., Servaes, H., Tamayo, A., 2017. Social capital, trust, and firm performance: The value of corporate social responsibility during the financial crisis. *Journal of Finance* 72 (4), 1785-1824.
- McCahery, J. A., Sautner, Z., Starks, L. T., 2016. Behind the scenes: The corporate governance preferences of institutional investors. *Journal of Finance* 71 (6), 2905-2932.
- Nerantzidis, M., 2018. The role of weighting in corporate governance ratings. *Journal of Management and Governance* 22 (3), 589-628.

Ruback, R. S., Jensen, M. C., 1983. The market for corporate control: The scientific evidence. *Journal of Financial Economics* 11, 5-50.

Shleifer, A., Vishny, R. W., 1997. A survey of corporate governance. *Journal of Finance* 52 (2), 737-783.

Sokolyk, T., 2011. The effects of antitakeover provisions on acquisition targets. *Journal of Corporate Finance* 17 (3), 612-627.

Starks, L. T., 2009. EFA keynote speech: Corporate governance and corporate social responsibility: What do investors care about? What should investors care about?. *Financial Review* 44 (4), 461-468.