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Corporate Leadership and Its Role in Shaping Organizational Culture and Performance

Azza Bejaoui

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Corporate Leadership and Its Role in Shaping Organizational Culture and Performance

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A volume in the Advances in Logistics, Operations, and Management Science (ALOMS) Book Series

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The chapter explains in detail the importance of leaders in an organization. The chapter also brings to light what extent the leader's contribution plays in employee retention in an organization. The two categories of leadership, such as transformational and transactional leaders, have been discussed in detail along with to what extent the transformational and transactional leaders support an organization in retaining their employees. As attrition is a burning issue in the present corporate world, it's the utmost responsibility of the leader in retaining the employees of their organization. There is a famous saying when an employee leaves an organization they are not quitting the management they are just quitting their boss.

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The notion of pseudo transformational leadership first appeared back in 1999. The lack of a clear definition of the term has led to confusion because of certain similarities with transformational leadership. Few publications on the subject and the developing theory have been presented. However, numerous studies have included the concept as a reference for unethical leadership, and as an opposing term to genuine or authentic transformational leadership, which is common in times of change and visible in corporate scandals. Transformational leadership is described

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to provide a baseline to compare it with what this leadership style is not. The chapter focuses on a managerial problem that needs to be studied because of its implications in organizational performance. The objective of this study is to present the main characteristics of the pseudo transformational leadership style by analyzing leaders' behaviors and their impact on followers and the organizational culture.

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Dimitrios Belias, University of Thessaly, Greece
Ioannis Rossidis, University of Peloponnese, Greece

A vital point of success for many companies is to develop a leadership that matches the culture of the employees to generate a high level of performance on startups. Currently, it is important to note that the startups have a very distinctive culture and way of working. Most of the employees are young and ambitious persons, something that affects their mentality and way of work. The aim of this research is to further investigate this issue and to draw conclusions on how leadership can create a culture that will boost the performance of startups. From the existing literature it seems that there is not clear evidence as to which leadership style fits best with the culture of startups, though the millennial employees require a flexible and loose culture. For this reason, this chapter concludes with a proposal for future research.

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Maia Rushby, Diversity-in-Leadership, UK
Carola Hieker, Richmond, The American International University in London, UK

The chapter focuses on features of mentor programs and emphasizes their growing importance. It aims to bring clarity to the concept of mentoring and offers clear guidelines on how to set them up and make them best practices. It starts by looking at the different roles and definitions of mentors, sponsors, coaches, and line-managers and how they work together to enable employees to develop their potential in a workplace environment. A short overview of the change in human resource strategies over the last two decades shows the history and motivations as to why mentor programs have become not just an accepted people development tool but are also increasingly recognized as a reliable tool for influencing and changing organizational culture. Finally, key drivers of good mentor programs will be reviewed and an assessment of the benefits to the individual and organization provided. Trends in mentor programs will also be touched upon. References in this chapter are based on work with clients in industry and research conducted at Richmond, The American University in London.

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Transformational Leadership and Performance: Self-Efficacy and Work Engagement as Moderating Variables......80
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Doddy Setiawan, Universitas Sebelas Maret, Indonesia

This research seeks to examine the effect of transformational leadership on performance with self-efficacy and work engagement as the mediating variables. The sample is local government financial managers in Surakarta City, Central Java Province, Indonesia, with 438 usable questionnaires. The study predicts and finds that that transformation leadership positively affects performance. In particular, transformational leadership increased the ability to achieve higher performance. Further, the study also shows that self-efficacy and work engagement mediated the relationship between transformational leadership and performance. The findings highlight the importance of leadership style to achieve higher performance. Thus, leaders with transformational leadership are better able to motivate their employees to achieve better performance.

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Itumeleng Innocentia Setlhodi, University of South Africa, South Africa

Welcoming new employees into their job requires more concerted leadership effort to ensure that they settle in, begin work as soon as possible, and can be competitive. This chapter highlights the significance of complying with onboarding processes at all levels within an organisation. Drawing from literature, the importance of onboarding for purposes of acquiring competitiveness is offered, and then an onboarding process mapping and modelling (OPMM) is developed. A vignette based on ethnobiography of lived experiences during onboarding at a University in South Africa is presented. After using the structural narrative analysis, findings provide insights on the significance of the leaders' role at all levels of the organisation, in complying with the onboarding processes to yield employee competitiveness. Finally, the strategies for early engagement are presented, relaying approaches for socialisation to yield a competitive advantage factor. This implies that internal monitoring and evaluation of the process is essential to derive value.

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The newly hired staff who can adapt well with an organization's culture could perform effectively and maintain better socialization in the workplace. This would result in happy working life and leads to organizational success. The aims of this study were to (1) investigate the organizational culture of newly-hired customs officers hold with them at work and (2) examine the job performance of newly-hired customs officers and the interrelationship between customs' organizational culture and performance. A mixed method was administered in this study. The correlation and multiple regression analyses were applied. The results showed that the majority of newly-hired customs officers hold four main cultures ranked from the highest including social safety, facilitation, technology adaptation, and investigation suppression. The recommendation is to cultivate the importance of continuous learning into newly hired officers. Leaders should socialize them by face-to-face communication particularly two-way communication. The organization's culture model was proposed to the Customs Bureau.

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Sara Elouadi, Université Hassan II, Casablanca, Morocco

The aim of this work is to carry out an exploratory study on the situation of employee share ownership in Morocco in order to detect the effects induced by ownership on motivation, organizational involvement, and the intention to leave. To this end, the authors have used agency theory, which offers an interesting framework for analyzing the practice of employee share ownership, and they have proposed a synthesis of empirical work on the organizational effects of property. Subsequently, they set out their empirical approach in order to explain the progress of the field survey, which relates to the description of the situation of employee shareholding in Morocco. The results obtained confirm the empirical studies analyzed and show that employee share ownership improves the feeling of belonging to the company, motivation, and organizational involvement. On the other hand, ownership makes it possible to lower the departure intention of employee shareholders.

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Sibel Dinç Aydemir, Sabanci University, Turkey

Recent crisis periods have shown how corporate communication could contribute to organizational performance regarding financial outcomes, reputation concern, etc. The efforts to reduce information asymmetry, deal with agency problems, improve stakeholder engagement have brought it to the fore. Past research on reporting mechanisms has overly focused on its normative structure and manifested ethical

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or problematic issues. Some research has argued credibility of both reporters and assurance providers of this information. Although some limited research on management control over reporting mechanisms and on some weaknesses of assurance providers' verification statements, this research doesn't explain enough why this manipulative control occurs. Shifting our lenses to behavioral finance paradigm, it's understood that judgmental decision making seems to be exposed to diverse systematical biases and fallacies. Amidst them, inopportune optimism, alias overconfidence, stands for one of the most serious biases.

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Siti Rochmah Ika, Janabadra University, Indonesia
Ari Kuncara Widagdo, Sebelas Maret University, Indonesia

The objective of this study is to examine the impact of ownership structure on intellectual capital performance. Ownership structure used in this study consists of family control, government ownership, and foreign ownership. Family control was measured by two proxies, namely the number of shares owned by a family and the presence of family on the boards. Meanwhile, this study uses the Value-Added Intellectual Coefficient to measure intellectual capital performance. Ninety-two bank observations listed on the Indonesia Stock Exchange in the period 2013-2016 are used as a sample. Results of panel data regression indicate that the number of shares owned by the family positively associated with VAIC, on the other hand, the presence of families on the boards has no association with IC performance. The result indicates that a high degree of family ownership is likely to encourage managerial incentives to improve value creation activities. Government ownership and foreign ownership are also found to have a positive association with IC performance indicating that state-owned banks and foreign-owned banks in Indonesia tend to focus their attention more towards activities that can increase value creation than privately owned and domestic owned banks. This research provides insight into the role of the business owner to the capital market regulator in scrutinizing the efficiency of value creation activities.

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This chapter attempts to examine the effect of directors' attendance at meetings on the board's effectiveness in mitigating executive expropriation practices, especially excessive compensation. For this end, the authors employ a multiple regression model within a sample of Malaysian firms over the period 2008-2013. The results show that the attendance of directors at board meetings affects the executive compensation negatively. Board members who attended meetings frequently are more able to monitor managers' practices continuously and effectively. Hence, they can diminish the possibility of expropriation and decrease the excessive pay. The findings also show that increasing board meetings frequency and strengthening nominating and compensation committees' independence reinforce the board's monitoring effectiveness in reducing executive expropriation behavior.

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Thanh C. Phan, University of Victoria, Canada

Under economic globalization, anti-competitive acts transcend national borders and become a challenge for competition law as traditionally conceived. Most countries have been dealing with cross-border competition problems by using two basic methods: unilaterally extending national competition law's jurisdiction to acts conducted in foreign territory and cooperating in enforcing competition law. However, while the unilateral enforcement of competition law harms international comity, international cooperation in this area is constrained by conflicting national interests. Against the backdrop of such limits of statist mechanisms, this chapter examines the role of multi-national corporations in the enforcement of national competition law at a transnational level. It argues that when a multi-national corporation internalizes competition laws of countries as standards for its behaviors, the corporation can provide a mechanism to project those national laws at the transnational level by exercising its private power in a socially responsible way.

Chapter 13
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Johan Pitoyo Jati Karyana, SMA Negeri 6, Madiun, Indonesia
Y. Anni Aryani, Universitas Sebelas Maret, Indonesia

This study investigates the effect of teachers' perception of head of school transformational leadership, transparency, and school's financial management accountability. Using 120 samples from high school teachers' perception in Madiun Central Java region, this study found that teachers' perception of head of school transformational leadership has a positive impact on the transparency and accountability of the school's financial management. This implies that transformational

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leadership style of the head of school is an important factor of the school's financial management to increase its transparency and accountability.

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Preface

Increasing globalization, cutthroat competition, recurrent financial crises, emerging health crises (e.g. the coronavirus) and new social media technology strain companies to rethink the human practices. Such ever-growing business environment particularly calls upon companies to develop sustainable leadership practices and create a well-established organizational climate. By promoting organizational value system, the leader can influence the work behavior and attitudes of the employees and results.

In this context, the present book proposes to investigate and understand the influence of corporate leadership on the organizational culture and performance from multi-disciplinary perspective. In other words, the aim of this book is to provide a comprehensive and in-depth multi-perspective analysis and lies at the crossroads of different theories (e.g. leadership theories, agency, theory, resource dependency theory and positive accounting theory) from different disciplines (e.g. corporate finance, behavioral finance and management). From managerial perspective, for instance, leadership can shape culture by developing skills such as creating personal credibility and establishing trusted relationships. Thereby, leadership styles (transformational leadership, in particular) can build greater innovation and satisfactory organizational culture and lead to organizational effectiveness. Based on this crux, a leader can affect employees in achieving better organizational performance and influence business results (i.e. long-term financial performance). That is why, from this perspective, it is important to determine how leadership and management decisions and styles affect organizational culture and apprehend whether leadership influences (employee, organizational, financial) performance. From corporate finance perspective, it is interesting to investigate the impact of CEO/Director behavior on firm performance across the world based on different financial theories. This can lead to better apprehend the strategic role of CEO/Director for firm sustainability and provide bigger picture of CEO/Director role and practices around the world.

This book contains 13 selected chapters from 26 proposals that were submitted by researchers from different countries. It is indeed comprised of theoretical and empirical studies such as general review and case study. Such studies of different contexts can lead to deeper understand the nexus between leadership, organizational

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culture and performance and highlight differences between leadership practices and organizational cultures.

This publication strives to offer an easy-reading book for business executives, global investors, institutional investors, academicians and researchers, students of business, finance, and management, or any professional institutional or individual interested in understanding the nexus between leadership styles, organizational climate and firm performance. Such book provides practical application of leadership and organizational behavior theory to trail its importance for managerial practices.

The topics included are the following:

- Sustainable leadership practices in emerging countries
- Organizational culture in Small and Medium-Sized Enterprises
- Different leadership styles (e.g. pseudo-transformational and democratic leadership)
- Mentor relationship, reverse mentor program in emerging countries
- Foreign/family control and intellectual capital performance
- Job satisfaction, employee share ownership and perceived organizational support
- Organizational involvement, managerial values and social safety
- Monitoring effectiveness and CEO behavior in emerging countries

The book is organized into thirteen chapters. A brief description of each of the chapters is given as follows:

Chapter 1 highlights the substantial role of leader in employee retention. The author of this chapter identifies different leadership styles and indicates how transformational and transactional leaders can support companies in retaining their employees.

Chapter 2 reviews the main features of pseudo transformational leadership style by examining the effect of the leaders' behaviors on the organizational culture. The authors of this chapter suggest that importance of such leadership practices in organizational performance.

Chapter 3 explores the role of leadership in startups and examines how leadership behavior of founder-CEOs can affect start-up performance. The authors of this chapter argue that no clear evidence of which leadership style fits best in the environment of startups.

Chapter 4 establishes the need for mentor programs and presents their features that may be employed to develop such techniques. The authors of this chapter contend that by investing in the development of good mentor programs, companies can ensure the organizational involvement of their employees.

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Chapter 5 analyzes the impact of transformational leadership on performance based on questionnaires in Indonesia. The authors of this chapter identify the crucial role of leadership style in boosting the performance of companies.

Chapter 6 addresses the issue of new employee onboarding as strategic process to ensure high retention in South Africa. The author of this chapter highlights the key role leader can play in complying with the onboarding processes.

Chapter 7 explores the organizational culture and job performance of newly-hired customs officers in the workplace. The authors of this chapter also analyze the linkages between customs' organizational culture and performance. They further suggest to nurture the communication in leadership practices.

Chapter 8 examines the issue of employee share ownership and analyzes its impact on organizational involvement and employee retention. The author of this chapter also highlights the situation of employee shareholding in Morocco.

Chapter 9 analyzes leaders' behavior from behavioral finance perspective. The authors present an array of cognitive and behavioral biases that help in understanding decision-making of leader.

Chapter 10 explores the different types of ownership structure in Indonesia. The overall aim of the chapter is to examine the impact of ownership structure on intellectual capital performance in financial institutions.

Chapter 11 investigates the influence of of directors' attendance at meetings on the board's effectiveness in reducing executive expropriation practices in Malaysia. The authors of this chapter suggest that board members who attended meetings frequently are more able to monitor managers' practices continuously and effectively.

Chapter 12 identifies the role of multi-national corporations in boosting competition law at a transnational level. The author of this chapter highlights the importance of corporate social responsibility in creating more competitive business environment.

Chapter 13 examines the impact of transformational leadership style on transparency and school's financial management accountability. The authors of this chapter present key elements for managing high schools.

I hope this book would serve as a useful source for the readers who are interested in practice and research in leadership, organizational culture and corporate performance.

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Chapter 1
Sustainable Leadership Practices:
The Key for Talent Retention

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Gandhi Institute of Technology and Management, India

ABSTRACT

The chapter explains in detail the importance of leaders in an organization. The chapter also brings to light what extent the leader's contribution plays in employee retention in an organization. The two categories of leadership, such as transformational and transactional leaders, have been discussed in detail along with to what extent the transformational and transactional leaders support an organization in retaining their employees. As attrition is a burning issue in the present corporate world, it's the utmost responsibility of the leader in retaining the employees of their organization. There is a famous saying when an employee leaves an organization they are not quitting the management they are just quitting their boss.

INTRODUCTION

Leadership styles and leadership practices explain how effective leaders dissemble employee retention and other behaviors within organizations. During the great economic depression, there arose a situation where the confidence of the American people had to be restored to combat the economic crisis that was faced by them. To fulfill these tasks Franklin D Roosevelt became the leader. During World War II severe losses were suffered by the British people and combating their enemies

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became a major task. This is when Winston Churchill led the efforts of the British people to triumph. Similarly, Adolf Hitler proved to be a leader in Germany, Mussolini in Italy and Stalin in USSR. In India, Mohandas Karamchand Gandhi and his predecessors M.G.Ranade, B.G.Tilak and LalaLajpatRai provided the leadership that was required by India to get itself free from the British regime. In modern times, Leaders spread all over the world channelize the thoughts and efforts of the people to achieve common goals.

Brass (1960) stated that Knowledge loss has become a critical factor that could make organizations vulnerable in difficult economic times as well as during thriving economic growth periods when the competition is prevalent. Tannenbaum, Robert, and Masserik, Friede (2005) define leadership as interpersonal influence, exercised in situations and directed, through its communication process, towards the attainment of a specified goal. Whereas in the words of Hodge and Johnson, leadership is defined as “the name for that combination of qualities by the possession of which a person can get some things done by others, chiefly because through his influence they become willing to do it”,

Effective Knowledge Retention is Possible Through Effective Leaders

Zaccoro (2007) proposes that effective knowledge retention efforts require a holistic approach that integrates elements of leadership styles and culture. In the word of scott.A.Snell(2010), group building and maintenance role of a leader is to be an encourager, harmonizer, compromiser, gatekeeper, expediter, and a good follower. On the other hand as an individual, the leader has to be an aggressor, blocker, recognition seeker, self-confessor and special help pleader. Effective leaders would make an employee work under departmental goals to nurture the quality. Employees then feel important and feel motivated to attain organizational objectives.

Employees should be given self-confidence by the boss/leader regarding job performance (Zhang and Feiock 2010). Whereas poster (2009) opines that in the present corporate world and service-intensive economy, the major challenge is not about controlling people to run the organization as if it were a machine but to attract, develop and retain the best talents and to link, defuse and leverage their knowledge, skills, innovations and new opportunities.

In the present business scenario, the leader is to take on the role of establishing a sense of purpose within the organization and to define it in terms of how the organization will create value for all its constituents and emerging retention strategies. In the words of Chris Argryis(2008) types of leadership could be classified as the Directive type of individual who initiates and rewards the permissive type, where the leader takes initiates for others and finally, the participative type who help others

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to develop their initiatives. Furthermore, the personnel research board Ohio State University suggests five types of business leadership, The Bureaucrats who stick to routine appeases their superiors and avoids their subordinates. The autocrats are people who are directive and expect obedience from their subordinates and are expedient in their behavior. The diplomats are opportunistic and exploit employees. The Experts are concerned with their field of specialization and treat their subordinates as fellow workers; here the leader treats his subordinates as fellow workers.

Various authors and management experts list out certain qualities of a leader in their research work. In the opinion of Viscount Slim (1962), the main leadership qualities a leader should possess are courage, will power, judgment, flexibility, knowledge, and integrity. Whereas OdwayTead(1972) believes that the leader should possess retention strategy, enthusiasm, sense of purpose and direction, technical mastery, friendliness and affection, decisiveness, integrity, the art of motivating the employees, intelligence and faith. Chester Barnard(1999) opines that a leader should have vitality and endurance, decisiveness, persuasiveness, stability in behavior, intellectual ability to hold back the talent and knowledge.

Nitish.R.De (2000) says a successful leader should possess physical and nervous energy, endurance and vigour of body and mind, readiness to shoulder responsibility and ability to discharge it, optimistic by nature, talent in retaining the talented workforce, unflattering friendliness and affection, tolerance and patience, sense of fair play and justice, a high degree of integrity and knowledge of fellow workers. He also adds that the above said qualities should be integrated within the leader. (Frank et al, 2004) suggests various leadership capabilities that are essential to retain and engage employees.

Process of Leadership in Two Modes Transformational Leadership and Transactional Leadership

The process of leadership can occur in two ways: either transformational or transactional (Bum 1978). The concept of transformational leadership was originally proposed by Burns (Bass 1985). The theory of transformational leadership simultaneously involves leader traits, power, behavior and situational variables (Yuki, 1989). Thus, transformational leadership theory is viewed as a hybrid approach as it gathers elements from the major approaches. The transformational leaders set more challenging expectations and typically achieve higher performances (Bass and Avoilo 1993). They change organizational culture and focus more on the long term rather than short term goals (Bass 1985). They can transform the organization by defining the need for change, creating visions and mobilizing commitment to these visions (Tichy and Devanna, 1990)

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On the other hand transactional leaders are leaders who promote consent by followers through both rewards and punishment. But through rewards and punishment transactional leaders able to keep their subordinates motivated for a short period.

Whereas Rolls (1995) suggested that transformational leaders build awareness and acceptance of goals and mission, motivate, support organizational members for organizational goals and influence others because they create organizational meaning. The transformational approach is predominantly adopted by organizations that practice a bottom-up management approach. There are a greater employee focus and involvement in the decision-making process within these organizations. The attractiveness of the leadership style can dramatically influence employee's motivation and retention within the organization.

The focus of transformational leadership is rooted in creativity and simulation. Leaders trust their employees and encourage them to be creative and innovative in their approach to problem-solving. This type of leadership flourishes more within educated groups as it focuses on charisma, individual consideration and intellectual stimulation (Fiedler, 1967) argued that transactional leadership involves an exchange between leader and follower. Further Bass and Avolio(1994) point out that transactional leadership emphasizes the transaction or exchange that takes place among leaders, colleagues and followers. Jamrog (1995) suggest that both leader and follower reach an agreement concerning what the follower will receive for achieving the negotiated performance. In the words of Yin (2009) every organization must select some individuals who are responsible for guiding and encouraging people to work together usefully. Whereas Taylor(2007) from his perspective stated that it is difficult to pinpoint specific traits that effective leaders should possess. It may be stated that effective leaders should normally be willing to serve as leaders. Furthermore Sinha (2006) stated that leaders should be perceptive towards others, should have environmental influences, self-awareness and ability to be objective and are capable of establishing priorities appropriately and to communicate successfully with others.

Wadswoth and Owens (2007) highlighted that several styles or approaches are utilized by those who serve informal leadership capacities – such as autocratic, participative and free rein leadership approaches. He also described the current emphasis in organizational leadership is a flexible, adaptive approach in which the leader should adjust his styles according to the situation.

Whereas Richman (2010) argued that a leader should be proficient in their application of leadership styles, they must be well informed on organizational policies, plans, and structures that influence their choice of styles. Whereas Steven(1996) shared that the leader must practice introspection to discern his inclinations, desires and motivations and must be keenly empathetic to the needs, desires, abilities and knowledge of the subordinates/followers. The use of adaptive leadership becomes a demanding yet interesting challenge for conscientious leaders but the results of their

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efforts would be beneficial to themselves, their subordinates and to the company in managing and retaining the manpower.

Kirkman et al (2015) on the other hand stated that transactional leaders are leaders who aim to elicit the desired performance from the team by motivating them externally. Employees are rewarded when they complete their tasks and punished when they don't perform. Hence the relationship between the leaders and subordinates is a complete transactional one. Kreitner, R. and Kinicki, A. (2007) highlighted that the other most unique characteristics of a transactional style of leadership is practicality. The employees uses another methodology of sorting the issues is through pragmatism, and they take all realistic constraints and opportunities into account.

The transactional leaders do not explore to transform things, they tend to be highly rebellious to change. The leader wants everything to remain strictly as they are, and do not believe in improving working conditions to make things better (Hambley, L. A 2007). These leaders do not embolden employees to act creatively or think for themselves. Independent thought and risky actions are frowned upon, and this is because the leader is not innovative and believes that things are good as they are. They stick on to old methodology and highly resistant to change.

These set of leaders will always have an eye on the employee's progress which is completely based on specific targets which are fixed for them. They are good at checking the employee's predetermined goals and will honor them appropriately. On the other hand the leaders are also well aware of non-performers and will detain the reward in similar circumstances.

Muterera, J. (2012) stated that the transactional leader is happy to work within the existing systems and constraints and will operate from within the boundaries to achieve the goals of the organization. They tend to think inside the box for solving problems. While they may be able to handle routine affairs, they are often stumped when faced with the problem that requires a creative solution. This leadership style is quite passive because the focus is on maintaining the status quo. The leader tends to only react to things that happen and does not take proactive steps to prevent problems. The most notable behavior associated with this leadership is establishing criteria for assessing and rewarding performance. It is also noted that the transactional leaders give lots of importance on hierarchy, and they make all the decisions and expect the employees to follow their instructions.

Transformational leaders inspire subordinates to do more than what is originally expected of them. Transformational leadership involves attracting members of the organization to accept the leader's vision. In any organization, leaders need to inspire others with their sense of direction, their values, their motives and benefits.

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Effective Leaders' Accomplishes the Vision of the Organization

If the employees are more comfortable with the leadership and their style, they will more likely share the vision of the organization. Whereas in the words of Harland (2005) transformational leaders are generally more people-oriented than result-oriented and transformational leaders are great motivators and good retainers. The major transformational leadership behaviors include confidence in others, respect in others, instills pride among employees, interest in others and not in self, focus on the common good, achievement, self-actualization, enthusiasm, optimism, vision, problem-solving, promotes creative and adaptive solutions to stressful conditions and developing employees treating them as individuals (Frank 2004).

The transformational leader will encourage the employees to get to the goal with the focus being more on the people than on the results. Many times, the focus on the people is all it takes to motivate the team to work harder, through the weekend, etc, to meet the goals of the organization. Delbrocco and Sprague (2000) explain what leaders can do to manage a job better. Some of these things include participative management. A healthy practice suggests that when managers manage by walking around, the employees benefit. The items that will help these managers become stronger include recognizing the negative, empathizing with the negative, categorizing the negative, globalizing the negative, neutralizing the positive, deputizing the employee and actualizing the understanding. Doing these things will help managers relate better to their employees and will help in employee retention

Transformational leaders are characterized by Burns (1978) as raising subordinates' consciousness levels about the importance and value of designated outcomes and ways of achieving them. The four transformational leadership factors include; i) charismatic leadership ii) inspirational leadership iii) intellectual stimulation and iv) individualized consideration (Avolio and Bass 2004) Individualised considerations focus on the worth of individuals and their development in the organizations (Chapman 1997). According to a series of studies in which subordinates describe the behavior of their immediate supervisors that the transformational leaders achieve their results in one or more ways (Avolio and Bass 2004).Its individualized consideration treats each follower as an individual and provides coaching, mentoring and growth opportunities (Poster 2009)

Charisma the Demanding Quality of a Good Leader

Charisma is a rare personal quality attribute of leaders which attributes to arousing popular devotion and enthusiasm. According to (Mark.A.Stiffler2006), charisma is the most general and important component of transformational leadership. Subordinates who had complete faith in charismatic leaders, were proud to be associated with these

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leaders, trusted the charismatic leader's capacity to overcome any obstacle and these leaders served as a symbol of success for their subordinates (Rallal 2014). Inspiration is the simulation of the mind or emotions to a high level of active feeling. A leader is inspirational if the subordinates are made to feel they are more powerful, as a consequence of the leader's encouragement and the leader's capability of pointing out desirable goals and how the subordinates can achieve them. The extra effort is inspired by the persuasive appeal of leaders, language, symbols, images and vision of a better state of affairs (McClelland, 1962).

CONCLUSION

Intellectual stimulation promotes intelligence, independent thinking, rationality and the development of problem-solving skills of a leader in an organization. Intellectually stimulating leaders see themselves as part of an interactive creative work process. Not bound by creative solutions, they create images of other possibilities. Orientations are shifted, awareness of the tensions between visions and realities are increased and experiments are encouraged for an effective workforce and to make the workforce stay in an Organisation for a longer period. Intellectual stimulation is inspiring and contributes to the autonomy of subordinates. It is much more than a matter of broadcasting ideas. Various researchers have proved that individualized consideration represents an attempt on the part of leaders to not only recognize and satisfy their subordinate's current needs but also to expand and elevate those needs in an attempt to maximize and develop their full potential and to stay loyal for the organization. Hence transformational leaders than transactional leaders show individualized consideration, by providing opportunities and developing organizational cultures supportive of individual growth in turn the Organization also grows.

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Chapter 2
What Is Pseudo-Transformational Leadership?
A Theoretical Analysis

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ABSTRACT

The notion of pseudo transformational leadership first appeared back in 1999. The lack of a clear definition of the term has led to confusion because of certain similarities with transformational leadership. Few publications on the subject and the developing theory have been presented. However, numerous studies have included the concept as a reference for unethical leadership, and as an opposing term to genuine or authentic transformational leadership, which is common in times of change and visible in corporate scandals. Transformational leadership is described to provide a baseline to compare it with what this leadership style is not. The chapter focuses on a managerial problem that needs to be studied because of its implications in organizational performance. The objective of this study is to present the main characteristics of the pseudo transformational leadership style by analyzing leaders' behaviors and their impact on followers and the organizational culture.

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INTRODUCTION

Times are changing in unprecedented ways, previous social structures are no longer valid, and there is a saturation of information (Bauman, 2013). Times seem to have become more fragile and less trustworthy, appearing as a continuous succession of new beginnings and transformations (Garrison, Neubert & Reich, 2012). We are dealing with what has been defined as volatile, uncertain, complex, and ambiguous times (Mizhra & Joshi, 2006); turbulent times, prone to seismic change, influenced by technology; an era conceptualized as that of Trumpian uncertainty (Stiglitz, 2017). The new reality is destructive, impulsive, and unpredictable, with constant chaotic disturbances in which ubiquitous, continuous, and dynamic changes are all-pervasive in organizations (Küpers & Weibler, 2006). An example of these unprecedented times is the COVID 19 pandemic crisis.

In this new context, failure in leadership has become evident, and still, leaders who can be considered by some as unethical, unreliable, or just plain bad leaders are able to maintain an entourage of followers and to hold powerful positions. These leaders appear to be transformational and show some of the traits associated with transformational leadership, but they are moved primarily by personal gain.

The transformational leadership paradigm has been predominant in literature for more than 25 years and has become one of the most researched topics, attracting attention due to its apparent importance to organizational productivity (Ng, 2017). However, most of the published works deal with the positive traits, characteristics, and behaviors, leaving almost no room for the negative aspects, which is the other side of transformational leadership (Eisenbeß & Borner, 2013).

This chapter integrates existing theories to explain the negative side or pseudo transformational leadership, providing its general characteristics, and state of the art in the field. It focusses on managerial problems that arise when pseudo transformational leaders take charge and its implications on organizational performance.

BACKGROUND

Transformational leadership has received increasing attention from researchers. It has been considered as a positive leadership style centered on the assumption that leaders can change followers beliefs and behaviors by appealing to their higher-order needs, and can be described as being vertical, in the sense that leaders sustain top-down influence on the followers (Bass, 1996). Transformational leaders provide intellectual stimulation, inspirational motivation, individual consideration, appreciation, and also a role model. They also influence followers' self-concept by enhancing self-efficacy, confidence, and self- esteem (Shamir et al., 1993).

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Being an approach that causes a positive change in individuals and social systems, transformational leadership is ideally aimed at developing followers and new leaders. In its authentic form, it enhances the motivation, morale, and performance (Burns, 1985). Still, certain arguments have been developed stating that transformational theory is built on transactional leadership theory and that both styles can be considered as integral parts of each other although both possess distinct sets of traits and behavioral patterns (bass, 1995; Bass & Avolio, 1994).

Charisma is often associated with transformational leaders. These leaders are said to have profound and extraordinary effects on followers because of their personal abilities (House & Baetz, 1979). A transforming effect is produced (Tichy & Devanna, 1986) by generating awareness and acceptance among followers by elevating their values and interests beyond immediate self-interest (Bass, 1999). Transformational leadership is positively related to job satisfaction, commitment, performance, and organizational effectiveness.

According to Küpers & Weibler (2006), trustworthy and conscientious transformational leaders are forthright about their own mistakes and confront others about their unethical actions, having a sense of responsibility and integrity. Reversely, leaders who are unskilled in these competencies are probably more at risk of becoming pseudo transformational.

The word *pseudo* is used to describe what is apparent, rather than stated; bogus, artificial, *quasi*, false, spurious, deceptive, misleading, insincere, or mediocre imitation, expressing something that is pretended, unreal and not genuine (Merriam-Webster, 2003). Pseudo transformational leadership can, therefore, be described as something that seems like authentic transformational leadership but is not.

Only recently has this *other side* of transformational leadership accepted closer scrutiny (Erickson, Shaw, Muray & Brach, 2015). This *darker side* frequently arises in times of crises, national weaknesses, and of institutional breakdowns (Bass & Riggio, 2006), leading to a decrease in genuine leadership, and the destruction of dozens of businesses (Groves & La Rocca 2011), as well as scandals involving iconic companies. Increased media coverage has accelerated this decline (Hernández, 2012) by constantly exposing morally disappointing leaders (Sendyaja, 2005). Not and a day goes by without news of their unethical conduct (Zhu, Avolio, Riggio & Sosik, 2011). Socially irresponsible changes in organizations and communities based on personal interests and profit generation happen continuously.

It has been in leaders' wrongdoings, in the account for deviations, failures, problems, mishaps, and divergent effects (Li, Mitchell & Boyle, 2010) regarding transformational leadership, that pseudo transformational leadership has emerged (Bass and Steidlmeir, 1999). But with scarce research, in ineffective leadership styles, a particular mystery over negative leadership behavior remains (Strang, 2005). The area of study has been growing, but without enough empirical research (Hoption,

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Barling & Turner, 2013) to support the findings, it becomes difficult to accurately determine or differentiate it from authentic transformational leadership.

IDENTIFYING THE THEORY OF PSEUDO TRANSFORMATIONAL LEADERSHIP

In order to identify studies that have analyzed the phenomenon of pseudo transformational leadership, a bibliometric analysis was conducted. Findings show that literature on the subject is scant, and although the notion has been mentioned in numerous works, it has not been the focus of most of those studies. The term has been used in three different ways: as a two-word term, as a one-word term, or as a hyphenated word. A search for scholarly databases shows that most frequently, it is being used as a two-word term.

Articles dealing with pseudo transformational leadership were cited frequently, which can be explained by a renewed interest on the subject. Still, although interest on the topic has grown, a clear definition of pseudo transformational leadership is hard to find. Sendyaja (2005, p. 79) has suggested that difficulty in defining the term can be explained by the popular adage surrounding the issue of terrorism: *one person's terrorist is another person's freedom fighter,* and that judgment is in the eye of the beholder. Defining where pseudo transformational leadership starts or ends is difficult to pinpoint.

The literature on pseudo transformational leadership has been studied in different countries including Hungary (Lengyel & Ilonski, 2012), Northern Ireland (Gormley-Heenan, 2017), Germany, (Küpers & Weibler, 2006, Spotek, 2012), Finland (Kazmi, 2016), China (Schuh, Zang & Tian, 2013), Egypt (Shahin & Wright, 2004), and the United States (Boyett, 2008).

It is also present in diverse areas of education, businesses, and government, and it can be observed in the military (Hernández, 2012); in public administration and politics, during elections (Boyett, 2008); in the financial system (Shahin & Wright, 2004); in academia (Spangenburg & Barnes, 2008); in businesses with lax governance structures (Schu, Zang & Tian, 2013), and during a crisis (Ah-Kion & Bhowon, 2017, Gormley-Heenan, 2017).

A test model that resulted in initial empirical support to understand the particular nature and effects of pseudo transformational leadership in senior executives was developed by Barling, Christie, & Turner in 2008, and in 2011. A subdivision of transformational leadership in authentic and pseudo transformational leadership was proposed by Bass & Steidlemeir (1999), which can also be described as two extremes of the same type of leadership, positive and negative transformational leadership, or

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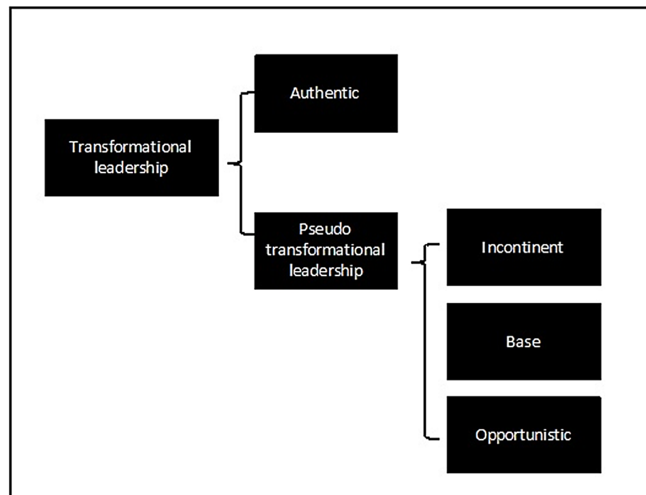
ethical and unethical transformational leadership, based on the presence or absence of moral foundations (Avolio, 1999).

Price (2003) developed the notion further, and proposed distinctions for congruent and incongruent behavior and values described as altruistic or egotistic. The following classification was based on Price's Matrix (Figure 1).

Figure 1. Different forms of pseudo transformational leadership



Source: Based on Price, 2003.

According to Price (2003), pseudo transformational leadership can fall into three different categories: incontinent, base, or opportunistic. *Incontinent pseudo leaders* show a committed behavior and altruistic values but act against them to satisfy self-interest, as their values are insufficient for motivation, and there is a strong temptation to act egoistically; *base pseudo leaders* show committed behaviors, but their values are egotistic, and their actions are a reflection of that. Finally, *opportunistic pseudo leaders* act in a way that advances the interests of others, but such concern is merely instrumental, and choose to do wrong when doing right, showing incongruent behavior and egotistic values.

Cote (2017), proposed a taxonomy of three basic factors showing characteristics of pseudo leadership that emerge in times of stress, based on the works of Hogan & Kaiser's (2005). These dimensions include 1) Intimidation, gaining security by threatening people and scaring them away; 2) Seductive and flirtatious, winning recognition with charm and self-promotion; and, 3) Ingratiation, ensuring approval by loyalty and becoming indispensable.

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Erickson, Shaw, Murray & Brach, (2015) established that pseudo transformational behavior is not occasional or infrequent, nor based on random acts of incompetence. The behavior is volitional, systematic, and repeated, resulting in leadership derailment (Cote, 2017; Einarsen, Aasland & Skogstad 2007).

Difficulty in clearly establishing what pseudo transformational leadership is laid on the fact that it includes some transformational leadership traits but has an underlying moral foundation of self-interest and self-satisfaction (Parry & Proctor-Tompson, 2002), showing low idealized influence and high inspirational motivation. According to Northouse (2001), it is inappropriate to cast such leaders as transformational (Northouse 2001) since they have perverted transformational characteristics (Hord, 2012).

Numerous terms have been associated with pseudo transformational leadership including the *dark side of leadership* (Conger & Kanungo, 1998; Van Knippenberg & Van Knippenberg, 2005), leadership with darker characteristics (Cote, 2017) or dark traits (Kazmi, 2016); villainous leadership (Bass & Steidlmeir 1999), perverse leadership (Hord, 2012), and such leaders are recognized as the *bad guys* (Burns, 1978, Bass, 1999). They have also been considered as false prophets and false messiahs (Effelsberg & Sogla 2013; Bass & Steidlemeir, 1999); destructive leaders (Milosevic, Maric & Loncar, 2020) who are immoral (Avilio, 1999) and ineffective (Strang, 2005); toxic (Erickson, Shaw, Murray & Branch, 2015), manipulative and narcissistic (Lengyel & Illonski, 2012; Maccoby, 2014).

Pseudo transformational leaders lack integrity, judge others, show anger, lie, and even blame others for avoiding their personal responsibility. They are prone to integrity violations, and they cater to their own interests (Bass & Riggio, 2006). A critical element that seems to be common in pseudo transformational leaders is the idea of self. Pseudo transformational leaders are said to be selfish (Bass, 1995), self-centered (Toor & Ofori, 2009), self-serving (Bass & Steidlmeir, 1999; Humpfrey, 2002), self-interested, self-delusionary, self-consumed (Cote, 2017); they are self-aggrandizing, unreliable, power-hungry, and manipulative (Toor & Ofori, 2009). They search for self-promotion (Hughes & Harris, 2017), and self-satisfaction (Parry & Proctor-Thompson, 2002).

The leaders act with arrogance, egoism, and self-indulgence (Sosik, Chun & Zhu, 2014). They see subordinates as a means to an end, are driven by self-concern, self-aggregation, and exploitation of subordinates (Spottek, 2012). Pseudo transformational leaders can be found in all walks of life. They can lead countries, businesses, families, and teams. Some names are even known worldwide because of the impact of their leaders such as Adolf Hitler in Germany, Joseph Stalin in the Soviet Union, Mao Zedong in China, Nicolae Ceausescu in Romania, Osama Bin Laden in Pakistan and Saudi Arabia, Fidel Castro in Cuba, Nicolás Maduro and Hugo

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Chávez in Venezuela, Andres Manuel López Obrador in Mexico, Donald Trump in the United States, and Idi Amin Dada in Uganda. Others are mostly known in their country or their area of business including cult leader Jim Jones, drug lord Pablo Escobar, former CEO of Walmart Lee Scott, Theranos' founder Elizabeth Holmes, financial consultant Jeffrey Epstein, film producer Harvey Weinstein, Volkswagen chief Martin Winterkorn, among a long and increasing list.

The construct of pseudo transformational leadership can be operationalized in three levels: the characteristics of the leader's behavior (individual), the representation of the group behavior towards individuals (group), and as a characteristic of the organizational culture (Avolio and Bass, 1995).

The Behavior of Pseudo Transformational Leaders

Pseudo transformational leaders start by presenting a transformational behavior, but fail to perform because of multiple reasons, being the most relevant that all leaders are fallible humans (Tourish, 2008).

Leadership competencies include influence and team-building skills, particularly providing direction, support, and standards for accomplishment; communicating a compelling vision; caring about, developing, and challenging direct reports; hiring and staffing strategically; motivating others; building effective teams; and managing diversity (Hogan & Kaiser, 2005). Pseudo transformational leaders follow a different path. They sail under false colors appearing to be spiritual leaders who in reality are false prophets (Bass & Steidlmeir, 1999); simulators that deceive their followers and even themselves (Bass, 1985, 1998, 1999), having an outer shell of authenticity but being true to an inner self that is false (Bass & Steidelmeir, 1999; Staats, 2015), which can be used to hide manipulative intentions (Lin, Huang, Chen & Huang, 2017).

The idea of wearing a mask is a common reference for pseudo transformational leadership. Ford and Harding (2011) suggested that this type of leader hides behind a mask, as they have unspoken intentions (Dasborough & Ashkanasy, 2002). They may try to hide their inner evil, giving the impression of being good or being moral, and will only be found out by those who seem to be able to expose them.

Pseudo transformational leaders are deficient in the ability to be in touch with their inner selves. They walk the walk, but they do not talk the talk (Copeland, 2016); therefore, they have been called the fake or counterfeit transformational leaders (Bass & Steidlmeir, 1999). A manipulator is a common term used to describe this type of leaders as they persuade collaborators to align to their vision (Cardona, 2000) by being confident and intellectually stimulating for amoral or unethical pursuit (Copeland, 2016), relying heavily on exploitation (Bass & Steidlemeir, 1999, Blair, Helland & Walton, 2017).

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Leaders engage in management by exception, punishing behaviors, and showing disregard for established institutional procedures, and for the rights and feelings of others (Avolio & Bass, 2008). It can be very dangerous because others believe in them, and they have no intention of sacrificing their self-interest.

Pseudo transformational leadership is unlikely to be ethical or to produce ethical behaviors within the organization; it lacks reflection and consideration and produces an absolutistic behavior (Parry & Proctor-Thompson, 2002). Studies on specific personality variables that contribute to a leader's tendency to engage in such unethical and destructive behaviors have been developed (Blair, Helland & Walton, 2015; Krasikova, Green & Le Breton, 2012). Pseudo transformational leaders are likely to emerge when narcissistic leaders use their power for personal gain and interact with susceptive followers who either conform or collude with them (Sosik, Chun & Zhu, 2014). Leaders show low authenticity and high Machiavellianism by the use of guile, deceit, and opportunism in interpersonal relationships (Christie, 2013, p.1). Machiavellianism is defined as a degree to which an individual keeps emotional distance and believes that ends can justify means and is willing to do whatever is required, good or bad, having his way (Morris et al., 2005).

Personality aberrations such as narcissism are common (Maccoby, 2000) and have proven to be positively correlated to one-way communication, one-way control of power, manipulative behavior, unrealistic assessment of the environment, and it also correlates positively to pseudo transformational behavior through the use of fear to motivate others (Blair, Helland & Walton, 2017). An unethical facet of transformational leadership (Barling, Christie & Turner, 2008; Effelsberg & Sogla 2013) is that it lacks the moral foundations of legitimate value (Kumar & Steinmann 1998), therefore being considered as less than authentic, or more inauthentic than authentic (Rodríguez, Green, Sun & Baggerly-Hinojosa, 2017).

Pseudo transformational do much of the same things transformational leaders do; however, they lead the group for their own personal satisfaction and not to meet the true needs, aims, and goals of the followers. They use the same means to achieve different ends (Ashkanasy & Tse, 2000), and the same skills, including emotional intelligence and oratorical skills, but for corrupt goals and self-benefit (Khoo & Burch, 2008; Bass, 1999). Differences can be found in the intentions guiding their actions (Schuh, Zang & Tian, 2013), and the values which they idealized.

When pseudo transformational leaders dominate, the use of manipulation widens, and leaders tend to override human rights making it hard to obtain information that is unbiased. They abuse the potential of transformational leadership as the leader's purpose is largely unchallenged (Suresh & Rajini, 2013), and their intentions have purposes other than common good (Schu, Zhang & Tian, 2012).

It is important to understand how anomalies occur and if it is possible to establish distinguishing trademarks for pseudo transformational leaders as unethical aspects

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of leadership are more visible, and thus more easily controlled (Parry & Proctor Thompson, 2002), since egoism and personal motives might not be the only reason why leaders behave unethically.

This style of unscrupulous leadership is inflicted on naïve or unsuspected followers, who get caught in the romance of leadership (Hughes and Harris, 2017) and the heroic leadership bias (Suresh & Rajini, 2013), because their visions are grandiose, as well as their sense of self-importance in their search for glory (Illes & Macaulay, 2007). Leaders appear confident even though they are unsure of what they are doing or telling (Aitken & Higgs, 2010).

They indulge in fantasies of power and success, engaging in self displays to get attention (Bass & Bass, 2008), advancing on their own self-interested agendas, dominating and controlling followers (Hiption, Baring & Turner, 2012), falling in a state of *immoral puffery* (Hernández, 2012, Bass & Steidlemeir, 1999) in the absence of operationality (Ghesquiere & Ims, 2010).

The previous behaviors may not be obvious to most members, so only astute members will recognize them as problematic (Dasborough & Ashkanasy, 2002). The difference is not only in the behaviors they display but in the unspoken intentions behind these (Den Hatog & Belshak, 2012) because pseudo transformational leaders do not practice what they preach; they support distorted utilitarian and crooked moral practices (Avolio & Bass, 2008), do not transform their individual goals into collective goals, and are not willing to sacrifice (Den Hartog & Belschak, 2012) on behalf of others.

Pseudo transformational leaders normally aim for undesirable goals (Kalshove, Den Hartog & de Hoog 2013), but this can sometimes go unnoticed in everyday busy schedules (Strang, 2005). Leaders who are mediocre or pseudo transformational take advantage of lax governance structures, manipulating and deceiving followers in furtherance of personal advantage or a distorted ideology, which is harmful to organizations as it can breed corruption by dismantling governance systems and replacing them with the one-man rule. In this sense, leaders capitalize on weaknesses in governance systems, which weakens them even further (Schuh, Zang & Tian, 2013; Huang & Snell, 2003).

Pseudo transformational leaders have a singular focus on profit generation, shareholder returns, and personal wealth (Groves & La Rocca 2011). They tend to promise rewards, but do not deliver; they monitor followers but fail to take corrective actions; they invent rules and are normally too late when taking action (Avolio & Bass 2008). This type of leader emphasizes economic values and advance self-interest of internal and external stakeholders (Groves & La Rocca, 2011), with values not guiding behaviors sufficiently (Bass, 1985).

They are successful and influential by being charismatic but are unlikely to be effective in the long run in dealing with true problems (Bass & Riggio, 2006).

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Burns (1978) has analyzed this from the perspective of charismatic leadership as one of the forms of transformational leadership, which can also be transferred into pseudo transformational leadership. Charisma has been described as a double-edged sword (Maccoby, 2000) as pseudo transformational leaders possess charismatic characteristics and seek to motivate and guide through rhetoric and promotion of their position (Copeland, 2016) with a strong potential for generating negative outcomes, by using charisma in unethical ways (Sun & Anderson, 2012). Often charisma can camouflage the true inner-self of a leader (Hughes & Harris, 2017).

Pseudo transformational leaders are skilled communicators. They motivate followers through deception and false promises, substituting self-indulgent emotionality with logic (Bass & Steidelmeir, 1999), and using the jargon of transformational leadership when the goal is their own self-promotion, and followers cannot clearly understand what is expected of them (Hughes and Harris 2015).

Constantly appealing to emotions rather than reason (Cardona, 2000) and making exceptions for themselves, they are aggressive, impulsive, and impetuous. They use hostile verbal and nonverbal behavior and are abusive and inconsiderate (Brown, Treviño & Harrison, 2005), bullying (Hoel, Glasø, Hetland, Cooper, & Einarsen, 2010) and undermining others, stimulating hate and conflict (Aitken & Higgins, 2010), and creating plots and conspirations, as well as unreal dangers. They mask their sinister ways and means through existing social values and customs, disguising hollow character traits, hiding their lack of solid conviction (Hernández, 2012). They can falsify information, provoking distrust.

Autocratic behavior of leaders combined with blind trust from followers, make them become weakened and dependent on their leaders. There is a risk that the leaders use influence and inspiration for eliciting devotion to himself/herself (Howel & Shamir, 2005), and use their power and authority in a negative way (Cote, 2017). Pseudo transformational leaders use real or fictitious threats as a way to increase cohesion among their followers and to gain unquestioned support (Bass & Riggio, 2006), inventing fictional obstacles, imaginary enemies, and visions that are chimera (Ola Falemara, 2010).

They profess strong attachment to the organization and its people, but privately they are ready to sacrifice them as they overweight authority and underweight reason and lack self-constraint. Empowerment does not operate as leaders do not follow through; they just talk about it. They function with egoistical intent, utilizing control as opposed to empowering strategies to influence followers.

They neither genuinely seek nor truly accept input from their followers, and fail to earn deep-seated respect (Barling, Christie & Turner, 2008). Since they lack empathy, they do not act as role models (Bass & Steidlemeir, 1999). Their leadership style is not-nurturing, which is uncharacteristic of effective role models and is the opposite of ethical leaders. They may appear to share decision making in an effort

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to spread the blame from themselves to others in the case in which the decision goes awry (Bass & Riggio, 2006). The leaders' values and behaviors might not always be aligned, therefore generating leader idolization and follower dependency (Hoption, Barling & Turner, 2012).

Pseudo transformational leaders do not have a moral character; they are not morally uplifting nor possess ethical values (Staats, 2015). Their immoral or morally-neutral conducts serve personal wrongdoings (Bass, 2008). Corrupt behavior on the part of the leaders is far from being impulsive. It is a premeditated act that highlights the lack of personal ethical values. They create enemies under the impression of being above the law (Gormley-Heenan, 2017), lacking checks and balances, and the sense of responsibility (Bass & Bass, 2008).

Effects of Pseudo Transformational Leadership on Followers and Organizational Culture

Followership is considered the other side of leadership or the second part of the leadership equation. Still, as has been suggested by Milosevic, Maric & Loncar (2020), followers have largely been neglected by the existing leadership literature, and thus, the agency they often display in leadership processes has been insufficiently examined. These authors propose that followers are more agentic than previously suggested and that they choose to unfollow their leaders but also actively work to neutralize the influence of toxic leaders through workarounds and learning. Additionally, negative leadership styles have not been as developed as the positive ones, creating a void in the understanding of the different dyads that can emerge between positive leaders and positive followers; positive leaders and negative or fanatic followers; negative leaders and positive followers; and negative leaders and negative followers.

When pseudo transformational leaders stay in positions of leadership, they produce negative consequences for their followers. According to Riggio (2016), more than one-quarter of all nations are headed by dictators, and another quarter, by unethical, unstable, or incompetent individuals. Yet, there are a few occasions where the people rise up and oust these bad leaders. Among the reasons for the compliance with pseudo transformational leaders is the preference of followers for strong leaders, although they can be narcissistic; followers falling victims of their own mental shortcuts and therefore accepting the leaders view without questioning his/her actions, and also, conforming to in-group perspectives or believing that the alternative might be even worse than the current leader.

The reason why followers choose to follow those who are not representative of positive and ideal leaders, such as transformational leaders, can be analyzed from

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the perspective of follower motivations, which according to Maccoby (2004), falls into two distinct categories: rational and irrational motivations.

Rational motivations are conscious and well known, and they include the followers' dreams and their hopes of gaining something, including following a great leader, and also the possibilities of missing out on something if they decide not to follow. Irrational motivations are influential, and they lie outside of the followers' locus of control. These motivations originate in unconscious powerful images and emotions, including the way in which followers project their relationships with the leader.

A relevant aspect in followership is transference, which can be defined as the glue that binds followers to their leaders. Under the transference scope, people might consider that situations and connections are more positive or more negative than they actually are. In positive transference, followers tend to see the leader as better, nicer, smarter, and more charismatic, creating a myth that bears no relation to the actual leader. Therefore, followers' motivations for following do not need to be based on reality in order to work (Maccoby, 2004).

The problems with negative leaders can be best understood through what has been called the Hitler problem (Ciulla, 2004), based on leadership that exploited its emotional appeal in a negative way, but that was able to convince large numbers of followers. When analyzing his leadership, the question of whether or not he was a good leader is difficult to answer.

Frequently, it is hard for followers to see the differences between authentic and pseudo-transformational leadership because while the intentions of such leaders differ, they tend to display similar behaviors. Followers are sometimes critical and are able to identify the negative traits and behaviors, and react accordingly; but other times, their resistance is not full-blown and results in decreased motivation, dedication, and satisfaction, and also in a negative view not just of the leaders, but also of co-workers and of the organization as a whole, eventually leading to distrust and loss of morale (Schyns & Schilling, 2013).

Followers tend to consider pseudo transformational leaders as their personal idols, but they fail to earn deep respect because they motivate followers through deception and false promises and fail to set goals or standards that the followers can identify and follow (Barling et al., 2008). They welcome and expect blind obedience, feeding on the ignorance of their followers so that they will accept more ambiguities and inconsistencies opening the opportunities for the self-enhancement of charlatans (Bass & Steidlemeir, 1999).

When pseudo transformational leaders lead, followers would try to resist their leadership and move away if they are able to recognize their false traits, or, they will jump into the leader's negative effects, creating fractions among followers. Those who realize that the leader is not authentic but cannot do anything will simply suffer

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in silence, their performance will diminish (Zenger & Folkman, 2016), and might end up leaving their jobs.

Followers must consent to, or try to resist, a destructive leader. This leadership style results in bad consequences for the group and certain followers are more susceptible than others. Padilla, Hogan & Kaiser (2014), have suggested that followers have a great responsibility since toxic systems are not only made up of destructive leaders but also by susceptible followers and conducive environments. The susceptible followers they refer to are people who are unable or unwilling to resist domineering and abusive leaders because they need safety, security, group membership, and predictability in an uncertain world. Some followers actually benefit from destructive activities and thus contribute to the toxic vision of the leader.

Compliance with the leader is developed based on three conditions: the perceived power-base of the leader, the followers' sources of motivations, and the followers' resistance levels (Barbuto, 2000). Compliance is greater when the influence triggered by the leader is aligned to the followers' motivation, and the resistance of the followers towards the influence is low.

Susceptible followers can be divided into two distinct groups: conformers and colluders (Padilla, Hogan & Kaiser, 2014; Higgins, 1994). Conformers comply with destructive leaders out of fear, they minimize the consequences of not going along, and their vulnerability is mostly based on unmet needs and psychological immaturity. They can be divided based on their level of participation in different categories, such as lost souls or isolates, bystanders, and participants. Colluders actively participate in the destructive leader's agenda seeking personal gain. They have selfish ambitions and share the destructive leader's world view. Participants are normally classified as opportunists and acolytes.

According to Riggio (2016), people tend to follow the wrong leaders for the wrong reasons, such as placing great value on results but often neglect to consider how those results were obtained. Followers support the leaders who will give them what they want, rather than what the organization needs. Bad followers are drawn to bad leaders because of the promise of sharing the power, and often they do not hold leaders accountable.

Followers fall into dominance, as they search for the leader with the highest push to control. They also tend to seek leaders as they search for protection, validation, and authority. In essence, it is a social validation process. The fact that people follow the wrong leader can be questioned, but psychology has demonstrated that people naturally tend to agree in inequitable relationships for multiple reasons. In social theory, this is the contract of the oppressor and the oppressed (Maccoby, 2004).

Robbins et al. (2005) have stated that organizational culture comprises the shared values, beliefs, or perceptions held by employees within an organization and that it reveals the values, beliefs, and behavioral norms that are used. Ethical leadership

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has been shown to be positively associated with transformational leadership and business culture.

Pseudo transformational leadership has divergent (Li, Mitchel, & Boyle, 2016) and adverse effects on subordinates, the organization and mission performance (Erickson, Shaw, Murray & Branch, 2015; Cote, 2017; Van Knippenberg & Van Knippenberg, 2005) resulting in complete turmoil (Hughes & Harris, 2017). It creates multiple potential liabilities, creating rivalries and an autocratic controlling style, opening the door for possible acts of sabotage in the organization, incivility, and even theft (Einarsen, Aasland & Skogstad, 2007); and, in general, it produces more negative attitudinal reactions (Berling et al., 2008).

The use of pseudo transformational leadership creates favoritism, victimization, special interest, racial superiority, and social Darwinism (Ola Falemara, 2010). It has also been documented that it can promote sexual harassment (Erickson, Shaw, Murray & Branch, 2015). Furthermore, effects can be catastrophic, threatening the welfare of followers (Northouse 2001), and even their health (Frank & Felte, 2011), creating added stress. Because pseudo transformational leaders preach about empowerment but actually continue to seek control, followers are manipulated (Bass & Steidlemeir, 1999).

The organizational climate becomes unethical, thus leading to employees following suit (Mayer, Aquino, Greenbaum & Kuezi, 2012) and endorsing bad moral values while causing rife with uncertainty, discontent, and demise (Spangenburg, 2012), demoralizing followers. “It became immoral as harmful information is deliberately concealed from associates, bribes are proffered, nepotism is a practice and authority is abused” (Ola Falemara, 2010, p.60). Information and resources are controlled, keeping followers in subservient positions (Judge, Le Pine & Rich, 2006).

Subordinate trust is destroyed, along with the possibility of team building (Cote, 2017) as well as long-term organizational learning and development (Hernández, 2012). Negative effects can be observed everywhere (Li, Mitchell & Boyler, 2010) as followers are manipulated unknowingly (Khoo & Burch, 2008) because they fear the consequences of their disobedience. This leads to a sense of job insecurity and an abusive environment that violates the legitimate interests of the group or the organization (Einarsen, Aasland & Skogstad, 2007).

The previous practices lead to what has been described as *organizational laundering* (Hughes and Harris 2017), or situations in which a pseudo transformational leader attempts to make immoral or power-wielding personal gains appear to be legitimate gains of the organization. Laundering activities include nepotistic or poor hiring activities; decisions lack data and are made too quickly; the tangible overrides the intangible; organizational changes lack connectivity to the mission; organizational communication is singular, and outgroups are created. Motivation

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does not come naturally and can be dismissed, weakening the most solid structures, and can be deadly for organizational culture (Spangenburg, 2012).

The pseudo-transformational leader leads followers down a path that is perceived as positive in the short term but results in negative outcomes in the long run. Subordinates and affiliates eventually lose confidence in the organization (Copeland, 2016).

SOLUTIONS AND RECOMMENDATIONS

One of the most relevant problems when addressing pseudo transformational leadership is the similarity it holds with the transformational leadership style, and also because of the different levels forms and degrees it can portray. In essence, pseudo transformational leadership can be seen as a constructive and positive style, but leaders can behave in ways in which they affect followers and also organizational effectiveness under the pretext of maintaining control.

A clear understanding of this type of unethical leadership style is required to avoid falling prey to their interest, especially because it is easy for followers to confuse arrogance and narcissism for strength. If followers fear the leader, they can end up in a subservient position, defendant on the approval of their leader, and fostering dependence. Different actions can be taken, such as assessing verbal and non-verbal communication and behavior. Individual traits can be easily distinguished; namely, self-advancement, caring more about himself/herself than in developing others, and in general, not caring about relationships. Decision-making style can also be distinguished as it is mostly pragmatic, and ethical standards in such decisions are frequently compromised. For these types of leaders, everything can be bought, including trust, loyalty, performance, and promotions. Since abusive leader behavior is associated with interpersonal deviances in teamwork, (Mawritz el al, 2012) followers, have the responsibility to make the case for change.

Perhaps the most relevant recommendation is “followers beware.” this is especially truth when faced with a charismatic leader, with a seductive personality. Organizations hold a great responsibility in ensuring that leaders behave ethically. To do so, they need to strengthen their governance systems and create a culture in which followers are encouraged to speak up if they notice unethical behavior or self interest in the part of the leader.

Followers need to understand that pseudo transformational actions, and decision making on the part of the leader do not happen occasionally. The behavior of the leader is systemic, and most of the times, premeditated. Therefore, followers should look for behavioral patterns that can help them decide whether the leader is whom he pretends to be.

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FUTURE RESEARCH DIRECTIONS

This chapter can be introductive of deeper research in the area of pseudo transformational leadership, a type of leadership that has been described as villainous, destructive, false, immoral, unethical, ineffective, narcissistic and toxic. Pseudo transformational leadership can emerge from all walks of life, including business, politics, and even society; therefore, it can be studied from a variety of perspectives. From a business standpoint, the effects of pseudo transformational leadership in terms of competitiveness, productivity, organizational culture, and climate are of interest.

There are few studies that analyze pseudo transformational or negative styles of leadership, creating a gap that needs to be bridged. In short, pseudo transformational leaders are 'deceptive, domineering, egotistical demagogues' (Bass and Steidlmeier, 1999: 189). They abuse charisma, individualized consideration, and intellectual stimulation, resulting in a decline of organizational effectiveness. The way in which pseudo-transformational leaders play tricks on their followers by using the technique of intellectual stimulation can create interesting future research directions.

Additional studies can be conducted on the essential traits portrayed by these types of leaders, as well as the similarities and differences with other types of leadership styles. Specific situations such as crisis present specific perspectives from which to analyze pseudo transformational leadership. In politics, especially in Latin America, this leadership, along with destructive leadership, have grown substantially; it would be interesting to analyze the motives behind this, mainly the reasons why followers fall prey to these opportunistic so-called leaders.

CONCLUSION

Although the notion of pseudo transformational leadership has been cited in multiple works, there is not a substantial body of literature to support it as a developed theory. Most of the publications are based on scattered references citing a few articles. Because followership theory is scarce, it is not clear why individuals would set aside their goals for those of a leader, especially one that is only pursuing his/her own interests nor the complete effects that its use will have in organizations. Nevertheless, the notion of pseudo transformational leadership has recently acquired relevance due to the unethical activities of business leaders and business scandals.

At this point, it could be considered mainly as a form of unethical and amoral leadership that can occur across different leadership styles in which leaders are guided by self-interest. Further studies are required to prove the existing model and taxonomies, along with clear distinctions from authentic transformational leadership, and from other leadership styles in order to avoid subjective considerations.

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Pseudo transformational leadership is a two-sided problem. On the one hand, are the leaders who are self-interested, driven by self-promotion and self-gain, and on the other hand, are the followers who decide to follow those leaders for a variety of reasons. Followers can do nothing, conform or collude, or they can act against leaders with incongruent behavior, unethical intentions, or who perform illegitimate actions. Followers can decide not to follow.

A caveat from this analysis comes from a statement by Maccoby (2004) in which he expressed that no leader will be able to completely control his followers' unconscious motivations. Followers need to underwrite unethical leaders; they play a vital role and have a moral duty.

This chapter has exposed managerial problems dealing with business ethics, and ethical and responsible managerial behavior, based on the behaviors of both leaders and followers. Pseudo transformational leadership theory can be used to warn professionals, specifically managers, of the risks and negative effects of this type of leader.

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KEY TERMS AND DEFINITIONS

Ethics: The moral principles that guide a person's actions.

Followers: A specific set of skills that complement leadership.

Immoral: that does not conform to accepted standards of morality.

Leadership: The art of motivating a group of people to act toward achieving a common goal.

Pseudo: Pretended and not real.

Transformational: The act or process of transforming.

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Chapter 3
Corporate Leadership and Corporate Culture in Start-Up Companies

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ABSTRACT

A vital point of success for many companies is to develop a leadership that matches the culture of the employees to generate a high level of performance on startups. Currently, it is important to note that the startups have a very distinctive culture and way of working. Most of the employees are young and ambitious persons, something that affects their mentality and way of work. The aim of this research is to further investigate this issue and to draw conclusions on how leadership can create a culture that will boost the performance of startups. From the existing literature it seems that there is not clear evidence as to which leadership style fits best with the culture of startups, though the millennial employees require a flexible and loose culture. For this reason, this chapter concludes with a proposal for future research.

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INTRODUCTION

The concept of startups is something new for the PR actioners but also for the academia. There is a growing number of publications and papers which help us to better understand the notion of startups and what are the factors which seem to affect their success. One of the key issues which will be examined is this chapter is the case of culture and how it is affected from leadership so to determine the successful development of startups. For this reason this chapter will investigate the relationship between culture and leadership and the effect of this relationship to the performance of startups. This is examined through an extended literature review, which means that it will investigate the current literature, with a focus on the latest papers, but also it will rely on the existing theories. The aim is to produce a number of guidelines for future research which will help the academia and practitioners to better understand the examined issues

BACKGROUND

The aim of this chapter is to investigate the relationship between leadership and how it interacts with corporate culture. Indeed, there is evidence that culture and leadership have a strong interaction. A special case is the one of the startup companies. Those are companies which are characterized from some special features such as high levels of non-typical communication, a family-culture, flexibility on the conditions of work and focus on results (Dhir, 2019). As a matter of fact the startup companies seem to have their own distinctive culture and leadership style, which needs further exploration (Men et al, 2018). From the above it is understood that there is a gap in the existing literature which needs to be filled in. Since the startups are something new, there is a need to refer on how this new business concept can match with the existing models of culture and leadership, as it is noticed on this chapter.

MAIN FOCUS OF THE CHAPTER

There are many different views in terms of whether culture affects leadership and how or vice versa. For some authors, like Patimah (2017) argue that it is the culture which shapes leadership, while other researches are indicating the fact that leadership is a key factor which shapes culture and performance (Frolova & Mahmood, 2019). Indeed, the case of culture and leadership is a concept which has being investigated from many and different perspectives and on different situations. For example Belias et al (2019) have investigated this relationship on the case of front desk employees

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of hotels, while Mathew et al (2016) have investigated it from the perspective of the employees working on the advertising industry. Surely, the existing literature focus mostly on well-established sectors. However, besides of the controversy whether culture affects leadership or vice versa and buy also on the fact that startups is a rather new concept and many of them are managed from millenias which seems to have their own culture and way of doing business (Struckell, 2019), which needs further investigation so to solve the problems and issues arising from the lack of research on this field.

Introduction to Startups

It is important to well define SMEs, since most of the startups are SMEs. By the term SME we mean small and medium-sized enterprises. The size of these businesses is not defined but varies from country to country and sector to sector. The most important criteria that distinguish SMEs from large companies are the number of employees in each business, turnover, area, etc, where on most of the cases startups have the same characteristics with SMEs (Rocha et al.,2019). However, even where SMEs are defined by the same criterion, scales may vary from country to country and from sector to sector. However, the criterion generally considered acceptable by the international business environment is the equation of management of a business with ownership. According to the OECD definition, a start up is defined as a company of small or either medium size, which on most of the cases it employees a limited number of employees. This number is not fixed but it may vary from one country to another. The most common definition has been given by the European Commission, (Deakins and Freel, 2007). According to the European Commission, small and medium size organizations are defined as the ones who employee less than two hundred and fifty employees but also they tend to produce a turnover of less than fifty million euros in annual base. More specifically, small and medium-sized enterprises can be managed as follows:

- Very small business: a company employing up to 9 employees and whose turnover or balance sheet does not exceed two million euro
- Small business: a company that employs up to 49 employees and has a turnover or balance sheet of up to EUR 10 million
- Medium-sized enterprise: a company that employs up to 249 employees and has a turnover of up to EUR 50 million or a balance sheet of up to EUR 43 million (Infelise & Valiante, 2013)

On 1/1/2005, the European Commission adopted a new definition for SMEs. According to him, a business belongs to the category of SMEs if it employs less than

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250 employees. This is considered the boundary that separates small and medium-sized enterprises from large enterprises. The level of turnover or balance sheet also plays an important role. Specifically, for an enterprise to be considered as an SME, its annual turnover should not exceed EUR 50 million or alternatively the total annual balance sheet should not exceed EUR 43 million. Small is defined as a company with less than 50 employees and annual turnover or balance sheet amounting to EUR 10 million. The category of micro-enterprises includes those with a workforce of less than 10 employees and the turnover or balance sheet does not exceed EUR 2 million. It should also be noted that the category of SMEs cannot be included in the subsidiaries of large enterprises as SMEs must maintain an independence status. The threshold for participation of a large business is 25%. This is the rate at which the European Commission defines whether or not a business is considered independent. In today's economic reality characterized by globalization and high competition, small and medium-sized enterprises operating in Europe are struggling to cope with this environment in order to survive and thrive. Businesses, however, seem to be unable to adapt to the modern business environment especially with regard to companies in other countries such as Japan, USA. and Canada. However, the new structural policies and the new conditions for development created by the EU. help establish a stability that contributes to a smoother adaptation of SMEs to international business. This contributes to both EU economic growth. as well as the individual Member States which has a positive impact on other sectors of the economy, such as production, employment and social cohesion. For this reason, the European Commission has focused on supporting SMEs in their efforts to upgrade them, which would make them more competitive than their counterparts in other developed countries (Infelise & Valiante, 2013).

The term startup has become very popular in recent years in the business sector. Typical examples of business startups are Facebook and Uber. When trying to define a new business, there are two main ways to approach it: the first approach to defined them is on the concept of a newly based company or the second approach is terms of a business which produces something new and innovative. On most of the cases a startup company is made from those two elements; being a new company and having something fresh to present. (Richter et al., 2019. The following are some terms associated with startup companies:

- Affiliated space: On most of the cases the startups are found and operating from small facilities, on some cases it can be the house of owner.
- **Accelerators:** A structured timetable over a set period of time aimed at rapidly developing a startup often with stock and investment swaps.

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- **Flexibility:** A key element of a startup company is its ability to operated in a very flexible manner, including the way of working and its structure where on most of the cases startup companies are flat-structured companies.
- **Investment Angels:** A person (or group of people) who is willing to invest into such ventures. Often those are risk-takers willing to take such high risks
- **Bootstrap:** A startup company starts often from the scratch, often with limited or no resources at all. For this reason many founders of startups are funding those projects form their own resources or they are asking the family and friends to invest.
- **Crowdfunding:** This constitutes an alternative way of attracting funds from the wider public. One most of the cases a company expects to attract small funds from many
- **Disorder:** A startup often tries to operate by developing something new and unique, often making dramatic changes on the markets despite of their small size
- **Exit Strategy:** It is not a surprise that many startup owners have a short-term strategic focus. On many cases the founder will seek an exit-strategy as soon as the startup starts to generate income or when they realise that the venture is about to fail. On both cases the founders will have to shape an exit strategy.
- **Incubators:** Those are projects and programs which aim into creating clusters and communities of startups so to help them with their early stages but also to provide them with useful resources for their early stages
- IPO: Many startups, like Facebook, have managed to boost their operations by becoming public. This allows outsiders to invest to the company by purchasing stocks
- **M&A, Which Stands for mergers And Acquisitions:** This occurs when a company is about to be acquired from another company or to merge its resources and ownership with another company.
- Unicorns: for startups, this generally refers to technology companies worth 1 billion. dollars or more (Cook, 2019)
- **Venture Capital:** This occurs when a startup is approached from a large companyor fund which seeks to invest and cooperate with the startup. On this case a startup is expected to grant its know-how or innovation in exchange of resources which does not own and they can be found from another company, so to develop a new company. (Jackson et al., 2019).

A startup is not a mature company but rather it is a company which is found on the very early stages of its development. It is very common to have startup companies which are generated from small capitals owned from their founders who believe that

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they have an idea which can be attractive for the market. Nonetheless, due of their low capital and resources only few of them will manage to survive on the long run

(Investopedia, 2019). Companies of this kind have become popular in recent years and rely on research and development in most markets. This term became popular when companies of this kind began to appear online. In recent years, however, the term start-ups has been inextricably linked to companies that focus on new technologies and have prospects for rapid growth (Still et al, 2017).

An important element in setting up a business is conducting research to study, evaluate and develop ideas that the entrepreneur intends to implement through business creation. This survey will help aspiring entrepreneurs understand market needs as well as assess potential risks. If the startup company is based on technology, then it has to patent its products. According to the Economist, up to 75% of public companies resort to copyright protection while in the 1980s that figure was 40%. In fact, when it comes to start-ups this percentage can reach up to 100%. Start-ups, especially those associated with state-of-the-art technologies, are able to deliver very high returns if they succeed and as with all businesses of this type and at fairly high levels of risk (Tech, 2018).

Regarding the legal status of these businesses, the newly found start-ups would have to seek a business model and legal framework which will match with their vision and needs. On many cases startups are either venture capitals or partnerships. On the first case those are companies which are the outcome of the synergies of different persons or companies which are contributing into the funding of the new company with limited liability so not to take such as risk. The latter is about setting up a start up with is owned from many people and it is easy to launch it, in terms of the legal issues that it may face and of bureaucracy. If we look on successful startups, such as Amazon and eBay we will notice that they started as small partnerships and throughout time they changed into large conglomerates. However, a start up needs to have a very simple structure on its early stages with limited liability for its partners (Tech, 2018).

Of course, a startup requires time and investment. The founders would have to search the markets, find the necessary gaps but also to search for networks and allies which can promote the business on its early stages. Also, a startup will have to find the working space and offices where it will start its operations, especially if physical presence is necessary(Investopedia, 2019). Big companies often flood the flow and introduce changes with time lag, which allows them to keep a distance as a major player but often consumer interests come from startups. Speaking of world-renowned startups, we can mention Google, Apple, PayPal, Ryanair and others. One startup is the accumulation of resources, the introduction of innovations, their growth and market promotion. Many scientists define the process and the stages from which ideas come to market in different ways. The startup can operate within the company (large

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companies create units working to develop a new product, dependent or independent of the company) and externally as an independent business concept. Young business researchers often rely on the independence of such projects. An important point after the idea is introduced and approved is its analysis, which determines the product's life cycle and viability. Ideas that come from consumer needs will be easier to sell than similar to existing programs. Accumulating resources in a startup is the most important aspect of its successful implementation. It combines intellectual and financial investment. Spiritual investments concern a group working in design. Economics are the ways to ensure the promotion of goods. The effectiveness of the project is ensured by timely and rational attraction and direction of investment at every stage of the startup's life (Still et al, 2017).

The startup is a temporary, innovative stimulus to the state's economy, which accumulates intellectual and financial resources that turn into a stable business (Kolosok and Koniukh, 2017). Although the initial development phase of startups has not been widely studied, there is a number of studies which examines the startups in general. A detailed literature review would be useful so to help the academia and practitioners to better understand how startups behave on their very early stages but also what are the factors which will determine the success of failure of a startup company, while it is also to look up into the stories of successful startups so to see what has made them to be so successfull (Salamzadeh and Kawamorita Kesim, 2015).

Indeed, for years many authors and practitioners have examined startups from the dimension of large businesses. Instead, startups need to be examined as a special business entity which is totally different from large conglomerates. This is includes their culture and their leadership style. This means that anyone who is involved with research in small businesses, he or she needs to understand that startups are something different from all other types of businesses (General Assembly, 2014). Therefore, there is a need to look up on what are the principles behind a startup: Those are the following

The basic principles of startups are:

- **Fast-Paced:** Compared to other companies, the decisions on startup ups are occurring very fasts, along with the necessary changes
- **Founders of the Startup:** Startups are often characterized from the persons who have found them. On many cases the personality and the image of a startup is associated with its founder. Usually 1-3 people are the ones who play an important role in the operations of the business. The founders have an idea that they want to act to bring about market change and are committed to delivering it, often because of a personal connection.
- **Financing:** Startups on their very stages are self-financed or if they are lucky they may receive the financial support from a fund or angel fund. What

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sets them apart from other sources of funding is that there is often more partnership between investors and founders. This is especially possible with investment angels who may also offer some guidance or advice to a startup.

- **Global Perspective:** What it helps to understand the differences which exist between a startup and a small or medium business is that the startup has an idea that can be applied and marketed worldwide. Instead, a small business is associated with a specific location or market. That is why many startups are technology companies with products or services that only require an internet connection.
- **Growth:** Even though they are small businesses in terms of size and resources, startups tend to grow very fast
- **Limitations:** Whether it be resources, size, time, this kind of organizations are lean companies
- **New:** Startups are always new businesses which operate for few months or even years.
- **Troubleshooting:** Many startups are here so to find solutions on problems that other companies can not find such solutions.
- **Group Culture:** Startups often tend to develop a collective culture which is open on innovation and new ideas.
- **Uncertainty:** Startups are companies that operate in markets which high risks, such as the new technologies, and they are taking many risks. For this reason startups have a high level of failure. Sedláček & Sterk, 2017; Matsunaga, 2019)

From the above it is understood that startups are companies where change has to play a crucial role on their development and on whether they will be able to succeed or not. Therefore, it is difficult to define the exact characteristics that determine a startup business, except to note that the change and diversity capability are on the core of such companies. Traits such as energy, enthusiasm and sense of accomplishment of the goals characterizes all startups, but also the sense of uncertainty (Dhir, 2019).

Stages on the Development of Startups

A strong element of startups is their culture. On many cases startups are made from a dynamic culture which is open on changes and on fresh ideas and willing to take risks. That does not make a surprise that such cultures are found not only on the early stages of the startups but also they continue to dominate them when they grew up and they become a conglomerate. Of course, it is essential to note that those companies are diverse and complex in nature, and have a specific life cycle. Based on current data, start-up life cycle research has been well developed, especially

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during the past 10 years. The key features of start-ups should be summarized in the life-cycle stages of these businesses, which can be described as follows (Salamzadeh and Kawamorita Kesim, 2015):

Starting Stage

This is at the very early stage of a startup where the company is found and it tries to create a dynamic start by imposing a culture which motivates the owners and the personnel to be aggressive and to focus on their short-term targets. Also a crucial issue on this stage is to find the necessary funding so to continue tis operations and growth. On most of the cases investment angels are most likely to take the necessary risk and to invest on such companies. According to Harisson et al (2004) most of the academics have borrowed theories and models used on the entrepreneurial studies.

Seeding Stage

After the start-up stage, the founders will move ahead with the sowing stage. At this stage some of they key characteristics found on startups are the development of new and fresh ideas, innovation, teamworking and starting knowing better the potentials of this company. On this stage the founders will seek to identify some support mechanisms, such as business centers and incubators which will help them to boost their operations. However, it is essential to know that this is a stage where many startups tend to fail. The ones who will continue will know that the end of this stage their potentials

Creation Stage

This is the stage where the startup has started to mature and it is able to start selling its products, while it is able to make the first small investments which may include the recruit of new employees. This is the point where scholars believe that the entrepreneurship stage has finished and start ups should be examined with the wider managerial theories. Also as the startup is about to start growing, this is the point where for some cases it is not longer deemed as a startup but rather as a company. At the need of this stage the startup will seek more investor including joint venture or even going public (Salamzadeh and Kawamorita Kesim, 2015).

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THE RELATIONSHIP OF LEADERSHIP TO CULTURE ON STARTUPS

Organizational Culture

Identifying Organizational Culture

Schein (1990) argues that organizational culture is defined as "(a) a pattern of basic assumptions, (b) that has been invented, discovered, or developed by a particular group, (c) as this group learns to addresses the problems of its external adaptation and its internal cohesion, (d) which cases have been confirmed to such an extent that they are now considered valid and, therefore, (e) to be taught to new members, as (f) the right way to perceive, think and feel about these problems"(p. 111).

A plethora of researchers and scholars have dealt with the subject of social culture - and culture has been explored from a variety of theoretical and practical perspectives. Some classic perspectives of culture are social, anthropological, psychological, sociological and organizational. For Denison (1990) the elements of culture are the behaviors and ideals of the individual that can be learned and forgotten. Culture can be seen as a learned behavior that the individual adopts from the environment and is not inherently created (Hofstede, 1991). It is also a collective phenomenon, as individuals who form a group share ideas or beliefs that reinforce each other. their links, such as national consciousness and religious beliefs (Hofstede, 1991). Another approach is one that perceives culture as a vehicle of self-improvement and spiritual evolution (Williams, 1981).

In an organizational context, culture is a coherent set of values and practices that the individual must adopt and promote but also improve in order for the company to function effectively and achieve its goals, overcoming difficulties (Schein, 2012).

According to Mantas et al. (2016) culture is an object that both the employee and the partner need to become familiar with, and companies provide motivation through penalties and rewards. The way employees are treated as social beings determines the degree to which they are accepted by the culture of the organization (Furnham and Gunter, 1993). Organizational culture therefore plays an important role in a business and it is important to clearly identify its nature and characteristics, consider the possible existence of subcultures. At the same time, it is important to note that culture changes over time rather than immediately (Laitinen and Senoo, 2019).

Organizational culture also includes traits related to leadership, process, and memory (Schein, 1992; Cameron and Quinn, 1999; Rossidis, Belias and Aspridis 2019). Deal and Kennedy (2000) argue that culture is learned through experience and their assimilation by the individual and not genetically determined. The same researchers identify the characteristics of organizational culture as values (common

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perceptions and perspectives on business), heroes (who identify with the image of the business and promote organizational culture as role models), and customs and practices. functions (Deal and Kennedy, 2000). In on one of the early works on culture, it was Jacques (1952) who claimed rthat culture is also a function of learning, while Harrison (1972) argues that culture is embedded in human ideals. At the same time, the organizational culture increases the consistency of the team. Other perspectives on organizational culture take into account many elements at the same time, such as human resources, training and learning, salaries, ideals, traditional ideas and the role of the individual in the business. Further elements include regulations, business history, organizational structures, and routines.

Organizational Culture and Dimensions

Hofstede (1991) is considered as an influential scholar on the field of culture, based on surveys that he conducted with employees of the company of computers IBM in 40 different countries. Taking into account his study of national culture, he defined the dimensions of organizational culture as follows.

The distance from power (power distance) associated with injustice phenomena within the company and aims to examine the extent to which employees have access to the decision, but if you have the freedom to express a different opinion and to criticize business management.

Avoiding uncertainty (uncertainty avoidance) analyzes the extent to which the company and its employees willing to take risks. Moreover, masculinity / femininity (masculinity / femininity) time on whether an enterprise adopts the “female” skills, like empathy and emotional intelligence, or if you choose a more impersonal and kerdokentriki ‘masculine’ perspective. Finally, individualism / collectivism refers to the separation, or balance, between the self-interest and the focus on the common good (Hofstede, 1991).

The Levels and Types of Organizational Culture

As far as organizational culture levels are concerned, these include the technical elements, values and beliefs of the employees as well as the common frame of reference (Schein, 1995). Technical elements include business processes and organization, administrative style and communication. Employee values and beliefs relate to business management and strategy. The common frame of reference is about ideas and experiences in the subconscious and affecting work behavior.

Types of organizational culture have been described by Handy (1986). More precisely, according to Hany (1986) first, authoritarian culture is associated with increased authoritarianism and centralization. In such cases, the administration

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takes complete control of the decisions and the decisions are final. This type of organizational culture is found in large international companies and in companies with strong leadership.

Second, the culture of the role relates to businesses that have high bureaucracy, respect for the types and a strong emphasis on hierarchy. The organizational structure of such businesses is often pyramid shaped and emphasizes the enforcement of regulations and the fulfillment of the prescribed tasks in the job. Any deviation from the set of discrete tasks should definitely be avoided. Third, there is the task / project culture that focuses on the effective implementation of the organizational plan and business strategy. In these cases, the personal performance of the employees has a significant contribution on the helping the company to achieve its goals and does not standardize work activities but instead frees them up, taking into account teamwork, training and workforce development. Fourth is the supportive culture of the individual, which focuses on the person and his or her cultivation as well as the cultivation of an organizational climate that makes the working person feel comfortable and friendly as well as being an important part of the business. When it comes to competitive advantage, success depends on the skills and know-how of all employees and less on logistical infrastructure. It is, therefore, in the interest of both a business and the employee to cultivate a corresponding climate of comfort and knowledge sharing (Mantas, 2016).

It must be understood that culture affects leadership and the way that businesses are operating and this differs from one country to another. For example, Mantas (2016) has examined the case of Greece. More precisely, according to Mantas (2016) in Greece, many companies tend to adopt a more authoritarian and bureaucratic administrative approach with emphasis on the culture of power and the culture of roles. In our time, in addition, culture has helped the business to gain a competitive advantage. By employing a culture that promotes goal commitment and free feedback with knowledge and information, collaboration, adaptability to change and the use of a system control methodology, organizational culture plays a critical role in success. Organizational culture should be able to keep pace with the goals of the business and to nurture the business with value. In this sense, there should be adequate planning and implementation to avoid the use of conflicting strategies, which may lead to conflicts, such as providing work autonomy to a system characterized by high bureaucracy. In particular, organizational culture should be consistent with the needs and organizational structure of the organization (Mantas, 2016).

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Competitive Values Model (Cameron and Quinn, 1999)

While Hofstede's (1991) dominant model is largely linked to national culture, Cameron and Quinn's, model, also well known as the Competing Values Framework, 1999) recommends the existence of four basic types of organizational culture.

The clan culture resembles the family structure and emulation of its members and is based on the research Pascale (1989) in Japan decades enterprises 1960 and 1970. This research found a differentiation between the culture market hierarchy and culture. The consistency of the group and participatory in decisions are features of this approach. In this culture is also the dedication to the goals of the organization and their implementation. The " generation culture " comes from some Japanese companies that have embraced this approach in order to improve their responsiveness to environmental challenges and changes. Through shared benchmarks, team members take action and make timely and crucial decisions. In this way, the company acquires the character of a wider family network with high commitment and empowerment, in the context of a positive working climate. The open system culture (adhocracy culture) associated with the innovativeness, taking personal initiatives and the continuous development of new and existing services and products. Entrepreneurship, energy and creativity characterize this culture. The open system culture is innovative and adaptable to the conditions, but it faces a lack of stability and certainty and is a recipient of enormous volumes of information. Such organizational cultures are particularly encountered in IT companies and on startups

In the hierarchy culture (hierarchy culture) includes the concept of bureaucratic organization. Deal and Kennedy (2000) said the six traits of bureaucratic business organization of Weber, which is the formal hierarchical structure, managed through regulations, organization through the functional specialization, focus on shareholders or the company itself, treat all employees and customers as equals, as well as work based on technical parchment. This culture flourished during the 1960s and 1970s and was then widely regarded as the most appropriate model for entrepreneurship. There was a standardization of the rules that had to be followed and the actions that employees had to take without question. This culture is sometimes found in government agencies and institutions but also in large private companies, and is more suited to relatively stable economic environments with clear regulations.

The market culture (market culture) was created during the 1960s and focuses on actions that act in favor of the effectiveness of the business. Market culture is not about economics and marketing but about the way the business simulates the market - it focuses on managing transactions with customers and external partners such as suppliers. In practice it is an open culture that differs from the culture of hierarchy precisely in that the former does not lay down strict and unambiguous rules that prevent open feedback to the environment.

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Through the culture of the market, the pursuit of efficiency and efficiency is promoted, and at the same time it relates to production and competition. Market culture is employed to improve the competitiveness of a business.

Culture and Leadership

Leadership plays a significant role in every aspect of the development of the management strategy. The interaction of leadership with culture has been pointed out by Furnham and Gunter (1993) who state that it is up to the leadership to visualize the appropriate conditions under which a culture that promotes the sharing of knowledge and information is created .The study made Mantas et al. (2008) in Greece found that many companies are choosing a centralized management system that hinders the dissemination of knowledge as well as the innovativeness - the force exerted exclusively by senior management and prevent the formation of a culture that promotes the communication (Mantas et al., 2008).

According to Schein (1992) the success of a hierarchical model depends on the ability of leadership to harness the need for organizational culture in order to bring about change. Therefore, there is a connection between leadership and shaping organizational culture.

Acquiring Organizational Culture

As reported by Gomez - Meija et al. (2008), along with theoretical principles, management has recently turned to practical issues such as organizational culture, new product development, and interpersonal relationships between employees and their supervisors. Alongside the management or business management draws study of the object of using research in sociology, in psychology and other sciences (Gomez - Meija et al., 2008).

Organizational culture is about the process of defining the processes and the boundaries under which staff perform their tasks (Trivellas and Dargenidou, 2009). The best modern approach to the workforce is to deal with it not in a mechanistic productive way promoted by classical approaches such as Television, but in the real social dimension of every human being empowering the individual to feel and become an active participant in business and its culture. In general and beyond being related to the values, beliefs and perceptions of social groups, it cannot be easily defined. This is a general term that is not suitable for identifying clear factors and screening. In several cases, such as the point Gomez - Meija et al. (2008), organizational culture is likely to conflict with personal and national culture with unfavorable implications for the company.

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Such a case could occur, inter alia, in multinational companies that, while characterized by a culture of equality and acceptance, however, conflict with a personal or national culture that assesses differently the importance of gender equality and the acceptance of diversity. Such disturbances pose risks to the enterprise as a whole (Gomez - Meija et al., 2008).

As Howell et al (2007) argue, employees can adopt the organizational culture through the necessary training, while at the same time the operation of the company should be not rigid and should be able to take into account the beliefs of the employees. In order to deal with any problems of everyday life and wider risks to the business, information and know-how should be communicated immediately, openly and spontaneously, so as to prevent such problems in the future. In the case of a culture s distance from power, where workers are no longer actively participate in the information feedback, the result is often a loss possibly critical information (Howell, et al, 2007).

Leadership and Culture – A General Framework for Startups

Leadership plays a significant role in every aspect of the development of the management strategy. The interaction of leadership with culture has been pointed out by Lim (1995) who states that it is up to the leadership to visualize the appropriate conditions under which a culture that promotes the sharing of knowledge and information is created. Overall, Lim (1995) argues that the style of leadership surely affects culture and its shapes the culture with an overall impact on the performance. It is important to remark the fact the leadership and the culture must be in alignment. For example, a company which has an autocratic leadership style can not shape a family culture or the leadership style will not be implemented in such as culture. Hence, when the leadership does not fit with the culture, then the impact is negative for the performance of the company.

An important study has been devised from Mantas (2016) in Greece found that many companies are choosing a centralized management system that hinders the dissemination of knowledge as well as the innovativeness - the force exerted exclusively by senior management and prevent the formation of a culture that promotes the communication. In this study the author has claimed that during a crisis, corporate management tends to adopt an autocratic leadership style with emphasis on strict control of the finance and of other elements of corporate management. However, on how this will affect the culture, Mantas (2016) has claimed that an important element is national culture. Hence, organizational culture is not shaped only from leadership, but also it is affected from national culture. The research which was produced from Mantas (2016) included some high-tech startups in Greece. The outcome of this research indicated that startups culture often differentiates from the

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overall corporate culture which on other sectors. Despite of the fact that Greece has a national culture that does not foster changes and does to allow the creation and flow of knowledge which is an obstacle for companies that need to cope with a crisis.

According to Schein (1991) the success of a hierarchical model of culture, which is a model that focus in a very strict culture with limited autonomy for the employees, its success to achieve high performance depends on the ability of leadership to harness the need for organizational culture to affect the change process. Therefore, there is a connection between leadership and shaping organizational culture which has an immediate effect on the performance of the company, especially during times of changes.

According to Tavis (2018) contemporary management has recently turned to practical issues such as organizational culture, new product development, and interpersonal relationships between employees and their supervisors on highly competitive markets such as the startups. Alongside the management or business management draws study of the object of using research in sociology, in psychology and other sciences so to understand how the employees are coping on such demanding workplaces. According to Tavis (2018) the complexity of the workplace on startups demands a leadership approach which will firstly understand the needs of the employees and then it will try to shape the culture. However, on most of the cases, the startups are made from well qualified employees who is not easy to shape their culture. This means that despite of the complexity of the workplace today, adapting an autocratic leadership on startups will not bring positive effects. Instead, there is a need to adopt transactional and democratic leadership styles so to produce a positive outcome.

SOLUTIONS AND RECOMMENDATIONS ON HOW TO BETTER UNDERSTAND CULTURE AND LEADERSHIP ON STARTUPS

Organizational culture is about the process of defining the processes and the limits under which staff perform their tasks (dhir, 2019). This means that the best approach to motivate the workforce is to deal with it not in a mechanistic productive way promoted by classical approaches of leadership and management, but in the real social dimension of each person empowering the individual to feel and become an active participant in the business and its culture. Especially when it is about startups, the organizational culture is likely to conflict with personal and national culture with unfavorable implications for the company.

Another issue has been mentioned from Costa (2018) which is the fact that the startups have low level of engagement and a culture of “making profit fast”. Indeed, their corporate values tend to differ from what we know from other companies. Indeed,

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as it is indicated from Zarch and Baldegger (2017) and from Yang et al (2019) the way that starts up operate is totally different from what we know from the rest of the companies. Most of the employees on startups are young and enthusiastic highly skilled employees who are driven from the need to have immediate success. They need to operate in a culture which does not have many rules and it focuses only on results. Also they seem not to comply with a strict leadership which sets limits and restrictions. However, this is a new generation of employees, many of them are millennials, and this brings the necessity to focus on them with more research and papers, so to better understand them.

FUTURE RESEARCH DIRECTIONS

The case of culture and leadership on startups is not clear and there is a lack of empirical research, hence the is a space for future research Hence, This a future research must not only investigate the current trends, as they are described on the current literature, but it will move forward with a quantitative or/and a qualitative research which will indicate which leadership style fits best with startups, but also which type of culture can fit into this culture. Still, it is essential to refer on the fact that the field of startups is widely unexplored, especially when it comes on startups which are managed from millenias who require a further understanding on how they are managing their ventures and what leadership style and culture they require so to make a startup to become successful.

CONCLUSION

This chapter has provided a thorough literature review of the relationship which exists between culture and leadership on startups. From the existing literature it is understood that there is a need to better understand the nature of startups. Most of them are small companies where their workforce is made from young and ambitious employees who seem to differ from the average employee on other companies. This brings the need for more research so to better understand what kind of leadership is necessary so to create a culture which will foster high performance on startup companies.

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Chapter 4
Best-Practise Mentor Programmes

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ABSTRACT

The chapter focuses on features of mentor programs and emphasizes their growing importance. It aims to bring clarity to the concept of mentoring and offers clear guidelines on how to set them up and make them best practices. It starts by looking at the different roles and definitions of mentors, sponsors, coaches, and line-managers and how they work together to enable employees to develop their potential in a workplace environment. A short overview of the change in human resource strategies over the last two decades shows the history and motivations as to why mentor programs have become not just an accepted people development tool but are also increasingly recognized as a reliable tool for influencing and changing organizational culture. Finally, key drivers of good mentor programs will be reviewed and an assessment of the benefits to the individual and organization provided. Trends in mentor programs will also be touched upon. References in this chapter are based on work with clients in industry and research conducted at Richmond, The American University in London.

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DEFINITION OF TERMINOLOGY

A mentor is traditionally a senior manager or leader in an organization who, through experience and knowledge of an organization, is able to 'support' more junior employees. This support can take many forms; for example it might be advising on promotion opportunities, how to handle difficult relationships or how to approach problems – all within the scope of the mentor relationship because the more senior leader speaks from experience.

The term sponsor is sometimes used interchangeably with mentor. However technically speaking, a sponsor has more accountability for the support and career development that they offer their sponsoree (Paddison 2013). A sponsor might be measured on the success of their sponsoree through their performance management process whereas a mentor relationship is usually of more direct benefit to the mentee and of more intangible benefit to the mentor (Catalyst 2016). The mentor might be recognized publically for their role model behavior and impact in the development of others, although there may not be formal performance management recognition.

The line manager is the person who has direct responsibility for defining objectives, allocating tasks and reviewing performance against defined criteria in the performance management system. An experienced line manager will have 'coaching conversations' with individual team members, ask open questions and listen actively to enable team members to explore their own strengths and development needs.

Some leaders, managers and employees may employ the services of an internal or external executive coach – an independent professional who through various coaching techniques enables the coachee to deepen self-awareness and change behaviors. The focus of coaching sessions is usually to improve the coachees soft skills such as his/her leadership impact, team effectiveness and competence and confidence in bigger roles or demanding situations.

In a work environment, it is possible, and often also advisable, to have a line manager, a coach, a mentor and a sponsor. The line manager will give objectives and deliver the appraisal, the coach will support the employee to enhance behavioral skills, the employee may be assigned a sponsor to be supported through a readiness for promotion process, and a mentor may offer advice and support about current jobs, challenges and long-term career options. Used wisely, these different resources can accelerate the individual's performance and career opportunities significantly.

In this chapter, the terms 'mentor', 'mentorship program' and 'mentee' are used. However, it is acknowledged that in literature some aspects of sponsoring are included and the terms are sometimes used interchangeably. More recently, some organizations have enriched the mentor role with some features of sponsoring and mentors are held directly responsible for the career progression of their mentees.

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APPROACH AND METHODOLOGY

Since this is an exploratory study of participants' lived experiences of mentoring, a qualitative approach was deemed most suitable.

The data collected was not originally intended for research purposes but exists independently of the researchers interest in the topic and setting. It's an analysis of coaching and supervision notes and post-programme evaluation interviews with HR professionals, mentees and mentors, described as heterogenous data by Bell (Bell et al. 2015). The selection was taken from the most memorable and transformative narratives shared between the coaches who worked on the projects. The data was collected between 2013 and 2017 across 2 global professional services organisations with 5 international coaches of 4 different nationalities. Over 150 individuals were involved in the mentoring / interviewing process. To ensure confidentiality of the participants, the company name and individual participant names are not referred to.

Whilst striving for objectivity and truthfulness it is recognised that subconscious selection might have taken place at two levels: the first level when the notes were written by coach/supervisor and the second when the notes were selected by the researchers for this paper. It has to be achknowledged that the researchers perspective is an element of the analysis, there is no single reality but knowledge is seen as provisional and context dependent. Therefore, the results are cocreated by researcher and coach/supervisor and are social constructionist in nature (Charmaz 2007) and are provisional and context dependent.

In summary, the paper is written in a narrative style and uses a selection of the personal anecdotes collected between 2013 and 2017 to illustrate key messages.

HISTORY AND CURRENT STATUS

Influence of HR in the Evolution of Mentor Programs

Traditionally, Human Resources (HR) departments were responsible for the hiring and training/development of employees. Before widespread access to computers, most of the training was conducted face to face, supplemented by on-the-job experience. However, over the last couple of decades there has been a shift, both in terms of the definition of skills to develop as well as the method of delivery.

For the so-called 'soft-skill' training which focuses on behavioral skills such as communication skills, handling conflict, team and leadership competencies, it has been common practice for companies to outsource most of their people development initiatives to external providers. These trainers and coaches were hired to run off-the-

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shelf training programs or deliver tailor-made packages to develop the company's workforce. This strategy has several advantages:

- Senior managers can define the objectives that an organization needs to implement the strategy. These objectives are cascaded down the organization and HR departments can use them as a guide to define the specific skills and competencies needed and in turn specify the requirements of external training providers.
- With the development of broader measurement tools, such as the balanced scorecard (Kaplan 1996), HR started focusing more on measuring progress and achievement of objectives. The aim of these tools is to bring more transparency into the performance management of individuals, as well as to measure the success of their development initiatives to prove a return on investment.
- With this specific feedback, the objectives and content of training courses and development interventions can be evaluated and modified to improve the quality of the delivered programs or can be changed to keep the content current with the strategy and objectives of the day.

Almost naively, this process was seen as best-practice for HR departments and was thought of as an ideal way of developing talent in a structured, clear and measurable way.

However, over the last decade, there has been recognition that developing a well-trained, resilient and value-driven workforce is not as straight-forward as the HR profession had hoped. One unintended consequence of the almost complete outsourcing of 'people development' to external professionals was that senior leaders withdrew from the responsibility of developing their junior staff and became less involved in the day-to day questions and concerns of their teams.

This realization, as well as the growing awareness of the importance of honest, transparent and timely communication between the different levels of the organization, influenced HR strategy significantly. Also, the growing budget limitation (which was accelerated by the financial crisis) forced HR departments to reconsider their spending priorities and available resources.

Building Coaching /Mentoring Capability Internally

As a first step, senior managers were encouraged to act more as coaches for their team. Coaching skills-based training was offered, and senior managers learned active listening skills and the art of providing helpful and timely feedback. As a

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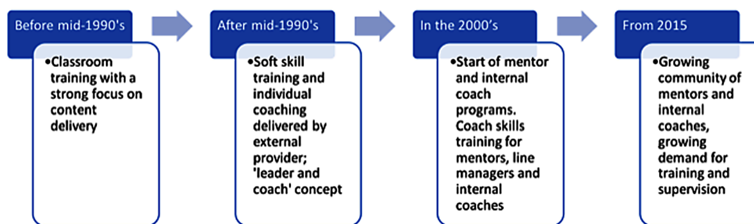
consequence, line managers were more involved in the development of their teams, with tailored approaches depending on individual needs.

With the growing expectation that a leader had to act as a coach (Peterson 1996), critical voices increasingly emphasized that the line manager can't assume the role of coach/mentor at the same time as being responsible for independently assessing the performance of the individual. This potential conflict of interest would compromise the honesty and quality of the coaching dialogue.

This recognition supported the concept of a mentor complementing the role of the line manager and HR experts realized the potential of implementing mentoring in a structured way to make it accessible for all young talented employees.

Figure 1. HR trends over the last decade



Graphic 1 gives an overview of the above described change in HR strategy and involvement in employee development. It summarizes the move from content driven training to a rising focus on the delivery of behavior skills training. It also shows the growing trend of the last decade to train internal resources to cover the different roles of line manager, mentor and internal coach to support employees throughout their career. Finally, it shows that by internalizing training and coaching, HR needs to invest in more sophisticated mentor training and quality assurance – known as supervision in the profession - to ensure the right capability of their internal resources to make this transition sustainable.

KEY FEATURES OF SUCCESSFUL MENTOR PROGRAMS

Many publications emphasize the importance of mentoring claiming that mentoring is 'necessary but insufficient for advancement' (Carter 2010) as well as that the mentor-mentee relationship is the 'relationship you need to get right' (Hewlett et al. 2011). Most practitioners would also agree with Clark (2017) that a 'career needs many mentors, not just one' and that mentoring is key to a successful career. Based on this unanimous consent it is surprising that little has been written about the key

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drivers of a successful mentor program and what needs to be considered when designing one. Starting with the assumption that the objectives of mentor programs need to be aligned with the organizations vision, key features of mentor programs from basic to best practice will be given.

Formalizing Mentoring

At its most basic level, mentoring needs just two people – a mentor and a mentee. This relationship can function in an informal way and can be very effective. The mentor and mentee agree how regularly they want to interact, and cover themes such as the sharing of experience, offering of ideas and advice from the mentor to the mentee. This kind of informal mentor relationship has often existed in organizations, even though it may not have been officially referred to as 'mentoring' and did not have the formality of a program. Building up a mentor relationship in this informal way, especially across hierarchies, tends to be easier to establish in small organizations.

In larger organizations where the number of people may inhibit easy and non-hierarchical communication, an HR team is usually needed to introduce the concept of mentoring. Traditionally HR would encourage junior employees to find a mentor or for senior leaders to find the right junior employee to initiate the relationship. Senior leaders are encouraged to make themselves available for their mentees, however, success usually depends on the initiative of the talented individuals to seek out the right mentor. To support this introduction, some companies might also undertake a simple matching process of suitable mentors to mentees, using criteria such as location, business unit etc. At this basic level, the main focus is to offer junior employees insight into more senior levels in the organization which may stimulate ambition for development, growth and promotion.

Mentoring at the Right Time

The sometimes life-long influence of this rather informal mentor relationship was well summarized by Sandra, a senior sales leader in IT. She remembered that she felt lonely and terrified in a software development company at the start of her career. Studying computer science at university had already given her insight into how it would be to work in an almost 100% male dominated environment, but the first few months in her new job made her feel more isolated than she had ever been. At its most extreme, this feeling of loneliness came to a point where she thought of resigning to find an organization where she would feel less 'alien'. However, meeting Penny, the head of product development at the company's Christmas party changed her perspective. Penny asked her directly how she was coping in this male working environment and quickly shared memories of her own anxieties, frustrations and

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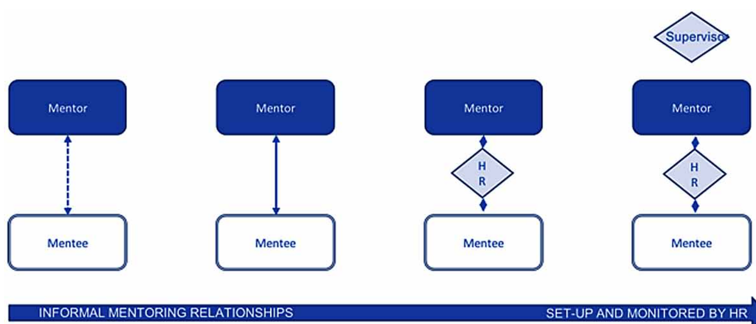
feeling of loneliness that she experienced, especially at the beginning of her career. She also mentioned that she was lucky to have had a mentor at this time: a person she could go to, who supported her and listened when she felt stuck. Penny offered to be Sandra's mentor - to offer Sandra the support that she had received, and now Sandra has someone to go to to discuss challenging situations, or when she just feels a bit isolated.

Becoming the 'go-to' person for Sandra in this example, is exactly how Tjan (2017) describes what the best mentors do, namely developing a genuine, inter-collegial relationship with the mentee, to uncover their strengths and help them to advance.

Traditionally, the mentor part of a senior leader's role is 'voluntary'. Therefore, it is important to recognize potential limitations on the time that can be invested on mentor relationships. It can be limited to an hour every two or three months, or may be a more regular 'coffee conversation', but there will always be the competing requirements of the mentor's (and mentee's) day job. Therefore, it is recommended that mentors have no more than 2-3 mentees to support at any one time which allows them enough time to spend with each mentee to make it worthwhile.

In the largest of organizations, mentor programs will be seen as well-funded HR / talent development programs and resources will be allocated to support the program. After having identified potential mentees senior leaders are invited to be available as mentors. In the next step, structured initial meetings are organized and scheduled in the hope that, after this initial kick-off, the mentee and mentor will take responsibility and make the most of this introduction. Often this is seen as a way for the organization to strengthen the employees' bond with the organization. Mentors and mentees may be randomly allocated or there may be a more formal matching process that takes place to optimize the potential success of the relationship.

Figure 2. Formalization of Mentor Relationships



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Graphic 2 shows how a mentor relationship can vary in the amount of structure and support provided by HR, from a very informal relationship (represented by the dotted line) to the well-structured mentor program, all variations are possible. However, even with the increasing involvement of the HR departments to make the concept of mentoring more popular and available, it does not necessarily guarantee the success of the mentor relationship.

Being aware of this challenge, HR teams often develop guidelines and recommendations for mentors and mentees – with hints and tips on the topics for conversation and objectives to support them in their roles. The regularity of these meetings should be recommended (Chopra 2017) as well as the offer of 'check-in' meetings with HR to ensure that benefits are being realized by both the mentor and the mentee.

Best Practice Mentor Programs

Organizations that want to benefit most from mentoring introduce full mentor programs that are best practice in the field. Depending on the defined objectives, a best practice mentor program can successfully develop employees into more highly skilled role model employees.

To achieve these objectives, the following key pillars need to be considered for a best practice mentor program (Hieker & Rushby 2016):

1. Clear objectives supported by senior leaders
2. A facilitated matching process
3. Training and supervision of the mentors
4. Program evaluation

Clear Objectives

The objectives of the mentor program need to be aligned to the organizational strategy. It is also essential that senior leaders take ownership of the program's objectives and desired outcomes to ensure sustainable success. One way to make this support most visible can be for leaders to put themselves forward as available mentors. Also, senior leader presence at any official introduction/closing of the program is essential to demonstrate full support.

The objectives of a mentor program can be straight-forward, for example to facilitate cross-hierarchical collaboration, retention and performance in general. However, often a mentor program is part of a portfolio of initiatives, for example to develop high potential employees to senior management, increase diversity at

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the senior leader level and/or create a tranche of diverse role-model employees (Garvey 2018).

In addition to the alignment of objectives, continuous communication reiterates the strategic importance of the mentor program. If employees read/hear/talk about the program, the objectives should always be present. The more transparent the objectives are, the better the brand and marketing of the program will be. Some organizations even brand the mentor programs to build desirability, for example by naming it a 'High Potential Mentor Program'.

Matching Process

Most research shows that trust between mentor and mentee is essential for a fruitful mentor relationship (Chopra 2017, Tjan 2017, Johnson & Smith 2018). Also, the mentor's people development skills, interest in junior talent and acknowledgment of the importance of communication across hierarchies are key to success. Malota goes even further by showing that the intrinsic motivation is the 'salient factor in the propensity to mentor' (Malota 2017). Therefore, the challenge for HR is how to match mentors with mentees; in general there will be a cohort of junior employees who have been identified as potential mentees and ideally a 'bank' of volunteer mentors who have made themselves available for the program.

To optimize the matching of mentors to mentees, some sophistication can to be added to the process – guidance to avoid 'favorites' and 'fall-outs'. The introduction of chemistry meetings (a common tool for introducing external coaches to a coachee) can significantly improve the success of the mentor relationship.

One practical, best practice solution is to set up a process where

- Each mentee meets at least 3 potential mentors in a chemistry meeting
- After this chemistry meeting, mentee and mentor nominate one person they don't Want to work with (no reasons have to be given)
- With the additional preference information, HR allocates the mentors to mentees

Variations of this process are possible; however practice shows that the opportunity to meet three potential mentors not only helps to clarify the individual's expectation of the relationship on both sides but also extends the network of the mentee and improves their visibility across the hierarchy.

Without an appropriately planned and managed matching process, an organization might be faced with a small group of 'favorite' mentors who crystallize; people who are seen as nice, approachable, helpful and influential. Even though the awareness about this group of 'favorite' mentors (as well as the group of unsuitable mentors)

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is usually not official, reputation and informal recommendations spread quickly, and the organizer of the mentor program may be confronted with the problem that some mentors have far too many mentees while others might not be in demand at all.

Preferences on the Way to Connect

Sophia, a senior manager in a global insurance company, was pleased and excited when she was informed by HR that she had been selected to be part of a small group of managers seen to have the potential to take over a senior leadership role in the organization. In addition to regular 'breakfast meetings' with board members, she was also introduced to a senior leader, Chris, with a view to initiating a mentor relationship. Immediately she tried to organize a meeting with the Chris' PA and was offered time slots for a phone conversation in 2 weeks' time. Sophia knew that Chris was based in the same building, so she asked the PA for a face-to-face meeting. The PA's answer was that Chris liked to have his mentor sessions on the phone when he was in the car or at the airport. Sophia's strong preference was for face to face, so she was not motivated by the thought of a phone call.

As can be seen in this example, within the framework of a managed matching process, Sophia would have known about Chris's preference for telephone conversations and would have had the opportunity to avoid this match in preference for a mentor who liked to meet face to face; this would have meant the relationship would have got off to a better start.

Mentor Training

Having good rapport and a willing mentor does not guarantee that the mentor program's objectives are achieved. Good coaching skills are important for a mentor and therefore for the success of a mentor relationship as well. While some mentors might have a natural tendency to be good listeners and are empathetic to ensure that their mentees feel comfortable during the discussions, this skill-set cannot be taken for granted.

No Interest in Mentee

Mark, a highly respected and talented accountant in a professional services firm was matched with Andy, a senior partner who had a reputation of being great in building up client networks and selling projects. The mentorship was supposed to focus on improving Mark's sales skills as well as gently introducing Mark to Andy's client network. After the contact was set-up Andy pro-actively approached Mark,

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expressed his delight about having him as a mentee and setup a lunch date a week later. Mark really enjoyed the lunch with Andy who had the reputation for selling big projects, having a stellar network and was well regarded by all his clients. Even more impressively, Andy suggested to meet on a monthly basis as he had to 'have lunch' anyway and was delighted to share his experience with Mark. However, Mark's initial euphoria about this mentor relationship slowed down after realizing that every lunch followed the same pattern - Andy talking about himself, showing off by name-dropping and showing no interest in helping Mark to develop his sales skills or give guidance on how to build up a client network. It was also very clear that Andy's client relationships were very personal and could not be leveraged.

Mark's experience shows that a successful mentor relationship is not guaranteed just by smart matching. In this case, the matching seemed to be good fit looking at Mark's learning needs and Andy's skills-set, however, Andy's lack of self-awareness and poor listening skills prevented a beneficial mentor relationship from being developed.

To develop best-in-class mentors, HR teams need to support and equip potential mentors with the skills and toolkit to have the confidence to lead the mentoring effectively. Mentor development programs can offer the following:

- Basic guidelines around the purpose and benefits of mentoring (Chopra 2017)
- Strengthening of mentor competencies such as holding coaching conversations by asking insightful and open questions, active listening and giving challenging feedback
- Toolkit with suggested meeting structures, recommendations on frequency, duration, topics to discuss
- Opportunity to exchange experiences with peers

With access to training, mentors can 'fast track' to being confident in their approach to the role and will perform their role more effectively.

Mentor Supervision

Even a willing and well-trained mentor might sometimes feel frustrated about the nature of the relationship and the quality of the meeting. This might have various reasons, including lack of empathy for the mentee's situation or having too much empathy and losing objectivity. In the latter case, the professional distance is lost, and conversations might be less solution oriented. Mentor and mentee may feel stuck and the relationship ceases to be productive.

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The Challenge of Keeping the Professional Distance

Mike, a motivated senior leader and mentor in a global law firm always felt exhausted after meeting with his coachee Isabelle. Whilst he was determined to keep the mentor meetings positive and help Isabelle to master her day-to-day challenges in a very aggressive and competitive environment, he often felt that Isabelle's frustration and anger was contagious and sucked his own energy as well. He also found it hard to set boundaries to Isabelle's constant demand for support and help.

After a conversation with HR, Mike had the opportunity to get an external supervisor who helped him to understand and implement more sophisticated coaching skills in the mentor sessions. As a start he re-visited the objectives of the mentor relationship with Isabelle and agreed a clear contract covering frequency, time and content of the mentor meetings. In addition, they agreed that in each meeting they would allow a limited amount of time to acknowledge that they work in a very demanding and highly stressful environment and then move on to potential solutions instead of spending additional time adding more examples of unfair treatment and burnout. Continuing the supervision during the mentoring relationship helped Mike to recognize the stress factors for himself. With this raised self-awareness he could avoid pitfalls and he felt better equipped for his role as mentor – both for Isabelle and other potential mentees in the future.

Given the expectation and pressure put on mentors, the example above shows that in addition to training in communication and coaching skills, supervision of mentors is a key pillar to best practice programs which have the capacity to deliver long term sustainable results and influence culture.

In general, supervision needs to be provided by a professional supervisor who is independent from the organization and therefore has no bias about the mentor nor the mentee. This gives the supervisor the credibility and authority to 'check-in' with the mentor and provide a safe space to critically reflect on the mentoring process, including:

- The identification of the mentor's strengths and weaknesses in relation to the mentor role
- A reflection on what situations feel easy and which are more challenging for the mentor and why
- The identification of the different stakeholders involved and their expectations
- The clarification on boundaries and limitation of the mentoring relationship including ethical considerations.

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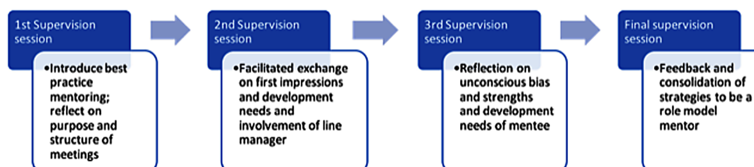
Supervision and the knowledge of what needs to be considered for high quality mentor supervision is still not widespread, therefore Graphic 3 below provides additional suggestions on what organizations need to implement to make it a success.

Figure 3. Example of Best Practice Mentor Supervision



As visualized above in Graphic 3, the first session typically outlines the 'contract' for the relationship – building trust between mentor and supervisor, agreeing ways of working and socializing the concept of supervision. It is an opportunity to share expectations of the mentor program and of the supervision specifically. The mentor may also want to talk about individual challenges, to help to guide the supervision in the most meaningful way.

Applying experience and observation, the supervisor can continue the sessions by sharing his/her impressions and reflecting on any potential unconscious bias.

In addition to bringing professional insights and advice to the discussion, the supervision sessions will inspire different thinking and approaches for the mentor to more effectively support their mentee. Supervisory discussions may be challenging and might push the mentor outside of their comfort zone, however this is for the collective benefit of the mentee and the wider organization.

Evaluation of Mentor Programs

As with any organizational initiative, a mentor program needs to be evaluated against the set objectives. Ideally, programs should be evaluated during the implementation phase to ensure that they stay on track and deliver the expected benefits; adjustment can be made while the program is running if the feedback suggests that there is a mismatch between expectation and reality. This can be done by collecting formal and informal feedback, offering a questionnaire or conducting inteviews.

As well as continuously improving the program, the feedback can also be used to provide information to keep the wider stakeholder group informed about the return on investment. This helps to keep the senior leadership team involved and reassured.

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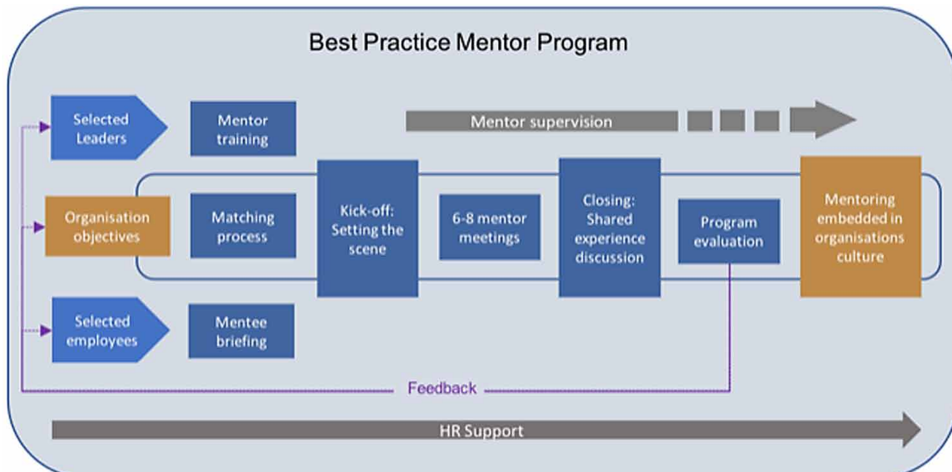
IMPLEMENTING MENTOR PROGRAMS IN THE WORKPLACE

The Final Checklist

Brining the components of best practice mentor programs together in large organizations can be challenging and needs investment and the dedication of an HR/ Talent Management team. A well supported program will gain a reputation which in turn will attract potential mentors and generate desirability amongst employees. Success stories will start to be talked about and people will be proud to be associated with the program. The graphic below can be used as a check list for practioners to make sure that the design includes all elements needed for this success.

Figure 4. Example of a Best Practice Mentor Program



Check-list to Design and Implement

1. Define clear objectives, aligned to the organizational objectives
2. Select mentors who are role model leaders
3. Deliver mentor training to prepare mentors
4. Select mentees to participate based on the program targets
5. Prepare mentees by outlining the purpose of the program and offering guidance on program logistics
6. Match mentors with mentees based on rapport as well as an alignment of expectations.

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7. Host a celebratory kick-off meeting to reiterate the program objectives and expectations of the organization.
8. Monitor the program; remind mentor and mentee to involve a trio-session with the line manager
9. Offer mentor supervision to ensure the quality of support to mentees.
10. Organize a well-defined closing process for a given cohort.
11. Evaluate the program

LOGISTICAL CONSIDERATIONS

As in any program which involves a diverse group of people, successful implementation is dependent on well thought through logistics. It starts with the selection of the right people to be mentors and mentees. Ideally, mentors should be respected as role models in the organization, with the gravitas to give the program the profile it needs to succeed. It is also preferable that the mentor is more senior and so can offer support based on his/her experience and deep knowledge.

Mentees need to be selected to participate based on the program targets. Common targets include for example: to accelerate the development of high potential talented employees or to increase the percentage of senior females in the organization. To prepare them for the program, HR usually offers orientation material outlining the purpose of the program as well as a personal consulting session to explore the individual's need.

An official kick-off event helps to formally start the program and gets all parties aligned and excited. The visibility of this kick-off helps to market the program and having a key leader present will make a statement about the investment and expectations of the organization.

The duration of a formally managed program should not be longer than 18 months to keep the mentor and mentee focused. During this time, it is recommended that the HR team steps back and takes a monitoring role, being available if problems arise. This allows the mentor and mentee to develop a trusting and productive relationship. For best-practice programs, a mentor meeting every other month (6-8 meetings per year) is recommended. Ideally, one of these meetings should be a trio-meeting with the mentee, their line manager and mentor, so that the line manager and mentor can exchange to gain deeper insights into the development areas of their mentee. This will help all three to work together as a team to get the best outcome possible.

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CLOSING

As the visibility of the kick-off is important so is an official closure to make sure that a healthy cycle of new programs can start.

The Relationship Becomes 'Fatherly'

As Ben expresses it "I really enjoy mentoring Michael and it's very rewarding for me to see him developing as he transitions from expert to team head. However, while I am proud seeing him flourishing in his new role, I'm struggling to bring myself to stop the mentoring relationship. The mentoring as it was originally has developed into fatherly relationship over the past year and the boundaries have become very blurred. I would feel like I would be abusing his trust and hurt him if I talked of withdrawing my mentoring support, but I think a dependency has been created. I've also taken on two new mentees and need to prioritize my time".

As shown in Ben's case clear communication of the length of the program, and maybe an organized event to celebrate successes and say 'goodbye' is ideal for positive closure. This frees up time for mentors to take on different mentees and for former mentees to reflect on the benefit and grow in stature in the organization, maybe in a promoted position.

When a best practice program is properly implemented and monitored, the tools and techniques developed as part of a mentoring framework will evolve; mentors take on new mentees, mentees become mentors themselves and a virtuous circle is started.

RISKS OF POORLY IMPLEMENTED PROGRAMS

A mentor program can easily fail when there are not enough resources available to support, structure, monitor. A common show-stopper that can influence whether the mentor program gets off the ground is whether or not senior leaders act as visible and outspoken stakeholders, leading by example and offering themselves as mentors. A poorly implemented mentor program can discredit the whole idea of mentoring and with one or two bad experiences senior leaders might start to withdraw and not be willing to make themselves available as mentors.

At the same time, the risk of failure is always present when trust between mentor and mentee cannot be established and/or the mentors do not have the skill-set, time, interest or motivation to add value to their mentees development.

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Mentor Surprise

Anna, a senior MD in banking was well known for being approachable and supportive to improve gender diversity at senior levels. One day she received a call from a more junior female employee and was asked when she had time for a first mentor meeting – Anna's name had been given to her by the HR team. Anna was frustrated about the call – she didn't know about being on a mentor list and wasn't clear about the expectations of this particular program. She felt that her professional approach to people development and being a senior female leader and supporter of diversity in general were not the only criteria that should have been considered when putting her forward as a mentor. Finally, she was just about to close a major client deal and then start her maternity leave, so she was annoyed that the HR professionals who made the introduction had not explored the circumstances prior to offering her services. It was no surprise that Anna didn't feel that mentoring was a priority for her at the time and was rather critical about the program.

As described in this case, a bad experience might trigger mentor or mentee to become cynical about the program and withdraw support. As mentor programs are targeted across hierarchies, a failure is usually very visible and might lead to a considerable reputation damage of the HR department who usually own these programs. This can even spread out to other people development initiatives and trigger potentially a downward spiral for the desired culture of an organization.

Finally, for a mentor program to flourish, there are costs associated which need to be considered and calculated for the duration of the program, and not just for the initial launch and cohort. Being mindful of the costs associated with a best practice program and being aware of potential risks, the organization needs to decide at what stage do the investments outweigh the returns of establishing a formal mentor platform. This is why a commonly adopted option is to go ahead with the implementation of mentor programs focusing on high potential employees as a priority.

THE BENEFITS OF MENTOR PROGRAMS

Benefits to the Individual

A well designed and managed mentor program not only benefits the organization but has to benefit the mentor and the mentee to justify the investment of time and effort.

The benefits for the mentees are easily defined – access to a more senior audience of leaders, opportunities for bigger and higher profile roles that could be the 'ticket' to promotion, and also the opportunity to receive open and honest feedback in

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discussion with an experienced leader (Kirk 2017). As this senior leader/mentor should not be in the mentee's direct reporting line a safe space for a different level of honesty and insight is offered.

Less talked about, but equally important are the benefits for the mentors (Zikic 2016, Melcher 2014). Next to participating in mentor training which as an outcome should help them to develop coaching skills and techniques, they also benefit from having the opportunity to hone their coaching skills in a relationship where they are not appraising the more junior employee on their performance. They have the professional distance to coach and give feedback without the potential conflict of interest they might have as a line manager. At the same time the acquired coaching skill-set is transferrable to their other roles in the organization. Or as Farnell (2017) expresses it: "It has made me a more empathic and emotional intelligent leader".

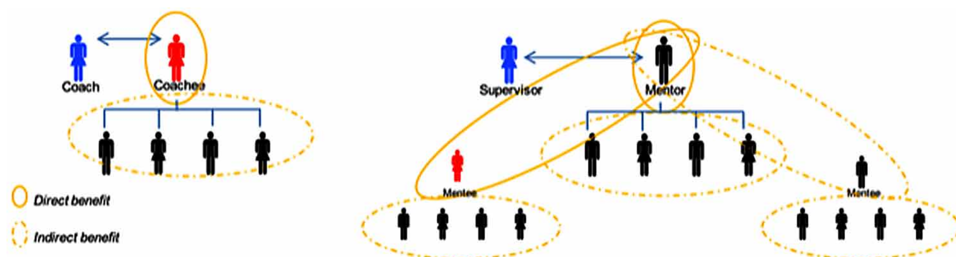
The opportunity to receive supervision also gives them the space to increase self-awareness, emotional intelligence and reflect on their impact and power in their different roles across the organization. It helps them to become a more credible and authentic leader (Hieker & Rushby, 2017) who inspires peers and more junior employees.

Finally, some organizations offer peer supervision by encouraging mentors to meet and discuss challenges and successes. This offers a great opportunity to enhance one's network and creates a learning environment which benefits both the individual and the organization.

Benefits to the Organization

The very nature of mentoring means that there is a cascade benefit for the organization which is different from other development interventions. As outlined above, a trained mentor who is supported by supervision will naturally become a better line manager as well. Therefore, the skills and experience of being a mentor will benefit everyone in the mentor's reporting line. At the same time, with the guidance and input from

Figure 5. The Cascade Benefit of Mentoring



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the mentor, the mentee will perform better and in turn their reportees will have a more positive work experience as well. Very quickly, the number of people who are impacted by the mentor / mentee relationship increases, which contributes to a better team experience and organizational success. This can be seen in Graphic 5.

This cascade effect influences the organization as a whole by enhancing the quality of the leaders and fostering a culture of development and communication across hierarchies.

After one or two successfully implemented mentor programs, mentees will grow into bigger roles and will become mentors themselves motivated to 'give back' to the organization, continuing the virtuous cycle mentioned above.

TRENDS IN MENTOR PROGRAMS

So far, the main focus of this chapter has been on traditional mentor relationships where senior leaders support, develop and challenge more junior employees within the same organization to move on in their career. However, this does not always need to be the case.

Mentoring Across Organizations

At more senior levels, the traditional mentoring concept is often not appropriate as there might be a limited number of senior leaders who can fulfill the mentor role. However, especially at this stage of a career it is valuable to have a sparring partner/ mentor who helps the leader to think outside the box and become more innovative. One option to achieve this is through a professional or personal network where the mentor is not part of the mentee's organization. This distance might enable a discussion to be more conceptual/hypothetical, which is helpful when inspiring a senor mentee. Also, in this case the senior leader might feel more comfortable in sharing as the mentor is not part of the organisation. Usually an agreement on confidentiality can minimize the risk that information is shared with other parties.

These cross-organizational activities have been around for many years as the benefits of this exchange can be very rich and rewarding for both parties. However, as the wider implementation of a more formalized program with another organization is a complex task and needs many resources to manage, they often are more informally established through the mentee's own network and contacts.

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Reverse Mentor Programs

A more recently developed trend is 'reversed mentor programs'. Some companies that have realized the impact of the 'Millennial' generation, both the challenge and the opportunity, have set-up a different form of mentor program – reverse mentor programs. Reverse mentor programs give the senior leader the opportunity to connect to the 'Millennial' generation not in the mentor role, but as a mentee – for example focusing on the handling of social media and new technology. The idea is to let the younger, less-experienced employee teach and guide the older more experienced one (Holmes 2018), to the mutual benefit of both individuals. Reverse mentor programs acknowledge the younger generation as key resource for handling new technology and even leading the change, ensuring that the senior leader is equipped with the knowledge and language to operate in the digital world (Microsoft 2018).

While these programs are in their infancy, the 'Millennials' are responding well to the recognition and opportunity to have an impact early in their career as well as senior leaders welcome the opportunity to connect with the young generation. Therefore, more organizations will probably adopt reverse mentor programs over the next few years. However, it is important to realize that the above criteria of good mentor programs will still be key to success: aligning objectives, managed matching process, training and supervision of mentor and mentees. As in any relationship, mutual respect for each other is fundamental for the success of mentoring and also the Millennials need to be trained in active listening, giving feedback appropriately and putting themselves in the shoes of the less technological experienced senior leader.

CONCLUSION

The positive effect of mentoring is widely recognized in literature (Carter 2010, Chopra 2017, Hewlett et al. 2011), and many different studies prove the benefit for the mentee, mentor and the organization (Kirk 2017). However, sustainable mentor programs which survive the usual management cycle of 3-5 years are rarely found. One reason attributed to this is that programs are often closely linked with the enthusiasm and effort of one or two key stakeholders which might be a senior HR or a business leader. With a change of key stakeholder, the programs are at risk of waning. Another reason is that the focus in research around mentoring is rather ad hoc with few hands-on publications outlining what needs to be considered when setting up a mentor program and what are the pitfalls to avoid. Finally, the resources needed to support a sustainable program are often underestimated, which leads to a big launch initially, but with future cohorts not being exposed to the same attention and recognition. Eventually this 'neglect' causes programs to slow down, reduce

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in importance and profile, with the automatic return to informal mentoring for the most eager individuals who take the initiative themselves.

To summarize, practitioners and scholars need to explore how to make the return on investment of mentor programs visible to solicit long term support. From the beginning, resources need to be allocated and budgeted over a period of at least 5 years for the 'farming/maintenance' of the mentor program. Constant and consistent communication, newsletters, success stories and an active effort to make mentoring a part of the organizations narrative are critical to keep the program prominent and 'alive'. The main objective must be that mentoring becomes and stays a key component of the desired culture of the organization.

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Chapter 5
Transformational Leadership and Performance:
Self-Efficacy and Work Engagement as Moderating Variables

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ABSTRACT

This research seeks to examine the effect of transformational leadership on performance with self-efficacy and work engagement as the mediating variables. The sample is local government financial managers in Surakarta City, Central Java Province, Indonesia, with 438 usable questionnaires. The study predicts and finds that that transformation leadership positively affects performance. In particular, transformational leadership increased the ability to achieve higher performance. Further, the study also shows that self-efficacy and work engagement mediated the relationship between transformational leadership and performance. The findings highlight the importance of leadership style to achieve higher performance. Thus, leaders with transformational leadership are better able to motivate their employees to achieve better performance.

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INTRODUCTION

The state financial management covers planning, implementation, accountability, and supervision. The accountability of state financial management is communicated through financial statements. In this regard, the Indonesian Government has reformed its public sector accounting practices by adopting new public management (Suparman, Siti-Nabiha, & Phua, 2015), i.e., implementing the accrual-based accounting system, to enhance the information quality of its financial reporting, accountability, and transparency of public sector financial management. Thus, accrual accounting improves accountability in public sector entities (Connolly & Hyndman, 2006).

The preparation and presentation of financial statements to achieve accountability and transparency in state/ local financial management indicate the performance of financial management units (The Law of Republic of Indonesia No. 17 of 2003). Financial statements are prepared to provide relevant information on financial positions and all transactions to evaluate the performance of reporting entities (Government Regulation No. 71 of 2010). Governments' financial statements are the component of the performance reports of governmental agencies that inform their performance (Presidential Regulation Number 29 of 2014).

Based on the audit reports of the Audit Board of the Republic of Indonesia (*BPK – Badan Pemeriksa Keuangan*) in 2015 of 112 local governments to implement the accrual-based Governmental Accounting Standards, local governments have not effectively facilitated accrual-based financial reporting (BPK RI, 2016). Numerous problems related to policies, information technology, and human resources to support financial reporting indicate the argument (BPK RI, 2016). Governments did not fully implement the accrual basis (Paulsson, 2006), and consequently, the results were unsatisfactory (Anessi-Pessina & Steccolini, 2007). The implementation of accounting and budgeting system changes from cash basis to accrual basis in central, provincial, and municipal governments is lengthy (Hoek, 2005) and gradual (Hyndman & Connolly, 2011).

The most significant factors in the accrual-based accounting implementation in Indonesia are leadership commitment and political parties' supports to motivate the heads of Regional Work Units (*SKPD – Satuan Kerja Perangkat Daerah*) to adopt accrual accounting basis in preparing financial statements (Suparman et al., 2015). The heads of *SKPD* have the authority to use resources in their organizations (Isa, Saleh, & Jusoh, 2011) that require transformational leadership (Bass, Avolio, Jung, & Berson, 2003) to better guide entities in adopting accrual-based accounting.

Transformational leadership positively affects team and employees' performance (Dionne, Yammarino, Atwater, & Spangler, 2004; Piccolo & Colquitt, 2006; Weller, Süß, Evanschitzky, & von Wangenheim, 2019). Further studies also find that self-efficacy (Afsar & Masood, 2017; Liao & Chuang, 2007; Walumbwa & Hartnell,

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2011) and work engagement (Breevaart et al., 2014; Ghadi, Fernando, & Caputi, 2013) have positive effects on employees' performance. Similarly, the quality of leaders- subordinates relationships affects work engagement and work performance (Breevaart, Bakker Arnold, Demerouti, & van den Heuvel, 2015). Besides, trust between leaders and subordinates is significantly associated with work engagement that is further mediated by the orientation of learning purpose on work performance and innovative work behavior (Chughtai & Buckley, 2011). Further, work engagement and employees' work engagement creativity have impacts on employees' performance (Anitha, 2014; Du, Zhang, & Chen, 2016; Gorgievski, Moriano, & Bakker, 2014; Robertson, Birch, & Cooper, 2012).

Previous studies demonstrate the importance of leadership style to increase employees' performance (Dionne et al., 2004; Piccolo & Colquitt, 2006; Weller et al., 2019). Thus, this study investigates the relationship by using public sector entities in Surakarta City, Indonesia, as the research context. We also include two important variables, namely self-efficacy and work engagement, as the mediating variable. This study contributes to the literature by offering a more comprehensive explanation of the relationship between transformational leadership and employee performance, especially in the public sector setting.

LITERATURE REVIEW

Institutional Theory

DiMaggio and Powell (1983) argue that organizations are the products of their surrounding institutional environments through three isomorphism mechanisms. First, coercive isomorphism shows that organizations adopt other organizations' practices because of broader outside parties' pressures. Second, mimetic isomorphism (imitating) emerges when organizations imitate other organizations. Third, normative isomorphism (normative) is related to professional demands (DiMaggio & Powell, 1983). Based on institutional theory, organizations make the following adjustments 1) categorical adjustment due to institutional rules; 2) structural adjustment because of government regulations; 3) the procedural adjustment because organizations are influenced to perform in specific ways; 4) personal adjustment to adjust with institutional rules (DiMaggio & Powell, 1983).

The Indonesian local governments, as reporting entities, adjusted a response of government regulations. Based on institutional theory, these adjustments lie within the categorical and structural adjustments. In this regard, local governments made categorical adjustments due to institutional regulations, namely the Ministry of Home Affairs Regulation Number 64 of 2013, that stipulates local governments to

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prepare accrual-based financial statements no later than December 31, 2015. Local governments also made structural adjustments based on Government Regulation Number 71 of 2010 that stipulates the implementation of accrual-based Government Accounting Standard (*SAP – Standar Akuntansi Pemerintahan*).

Accrual-based financial statements aim to evaluate the performance of reporting entities based on relevant information regarding their financial positions and all transactions (Government Regulation Number 71 of 2010). The local Government delivers the information about the performance achievement through financial statements in which is a component of the governmental agency performance report (Regulation of the President of Republic of Indonesia Number 29 of 2014)

Performance

Performance is the results/ outcomes of activities/programs that will be or have been achieved concerning the use of budgets with the measured quantity and quality (Presidential Regulation 29 of 2014). Performance is guided by the plans to achieve targeted goals (Anitha, 2014). Further, employees' performance is the results and achievement obtained at workplaces (Anitha, 2014). Organizational performance measurement relies on several indicator matrics (Goh, 2012). Specifically, the measurement of public sector performance generally focuses on three Es (Boland & Fowler, 2000): 1) economy, 2) efficiency, and 3) effectiveness. Public sector performance is the basis of the measurement of organizational performance accountability on resource utilization (Boland & Fowler, 2000). Public sector performance, especially of local governments, is measured to help their superiors evaluate the achievement of strategies through financial and nonfinancial measures (Mardiasmo, 2009). Also, the performance measurement of local governments aims to improve local governments' performance, resource allocation, and decision making, and facilitate public accountability (Mardiasmo, 2009). Performance measurement is a tool to assess performance and demonstrate accountability through program and performance reporting (Goh, 2012). Governmental agencies report their performance as the accountability of tasks and functions entrusted to them when utilizing budgets (Ministry of Empowerment of State Apparatus and Bureaucracy Reform Regulation Number 53 of 2014).

Indonesian local governments started to implement an accrual-based accounting system in preparing financial statements to evaluate their operational performance in 2015 (The Ministry of Home Affairs Regulation Number 64 of 2013). The Indonesian Government implemented accrual-based accounting as a part of public sector accounting reform carefully because of the failures of similar implementation in several other countries. Sharma and Lawrence (2009) analyzed public sector reform in developing countries in the Pacific area to especially investigate the role

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of accounting system and control in the reform of two public sector organizations in Fiji. Their case study approach finds that accounting reform failed in Fiji because the cultural and political factors did not support the change.

Adhikari and Mellemvik (2011) examined the results of accrual-based accounting implementation in developing countries, especially in Nepal, by using the qualitative case study method. In particular, they analyzed various governments' financial statement documents and held semi-structured interviews with 20 directly related individuals from 2004 to 2006 to generate comprehensive and multi-perspective empirical evidence. Their findings indicate that the implementation of accrual-based accounting on the Nepalese governmental agencies failed. Further, Paulsson (2006) investigated the implementation of accrual-based accounting in Swedish governmental agencies by conducting interviews and distributing questionnaires to 160 governmental agencies in 2003. The results demonstrate that, in general, the implementation did not offer a full description of the use of accrual accounting information due to a large volume of transactions and budgeting process. Anessi-Pessina and Steccolini (2007) analyzed the actual implementation of a new accounting system and reporting in Italian local governments by examining 30 local governments' financial statements between 1998 and 2003. The findings suggest that the accrual accounting and budget adopted by Italian local governments did not exhibit satisfactory consistency.

In Indonesia, Suparman et al. (2015) investigated the readiness of the Indonesian public sector in implementing accrual-based accounting system to evaluate factors that affect the implementation of accrual-based accounting in Indonesian public sector agencies. They combined the secondary data analysis with the review of regulations and related documents from 1975 to 2013. The findings show that the implementation of accrual basis in Indonesian public sector agencies was affected by the following factors: regulations, the intensity of communication networks, and supports from academic institutions and professionals, and strong leadership and supports from the legislative council. Further, the Indonesian Government faces the following challenges in implementing accrual-based accounting: inadequate training, lack of professional accountants working at governmental agencies, cash-based budgeting system, and unintegrated information system technology (Suparman et al., 2015).

The most significant factor that affects the implementation of accrual-based accounting in Indonesia is leaders' commitment (Suparman et al., 2015) because they have the authority to manage resources (Isa et al., 2011). The drastic change from cash-based to accrual-based financial reporting requires leaders with transformational leadership that manage to adapt to the change (Bass et al., 2003) because such leadership will likely improve employees' performance and motivate them to overcome bigger challenges (Bass et al., 2003).

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Transformational Leadership

Transformational leadership has received increasing attention both practically and theoretically (Schaubroeck et al., 2012). Transformational leadership creates closer relationships between leaders and their subordinates. Transformational leaders have the vision to initiate cultural and organizational value changes (Bass, 1999). Changes in organizational environments require transformational leadership because this leadership style is more adaptive (Bass et al., 2003). Also, transformational leadership is crucial to facilitate organizations to operate effectively amidst market and labor changes (Bass, 1999).

Transformational leadership (Bass, 1999) is a leadership style that can motivate employees to develop and achieve increasingly higher performance. Organizations need transformational leadership because they are under intense competition and rapid environmental changes. In this respect, transformational leadership is considered better able to enhance employees' performance than other leadership styles such as laissez-faire, management by exception (MBE), and contingent reward. Laissez-faire leadership style tends to avoid responsibility and making decisions (Bass, 1999). Meanwhile, management by exception is both an active and passive leadership style in the sense that leaders actively monitor subordinates to anticipate errors and passively intervene and give critique after errors take place (Bass, 1999). Lastly, the contingent reward is leadership style offers rewards to subordinates based on agreements (Bass, 1999).

Transformational leadership consists of 4 (four) dimensions: charisma, inspiration, intellectual stimulation, and individual considerations (Bass, 1999). Transformational leaders have charisma for their followers and are influential in mobilizing their subordinates. Inspiration refers to leaders' inspirational ability to articulate common objectives. Next, leaders with intellectual stimulation are better able to help their subordinates and offer solutions to existing problems with new methods. Lastly, individual consideration refers to the way leaders treat their subordinates proportionally and facilitate their subordinates to achieve their objectives.

Li and Hung (2009) tested the relationship between transformational leadership and the performance and behaviors of Taiwanese elementary school teachers. Their findings suggest that all dimensions of transformational leadership positively affect leaders' relationships with their subordinates and are a strong predictor of performance. Judge and Piccolo (2004) analyzed the relationship between transformational leadership and organizational members' performance and behaviors. Their results confirm their prediction. Piccolo and Colquit (2006) studied the impact of transformational leadership on performance based on the job characteristics of 283 respondents with various job types. They observed the effect of transformational leadership on performance.

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The mediated effect of transformational leadership on performance is relatively understudied (Bass et al., 2003). Among these studies, Mittal and Dhar (2015), Liao and Chuang (2007), Walumbwa and Hartnell (2011), Walumbwa, Wang, Lawler, and Shi (2004), Walumbwa, Avolio, and Zhu (2008) focused on the impact of transformational leadership style on performance with as mediated by self-efficacy. Breevaart et al. (2014) studied the mediating role of meaning in work on the effect of transformational leadership style on work engagement. Further, Anitha (2014), Robertson et al. (2012), Du et al. (2016), and Gorgievski et al. (2014) show that employees' work engagement affected performance.

Self-Efficacy

Self-efficacy is defined as one's belief in one's ability to produce the designated performance (Bandura, 1994). One's belief influences life choice, motivation level, function quality and endurance over difficulties and vulnerability over stress and depression (Bandura, 1994). Self-efficacy is a belief that influences individuals to devote their activities to achieve final goals, develop positive emotional reactions, and persistence in overcoming challenges and obstacles (Bandura, 1994).

Self-efficacy determines individuals' mindset to motivate themselves and their behavior (Bandura, 1994). The belief produces various effects through four main processes, namely cognitive, motivational, affective, and selection. The cognitive process involves various human behaviors to achieve goals that are affected by the self assessments of individuals' behaviors. The motivational process takes place when individuals motivate and refer to themselves when making decisions through their prior thoughts. The affective process involves individuals who believe that they can control threats that disturb their mindsets. Lastly, the selection process is the factor that affects behavioral choice toward self development (Bandura, 1994). Individuals with self-efficacy consider difficult tasks as challenges and not threats (Bandura, 1994) because they have strong spirit and commitments.

Mittal and Dhar (2015) studied the role of transformational leadership style in developing employees' creativity as mediated by self-efficacy with 348 employees and managers of Indian IT firms as their sample. Their results demonstrate the mediating role of self-efficacy on the relationship between transformational leadership and employees' creativity. Liao and Chuang (2007) tested the impact of transformational leadership on the performance of employees at the customer service departments of Taiwanese service firms. Their findings indicate that transformational leadership was positively related to employees' performance. Consequently, in the long term, it motivates customers to maintain the relationship. Besides, employees' self-efficacy mediated the relationship between transformational leadership and employees' performance.

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Walumbwa et al. (2004) analyzed the role of collective efficacy in mediating the effect of transformational leadership on organization commitment and work satisfaction in Chinese and Indian financial institutions by using 402 respondents. They observed that the positive impact of transformational leadership on organization commitment and work satisfaction as mediated by collective efficacy. Similarly, Walumbwa et al. (2008) examined the direct and indirect relationships between transformational leadership and supervisors' performance by using the role of identification and self-efficacy as the mediating variables. They used 437 respondents from six banks in Midwest USA. Their findings show the mediating role of the role of identification and self-efficacy on the effect of transformational leadership on performance. Walumbwa and Hartnell (2011) investigated the relationship between transformational leadership and employees' performance as mediated by the perception of employee- supervisor relational identification and self-efficacy with 426 employees and 75 supervisors as their sample. Their results suggested that transformational leadership, as mediated by relational identification and self-efficacy, was related positively to employee performance (2002).

Scholz, Doña, Sud, and Schwarzer (2002) tested the general psychometric characteristics of self-efficacy and defined the basic constructs of self-efficacy based on the global assumptions by considering the cultural differences of 25 countries with 19,120 respondents. The universality of self-efficacy constructs of several countries met the requirements, i.e., adapting with each culture, having the same structure among culture, and considering the multi-dimensional instruments.

Work Engagement

Work engagement is a positive work-related mind that manifests in vigor, dedication, and absorption (Schaufeli, Bakker, & Salanova, 2006). Vigor is reflected by energy and mental strength while working (Schaufeli et al., 2006). Dedication represents strong willingness to get involved in jobs and to consider job important, enthusiastic, and challenging (Schaufeli et al., 2006). Absorption manifests in full concentration, happiness and comfort in works, and personal attachment with jobs (Schaufeli et al., 2006).

Leaders and subordinates need to jointly develop positive thinking, trust, humanity, mutual respect, and mutually beneficial relationship to encourage work involvement mechanisms and enable everyone to trust in their meaningful potentials, justice, opportunities, and growth in work systems (Bakker, Albrecht, & Leiter, 2011). Leaders need to empower their subordinates to develop into individuals with high involvement and focus on quality, service, cost-effectiveness, and production output quantity (Bass 1999).

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Breevaart et al. (2014) studied the impact of transformational leadership, rewards, and management by exception (MBE) on employees' work engagement. They compared the effect of unique leadership behaviors and focused on the workplace. They also examined how transformational leadership behavior affected employees' daily work engagement of 61 Norwegian navy cadets during their 34-days voyage. Their results indicated that transformational leadership and rewards affected employees' work engagement while MBE was not related to employees' work engagement.

Ghadi et al. (2013) observed 530 workers in Australia to analyze the effect of transformational leadership style on work engagement as mediated by meaning inwork. Their findings demonstrated the direct and indirect effects of transformational leadership style on work engagement as mediated by employees' perceived meaning in work. Anitha (2014) tested the impact of employees' work engagement on the performance of small Indian organizations with 700 lower and middle managers as their respondents. They concluded the significantly positive impact of employees' work engagement on performance.

Robertson et al. (2012) studied the impact of work-related behavior and work engagement on employees' performance with 9000 respondents from 12 public and private organizations in England. The results found that work-related behavior and work engagement affected employees' performance.

Du et al. (2016) explored the effect of work engagement creativity on employees' performance on 540 respondents in China. The findings indicated that work engagement creativity influenced employees' performance. Gorgievski et al. (2014) tested the effect of work engagement on performance with 180 Spanish entrepreneurs as respondents. The results showed that work engagement was positively related to performance.

Hypothesis Development

Financial statements are a component of the performance reports of governmental agencies to inform performance achievement (Presidential Regulation Number 29 of 2014). Local governments prepare the 2015 financial statements by using different basis than that of previous years (from cash basis to accrual basis) (the Ministry of Home Affairs Regulation Number 64 of 2013). The institutional theory suggests that accrual-based financial statements are a form of categorical adjustment (because of institutional regulations) and structural adjustment (because of the governmental regulations).

Leaders' commitment is crucial to support local governments' success in preparing accrual-based financial statements (Suparman et al., 2015). The initial preparation of accrual-based financial statements requires transformational leaders who are easily adaptive to changes because transformational leaders enhance employees'

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performance and motivate employees to overcome challenges (Bass et al., 2003). Studies on the relationship between transformational leadership and performance (Dionne et al., 2004; Piccolo & Colquitt, 2006) demonstrated the positive effect of transformational leadership on both team performance and employees' performance. Bass et al. (2003) argue that the mediated effect of transformational leadership on performance is an important research issue. Previous studies such as Mittal and Dhar (2015), Liao and Chuang (2007), Walumbwa and Hartnell (2011), Walumbwa et al. (2004), Walumbwa et al. (2008) analyzed the effects of transformational leadership on performance with a self-efficacy as the mediating variable. Meanwhile, Breevaart et al. (2014) and Ghadi et al. (2013) focused on the effect of transformational leadership on work engagement. Lastly, Anitha Anitha (2014), Du et al. (2016), Robertson et al. (2012) and Gorgievski et al. (2014) indicated that employees' work engagement affected performance.

The Effect of the Transformational Leadership on Performance

Based on institutional theory, the change from cash to accrual basis in preparing local governments' financial statements was a categorical and structural change. Such change requires transformational leadership style that is easily adaptable to the change (Bass et al., 2003) because transformational leaders have visions of change (Bass, 1999) and are more adaptive to make adjustments (Bass et al., 2003).

Transformational leadership (Bass, 1999) is a leadership style that motivates employees to develop and perform better than prior expectations. Transformational leadership also motivates subordinates to perform better than their average performance (Bass, 1999) that employees will be more self-confident realize the values and importance of their works and even their roles for organizations and teams. Eventually, subordinates will be motivated to increase the hierarchy of their needs.

Transformational leadership focuses more on developing subordinates' potentials fully by meeting the targeted performance levels (Bass, 1999). Transformational leadership is better than other leadership styles, such as laissez-faire, management by exception (MBE), and contingent reward. The four dimensions of transformational leadership are charisma, inspiration, intellectual stimulation, and individual consideration. Transformational leaders receive charisma from their followers and are influential to mobilize their subordinates. Inspiration refers to leaders' inspirational ability to articulate common objectives. Next, leaders with intellectual stimulation are better able to help their subordinates and offer solutions to existing problems with new methods. Lastly, individual consideration refers to the way leaders treat their subordinates proportionally and facilitate their subordinates to achieve their objectives.

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Li and Hung (2009) demonstrated that all transformational leadership dimensions have positive effects on superior-subordinate relationship and become the strong predictors of performance. Also, transformational leadership is positively related to performance (Judge & Piccolo, 2004; Para-González, Jiménez-Jiménez, & Martínez-Lorente Angel, 2018; Ribeiro, Yücel, & Gomes, 2018). Based on job characteristics, transformational leadership affects performance (Piccolo & Colquitt, 2006). Based on these arguments, we predict the positive impact of transformational leadership on performance. Thus, we propose the following hypothesis:

H1: Transformational leadership positively affects performance.

Transformational Leadership, Self-efficacy, and Performance

As suggested by institutional theory, the change from cash-based to accrual-based financial reporting also requires personal adjustment. In this respect, transformational leadership is better able to motivate employees to develop themselves and perform better (Bass, 1999) because of its ability to create closer relationships between leaders and employees (Bass, 1999). Rapid environment changes and more intense inter-organization competition require transformational leadership (Bass, 1999).

Self-efficacy defines individuals' mindsets to motivate themselves and behave effectively (Bandura, 1994). Individuals with high self-efficacy consider difficult tasks as challenges to be solved, not threats to be avoided (Bandura, 1994) because of their high vigor and commitment.

Employees' self-efficacy mediates the positive effect of transformational leadership on the performance of service department employees (Liao & Chuang, 2007). Self-efficacy and role of identification also mediate the effect of transformational leadership on employees' performance (Walumbwa et al., 2008). Similarly, perceived employees-supervisors' relational identification and self-efficacy mediate the impact of transformational leadership on employees' performance (Walumbwa & Hartnell, 2011). Based on the above explanation, we predict that self-efficacy mediates the effect of transformational leadership on self-efficacy. Thus, we propose the following hypothesis:

H2.1: Transformational leadership positively affects self-efficacy.
H2.2: Self-efficacy positively affects performance.
H2.3: Self-efficacy mediates the effect of transformational leadership on self-efficacy.

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Transformational Leadership, Work Engagement, and Performance

As suggested by institutional theory, the change from cash-based to accrual-based local governments' financial reporting requires employees' involvement as personal adjustment. Further, such adjustment requires leaders' efforts to empower their subordinates to become highly engaged individuals who focus on quality, service, cost-effectiveness, and production output quantity (Bass, 1999). In this respect, transformational leadership is crucial (Bass, 1999) because it has visions of executing various cultural and organizational value changes. Leaders and their subordinates (Bakker et al., 2011) need to jointly develop positive thinking, mutual trust, humanity, mutual respect, and mutual benefit in their work relationships to motivate all individuals to believe in their potentials, justice, and opportunities in involving all employees.

Breevaart et al. (2014) showed that transformational leadership and rewards affected employees' work engagement. Next, Ghadi et al. (2013) demonstrated the direct and indirect relationship between transformational leadership style and work engagement as mediated by employees' perceived meaning of work. Similarly, employees' work engagement affected performance (Anitha, 2014; Du et al., 2016; Gorgievski et al., 2014; Robertson et al., 2012; van Zyl, van Oort, Rispens, & Olckers, 2019).

Employees with higher work engagement perform better than those with lower work engagement because they have a more positive reaction and better health, feel happier and more enthusiastic, perform their works independently, and transfer their knowledge to others (Bakker & Demerouti, 2008). Based on these arguments, we predict that work engagement mediates the effect of transformational leadership style on performance. Thus, we propose the following hypothesis:

H3.1: Transformational leadership positively affects work engagement.
H3.2: Work engagement positively affects performance.
H3: Work engagement mediates the effect of transformational leadership on performance.

Figure 1 illustrates the conceptual framework of our study.

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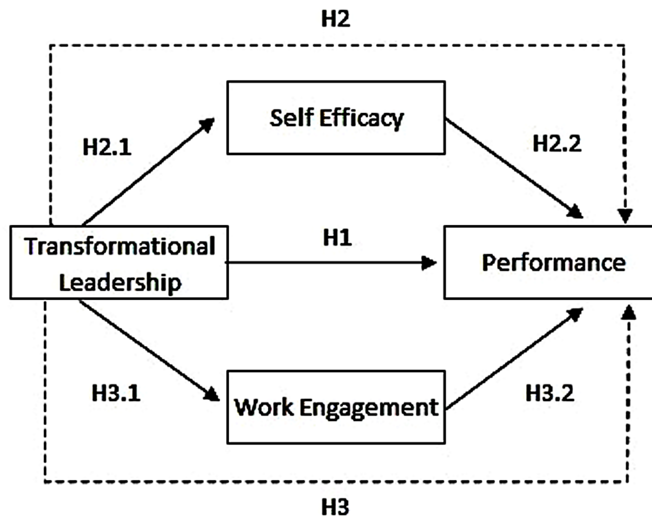
Figure 1. The effect of transformational leadership and performance, as mediated by self-efficacy and work engagement



METHOD

Data and Sampling

This study generated primary data by distributing questionnaires to the financial managers of governmental units in seven regencies/ city of former Surakarta residency. Our population was all officers that were directly related to the financial reporting process that consisted of budget users(*PA – Pengguna Anggaran*), proxies of budget users (*KPA – Kuasa Pengguna Anggaran*), event technical managers (*PPTK – Pejabat Pelaksana Teknis Kegiatan*), Commitment-making Officers (*PPK – Pejabat Pembuat Komitmen*), treasurers and local financial management officers (*PPKD – Pejabat Pengelola Keuangan Daerah*). Table 1 explains the specific population for each regency/ city.

We selected the sample by using the purposive sampling method based on specific criteria (Sekaran & Bougie, 2016). In particular, this study selected financial management officers from governmental units (*SKPD – Satuan Kerja Perangkat Daerah*) that generated income (complex and simple), *SKPD* that did not generate revenue (complex and simple), subdistrict SKPDs, and *PPKD.* In total, the final sample was 445 respondents from 49 *SKPDs*. The sample number arguably met the minimum requirements of the multiple regression analysis of at least ten times the number of variables (Sekaran & Bougie, 2016).

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Table 1. Research Population – per Regency/ City

No	Regency/ City	Financial Management Officers
1.	Surakarta	298
2.	Sukoharjo	290
3.	Wonogiri	359
4.	Karanganyar	347
5.	Sragen	349
6.	Boyolali	360
7.	Klaten	358
Amount		2.361

OPERATIONAL DEFINITION AND VARIABLE MEASUREMENTS

Transformational Leadership

Transformational leadership (Bass 1999) is a leadership style that motivates employees to develop and perform better than predicted targets. Transformational leaders have the vision to execute various cultural and organizational value changes (Bass, 1999). Transformational leadership consists of 4 (four) dimensions, namely charisma, inspiration, intellectual stimulation, and individual consideration. We used 21 statement items adopted from Bass and Avolio (Geyer & Steyrer, 1998) to measure the transformational leadership style variable. These items were measured by a 5-point Likert scale model.

Performance

Performance is the results/ outcomes of activities/programs that have been or are about to be achieved concerning budget use with measured quantity and quality (Presidential Regulation 29 of 2014) that refer to established standards (Anitha, 2014). Meanwhile, employees' performance is the results and achievement obtained at workplaces (Anitha, 2014). Next, the organizational performance was measured by using several metric indicators (Goh, 2012). We used public sector performance to measure organizations' accountability and performance of utilizing resources (Boland & Fowler, 2000). Performance measurement measures performance and promotes accountability through program and event performance reports (Goh, 2012). We used 12 statement items adopted from Walumbwa and Hartnell (2011) to measure performance. These items were measured by a 5-point Likert scale model.

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Self-efficacy

Self-efficacy is defined as one's belief in one's ability to achieve the designated performance (Bandura, 1994). Self-efficacy is a belief that influences individuals to devote their activities to achieve final goals, develop positive emotional reactions, and persistence in overcoming challenges and obstacles (Bandura, 1994). Self-efficacy determines individuals' mindset to motivate themselves and their behavior (Bandura, 1994). We measured the self-efficacy variable by using nine statement items adopted from Scholz et al. (2002). These items were measured by a five-point Likert scale.

Work Engagement

Work engagement is a positive work-related mind that manifests in vigor, dedication, and absorption (Schaufeli et al., 2006). Vigor is reflected by energy and mental strength while working (Schaufeli et al., 2006). Dedication represents a strong willingness to get involved in jobs and to consider job important, enthusiastic, and challenging (Schaufeli et al., 2006). Absorption manifests in full concentration, happiness and comfort in works, and personal attachment with jobs (Schaufeli et al., 2006). We measured the work engagement variable by using nine statement items adopted from Breevaart et al. (2014). The items were measured by a five-point Likert scale.

Data Analysis

This study used Baron and Kenny's (1986) method to test the effect of the mediating variable. We also referred to Aga, Noorderhaven, and Vallejo (2016), Ennis, Gong, and Okpozo (2018) and Rajesh and Suganthi (2016) to test the effect of the mediating variable. The following are the regression equations of the study:

$$Y = \alpha_0 + \alpha_1 X + e \quad (1)$$

$$M1 = \beta_0 + \beta_1 X + e \quad (2)$$

$$Y = \gamma_0 + \gamma_1 M1 + e \quad (3)$$

$$Y = \theta_0 + \theta_1 X + \theta_2 M1 + e \quad (4)$$

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$$M2 = \beta_0 + \beta_1 X + e \quad (5)$$

$$Y = \gamma_0 + \gamma_1 M2 + e \quad (6)$$

$$Y = \theta_0 + \theta_1 X + \theta_2 M2 + e \quad (7)$$

where:

Y = the performance of the preparer's accrual-based local government' financial statement
α_0 - θ_0 = intercept values
α_1 - θ_1 = regression coefficients
X = transformational leadership
M1 = self-efficacy
M2 = work engagement
e = error (other variables that were not explained in the model)

RESULTS AND DISCUSSION

Descriptive Statistics

We sent 455 questionnaires to financial managers in former Surakarta Residency and received 438 questionnaires from the respondents, resulting in the response rate of 96%. We managed to have a very high response rate because we delivered the questionnaires directly to the respondents. The following table illustrates the descriptive statistics of the variable:

Table 2. Descriptive statistics

Variable	Min	Max	Mean	Std. Dev	Theoretical	Actual
Transformational	58	105	86,72	8,752	21-105	58-105
Self-efficacy	24	45	34,95	4,160	9-45	24-45
Work Engagement	19	45	36,08	4,028	9-45	19-45
Performance	28	60	46,68	4,998	12-60	28-60
Valid N (listwise)	438	438	438	438	438	438

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The descriptive statistics demonstrate that all variables had response distributions that were close to their maximum values. We confirm this argument by indicating that the values of the subtraction and addition of the standard deviation and the difference between the actual and theoretical means were close to the maximum values of these variables.

Validity and Reliability Tests

The validity test shows that all statement items of all variables had p values < 0.05 (the significance level), implying that all statement items were valid in explaining all variables (Ghozali, 2016) Further, the reliability test shows that the Cronbach's Alpha (α) values of all variables were above 0.70, suggesting that the statement items in all variables were reliable.

Classical Assumption Tests

The classical assumption tests demonstrate that our research model met the classical assumptions' requirements. In particular, the multicollinearity test results in the tolerance value of >0.10 and the variance inflation factor value of <10, indicating that the model was free from a serious multicollinearity problem. Next, the autocorrelation test results in the probability (p) value of 0.56 (>0.05), indicating that there was no autocorrelation problem. Further, the heteroscedasticity test with the scatterplot graphic shows no clear pattern because the spots spread above and below zero on the Y axis, suggesting that there was no heteroscedasticity problem. Lastly, the normality test with the p-plot spreading pattern and histogram graphic shows the normal line, implying that the data was normally distributed.

Hypothesis Testing

Table 3 displays the results of the hypothesis testing by using the Barron and Kenny's mediated regression method.

Model 1 of Table 1 shows that transformational leadership positively affected performance, thus supporting H_1 and the regression model fit. The results suggest that *SKPDs* and local governments' transformational leaders with transformational leadership style improved the performance of the accrual-based local governments' financial statements. Our findings are also in line with Li and Hung (2009), Judge and Piccolo (2004), Para-González et al. (2018), Piccolo and Colquitt (2006),Ribeiro et al. (2018) and Tepper et al. (2018)who demonstrated that transformational leadership affected performance.

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Table 3. Baron and Kenny's Mediated regression method - results

Predictor	Model 1			Model 2			Model 3			Model 4		
	DV: Performance			DV: Self-efficacy			DV: Performance			DV: Performance		
	Coeff	t	Sig.	Coeff	t	Sig.	Coeff	t	Sig.	Coeff	t	Sig.
Transformational	.270	11.5171	.000	.252	13.4751	.000				.152	5.877	.000
Self-efficacy							.644	13.255	.000	.466	8.371	.000
F		132.646			181.568			175.693			111.870	
Sig.		.000[a]			.000[a]			.000[a]			.000[a]	
R^2		.233			.294			.287			.340	
R^2 adjusted		.232			.292			.286			.337	

Table 4. Baron and Kenny's Mediated regression method - results

Predictor	Model 5			Model 6			Model 7		
	DV: Work Engagement			DV: Performance			DV: Performance		
	Coeff	t	Sig.	Coeff	t	Sig.	Coeff	T	Sig.
Transformational	.226	12.0921	.000				.122	5.268	.000
Work Engagement				.792	17.307	.000	.656	12.789	.000
F		146.226			299.535			172.836	
Sig.		.000[a]			.000[a]			.000[a]	
R^2		.251			.407			.443	
R^2 adjusted		.249			.406			.440	

Next, model 2 suggests that the transformational leadership variable had a positive effect on self-efficacy. Thus, H2.1 was empirically supported and the regression model fitted. The findings imply that *SKPDs* and local governments' leaders with a transformational leadership style improved employees' self-efficacy in preparing accrual-based local government financial statements. Our results also support Liao and Chuang (2007) who documented that the transformational leadership style affected employees' self-efficacy.

Model 3 illustrates that self-efficacy positively affected performance. Consequently, H2.2 was supported and the regression model fitted. The results imply that employees' self-efficacy of *SKPDs* and local governments as the reporting entity improved the performance of the accrual-based local governments' financial statements. These results are in line with Walumbwa et al. (2008) who observed the effect of employees' self-efficacy on performance.

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Meanwhile, model 4 shows that the transformational leadership variable and self-efficacy variable positively affected performance. Thus, H2 was supported and the regression model fitted. Further, the coefficient value of the transformational leadership variable in this model was below than that of model 1 although not equal to zero (c'≠ 0). In other words, the effects of transformational leadership on performance before and after the inclusion of the self-efficacy variable were both significant. However, the regression coefficient decreased after the inclusion of self-efficacy. Thus, self-efficacy was a partially mediating variable. Empirically, employees' self-efficacy of all *SKPD*s and local governments influences the impact of transformational leadership on the performance of the accrual-based local governments' financial statements. The findings support Walumbwa and Hartnell (2011) who showed the effect of transformational leadership on performance as mediated by self-efficacy.

Model 5 shows that the transformational leadership variable positively affected work engagement. Thus, H3.1 was supported and the regression model fitted. Empirically, *SKPDs* and local governments' leaders with transformational leadership style improved employees' work engagement in preparing accrual-based local governments' financial statements. The findings are also in line with Breevaart et al. (2014) and Ghadi et al (2013) who observed the effect of transformational leadership style on employees' work engagement.

Model 6 shows that work engagement variable has positive effect on performance. Consequently, H3.2 was supported and the regression model fitted. Employees' work engagement of all *SKPD*s and local governments as the reporting entities improved the performance of accrual-based local governments' financial statements. The findings are in line with Anitha (2014), Robertson et al. (2012), Du et al. (2016) and Gorgievski et al. (2014) who showed the effect of employees' work engagement on performance.

Lastly, model 7 demonstrates that the transformational leadership and work engagement variables positively affected performance. Thus, H3 was supported and the regression model fitted. The coefficient value of the transformational leadership variable in model 7 was below than that of model 1 but not equal to zero (c'≠0). Accordingly, the effects of transformational leadership on performance before and after the inclusion of the work engagement variable were both significant. However, the regression coefficient decreased after the inclusion of self-efficacy. Thus, self-efficacy was a partially mediating variable. Empirically, employees' work engagement of all *SKPD*s and local governments influences the impact of transformational leadership on the performance of the accrual-based local governments' financial statements. Our results support Bakker and Demerouti (2008) who documented that employees with work engagement performed better than those without work engagement because they have more positive reactions and better health, feel

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happier and more enthusiastic, perform their works independently, and transfer their knowledge to others.

Additional Test

As an additional test, we also reran the regression analysis based on the gender and experience variables. The following tables inform the results of our additional test.

Table 5. Regression model 1 based on gender

Predictor	DV: Performance					
	Male			Female		
	Koef	t	Sig.	Koef	t	Sig.
Transformasional	.276	8.9241	.000	.288	7.6681	.000
F		79.640			58.794	
Sig.		.000[a]			.000[a]	
R^2		.237			.249	
R^2 adjusted		.234			.245	

Table 6. Regression model 1 based on experience

Predictor	DV: Performance					
	1-5 Year			> 5 Year		
	Koef	t	Sig.	Koef	t	Sig.
Transformasional	.236	5.4171	.000	.295	10.396	.000
F		29.343			108.072	
Sig.		.000[a]			.000[a]	
R^2		.196			.256	
R^2 adjusted		.190			.254	

Tables 11 and 12 show the results of running model 4 based on age and experience. The coefficient value of transformational leadership in model 4 (after including self-efficacy as the mediating variable) was below than that of model 1 (before including self-efficacy as the mediating variable) although not equal to zero ($c' \neq 0$). Based on gender, male respondents exhibited the most significant decrease. Meanwhile, based on experience, respondents with more than five-year experience showed the

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Table 7. Regression model 2 based on gender

Predictor	DV: Self Efficacy					
	Male			Female		
	Koef	t	Sig.	Koef	t	Sig.
Transformasional	.283	11.2571	.000	.225	7.6051	.000
F		126.727			57.838	
Sig.		.000[a]			.000[a]	
R^2		.330			.246	
R^2 adjusted		.328			.242	

Table 8. Regression model 2 based on experience

Predictor	DV: Self Efficacy					
	1-5 Year			> 5 Year		
	Koef	t	Sig.	Koef	t	Sig.
Transformasional	.227	6.3431	.000	.267	11.820	.000
F		40.237			139.706	
Sig.		.000[a]			.000[a]	
R^2		.251			.308	
R^2 adjusted		.245			.306	

Table 9. Regression model 3 based on gender

Predictor	DV: Performance					
	Male			Female		
	Koef	t	Sig.	Koef	t	Sig.
Self Efficacy	.643	10.7611	.000	.645	7.8501	.000
F		115.802			61.621	
Sig.		.000[a]			.000[a]	
R^2		.311			.258	
R^2 adjusted		.308			.254	

largest decrease. Thus, self-efficacy was a partially mediating variable based on gender and experience examinations.

Next, Tables 17 and 18 show the results of running model 7 based on gender and experience. The coefficient value of transformational leadership in model 7 (after

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Table 10. Regression model 3 based on experience

Predictor	DV: Performance					
	1-5 Year			> 5 Year		
	Koef	t	Sig.	Koef	t	Sig.
Self Efficacy	.589	6.3591	.000	.660	11.472	.000
F		40.440			131.611	
Sig.		.000[a]			.000[a]	
R^2		.252			.295	
R^2 adjusted		.246			.293	

Table 11. Regression model 4 based on gender

Predictor	DV: Performance					
	Male			Female		
	Koef	t	Sig.	Koef	t	Sig.
Transformasional	.141	4.0341	.000	.189	4.6461	.000
Self Efficacy	.479	6.7471	.000	.439	4.8951	.000
F		69.476			45.188	
Sig.		.000[a]			.000[a]	
R^2		.352			.339	
R^2 adjusted		.347			.332	

Table 12. Regression model 4 based on experience

Predictor	DV: Performance					
	1-5 Year			> 5 Year		
	Koef	t	Sig.	Koef	t	Sig.
Transformasional	.136	2.8901	.005	.172	5.417	.000
Self Efficacy	.438	4.2211	.000	.461	6.959	.000
F		25.636			86.416	
Sig.		.000[a]			.000[a]	
R^2		.301			.356	
R^2 adjusted		.289			.352	

including work engagement as the mediating variable) was below than that of model 1 (before including work engagement as the mediating variable) although not equal

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Table 13. Regression model 5 based on gender

Predictor	DV: Work Engagement					
	Male			Female		
	Koef	t	Sig.	Koef	t	Sig.
Transformasional	.255	10.0951	.000	.200	6.8481	.000
F		101.902			46.901	
Sig.		.000[a]			.000[a]	
R^2		.284			.209	
R^2 adjusted		.281			.205	

Table 14. Regression model 5 based on experience

Predictor	DV: Work Engagement					
	1-5 Year			> 5 Year		
	Koef	t	Sig.	Koef	t	Sig.
Transformasional	.167	3.9661	.000	.252	12.214	.000
F		15.725			149.178	
Sig.		.000[a]			.000[a]	
R^2		.116			.322	
R^2 adjusted		.108			.320	

Table 15. Regression model 6 based on gender

Predictor	DV: Performance					
	Male			Female		
	Koef	t	Sig.	Koef	t	Sig.
Work Engagement	.778	13.9041	.000	.816	10.4481	.000
F		193.329			109.171	
Sig.		.000[a]			.000[a]	
R^2		.429			.381	
R^2 adjusted		.427			.378	

to zero ($c' \neq 0$). Based on gender, male respondents exhibited the most significant decrease. Meanwhile, based on experience, respondents with more than five-year experience showed the largest decrease. Thus, work engagement was a partially mediating variable based on gender and experience examinations.

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Table 16. Regression model 6 based on experience

Predictor	DV: Performance					
	1-5 Year			> 5 Year		
	Koef	t	Sig.	Koef	t	Sig.
Work Engagement	.702	9.3671	.000	.833	14.550	.000
F		87.746			211.693	
Sig.		.000[a]			.000[a]	
R^2		.422			.403	
R^2 adjusted		.418			.401	

Table 17. Regression model 7 based on gender

Predictor	DV: Performance					
	Male			Female		
	Koef	t	Sig.	Koef	t	Sig.
Transformasional	.109	3.5171	.001	.158	4.3231	.000
Work Engagement	.657	10.1491	.000	.650	7.7641	.000
F		107.128			69.387	
Sig.		.000[a]			.000[a]	
R^2		.456			.441	
R^2 adjusted		.451			.435	

Table 18. Regression model 7 based on experience

Predictor	DV: Kinerja					
	1-5 Year			> 5 Year		
	Koef	t	Sig.	Koef	t	Sig.
Transformasional	.133	3.5661	.001	.126	4.167	.000
Work Engagement	.610	8.0141	.000	.673	9.923	.000
F		54.514			120.043	
Sig.		.000[a]			.000[a]	
R^2		.478			.434	
R^2 adjusted		.469			.430	

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CONCLUSION

This research aims to analyze the effect of transformational leadership on the performance of accrual-based local governments' financial reporting with self-efficacy and work engagement as the mediating variables. We tested our hypotheses by using the mediated regression method. The results demonstrate that the transformational leadership variable affected the performance of accrual-based local government financial reporting with the mediating effects of self-efficacy and work engagement of 33,7% and 44%, respectively. We conclude that self-efficacy and work engagement mediated the effect of the transformational leadership variable on the performance of accrual-based local governments' financial reporting.

We caution on the limited generalizability of our study into all Indonesian local governments because of different financial management officers' characteristics and education in each region. We advise future studies to add other mediating variables such as organizational members' behavior to overcome this issue. Our study implies that local governments' policymakers need to implement the transformational leadership style and support employees' work engagement to enhance the performance of the accrual-based local government financial reporting.

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Chapter 6
Onboarding for Competitive Performance:
Leadership Responsibility in Initiating a Mentorship Journey for New Recruits

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ABSTRACT

Welcoming new employees into their job requires more concerted leadership effort to ensure that they settle in, begin work as soon as possible, and can be competitive. This chapter highlights the significance of complying with onboarding processes at all levels within an organisation. Drawing from literature, the importance of onboarding for purposes of acquiring competitiveness is offered, and then an onboarding process mapping and modelling (OPMM) is developed. A vignette based on ethnobiography of lived experiences during onboarding at a University in South Africa is presented. After using the structural narrative analysis, findings provide insights on the significance of the leaders' role at all levels of the organisation, in complying with the onboarding processes to yield employee competitiveness. Finally, the strategies for early engagement are presented, relaying approaches for socialisation to yield a competitive advantage factor. This implies that internal monitoring and evaluation of the process is essential to derive value.

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INTRODUCTION

"You're hired, welcome onboard"

Embarking into a new job brings along excitement, expectations, anxiety, uncertainty and determination to join the workforce and thrust into the new working environment. Uppermost are expectations to fulfil what attracted the new employee to the organisation in the first place. Keeping up with the tempo of anticipation warrants a structured programme by the leadership to welcome new employees and evoke competitiveness. According to Oosthuizen & Kara (2008), people who show competitiveness are deemed a competitive advantage factor. This thus, arguably imply that there is value regarding appropriate support and guidance by leadership, in a form of orientation, coaching and or mentoring to be and remain competitive. A conscience orientation and mainstreaming in relation to employees' job specifications is required to begin the journey of appraising competitiveness.

This chapter explores the significance of onboarding new recruits. This arguably, begins with comprehensive planning for new staff orientation, mentorship and coaching through systems put in place to provide continued development and support of staff. Authors writing on this subject maintain that employee mentorship has a strong operational function (Bauer, 2010; Saks, and Gruman, 2011; Setlhodi, 2018b), which offers and distributes dominant support in various ways to employees. The goal is to first orientate them, and then provide intermittent coaching and mentoring towards interacting with their new employment before starting to work and whilst working respectively, to ensure competitiveness. Competitiveness entails suitability to perform work independently within a team and go beyond job expectations, showing adeptness and skillfulness. Leaders in organisations focusing on ensuring that employees have these characteristics are sure to increase productivity and could have high staff retention rate (Bauer, 2013).

I begin by outlining the significance of orientating recruits into the organisation. This is followed by reviewing literature based on on-boarding, mentorship, and coaching in relation to boarding new recruits and then present an Onboarding Process Mapping and Modelling (OPMM). I then share a vignette of my lived experiences upon joining a university in South Africa in a form of an autobiography and use Structural Narrative Analysis, to interpret and offer findings and discussions. Finally, I present Strategies for Early Engagement, summary and recommendations.

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ORIENTATING NEW RECRUITS INTO THE ORGANISATION

Bringing additional staff members onboard has to be a process (planned for by the leadership) and not an event, possibly corresponding with the probation period. What leaders do to familiarise new recruits with work (during orientation), possibly serves as a premise for ushering required performance expectations. Orientation can give new recruits perspective about their job and afford them an opportunity to mingle with staff members. Maurer (n.d.) assents that easing new staff in this manner affords them an opportunity to gain sneak-pick and alchemy to socialise with other workers. Therefore, leaders are responsible to plan for this practice to ensure that recruits are not 'othered'. The entire process of onboarding can perhaps be structured to end when new recruits are tenured, after satisfactory completion of their trial period (probation), to ensure that all Key Performance Indicators (KPI) of their responsibilities are broadly introduced and they know exactly what the organisation expect.

KPIs are measures used to determine the extent to which employees, in this context, achieve their targets and job purpose (Lake, 2017). They are important for setting up realistic targets for employees and ensuring that they are met within a realistic timeframe, hence the significance of recruits knowing about them from the onset. Graybill, Hudson Carpenter, Offord Jr, Piorun, and Shaffer (2013) advance that organisations have to communicate performance indicators at the earliest time to share expected practices, perhaps during orientation stage, to share the inputs and outputs for the realisation of competitiveness. The inputs for work to be done, outputs as a result of engaging in a job, enable or otherwise, achievement of targets. Fritz (2018) advance that Inputs, Outputs, Outcomes and Impact are factors associated with attaining objectives. They inform KPIs. Throughout the period of initiation, employees should be linked to mentors and or coaches, who will support them every step of the way, ensuring that there is clarity on how and why targets ought to be achieved and offering support to realise this. The aim is to bring understanding on the reason for their job existence in the organisation and guide them throughout (Brown, n.d.). Depending on the type of job an incumbent is hired for, focused support such as job shadowing as a form of intensified mentoring ought to be arranged. This is for making sure that incumbents adapt quickly to the environment and ensure that they are considerably socialised (Alan and Shanon, 2013).

During onboarding, new recruits are guided through ways in which they can navigate their course within the organisation and supported to foresee their role towards attaining the vision of the organisation. The process ought to confirm their decision of applying to join the organisation and should preferably begin prior to starting work (https://www.kineo.com/za/solutions/onboarding-and-induction, n.d.). At this stage, new employees are made to come to grips with the policies,

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what the organisation is about, contractual obligations and implications of violating them, as well as employee benefits. During this time of orientating and introducing them to their work environment, the primary aim should be to ensure that they fit in, and their attitude is positive towards their work responsibilities. According to https://www.kineo.com/za/solutions/onboarding-and-induction (n.d.), on-boarding is about making people feel that they are part of their new organisation, trusting and internalising ones role in a new job, setting up the scene for employees joining the organisation to assume a behaviour aligned to the values of the organisation, socialising new recruits, taking-off and creating a befitting feel of the new job and putting measures in place.

Critical Validating Proactive Measures for New Incumbents

Although bringing new employees into the organisation or new portfolios ends work force search, it presents the beginning of new employees' journey of providing service to the organisation (Maurer, 2015). Shepherding employees into their new employment calls for an orientation programme designed to finish the recruitment process and set employees into a development streak that keeps them desiring to develop and have ambition to continue advancing in their jobs. The aim is to have them have an impact on dispensing with their job responsibility and provision of required organisational service. Enabling new recruits to take their first leap in, and showing those processes not only serves as a quick way to win them over, but to start engaging fully, knowing that they have support. According to the Human Resources Development Recommendation (HRDR), in Report v (2008) "the use of new forms of learning together with appropriate social policies and measures to facilitate participation in training" add to the development of the organisation's learning and training initiatives. These measures have to be located within the core values and through these tenets, be allowed to metastasise throughout the organisation.

By signing the job offer, new recruits agree to abide by the organisations requirements and honour their job obligations. In turn, by offering the job, the leaders within the organisation commit credible job environment to their new employees in return of them being productive. Onboarding can make these expectations to be met and had better comprise both orientation and sustained longer-term mentorship to ensure that sufficient support, guidance and development is offered. Maurer (2015) highlights that on-boarding process is an inclusive practice that goes up to a year, guaranteeing that new recruits will be creative, diligent, content employees and further elucidates that it has orientation as its initial leg. While orientation takes care of acquainting recruits with the environment, socialisation and softer aspects of employment, onboarding on the other side, is a programme intended at getting

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the best out of employees so that they are productive and can contribute towards the organisation achieving its strategic objectives.

Appropriate Mentorship Programme for Incumbents Throughout Probation Period

The main purpose of mentorship programme during on-boarding process is to ensure that the motive for existence of the vacancy that was filled be officially introduced and appropriately meted. Fundamentally, the reason for mentorship partnership as part of on-boarding new employees is to demonstrate, guide, and develop exactly how work has to be done. It is an opportunity to allow new employees to feel wanted and that they are invaluable recruits. Stam and Elfring (2017) advance that easing recruits in the organisation is indicative of the intended support and guidance for the socialisation of its social capital. The mentorship relationship in this instance may not necessarily be optional, but a practice by the organisation to ensure that it is mutually beneficial. While the organisation benefits from safeguarding that incumbents are able to start work immediately, safe on possible mistakes, the new employees will feel valued, and the impression gained stands to encourage them to exert themselves fully in their new job (Brown, n.d.). This also presents an opportunity for recruits to take note of the organisation's culture and values. Organisations that seek to reduce costs which may be associated with fielding an inexperienced recruit, make the process of on boarding mandatory to cover a lot of mileage by fielding them for job deliverables orientation and mentorship, to ensure that the organisations' strategic objectives are realised with minimal undue occurrences.

On-boarding processes vary in scope, size, and structure including the extent of support offered to recruits (Mills, 2013). Providing support in a form of new employee mentorship maximises chances of instant engagement and minimises risks of employee failure and despondency that may lead to costing or debarking the organisation. It seals employee and organisation relationship deal through supportive, caring and involving affirmative social interactions that easily entrench recruits to the values and ethos (Allan and Shanock 2013). The role of the mentor is to take incumbents as mentees under their tutelage, and be available to them throughout on-boarding process and perhaps beyond, to ensure that they gain more knowledge, grip on their expertise until they are completely certain of their responsibilities, and can contribute towards expected throughputs. Such process also include coaching from time to time to focus on particularly critical deliverables that may need focused attention and thus require guidance.

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Availing Mentorship and Coaching Opportunities: Keeping Up Competitiveness

After recruitment process, the human relations (HR) department together with the receiving leader are duty-bound to prepare a suitable training programme to fine-tune the incumbents' skills and make them job specific. This involves engaging them prior to start of employment through consultation and assign them appropriate mentors and or coaches. Organisations should consider making mentorship and coaching available as part of the process of support and development to have competitive employees. The process should begin with boarding them on, through orientation, mentorship, shadowing and or coaching. According to Report v, (2008) development is one of the foremost drivers of increasing productivity and competitiveness.

Competitive employees have abilities that will enable their organisation to achieve its strategic objectives. Cantewell (2005) defines competitiveness as having abilities required for continuous development. Developing new employees from the onset upon joining the organisation and putting systems in place to continuously guide and support them, backs endeavours for employees' competitiveness. Once employees have been on-boarded, keeping them informed and increasing their ability to continue performing is imperative. The aim could be to increase the organisation's turnover while lifting employees' self-efficacy (Gupta, Bhattacharya Sheorey, and Coelho, 2018). The process could begin with assigning mentors to new recruits, shadowing them where necessary, ensuring that they become competitive in their work and providing coaching when needed. The three critical measures that characterises onboarding and can be lined up for that process are: 1) orientation; 2); coaching; 3) mentoring, inclusive of shadowing where necessary.

Orientation

Orientation is about settling in and familiarising recruits within their work environment. It is about introducing them to the entire organisation (Heathfield, 2018), and may feasibly be deemed induction method. Upon being placed, the process of socialising new recruits begins and they are familiarised with the work environment. Employees, who are formally introduced, can find it easy to settle in their new work. Once they are content because of how they were received, it may be easy for them to commit and exert themselves in their work. Klein and Weaver (2006) found that "employees attending the orientation training also had significantly higher levels of affective organizational commitment than non-attendees", and were significantly familiarised with organisational values, history and fellow workers. While study by Gupta, Bhattacharya, Sheorey and Coelho (2018) draws on various sources additional to commitment, employees who experienced onboarding tended to raise

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turnover and arguably are agreeable to the organisational values. Being acquainted with organisational values debatably brings about intent to raise competitive levels and throughput rate, particularly when there are services such as mentorship and coaching built-in the on-boarding programme.

Coaching

Coaching refers to the process of providing on-the-go training (Dreyer, 2017). Coaching is more concerned with easing new employees in their work by giving appropriate instruction to navigate their work responsibilities. It is more about unlocking potential to maximise performance and produce brilliance in people to yield acceptable competence. The Institute for Life Coach Training, (n.d) defines coaching to be a practice whose objective is to increase performance and emphasises on tackling matters at hand. In addition, Dulude and Erickson (2016) state that it is among others, about enabling employees to find work balance and provide training where required. A coach could be an astute senior staff in this instance, meant to assist recruits by equipping them with skills to do their work and be competitive. Coaches can also serve as mentors or go-to people, which an employee can approach whenever necessary. Dulude and Erikson (2016) presents a coaching continuum showing performance, balance, resilience and distress as the elements that coaches tap into when coaching others. In this context, these are appropriate to support recruits in their performance so that they can find balance, be resilient and handle any moments of distress professionally to remain committed and be competitive. To achieve these, they require structured mentorship.

Mentorship

Mentorship is about a mentor guiding mentees to learn and do it with limited mistakes. Mentoring refers to provision of guardianship of a mentee by a mentor and involves sourcing or getting support (Setlhodi, 2018a). During on-boarding period, the organisation could assign a mentor to the new recruit. Mentors are experienced and skilled professionals within a specific area of mentorship need, providing an offering at two levels. First, as coaches providing advice to improve the mentee's professional performance and development. Second, for psychosocial function that launches the mentor as a role model who offer coordinated support for the mentee that seek to create desired and holistic employee work balance from the onset of employment. The mentor's responsibility in this instance could be guiding and supporting the mentee as part of the on-boarding process, until the mentee is tenured at the end of probation period.

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The process of mentorship is offered "on the understanding that the mentor offers … a platform to learn from their services; grants them an avenue to vent; provides coaching; and gives intense training in a focused area of understanding and expertise" (Setlhodi 112, 2018b). In the case of onboarding, mentorship could extend to shadowing or sitting-next-to-mentor, where a mentor and mentee literally sit next to one another. Shadowing is about the new recruit following a mentor or an experienced employee to learn work. It provides hands on training to develop employees', skills and help deal with work problems (https://www.slideshare.net/cathyroque/guidance-narrative), while instilling competitiveness.

The aforementioned components for on-boarding process could possibly focus on continuous development of recruits and broadening their new job's prospects. Often organisations grumble about the lack of commitment. However, they too fail to provide means for employees to exert themselves. The on-boarding components are a passage to socialisation and a way of immersing new employees in and introducing them to the culture and values of the organisation. They may well be deemed an on-boarding process that focusses on continuous development of recruits and further remain traction for employee retention and competitiveness. Investing in onboarding can be a key driver to increase self-efficacy, charting forward competitiveness and forming turnover (Gupta et al, 2018).

Onboarding Process Mapping and Modelling (OPMM)

The on-boarding process, mapping and modelling has to respond to the organisation's vision, mission and strategic objectives. Because organisations thrive as a result of their employees performance (Sparrow and Makram, 2015), meeting strategic objectives require comprehensive mapping and modelling of processes that outline what it takes to bring new recruits on board. These should clearly spell out the steps it will entail to orientate, and or shadow employees, both new and existing staff, in keeping with personnel development policy of the organisation. It also responds to the extent to which employees can achieve their KPIs. The aim of organisational development management (ODM) could be to enable new recruits acquire the knowledge and skills to carry out their responsibilities accurately according to the organisations' agreed employee performance agreement.

In this chapter, I propose Onboarding Process Mapping and Modelling (OPMM) as a critical component of Organisational Development Management System (ODMS). The OPMM is vital for mapping and modelling the development improvement initiatives such as organisational turn-around or improvement strategy, staff performance and development redesign, systems development for increased turnover, staff development quality-assurance, operational risk management particularly related to underperformance, and continuous process improvement. During the

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process of on-boarding, the new recruits obtain the knowledge and skills to map and model organisational processes at operational level as well as at a comprehensive implementation level. Through OPMM, the line managers can be able to quality assure new recruits' performance and organise suitable support and development in a form of mentoring, coaching or even shadowing where necessary.

The process might also provide a systematic method to initiate practices that are effective and can make certain that on-boarding plans reflect accurately, the exact organisational recruitment imperatives (Bauer, 2013). The OPMM technique for any organisation that is serious about supporting and developing both new recruits and employees generally could be for competitiveness. The following could characterise OPMM:

- Needs analysis to ensure appropriate support.
- Value driven on-boarding mapping for personal and organisational performance.
- Consider characteristics such as behaviour, conduct, and background experience.
- Upskilling.
- Be set in a manner that seeks to raise efficiency and increase turnover.
- Provide a reflective on the job development and advancement.
- Facilitate development support initiatives to foster performance excellence.
- Enable new recruits to cope with demands of their new job.

A VIGNETTE OF ONBOARDING, ORIENTATION AND MENTORSHIP AT A UNIVERSITY IN SOUTH AFRICA

An ethno-biography of the author is presented in order to offer a lens on a lived experience at university of South Africa (Unisa). This is offered in a form of an essay termed vignette. Entry into Unisa was through on-boarding by the universities' HR directorate. All new recruits undergo a comprehensive on-boarding structured preparation plan at Unisa. Two perspectives are outlined in this chapter. First, a systematic recording of personal experiences based on on-boarding process as a new employee at Unisa are presented. Second, personal documented experiences based on orientation/ induction, on-the job training, mentorship and continued development at departmental level are presented. The Unisa HR recruitment process outlines the need and requirements for new employees (2013). Before assumption of duty, new staff members should be on-boarded as advanced by (Mills, 2013). The process takes two full working days. Thereafter employees are released to their departments where the next level of employee development happens. The expectation is that managers

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at this level orientate, arrange for mentorship with an experienced member of staff, coach and continue to develop employees.

The university on-boarding process happened accordingly. This experience confirmed my move to Unisa. There was a clearly structured plan for on-boarding duration. Boarding the organisation at this level involved the overarching processes and procedures within Unisa and employee orientation of the practices. The process began with the introduction to Unisa. The vision, mission and values clearly outlined. The ambience was set, which generally saw all participants happy to be appointed. The employee benefits were explained together with the labour relations imperatives. Employees, who could not do it prior, were supported in completing relevant HR forms, medical subsidy application, other benefits related to beneficiaries and employee personal needs, supported by relevant department HR personnel. Employee wellness initiatives were outlined, various departments presented services offered and available avenues for employee holistic support were presented. These were interactive processes providing details of the departments' responsibilities, including their direct contact details. The employee progression process was explained and incorporated in the employee integrated performance management system (IPMS) presentation. This included possible opportunities for employees linked to various employee packages. All new employees were given their personal login details. Then, a tour around the main campus was undertaken, where key buildings, offices, historic areas and departments were shown. Finally, we were given staff cards, prior to being released to our designated departments.

The second phase was at department level where I was allocated an office. Even though a computer and other supplies have to be issued on the first day of reporting for work, in this case, these were only ordered on the day of arrival. This meant using my own computer until work supplies were delivered three weeks later. I was introduced to staff members present. One manger was ready to take me, (and five other new members of staff who had started a month earlier), through pertinent processes of assessment in line with our co-functions. Even though this was ad-hoc, the process proved helpful. Another manager took us (colleagues who arrived a month earlier) through the community engagement process as one of our KPAs for IPMS even though this was abstract and not properly coordinated. No one guided me with the completion of my IPMS agreement with my senior because there was no guidance offered. Colleagues who joined the department a month earlier lamented being ignored for a month. Even though they were allocated offices and modules they were meant to offer, they complained about lack of guidance on what was required from them. This was also my experience regarding other deliverables. I had to ask around for assistance in order to comply with submission dates. I did not see any team activities except that of those who were allocating work. People generally kept

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to themselves and even during staff meetings, there was little interaction. The status quo prevailed until the end of my probation period.

Whereas there was semblance of orientation at this level, it appeared haphazard and insufficient. Perhaps this could be because of unsystematic manner of new staff support. Two colleagues from other departments shared different experiences of orientation/ induction and mentorship in their respective departments, which seemed formally coordinated and seemingly consistent for all new incumbents, with all supplies in place and distributed on their first day in office. This was in sharp contrast to practices as they unfolded in my case. There was no on-the-job-skilling for responsibilities that required practical guidance, particularly for online responsibilities requiring close monitoring and guidance; instead, I had to reach out for help from colleagues who could avail themselves within the department. Most of the finer understanding of my job competencies was through trial and error. An opportunity to formalise mentorship arose with a senior outside my department. This meant I had to traverse beyond departmental level for support. With time, I reached out to other people in the college for coaching and mentorship on an ad-hoc basis. At departmental level, there is no opportunity to evaluate process as meted out to new employees, making onboarding at this level compromised. It particularly relayed, in my analysis, a salient message that the department processes are either lacking or there is no compliance.

Structural Narrative Analysis, Findings and Discussions

The structural narrative analysis is used to give an inside culture of onboarding at Unisa at various levels as observed and experienced (Cortazzi, 2002, 1). The structure used is through On-boarding Process Mapping and Modelling (OPMM) outlined to give a comprehensive communication of all the elements of onboarding at Unisa as experienced (Kohler 2005, 1). In reflecting on various techniques of on-boarding, the emotions evoked through the narrative are traced from the following; 1) expression of the right choice to join Unisa; 2) an affirmative impression created through various steps taken in the two days of on-boarding; 3) hope created with the level of support lined up at this level; 4) possible achievement of organisational and personal expectations; 5) reflective planning of personal work in line with KPAs as outlined in personal IPMS; 6) value driven competitiveness determination to increase productivity and contribute to the advancement of the course of Unisa and personal ambition and 7) frustrations experienced because of struggling with work and having to find out about other deliverables when they were due. The authors' truth is related in a manner that highlights the significance of on-boarding, mentorship, on-the-job training with a possibility of coaching where necessary, viewed as means to competitiveness, personal career advancement and fulfilling job

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obligations (Webster and Mertova, 2007). The assumption is that this in turn, would enable the organisation to achieve its strategic objectives. These can be linked to what characterise OPPM and ODMS to model organisational and personal goals. The processes as related can be an enabler in some levels of reporting and disablers, particularly at departmental level (when systems are not followed or non-existent), for proper onboarding according to Unisa recruitment policy and procedures.

Even though systems may be in place, some managers at departmental level may not devotedly coordinate the onboarding and mentorship process as stipulated, thereby loosely complying with requirements. In such cases, systems are either there but not followed, or they do not exist at that level. Lack of resolute leadership and commitment to the process itself points to the weak link within organisational onboarding practice. Often, in such instances, the situation may thwart employee progress and defeat intentions of employee competitiveness. The fact that there are no means to give feedback to HR at this level, makes it more difficult to trace cracks formation regarding onboarding process specifically at a decentralised point (Departmental level). The fact that the narrator had to source support could possibly mean that some employees who are unable to reach out for help, may be disadvantaged and their chance of developing and showing competitiveness could be limited. Thereby implying that the organisational values could be compromised, particularly at this level.

Onboarding: Aligning to Organisational Co-Values

Organisations having stake in their employees are ordinarily looking to increase and maximise their potential. Onboarding is that ideal leap to optimise potential, increase self-efficacy and inadvertently secure desired turnover. It is about acquainting employees with the vision, mission and values of the organisation (Graybill, et al, 2013). This means caring for employees and providing opportunities for them. The degree to which the steps of planning, process, and context for onboarding is designed and carried out by the organisation's human resource (HR) department and possibly those in leadership position meant to oversee this process, provide for a greater possibility to have new employees engaging fully from the onset (Odendaal and Roodt, 2003). The onboarding process serves to offer opportunities within new employees' mainstream work and elsewhere in the organisation. Considering organisational culture and building positive relationships hanging from organisational co-values to build social cohesion, should be topmost in driving organisational competitiveness and considering employee development. It all begins at the point of employee's appointment and then onboarding them. Simply put, it affords a naturalised transitioning from facing the panel during interviews, getting into the organisation through appointment, to actual commencement of work (Maurer, 2015).

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The employment preparation stage launches the groundwork of starting the organisation's development plan for which arguably in this chapter is onboarding. Next would be getting new recruits to gain courage from the onset and engrossing personal values to those of the organisation (Mavimbela and van Niekerk, 2015). This ought to serve as a seamless progression from the recruitment process, into their job specific operation. The outcome of planning is a clearly defined process that has to unfold when appointing new employees. Measures that characterise the method are clearly defined and values are shared during the process. The procedure outlines the method of orientation, i.e. what the organisation will do and who will be responsible to do it. It also provides the initiation method of coaching and the manner in which it will unfold. Further, it explains and sets the mentoring path in motion. Such as who will mentor new recruits in various departments and how this process will unfold. Again, it provides mentees with useful tools to benefit optimally from the mentorship relationship (and possible shadowing if needed) so that they can be committed and eventually be competitive with a possibility of moving employees higher faster. The designing of these steps may be informed by the organisation's recruitment policy, which should spell out what happens after an employee is offered a job.

Once they sign their employment agreement, the next step is to think about what is entailed in their new job. It comes with many emotions such as anxiety, excitement and anticipation. The HR department could begin by connecting with them prior to resuming their work. Mills (2013) suggests that onboarding could start online before the new recruit commences work. It is a way of ensuring that the initiate is set to start work and meet the responsibilities of their portfolio right from the beginning and instils organisational values. The process serves to guide methods that introduce people joining the organisation to the policies, practices, contractual obligations performance requirements, benefits, development opportunities, and human relations imperatives among other elements for onboarding. It further facilitates the immersion of appointees into the institutional culture (University of South Australia (UniSA), n.d) and offer a cushion for dealing with anxieties of the unknown with the hope of setting off values agreeable to the organisation. Onboarding also minimises chances of failure where the recruits would otherwise not cope if not supported (Bauer, 2010). It also serves as a strategy for engaging early.

Foundational Strategies for Early Engagement

The foundational approach to engaging new recruits has to be planned such that their orientation begins prior to them starting work. The approach should comprise pre-assumption of duty, on assumption of duty, during the period of orientation and or after probation or turning permanent. Clearly articulated process of onboarding ought

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to comprise varied stages of guidance and support. Inclusive to the plan should be who is responsible to initiate various practices within initiates work, how, when and the extent of support to appropriately bring incumbents on board the organisation, increase their self-efficacy and competitiveness.

The on-boarding plan could be characterised by practical issues hereunder, to support new staffers and set the correct pace on their work:

- Pre onboarding the organisation – providing virtual mentorship related to their actual job and acquainting prospective employees with the vision, mission, values and strategic objectives.
- Adapting into the new environment – orientating new recruits upon assumption of duty so that they are acquainted with the organisational culture (enculturation). This entails clearly outlined steps at all levels and possibility of feedback to HR by both leaders and new recruits.
- Inaugurating incumbents into the beliefs, values and ethos of the organisation – immersing employees into their new work environment through various policies and procedures.
- Creating an impression that affirms new recruits choice of organisation – intentional guidance and support plan at all times for employees' competency and progression.
- Setting a climate for understanding the organisation's vision – affording new recruits to align personal goals to organisational vision to secure buy-in and increase competitiveness.
- Locating a suitable value proposition to attract expected work ethic – involving employees and allowing them to make meaning of their job purpose so that they can share values of the organisation.
- Outlining acceptable protocol within the work environment – ensuring that employees' etiquette is aligned to organisational values.
- Informing staffers about labour matters – outlining employees' rights and recourse as well as consequences for violation of contractual obligations.
- Presenting job package – making sure that employees understand what they are signing for and their benefits.
- Skilling and upskilling employees.

The above characteristics cannot just happen without proper initiation. In their experiment report, Aronson and Mills (1959) describe initiation as a process of introducing initiates into the fold. In the context of this chapter, the fold represents the organisation. They found that embarking on rigorous procedure of initiating incumbents develop affection to the setting that initiates them. In relation to onboarding and keeping with this reasoning, rigorous initiation of incumbents may

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increase the likelihood of loyalty and due diligence, which may in-turn increase the retention rate. It is best practice to have an orientation strategy and an on-boarding plan (Mills, 2013). According to Feldman (1977), initiation happens at two levels, to the task (departmental level) and group. In this chapter, group and organisation will be deemed synonymous.

Successful initiation to the task may encourage collaboration and strengthen social cohesion within a department from which social capital competitiveness should be enhanced. The focus is on social support and socialisation within the organisation, particularly where an incumbent's work precedes other deliverables of co-workers. Onboarding can consider such dynamics and appropriate early support determinates to be prepared for the success of deliverables. The idea is to have workers complementing one another and not competing. Successful onboarding process clarifies the parameters of operations and the extent to which overstepping bounds may be permissible. Assigning mentors for specific purpose ensures that mentees are able to draw lines based on how they are guided. The mentorship relationship, have to be mentee focused and geared at fostering relationships that are goal oriented and intended at idea-sharing (Godden, Tregunna and Kutsyuruba, 2014).

SUMMARY AND RECOMMENDATIONS

In summarising, onboarding can be a powerful catalyst for employee competitiveness. It could also incorporate job shadowing initially, depending on the type of job initiates are appointed for. To realise this potential, organisations' on-boarding policies should be fundamental component of the organisation's broad employee development strategy and adopt a proactive approach to initiating continuous employee skilling and upskilling. Analysis of the autobiography of the author's experiences shows that effective on-boarding process policies; can assure seamless introduction of employees in their new work; build and promote new recruits competitiveness; sustain continuous development through KPAs in relation the IPMS; put systems in place at all levels to bring new recruits on board for their work advancement – through on-boarding, orientation, mentorship and coaching – thereby helping to anticipate trends and match the demand for employee development.

The lived account as related shows variance of onboarding, orientation and mentorship at organisational, college and departmental level. At organisational and college level, there is coordinated practices placing the employee at the core of operations and intended to develop and advance them in their careers. However, the experience was different at departmental level. Coordination of on-boarding between all levels of the organisation necessitate a degree of organisational sophistication, which in turn require value driven mentorship and coaching process for effective

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socialisation into the organisation. An organisation seeking to raise employee competitiveness and self-efficacy, increase turnover, and achieve strategic objectives should have an on-boarding strategy aligned to these intentions. It necessitates systems to be in place for all levels of the organisation to adhere to the on-boarding plan. It is essential that measures be in place to monitor and evaluate the process so that the initiation practice adds value in the career of employees and harvests competitiveness. This implies that consideration to for internal evaluation of the process is important.

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Chapter 7
The Organization Culture Affecting Job Performance of Newly Hired Employees:
A Case Study of the Customs Bureau at Bangkok Suvarnabhumi International Airport, Thailand

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ABSTRACT

The newly hired staff who can adapt well with an organization's culture could perform effectively and maintain better socialization in the workplace. This would result in happy working life and leads to organizational success. The aims of this study were to (1) investigate the organizational culture of newly-hired customs officers hold with them at work and (2) examine the job performance of newly-hired customs officers and the interrelationship between customs' organizational culture and performance. A mixed method was administered in this study. The correlation and multiple regression analyses were applied. The results showed that the majority of newly-hired customs officers hold four main cultures ranked from the highest including social safety, facilitation, technology adaptation, and investigation suppression. The recommendation is to cultivate the importance of continuous learning into newly hired officers. Leaders should socialize them by face-to-face communication particularly two-way communication. The organization's culture model was proposed to the Customs Bureau.

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INTRODUCTION

In Thailand, most Thais want to work as a government official even though the salary is quite low, because of the fringe benefits that cover the whole family who have the same family name such as parents, spouses, and children. Moreover, the government officers get respect from the public and neighbors. This means that officials have higher intrinsic rewards than extrinsic rewards. And it is not easy to obtain the available opportunities as an official agent, since there are at least two tests. One is from the Office of the Civil Service Commission (OCSC) or national test, the other is the specific test of each public organization under government supervision, as each issues their own examination. Furthermore, the competition is extremely high because the positions are open for everyone in the country who fits with minimum requirements eligible to take the exam. The Thai Customs Department basically provides higher salary than other public services with good benefits and compensation. Consequently, the responsibilities of Customs are not only the collection of national revenues, but include the service to facilitate global trade, control imports, exports, transit goods, protect and secure society through the Customs control system.

Since last 20-years, the Office of the Civil Service Commission of Thailand has a downsizing policy by recruiting new official at a rate of only 2%, and as a result, the quantity of public servants has been inconsistent with the increased workload because of officials retiring. So, in last four years, the OPDC has started to recruit new officials to support the increasing work in several functions. In 2005, Royal Thai Customs recruited 750 customs officers to work in the Customs Department, at Suvarnabhumi International Airport Passenger Customs Bureau. There were 75 new customs officers from the total recruited on duty to serve passengers and to protect of smuggling. The new officers were rotated to perform different roles when on duty, to encourage them adapting their behavior according to the activity assigned. Meanwhile, the new officials were socialized concerning organizational culture for 3-4 years in their job. Most of them were Gen-Y or the millennials whose characteristics and values include growing up with the use of technology as part of their daily life, freedom of expression, look for integrity and openness, social lives, innovation, entertainment and learning (Meister & Willyerd, 2010). These characteristics can be explained by Life Course Theory (Espinoza, Ukleja, & Rusch, 2010) that refers to the associate effect in which a group experiences the same situation occurring in a social context which will be embedded with them throughout their lives.

Generally, the Thai culture system in the public organization is high power distance, bureaucratic, patronage, face-saving, personal connection, and hierarchical, where juniors always respect their seniors (Hanphakdeeniyom & Kimthaptim, 2018;

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Panpare, 2011). Thus, it is not common to see young people express their ideas in the meetings freely. However, today the society is changing, with new generations having more self-confidence and self-assurance entering the working place. As a matter of course, the new generations replace some retiring staff. The newly-hired customs officers have to work in the environment where it is crowded, chaotic, and must work in unusual hours, because of the airport operating around the clock. In addition, there are thousands of passengers coming from various countries and cultures, so the newly-hired officers have to adapt themselves to the new working environment and to the new organizational cultures. Hence, whether the mentoring or coaching system of leader implementing is suitable or effective related to job performance has been assessed.

From this situation, the researchers have three questions in conducting this study. Those were:

1. What organizational cultures do newly-hired customs officers hold?
2. What is job performance degree of the newly-hired customs officers?
3. What organizational cultures have a major influence on job performance?

The aims of this study were to: (1) investigate the organizational culture of newly-hired customs officers hold with them at work, (2) examine the job performance of newly-hired customs officers, and the interrelationship between customs' organizational culture and performance.

BACKGROUND

In the postmodern world, the external environment surrounding organizations is rapidly changing dynamically. It cannot be predicted what will affect an organization whether politics, economics, or social system. In addition, the advances information communication technology (ICT) are linked to networks affecting the transfer of data, information, capital, and goods to people around the globe easily, because of the boundaries were tumbling down (Shafritz & Ott, 2001, pp.469-471). Therefore, the modern organization has to re-structure or re-process in consistent with the changing environment for survival because the old management concepts, such as, centralization, mass production, and economies of scale have no more flexibility and cannot guarantee organizational efficiency and effectiveness for success (Kehoe, 1995, pp.18-19). The new concept of organizational culture which exists in organizations is substituted, while the bureaucratic organizations adapt themselves, in conjunction with the public sector, and adapt the role of leader to solve economic and social problems which are more complex and diverse. The leader investigates and creates

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an appropriate culture of organization and socialization for their officers to believe, to change behavior in the organizational culture in responding to administration and building strength for competitiveness. Where the organizational culture consists of intangible phenomena, such as values, beliefs, assumptions, perceptions, behavioral norms, artifacts, and patterns of behavior which are unseen, there are observable forces that are always behind the organization's activities that can be seen and observed (Vongary, 1980; Wei & Miraglia, 2017;). The organizational cultures are social energy and motivation including inspiration of employees to drive the achievement of the organization (Zerella, Treuer & Albrecht, 2017; Nam & Kim, 2016).

From the points mentioned above, the OPDC realized the importance of organizational culture and attempted to change the culture of government officials in working behavior which responds to service, to support, and cooperate with the private sector in the development of administration of the nation. The OPDC applied new public management practices into the public sector as a concept for chief executives to use for their administration comprising four concepts. First is Good Governance; rule of law, integrity, transparency and accountability, participation and responsibility. Second, is Performance Based Budgeting (PBB). Third is competency based on management, and fourth is new organizational culture; moral courage, integrity and responsibility, transparency and accountability, nondiscrimination and result orientation. Hence, the leader of the public sector has to take all of these culture dimensions, implemented with socialization to their subordinates for behavior changing in responds to the purpose of the organization, and especially for newly-hired officials. The socialization is to transform a person into social, diffusing the thought, feeling, and behavior. It is a process of communication, and training concerning with a person development (Pescaru, 2019). Since, all newly-hired officials have different knowledge, and skills, the leaders should shape the perception, self-concept, value and expectation roles. The latter part is to embed organizational culture, and enhancing those who have high performance with rewards.

The organizational culture comes from two distinct disciplines namely, anthropology and sociology. Anthropology takes the interpretivist view and sees cultures as a metaphor for organizations, defining organization as being culture. On the other hand, sociology takes the functionalist view and defines cultures, as something an organization process. According to Burke (2014), a metamorphic factor refers to an organizational element and activity in one way which reflects the firm's culture, precisely concerning the external environment, and respecting change by the needs of revolutionary intrusions. Whereas Weiss (2001) defined organizational culture as the beliefs, shared values, expectations, norms and assumptions that tie people and systems. It is providing (a) a sense of identity which facilitates commitment and, communication, and (b) a basis for stability and direction. The organizational culture is social energy and motivation including the inspiration of employees to drive to

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achieve the goals of the organization. Schein (1985,p9) explained that organization culture is a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore can be taught to new members as the correct way you perceive, think, and feel in relation to those problem. But Kilmann et al (1985) specified that culture to the organization is what personality to the individual a hidden, yet unifying theme that provides meaning, direction, and mobilization. Whereas, Wei & Miraglia (2017) stated that organizational culture consists of four facets including; the surface level which can be seen and observe as symbol, employee's behavior, rules and processes namely artifacts. While, a deeper level is norms, which direct employees' behavior response to specific event, and the third and fourth are values and beliefs that exist in individual ideals, motivations, goals. These last two facets may not coherent to action and artifacts.

These definitions represent the two major camps. The first camp views culture as implicit in social life. Culture is what naturally emerges as individuals transform themselves into social groups as tribes, communities, and ultimately, nations. The second camp represents the view that culture is an explicit social product arising from social interaction either as an intentional or unintentional consequence of behavior. In other words, culture is composed of distinct observable forms that groups of people create through social interaction and use to confront the broader social environment such as language, symbols, ceremonies, customs, methods of problem solving, use of tools or technology, and design of work settings. (Wuthnow & Witten, 1988; Meng & Berger 2019). It is worth noticing that the longer people live in specific culture, they will be absorbed and influenced of thoughts and feelings (Rus & Rusu, 2015). This second view of culture is most relevant to the analysis and evaluation of organizational culture and to cultural change strategies that leaders can employ to improve organizational performance. Hofstede (1980) identified five dimensions of organizational culture. First, power distance is the degree to which a society expects there to be differences in the levels of power. A high score suggests that there is an expectation that some individuals wield larger amounts of power than others. A low score reflects the view that all people should have equal rights. Second is uncertainty avoidance which reflects the extent to which a society accepts uncertainty and risk. Third is individualism and collectivism. Individualism is contrasted with collectivism, and refers to the extent to which people are expected to stand up for themselves, or alternatively act predominantly as a member of the group or organization. However, one having high individualism may not necessarily mean having low collectivism, and vice versa. Some people and cultures might have both high individualism and high collectivism, for example. Someone who highly values duty to his or her group does not necessarily give a low priority to personal freedom and self-sufficiency. Fourth, masculinity and femininity refer to the value

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placed on traditionally male or female values. Fifth, long and short-term orientation describe a society's "time horizon", or the importance attached to the future versus the past and present. In long-term-oriented societies, thrift and perseverance are valued more; in short term-oriented societies, respect for tradition and reciprocation of gifts and favors are valued more. Eastern nations tend to score especially high here, with Western nations scoring low and the less developed nations very low; China scored highest and Pakistan lowest.

Handy (1985) describes organizational culture in terms of four types by linking with the organizational structure . First, power culture which concentrates power among a few, and control radiates from the center like a web. Power and influence spread out from a central figure or group. Power is desired by the top person and personal relationships with that individual matter more than any formal title or position. Power cultures have few rules and little bureaucracy; swift decisions can ensue. Second, role culture people have clearly delegated authority within a highly defined structure. Typically, these organizations form hierarchical bureaucracies. Power derives from a person's position and little scope exists for expert power. Controlled by procedures, role descriptions and authority definitions, predictable and consistent systems and procedures are highly valued. Third, task culture teams are formed to solve particular problems. Power derives from expertise as long as a team requires expertise. These cultures often feature the multiple reporting lines of a matrix structure. It is all a small team approach, who are highly skilled and specialize in their own markets of experience. Fourth, a person culture exists where all individuals believe themselves superior to the organization. Survival can become difficult for such organizations, since the concept of an organization suggests that a group of like-minded individuals pursue the organizational goals. Some professional partnerships can operate as person cultures, because each partner brings a particular expertise and clientele to the firm.

Organizational Culture, Leadership and Change

Burman and Evans (2008) stated that 'leadership' affects culture rather than 'management', and explained that when one wants to change an aspect of the culture of an organization one has to keep in consideration that this is a long-term project. Corporate culture is something that is very hard to change and employees need time to get used to the new way of organizing. For companies with a very strong and specific culture it will be even harder to change. As a consequence, there is a plethora studies whether the organizational culture related to leadership and firm's performance. Like, Ogbonna & Harris (2000) found that leadership style has no direct impact on organization performance, while specific culture such as, competitive and innovative culture have direct impact on firm performance. Whereas the bureaucratic

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and internal-oriented have no impact on firm's performance. However, the three variables are accomplice. Leader is framing the culture, and was framed by the culture in return. In the meantime, the culture links to firm's performance.

In contrast, Phillips, Thai, & Halim (2019) found that leadership and organizational culture have significant on performance. Anyhow, the leader must be transformational leader who has charisma, inspiration, influencing and motivating people. Other scholars (Boehm, Dwertmann, Bruch, & Shamir, 2015; Siren, Patel, & Wincent, 2016; Wang et al, 2018) are also found transformational leadership affect firm's performance. On the other hand, the transactional leader who motivates subordinates by exchanging the benefit has less effectiveness. As stated in Van de Ven & Sun (2011) defined leader as a change agent and they have segregated the organization change into four categories. Those were teleology or planned change, life cycle or regulatory change, dialectics or conflictive change, and evolution or competitive change.

While, Cummings and Worley (2015, p. 491–492) explained the following six guidelines for cultural change. These changes are in line with the six distinct stages mentioned by Kotter (1995, p. 2)

1. Formulate a clear strategic vision. In order to make a cultural change effective a clear vision of the firm's new strategy, shared values and behaviors is needed. This vision provides the intention and direction for the culture change
2. Display top-management commitment. It is very important to keep in mind that culture change must be managed from the top of the organization, as the willingness to change of the senior management is an important indicator. The top of the organization should be very much in favor of the change in order to actually implement the change in the rest of the organization. De Caluwé and Vermaak (2004, p. 9) provided a framework with five different ways of thinking about change.
3. Model culture change at the highest level. In order to show that the management team is in favor of the change, the change has to be notable at first at this level. The behavior of the management needs to symbolize the kinds of values and behaviors that should be realized in the rest of the company. It is important that the management shows the strengths of the current culture as well. It must be made clear that the current organization does not need radical changes, but just a few adjustments.
4. Modify the organization to support organizational change; refers to modify the organization to support organizational change.
5. Select and socialize newcomers and terminate deviants. A way to implement a culture is to connect it to organizational membership; people can be selected and terminated in terms of their fit with the new culture.

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6. Develop ethical and legal sensitivity, Changes in culture can lead to tensions between organizational and individual interests, which can result in ethical and legal problems for practitioners. This is particularly relevant for changes in employee integrity, control, equitable treatment, and job security. Change of culture in organizations is very important and inevitable. Culture innovations are bound to occur because they entail introducing something new and substantially different from what prevails in existing cultures. Cultural innovation is bound to be more difficult than cultural maintenance. People often resist change hence it is the duty of the management to convince people that likely gains will outweigh the losses. Besides institutionalization, deification is another process that tends to occur in strongly developed organizational cultures. The organization itself may come to be regarded as precious in itself, as a source of pride, and in some sense unique. Organizational members begin to feel a strong bond with it that transcends material returns given by the organization, and they begin to identify with in. The organization turns into a sort of clan.

The challenge to creating organizational culture is through cultural leadership. Organizational leaders shall be cultural leaders who facilitate the changes from existing cultures into the new culture. It is concerned with the process of creating the values by managerial guidance. However, from the studies of Hanphakdeeniyom & Kimthaptim (2018) revealed that the organizational culture and leadership style of Thai public service are bureaucratic, hierarchy, corruption, and the government officers prefer to serve capitalist rather than the civil. Moreover, the officers' competencies are not fit with the organizational culture. Whereas, Panpare (2011) cited that Thai style of management includes spoiled system, patronage system, submissive to superior, seniority, high respective in leader. So that, researchers recommended to enforce applying good governance concept for managing public organizations.

As, Wotong (1967, p. 2) explained that managerial values in terms of the general rules determine whether each act towards the administration is acceptable and desirable to society, which generally includes reasonability, responsibility, accountability, democracy, equity, economy, and efficiency and effectiveness. (Millet, 1954, pp, 393-409; Waldo, 1965; White, 1948, pp. 3-11). Therefore, the managerial values formally signify the acceptable thoughts or the principles which the administrator decides to apply to the administration and management of an organization to reach the highest achievement, including controlling and continuously evaluating the organization by establishment, instruction, and supporting the employee to adopt and apply the values to each task. The managerial values also positively specify the long-term method and target by setting principles and results to sustain the actual accomplishment. The administrator possibly determines the proper decision to guide the deputies and inferiors to maintain the performance in a suitable way

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to reach the topmost target, yet the implementation also requires the administrator to understand the significant core values before passing the idea through the task holders. Consequently, managerial values actually appear to be potential guidelines to simply apply to the Thai government system to set up the variable conceptual framework to achieve the essential goals.

The Organizational Managerial Values

The managerial values have been divided into five main paradigms, sorted by the specific time.

1. The managerial values during 1880-1930: in this period, the managerial values focused on efficiency and effectiveness, economy, and the organizational structure. For instance, Taylor (1911), sought to improve the outcomes and the capabilities of an organization by generating the expected standard, motivation, and rewards system, coordination, training. While, Fayol (1916) believed that the managerial values contain planning, organization of the management, commanding, and coordinating and controlling the process. He also focused on the unity management to the joint target, organizing interest, centralization, chains of command, equality, creative thinking. To sum up, this period places the spotlight on the formal, rational efficiency of organizational value (Hoy & Miskel, 2005).
2. The managerial values during 1931-1960: the theorists in this era thought humans, themselves, truly provided the efficient outcome. The thinkers believed that humans live with pride and the ability to improve. Barnard (1938) presented the idea of a co-operation system which leads to the willingness to achieve the highest success by motivation, which is called the economy of incentives. On the other hand, Herzberg et al. (1959) showed a theory with two factors of motivation; the willingness to complete tasks, and hygiene factors. It is assumed that the organizational value in this timeframe is focusing on human relations, cooperation, motivation, the organization's culture, informality, and natural grouping (Hoy & Miskel, 2005).
3. Concept of management's values in 1961-1970: the concept of management in this period uses statistics and math for model making on computers, and therefore management decisions are called management science. This period the concept of an organization's structure must be harmonized with the environment. Such as, Lawrence and Lorsh (1970, pp. 238-242) proposed the concept of contingency theory which held that organizational structure depended on the environment. This concept realized that the environment had the most impact on organizations, which must adjust their own management

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to be environmentally harmonized with an emphasis on flexibility, systemized operational adjustments, and organization structuring. It can be seen that in this period, the management values are precisely focused on integration and contingencies. The organizations are open systems associated with the environment (Hoy & Miskel, 2005).

4. Concept of management's values in 1970-2000: this period is the post-modernization era which developed into a global village by computer networks an organization's environment is too complicated, confusing, and unpredictable. So, Hammer and Champy (1993) proposed the re-engineering in which the organization is deconstructed by all new working process designs, based on information technology and the use of the decentralized authority concept, team working, organizational communication, and customer satisfaction. Its philosophy is in every decision starting from the customer, with emphasis on production quality and working by technology. In addition, its proposed corporate governance is based on transparency, quality of verification, and ethics, while the transformation of management in the organization is by customer service value, customer satisfaction, customer supplies, interior organization changes, communication, and capital reduction (Davidson, 1995, pp. 119-120)
5. Concept of management values in 2000-present: in the beginning of this period, emphasizing a new strategy by Balanced Scorecard from Kaplan & Norton (2001), which is a management strategy tool related with operations. Thereby, the working process has vision planning and is the main strategy for organization movement, explaining reasonable relations between every project strategy to be connected. Following strategy mapping by assigning the main activity for the strategy to be implemented follows the operation index which is externally measured by stock holders and customers, and internally measured by the operation process, innovation, learning, and organization growth. To drive this change, the organization leader must activate everyone to follow the new value. Likewise, the organization must be adjusted and compete on the basis of core competency and thereby knowledge, skill, ability, and learning are important part of competition and keys to organizational adjustment. (2004). (p. 24). Shermon.

Presently, organizations around the globe encountering the advancement of technology namely, technology disruption era. Things are changing quickly. As Pipat (2016) mentioned that it is the era where technology has tremendous affect to commercial and marketing. It is a creative destructive in which the destruction creates something new in responding to customer's needs, such as digital currencies, smartphone that people can transact by hand in a minute. Moreover, the economist (2020) reported that China is now considering using digital currencies that will make

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the money flow in the economic system faster and greater impact. Firms, therefore, are competing in information technology, data, knowledge, and human capital as an organization intellectual. It is the era of knowledge-based economy (Johannessen, 2017). The management value, then, focuses on knowledge management, and being a learning organization. Such as, the fifth discipline of Senge (2006) that the organization learn and expand its knowledge a lot. A life-long learning has been implemented in various organizations as an organizational learning, team learning, and individual learning (Ploy, 2018). This era the data flows swiftly. According to Ekambaran et al. (2018) conceptualized the flow of data into 5Vs including; value, velocity, veracity, variety and volume. To be competitive the organization, therefore, creating learning environment, developing knowledge, skills, and experiences of employees. More than that, the COVID 19 pandemic has bring new normal to people life span, organizational culture turns into collective behavior, work from home life style that lead to new practices. Hence, leader should be digitalized, agile of change, being a role model, a network connected, information analytical, empathy and compassion (D'Auria et al, 2020).

In conclusion, in recent decades, managerial values which must be considered are assigned operations, team work, communication between levels, customer satisfaction, working with technology, information and data analytics, quality control, accountability, work morals, and cost control. On the other hand, leaders must be focused on working processes, knowledge base, cooperation, innovation, learning organization, bold comments, customers' brand loyalty, working confederation, the change in external environmental organization, digitalized-mindset, just-in-time service, work motivation and rewards, organization's intimacy, developing employees' performance, strategic analysis, logical thinking, innovate remote working culture and platform, create network sharing and evaluating information management, enhance employee to facing the problem and decision-making.

Managerial Values and Job Performance

The main factors in this new concept is 'individual performance' which is necessary to bring efficiency to the whole work process. 'Performance' consists of features enlightened by family, society, educational institutions, and environmental organization which turn into 'individual characteristics' and internal incitement. Values will be the valor to express the inner knowledge into action that will accumulate to be their own expertise in the future. This expertise also results in the organization's work performance (Shermon, 2004, p.41).

The operation of the Thai government for consideration of quality of government will result from the operational points of the Civil Service Commission 0708.1/ 5 August 2, 2001. There are guidelines for the evaluation of two operations, first about

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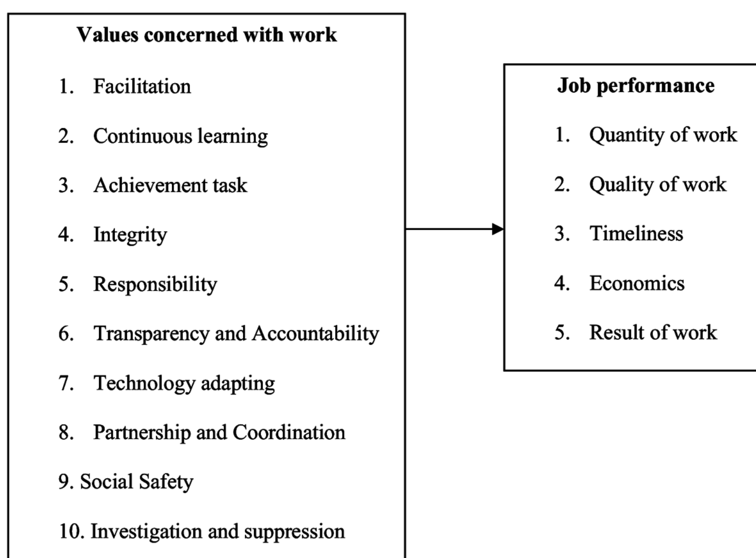
the government's official working and second about the characteristics or behavior of the government officials' working. There are five kinds of working evaluation; the first is working quantity, the second is working quality, third is the timeliness, fourth is the savings or the value of resources used, and fifth is the success of the work. The point of operation will consider the two main focus aspects whereby the main capabilities are the main characteristics of government officials and the specific capability for their positions.

There are five kinds of main characteristics of government officials; first is the result aim, second is good service, third is expertise in performing the job, fourth is the ethics, and fifth is teamwork. And there are five types of specific capability for the position; first is the include viewer, second is analysis and contemplation, third is the art of communications and motivation, fourth is the data succession, and fifth is the creative. In addition to elements of the specific capability for the position that OCSC assigns, such as work knowledge and learning ability, trust, working interest, working and punctuality, ordering operations and direction of the commander, planning and management, problem resolving, skills of communication, ability of the team leader and skill of ordering, development in ordering, etc. The guidelines are used for estimating the results of working of Thai government officials in all systems for seeking the worth and results of government officials in personal management and personal development for maximum convenience with the government. So, the conceptual framework of this study was created as shown in figure 1.

Figure 1. Conceptual framework



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METHODOLOGY

The questionnaire and structured in-depth interviews were administered to collect data. Two variables have been defined including; the management value variables for working which results in the outcome as planned by the organization, and the job performance variable which refers to the overall outcome of new younger generation customs officers after managerial value was implemented. The questionnaire research was done in a non-experimental design by using a cross-sectional study or survey research. It provides one-time data collection within a given period from new younger generation customs officers who work in the Passenger Inspection Division at Suvarnabhumi Airport Passenger Inspection Customs Bureau, Customs Department. The types of measurement used in the questionnaire involving Likert's 5-scale rating. The inferential statistic was used to prove the hypothesis. Analyzing by correlation and multiple regression method to compare the weight of the forecasted results to that of the explainable percentage of each independent variable.

For the in-depth interview, it was designed to be performed collectively and the interviewees were professional officials functioning as heads of subdivisions of the Passenger Inspection Division, an inductive approach was administered to explain the facts.

There were two sample groups in the Passenger Inspection Division at Suvarnabhumi Airport Passenger Inspection Customs Bureau. The first group comprised 120 professional officers named 'group A', and 4 chiefs of subdivisions made up the second group named 'group B'. Group B were selected with reference to non-probability sampling principles and a purposive sampling technique. The snowball sampling technique was applied with limits until the data were complete. Meanwhile, group A were chosen by Yamane's sampling method (Yamane, 1973).

Scope of the Study

This research focuses on the organizational culture of Thai customs officers, especially newly-hired customs officers who work at the Passenger Inspection Division, Suvarnabhumi International Airport (BKK) in the passenger inspection Customs Bureau and only organizational cultures that are work-related in order to achieve the purpose of the Royal Thai Customs. The anticipated results of this study would be useful for the Chief Executive of the Royal Thai Customs in taking these cultures to apply in administration for the most effective and efficient operations which will help the country to achieve sustainable development according to the reforms of the public sector policy. Also important is the ability to apply for learning and development for onboarding in Thailand's major public organizational cultures

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concerning work-related matters that affect job performance to socialize the newly-hired officers in the organization.

Research Hypothesis

H0: The organizational culture of Facilitation, Continuous learning, Achievement task, Integrity, Responsibility, Transparency and Accountability, Technology adapting, Partnership and Coordination, Social Safety, and Investigation and suppression positively correlate with job performance.

H1: The organizational culture of Facilitation, Continuous learning, Achievement task, Integrity, Responsibility, Transparency and Accountability, Technology adapting, Partnership and Coordination, Social Safety, and Investigation and suppression negatively correlate with job performance.

SOLUTIONS AND RECOMMENDATIONS

The Organization Culture Holding of Newly-Hired Customs Officers in Suvarnabhumi Airport Passenger Customs Bureau

After the statistic tested and supporting by in-depth interview; the null hypothesis was rejected, since there are only four organizational culture affecting the job performance of newly-hired customs officers. The research questions were answered as follow;

Research question 1 investigated the organizational culture that newly-hired customs officers hold to work in their job. The high-level organization cultures that newly-hired customs officers hold in their minds are social safety, facilitation, technology adapting, investigation and suppression, integrity, responsibility and task achievement respectively, but transparency and accountability, continuous learning, and partnership and cooperation were at a medium level. The public sector was reformed on October 2002. The OPDC provided the vision of bureaucracy reform of “Bureaucracy Development to Excellence, Supporting Development Administration is Globalization, Holding Good Governance in Administration and Citizenship Happiness”. Better service quality, rightsizing, high performance, and open bureaucracy were the goals of public sector reform. The seven strategies were implemented to bureaucracy reform. First, service standard and work process redesign; second, management re-structuring with a matrix organization structure; third, re-process financing and fiscal matters; fourth, new human resources management and compensation with a Balanced Scorecard and competency-based approach; fifth, paradigm change in culture and values to support bureaucracy development; sixth, modern public sector with information communication technology, and seventh,

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democratization. As can be seen, the new culture and values consist of moral courage, integrity and responsibility, transparency and accountability, non-discrimination, and result orientation. Moreover, the OPDC provides to take good governance implementation; rule of law, integrity, transparency and accountability, participation and responsibility, as well as new public management; public management quality awards, competency-based management, knowledge management, and learning organization.

The customs department takes these policies for implementation by providing the new vision of "World Customs for Competitiveness and Social Safety." Enhancing Growth and Development through Facilitation and Border Security in Thai Customs Administration.

The Thai Customs executives socialize all of above new management values and, the vision of customs to newly-hired customs officers continuously, especially the customs code of conduct; moral courage, integrity and responsibility, transparency and accountability, non-discrimination and result orientation. This research found that almost all newly-hired customs officers hold the highest regard for social safety in their work, because social safety is one of the major visions of which customs officers should have awareness. All of the leaders as the hierarchy level communicate the vision and, mission to newly-hired customs officers both face to face and using the intranet. Moreover, the training center trained the newly-hired customs officers both through on the job training and e-learning about the code of conduct, and the new culture and values. The chief of passenger inspection socializes them to be aware of the need to protect society by inspecting the passenger baggage that passes through the green channel, especially the prohibited goods and restricted goods. The restricted goods are defined as imported and exported goods which are restricted by law and therefore require a permit from the related government agencies. Prohibited goods are defined as the goods for which either the import into or export out of the country is prohibited, for example, counterfeit goods. As a result, it was shown that the newly-hired customs officers keep this culture in their mind both unconsciously and consciously. When they perform their work, they take it from tacit culture to express their behavior that supports their work to achieve the vision of the customs department.

The second highest culture that newly-hired customs officers hold was facilitation. This cultural aspect is concerned with taking care of passengers with a service-minded approach; answering the passengers' questions. However, the facilitation and security are like the two sides of the coin that are provided in the customs vision. The customs officer must find the balance between facilitation and security, while the security is defined as investigation and suppression and is customs' major vision while facilitation is defined as a service. As a result, it is shown that the newly-hired customs officers are aware that facilitation is more important than the investigation

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and suppression at Suvarnabhumi Airport workplace because Suvarnabhumi Airport is the first gate way for arriving foreigners in Thailand, which was named the Land of Smiles.

The next points are technology adapting and investigation suppression which were ranked third and fourth respectively. Currently, the customs procedure was performed electronically; e-customs work for both e-imports and e-exports. The newly-hired customs officers have excellent competence in technology adapting. They can use Microsoft Office and adapt to other software applications. Normally, the customs officers have duties both of facilitation and security, like both sides of a coin. One side is facilitation and on the other side is investigation of e-information from intelligence or profiling before performing their work. The intelligence and profiling will be taking place in the baggage examination of the passengers, if they suspect any person or baggage.

As a result, the lowest was partnership and cooperation and the second lowest was continuous learning culture. Normally, the private sector who are involved in the customs law have many agencies, including the airlines, immigration, police, the airport authority, and excise department. Sometimes there is conflict among all of these agencies because of different laws and misunderstanding of the role and responsibilities in the customs procedures. The customs have a duty to prevent the smuggling or evasion of customs taxes. At the border, exports and imports pass through land crossings, ports, and airports which were controlled by customs. Communication among these agencies and customs will decrease the conflict. Besides, the newly-hired customs officers must be aware of understanding and cooperation among agencies by participation with all of these agencies in various activities. The cooperation and partnership among agencies will support the Suvarnabhumi Airport to achieve global standards. The continuous learning culture is a major concept in new public management to develop the officers' competency to become customs professionals. The newly-hired officers should learn everything about their tasks and the other knowledge concerning enhancement of their competency both in knowledge and skill in tasks by using knowledge management, for example, risk management, the innovation in new goods, internet trading, new applications of technology, the methods of smuggling or evasion of customs tax, the international taxes, and so forth. These concepts are taken by a learning organization in the fifth disciplines (Senge, 2006).

The fact finding from this research shows that the newly-hired customs officers hold the highest regards for social safety, the second is facilitation, and the third is technology adapting in their minds when they perform their work at Suvarnabhumi Airport. These two organizational cultures, social safety and facilitation, are visions of the customs organization that are consistent with the concept sense-making process in organization entry; key activities, detection, diagnosis, and interpretation

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(Meryl Reis Louis, 1980) that change the roles, personality, and behavior of new entrant in accepting the new culture in an organization. In addition, these cultures were classified as concerning company slogans and mission statements as in the concept of Schein (1985). The perception of these cultures comes from sharing by organizational members. The members of an organization will contribute to the creation, maintenance, and development of these organizational cultures through their communication with other organizational members. When new members joint the organization, current members will be coaching and explaining the job and the organizational vision in line with the concept of Keyton (2005). It shows that socialization is a way to implement a culture that connects it to the organization membership. The newcomers will be selected in terms of their fit with the new culture in line with the concept of Burman and Evans (2008).

Technology adapting is a competency that was hidden in the younger generation because of the technology information era. when newly-hired entrant in the customs department express this skill clearly by holding the technology adapting culture to apply in their assigned tasks.

Next is the investigation and suppression, integrity, responsibility, and achievement which were held closely by newly-hired customs officers. These cultures are the functions that are consistent with concept of the constructive cluster. This concept is a cultural norm that reflects expectations for members to interact with others and approach tasks in ways that will help them meet their higher order satisfaction needs for affiliation, esteem, and self-actualization.

The Job Performance Level of Newly-Hired Customs Officers

Research question 2 investigated the job performance of newly-hired customs officers who perform their work at BKK airport passenger Customs Bureau. The result found that the job performance of newly-hired customs officers was at a medium rather than high level. The newly-hired customs officers greatest awareness was of the importance of timeliness in passenger examination because of the customs service charter which provides for five minutes for one pack of passengers' baggage to be scanned by x-ray machine (if no doubt) in the green channels, and 30 minutes for one passenger's baggage examination and items assessment in the red channels. This timeliness is consistent with the facilitation culture of service for passengers in line with the recommended timing.

The quantity of work, the result of work, and economics are appraised less than the timeliness. It shows that the quantity of work achieved is the goal of the customs charter service or task assignment. Moreover, the result of work achieved covers both output and outcome as the key performance index.

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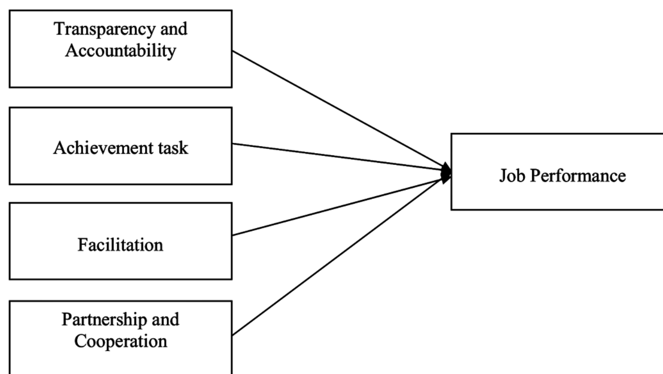
The total job performance was categorized to a high level. It is clear that the newly-hired officers intend to do their duty on revenue collection, trade facilitation, protection and suppression from smuggling, evasion of customs tax, and social protection.

The Correlation Between Organizational Culture and Job Performance in the Workplace at Suvarnabhumi Airport Passenger Inspection Customs Bureau

Research question 3 examines the organizational culture affecting job performance in the workplace. The results illustrated that the organizational cultural elements that affect to job performance comprised of transparency and accountability, achievement task, facilitation, and partnership and cooperation in the workplace as shown in Figure 2.

Figure 2. Organizational culture affects job performance



Since the end of the cold war spreading democratization, a shift in balance among the state, the market and civil society, globalization, and changing social more among other factors are altering the environment in which governments are operating. The explosion of new information and communication technologies is also allowing for a rapid, global diffusion of ideas and practices, enabling the public to demand higher standards of ethics, transparency and accountability in the public sector. These prerequisite values of good governance and sustainable development not only buttress responsive public policy and high levels of public sector performance but also play a crucial role in preventing the onset of systemic corruption. Transparency and accountability are key factors to encourage newly-hired customs officers to

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work openly. It can help to decrease the corruption in the public sector. They can account for the cause-effect from their actions. The executives must train and teach new officers to be aware of equality in service and non-discrimination.

Next, task achievement affects job performance. If organizations would like to get the result of work, the customs officers must enhance their competency by continuous learning both of tasks on duty and also concerning the environment surrounding the organization. Normally, the Thai government officers perceive the maintenance of good relationships as more important than work. It has been found that government officials valued "work" the least, while valuing "maintenance of good relationships" the highest of all. Almost all of them are keener on paying lip-service, taking bribes, and seeking good relations with the powerful others. Thai achievement scores were very low, and this is because it is in the cultural context where social relations were of utmost importance (Hanphakdeeniyom & Kimthaptim, 2018; Panpare, 2011). As mentioned, the executives of the customs department should socialize this culture to newly-hired customs officers by communication using both face to face and electronic approaches such as e-learning. Every day, socialization will change their behavior to support the achievement of the results of work.

Facilitation is another factor that affects job performance. The newly-hired officers must facilitate the passengers who are not in profile or high risk when passengers pass through the green channel. In addition, they must answer the passengers' questions with polite language, and solve the problem when the passengers do not understand customs procedures. They should try to explain about customs formalities both of the green channel, the red channel, the exemptions on tax for personal effects, prohibited and restricted items, customs bonding facilities, money declarations for importing or exporting Thai currency, VAT refunds for tourists and export customs formalities to passengers because almost passengers do not know how to carry out the customs procedures. Normally, in the airside zone at the Suvarnabhumi Airport, there is no information counter, and sometimes passengers ask the question that does not involve with customs procedures, so customs officers should know about the area and act as facilitators at the airport for answering.

The last factor that affects job performance was partnership and cooperation culture. This culture is most important for problem solving and resolving organizational conflict. The newly-hired officers should perceive that the other agencies at Suvarnabhumi Airport are in partnership with the customs department. Therefore, they must cooperate with other agencies to take activities like team work to develop Suvarnabhumi Airport to global standards.

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Recommendation

The researcher divided the recommendation into two parts. The first part is the research recommendation, and the second part is the recommendation of the results of the research.

1. The research recommendation

In this research, the conceptual framework was developed from the organizational culture theory and job performance. The independent variable consists of 10 variables; facilitation, continuous learning, task achievement, integrity, responsibility, transparency and accountability, technology adapting, partnership and cooperation, social safety, and investigation and suppression. All of these variables account for the job performance of newly-hired customs officers who perform their work at Suvarnabhumi Airport passenger inspection Customs Bureau. So, the academic and management purpose is to extensively develop the body of knowledge of organizational culture and job performance. Then the researchers recommend research in other sections of the customs department or other ministry for comparing the results of organizational culture held by newly-hired officers in terms of the effect job performance. The result will be useful to make a model to achieve bureaucratic development.

Leaders should socialize the newly-hired officers, in terms of training, open discussion, dialogue, to frame their self-perception, self-concept, organizational cultures, value, and the expectation roles. The leaders should act as change agent, and being a transformational leader who motivate, act as a role model, logic, and accountability, trust building. More importantly, the leaders shall practice according to OPDC all good governance reform guidelines for improving the public services, specifically civil service rather than capitalists. This is to change the negative images of Thai style public organization. The ten organizational cultures of Customs Bureau shall be cultivated to newly-hired, then focusing on the cultures which would enhance high performance. However, the transformational leadership should conduct the pre-test the customs culture before socializing on every onboard training. The pre-test would help the development plan run more effective, and in which cultural points to focus. Since, the individual has different set of values, belief, knowledge, and skills.

2. Recommendation of the results of the research

As the result from this research, the newly-hired customs officers hold the continuous learning culture at a rather low level, although this culture is most important to enhance their competency. So, the leader should socialize them by face to face

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communication when they are meeting, holding conferences, at morning breakfast, and during work time, In addition, electronic communication should also be used as well as knowledge management, because the leadership affects culture change, especially when it involves top-management commitment. It is very important to keep in mind that culture change must be managed from the top of the organization, as the willingness to change of the senior management is an important indicator. The top of the organization should be very much in favor of the change in order to actually implement the change in the rest of the organization (Burman and Evans,2008).

FUTURE RESEARCH DIRECTIONS

For the outlook on future research, scholars and professionals should track the managerial value trends which are fluctuating and always changing according to the surrounding environment. Most noticeable is the fast-moving technology trend that is shaping human ways of life. It is vital to consider how leaders would blend the technology culture with the organizational culture effectively. The other challenges for Thailand include the political and social context both within the country and the world. For instance, social structure reform, the population and education quality, the aging of society, the changing of values and culture, and the improvement of administrative quality in public services to meet the expectations of the people. The program called Thailand International Public Sector Standard Management System and Outcomes or Thailand International PSO, aims to integrate the public working process and organizational culture to be more effective (Pathranarakul, 2017). This issue needs to be studied in various sector of the public services.

CONCLUSION

Finally, it can be noticed that the instability of the environment is dynamic, chaotic, and more importantly leads to the advancement of technology which organizations must adapt. The setting of organizational culture in a specific time might not fit with the postmodern environment, together with the leader's management values to cultivate the right culture for high performance. As a monopoly public service, the Customs Bureau has not been significantly affected by environment changes apart from technology and the need to manage diversity at work to achieve the organization goals. Cultivating the organizational cultures, a leader must understand the set culture clearly to communicate, lead, and implement to subordinates. As this research revealed, the public service in Thailand must follow the policies from the OPDC organizational culture and put them into practice. To this extent, the leadership

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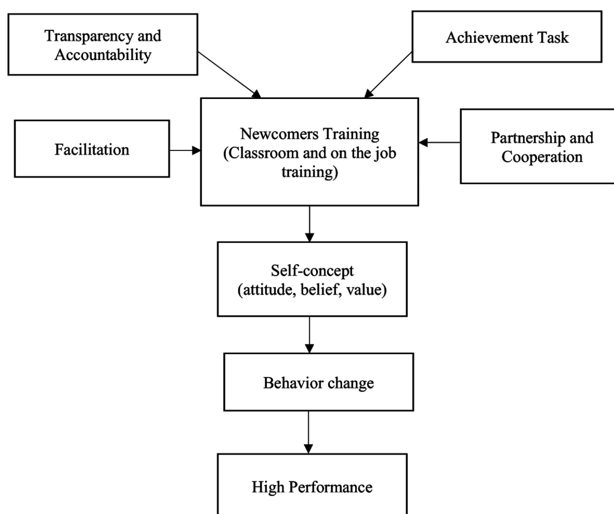
is highly important in leading the cultural change effectively. Leaders must develop a clear vision, share values, exhibit commitment, be supportive for the changes, and socialize new staff and team members. Every leader at the hierarchy level of Suvarnabhumi Airport Passenger Inspection Customs Bureau shall communicate the continuous learning to the newly-hired customs officers in various channels continuously, especially through two-way communication.

In this way, this culture will be absorbed to their minds and behavior to support high performance. In addition, the customs training center should take the organizational culture that affects job performance, transparency and accountability, task achievement, facilitation, and partnership and cooperation to provide the curriculum for newcomers' training, both in the classroom and on the job, which will enhance their competencies in operation as shown in Figure 3. As Lundberg and Westerman (2020) suggest workplace learning was an important issue in striving for organizational success. The role of leader is a fostering and authoritative role to reshape the organizational culture and capabilities. This means that all employees should pursue learning and growth focusing on developing the right mindset and behavior rather than needed skills. This would enable the workforce to perform better in tasks, and in the future one cannot predict the shift of competencies required for the near future, due to the dynamic changes in technology and the business environment. Meanwhile, the balancing of face-to-face and digital learning has to be implemented. This would allow learners to engage in effective digital learning experiences. Among other things, face-to-face training would allow employees to learn cross-cultural and functional tasks.

Figure 3. Training model for newly-hired customs staff



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KEY TERMS AND DEFINITIONS

Customs Department: In the past, Thai Customs were known as Monopoly Tax Collector, since the main duty was collecting taxes and duties on imports. Presently, the responsibility of the Thai Customs Department has been changed due to globalization. The role of customs is trade facilitation, control of goods movement, and supply chain security.

Job Performance: Defined as the performance which is composed of quantity and quality of work, timeliness, economics, and the result of the work.

Managerial Values: The principles of administration and management of an organization striving for optimal success.

Millennial: Persons who were born between 1979 – 1997, also known as Gen-Y. The important issue is growing up with technology. They are digitally literate, open, socially adept, innovative, and enjoy learning and entertainment.

Office of the Public Sector Development Commission (OPDC): It is the key body for public administration development in Thailand. The OPDC is responsible for giving advice and recommendations for bureaucracy development in public sector duties including structure, budget, personnel system, moral and ethics, compensation, and public sector practices.

Organizational Culture: Defined as the culture of the organizational concerned with vision and mission including work-related matters of job duty of the Thai Royal Customs department which consist of Facilitation, Continuous learning, Professional customs officer, Task achievement orientation, Integrity, Responsibility, Transparency and accountability, Technology adapting, and Cooperation partnership.

Thailand International Public Sector Standard Management and Outcomes: This organization was set up by OPDC in order to develop international standard management and outcomes for the Thailand public sector. This organization focuses on the holistic system and process of developing reach to the achievement of the outcomes.

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Chapter 8
Employee Ownership in Morocco:
An Exploratory Study of Its Attitudinal Effects at Work

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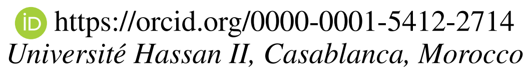
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ABSTRACT

The aim of this work is to carry out an exploratory study on the situation of employee share ownership in Morocco in order to detect the effects induced by ownership on motivation, organizational involvement, and the intention to leave. To this end, the authors have used agency theory, which offers an interesting framework for analyzing the practice of employee share ownership, and they have proposed a synthesis of empirical work on the organizational effects of property. Subsequently, they set out their empirical approach in order to explain the progress of the field survey, which relates to the description of the situation of employee shareholding in Morocco. The results obtained confirm the empirical studies analyzed and show that employee share ownership improves the feeling of belonging to the company, motivation, and organizational involvement. On the other hand, ownership makes it possible to lower the departure intention of employee shareholders.

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INTRODUCTION

Employee share ownership is a growing practice that has developed in most industrialized and emerging countries because of its notorious and virtuous effects on the labor climate, employee attitudes and earnings sharing. This has attracted considerable interest both in academia and among politicians and practitioners.

Employee profit-sharing aims to achieve a twofold objective, the first is to provide equity financing to companies and the second is a way to better share wealth with employees. Beyond this win-win agreement between the company and its employees, the reconciliation between capital and work is in-depth and allows radical changes to be made to businesses and affect both workplace behavior and financial and stock market performance of the companies that set it up.

In Europe, employee share ownership is a firmly anchored practice and in 2018, European employee shareholding reaches for the first time € 384 billion, representing a stake in the capital of 3.11%[1].

Indeed, according to the same study, nearly 87.3% of large European companies already have employee share ownership plans, with an average increase of 3% to 4% each year. And the average holding by non-executive employee reached 28,000 Euros in 2018.

And France is the European leader in the democratization of employee ownership this place is mainly due to French laws favorable to participation and tax incentives. Indeed, France is the only European country which has decreed the obligation of profit sharing for all companies employing at least 50 employees.

This mutual commitment of governments and companies in favor of the expansion of employee share ownership reflects the economic interest of the practice, which constitutes both a fair device for sharing profits and a lever for organizational behavior aimed at increasing employee inclusion, commitment and satisfaction.

In Morocco, the practice of employee share ownership remains largely unknown and companies do not easily offer capital shares to employees. Indeed, Employee shareholding operations are generally reserved for large groups and large market capitalizations. Recently, La Banque Centrale Poulaire (BCP) and Attijariwafa bank are strengthening their employee shareholding through capital increases reserved for employees. At Attijariwafa bank, the share of employees is increased to 3.65% after the operation of 2.4 billion DH. The leaders highlight the desire to consolidate ties with employees and improve their sense of belonging.

Also, the Moroccan telephony leader (Maroc Telecom) announced a recent public sale offer worth 0.3% of its capital (i.e. 16.7% of the size of the operation) at a price of DH 117.7 against 125.3 DH for the general public.

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The subsidiaries of foreign groups are clearly distinguished in the practice of employee share ownership with good recurrence, around 8 to 9 offers per year over the last 4 years.

In the first six months of 2019, 7 international groups activated this shareholding mode. These are Crédit Agricole, Veolia, Société Générale, Tui, Vinci, Total, Airbus SE.

For example, on September 24, 2019 The Moroccan Capital Market Authority (AMMC) informed the public that Veolia Environnement had implemented a major employee shareholding campaign for 140,000 employees in the groups in 40 countries including Moroccan subsidiaries. The leaders highlight the desire to strengthen the ties of employees with their company by associating them with its capital and its performance.

Employee share ownership does not seem to be a device rooted in the practices of Moroccan companies despite the legislative texts that encourage it.

According to the Finance Act 2013 and the General Tax Code, the Moroccan legislator devotes several tax incentives to companies that apply employee ownership.

And to encourage the spread of employee share ownership in Morocco, academic work must, further, highlight the positive effects of employee share ownership on organizational performance and behavior at work.

Our research has invested this objective by conducting an exploratory study on the attitudinal effects of employee share ownership in Morocco.

THE STUDY'S THEORETICAL FRAMEWORK

To analyze, theoretically, the attitudinal effects of employee share ownership, we used agency theory. This theory focuses mainly on behavior and incentives within companies. The agency theory presents employee share ownership as an incentive mechanism to limit the sources of conflicts between managers and employees of the company. By giving rights to share the wealth created, employee shareholding allows, according to this theory, to achieve the convergence of interests and better cooperation by limiting the sources of conflicts. As a result, the agency theory offers a relevant framework for examining the practice of employee share ownership. To drive and solve problems in an agency setting, employee share ownership is seen as a stimulating tool that can lead to an alignment of interests within a company.

Return on the Agency Theory

The first work on agency theory was carried out by Ross (1973, p. 136), who explains the agency relationship as the relationship that is created when one of the

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two parties, designated as the agent, acts either on the part of or on behalf of the other, designated as the principal, in a particular area of decision-making.

A little later, Jensen and Meckling (1976) define the agency relationship as a contract in which one (or more) person (s) use the services of another person to perform any task on their behalf. This involves delegation of a decision-making nature to the agent.

According to Eisenhardt (1989), agency theory is concerned with solving two major problems, the first concerns the conflicts inherent in the divergences of interests between the principal and the agent and the second is linked to the difficulty in the principal to control the work of the agent. Indeed, it is costly and difficult for the principal to verify whether the agent's behavior is adequate with the objectives of the organization. The latter problem is related to the risk sharing problem that arises when the agent and principal's view of the risk is different.

According to Charreaux (2002), agency theory uses the notion of contract to analyze the relationship between the principal and the agent. It seeks to determine the most effective form of contract that governs this relationship and this by making a number of assumptions about individuals, organizations and information.

Agency theory has developed in two directions: the positivist path and the principal-agent path. These two lines of research use the same unit of analysis which is the contract, and have common hypotheses on individuals, organization and information.

In order to better understand the role of employee shareholding in aligning the interests of company stakeholders, we propose to analyze the forms of divergence of interest between, on the one hand, the shareholders and the manager and on the other hand, the manager and the employees.

The Divergence of Interest Between the Shareholders and the Manager

According to Jensen and Meckling (1976), managers are the agents of the shareholders within the company and have the role of managing the company by promoting the interests of the shareholders. However, they tend to act in different ways to maximize their respective usefulness. Indeed, according to Jensen and Meckling, the manager tends to appropriate part of the firm's resources in the form of privileges for his own consumption (discretionary expenses). In order to strengthen his position within the organization, the manager may prefer the growth of turnover to that of profit or even put the social interest of the company before the financial interests of shareholders (distribution of dividends or revaluation of securities) or employees.

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According to Fama (1980), the divergence of interest is fueled by the difference in risks that each party incurs. If the shareholder fears the loss of his dividends, the manager can apprehend the loss of his job and his value on the job market.

Fama and Jensen (1983) explain that the problem of imperfect observability of the costs of drawing up and enforcing contracts aggravates the question of the divergence of interests between shareholders and managers

In the managerial firm, the asymmetry of information and the uncertainty (moral hazard) relating to the quality of the results obtained influence the agency relationship between shareholders and managers.

The Divergence of Interests Between the Manager and the Employees

According to Desbrières (2002), an agency relationship becomes conflictual in the event of a divergence of interests between the principal and the agent, and imperfect observability of the costs of establishing and executing contracts. Conflicts related to the relationship between managers and employees arise from the question of the incompleteness of contracts and the propensity, each one has, to favor their own interest. According to him, employees can undertake what Desbrières call "behavior harmful to the interests of managers and shareholders", (Desbrières 2002, p. 259).

In order to compensate for the non-diversifiable nature of the investment in the firm of their human capital, these behaviors can materialize, for example, by the reduction of individual efforts, and absenteeism, which is likely to generate losses in quality, productivity and profitability of the firm. According to the same author, the agency relationship between the firm and the employees is basically "inherent in the separation of decision-making and implementation functions"

He adds that the agency relationship between the firm and the employees becomes more confrontational and more costly with the increase in the level of delegation. And it presents, as such, the example of operational decisions delegated to executives in complex firms, strategic decisions and the control function remaining the prerogative of general management.

Fama and Jensen (1983) explain that the organization becomes complex when the information essential for decision-making (specific information) requires a high cost and is owned by several agents. In this case, delegating decision-making to agents becomes a necessity to ensure efficiency in complex organizations. This delegation will impose rules on the management of "organizational architecture". Charreaux (2000) evokes in this respect, the role of the system of distribution of decision rights between the agents, and the system of evaluation of their performances and the system of sanctions / rewards.

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Agency Theory and Employee Share Ownership

Employee share ownership within the framework of agency theory leads to the alignment of interests within the firm. Indeed, the dual privileged status of shareholder-employee makes it possible to accumulate the advantages linked to the shareholder status to those linked to the employee status.

In addition, this statute constitutes an incentive mechanism aimed at aligning the interests of employees and shareholders and correspondingly limiting the sources of conflicts and thus reducing agency costs.

Employee shareholding in the context of the agency relationship is multifaceted. According to Hollandts (2007), the employee shareholder is first, an employee who undertakes to perform work on behalf of the manager, in return for a previously agreed compensation represented by the salary.

However, the employee shareholder is at the same time a shareholder of the firm, he is therefore the holder of a financial and political right vis-à-vis the manager which gives him the possibility of controlling the manager. La Bruslerie (2001) describes this ambivalent relationship which links the employee shareholder to the manager as "double moral hazard", each of them is both principal and agent, the agency relationship requires both, to control each other's work. the other.

In a second meaning, Rottenberg (1962) considers that employees rent their human capital to the firm and receive, in return, a quasi-rent.

In this regard, Desbrières (2002) explains that employees are no longer considered as agents but rather as "principals of the contractual relationship that they maintain with the firm. The traditional conceptual scheme is therefore reversed. In this context, employees can see the marginal productivity of this capital affected by the decisions of managers.

The interest of employee share ownership is then to give them a certain number of rights which allow them to safeguard their interests. But also, exercise a right of control over the strategic decisions of the firm and the behavior of managers, by attending the board of directors or supervisory Desbrières (1997).

In addition, Autenne (2005) explains that the granting of remuneration linked to the company's performance will encourage employees to adopt positive behaviors.

Eisenhardt (1989) explains that the employee, in a situation of uncertainty, faces risk aversion, so we can assume that employee share ownership is likely to increase the risk incurred by the employee. However, employee share ownership, by entering into an agency relationship, allows the employee shareholder to reduce this risk of uncertainty by two means:

1. The reduction of information asymmetry, by the right to information, as shareholder of the company.

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2. Contribution to decision-making by participation in general meetings.

On the other hand, employee ownership is also a solution to agency problems. Desbrières (2002), Dondi (1993) and Gamble (2002) explain that employee share ownership allows:

- Reducing agency costs, aligning the interests of employees with those of shareholders.
- Superior cooperation between employees and managers.
- The decline of conflicts within the organization.

As Desbrières (1997) points out, being a shareholder allows companies to go further than simple participative management. According to him, the employee shareholding allows the confrontation of different sources of information to limit the propensity of the leaders to adopt an opportunistic behavior, in addition to the possibility of political participation which it confers.

The examination of employee share ownership in an agency framework, allows us to conclude that employee share ownership has a positive influence on organizational behavior.

SYNTHESIS OF EMPIRICAL STUDIES

The majority of empirical studies dealing with induced effects of employee ownership on organizational attitudes show that participation contributes to the emergence of productive behaviors.

Long (1978a, 1978b, 1980 and 1982) found in his research a higher motivation among employee shareholders, mainly due to the perceived participation in decisions.

The direct link between motivation and performance has been studied by Russell and al. (1979), their results show the existence of a higher quality of work among employee shareholders, explained by a clear decrease in customer claims.

The survey conducted by Dondi (1994) states that for French companies motivation is the primary objective assigned to employee share ownership.

And as a direct result of motivation, productivity is one of the notorious effects of a policy based on employee ownership. In this respect, Jones and Kato (1995) find a productivity increase of 4% to 5% just 3 to 4 years after the introduction of employee share ownership plans.

In a French context, the study conducted by Vaughan-Whitehead (1992) confirms that the practice of employee share ownership generates positive effects, namely:

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increased motivation and employee involvement; a reduction in absenteeism and turnover; an improvement in the quality of production and productivity;

Similarly, the attitudinal study by Caramelli (2006) shows that employee share ownership has positive effects on emotional involvement, job satisfaction, motivation and retention of staff.

The study by Elouadi (2015) and Elouadi et al. (2016) on French companies shows that employee share ownership leads to improved employee shareholder satisfaction, better organizational involvement and a lower departure intention but this satisfaction is conditioned by the presence of financial and political incentive variables such as employer contributions and participation in the board of directors.

Another study by the same author concludes that employee share ownership leads to a decrease in the intention to leave in the context of French companies in the SBF 250 index, (Elouadi and Noamene, 2017).

Similarly, a comparative study conducted on two large co-ownership retailers in Spain and Great Britain finds that employee share ownership is linked to higher productivity and lower turnover, but the study highlights other effects on attitudes such as increased absenteeism (Basterretxea and Storey, 2018).

In another context, a recent study on Cameroonian companies explains that the average level of shareholder wealth creation tends to increase for companies with the highest share ownership rate, and the study concludes that Employee share ownership is a lever for creating shareholder wealth in Cameroonian companies (Alim, 2019).

THE EMPIRICAL ANALYSIS

Through this empirical study, we aim to collect up-to-date data, to fill the lack of information on the current situation of employee shareholding within the Moroccan company.

We also seek to study the effects of employee share ownership on organizational attitudes.

The survey is carried out online by email by sending the questionnaire's web link. The data relate to the end of 2018.

Our questionnaire includes questions that will allow us to describe the status and characteristics of the employee employee Moroccan through questions on age, function, sex, level of education and seniority.

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RESULTS AND DISCUSSION

Description of the Sample

According to the results obtained from our survey, the majority of employees who completed the questionnaire are male, namely 58.5% of men against 41.5% of women.

The most dominant age group of respondents is that under 30 years of age, a percentage of 43.4%; the second bracket and that of respondents whose age varies between 30 and 40 years. In addition, employees between the ages of 40 and 50 account for 21.7% of all respondents against the minority aged 50 or more.

38.7% represents employees with a bac + 5 level. This group represents the majority of respondents. And 24.5% of respondents have a level of 3 years of education after the baccalaureate.

The majority of the employees surveyed occupies a position that practically requires higher professional training, 42.5%, against the percentage of only 20.8% which represents first-level managers. And 13.2% of employees hold a senior management position. Commercial and marketing services dominated with a percentage of 29.2%, and around 60% is distributed among the other services, namely: 14.2% finance, 11.3% accounting, 16% for human resources management; 13.3% of those questioned did not specify their services.

The seniority of the employees is an important element in our study. To this end, 48.1% of the employees who completed the questionnaire have a seniority which varies between 5 years and 10 years; on the other hand 34.9% have a seniority of less than 3 years. Furthermore, only 17% of respondents have more than 10 years of seniority.

The major question of our survey is to study the situation of employee shareholding in Morocco, for this purpose, 43.4% of the employees questioned answered "yes" against 56.6% who are not shareholders of their companies.

Most employee shareholders buy between 10 and 30 shares, a percentage of 43.9%, and 31.6% own more than 30 shares. Only 24.6% of the employees questioned own more than 100 shares.

Only 27% of respondents own shares in other companies, while 73% of employees do not own shares outside their companies.

24.1% of the employees questioned have been shareholders for less than a year, the same percentage of employees own shares between 2 and 3 years. According to the diagram, we can see that very few employees have owned the shares for a long time.

89.8% of employees think that the stock price of their shares has risen sharply against only 10.2% who say that the value of their shares has fallen.

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According to statistics, we see that the majority of employee shareholders perceive ownership of the securities as an element of their remuneration, an element of political participation in decision-making.

The employee shareholders interviewed displayed a good understanding of the financial information received from their companies, with good availability of it.

And with regard to the propensity to invest in shares in their company, the large majority thinks of reinvesting the premiums and dividends received in title deeds of their companies

Comparative Analysis Between Employee Shareholders and Non-shareholders

- **The Comparison in Terms of Motivation:** Employees who are not shareholders display less motivation than employee shareholders. In fact, 60% of non-owner employees no longer give the best of themselves in their work against only 33% among employee shareholders.

Results show that the feeling of belonging is lower among non-shareholder employees. In fact, 73% do not feel a strong sense of belonging to their companies against only 28% among employee shareholders.

- **The Comparison in Terms of Emotional Involvement:** We find that the feeling of belonging is lower among non-shareholder employees. In fact, 73% do not feel a strong sense of belonging to their companies against only 28% among employee shareholders.
- **The Comparison in Terms of Emotional Involvement:** We see that the departure intention is higher among non-shareholder employees. In fact, 83% of non-shareholder employees often think of leaving their companies against a small percentage of 20% among employee shareholders.

The results obtained confirm the empirical studies analyzed and show that employee share ownership improves the feeling of belonging to the company, motivation and organizational involvement. On the other hand, ownership makes it possible to lower the departure intention of employee shareholders.

Our results are consistent with a recent study by Degbey et al (2020) which states that in the context of mergers and acquisitions, employee share ownership through the feeling of psychological ownership plays a positive role in retaining employees with direct and mediating effects as employee engagement and involvement.

Similarly, the study carried out by Saylor (2017) in the specific framework of CPA companies proves the positive effects of employee share ownership on the

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retention of the best employees and the improvement of performance, by acting on productivity, sales and growth.

Other previous studies confirm the positive attitudinal effects of property, we cite in particular the study of Tucker et al (1989) carried out in a longitudinal framework, the results obtained the positive role that employee shareholding plays in improving satisfaction and organizational commitment.

Also, the work of Buchko (1992, 1993), Frohlich et al (1998) and Hallock et al (2003) highlight the existence of a positive relationship between ownership and the organizational involvement of employees.

CONCLUSION

Our work aims to describe employee shareholding in Morocco. We conducted an exploratory study on the characteristics of employee share ownership and its repercussions on the motivation, involvement and intention of employees to leave. The results highlight the existence of the granting of shares to employees who have a high level of training. And the latter regard it as an element of remuneration and a tool for political participation in decision-making. The employee shareholders interviewed affirm a good understanding of financial information and develop a propensity to invest dividends in shares, which reflects their satisfaction and the loyalty cultivated towards the company.

Also, the comparison of statistics between employee shareholders and non-shareholder employees proves the positive effects of ownership on organizational motivation and involvement and the reduction in departure intention. These results should encourage managers and executives to set up employee share ownership plans in order to benefit from the fruits of better cohesion and belonging to the company.

In addition, the results of our study must be understood and interpreted, bearing in mind different methodological limits.

Indeed, our study was content to describe the situation of employee shareholding in Morocco through the realization of a questionnaire survey using descriptive statistics, the results must indeed be analyzed in a statistical framework more robust like structural equations in order to better study the particularity of shareholding in Morocco.

We are also thinking of widening the framework for disseminating the questionnaire in order to include a larger number of respondents. For all these reasons, we invite Moroccan researchers to invest more in studies on employee shareholding to enrich empirical work and offer managers elements of answers concerning its induced effects on work behaviors and organizational performance.

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APPENDIX: THE QUESTIONS OF OUR SURVEY

Question 1: Are you:
1- a man
2- a woman
Question 2: How old are you?
1- Under 30
2- From 30 to 40 years old
3- From 40 to 50 years old
4- 50 years or more
Question 3: How many years of University studies have you completed?
1- Two years after the bac
2- 3 years after the bac
3- 4 years
4- 5 years
5- More than 5 years
Question 4: What kind of work do you do?

- A job normally requiring general training (office worker, secretary)
- A job normally requiring professional training (technician, skilled worker, nurse ...)
- A job normally requiring higher professional training
- Responsible for one or more subordinates (first level manager)
- Responsible for several managers (senior manager)

Question 5: In what function do you work?
1- Purchasing Department
2- Commercial, Marketing, Communication
3- Finance
4- Accounting
5- Human Resources Management
6- Computing, Information Systems
7- Other
Question 6: Please indicate how long you have been working for this company
Less than 3 yearsü
From 5 years to 10 yearsü
Over 10 yearsü

The second part of the questions focuses on share ownership through questions on the shareholding, the number of shares, the duration of ownership, the ownership

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of shares belonging to other companies and the number of year of detention. The questions are:

Question 7: Are you a shareholder in your company?
1-Yes
2-No
Question 8: If you are a shareholder in your company, can you tell us roughly how many shares you own?
1- Less than 10
2- More than 20
3- More than 500
Question 9: Do you own shares in companies other than your own?
1-Yes
2-No
Question 10: About how long have you owned your company's shares?
1- Less than a year.
2- Between 1 and 2 years
3- Between 2 and 3 years
4- Between 3 and 5 years
5- Between 5 and 10 years old
6- Over 10 years

The third part of the questionnaire includes questions on the market value of the shares held, the perception of employee shareholding and the quality of the financial information received as a shareholder in his company. The questions are:

Question 11: Since you own shares in your company, their value has:
1- Significantly lowered
2- Significantly increased
Question 12: "Indicate your level of agreement or disagreement with the following statements

For me, Employee Ownership is ... "1- completely agree to 5-not at all agree

1. An element of my remuneration
2. A way to build savings
3. A way to profit from my company's profits
4. A way to participate in decisions that affect my work
5. A way to participate in decisions that affect my business as a whole
6. A way for the company to give more consideration to its employees

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7. An important element of my company's culture

Question 13: Indicate your degree of agreement or disagreement with the following statements: (1- strongly agree to 5-strongly disagree)

1. The information I receive regarding my voting rights as a shareholder is clear and easy to understand
2. In general, I do not read the documents that the company sends me concerning my actions
3. The papers I receive concerning my actions are too complicated, I don't fully understand them
4. I never understood how the vote of employee shareholders worked
5. I don't really understand anything about the company's share offers

The last part of the questionnaire incorporates the key variables from our survey. These are the propensity to invest in your company's shares, motivation to work, emotional involvement and the intention to leave the company. Through the comparison between employee shareholders and non-shareholder employees, we will be able to see the organizational effects of employee share ownership. The questions are:

Question 14: Indicate your level of agreement or disagreement with the following statements: 1- strongly agree to 5-strongly disagree

1. In general I prefer to invest my incentive and participation bonuses in shares or shares of my company
2. When I receive a dividend, I prefer to invest it in my company's shares rather than receiving the money
3. When there is a share offer in the company, most often I participate
4. When possible, I invest money in my company's stock
5. In general, I sell my company's stock as soon as possible.
6. In the next offer, I will definitely buy shares in my company

Question 15: Please indicate to what extent you agree with the following statements: (1- strongly agree to 5-strongly disagree)

1. For personal reasons, I no longer give the best of myself in my work
2. For the next few months, given my motivations, I plan to work very hard
3. If I had the opportunity to change jobs, I would devote more effort to it than what I currently provide in my work
4. The number of tasks I want to spend a lot on has decreased over time
5. Since taking up this position, (when you think about all the changes you have experienced), do you feel that the level of intensity of your efforts has: (1-much decreased to 5-much increased) .

Question 16: Please indicate to what extent you agree with the following statements: (1- strongly agree to 5-strongly disagree)

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1. I would be very happy to stay in this company until the end of my career
2. I really consider the problems of this business as if it were mine
3. I don't feel like a "family member" in this business
4. I don't feel emotionally attached to this business
5. This business means a lot to me
6. I don't have a strong sense of belonging to my business

Question 17: Please indicate to what extent you agree with the following statements:
(1- strongly agree to 5-strongly disagree)

1. I often think about quitting this job
2. If I was offered a similar job in another company I would accept it
3. I will definitely be looking for a new job by next year

To carry out our exploratory study, we initially sent 230 questionnaires to the various employees of Moroccan companies. And we got 113 completed questionnaires.

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Chapter 9

Shifting Our Lenses to Behavioral Finance Paradigm:
CEO Inopportune Optimism and Financial, Non-Financial Communications

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ABSTRACT

Recent crisis periods have shown how corporate communication could contribute to organizational performance regarding financial outcomes, reputation concern, etc. The efforts to reduce information asymmetry, deal with agency problems, improve stakeholder engagement have brought it to the fore. Past research on reporting mechanisms has overly focused on its normative structure and manifested ethical or problematic issues. Some research has argued credibility of both reporters and assurance providers of this information. Although some limited research on management control over reporting mechanisms and on some weaknesses of assurance providers' verification statements, this research doesn't explain enough why this manipulative control occurs. Shifting our lenses to behavioral finance paradigm, it's understood that judgmental decision making seems to be exposed to diverse systematical biases and fallacies. Amidst them, inopportune optimism, alias overconfidence, stands for one of the most serious biases.

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INTRODUCTION

"*...The illusion that we understand the past fosters overconfidence in our ability to predict the future...*" *(Kahneman, 2015)*

Companies utterly attempt to survive in a global cutthroat competition environment. And, information has actually made a world of difference in early 2000s since accounting/auditing scandals, market collapses have amplified significance of all relevant information, let alone financial information. Unfortunately, companies have discerned that they couldn't ensure their survival in this environment through focusing merely on financial outcomes. Through a battery of ethical, disciplinary, institutional arrangements aimed for reconstructing confidence in financial reporting (FR) functions and toward the goal of sustainable development, companies have to both disclose financial/non-financial data in concordance with global standards and also to ensure this information's credibility for their stakeholders. At the same time, the efforts to reduce information asymmetry through signaling theory, and to improve stakeholder relations have conspicuously brought corporate communication to the fore. Considering signaling theory, information disclosed by companies doesn't seem to decrease definitely. Then, striving to ensure accuracy and credibility of this immense information seems a vital task and this requires first to know what's actually going on in corporate communications.

Past research on financial reporting (FR) and sustainability reporting (SR) has overwhelmingly put emphasis on its normative structure and manifested ethical or problematic issues. Or, research has widely argued credibility of both reporters and assurance providers of this information. Although limited research referring to management control over these reports and to some weaknesses of assurance providers' statements, this research body doesn't explain enough why this control or weaknesses occur. Additionally, the research arguing personal attributes of these actors (e.g., management and responsible reporting staff, assurance providers) is interestingly rare. By the virtue of signaling theory, it is well known that companies as more informed parties could convey this valuable information to stakeholders as less informed parties (Karaman et al., 2020) in order to ameliorate information asymmetry. This theory also discusses that firms could disclose favorable information more in order to communicate positive firm attributes to outside users (Connelly et al., 2011). According to Stiglitz (2000), presence of asymmetry especially gets crucial for two types of information: Information about quality, information about intent. Yet, the latter is not as easy as the former to be detected since this task necessitates to invoke unobservable constituents or behavioral processes. Further, upper echelons approach (Hambrick & Mason, 1984; Hambrick, 2016) which purports that organizational decisions reflect views and tone of top management really helps

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researchers and practitioners in understanding corporate decisions. However, this approach overly focuses on observed features of top management, ignoring cognitive aspects of upper echelons as mentioned by themselves. Fortunately, with the advent of prospect theory (Kahneman & Tversky, 1979), relatively ignored psychological or unobserved features have enabled actual behavior, let alone financial behavior, to be completely understood. First, people aren't rational. Due to bounded rationality (Simon, 1955), people don't behave rationally in every time. They could make computational errors, evaluate stochastic probabilities improperly. They even don't have the information enough regarding decision alternatives. Moreover, deviations from rational behavior are systematic, not random. Due to some biases, they systematically behave irrationally.

Overconfidence bias is recognized as a cognitive limitation in behavioral finance literature and it exists when people are greatly optimistic in their initial assessment of a situation and hence aren't good at taking new additional information into consideration due to their starting overconfident thinking (Fischhoff et al., 1977). Overconfident people are generally said to think optimistically about uncertain outcomes, themselves and their decisions, hence tend to ignore relevant information about the possible outcomes pertaining to their decision-making tasks. There has been a proliferation of research manifesting the impact of overconfidence on various decision-making contexts. In managerial context, top managers tend to make more corporate investments since they're more likely to overestimate expected returns of investment alternatives (Malmendier & Tate, 2004). They also provided evidence on the positive relationship between merger decisions and overconfident CEOs (Malmendier & Tate, 2008). Further, Busenitz and Barney (1997) showed that entrepreneurs are more likely subject to decision-making biases than managers in large organizations.

What's more, there're some studies on importance of CEO/CFO characteristics on reporting outcomes (see Habib & Hossain, 2013 for a review). For example, it is found that overconfident managers use earnings management strategies more. Similarly, Presley and Abbott (2013) draw evidence of positive relation between CEO overconfidence and financial restatements. Moreover, Schrand and Zechman (2012) have found that overconfident managers are more likely to appeal to financial misreporting. Duellman et al. (2015) provide evidence of a negative relation between managerial overconfidence and audit fees. A study has documented that managerial overconfidence caused an increase in auditor's perceived risk of client fraud behavior (Johnson et al., 2013). Hsieh et al. (2018) have documented that companies more likely engage in tax avoidance activities when they have both overconfident CEO and CFO. Briefly, CEO overconfidence- or inopportune optimism in this chapter- seems to be a notable factor on corporate decisions since these people are ramblingly optimistic about both their abilities and also uncertain outcomes in the future. What's

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worse, considering the link between CEO overconfidence and unethical or erroneous behaviors, corporate communications and stakeholder relations could suffer from it.

Perhaps, company's responsible managers couldn't be overconfident yet they would show obedience to authority (let's remember Milgram experiment). When two counterparties are overconfident, resultant behavior seems more hazardous (e.g., Hsieh et al., 2018). Considering agency theory, evidence of managerial overconfidence on FR outcomes could turned into a critical question regarding all corporate communications, let alone to FR. Myriad data are disclosed by companies almost every day. Present/future investors exploit these data and apply to financial and social criteria in their investment decisions. To get to the main point, through integrating upper echelons approach and behavioral finance paradigm, this chapter attracts attention to the link between CEO's inopportune optimism and corporate communications and provide insights into CEO's manipulative power on these communications and hence into probable risk of conveying this huge information to all stakeholders in a misleading or abuse way. This chapter could contribute to extant research. First, it is an interdisciplinary study through combining behavioral finance paradigm in finance with upper echelon theory (UET) in management. Second, extant literature has overwhelmingly argued normative structure of FR/SR mechanisms and this chapter exerts an effort to approach corporate communication issue from relatively unstudied perspective. Further, it tries to extend corporate communication comprehension into manipulative risk of some biased and hence probable misleading behaviors displayed by all actors in these processes. Accordingly, it provides new insights and research areas for future studies.

The remaining part of the chapter is organized as follows. First, it will give business environment in the light of the most recent challenges and also put forward extant knowledge about the corporate communication. Second, corporate financial communications and non-financial communications will be mentioned and limited to financial reporting and sustainability reporting respectively. Further, the chapter will refer to its main bolstering theories all of which are upper echelon theory, behavioral finance paradigm and then will bridge this relatively new perspective to matured corporate communication issue, approaching it from the visible toward the invisible. Last, the chapter will suggest some solutions in order to ameliorate the hazardous effects of CEO's inopportune overconfidence on corporate communications. Also, this chapter presents new research areas since it puts only emphasis on overconfidence amidst many biases suggested by behavioral finance and it focuses merely on financial and sustainability reporting in terms of corporate communication.

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BACKGROUND

Business world has remarkably witnessed a sea change over the last two decades. Unprecedented audit/accounting scandals, collapses of some global investment banks, insurance companies in developed markets have enabled us to learn by bitter experience. Especially, turmoil in auditing realm has been shockingly since this profession has recognized professionalism and skepticism as doctrine. Or, following financial crises, major banking companies has collapsed, however they had been directing by highly educated, smart and successful executives. Indeed, they were so. To be truthful, explanation of this turbulence has been beyond technical problems or capabilities. Unfortunately, it has resulted from information failure or asymmetry. The information could have been ignored intentionally. It could have been perceived improperly or evaluated erroneously. It could have been obscured by only one party or even worse it's been veiled from all stakeholders. People who have obscured the information couldn't always be conducted by unethical reasoning. Perhaps, they've just struggled to maintain their corporate reputation, and to escape from a probable bankruptcy. In the simplest term, they have just done their job by doing which they think they have to do. These bad events have been means or ends of corporate communication. Jameson (2009) asserted that business scandals, financial disasters and economic crises could be driven by more communication fallacies rather than ethical, technical problems. Specifically, financial manager could have undertaken unwise investments due to irrationality or inadequate information. Or, through newly established rules and directions, accounting professionals could have made obscured real economic functioning of companies, instead of ensuring more transparency. Further, corporate executives of major banking institutions could have deluded investors. Some of them could have conspired or done this unintentionally.

Although communication practitioners couldn't expectedly take attention by top management for a long time, recent crisis periods all over the world have taught them how corporate communication could notably contribute to organizational performance through financial outcomes, reputation concern, mission achievement, investor relationships, etc. Additionally, some research found a positive link between corporate communication and financial/non-financial performance (Mohamad et al., 2014). Corporate communication is considered of vital importance to companies' survival. It could damage or protect their reputation in crisis period (Coombs, 2007; Zheng et al., 2018). Or, this communication management could ameliorate harmful effects of crises. Companies could even adopt marketing strategy enabling them to have long last relationship with their customers (Daniel & Anca, 2012). Corporate communication and reputation aren't unrelated concepts. Through second crisis communication on social media, even people could engage in this process and influence on corporate reputation (Zheng et al., 2018). Corporate communication

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research assumed traditionally the public as passive actors in the process. Conversely, current channels like social media have altered it as the people are now both senders and actors of secondary communication mechanism (Zheng et al., 2018), turning corporate communication into a more complex process. Corporate communication has also been employed by companies as a crisis response strategy (Ham & Kim, in press). According to Coombs (2007), crisis is "*a sudden and unexpected event that threatens to disrupt an organization's operations and poses both a financial and a reputational threat*". Therefore, it could be harmful to stakeholders with its physical, emotional and financial outcomes. Yet, situational crisis communication theory by Coombs (2007) suggests a mechanism for understanding stakeholders' reactions to the crisis in terms of reputational entities and bases it on the main theme that crisis communication could be used to maintain these entities. Corporate misconduct could be negatively evaluated by stakeholders. In terms of consumers, companies failing to meet their legal, economic, ethical and social expectations could probably confront consumers' punishment through consumer communication/behavior (Nebenzahl et al., 2001). Yet, it is interesting that not all consumers react negatively to misconduct of companies due to their diversifying expectations about CSR (Kim et al., 2019). Furthermore, corporate communication quality may be a beneficial tool for reducing asymmetry since it's negatively related to insider trading profitability (Van Geyt et al., 2014).

Studies arguing the role of corporate communication on corporate actions are abounding (Ham & Kim, in press; Zheng et al., 2018). However, this research doesn't seem to devote the effort to understanding antecedents of corporate communication and asking why it is conveyed different than they actually are. Ethical problems could sometimes drive the involved managers in this communication. Yet, due to some behavioral biases, people could behave systematically and irrationally, hence causing an information failure. Then, irrational or unethical events are inevitable. Individual characteristics of corporate communication is found as central in contributing to organizational performance (Le Roux, 2014). Yet, through arguing corporate communications' role in overwhelmingly unusual periods or crisis time, extant research has implicitly assumed that there aren't so many threats jeopardous to it in under normal conditions. Conversely, biased behaviors, ignored information or improperly valued risks in organizational decision-making realm could direct corporate communication to be conveyed incorrectly, incompletely or inappropriately even in routine time.

Information seems to be of great value. By the virtue of signaling theory, companies will continue to growingly disclose information in order to survive in this increasingly complex and competitive environment and to meet their end of a sustainable development. Number of counterparties in these communication processes will continue to increase every day. Regularity bodies or initiatives will

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insist on struggling to ameliorate information asymmetry. Therefore, it seems crucial to extend corporate communication comprehension into unobserved components of this mechanism.

FROM THE VISIBLE TOWARD THE INVISIBLE

Corporate Communications

According to Cees Van Riel (1992), corporate communication can be defined as "*an instrument of management by means of which all consciously used forms of internal and external communication are harmonized as effectively and efficiently as possible, so as to create a favorable basis for relationships with groups upon which the company is dependent*" (as cited in Gorkem, 2014, p. 859). Cornelissen (2004) recognizes it as an eclectic area which takes place at the intersection point of management and communication. Yet, through its invisible and visible links to other research and practice areas, corporate communication extends beyond them. Specifically, these two main strands in hand, it also associated with finance, marketing and economics since corporate communication is a way of conveying information about corporate actions as a whole.

Today's complex environment has also given way to diversity and prosperity of information technology, enabling abounding in communication channels. For example, social media has come into view as companies consider it as a vivid, forceful and most visible medium of communication. Due to its reciprocal nature and iterative reframing ability, social media is rather different from other traditional media tools since they have unilateral framing option with passive role of other counterparties and it is too broad to address here. Actually, there are several types of nonfinancial communications for companies to disclose to their stakeholders. They are too broad to delineate in this chapter. As such, this chapter will only focus on and argue FR/SR in terms of financial/non-financial communication respectively since there are both some similarities and also key differences between them. First, both mechanisms share same mission; (1) reducing information asymmetry between counterparties in the markets and (2) showing how reporting companies were functioning economically and to which degree this disclosed information was credible and to what extent these companies pay regard to their stakeholders, (3) improving stakeholder engagement. Additionally, these processes have some global standards imposed by international regulatory bodies. However, FR process addresses relatively narrower scope due to limited nature of financial information and hence narrower span of stakeholder engagement while SR appeals to broader scope and the increased number of outside

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users because of wide and diversified nature of economic, environmental and social issues. Above all, FR is mandatory whereas SR is voluntary.

Financial Communications

In this chapter, financial communication will refer to FR mechanism. FR and audit quality (AQ) are interchangeable in extant research. AQ is defined as "*greater assurance that the financial statements faithfully reflect the firm's underlying economics, conditioned on its financial reporting system and innate characteristics*" (De Fond & Zhang, 2014). This definition seems to have encouraged preponderantly AQ research body to focus on FR quality perspective and to measure AQ quality by FR indicators such as discretionary accruals, accounting conservatism and value relevance of earnings for a long time. Unexpected scandals have leaded researchers to reconsider AQ concept and alter its measurement. Then, focusing audit firm or partner-specific factors, AQ has been measured as audit firm's or auditor's industry expertise, audit firm size, audit time, auditor's propensity to issue going concern opinion. Eventually, witnessing these immense changes in dynamics of audit market trivet (i.e. audit firms, client firms and regulatory bodies) in early 2000s, there has been a great body of research on AQ. Also, governments, accounting associations and other regulatory bodies have strived to reconstruct confidence in auditing/financial reporting functions through a series of ethical, disciplinary and institutional arrangements. Companies have also tried to convince present/future investors or other stakeholders about credibility of their FR, and hence reducing information asymmetry. Prior research has showed that firm size, audit firm's industry expertise, audit fees have contributed to improving audit quality while audit tenure has a negative impact. Yet, these studies have implicitly assumed that audit partners distribute a uniform AQ level, by putting excessive emphasis on audit firm-specific factors in explaining it. Moreover, peculiar knowledge and competencies of audit partners couldn't be carried to neither firm nor office level (Goodwin & Wu, 2014). Accordingly, some studies have suggested that research design overwhelmed by the firm-level attributes should be carried down to the individual-level characteristics (Lennox & Wu, 2018).

On the other hand, limited research arguing auditing partner-specific attributes does not focus on psychological components of audit procedures, and final decision-making process in itself. Reheul et al. (2007) found that auditors with sector expertise tended to provide better assurance by disclosing financial errors in their reports. Similarly, some researchers found presence of restatements to be negatively related to auditors with industry expertise (Chin & Chi, 2009; Romanus et al., 2008), client tenure (Stanley & DeZoort, 2007). There are a few behavioral studies in accounting that examines (1) negative role of auditors' time pressure on their dysfunctional

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judgments (Svanberg & Ohman, 2013), and (2) relationship between organizational error climate and auditor's propensity to handle errors (Gronewold & Donle, 2011), and (3) appearance of dysfunctional behaviors in auditors such as gathering of inadequate evidence, altering audit procedures, underreporting of time (Donnelly et al., 2003). However, the research linking behavioral characteristics of audit partners and key managers with AQ is rare.

All in all, it seems immensely precious to extend FR/AQ literature into a more comprehensive manner through psychological, attitudinal aspects of audit outcomes including both this critical process and also those decision-makers with plentiful, complex information which has to be searched, processed and ultimately assured in their hand. For this purpose, it is necessary to wear behavioral finance lenses and to tap into these generous tenets in understanding auditing which basically puts place professionalism and skepticism on a pedestal, both by definition and by legislation. If that is the case for compulsory financial reporting, it seems more precious to unveil the unobserved components of voluntary sustainability reporting.

Non-Financial Communications

Companies try to survive in a globally competitive markets and they couldn't attain this goal by focusing merely on financial outcomes. The crucial concepts such as global warming, paucity of resources, well-being of all societies, poverty and inequality have urge the world to take actions toward sustainable development. Therefore, as a tool for companies to meet this end, SR has emerged as a vital non-financial information demanded increasingly by all stakeholders. Additionally, the efforts to reduce information asymmetry through signaling theory and further to improve stakeholder engagement and relations have let to discussing credibility and accountability of all this information meticulously. Sustainability has sometimes been deemed as "Corporate Sustainability (CS)" (Aggarwal, 2013). Dyllick and Hockerts (2002, p.131) have defined corporate sustainability as "*meeting the needs of a firm's direct and indirect stakeholders (such as shareholders, employees, clients, pressure groups, communities, etc.), without compromising its ability to meet the needs of future stakeholders as well*". For this goal to be attained, companies should keep and grow economic, social and environmental capital. GRI (2011) defines SR as *"the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development''*. Global Reporting Initiative is "*an independent international organization that has pioneered SR since 1997*" (GRI, 2019). This initiative has been the pioneer of worldwide practice in SR, helping both governments and the businesses to understand this issue and to empower their decisions concerning crucial sustainability issues such as climate change, human rights, governance

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and social well-being through "*the first and most widely adopted global standards for SR*". Rapid increase in the number of investors attaching importance to social responsibility and/or sustainability issues has urged capital markets to construct sustainability index in both developed countries (e.g. Dow Jones US Sustainability Index, first in 1999) and also developing countries (e.g. Borsa Istanbul Sustainability Index, first in 2014). In spite of the critics that socially responsible investments would have poor investment performance, Herremans et al. (1993) manifested that socially responsible manufacturing companies financially predominated companies with poor corporate sustainability reputation. Also, companies with better CS strategies have faced with lower capital constraints (Cheng et al., 2014).

To get to the main point, a wave of socially responsible investment thought in the 1990s has given way to sustainability in the 2000s. Indeed, sustainability concept has been a limelight in this century. Through its reporting standards, GRI, as a global stakeholder institution, has started a worldwide movement in sustainability realm. There exist a wide range of international disclosure formats for companies to reveal what they do about their sustainability strategies in their reports (Camilleri, 2018). In spite of these efforts to integrate non-financial information, academic conservation has a great consensus on vital importance of this information's credibility. Assurance statements are found to have an optimistic and deliberative wording in that problematic issues and weaknesses were not explicitly expressed (Boiral et al., 2019). Additionally, some research has revealed that verification process by assurance providers seems overly to consist of internal stakeholders, hindering full stakeholder engagement (Manetti & Toccafondi, 2012). However, the research has put emphasis on normative structure of SR and it lacks in the studies striving to focus on actual, unobservable idiosyncratic mechanisms in these processes. Second, there is a need for research design including decision-makers' influential role since they're apt to delude involved counterparties on these decision-making processes. Also, upper echelons theory refers to strategists to be able to well understand organizational strategies.

Upper Echelons Theory

Arguing limits on choice, some theorists have introduced behavioral theory (March & Simon, 1958). Specifically, complex decisions couldn't be made on a techno-economic basis due to bounded rationality (Simon, 1955), numerous conflicting goals, innumerable alternatives (Hambrick & Mason, 1984). That's why, rather than techno-economic components, complex decisions are widely outputs of behavioral factors. Contrary to inertial perspective assuming that large organizations are conducted by events or themselves and based on behavioral theory, UET proposes that organizational decisions are immediately influenced by top executives' perceptions

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since these people interpret their organizational environment from or through their veil of values, personality traits and experience (Hambrick, 2016; Hambrick & Mason, 1984). Unfortunately, these people occupying prominent managerial positions in organizations perceive their environment selectively and process the selected information filtered by their values (Dalvi-Esfahani et al., 2017) and limited by their cognitive abilities, capabilities.

There is a vast quantity of research manifesting the link between top management' idiosyncratic attributes and diverse organizational decisions or actions (Chuang et al., 2009; Dalvi-Esfahani et al., 2017; Kiong Ting et al., 2015; López-Mu˜noz & Escribá-Esteve; 2017; Plöckinger et al., 2016). Moreover, some research has also focused on top executives' role on organization's operational and financial outcomes. Wang and Chen (in press) have found that CEO personality (e.g., extraversion, emotional stability, and agreeableness) leads to cost efficiency and profitability. Further, Plöckinger et al. (2016) have concluded that prominent executives at company have a notable impact on corporate reporting decisions especially on quality of disclosure. Similarly, Sosik et al. (2012) have documented that strengths of some behavioral characteristic had been related to positive executive outcomes in profit and non-profit organizations. Yet while developing UET model, Hambrick and Mason (1984) have put largely emphasis on top management's observable characteristics such as age, gender, experience and they suggested that research should be carried out at psychological factors level when these observable attributes' effects have been empirically confirmed. Also they added that this research strand couldn't progress without paying broader attention to psychology and particularly social psychology areas. In a later research, Nielsen (2010) had referred to the paucity of studies employing the theories in these fields in conjunction with UET.

Briefly, UET states that organizational decisions are greatly shaped by top executives' personal background since top executives assess their organizational situations through their own heavily individualized lenses (Hambrick, 2016). This theory unsubtly helps in explaining organizational decision-making situations through top management's background. However, studies on this theory seem to ignore psychological constituents of upper echelons at the organizations. Fortunately, tenets of prospect theory (Kahneman & Tversky, 1979), the documentation of behavioral biases in particularly complex decision- making enabled these unobservable aspects to be highlighted remarkably. While building on limits on choice, behavioral finance paradigm also extends this research into the point where it is known that how these limits which turn into an unobservable pattern at the decision-maker's side would intervene in his/her actual decision-making behavior. UET enables to comprehend organizational decisions through top management's background. Yet, it doesn't sufficiently highlight psychological components in these processes. However, that's behavioral finance paradigm which helps in clearly explaining psychological

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connections between corporate communications and corporate decisions through enlightening what's psychologically going on in top management's psyche.

Behavioral Finance Paradigm

In classical finance perspective, it is assumed that individuals are rational, that even if there are some deviations from rational behavior, these are random, adding up zero. Competitive and freely operating markets support rational people and organizations. What's more, classical theory describes choice as a maximization process (Tversky & Kahneman, 1986). Through calculating stochastic probabilities of decision alternatives' outcomes, people make a choice of the alternative with most expected utility value. Briefly, this "maximization" driven definition inherently necessitates inclusion of individual's statistical, computational capabilities into decision environment. With the advent of prospect theory (Kahneman & Tversky, 1979), there has been a confounding shift regarding classical assumptions. Although this paradigm doesn't negate tenets of classical finance, it's necessary to change researchers' lenses according to new assumptions. Classical paradigm doesn't describe actual choice behavior enough. First, people aren't rational. Due to bounded rationality and limited information processing capacity (Dolinsky & Feinberg, 1986), people don't always behave rationally. They could make errors in perceiving decision environment as a whole and in calculating possibilities and expected value of each decision alternative. They could make computational errors, evaluate stochastic probabilities improperly. They even don't have the information enough regarding decision alternatives. Moreover, the deviations from rational behavior are systematic. Due to some biases, they systematically behave irrationally. Second, this paradigm proposes that probabilities aren't stochastic. Individuals perceive likelihood of decision outcomes subjectively (Kahneman & Tversky, 1972). People assign subjective probabilities to uncertain events. Third, it's asserted that prospect theory is "a description of the behavior of real people" (Tversky & Kahneman, 1986). Unlike classical view describing ideal behavior of decision makers, it explains actual individual behavior. Principally, two paradigms are "separate enterprises". Prospect theory presents a descriptive choice model for anomalies in expected utility theory (Tversky & Kahneman, 1986).

Classical finance research has overly focused on demographics and sociodemographic factors in explaining individual financial behavior. Yet, behavioral finance highlights psychological and emotional aspects of financial behavior at both individual and at institutional level. Relatively ignored factors which could probably influence a financial decision have been highlighted in the light of behavioral finance axioms. Expected utility theory prioritizes amount of information in order to make a wise, reasonable decision. Yet, having too much information doesn't ensure a

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plausible financial decision. People have limited information processing capacity and they perceive same information differently owing to their different psychological/ emotional levels. Or, differences in the framing of same decisional information could lead people to make diverse choices. Thus, behavioral finance researchers have manifested and delineated many behavioral biases thoroughly. Further, they have been found as substantial in explaining actual behavior of individual and institutional investors.

Cognitive versus Affective Bias

Behavioral biases exhibited by individuals can be grouped into two main categories. Some could be originated from cognitive factors whereas the others may have an emotional origin. Put it differently, in cognitive biases, cognitive factors such as perceiving information incorrectly, evaluating accurate information improperly, calculating possibilities wrongly may lead behavioral biases. On the other hand, people may attach some positive or negative affects to some images (Finucane et al., 2000). In affective biases, they encode given situations with different feelings and emotions. The same image may be perceived as favorable by someone, while reminding the others of negative feelings. They are generally used to make quick evaluation in presence of time constraint. Briefly, in cognitive biases, there exists an information leading a decision, however, this information is wrong or perceived and processed improperly, whereas in affective biases, that is the positive or negative affect which drives a person to make a decision.

A great number of biases have been articulated and documented in behavioral finance studies. Yet, availability, representativeness and anchoring and overconfidence will be mentioned below. Yet, this chapter will merely discuss overconfidence bias as most common and salient phenomenon in complex decision-making processes.

Anchoring Heuristic

People often determine a starting point and they make estimates, adjusting this starting point to the final value. However, they don't adjust this point sufficiently, being stuck at this initial value. Eventually, they depend their decisions on it, instead of considering the relative recent or final values. Systematic and improper predispositions revealing this heuristic are viewed as insufficient adjustment, biases in the evaluation of conjunctive/disjunctive events, anchoring in the assessment of subjective probability distributions. In insufficient adjustment, people depend on their predictions on some given but unrelated numbers in a guessing game. For example, in the example given in the study (Tversky & Kahneman, 1974), people are asked to predict percentage of African countries in United Nations while a number between

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0-100 is identified under presence of them. And it's interestingly seen that people made their predictions based on these unrelated numbers and that mean estimates of their predictions were regressed around these numbers. Similarly, people tend to overstate conjunctive events' likelihood while they are likely to undervalue disjunctive events' probability. These biases in the evaluation of conjunctive/disjunctive events are also explained through anchoring effects.

Availability Heuristic

Availability is recognized as judgmental heuristic in which people evaluate the risk of one thing by recalling these existences among people's acquaintances. In fact, they assign subjective probabilities to events by ease of which these occurrences are brought into their minds. This heuristic can be originated from biases due to the retrievability of instances, the effectiveness of a search set and imaginability. To observe biases due to retrievability of instances, two different lists are given to two different groups. One of the lists consists of more female famous personalities while the other is composed of more male famous people. And people are asked to guess which group has more female (male) people. One group estimated the list with more female famous personalities more numerous regarding female. However, this wasn't the case. The group with more female famous personalities actually consists of more male people. This was due to the retrievability of instances. Similarly, which's more likely that the word begins with "r" or that the one has "r" with the third letter? Many people judge the word starting with "r" more numerous. Actually, the latter is more frequent. People assess this problem by recalling two kinds of words and obviously it's easier to remember the words starting with r, displaying biases due to the effectiveness of a search set.

Representativeness Heuristics

In assessing likelihood of object A to belong to B class, people generally apply to representativeness heuristics. This exists under conditions in which the probabilities are assessed by the degree to which object A represents B class. The higher A is the representative of B, the more probable object A belongs to class B.

To illustrate the judgement, this example's given:

"Steve is very shy and withdrawn, invariably helpful, but with little interest in people, or in the world of reality. A meek and tidy soul, he's a need for order and structure, and a passion for detail."

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In assessing the likelihood of Steve's occupation from a list of farmer, salesman, airline pilot, librarian and physician, people, perhaps most of you, think that Steve is a librarian since given description refers that probability of Steve to be a Librarian is higher. On the other hand, this approach to judging probabilities accommodates several systematic inaccuracies as various factors which could influence probability judgements are disregarded in representativeness heuristic. These are insensitivity to prior probability of outcomes, insensitivity of sample size, misconceptions of chance, insensitivity of predictability, illusion of validity, misconceptions of regression. In insensitivity to prior probability outcomes, people ignore the base-rate frequency of the outcomes. In the librarian example, number of farmers may be more than the number of librarians, increasing stochastic likelihood of Steve being a farmer rather than a librarian. Yet, people systematically ignore this prior probability in representativeness approach. When you draw a sample from a population, you typically apply to representativeness heuristics. You try to get peculiar results regarding the population through this sample. However, law of small numbers refers to sampling variability. In representativeness heuristic, subjects can produce identical distributions while assessing average height of various sized samples, ignoring the effect of sample size on the judged probability. Misconception of chance occurs when people expect that a short or local sequence would represent fundamental components of chance expectations. However, this may not the case, leading also to a well-known pitfall, alias "gambler's fallacy". After witnessing a lot of red on the roulette, a gambler may improperly expect that it is the black's turn to come now. Yet, chance is not a self-correcting process (Tversky & Kahneman, 1974) as it's ordinarily thought. Alternatively, when a supportive description of a firm is given, people can attribute higher profit to this firm's stocks whereas they disregard reliability of this prediction (insensitivity to predictability). In the illusion of validity, people may display more confidence while predicting that Steve is the librarian. After observing a satisfactory match between given description and their prediction, this time they may ignore unreliability, obsoleteness of the information. This systematic disregarding leads them to the illusion of validity. Last, in the misconception of regression, people disregard that they may confront the values regressed toward to the mean as it's well expressed in the examination of Galton (Gujarati, 2003). Remember that Galton found that sons of taller fathers were likely to be shorter than their fathers while the fathers of taller sons were likely to be shorter than their sons, regressing toward to the mean. Even if they discern that regression occurs, they may observe spurious causal connections for it.

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Overconfidence Bias

First delineated by Oskamp (1965) and documented by Lichtenstein and Fischhoff (1977), overconfidence bias is the tendency of which people perceive their judged probabilities higher than actually they are. It's deemed as a cognitive limitation in behavioral finance and it exists when people're greatly optimistic in their initial assessment of a situation and hence aren't good at taking the new additional information into their consideration due to their starting overconfident thinking (Fischhoff et al., 1977). Briefly, overconfident people are more likely to think optimistically, to ignore decision specific information and hence to easily take risks in their decision making tasks. There has been a proliferation of research manifesting the impact of overconfidence on various decision settings. In the managerial context, top level managers tend to make more corporate investments since they're more likely to overestimate expected returns of their investment alternatives (Malmendier & Tate, 2004). In a later study, they also provided evidence for the relationship between greater likelihood of merger decisions and overconfident CEOs (Malmendier & Tate, 2008). Overconfident managers also tend to be less careful in inventory management decisions (Ancarani et al., 2016).

In investment context, De Long et al. (1990) provided evidence that overconfident people largely invest in risky investments and hence could earn lower/higher expected profits. Besides, it's found that overconfident investors trade more excessively and that men investors trade more than women investors (Barber & Odean, 2011). In entrepreneurial context, Busenitz and Barney (1997) showed that entrepreneurs're more likely subject to decision-making biases than managers in large organizations. Koellinger et al. (2007) revealed a negative relationship between entrepreneurial propensity and overconfidence.

As a most common and salient phenomenon in complex decision-making processes, the following section merely will discuss the probable link of overconfidence and corporate communication.

Bridging Behavioral Finance Perspective and Corporate Communications

After having the understanding of behavioral biases and cognitive limitations in decision makers in mind, corporate communications should be reconsidered more deeply. Yet, as mentioned above, here overconfidence bias will only be discussed. With the aim of meeting informational needs in respect to reducing information asymmetry and managing stakeholder engagement, companies are perpetually disclosing immense information at any moment. On the other hand, as to CEOs, as decision-makers of innumerable and essential corporate decisions, they absolutely

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confront myriad information to be gathered, processed and finally exploited in making these decisions, most of which are complex, under uncertainty and having time constraint. However, they are ultimately a human being which could make errors and have cognitive limitations. Further, like any average person, they could display overconfidence bias mentioned above. Unfortunately, they are not as lucky as any average person since they always bear tremendous responsibility for these decisions. What's worse, most of the time, these prominent managers are unaware of these limitations or biases which conduct them systematically in every decision-making context. The worst of all, these biases could probably lead them to conduct this communication function in a misleading, improper or inappropriate way in that the all disclosed information is sailing under false colors.

Actually, although limited, there are some studies reviewing research emphasizing the importance of CEO/CFO characteristics on FR outcomes (Habib & Hossain, 2013). This study reviews the research documenting the significant role of managerial overconfidence on FR outcomes. Similarly, it's found to be a positive relation between CEO overconfidence and financial restatements (Presley & Abbott, 2013). What's more, Schrand and Zechman (2012) revealed that overconfident executives were more likely to appeal to financial misreporting. Duellman et al. (2015) have documented a negative relation between managerial overconfidence and audit fees since these managers perceive less risk about their company, hence demand less auditing services. They also work with industry-specialist auditors less. In an experimental study, it's manifested that managerial overconfidence caused an increase in the auditor's perceived risk of client fraud behavior (Johnson et al., 2013). Hsieh et al. (2018) pointed out that companies were more likely engaged in tax avoidance activities when both CEO and CFO were overconfident.

Remembering agency theory in which managers become agents of shareholders (i.e., principals), this significant role of managerial overconfidence on FR outcomes could turn into a critical problem. Immense data –financial and nonfinancial- are being disclosed by companies at any moment. Briefly, when resorting to UET (Hambrick & Mason, 1984), the likelihood of manipulation of this disclosed information by managers with specific personal characteristics seems inevitable. According to UET, it is suggested that "strategists" should be understood first in order to comprehend organizational "strategies". Also, Hambrick and Mason (1984) state that UET model entails both psychological and also observable characteristics of upper echelons yet this model focuses on observable characteristics more. Perhaps, regarding UET, researchers should put emphasis on psychological aspects more in order to understand organizational strategies thoroughly.

Furthermore, similar to top management decisions on hand, FR and SR mechanisms also accommodate gathering and processing a lot of information simultaneously and managers have ultimately to make so many decisions which greatly concern

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outside users including themselves since they're liable for outcomes of these decisions. Inspired by UET suggesting focusing on "strategists" to understand corporate strategies, this chapter purports that CEOs as responsible prominent managers of companies' financial and non-financial communication processes should be understood first if these processes are determined to be understood well. Although the role of CEO overconfidence on FR has been partly documented in extant literature (e.g., Schrand & Zechman, 2012; Presley & Abbott, 2013), its probable influence on SR- non-financial communications seems interestingly to be ignored by researchers. Limited research has revealed management control on sustainability reports (Owen & O'Dwyer, 2004), however this research doesn't employ top management's overconfidence -or other biases- in explaining logical connections between management control and SR. Actually it's more likely to detect CEO overconfidence on these decision-making processes. First, the literature provides too much evidence on both presence of CEO overconfidence and its role on various corporate decisions. Second, management control has been observed in SR.

When CEO or prominent managers are overconfident about themselves or their companies, they tend to think overly optimistic about their companies, not to be able to see some probable risks concerning uncertain future events and hence to ignore the important decision-specific information, due to their hubris. Therefore, they would make these reports be prepared in an optimistic rhetoric or more hazardously in a misleading way. They cannot evaluate some risky actions and could put a brave face on things. They could obscure what's actually happening in the firm, hence conducting undesirable reporting activities. Even if the middle managers or responsible reporting managers with these reporting processes are not overconfident, they will obey to the instructions by overconfident top managers, driving the reports to reflect the tone of top managers. At the end of the day, they would admit that they have just done their duty. Let's remember Milgram experiment.

Companies exert their significant efforts to survive in this cutthroat competition environment and to maintain their investors and other stakeholders, to access to financial instruments easily and more importantly, to sustain their reputation. Therefore, managing this corporate communication in a favorable way seems to be vitally important. Then, it's very probable for companies to have a motive for conveying this communication in a way that they could suppress unfavorable events and could exaggerate favorable news. What's worse, they could disclose this information in a misleading way. Although FR is mandatory, the research has manifested unethical behaviors in FR process. Then, it isn't unexpected to observe CEO overconfidence and its unethical outcomes in noncompulsory SR. Briefly, financial-nonfinancial communications would suffer from top management's behavioral biases such as overconfidence. Unfortunately, it wouldn't occur without harming all stakeholder groups and aggravating information asymmetry.

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SOLUTIONS AND RECOMMENDATIONS

Although this chapter stresses relatively unstudied probable consequences of CEO inopportune optimism on corporate communications through FR/SR processes, CEO overconfidence is prominent factor documented in management context. As Kahneman (2015) stated: "*the illusion that we understand the past fosters overconfidence in our ability to predict the future*", CEOs or other top managers are most probably professionals with higher experience who think that they could have understood past and that they could predict the future. Perhaps, their overconfidence is the most prevalent phenomenon in management realm and its link with important managerial decisions. Further, as suggested by UET, organizational decisions are considered as reflections of top management's background. That's why, all corporate decisions at any departmental level, let alone management decisions seem to be an outcome of tacit management assertion. Therefore, in the final analysis, business world should be very meticulous about it. When CEO or other top managers are overconfident, responsible staff would probably obey to authority. Consequently, under the presence of CEO inopportune optimism, the likelihood of occurrence of (1) misleading, (2) unethical, (3) risky and (4) neglectful behaviors regarding corporate communication would be higher. Actually, there're several ways to detect existence of overconfidence in the literature, some of which are easy to implement. Schrand and Zechman (2012) have employed prominence of the CEO's photograph in annual reports as a proxy for CEO overconfidence. Audit partners, investors or other stakeholder groups could appeal to this useful, apparent measure in order to detect it. Truthfully, in an experimental study, it is documented that managerial overconfidence contributed to a rise in the auditor's perceived risk of client's fraud behavior (Johnson et al., 2013).

Second, inopportune CEOs could identify or evaluate risks improperly due to their optimist view towards outcomes of uncertain events. That's why, the role of chief risk officer (CRO) in corporations becomes even more important. Hence, business community and regulatory bodies should pay more attention to CROs and should grant them even more authorization. Or, top management team should be constituted of both risk takers and also risk avoidant team members since these conservative managers could contribute to curbing inopportune optimism of overconfident managers.

Third, FR is mandatory for companies and wrapped up with international standards and legal instructions. Despite all, the link between managerial overconfidence and financial misreporting decisions has been widely manifested in the literature. Yet, amidst these regulations and instructions, business world has witnessed unprecedented frauds and scandals. As for SR, it is still noncompulsory and corporations have seized its power to maintain their reputation and to access to financial instruments

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and to keep their investors. Hence, SR processes seem to be highly exposed to CEO inopportune optimism. When top management is overconfident, it's very likely to convey corporate actions toward a sustainable development incorrectly, to exaggerate actual corporate actions about sustainability and to mislead stakeholder groups intentionally. Accordingly, due to fact that credibility of this nonfinancial information is vitally important, assurance providers should analyze more meticulously and they should give up avoiding meddling. Some research has referred that their assurance statements seemed to have an optimistic and deliberative wording in that problematic issues and weaknesses were not explicitly expressed (Boiral et al., 2019). Through regulations and directions, regulatory bodies should encourage assurance providers to express problematic issues and weaknesses in these reports explicitly and valorously.

Last but not least, one or two stakeholder groups of relevant firm should actively participate in verification process of SR together with assurance providers. Or, a representative team formed by all stakeholder groups of the firm should take place in this process. Perhaps, sustainability reports should be assured by anonymous assurance providers and stakeholder groups or representative team. This could direct them to be more independent while providing their assurance.

FUTURE RESEARCH DIRECTIONS

Referring CEO inopportune optimism and its probable manipulative risk of conveying corporate communication in inaccurate and misleading way, this chapter also provides new research areas for future studies. First, this chapter has discussed only CEO inopportune optimism while mentioning other common heuristics in behavioral finance paradigm. Therefore, future research could focus on availability, representative and anchoring biases as most common biases in relevant literature in their research design. Second, this research has remained limited since it has referred to FR in respect to financial communication and SR in respect to nonfinancial communication. Hence, future research could discuss other corporate communication channels such as companies' web sites, social media accounts, public relations activities or company news at the press. It is excessively expected to observe marks of top management's systematic biased behaviors especially on company's web site and social media accounts.

Third, UET research has overwhelmingly put emphasis on the role of upper echelons' observable characteristics on corporate decisions. The extant literature seems to be in need of research models which incorporate psychological and idiosyncratic factors in addition to observable factors such as age, gender, experience, etc. Such an integrative model could enable to simultaneously examine relative impacts of both observable and also unobservable characteristics of top management on corporate

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decisions. At the same time, it could fill the gap regarding psychological components in UET literature. Fourth, overconfident people are known to ignore all relevant information and hence to evaluate risks improperly. Thus, it would be interesting that future studies could design research models which examine how inopportune optimist CEOs or other prominent managers gather and process decision-specific information and how they evaluate risks. This information processing channel could be a strong mediator which explains the link between managerial overconfidence and risky corporate decisions.

Overall, in addition to manipulative imprints propounded in this chapter, financial and nonfinancial reporting instruments are considerably prosperous since they include hidden messages about firms. Thorough sentiment analysis of financial reports, Kumar et al. (2020) documented that loser firms had a negative mood when they convey their earnings comparable with their peers. Kanbaty et al. (2020) manifested that firms displayed favorable social and environmental indicators in their infographics more, compared to unfavorable indicators. Future research could attempt to unveil these tacenda.

CONCLUSION

In this information age, under this globally competitive environment, information asymmetry would not be reduced, principal-agent problem would not be well dealt with and the end of sustainable development would not be attained unless corporations could convey corporate communications properly, correctly and appropriately. Although wrapped up with too many standard, regulations and instructions, both compulsory FR and also noncompulsory SR processes have unfortunately various flaws and lapses in ethical, informational and judgmental issues. UET has already showed us to which degree organizational decisions are reflections of top management's less standardized and highly individualized lenses. However, it seems to ignore psychological or cognitive aspects. Shifting our lenses to behavioral finance paradigm, it is understood that judgmental decision-making seems to be exposed to diverse systematical biases and fallacies due to small samples, sampling variability, illusion of control and subjective probabilities. Amidst these biases, inopportune optimism, aka "overconfidence", stands probably for one of the most serious and influential biases. Mentioning some other heuristics or biases yet mainly linking CEO overconfidence to corporate communication, this chapter exerts an effort both to warn about overconfidence and also deal with it, in terms of FR/SR.

Detecting CEO overconfidence through a simple and apparent measurement employed in the literature, endowing chief risk officer (CRO) with more authorization, putting emphasis on top management heterogeneity and board diversity and

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encouraging assurance providers to address daringly problematic issues and weaknesses concerning sustainability in their assurance statements are suggested in this chapter.

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KEY TERMS AND DEFINITIONS

Behavioral Finance Paradigm: It is a paradigm that gives a delineation of actual choice behavior under the assumptions that people are not rational, that sum of deviations from rational behavior doesn't sum up to zero and that subjective probabilities rather than stochastic probabilities determine decision weights.

Corporate Communication: This concept refers to a tool for creating a favorable basis for all stakeholder groups regarding corporation and this tool presents effectively harmonized forms which are fair, credible, trustworthy and wrapped

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with international standards and regulations. It consists of both internal and also external communication.

Financial Communication: It is a form of mandatory corporate communication through which represents fair presentation of company's financial statements and which discloses the information to the stakeholders about the company's economic functioning.

Non-Financial Communication: It is a form of noncompulsory yet crucial corporate communication through which company discloses to all stakeholders (internal-external or present-future investors or pressure groups) for the company's corporate strategies and practices about sustainable development.

Overconfidence: Overconfidence bias is recognized as a cognitive limitation in psychology literature and it exists when people are greatly optimistic in their initial assessment of a situation and hence are not good at taking the new additional information into their consideration due to their starting overconfident thinking.

Prospect Theory: A choice theory in which value function is determined by gains, losses, and concave for gains and convex for losses, and in which stochastic probabilities are replaced by decision weights derived from subjective probabilities. This theory also suggests that individuals make inconsistent preferences when the same choice is presented through different framing due to the isolation effect.

Upper Echelon Theory: It is the idea that organizational strategies and decisions are greatly shaped by top executives' personal background since top executives assess their organizational situations through their own heavily individualized lenses.

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Chapter 10
Ownership Structure and Intellectual Capital Performance:
Evidence From Indonesian Banking Companies

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ABSTRACT

The objective of this study is to examine the impact of ownership structure on intellectual capital performance. Ownership structure used in this study consists of family control, government ownership, and foreign ownership. Family control was measured by two proxies, namely the number of shares owned by a family and the presence of family on the boards. Meanwhile, this study uses the Value-Added Intellectual Coefficient to measure intellectual capital performance. Ninety-two bank observations listed on the Indonesia Stock Exchange in the period 2013-2016 are used as a sample. Results of panel data regression indicate that the number of shares owned by the family positively associated with VAIC, on the other hand, the presence of families on the boards has no association with IC performance. The result indicates that a high degree of family ownership is likely to encourage managerial incentives to improve value creation activities. Government ownership and foreign ownership are also found to have a positive association with IC performance

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indicating that state-owned banks and foreign-owned banks in Indonesia tend to focus their attention more towards activities that can increase value creation than privately owned and domestic owned banks. This research provides insight into the role of the business owner to the capital market regulator in scrutinizing the efficiency of value creation activities.

INTRODUCTION

Nowadays, business communities argue that knowledge assets are more important than physical assets to create long term competitive advantage (Leon, 2016; Al-Sartawi, 2018). This indicates that there has been a shift in industrial patterns from productivity-based industries to knowledge-based industries. The term "knowledge-based industries" usually refers to those industries which are relatively intensive in using technology and/or human capital as the inputs (OECD, 1996). During the transition to knowledge-based industries, the basis of the company's growth gradually changes from tangible assets to intangible assets (Guthrie, 2001). The use of a group of intangible assets is the main issue of the concept of intellectual capital (IC) (Stewart, 1997).

IC has emerged as a pivotal resource for corporate success in recent decades (Saleh et al., 2009). According to The Indonesian Statement of Financial Accounting Standards (PSAK) revision (2007) Number 19, intangible assets are non-monetary assets that can be identified and intangible physical and owned for use in generating or deliver goods or services, leased, or for administrative purposes. It also refers to skills, knowledge experience, as well as organizational systems and procedures (Inn et al., 2015). Unlike financial and physical assets, intangible assets are difficult to imitate by competitors and make them as a prominent source of competitive advantage. Therefore, accounting scholars have emphasized the need for measuring, envisaging, and reporting IC to enhance management control and strategic practices (Guthrie & Dumay, 2015).

Saleh et al. (2009) state that there is a gap between a company's book value and market value. The gap exists as a hidden value in the annual report which failed to be reported under the traditional accounting system. The difference between market value and book value, in the long run, may be explained by the change in the sources of value creation since business communities have shifted from tangible assets to IC. Hence, it is important to assess the performance of the IC to measure the efficiency of value creation activities (Saleh et al., 2009).

According to agency theory, the separation of ownership and control leads to agency problems because the agent (management) acts at their best interest at the expense of the principal (shareholders) (Jensen & Meckling, 1976). Corporate

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governance is one way to accomplish agency problems, of which ownership structure is the mechanisms (Keenan & Aggestam, 2001; Al-Musalli & Ismail, 2012). In line with this view, we believe that, to a certain extent, ownership structure would impact on IC-related strategies to create a corporate value of a company. Ownership characteristic in Indonesia differs from a Western characteristic, where companies have-well disperse ownership structures and a great level of investor activism. Indonesia is characterized as having concentrated ownership, interconnected business group relationship, and even though some companies have gone public, ownership remains in family domination (Claessens, S; Djankov, S.; Lang, 2000; Arifin, 2003). This type of ownership and control can lead to conflicting managerial incentives, namely whether to encourage or discourage IC-related activities for creating value for the company.

The authors also believe that government and foreign ownership contribute to the factors influencing IC performance. Previous studies argue that government ownership may have a negative effect on a company's performance due to government intervention related to resource allocation in order to fulfill its social and political goals. These circumstances, in turn, reduce the efficiency and value of the firm (Shleifer & Vishny, 1994; Sapienza, 2004; Najid & Rahman, 2011). Accordingly, Saleh et al. (2009) state that a large number of shares owned by the government may have detrimental effects on a company's performance since the government has the authority to change the focus of the company away from generating shareholder value and toward satisfying social and political responsibilities.

In relation to foreign ownership, it is predicted to have a positive relationship with performance. Bonin, Hasan, & Wachtel (2005) find that foreign-owned banks are likely to have higher performance in terms of cost-efficiency. This is because foreign-owned banks have advanced technology that makes them more competitive in the industry. Accordingly, Amalia & Ika (2014) find that local Indonesian banks that did mergers and acquisitions with foreign banks have a statistically higher financial performance than those who did not. As foreign ownership banks are more concerned about technology, they will eager to invest in IC-related assets to increase firm value (Al-Musalli & Ismail, 2012).

It is important to study the efficiency of IC investments as well as to explore factors influencing IC performance. This study attempts to observe IC performance of Indonesian banks using the Value Added Intellectual Capital Coefficient (VAIC), a measure suggested by Pulic (1998, 2000) and to investigate whether ownership structure impact on the variation in IC performance Therefore this study aims to investigate the role and incentives of the company owners whether it will improve IC performance or otherwise for banks listed on IDX. The financial industry is known as a knowledge asset industry where its business copes more with intellectual capital than physical assets. Indonesia's banking industry offers an interesting setting to

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investigate this research due to its unique features. First, the development of digital banking in Indonesia continues to experience growth in which IC related strategies are needed (Hendriyani & Raharja, 2018). Second, foreign banks are allowed to buy shares of local banks up to 99 percent in accordance with Act No 10/1998 and Government Regulation No. 29 of 1999. This percentage is greater than in Singapore with a maximum of 40% and in Thailand which is only 25% (Murdadi, 2015). With large foreign ownership then the owner will affect management decisions in IC related investment. Third, the banking sector is one the target of corporate governance reform in Indonesia in accordance with the International Monetary Fund (IMF) letters of intent (LOI) in 2001 (Sato, 2005; Widagdo & Devi, 2014). Therefore, the government supervises the management and business of state-owned banks through the Ministry of State-Owned Enterprises (SOEs) and the Indonesian Central Bank to match the pressure of external donors.

Companies with good governance tend to focus their awareness on activities that can increase value creation, such as investing more in training, getting new experts, enhancing processes, procedures and work culture, and working to expand their relationships with external stakeholders. This effort will cause the company more efficient and increase its overall performance (Saleh et al., 2009). In short, good corporate governance practices in which ownership structure is the mechanism can promote corporate accountability and business wealth, which consecutively will increase shareholder value (Henry, 2010). This will be reflected in the increase in IC performance.

Some studies have investigated the determinants factors of IC performance, for example (Mavridis, 2005; El-Bannany, 2008; Saleh et al., 2009; Joshi et al., 2010; Prabowo & Soegiono, 2010; Al-Musalli & Ismail, 2012). Factors related to a demographic and financial characteristic of the company such as profitability, size, (Joshi et al., 2010), local or global firms (Mavridis, 2005), and related to investment in information systems, bank efficiency, a barrier to entry (El-Bannany, 2008) have been studied by previous studies. Few studies attempt to examine the effect of ownership structure, i.e. family control, government, and foreign ownership on IC performance in the context of non-developed countries (Al-Musalli & Ismail, 2012; Saleh et al., 2009). These studies were done in Malaysia (Saleh et al., 2009) and GCC countries (Al-Musalli & Ismail, 2012) found a consistent result that family ownership tends to reduce the amount invested in resources underlying IC. In the Indonesian context, Prabowo & Soegiono (2010) only examine the association of government ownership and IC performance and they found that government ownership has no association with IC performance.

As stated earlier, this study aims to examine the effect of ownership structure, i.e. family control, government, and foreign on IC performance. Hence the present study improves the variable testing as examined in Prabowo & Soegiono (2010).

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Furthermore, in terms of family control variable this study uses two proxies to measure family engagement in IC-related strategy, i.e. the number of shares held by the family and the presence of family member on the board which has not been addressed by previous studies (Al-Musalli & Ismail, 2012; Saleh et al., 2009).

BACKGROUND

Definition of Intellectual Capital and Intellectual Capital Performance

IC refers to knowledge and experience, professional knowledge and skills, good relationships, and technological capacity, which when implemented will give the organization a competitive advantage (Chartered Institute of Management Accountant, 2000). IC can generally be defined as an intangible asset that consists of human capital, structural capital and customer capital relating to knowledge and technology that can provide more value for the company in the form of competitive advantage of the organization (Goh, 2005; Joshi et al., 2010; Saleh et al., 2009). This suggests that IC should be acquainted similarly as a physical and financial asset within an organization in developing corporate value.

According to Pulic (1998), IC performance is a company's intellectual ability which shows a reliable picture of physical capital used and human capital. Hence, IC performance refers to the efficiency of a combination of tangible assets and intangible assets such as employee skills, knowledge, and expertise, teamwork, innovation, a motivation which refers to human capital; brand name, intellectual property, company's information system and databases, manual and procedures that represent structural capital; good corporate relationship (network and alliances), tight relationship with suppliers and costumers, distribution channels that denotes relational capital in generating value to the company. It is a function of both IC and physical capital, consequently, when IC stands alone, it can not generate any value (Joshi et al., 2010).

Pulic (2000) proposed a measure to assess the efficiency of added value as a result of the company's intellectual ability (Value Added Intellectual Coefficient-VAIC). The method quantifies the value-added (VA) by the stock of a company's IC or in other words efficiency of IC. Basically, the VAIC focuses on a company's capability to utilize IC in value creation activity. The VAIC has several drawbacks and advantages. Measuring IC is somewhat difficult since the physical financial attribute in IC is insufficient. Additionally, non-financial measures differ among organizations and subject to the internal policies of the specific organization (Joshi et al., 2010). While the advantages according to Goh (2005) are as follow. First, this approach is

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relatively easy to calculate because it is built from accounts in the company's financial statements (balance sheet, profit/loss). Second, it is applicable to any organization regardless of the size and industry. Third, the results of this approach are comparable among entities irrespective their size and industry. Finally, it improves the use of traditional financial statements by integrating measures of IC performance. VAIC has been widely used by previous research to measure IC performance (Al-Musalli & Ismail, 2012; El-Bannany, 2008; Gigante, 2013; Goh, 2005; Joshi et al., 2010; Kamath, 2007; Prabowo & Soegiono, 2010; Razafindrambinina & Anggreni, 2011; Saleh et al., 2009; Young, Su, Fang, & Fang, 2009).

Previous Literature

Researches on IC performance have been done intensively in several countries. These studies examine IC performance in a single country, for example in Australia (Joshi et al., 2010), in India (Kamath, 2007), in Romania (Morariu, 2014), in United Kingdom (El-Bannany, 2008), in Malaysia (Goh, 2005; Gan & Saleh, 2008; Saleh et al., 2009; Ting & Lean, 2009) in Singapore (Tan et al., 2007), in Japan (Mavridis, 2004), in Turkey (Yalama & Coskun, 2007), in Greece (Mavridis, 2005), in Indonesia (Prabowo & Soegiono, 2010; Razafindrambinina & Anggreni, 2011; Ulum et al., 2014) and in some countries in a region for cross country comparison, for example in Asian (Young et al., 2009); in European (Gigante, 2013), and in Arab Gulf Cooperation Council (GCC) countries (Al-Musalli & Ismail, 2012).

Basically, the above studies can be classified into three broad themes. First, studies that investigate the value of IC performance of the sample company and use statistic descriptive to rank the performance or to expose which of the three components of VAIC contributes mostly to value-creating efficiency (Goh, 2005; Kamath, 2007; Mavridis, 2004; Ulum et al., 2014; Young et al., 2009). Second, studies that attempt to incorporate IC performance with financial performance and or market value (Gan & Saleh, 2008; Gigante, 2013; Morariu, 2014; Razafindrambinina & Anggreni, 2011; Tan et al., 2007; Ting & Lean, 2009; Yalama & Coskun, 2007). And third, researches that examine factors influencing IC performance (Al-Musalli & Ismail, 2012; El-Bannany, 2008; Mavridis, 2005; Prabowo & Soegiono, 2010; Saleh et al., 2009).

Among the studies that examine determinants factors of IC performance, to the best of our knowledge, there are few types of research that specifically investigate the association of ownership structure and IC performance. Saleh et al. (2009) investigate 264 listed companies on the Malaysian Exchange of Securities Dealing and Automated Quotation Market (MESDAQ) between 2005 and 2007 testing the relationship between the VAIC and ownership structure as denoted by family ownership, management ownership, government, and foreign ownership. Results

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indicate that family ownership negatively affects IC performance, while management, foreign, and government ownership has no association with VAIC.

Al-Musalli & Ismail (2012) examine the impact of ownership structure as corporate governance characteristics on the IC performance of listed banks in Arab GCC countries. The results suggest that family ownership has a negative association with IC performance at a one percent level, while domestic strategic institutional ownership has marginally a negative impact on IC performance (at 10% level). Government and foreign strategic ownership were found to have no influence on VAIC, while bank-specific characteristics such as bank riskiness and adherence to Islamic sharia principle and banking industry characteristics (i.e. the degree of banking industry concentration) determine IC performance.

Prabowo & Soegiono (2010) study the relationship between government ownership and IC value creation activity of Indonesian listed banks in 2008. The study, however, finds no relationship between government ownership and IC performance rather the percentage of fee-based income to total operating income that positively determines IC performance.

The present study attempts to fill the gap in the literature by examining ownership structure i.e. family control, government ownership, and foreign ownership in Indonesia which yet to be studied by Prabowo & Soegiono (2010). As stated earlier, Indonesia offers a suitable research setting for the study since the country has concentrated ownership in the hands of founding family and interconnecting business relationship (Arifin, 2003; Sato, 2005), and foreign owns a substantial amount of shares of local commercial bank (Amalia & Ika, 2014; Carney & Hamilton-Hart, 2015).

MAIN FOCUS OF THE CHAPTER

As explained in the introduction section this chapter conjecture that ownership structure has relationship with IC performance. The authors discuss the hypotheses each form of ownership in the preceding section.

Hypotheses Development

Family Control

Assessing from agency theory, the existence of family control could potentially have an impact on company performance. There are two views concerning the presence of family control. First, family control is expected to bring a positive influence on company performance due to their dominance of possession by the family leads to

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reduced agency problems that occur in the company (Maury, 2006). In this case, families tend to monitor the management, recognize the company's business daily routine, and have a prolonged investment perspective as compared to non-family firms (Saleh et al., 2009). Therefore, family control through their representative on the board of directors may affect a company's investment decision related to value creation activities.

On the other hand, when the family has the majority power to control the company, they incline to use the companies to generate their own benefit at the expense of minority shareholders. The increase in family ownership will make family wealth personally, increasingly tied to the wealth of the company, so that the management who is also the owner of the company will try to reduce the risk of losing his wealth (Maury, 2006). In a family dominated firms, there is also a tendency that the company will employ relationships in families that do not have enough competence that could also adversely affect the performance of the company.

Given the Indonesian scenario where family dominates and control the companies, the authors follow the second view to developing hypotheses. Since the focus of the controlling families is to maximize their own wealth, we conjecture that they neglect the companies' long term investment in IC and ignore value creation activities which in turn reduce IC performance of the company. Research conducted by Saleh et al. (2009) and Al-Musalli & Ismail (2012) found that family control negatively affects IC performance. Based on this description, this study proposes the following hypothesis.

Hypothesis One: Family control is negatively associated with IC performance.

Government Ownership

Based on agency theory, agency conflict is prone to occur if the agent and principal are different parties. In this case, the principal is held by the government as the shareholder, and the agent is maintained by the company management. Government share ownership causes a company to carry out its activities in line with the Government's interests. The government reserves the right to appoint the director of the company so that business decisions are an arm of government interests. Increasing government ownership will lead to more oversight efforts to reduce the opportunistic behavior of managers. This causes managers to act according to the wishes of shareholders (Mubaraq & Ahmed Haji, 2014).

Previous studies conjecture that government ownership is detrimental to firm performance (Al-Musalli & Ismail, 2012; Najid & Rahman, 2011; Prabowo & Soegiono, 2010; Saleh et al., 2009). Governments tend to focus its activities in line with its social and political goals such as setting up low output price and a high amount of employment which may lead to political interference in resource

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allocation which in turn decrease the efficiency and value of firms (Najid & Rahman, 2011). In addition, the government will delegate their supervisory role to politicians or bureaucrats who may not actively oversee companies because of insufficient capability or the paucity of personal interest to ensure that the organization runs efficiently (Ab Razak et al., 2008).

Companies with government share ownership face greater political intervention especially in resource allocation (Saleh et al., 2009). Therefore companies' expenditure is in doubt to be utilized for long term sustainability investment, including IC underlying investment, but for social and political activities instead, that probably will increase the chances of a connected politician to be re-elected. Results of previous studies (Al-Musalli & Ismail, 2012a; Prabowo & Soegiono, 2010; Saleh et al., 2009) however find that government ownership does not determine IC performance. Based on the above description, the hypotheses are stated as follows.

Hypothesis Two: Government ownership is negatively associated with IC performance.

Foreign Ownership

As stated earlier, this study predicts that foreign ownership has a positive impact on IC performance. In a country like Indonesia where ownership is concentrated at the hand of family, business is in the form of the business group and interlinking business relationship (Arifin, 2003; Claessens et al., 2000), foreign ownership can be viewed as a governance mechanism to mitigate agency problems (Saleh et al., 2009). The presence of foreign ownership could complement the existing governance structure in order to encourage the management to do value-maximizing activities. This especially true since foreign-owned banks have advanced technology that contributes to the companies' competitive advantage which in turn improves the company cost efficiency (Bonin et al., 2005).

Since foreign-owned banks are more familiar with technology, in order to achieve positive and profitable results, foreign investors can use their influence on domestic companies to invest more in value creation activities that will contribute to better long-term company performance. This will result in better IC performance (Al-Musalli & Ismail, 2012). Research conducted by Goh (2005) in Malaysia and (Kamath (2007) in India suggests that foreign companies have greater IC performance than local companies. However, both Saleh et al. (2009) and Al-Musalli & Ismail (2012) find that foreign ownership does not determine VAIC. The present study expects that the number of foreign ownership has a positive influence on IC performance. Therefore, this study proposes the following hypothesis.

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Hypothesis Three: Foreign ownership is positively associated with IC performance.

Control Variables

This study uses profitability, leverage, and size as control variables.

Despite the agency conflict in the company, profitability remains a measure of the success of a company. Profitability demonstrates the company's ability to generate profits (El-Bannany, 2008). Profit is a positive financial condition that can motivate employees to continue to innovate and be creative. This leads to an increase in the intellectual performance of the company because the employees will improve the quality of its intellectual. Previous studies (Al-Musalli & Ismail, 2012; Joshi et al., 2010; Saleh et al., 2009) find that profitability positively affect IC performance. Based on the description, this study expects that profitability has a positive effect on IC performance.

Leverage is the ratio of total debt to total assets. Leverage illustrates the extent to which the owners of capital to cover the debt on parties outside the company. Leverage is expected to have a negative effect on the performance of intellectual capital. Companies with a high debt level will be more focused on improving the image of the company rather than adding to the company's long-term investment. Al-Musalli & Ismail (2012) find that bank riskiness as denoted by insolvency significantly affects IC performance, while Saleh et al. (2009) however, suggest that leverage has no relationship with IC performance. Based on these descriptions, the study expects that leverage negatively affect IC performance.

The larger the company the greater the attention of stakeholders to the companies' activities. Therefore, the company will be more likely to spend or invest in IC underlying activities and report intellectual capital information in an annual report. Since IC performance is a function of physical capital and IC capital so the higher the physical asset will be more likely to generate IC performance. Joshi et al. (2010) find a positive relationship between size and IC performance. Based on these descriptions, this study expects that the size of the company has a positive effect on IC performance.

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SOLUTIONS AND RECOMMENDATIONS

Method

Data

The sample consists of banking companies listed on The Indonesia Stock Exchange in the year 2013-2016. The number of companies is 31. However, eight companies are excluded due to the availability of all data necessary to satisfy the model requirement. Thus, we use 23 banks as a sample, generating 92 observations during the four years period.

The banking sector is selected because human capital is more dominant in this sector. Furthermore, it is more concerned with intellectual capital than physical capital in the process of acquiring/creating wealth (El-Bannany, 2008). We use the year 2013 to 2016 because that is the most recent data at the start of this research, besides according to the Indonesian Central Bank Annual Report from 2013 to 2016 there were no changes in laws in Indonesia concerning banking share ownership.

Research Definition and Variable Measurement

Dependent Variable

The dependent variable in this study is IC performance. IC performance is measured by a value-added intellectual coefficient (VAIC). VAIC shows the level of value creation efficiency of tangible assets and intangible assets owned by the company. VAIC values can be calculated as follows (Pulic, 1998, 2000).

$$VAIC = HCE + SCE + CEE$$

Where,

$$VAIC = Value\,added\,intellectual\,capital\,coefficient$$

$$VA = Value\,added = output - input$$

$$Output = The\,summation\,of\,the\,gross\,income\,of\,the\,banks$$
$$\left(interest\,income, insurance\,income, fee\,based\,income, and\,other\,revenue\,created\,by\,banks\right)$$

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$$Input = The\, summation\, of\, the\, operating\, expense\, of\, the\, banks, accept\, employee\, costs$$
$$\left(interest\, expense + insurance\, costs + other\, operating\, expense\right) excluding\, employee\, costs$$

$$HC = Human\, capital = salaries\, and\, wages$$

$$SC = Structural\, capital = The\, difference\, between\, VA\, and\, HC = VA - HC$$

$$CE = Capital\, employed = Total\, tangible\, asset - total\, liabilities$$

$$HCE = Human\, capital\, efficiency = \frac{VA}{HC},$$

shows how much of the company's value creation is generated by the HC

$$SCE = Structural\, capital\, efficiency = \frac{SC}{VA},$$

explains how much of the VA is generated by the SC

$$CEE = Capital\, employed\, efficiency = \frac{VA}{CE},$$

an indicator of value added by the capital employed.

The VAIC has been used by previous studies (Al-Musalli & Ismail, 2012; El-Bannany, 2008; Gigante, 2013; Goh, 2005; Joshi et al., 2010; Kamath, 2007; Mavridis, 2004; Saleh et al., 2009). It denotes the efficiency of value creation activities given the company's total resources. Hence the higher the value of VAIC the higher the efficiency of value creation activities.

Independent Variable

We use two proxies to measure family control in this study, namely scale and nominal method. Under the scale measurement, we utilize the percentage number of shares owned by the family to the total shares of the company as a proxy for family control. Under the nominal method, the company gets a score of 1 if there is

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a family member on the board of commissioners, or the board of directors or both. Conversely, the company gets a score of 0 if there are no family members on the board. The use of 2 different measurements is useful for validating the robustness results of the two methods.

Indonesia follows a two-tier governance system where there are two board structures, the board of commissioners and the board of directors. The board of commissioners has a duty to give direction and oversee the board of directors, while the board of directors is in charge of managing the firm. In this paper, unless stated otherwise the term "board" refers to the board of commissioners and the board of directors, 'board of directors' refers to the board of directors in the two-tier structure.

Data is collected from the ownership structure listed in the annual report, the company's prospectus, and monthly share ownership reports. Government ownership is the ratio of the amount of government shareholding to the total shares of the company. Similarly, foreign ownership is the percentage of foreign investors' shareholding of the total shares of the company.

Control Variables

For profitability, this study uses return on assets (ROA) which is the ratio of net income divided by total assets of the company. Leverage is measured by using debt to equity ratio (DER), the company's total debt divided by total equity of the company. Company size (SIZE) is the log natural of total assets.

Research Model

This research uses two models, namely Model 1 and Model 2. The difference between the two models is the proxy measure family control. Model 1 uses the percentage level of family ownership, while model 2 uses the presence of family members on the board of directors, the board of commissioners, or both.

Model 1:

$$IC\ Perfomance = \beta_1 + \beta_2 FAM1 + \beta_3 GOV + \beta_4 FOR + \beta_5 ROA + \beta_6 LEV + \beta_7 SIZE + \varepsilon$$

Model 2:

$$IC\ Perfomance = \beta_1 + \beta_2 FAM2 + \beta_3 GOV + \beta_4 FOR + \beta_5 ROA + \beta_6 LEV + \beta_7 SIZE + \varepsilon$$

Where the measurement of the above variables is presented in Table 1.

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This study uses panel data techniques to analyze the relationship between ownership structure and IC performance. The technique allows the maximum deployment of data by taking into account both time-series and cross-sectional data. The advantage of panel data is that it enhances the efficiency of the econometric estimation by providing researchers more data points, which improves the degree of freedom and decreases collinearity between explanatory variables (Gujarati, 2009).

We carefully examine the most suitable panel data model using GRETL software as guided by (Baiocchi & Distaso, 2003). There are four basic models presented in the panel data model, that is pooled ordinary least squares (POLS), fixed effect model (FEM), random effect model (REM), and Seemingly Unrelated Regression Equations (SUR) model. The first-panel diagnostic test is F-statistics to look at the p-value. If the p-value is less than alpha, so the null hypotheses are rejected, and FEM is more appropriate than the POLS model. Secondly, the Breusch-Pagan tests assist to decide whether POLS or REM is suitable. If the p-value is less than alpha, then the null hypotheses are rejected, accordingly, REM is more appropriate than the POLS model. If both the F-statistics and Breusch-Pagan tests are attained to be positive, then finally the Hausman test is utilized to ascertain whether FEM or REM is proper for estimation. The SUR model is deployed to assess panel data models that have long time periods and a small number of cross-sectional units. Using these test results, we find out the suitable model to be utilized for estimating the regression equation

Table 1. Variable measurement

Variables	Definition	Measurement
IC Performance	Intellectual Capital Performance	Using VAIC from Pulic (2000)
FAM1	Family ownership	The percentage number of shares owned by the family to the total shares of the company
FAM2	Family presence on the board	Code 1 if there is a family member on the board of commissioners or the board of directors or both. Code 0 if otherwise
GOV	Government ownership	The percentage number of shares owned by the government to the total shares of the company
FOR	Foreign ownership	The percentage number of shares owned by the foreign to the total shares of the company
ROA	Profitability	Return on Asset; Net Income divided by Total Asset
LEV	Leverage	Debt to Equity Ratio; Total liability divided by Total Asset
SIZE	Company Size	Log natural of Total Asset

Source: Own compilation

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Results and Discussion

Descriptive Statistics

The descriptive statistic provides a description of data that consists of the minimum, maximum, mean, standard deviation of each research variable. The results present in Table 2.

Table 2. Descriptive Statistic

Variables	N	Minimum	Maximum	Mean	Std. Deviation	Percentage
VAIC	92	1.34	6.27	2.97	1.14	
FAM1	92	0.000	97.9	30.8	32.2	
FAM2	92	0.000	1.00	0.196	0.399	Dummy= 1 (12%) Dummy= 0 (88%)
GOV	92	0.000	85.0	15.7	26.6	
FOR	92	0.000	99.7	22.1	27.0	
ROA	92	0.150	5.03	1.73	1.15	
LEV	92	2.12	11.68	6.92	2.18	
SIZE	92	13.7	20.8	17.4	1.98	

Source: Own compilation

Based on sample classification, the average value of the VAIC is 2.97. This number is higher than the VAIC value of Indonesian listed banks in 2008, i.e., 1.31 as documented by Prabowo & Soegiono (2010). The difference in the score probably due to the sample period of Prabowo & Soegiono (2010) is in the global financial crisis time, i.e. the year 2008. The number, however, is lower as compared to other country VAIC score such as in Malaysia 7.91 (Goh, 2005); India 3.30 (Kamath, 2007); Australia 3.80 (Joshi et al., 2010); Arab GCC countries 4.20 (Al-Musalli & Ismail, 2012); and UK 10.80 (El-Bannany, 2008). This finding implies that the value creation capability of the Indonesian bank is relatively lower as compared to other countries mentioned above.

For FAM 2, i.e., the existence of families on board, Table 1 shows that only 12 percent of the total sample (11 from 92 companies) has a family member that acts as commissioners or directors, while the remaining 88 percent or 81 companies do not have commissioners or directors from the family.

Concerning GOV, the highest number of shares owned by the government is 85 percent. The average number of shares held by the government is at the level

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of 15.7 percent. Meanwhile, the highest level of foreign ownership (FOR) is 99.7 percent as permitted by the Indonesian law, with a mean score of foreign ownership is 22.1 percent. The average profitability of the sample banks is 1.73. Of the sample companies, the size is ranging from 13.7 to 20.8, with the average is on 17.4. Meanwhile, the debt level of the bank sample is 6.92 on average.

Panel Data Regression Analysis

To test the influence of ownership structure on intellectual capital performance, we run panel data regression tests. Table 3 presents the results of the panel data regression analysis of the two models, namely Model 1 and Model 2. In Model 1, family control (FAM 1) is measured by the number of shares owned by family members, while in Model 2 family control (FAM 2) is measured by the existence of family members on board of commissioners, the board of directors, or both.

As stated in the methodology section, the panel diagnostic test results are used to determine the suitable panel data model. The results in Table 2 indicate that the *p*-value of F-statistics for both Model 1 and Model 2 is less than 0.05 (alpha), i.e. 0.00010 for Model 1 and 0.00020 for Model 2, thus we reject the null hypotheses. It suggests that FEM technique is more suitable than POLS. Then, Breusch-Pagan test

Table 3. Results of panel data regression tests

	Model 1			Model 2		
Variables	**Coefficient**	**z**	***p*-Value**	**Coefficient**	**z**	***p*-Value**
(Constant)	-0.301	-2.444	0.0145**	-2.846	-2.333	0.019**
FAM1	0.0006	2.137	**0.032****			
FAM2				-0.057	-0.317	0.751
GOV	0.015	3.407	**0.0007*****	0.009	2.246	**0.024****
FOR	0.007	2.256	**0.024****	0.004	1.260	**0.0702***
ROA	0.089	0.589	0.555	0.109	0.734	0.462
LEV	-5.158	-0.121	0.903	-0.000	-0.274	0.784
SIZE	0.302	3.490	**0.0005*****	0.315	3.372	**0.0007*****
F-Statistics	3.309 (0.00010)			3.318 (0.00020)		
Breushch-Pagan test	18.185 (0.00020)			17.415 (0.00030)		
Hausman test	2.860 (0.826)			0.813 (0.991)		
Overall R^2	0.355			0.372		
Durbin Watson	2.00			2.00		

Source: Own compilation Notes: ***, **, * denotes statistically significant at 1%, 5%, and 10% respectively

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statistic states that the *p*-value is less than 0.05 (i.e. 0.0002 for Model 1 and 0.0003 for Model 2) which indicates that REM is more appropriate than POLS. Finally, Hausman test statistic reports that the *p*-value is above 0.05 (i.e. 0.826 for Model 1and 0.813 for Model 2) which suggests that REM is more suitable than FEM. Hence, we come to the conclusion that according to panel diagnostics available in the software, REM is the most appropriate data analysis technique to examine the above regression model (Adkins, 2010; Cottrell & Lucchetti, 2017).

Based on Table 3 also, the overall R-square for Model 1 and Model 2 is 0.355 and 0.372 respectively. This result shows that independent variables can explain about 35 percent in Model 1 and 37 percent in Model 2; variation in the dependent variable.

As can be seen in Table 3, the number of shares owned by the family positively affects IC performance, significant at 5 percent level. This finding suggests that the higher the number of shares held by the family the better IC performance of the company. The result also implies that the controlling owner in family companies encourages the management to enlarge the companies' long-term investment in IC, improve the management's attention on creating value which in turn positively affects the IC performance of the company. The result is consistent with alignment hypotheses which state that family control over the company would reduce agency costs and improve the company's performance (Maury, 2006). Hence, in the Indonesian context, the controlling owner in family companies would increase the amount of value-added and the companies' efficiency in utilizing IC. These results, however, are not consistent with previous studies conducted in Malaysia (Saleh et al., 2009) and in GCC countries (Al-Musalli & Ismail, 2012) which found that family ownership has a negative association with IC performance. This is probably due to differences in the business environment in each country and the awareness of family owners regarding the intense competition in the financial services industry in Indonesia which demands competitive advantage in knowledge assets.

On the other hand, Table 3 suggests that the presence of family members on the board does not influence IC performance. Hence the involvement family member that sits as board commissioners or board of directors or both would not have any impact in value creation activities. The plausible explanation regarding this finding is the low number of companies in the sample whose family members or majority shareholders sit as the board of commissioners or board of directors. This is probably due to strict supervision by the Indonesian Central Bank in the appointment of board members through fit and proper tests. Eighty eight percent of the sample companies do not put their family member on the board. This may indicate that the founding family in these companies hand over the management of the family business to the professionals to face intense competition in the industry.

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As presented in Table 3, government ownership has a positive association with IC performance, significant at 1 percent level in Model 1 and at 5 percent in Model 2. The results imply that the higher the government ownership, the more likely the company has higher utilization of IT. The results also indicate that state-owned banks in Indonesia tend to focus their attention more towards activities that can increase value creation such as investing more in training, hiring new experts, and improving a process, procedure, and work culture than privately-owned companies. This may be due to the state-owned banks being directly supervised by the Indonesian Central Bank and the Ministry of SOEs from a political intervention that disrupts the bank's performance. As a result, the bank will focus on increasing its performance in line with government interests. The results are somewhat consistent with Ulum et al. (2014) which found that state-owned banks are in the top three of the top performer category of IC performance of banks in Indonesia. The results, however, are contradictory with previous studies (Al-Musalli & Ismail, 2012; Prabowo & Soegiono, 2010; Saleh et al., 2009) which found that government ownership has no association with IC performance.

Table 3 also indicates that foreign ownership is positively associated with IC performance in Model 1, significant at 5 percent level. In model 2, when the different measurement of family control is applied in the regression model, foreign ownership is found marginally significant in determining IC performance. The coefficient of the variable is consistent to be positive in both models. The result that foreign ownership is positively associated with IC performance is in line with the expectation that foreign ownership would exceed domestic ownership regarding experience, organizational, monitoring and technological capabilities, and credibility (Chahine & Tohmé, 2009) Furthermore foreign-owned banks have advanced technology that contributes to the companies' competitive advantage which in turn improve the company cost efficiency (Bonin et al., 2005). As stated earlier in the hypotheses development section, the presence of foreign ownership could complement the existing governance structure in order to encourage the management to do value-maximizing activities. Therefore, the higher the number of shares owned by foreign investors, the better the IC performance of the company. Our finding is similar to Goh (2005) and Kamath (2007) which report that foreign companies have superior IC performance as compared to local companies.

In terms of control variables, only SIZE that significantly affects IC performance, consistent in both model at 1 percent level. The result implies that the higher the asset, the more utilization of IC in a company. This finding is in line with Joshi et al. (2010) which find size has a positive impact on IC performance. Meanwhile, profitability and leverage do not influence value creation activity in a company.

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FUTURE RESEARCH DIRECTIONS

This study has some limitations that must be considered in interpreting the results of the study. First, for family control and foreign ownership variables, we did not trace the owner to the ultimate shareholder. Second, the research sample is still relatively small that is 23 listed banks, and the study period only covers four years (2013-2016). Third, the use of a debt-equity ratio (DER) for measuring the leverage variable that is negatively predicted in determining IC performance, should be looked at carefully because in a company such as a bank, it is not only measuring company's debt but also it is a reflection of the third party funds (customer deposits), i.e., the success measurement of a bank, namely the customer's trust to save their funds in the bank.

Based on the above limitations, there are some suggestions for future research. First, we advise tracing family control until finding the ultimate shareholder by using additional data sources in the form of notary deeds of company establishment. The foreign ownership variable should also be traced to the ultimate shareholder. Second, future research should increase the sample by extending the observation period. Third, future research may use other than DER in measuring leverage. Some of these ratios can be used as a proxy for leverage, for example, Net call-money liabilities to current assets (NCM) which is a ratio of loans from other banks divided by current assets; Loan to deposit ratio which is a ratio of the amount of credit given by banks with funds received by banks; and Interest coverage ratio (ICR) which is an of profit before interest and taxes and interest); or fee-based income to total operating income (Prabowo & Soegiono, 2010).

CONCLUSION

This study aims to examine the impact of ownership structure on IC performance in Indonesian listed banks. Results of panel data regression utilizing the random effect model indicate that family control as measured by the number of shares owned by family have a positive and significant effect on IC performance. The result implies that family control over the company would reduce agency costs and improve the company's performance in terms of IC value creation activities. On the other hand, family control as measured by the family's presence on the board does not determine IC performance. The difference in results may be due to the low number of companies in the sample whose founding families sit on the board (12 percent). The other plausible explanation is due to strict supervision by the Indonesian Central Bank in the appointment of board members through fit and proper tests. Eighty-eight percent of the sample companies do not put their family member on the boards

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which may indicate that these companies leave the management to the professional to face intense competition in the industry.

Surprisingly, government ownership has a positive impact on IC performance indicating that state-owned banks outperform private banks in their IC performance. This is possibly due to direct supervision from the Ministry of SOEs that state-owned banks should exhibit a remarkable performance as a consequence of corporate governance reform implementation as initiated by the IMF. Meanwhile, as predicted, foreign ownership encourages the management of a local bank to invest more in resources underlying IC.

This study has some policy implications. First, it may provide insight to the banking regulators in initiating actions toward improving their performance and in turn maximizing value creation. Despite any critique of allowing foreigners to buy local bank shares in such a high percentage, this study provides evidence that foreign ownership significantly improve bank performance in terms of value creation activities. This finding may be different if the maximum value of shares that can be bought by foreign investors is reduced.

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KEY TERMS AND DEFINITIONS

Family Ownership: Founding family members have possession of shares in the firm or founding family members are existing on the board.

Foreign Ownership: The owner or control of a company is individuals who are not citizens of that country or by firms or institutions whose headquarters outside that country. It can occur when a domestic property or shares is acquired or bought by a foreign individual.

Government Ownership: A company in which government or state have possession of shares, property, and assets of the organizations.

Intellectual Capital: The sum of intangible assets that contribute to a company's competitive advantage. These assets comprise of the expertise of employees, organizational processes, and entirety of knowledge contained within the organization.

Intellectual Capital Performance: A company's intellectual ability which shows a reliable picture of physical capital used and human capital. It refers to the efficiency of a combination of tangible assets and intangible assets.

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VAIC: Value-added intellectual capital is the measurement of intellectual capital performance of a company. It shows the level of value creation efficiency of tangible assets and intangible assets owned by the company.

Value Creation: Any process that generates outputs that are more valuable than its inputs. This is the origin of efficiency and productivity.

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Chapter 11
Director Attendance at Board Meetings and Executive Compensation Evidence From Malaysia

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ABSTRACT

This chapter attempts to examine the effect of directors' attendance at meetings on the board's effectiveness in mitigating executive expropriation practices, especially excessive compensation. For this end, the authors employ a multiple regression model within a sample of Malaysian firms over the period 2008-2013. The results show that the attendance of directors at board meetings affects the executive compensation negatively. Board members who attended meetings frequently are more able to monitor managers' practices continuously and effectively. Hence, they can diminish the possibility of expropriation and decrease the excessive pay. The findings also show that increasing board meetings frequency and strengthening nominating and compensation committees' independence reinforce the board's monitoring effectiveness in reducing executive expropriation behavior.

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INTRODUCTION

Overall, many researchers have examined the issue of executive compensation in listed companies. In this regard, Anderson and Bizjak (2003) report that executive remuneration plays a key role in attracting managers and provides incentive for executive directors. As a result, they tend to perform their tasks more effectively and act in the best interests of shareholders. Compensation is used as a mechanism to motivate, monitor executive directors and align their interest with those of shareholders. As a matter of fact, Jensen and Meckling (1976), Endraswati et al. (2014), among others, reveal that adequate compensation can motivate managers to work better, boost their productivity and protect shareholders' interests. Nevertheless, Ooi and Lai (2009) report that executive directors can receive good compensation when their companies lose money. Therefore, excessive executive compensation can be the result of manipulation and self-dealing (Reddy et al., 2015).

A large sum of remuneration received by executive directors has revealed the existence of corporate governance issues such as managerial opportunism behavior (Sanchez-Marin and Baixauli-Soler, 2014). For example, Core et al. (1999) report that the board of directors is influenced by the CEO, such mechanism cannot monitor the opportunistic behavior of managers and set the executive compensation package. Therefore the board of directors fails to protect shareholders' interests. In corporate governance of literature, the board of directors plays a crucial role in reducing managers' opportunistic practices such as extracting additional remuneration (Reddy et al., 2015). In this respect, Sun et al. (2009) profess that the board of directors has to be an effective mechanism to protect shareholders interests by monitoring management actions and fixing the right executive compensation packages. In this context, codes on corporate governance which are implemented in many countries can improve the effectiveness of the board of directors in terms of roles and composition.

In this context, Malaysia struggles to improve corporate governance mechanisms and especially boost the role of the board of directors of listed companies. Indeed, the Finance Committee on Corporate Governance (FCCG) in Malaysia has revisited several times the Malaysian code of corporate governance (MCCG) (Khongmalai et al., 2010; Sanni and Ahmed Haji, 2012). In spite of such efforts to establish the best practices in corporate governance, the last revisited code (MCCG, 2012) does not include some important rules which may reinforce the effectiveness of the board of directors in mitigating managers' opportunistic behavior. For instance, Lin et al. (2014) indicate that the MCCG does not require neither the number of meetings that a board should organize to improve its effectiveness nor the diligence of directors at these meetings.

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Cognizant this fact, one might examine if the attendance of directors at board meetings enhances its effectiveness to mitigate the opportunistic practices of executives (e.g. excessive pay). In particular, we attempt to analyze whether the directors' attendance at board meetings reduces the excessive compensation of executives. This can be helpful for Malaysian companies in terms of organizing board meetings, fixing attendance fees for directors and reinforcing their board's monitoring effectiveness. To this end, we use a panel data set of 26 non-financial listed companies over the period 2008-2013,

Overall, foreshadowing the main results, we document that there is a negative relationship between the attendance of directors at board meetings and the compensation of executive directors. The directors' attendance at board meetings can enhance the effectiveness of the board in monitoring the opportunistic practices of executives such as increasing their own compensation. To reduce the excessive executive compensation, companies should motivate board directors to attend at board meetings to interact with other directors and to provide continuous oversight of executives (Gray and Nowland, 2012).

Our study contributes to the existing literature in different ways. First, we investigate the impact of board of directors' characteristics on executive compensation from a new perspective: directors' attendance at board meetings. Second, we provide empirical evidence on the determinants of executive compensation in Malaysian companies. In particular, we focus on the effect of directors' attendance at board meetings on executive compensation. Third, our empirical findings can be a prima facie for other developed countries to improve their governance codes.

The remainder of this chapter is organized as follows. Section 1 reviews the relevant literature and presents the hypotheses under study. We report the methodology, data and variables description in Section 2. Section 3 provides and discusses the empirical results. Section 4 summarizes and gives some concluding remarks.

LITERATURE REVIEW AND HYPOTHESES

The literature on board of directors' characteristics and executive compensation is generally based on the agency theory. According to Jensen and Meckling (1976) and Connelly et al. (2012), agency conflicts are due to the divergence of interests between agents and principal. In general, the interests of agents (managers) do not align with those of principal (shareholders). For instance, managers may act to the detriment of shareholders by imposing additional costs such as excessive compensation (Fama and Jensen, 1983; Ergin, 2013). Even though the compensation mechanism allows to align the interests of principal with those of agents and to reduce agency costs, it can worsen the agency conflicts (Ergin, 2013). That is why managers must be

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controlled to avoid losses (Berle and Means, 1932) and to solve the issue of executive excessive compensation. In that vein, the agency theory reveals that non-executive directors can monitor executive directors via the board of directors.

In general, the board members can supervise managers' interests (Dalton et al., 2008; Belkhir, 2009). The board of directors can also monitor compensation (Jensen, 1993; Lin et al., 2014). So, the board of directors is the most important internal corporate governance mechanism. It can be an effective tool to protect the interests of shareholders by reducing executive excessive pay. Some researchers proved that effective board monitoring can reduce CEO's influence in the compensation process (Tosi and Gomez-Mejia, 1989). Otherwise, if the board of directors is ineffective, the CEO becomes entrenched and more powerful. Chhaochharia and Grinstein (2009) report that the CEO can influence the compensation contract by earning excess pay. Sridharan (1996) proved that entrenched executive dominates the board and can extract large pay.

In this respect, the entrenchment hypothesis has received considerable attention by researchers (e.g. Lin et al., 2014; Chhaochharia and Grinstein, 2009, Graffin et al., 2008). Lin et al. (2014) and Graffin et al. (2008), among others, that enhancing the effectiveness of the board of directors leads to avoid managers' entrenchment and their opportunistic behavior. Core et al. (1999) and Dalton and Dalton (2011) attempt to identify which factors which affect the board supervisory effectiveness. They show that board composition and activity, independence of compensation committee, independence of nomination committee and CEO duality significantly influence the effectiveness of directors' board. Fama and Jensen (1983) report that directors who do not have any relationship with managers can form more unbiased judgments about executives' performance. Sanchez-Marin and Baixauli-Soler (2011) profess that executive directors can influence on the board by requiring higher compensation when the board includes small number of independent members. Daily et al. (1998) indicates that the effectiveness of the board of directors can be improved if the number of independent members on the compensation committee is high, implying the decrease of overcompensation. Conyon (2014) indicates that the independent compensation committees can contribute to reduce the executives' excessive remuneration and fix the appropriate level of managerial compensation. Wang et al. (2014) also show that the expertise of compensation committee's independent members can reduce excessive executive pay.

Cyert et al. (2002) show CEO who is also the chairman of the board receives high compensation by analyzing the determinant of executive compensation for U.S. public companies. Cahan et al. (2005) investigate the relationship between CEO pay and board of directors' structure. They find that CEO duality depends on the CEO pay levels in the public sector. Accordingly, the board of directors is more effective in aligning executives' compensation when CEO is not a member of the

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board of directors. Conger and Lawler (2009) show that the excessive executives' pay is reduced when CEO is not the chairman of the board of directors (absence of CEO Duality).

The board activity can also influence is the effectiveness of board supervision (Vafeas, 1999; Ramos and Olalla, 2011). The board meetings are key tool for monitoring managers' actions and determining the compensation of managers (Jiraporn et al., 2009). Jiang et al. (2009) report that CEO remuneration is negatively (resp. positively) related to corporate performance (ROE, ROA) in concentrated ownership (resp. dispersed ownership) companies. Merhebi et al. (2006) and Haman and Askary (2007) show a positive relationship between executives' remuneration and company performance for Australian companies. Nevertheless, Conyon and Murhpy (2000) find a weak relationship between executive compensation and corporate performance in the UK whereas Fernandes (2008) does not detect any relationship between executives' compensation and firm performance in Portugal. Ntim et al. (2013) prove that the level of executives pay is less sensitive to corporate performance. Other researchers have investigated other determinants of executive compensation such as board independence and activity, CEO duality, independence of the compensation and the nomination committees and firm performance (Shivadasani and Yermack 1999; Core et al., 1999; Ntim et al., 2013; Conyon, 2014; Sanchez-Marin and Baixauli-Soler, 2014).

Recently, Chou et al. (2013) attempt to analyze the effect of board meeting attendance on the performance of Taiwanese listed companies. Greater meeting attendance by directors can improve a firm's performance. However, high attendance by their representatives has an adverse effect. Independence of directors (or a board) is also positively related to firm performance. López-Iturriaga et al. (2015) examine the impact of directors on the board compensation (level of compensation, composition, and performance sensitivity). They identify pressure-sensitive directors (i.e., with business links) and pressure-resistant directors (i.e., without business links). They indicate that pressure-resistant directors decrease total board compensation. Nevertheless, they increase the variable proportion of total remuneration and the pay-for-performance sensitivity. Pressure-sensitive directors offer the opposite results. Johl et al. (2015) examine the board meeting, board independence, board size and directors accounting expertise on firm performance in Malaysia. They display that board independence does not influence on firm performance. However, board size and board accounting/financial expertise are positively related to firm performance. The board meetings seems to have an adverse effect on firm performance. Chen and Keefe (2018) show that director compensation in Chinese listed firms has an impact on director characteristics and ownership structure. They display that director busyness, tenure, and ownership concentration positively influence and state-ownership negatively influences director compensation. For non-independent

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directors, they show that tenure positively influences and that both state-ownership and related directors negatively influence director compensation. Harakeh et al. (2019) examine the effect of the exogenous increase in the presence of female directors on FTSE350 corporate boards in the UK on the relationship between earnings management and CEO incentive compensation. They display a positive relationship between earnings management and CEO incentive compensation. A negative relationship between female directors and earnings management is well-documented. They show a negative impact for the presence of female directors on CEO incentive compensation. Stein and Zhao (2019) detect periods when employers' poor performance can distract them from board service. They display that firms with distracted independent executive directors have lower performance and value, higher CEO compensation, reduced CEO turnover-performance sensitivity, lower earnings quality, and lower M&A performance. Hahn, and Lasfer (2019) report that the number of board meeting seems to be low for the UK companies because of the crucial increase in the proportion of foreign non-executive directors on the board.

Based on this crux, we attempt to expand the literature on the determinant of executive pay by studying the influence of a specific board attribute such as board meeting attendance. Board directors play key role such as monitoring management, evaluating merger and acquisition opportunities and setting the compensation of CEO and other executives. So, Gray and Nowland (2012) report that directors need to access to information, which is provided to board meetings. However, Lipton and Lorsch (1992) and Sarkar and Sarkar (2009) report that board members do not have enough time to monitor effectively management. Lin et al. (2014) report that board member must attend board meetings in order to understand audit communications and provide continuous effective supervision of the management.

Board meetings attendance is considered as the important factor for monitoring board. The failure to participate in board meetings is considered as a lack of good oversight quality. In this case, directors cannot accomplish effectively their oversight duties (Jiraporn et al., 2009; Lin et al., 2014). So, attending meetings is the principal tool for board member to acquire corporate information, interact with other board directors and provide continuous oversight of managers (Gray and Nowland, 2012). In this respect, Lin et al., (2014) emphasize that board members who fail to attend board meetings cannot supervise executives effectively and detect managerial self-interest incentives (e.g. excessive compensation). Accordingly, we propose to test the following hypothesis:

H1: There is a negative relationship between the attendance of directors at board meetings and the executive compensation

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RESEARCH DESIGN

Sample

In this chapter, we use a panel data set of 26 Malaysian listed companies over the period 2008-2013. The choice of 26 listed companies is made for different reasons. These companies are likely than others to disclosure detailed information about their boards of directors, directors' profile and nomination and compensation committees. In addition, such companies are the highest-rated companies in Malaysia given that they issued sukuks. To be the best rated company in the market, these companies try to comply with the relevant corporate governance rules and code.

The choice of the year 2008 is attributed to the Malaysian code of corporate governance which was revised in 2007 to improve the corporate governance systems of Malaysian listed companies. Corporate governance data are hand collected from annual reports. Such reports include information about the features of various governing bodies and directors' profile. We also use data concerning remuneration of executive directors and firm performance. We collect them from table of directors' remuneration and balance sheet.

Model Specification

To test the impact of the attendance of directors at board meetings on the executive compensation, we use regression analysis based on exogenous, independent and control variables. The dependent variable is the executive compensation whereas the independent variable is the directors' attendance rate at board meetings. The control variables are used to account for firm and board of directors' features. Based on previous studies, we select the board meeting frequency, the board independence, the CEO duality, the independence of the nominating and the compensation committees and the financial performance as control variables. More formally, we use the following model:

$$EXECUCOMP_{t,i} = \alpha + \beta_1 * ATTEND_{t,i} + \beta_2 * BOARDMEET_{t,i} + \beta_3 * BINDEP_{t,i}$$

$$+ \beta_4 * NOMINDEP_{t,i} + \beta_5 * COMPINDEP_{t,i} + \beta_6 * DUAL_{t,i} + \beta_7 * ROA_{t,i} + \xi_{t,i}$$

where:

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- $EXECUCOMP_{t,i}$: The magnitude of executive compensation as measured by the compensation received by executive directors on the total compensation of directors (executive and nonexecutive directors);
- $ATTEND_{t,i}$: The directors attendance rate at board meetings for company i in year t;
- $BOARDMEET_{t,i}$: The number of meetings held by the board of directors of company i in year.
- $BINDEP_{t,i}$: The proportion of independent directors on the board in company i in year t;
- $NOMINDEP_{t,i}$: The proportion of independent directors on the nomination committee in company i in year t;
- $COMPINDEP_{t,i}$: The proportion of independent directors on the compensation committee in company i in year t;
- $DUAL_{t,i}$: The duality of the CEO/chairman role for company i in year t.
- $ROA_{t,i}$: The Return on Assets of company i at the end of year t.

VARIABLES AND MEASURES

Dependent Variable

In the literature, executive compensation is used as a metric to assess the effectiveness of corporate governance mechanisms, especially the board of directors (Mallin et al., 2015; Perryman et al., 2016). Executive compensation is the remuneration received by executives in the current year for firm i and includes salary and other emoluments, fees and benefits in kind. In this respect, many researchers focused on the annual compensation of the CEO as disclosed in a firm's statement (Core et al., 1999; Kimbro and Xu, 2015) and proxy for it by the natural logarithm of the remuneration. In this regard, Core et al. (1999) used three different measures of compensation: total compensation (the sum of salary, annual bonus, and the valuations for stock options, performance plans, phantom stock, and restricted stock), cash compensation (the sum of salary and annual bonus) and salary.

Following Jain et al. (2014), we calculate the average executive remuneration as a proportion of total staff compensation. To appreciate the level of executive compensation to the compensation of all directors, we measure the executive compensation variable by dividing the sum of remuneration received by the executive directors on the total compensation of the executive and non-executive directors.

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Independent Variable

According to Mallin et al. (2015), the board attendance rate is measured by the number of board meetings attended by the non-executive directors during the financial year. We focus on the attendance rate of all board members. Following Gray and Nowland (2012), we calculate the average directors' attendance rate at board meetings by dividing the number of meetings attended by directors by the total number of meetings organized by the board.

Control Variables

The control variables are indicators related to other board attributes, managerial features and firm specific factors that may affect executive pay.

- **Board Meetings Frequency**: The number of board meetings can generally influence the CEO compensation (Vafeas, 1999; Alves et al., 2016). Vafeas (1999) reported that board meetings give company directors more time to confer, set strategy and monitor management. Boards that meet more regularly could perform their monitoring functions effectively and more frequently (Alves et al., 2016). Board meetings can thus control manager opportunism and attenuate management excessive compensation. So, we include the board meetings frequency as a control variable in the model. So, we expect that it is negatively related to the executive compensation. Following many researchers, board meetings frequency is measured as the total number of meetings held by the board of directors during a year (Vafeas, 1999; Gray and Nowland, 2012; Lin et al., 2014; Garcia-Meca et al., 2015).
- **CEO Duality:** Many empirical studies have suggested that agency problems are higher when the CEO is also the board chairman (e.g. Yermack, 1996). The CEO duality exists when a firm's CEO also serves as the chairman in the board of directors (Jensen, 1993). As noted by Jensen (1993), it is crucial to separate the CEO and chairman positions to have an effective board of directors. The CEO duality has an important power over the board (Finkelstein and Hambrick, 1996) and signals the entrenchment of the CEO (e.g. Core et al., 1999). In particular, Core et al. (1999) show that the level of CEO compensation is higher when the CEO is also board chairman. Therefore, we expect that CEO duality positively influences the executive compensation. Following Conyon and Peck (1998), we use the CEO duality to appreciate the power of the CEO and the effectiveness of monitoring provided by the board of directors. The CEO duality variable is defined as a dummy variable that takes 1 when the CEO is the chairman of the board and 0 otherwise.

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- **Board Independence, Compensation and Nomination Committees Independence:** Several researchers indicated that the board of directors and board sub-committees (especially the compensation committee and nomination committee) have an influence on top executive pay (Conyon and Peck, 1998; Chhaochharia and Grinstein, 2009; Guthrie et al., 2012; Conyon, 2014). Conyon (2014) report that the effectiveness of board and compensation committee can be a constraint to excess executive pay. In this respect, Chhaochharia and Grinstein (2009) showed that the recommendation for a majority of independent directors on the board, rather than that of entirely independent compensation and nominating committees, can explain variation in CEO compensation. So, we expect that the board independence is negatively related to the executive compensation. The board independence is measured by the proportion of independent directors on the board. It is calculated by the number of directors divided by the number of directors of firm in a particular year.

According to Fisher (1986), focusing on the compensation committee seem to be important given that that the executive level compensation systems function "effectively and equitably from the viewpoint of shareholders". So, we expect that the compensation committee independence is negatively related to the executive compensation. Following Yeh et al. (2011), we calculate the compensation committee independence as the proportion of independent directors on the compensation committee.

As reported by Conyon and Peck (1998), the ability of directors to accomplish their nominating function depends on their independence which in turn related to the influence of CEO on the recruitment and the selection process. Anderson and Bizjak (2003) report that the nominating committee is very important because "it must be concerned with setting and strutting pay packages that attract and retain top management so as to provide the right incentives for managers to operate in shareholders 'interest". We calculate the nomination independence as the percentage of independent directors on the nomination committee.

- **ROA**: Conyon (1999) reported that CEO cash compensation is significantly related to company performance. We consider the company performance as control variable. So, we expect that ROA is positively related to the executive compensation. Following Baccouche et al. (2014) and Lin et al. (2015), we use annual earnings before interest and taxes (i.e. operating income) in order to calculate the return on assets ratio. So, we divide the operating income by the total assets of firm i at the end of year.

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RESULTS AND INTERPRETATION

Descriptive Statistics

From Table 1, the descriptive statistics indicate that the level of executive compensation for Malaysian companies ranges between 11.34% and 99.98%, with an average of 72.41%. The average compensation of executives is then higher than that of non-executive directors. The average attendance rate of directors at the board meetings is about 93%.

The percentage of board meetings attended by the directors during the year ranges between 72.3% and 100%. The board meetings frequency varies between 4 and 17 meetings per year with a mean of 6 meetings per year.

Table 1. Descriptive statistics for different variables

	Mean	Standard Deviation	Minimum	Maximum
EXECUCOMP	0.7241	0.2431	0.1134	0.9998
ATTEND	0.9301	0.0533	0.7207	1
BOARDMEET	6.3806	2.7874	4	17
BINDEP	0.4420	0.1011	0.25	0.667
NOMINDEP	0.6939	0.2529	0	1
COMPINDEP	0.6220	0.1468	0.25	1
ROA	0.4715	0.0637	-0.0889	0.3939

We find that the average percentage of independent members on the board of Malaysian companies is about 44%. So, the boards of Malaysian companies comprise a small number of independent directors. Moreover, the mean proportion of compensation committee members who are independent is 62.2%. Only 69% of nomination committee's members are independent directors.

The Malaysian code on corporate governance (2012) recommends to boost independence in board of directors and sub-committees in companies. So, the majority of Malaysian boards attempt to fully support the rules in the Malaysian code on Corporate Governance (2012). The average ROA is about 47% which seems to be high. The performance of the Malaysian companies can encourage the possibility of expropriation by directors.

From Table 2, we find that 38.46% of annual reports show CEO duality over time. However, 61.53% of annual reports indicate separation between the roles of CEO and chairman.

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Table 2. Duality of the CEO/chairman role

Dual	Number of Observations	Percentage
0	96	61.53
1	60	38.46
TOTAL	156	100

Note: DUAL = dummy variable that takes the value '1' when the CEO and the chairman of the board are the same person and '0' otherwise

Table 3. Correlation matrix

	EXECUCOMP	ATTEND	BOARDMEET	NOMINDEP	COMPINDEP	BINDEP	DUAL ROA
EXECUCOMP	1.000						
ATTEND	-0.0364	1.000					
BOARDMEET	-0.3405	-0.1387	1.000				
NOMINDEP	-0.2828	-0.0241	-0.0290	1.000			
COMPINDEP	-0.1791	0.0644	-0.1054	0.2373	1.000		
BINDEP	-0.0345	0.0484	-0.0164	-0.1195	0.0254	1.000	
DUAL	-0.1389	0.1348	0.2534	0.0327	0.0999	-0.2505	1.000
ROA	-0.1902	-0.0589	-0.2298	-0.0935	-0.0910	0.0784	-0.1780 1.000

Correlations between our variables are shown in Table 3. All coefficients among explanatory variables are very small given each coefficient is less than 0.5. Such findings display that our regression analysis is free from the multicolinearity issue.

REGRESSION ANALYSIS

Table 4 reports the model estimation over the period 2008-2013. The estimation results indicate that 39.6% of the dependent variable's variance (executive compensation) is explained by the explanatory variables in our regression model. So, the fitting quality is quite good.

Our results show that the directors' attendance rate at board meetings has significant and negative effect on the executive compensation. Directors who attended meetings frequently have a good opportunity to control managers' actions and behavior effectively. In fact, a high attendance rate helps directors to perform their monitoring functions by lessening the possibility of expropriation and reducing the excessive executive compensation. Our results thus corroborate those of Gray

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Table 4. Regression results

	Expected Sign	Estimated Coefficients	*p*-Value
Constant	-	1.644***	0.000
		(0.271)	
ATTEND	-	-0.436*	0.074
		(0.245)	
BOARDMEET	-	-0.019*	0.015
		(0.008)	
BINDEP	-	-0.024	0.165
		(0.017)	
NOMINDEP	-	-0.001***	0.000
		(0.0002)	
COMPINDEP	-	-0.376**	0.003
		(0.127)	
DUAL	+	-0.0684	0.146
		(0.047)	
ROA	+	-0.310	0.183
		(0.233)	
Number of observations	156		
Adjusted R-square	0.396		
p-value	0.000		

and Nowland (2012) and Lin et al. (2014) who showed that attending meetings are the key tool for board members to provide continuous oversight of managers and be able to detect managerial self-interest incentives (e.g. excessive compensation).

The estimated coefficient of board meeting is negative and significant, implying that larger number of meetings can give more opportunities to directors to mitigate the executive compensation. The compensation committee independence is negative and significant impact on the executive compensation. The estimated coefficient of nomination committee independence is negative and significant, implying that more independent directors in this committee are associated with lower executive compensation. Increasing in compensation and nomination committees' independence seems to boost the board's monitoring effectiveness which may reduce excessive executive pay.

Such results are consistent with those of Daily et al. (1998), Conyon (2014) and Wang et al. (2014) who showed that the effectiveness of board of directors is reinforced and thus overcompensation practices are avoided when the board

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committees (nomination and compensation committees) are almost composed by independent members. Nevertheless, the board independence does not influence on the executive compensation. This finding shows that sub-committees-level attributes are more important than the board-level attributes. The nomination committee (resp. compensation committee) is related to director selection and recruitment (resp. the determination of CEO pay). This finding is also confirmed by Guthrie et al. (2012). No other control variables affect the executive compensation. The firm performance and CEO duality do not have any relationship with the executive compensation in the Malaysian companies.

CONCLUSION AND DISCUSSION

In this chapter, we analyze the effect of the attendance of directors at board meetings on the executive pay. In particular, we examine whether the directors' attendance rate negatively affects the compensation of executive directors. By using dataset for 26 Malaysian listed companies over the period 2008-2013, we document that the directors' attendance rate has a negative effect on the executive compensation after controlling for the board characteristics, managerial features and firm performance. Otherwise, attending more board meetings can help directors to coordinate their actions which can enhance their ability to monitor the expropriation behavior of managers and to decrease the excessive executive pay. Our results thus corroborate those of Gray and Nowland (2012) and Lin et al., (2014) who showed that attending meetings is the principal tool for board members to provide continuous oversight of managers. So, they can detect managerial self-interest incentives such as excessive compensation. Our results also indicate that some other board features influence the level of the executive compensation in Malaysian listed companies. Our findings show that the board meetings frequency and the independence of remuneration and nomination committees negatively affect the level of the executive compensation.

This chapter contributes to the existing literature by several ways. First, we investigate the impact of board of directors' characteristics on the executive compensation from a new perspective (i.e. the directors' attendance at board meetings). Unlike prior studies which generally used the CEO compensation as metric for assessing the board's monitoring effectiveness (e.g. Core et al., 1999), we employ the compensation of all executive directors. Unlike prior studies which employed the natural logarithm of remuneration, we calculate the proportion of executive compensation on the total staff compensation based on the directors' remuneration disclosed in the annual reports of Malaysian companies. Our empirical

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findings indicate that directors' board attendance is an important determinant of the effectiveness of the board of directors. The board of directors can effectively monitor the suboptimal compensation practices when their directors tend to attend more regular board meetings. We also show that the independence of subcommittees is a useful step towards enhancing board effectiveness and reducing excessive executive pay.

Our study suggests some important policy implications for companies which look for enhancing the effectiveness of their board of directors and protecting shareholders' interests. For instance, companies should be concerned about the absence of directors from board meetings and the composition of subcommittees. In this regard, companies should motivate their directors to attend regular board meetings by paying additional meetings fee in order to boost the corporate performance and reduce agency costs. For policymakers, our findings show that even when the Malaysian code of corporate governance (2012) recommends increasing the number of board meetings, they may also need to encourage directors to attend the board meetings by introducing specific requirements. Thus, the meeting attendance is a reinforcing mechanism of effective corporate governance. For investors who primarily worried about the expropriation behavior of executive directors, our results imply that the increasing of directors' attendance rate reinforce the effectiveness and the power of the board of directors in Malaysian companies which stimulate managers to act in the interest of shareholders. So, investors should be more confident and sure that managers do not serve their self-interests on behalf of those of shareholders.

FUTURE RESEARCH DIRECTIONS

Our findings may suffer from some limitations that suggest future research. First, our study focuses on a sample of Malaysian listed companies given that there are many efforts provided by regulators to improve the corporate governance practices in these companies. So, future studies may investigate the relationship between directors' board meetings attendance and executive compensation in other developed countries. Second, our research did not include all factors that may influence the executive compensation. Hence, it would be interesting to explore and introduce other board features and directors' attributes which can influence on the executive pay (e.g. board size, directors' qualifications and experience, gender and nationality). Third, we use the average rate of attendance of directors at board meetings. Future research may perform the director-level analysis by considering the attendance rate of each director to assess the diligence of each one and his/her contribution to the board effectiveness.

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KEY TERMS AND DEFINITIONS

Board of Directors: A group of people who monitor activities of a company.

Executive Compensation: Includes the financial compensation and other nonfinancial reward given to executive from a company.

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Chapter 12
Corporate Social Responsibility and the Possibility of Private Transnational Governance in Competition Law

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ABSTRACT

Under economic globalization, anti-competitive acts transcend national borders and become a challenge for competition law as traditionally conceived. Most countries have been dealing with cross-border competition problems by using two basic methods: unilaterally extending national competition law's jurisdiction to acts conducted in foreign territory and cooperating in enforcing competition law. However, while the unilateral enforcement of competition law harms international comity, international cooperation in this area is constrained by conflicting national interests. Against the backdrop of such limits of statist mechanisms, this chapter examines the role of multi-national corporations in the enforcement of national competition law at a transnational level. It argues that when a multi-national corporation internalizes competition laws of countries as standards for its behaviors, the corporation can provide a mechanism to project those national laws at the transnational level by exercising its private power in a socially responsible way.

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INTRODUCTION

Under economic globalization, anti-competitive acts such as cartels, abuses of a dominant position, and illegal mergers transcend national borders and become a challenge for competition law as traditionally conceived. Most countries have been dealing with cross-border competition problems by using two basic methods: unilaterally extending national competition law's jurisdiction to acts conducted in foreign territory and cooperating in enforcing competition law. However, while the unilateral enforcement of competition law harms international comity (Phan, 2016), international cooperation in this area is constrained by conflicting national interests (Phan, 2018). Therefore, many of the transnational challenges of competition law that emerge from the global economic order and, more specifically, the nature of global value chains and international commerce, cannot be addressed through state law.

In the context that state-based methods dealing with cross-border competition law problems are not effective or prohibitively costly, this chapter suggests a private transnational regime to deal with the problems by arguing that multi-national corporations ("MNCs") can play a role in the enforcement of competition law in cross-border transactions through the application of contractor codes of conduct. This means when an MNC internalizes competition laws of countries, the corporation can provide a mechanism to project those laws at a transnational level using its private power. In doing so MNCs can help to enforce competition law in an international context that states are not likely to be able to provide in the foreseeable future.

This chapter contributes to the literature on transnational law from three perspectives. First, it examines a mechanism by which corporations can transform national law into transnational law. Second, while the literature on transnational law discusses private transnational rules such as best practices and good governance without explaining how these rules are made, this chapter analyzes a process that constructs some best practices and good governance. Third, this chapter shows that transnational law does not replace national and international law or diminish state regulatory authority or result in private hegemony. Transnational competition law discussed in this chapter helps to strengthen the regulatory power of states at the transnational level. It can enforce law of a less powerful country in the territory of a more powerful country and thus enhance justice and fairness in international society.

In addition, this chapter contributes to the literature on the roles of corporations in society by suggesting that some corporations may make business decisions that reflect what they think they should do in the public interest even if they are not obliged to do so. It does not claim that all MNCs will act in the public interest or embrace corporate social citizenship, but it examines factors explaining why some MNCs may do so. This chapter shows how corporations can, by internalizing widely shared social values, help to advance competition law at a transnational level. Although this

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chapter does not assume that MNCs will go beyond profit maximization, it suggests that corporations might be seen not only as problem generators but also as problem solvers. It also suggests a view about corporations that if there is no evidence showing that the global society is ready to get rid of corporations, we should make them more socially responsible and encourage them to engage in meaningful actions.

This chapter has four sections. The first section, which reviews different approaches to the objectives of corporations, suggests that some corporations are willing to make decisions that benefit society beyond the constraints of law. The second section discusses the role of MNCs in global governance. It shows that corporations have private authority but their role in global governance is not competitive or alternative to that of statist actors. The third section analyzes the internalization of law by MNCs through contractor codes of conduct and suggests that MNCs are capable of enforcing their norms. The internalization of law helps to explain the transformation of law into standards of behaviour and the extension of the normativity of law to geographic areas in which sanctions are not available. The fourth section, which discusses the transnational governance of competition law, shows that by requiring contractors in the global supply chain to comply with all applicable laws "lead firms"—corporations issuing contractor codes of conduct to govern their supply chain—can help to extend the jurisdiction of national law to the territory of other countries. It also examines a mechanism controlling the power of lead firms.

Different Approaches to the Role of Corporations

The role of corporations in society is a controversial topic in corporate governance. Scholars have been taking different views on whether the role of corporations is to maximize profit or to become socially responsible citizens in society or a compromise between the two. This section discusses two approaches to the role of corporations: strict profit maximization within the constraints of law and socially responsible business. The discussion suggests that a corporation could take any of these roles. While many corporations strive to maximize profit within the constraints of law, some make business decisions that benefit society beyond the constraints of law since socially responsible business is a strategy for the corporations to maximize profits. The selection of any of these objectives depends on each corporation's social philosophy (Clark, 1986, p. 677).

Strict Profit Maximization Within the Constraints of Law

A traditional approach to the role of corporations asserts that the corporate objective is strict profit maximization. This approach, often referred to as "shareholder primacy

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theory" and "dualism", suggests that directors of corporations have a fiduciary duty to maximize shareholder wealth and comply with law (Friedman, 2007, pp. 173–174). Corporations do not have to take into account the interests of other stakeholders such as employees, contractors, consumers, and the general public because these stakeholders are protected by law (Clark, 1986, p. 678).

This traditional approach to the role of corporations has five rationales. First, this approach provides directors with a single, clear goal which they can use to operate firms in complicated business environments (Clark, 1986, p. 679). Apart from complying with laws to fulfil legal obligations to stakeholders, the duty of directors to shareholders is making profits as large as possible (Clark, 1986, p. 678). Consequently, this approach is said to help directors work more effectively (Keay, 2010b, p. 366).

Second, shareholders are supposed to be risk bearers as the residual claimants of the company. Non-shareholders such as employees and creditors get contractual payments from the firm while shareholders can claim only the residual assets of the firm when it goes bankrupt (Easterbrook & Fischel, 1991, p. 36). Shareholders, it is therefore argued, bear a higher risk than employees or creditors.

Third, the proponents of shareholder primacy theory assert that shareholders are not protected by laws or by clearly defined contracts as non-shareholders are (Clark, 1986, p. 680; Hansmann & Kraakman, 2000, p. 441; Osterloh et al., 2011, p. 51). Non-shareholders are protected by a wide variety of laws. For example, employees are protected by labour law, pension law, and health and safety law. Consumers are protected by consumer protection law and tort law. Environmental law protects the public. However, no law protects shareholders from loss if the directors do not commit any fraud (Hansmann & Kraakman, 2000, p. 442). Others have also asserted that shareholders are not protected by contract like other stakeholders (Tung, 2008, p. 813). Corporations, therefore, should serve the benefit of shareholders (Keay, 2010a, p. 398; Tung, 2008, p. 813).

Fourth, the strict profit maximizing approach is said to help firms attract investment. Because most investors seek a profit, a corporate governance model that maximizes shareholder wealth meets with the investors' expectations (Cragg, 2002, p. 124). A corporate governance regime that adopts a shareholder-oriented model provides shareholders with credible protection, which in turn helps the firm mobilize capital from equity markets (Hansmann & Kraakman, 2000, p. 442).

Finally, some proponents of this approach contend that a profit-maximizing corporation ultimately benefits society (Hansmann & Kraakman, 2000, p. 441). A company that works for profit is said to be more efficient and wealthier than others; therefore, it can provide benefits to stakeholders in the form of, for example, higher wages, higher interest rates, and better and cheaper products and service (Easterbrook & Fischel, 1991, p. 38; Keay, 2010b, p. 363; Lee, 2006, p. 538). In addition, these

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companies help to allocate resources more efficiently (Keay, 2010b, p. 365). Milton Friedman, an economist who won a Nobel Prize in economic science in 1976, made a famous statement that "there is one and only one social responsibility of business—to use it[s] resources and engage in activities designed to increase its profits so long as it stays within the rules of the game" (Friedman, 2007, p. 178).

The view that corporations should, within legal constraints, only maximize profit, however, has been questioned. One objection is that a vague definition of "profit maximization" could direct managers to different goals (Loderer et al., 2010, p. 10; O'Kelly, 2009, p. 45). It could refer to maximizing share value (Keay, 2010b, p. 369). It could alternatively refer to maximizing the value of the corporate equity (Keay, 2010b, p. 371). In addition, shareholder interests may not be uniform. For example, some shareholders are short-term investors who only care about the stock price while some others care about the corporation's long-term value; others are institutional investors while some others are minority shareholders (Keay, 2010a, p. 407; Loderer et al., 2010, p. 11).

Another objection is that focusing only on shareholder interests might discriminate against stakeholders because shareholders are not the only risk bearers in a firm (Hansmann & Kraakman, 2000, p. 441; Osterloh et al., 2011, p. 51). In addition to shareholders, other stakeholders such as employees, unsecured creditors and suppliers, are also risk bearers and might not get full payment if the firm goes bankrupt (Blair, 1995, p. 238; Keay, 2010a, p. 378). Therefore, focusing only on the maximization of shareholder wealth does not protect the interests of other stakeholders (Keay, 2010a, p. 402).

A third objection is that corporations should take into account the interests of stakeholders beyond the requirements of law because of governmental and regulatory failures (Clark, 1986, p. 680). Due to such failures, the profit maximization approach to the role of corporations leads to negative externalities that harm other stakeholders, such as environmental degradation, poor working conditions, and over-priced, low-quality products (Keay, 2010a, p. 383; Loderer et al., 2010, p. 8). In addition, maximizing shareholder wealth is not likely to automatically increase social benefits because wealth distribution is not proportional and nothing ensures that society as a whole would benefit from increasing share prices (Hutchinson, 2005, p. 125; O'Kelly, 2009, p. 42). For example, a study conducted in the US indicates that the rise of income of the richest 5% of the American households between 1980 and 2007 was five times bigger than that of the poorest 20% of the households (Loderer et al., 2010, p. 8). The profit maximization approach has also been said to have led to many notorious harms to society, for example, Enron, WorldCom, Parmalat, Adelphia (Andreadakis, 2012, p. 420).

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Socially Responsible Business Decisions

It has been asserted that corporations should be more socially responsible (Andreadakis, 2012, p. 420; Fontrodona & Sison, 2006, p. 39; Tricker, 2015, p. 72; and Wieland, 2005, p. 77). Arguments along these lines often refer to corporate social responsibility ("CSR"). There is, however, no common definition of this term. At the most general understanding, CSR refers to corporate decisions made beyond the requirements of law (Branco & Rodrigues, 2007, p. 11; and Davis, 1973, p. 313). For example, the United Nations Industrial Development Organization defines CSR as

a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives…, while at the same time addressing the expectations of shareholders and stakeholders (United Nations Industrial Development Organization, 2019).

The definitions of CSR are likely to take a society-oriented profit maximization approach, which refers to business decisions that benefit society so as to maximize corporate profits. According to the society-oriented profit maximization approach, which is shared by monism and some discussions of the stakeholder value theory, "many types of corporate activities that appear to be profit-reducing voluntary expenditures for the public good [(hereinafter referred to as "society-oriented business decisions")] are really conducive to profit maximization in the long run" (Clark, 1986, p. 681). Proponents of this approach believe that a successful company should have loyal employees, a mutually beneficial relationship with suppliers, reliable relationships with creditors and investors, and a sustainable connection with society (Fontrodona & Sison, 2006, p. 39; Tricker, 2015, p. 72; Wieland, 2005, p. 77). If a director has good reasons as to why a society-oriented business decision would benefit the corporation, it is unlikely that shareholders could successfully challenge that decision (Clark, 1986, p. 682). Four rationales for society-oriented profit maximization are set out below.

First, the interest of corporations is deeply rooted in society because society provides firms with profits and other demands (Davis, 1973, p. 314). A company that positively nurtures society with what the society needs is likely to achieve a sustainable development and gain long-run benefits (Jiao, 2010, p. 2550; and Sisodia et al., 2007, p. 175). For example, employees may be more willing to work for society-oriented corporations and the quality and loyalty of labour will be greater than for corporations that only seek to maximize profits (Davis, 1973, p. 313).

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Second, the society-oriented profit maximization approach helps corporations improve their public image (Davis, 1973, p. 313). Large companies spend billions of dollars on advertising every year (O'Reilly, 2015). Promoting public image can help firms attract more customers and employees of higher quality (Porter & Kramer, 2002, p. 59). Some corporations, therefore, in addition to advertising and marketing, make society-oriented business decisions as a means of capturing a favourable public image and to benefit from the process of value creation (Davis, 1973, p. 313).

Third, a society-oriented profit maximization approach helps companies keep up with changes in society's standards while seeking profits (Davis, 1973, p. 314). Society sets certain cultural and social constraints on its members in terms of what they should do and what they should not do (Davis, 1973, p. 315). These norms, which exceed legal standards, change over time as society changes. Corporations that keep up with such sociocultural standards would promote their public image and benefit in the long run. For example, firms that refuse input made by sweatshop factories and child labour will be more competitive in markets where consumers and human rights activists demand a high moral standard for products (Herman, 2012, p. 466; Macdonald, 2007, p. 262; Nisen, 2013).

Fourth, a society-oriented profit maximization approach is consistent with international business leadership in the twenty-first century which requires firms to be responsible "towards people and the societies in which the company operates" (N. Fitzgerald & Cormark, 2006, p. 5). Mr. Kofi Annan, the former secretary-general of the United Nations ("UN"), said in his speech at the World Economic Forum in Davos that

[w]e have to choose between a global market driven only by calculations of short-term profit, and one which has a human face. Between a world which condemns a quarter of the human race to starvation and squalor, and one which offers everyone at least a chance of prosperity, in a healthy environment. Between a selfish free-for-all in which we ignore the fate of the losers, and a future in which the strong and successful accept their responsibilities, showing global vision and leadership (Annan, 1999, p. 4).

He suggested the UN and business leaders "initiate a global compact of shared values and principles, which will give a human face to the global market" (Annan, 1999, p. 1). The UN Global Compact, which calls on "companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals", has attracted the participation of 9,146 companies and 168 countries (The United Nations, 2019).

For those reasons, making society-oriented business decisions is not a zero-sum game between corporations and society since the decisions promote reciprocal benefits

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between firms and society. Society-oriented business decisions do not merely refer to philanthropic activities such as charitable donations but the combination of social and economic benefit. For example, a corporation that strictly maximizes profits and a society-oriented one will take different strategies when they expand their production by building a new factory. The strict profit-maximizing firm will seek profits regardless of negative impact on the environment, employees and local society. This corporation may still donate some amount of money to the local community, but the donation does not make the corporation society-oriented because its business harms society in the first place. In contrast, a society-oriented corporation, which may or may not make a charitable donation, will improve the working conditions for workers and take all necessary measures to protect the environment and consumers beyond legal standards.

Some firms, however, would go beyond the society-oriented profit maximization approach and make some business decisions that benefit society even when the decisions are not profitable. For example, pressure was brought by the Coca-Cola Company on a supplier in Brazil to protect the environment of the local community (The Coca Cola Company, 2017, p. 13). The justification for a corporation to make socially responsible decisions even where they are not conducive to the corporation's long-run profit is that these decisions derive from moral standards socially constructed in the perception of shareholders and directors. It has been suggested that shareholders and directors normally act in the best interests of shareholders but some might also act for others in many cases as they are not mere profit maximizers (Stout, 2012, p. 16). Some shareholders and directors, who are referred to as being "prosocial", might be "willing to sacrifice at least some corporate profits in order to benefit, or at least avoid harming, employees, consumers, society, or the environment" (Osterloh et al., 2011, p. 55). For example, Unilever, as a powerful buyer of white fish, collaborated with the World Wild Fund for Nature in 1996 to improve fishing practices although the improved practices would increase the cost of harvesting the fish (N. Fitzgerald & Cormark, 2006, p. 5).

The discussion of this subsection shows that some corporations may make socially responsible business decisions because these decisions are what they should do but not because of any threat of legal sanctions. Some corporations act in accord with societal interests where doing so aligns with its long-run profits while some may still pursue societal interests due to their moral standards even where it is not profitable. The possibility that corporations make socially responsible business decisions suggests that these corporations can play a positive role in governing society. On the basis of the discussion on socially responsible business decisions, section two examines the role of corporations in global governance and section three analyzes the internalization of law by corporations.

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MNCs and Private Authority in Global Governance

At the national level, states enjoy their sovereignty in governing society through their legal system. At the international level, states traditionally act as the legitimate and principal agents of local societies in the global society, which has long been considered a realm set aside only for statist actors (Hall & Biersteker, 2002, p. 3). Law, therefore, has been referred to a product of states at both the national and international level (C. A. Cutler, 2009, p. 100). Global society, however, lacks an overarching government and is anarchic to some extent. In the context of globalization, states are not the only participants in international law (Evans, 2005, p. 1058; and Higgins, 1994, p. 39). Private actors have been involved in governing many areas of international law (C. A. Cutler, 2009, p. 101).

The role of private actors including multinational corporations in global governance has been emphasized by constructivism, which emerged as a norm-based theory in international law and international relations in the early 1990s (Brunnee & Toope, 2000a, p. 75, 2000b, p. 26; Guzzini, 2000, p. 10). Constructivism refers to a theory that "highlights the role of non-instrumental action, of social structure comprised of identities and norms, and of a broad range of normative actors in world politics" (Armstrong et al., 2012, p. 95). Constructivists analyze the function of institutions and norms in shaping behaviour of actors in society (Brunnee & Toope, 2000a, p. 71).

Constructivists view international relations as a social system encompassing multiple participants including states and non-state actors such as non-governmental organizations ("NGOs"), MNCs, and individuals (Karber, 2000, p. 189). Theorists contend that the interaction of states and other actors shapes their behaviour (Brunnee & Toope, 2000a, p. 28). Actors make decisions based on knowledge including "rhetorical knowledge" which is offered or created in dialogue among them (Brunnee & Toope, 2000a, p. 71). States are the main actors in world politics but non-state actors also influence normative change. (Armstrong et al., 2012, p. 104)

A constructivist approach to global governance has challenged the traditional concept of authority, which refers to only the "public authority" that is the accountability of the "duly elected representatives and their delegates" to prescribe behaviour (A. C. Cutler, 2002, p. 32). Globalization, however, has given rise to private authority challenging the traditional concept of the public nature of authority (A. C. Cutler, 2002, p. 34). Private authority, which has been said to rely on persuasion and trust rather than compulsion (A. C. Cutler, 2002, p. 27; Hall & Biersteker, 2002, p. 5; and Rosenau & Czempiel, 1992, p. 4), refers to a mechanism in which participants voluntarily give a private actor consent to govern them (Hall & Biersteker, 2002, p. 5). Since private authority is not dictated but socially constructed, private actors can play a constructive role that supplements states in governing global society.

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MNCs have been playing a key role in the private governance of the global society. Corporations exercise their private authority by using economic power, global market forces and networks, and private international standards (Hall & Biersteker, 2002, p. 4; Kerr et al., 2009, p. 52; Moon, 2014, p. 87). Their interactions create transnational rules including contractor codes of conduct and private forms of international dispute resolution. The literature on private authority normally discusses two mechanisms by which corporations participate in rule-making at the international level: (i) lobbying governments on making international rules that favour firms such as international trade law, and (ii) developing self-regulatory regimes such as industry standards and best practices (A. C. Cutler et al., 1999, p. 200).

This chapter, by taking a constructivist approach to global governance, proposes a third method by which corporations can participate in transnational rule-making—the internalization and transnational projection of widely-shared principles reflected in national competition laws within MNCs' corporate codes of conduct. Constructivists assert that norms substantively influence the behaviour of people (Guzzini et al., 2006, p. 17). According to constructivists, norms shape human decisions and provide people with means for communication (Guzzini et al., 2006, p. 17). Norms refer to beliefs shared by people about the world including those about "what is right and proper … and what is doable and effective" (Armstrong et al., 2012, p. 101). Norms under a constructivist perspective, therefore, not only prescribe what actors should do but also suggest that they take meaningful action (Armstrong et al., 2012, p. 102), for example, the voluntary enforcement of national competition laws transnationally as this chapter discusses. Constructivists consider norm-compliant behaviour as a process in which actors socialize norms.

The process of norm socialization includes the "institutionalisation of norms in official policy" by states and the "internalisation of norms in community discourse and culture" by private actors (Armstrong et al., 2012, p. 102). Internalization refers to an interactive process by which the regulated actors endorse the legitimacy and appropriateness of norms (Armstrong et al., 2012, p. 102). From a constructivist approach, laws are authoritative but only considered legitimate when they are mutually constructed by state and non-state actors (Brunnee & Toope, 2000, pp. 51–52; Postema, 1994, pp. 373–374). Constructivists, therefore, assert that when actors internalize a law, they automatically comply with it (Armstrong et al., 2012, p. 102).

A constructivist approach to law is important for the discussion in section three of this chapter about the internalization of national law by MNCs, which indicates that once MNCs internalize a law of a country, the automatic compliance with the law not only reduces enforcement costs for authorities of such a country but also provides a potential private mechanism for extra-territorial enforcement. In addition, studying private international regimes helps us perceive the functions of

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private actors that are relatively independent of but not competitive or alternative to statist actors. This does not suggest that MNCs will replace states to become main actors in global governance. It is also not to claim that MNCs will necessarily pursue efficient enforcement only in the interests of the global society. This study, however, suggests an approach to a positive role of MNCs in global governance by examining the interactions between MNCs and other actors in global society as subsection 4.b.ii discusses. Before examining the role of MNCs in transnational competition governance in section four, the following section analyzes the process by which MNCs internalize national competition laws so as to enforce them at a transnational level.

The Internalization of Law by MNCs

The internalization of law refers to a process in which one accepts and uses law as guides to one's conduct and standards for behaviour because those required by law are what one should do but not because of the threat of any legal sanctions (Guzzini et al., 2006, p. 17). From this perspective, this chapter suggests that corporations could possibly comply with law even where sanctions are not available, including a foreign territory.

Subsection 1.b suggests that some corporations can make socially responsible business decisions beyond the constraints of law. This means the corporations comply with the requirements of law without taking into account the presence or absence of legal sanctions. This sense of doing business allows for the corporations to internalize national law as standards for their behaviour. In the absence of legal sanctions, some corporations still comply with high legal standards because the compliance makes them better-off or is what they should do, or both. A socially responsible corporation would not only comply with law but also make its best efforts to prevent private actors that are directly linked to their business such as contractors from violating law.

Contractor Codes of Conduct

Complying with national laws is an essential factor indicating the responsibility of a corporation to society. A survey conducted by the OECD found that all surveyed corporate codes of conduct "include a commitment to observe the local laws in every jurisdiction in which the subscribing entity operates" (OECD, 1999, p. 44). For some corporations, compliance with law is what they ought to do. These corporations, therefore, require not only employees but also businesses they deal with to comply with various national laws (OECD, 1999, p. 44). MNCs, for instance, often issue

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contractor codes of conduct, which are also called codes of conduct for the third party or codes of conduct for suppliers.

Contractor codes of conduct refer to rules made by a lead firm to align the conduct of contractors with the MNC's socially responsible standards (OECD, 1999, para. 36). "Contractor" refers to a wide range of businesses the lead firm deals with including input suppliers, downstream distributors, retailers or tertiary processers. These codes indicate the efforts of some MNCs to harmonize economic and social goals (Schleper et al., 2013, p. 197). The OECD conducted a survey collecting 233 codes of conduct of companies from OECD countries and found that 35% of the codes provide guidelines for contractors (OECD, 2001, p. 5).

Contractor codes of conduct require that contractors comply "with all applicable laws and regulations" (see, for example, *Apple Supplier Code of Conduct*, 2016, p. 1). The concept of "applicable law" differs across corporations. Some corporations adopt a narrow definition of applicable laws by referring to laws of countries where the contractors do business (see, for example, *Sony Supplier Code of Conduct*, 2018, p. 1). This definition means applicable competition laws are laws of countries in which contractors are threatened by legal sanctions.

Confining the applicable competition laws to those of countries in which the lead firm and contractors do business does not reflect a high level of social responsibly of the lead firm to protecting the interest of society. Competition law in some countries such as the US, Canada, and Vietnam may not consider an export cartel as illegal. One, therefore, may question the commitment to corporate social responsibility of the lead firm if two contractors in country A enter into a price-fixing cartel aiming at consumers in country B in which neither the contractors nor the lead firm has business and the cartel does not harm the lead firm's business because the lead firm is neither a cartel member nor a cartel victim. In this situation, a good corporate citizen that seeks to do the right thing and avoid impropriety would prevent the cartel. The lead firm, therefore, should incorporate competition laws of countries affected by the anticompetitive business practice such as country B into their contractor codes of conduct. The OECD also recommends in its Guidelines for Multinational Enterprises that firms should "take into account both the [antitrust] law of the country in which they are operating and the laws of all countries in which the effects of their conduct are likely to be felt" (OECD, 2011, p. 59). On the other hand, from a society-oriented profit maximization approach, preventing such a cartel would enhance the lead firm's global reputation and thus benefit the lead firm to some extent.

In practice, some corporations incorporate competition laws of countries affected by the anticompetitive business practice into their contractor codes of conduct although their statements about that coverage are not particularly clear. For example, the Lockheed Martin Supplier Code of Conduct expects contractors to avoid "business practices such as entry into arrangements that unlawfully restrain

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competition; improper exchange of competitive information; price fixing, bid rigging, or improper market allocation" (Lockheed Martin, 2016, p. 2). Similarly, Toyota Motor Corporation requires that contractors "[d]o not engage in illegal acts against the competition laws and regulations of each country and region including private monopolies, unreasonable restraint of trade (cartel, collusive bidding, etc.) or unfair trade practices" (Toyota Motor Corporation, 2012, p. 7). These codes do not limit applicable antitrust laws to any specific countries. This suggests the applicable laws may include competition laws of countries affected by the contractors' anticompetitive business practices. Walmart's Global Statements of Ethics provides a clearer concept of applicable competition laws of this kind, committing to complying "with all competition … laws applicable to [their] *global businesses* ... In doing so, [they] will thrive as a company and continue to *help [their] customers around the world* save money and live better" (Walmart Corporation, 2012, p. 20).

In addition, some corporations prioritize the strictest standard if there is any difference between laws across nations (see, for example, Citigroup Inc., 2015, p. 11). Competition laws across countries may have the same prohibitions and strictness, but in a cross-border competition case competition law of a country may be stricter than another. Suppose, for example, the competition laws of country A and country B consider cartels as illegal *per se*. An export cartel made in country A targeting country B may, however, be legal in country A while it is illegal in country B. In this case, competition law of country B is stricter than that of country A and lead firms should enforce the stricter law against the cartel.

The contractor codes of conduct of an MNC signal the internalization of national laws by the lead firm. The MNC is not liable for any violations of law by its contractors as long as the violations was not conducted in collaboration with or under instructions or supports of the MNC. A failure to prevent the contractor from violating a national law does not bring the MNC any negative legal consequence. The MNC, however, considers compliance as what firms ought to do because it helps to make the global business environment sustainable for everyone (see, for example, *Apple Supplier Code of Conduct*, 2016, p. 6). In addition, since players in a global supply chain are interdependent, lead firms can be directly or indirectly affected by anti-competitive practices such as cartels or abuses of a dominant position. They, therefore, have a strong internal motivation to internalize and enforce competition law through their contractor codes of conduct.

The Enforcement of Contractor Codes of Conduct

One might argue that if a lead firm internalizes national laws, that firm may lack the power to discipline the violations of national laws incorporated in its contractor codes of conduct. This subsection argues that lead firms employ self-compliance

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and economic incentives as measures to secure contractor compliance with their codes of conduct.

Lead firms promote contractor compliance with codes of conduct. For example, the Coca-Cola Company provides contractors with guidance and a training program on implementing the codes of conduct (The Coca Cola Company, 2017, p. 14). This mechanism encourages contractors to internalize national law incorporated in lead firm codes of conduct as standards for their behaviour in the same way lead firm does. Voluntary compliance makes the enforcement of contractor codes more effective because it reduces costs states would otherwise incur to enforce their laws and because internalization of lead firm codes of conduct by contractors reduces the need for, and cost of, lead firm monitoring and enforcement of their contractor codes of conduct (Estlund, 2012, p. 245).

Some lead firms, on the other hand, provide contractors with economic incentives to internalize the lead firms' rules. Some MNCs consider the willingness to comply with their contractor codes of conduct when selecting a supplier, as an important benchmark apart from price and quality to give preference to the supplier. For example, A.P. Moller - Maersk Group gives "preference to Suppliers based on quality and price and who share our commitment to conduct business in an ethical, environmental and socially responsible manner" (*The A.P Moller—Maersk Group's Third Party Code of Conduct*, 2013, p. 4). This lead firm preference gives contractors an incentive to self-comply with lead firm codes of conduct.

For contractors that do not internalize contractor codes of conduct, lead firms employ two economic measures to make contractors comply with the lead firm's rules. First, they make contractor codes of conduct a source of rules governing the contractual relationships between a lead firm and its contractors. For example, the Starbucks Company states that "[o]ur suppliers are required to sign an agreement pledging compliance with Starbucks Supplier Code of Conduct and specific standards" (The Starbucks Company, 2003). In this situation, contractor codes of conduct are part of contracts between the lead firm and its contractors. The OECD found that 52 out of 233 surveyed codes of conduct incorporate a mechanism in contracts with contractors allowing for the lead firm to discipline its business partners (OECD, 1999, para. 53). The survey also indicated that 39 codes provide that non-compliance could lead to the discontinuance of the business between the lead firm and its contractors (OECD, 1999, para. 53). Some contractor codes of conduct provide that "any violations of this Code may jeopardize the supplier's business relationship with [the lead firm], up to and including termination" (*Apple Supplier Code of Conduct*, 2016, p. 1; *The A.P Moller—Maersk Group's Third Party Code of Conduct*, 2013, p. 4; and The Coca-Cola Company, 2016, p. 7). Many MNCs have also established mechanism inspecting and auditing factories of their suppliers although inspections are costly.

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One might argue that in the absence of an authoritative decision, a lead firm may lack a legal basis for terminating a business relationship with its contractor if the contractor violates competition law even when the two firms made an explicit contractual term that non-compliance with the codes of conduct is a ground for the termination of the contract. Such an argument by the contractor would be that the enforcement of competition law is under the exclusive jurisdiction of a competition authority and/or national courts. For example, the contractor enters into a cartel that is not remedied by either the country in which the violation takes place (home country) or the countries affected by the violation (affected country). In the absence of an authoritative decision or judgment concluding that the contractor violated the competition law of an affected country, if the lead firm terminated the contract with the contractor on the ground that the contractor had entered into such a cartel, one might suggest that the contractor could challenge the validity of the contractual provision that allowed the lead firm to terminate the contract due to a contractor's breach of competition law through, for example, arbitration. One might also suggest that since an arbitration tribunal does not have subject-matter jurisdiction to hear a competition law issue, the lead firm would lose the case unless a state authority concludes that the contractor violated the competition law of the affected country.

The public nature of competition law, however, does not deprive the lead firm of the right to terminate the business relationship in question because competition concerns are subject to international arbitration. Arbitrators enjoy jurisdiction to determine whether the contractor violates competition law of a country in question and thus can justify the lead firm's termination of the contract. Many jurisdictions recognize the arbitrability of competition law (Beechey, 1996, pp. 183–189; and Landolt, 2011, p. 8). For example, in 1985, the US Supreme Court examined the question of whether claims arising under the *Sherman Act* are arbitrable in *Mitsubishi Motors Corp. v. Soler Chrysler-Plymouth, Inc* (*Mitsubishi Motors Corp. V. Soler Chrysler-Plymouth, Inc.*, 1985, p. 616). Justice Blackmun delivering the opinion of the Court wrote that "[t]he mere appearance of an antitrust dispute does not alone warrant invalidation of the selected forum on the undemonstrated assumption that the arbitration clause is tainted" (*Mitsubishi Motors Corp. V. Soler Chrysler-Plymouth, Inc.*, 1985, p. 615). He rejected the *American Safety* doctrine established in 1968 by the United States Court of Appeals for the Second Circuit in *American Safety Equipment Corp. v. J. P. Maguire & Co* (*American Safety Equipment Corp. V. J. P. Maguire & Co.*, 1968, p. 827) that antitrust claims are non-arbitrable (*Mitsubishi Motors Corp. V. Soler Chrysler-Plymouth, Inc.*, 1985, pp. 632–634). Justice Blackmun observed that "[w]here the parties have agreed that the arbitral body is to decide a defined set of claims which includes … those arising from the application of American antitrust law, the tribunal therefore should be bound to decide that dispute in accord with the national law giving rise to the claim"(*Mitsubishi Motors Corp. V. Soler Chrysler-Plymouth,*

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Inc., 1985, pp. 636–637). The US Supreme Court then ruled that the "[r]espondent's antitrust claims are arbitrable pursuant to the Arbitration Act" (*Mitsubishi Motors Corp. V. Soler Chrysler-Plymouth, Inc.*, 1985, p. 615).

Arbitrators still enjoy jurisdiction to make an award against the contractor even if the cartel is exempt by the home country because of the cartel's adverse competitive effects in the affected countries. The exemption in question, which merely means that the authorities in the home country would not punish the contractor, is not binding upon the lead firm and any contractors located outside the home country's territory (Beechey, 1996, p. 181). The arbitrator, therefore, could rely on the competition law of the affected country incorporated in the contractor codes of conduct to decide that the contractor's violations justify the lead firm's termination of the contract.

The second measure relying on economic sanctions to discipline contractors is the threat of loss in prospective procurements. Lead firms procuring goods or services often require that a supplier eligible to submit a tender should have never violated law especially in the areas the contractor does business. Contractors, therefore, should strictly comply with laws and contractor codes of conduct because any violation might make them ineligible to participate in procurements offered by lead firms.

Private Transnational Governance in Competition Law

The previous section examines the internalization of national law in a private mechanism and shows that lead firms can legally enforce the internalized law using their private power. This section discusses the governance of such a private mechanism at a transnational level by (i) arguing that the enforcement of contractor codes of conduct that internalize national competition laws can project transnational competition law, (ii) analyzing legitimacy of such a private mechanism at a transnational level, and (iii) exploring a transnational network of actors holding lead firms accountable.

Transnational Legality of Internalized National Competition Law

By requiring contractors in the global supply chain to comply with all applicable laws, lead firms can help to extend the jurisdiction of national law to the territory of other countries. This subsection examines how lead firms transform contractor codes of conduct that internalize national law into transnational competition law.

Transnational private regulation refers to private governance mechanisms that regulate private actors across countries in the absence of state cooperation (Scott et al., 2011, p. 3). Private governance indicates the importance of non-state actors in regulating cross-border issues that states are unwilling to or unable to govern (Ramraj, 2017, p. 586). Contractor codes of conduct are transnational private rules

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by which lead firms participate in global governance. Due to the limits of territorial jurisdiction and weak international cooperation in the competition law area, many firms may not be willing to comply with competition laws of countries affected by their business and in which the firms do not have assets or conduct business. Contractor codes of conduct and contractual relationships, therefore, help improve compliance with competition law of firms operating outside the jurisdictions of countries that may capture it (Fabrizio et al., 2013, p. 11).

The transnational effect of contractor codes of conduct derives from global networks created by lead firms. These codes transcend territorial confines and regulate not only the MNC's employees but also private actors that participate in the corporation's cross-border supply chains, such as incumbent suppliers and potential business partners. Many lead firms state that their contractor codes of conduct go beyond law compliance and create transnational standards so as to advance corporate social responsibility and business ethics (*Apple Supplier Code of Conduct*, 2016; *Sony Supplier Code of Conduct*, 2018, p. 1; and Walmart Corporation, 2012, p. 3). Lead firms rely on their transnational economic power to make contractors comply with their transnational rules as subsection 3.b discusses.

When the contractor codes of conduct of MNCs internalize national competition law, the enforcement of the codes gives internalized national law transnational effects. If, for example, a contractor in country A enters into an export cartel that has adverse competitive effects for country B, the enforcement of the lead firm's contractor codes of conduct, which requires the contractor to stop the violation, helps to enforce the competition law of country B in the territory of country A. This extraterritorial enforcement relies on contractual relationships, advocacy, and economic incentives rather than public authority. Therefore, the extraterritorial enforcement of competition law through private transnational rules avoids territorial jurisdiction conflicts. In addition, the extraterritorial enforcement of competition law through private transnational rules overcomes concerns about the unfair distribution of financial and administrative burdens of enforcement that can restrain international cooperation among states.

The Legitimacy of Transnational Competition Law

The enforcement of contractor codes of conduct helps to extend the application of laws of a state in the territory of other countries without creating significant jurisdictional conflicts. Such an enforcement, therefore, allows lead firms to engage in governing global competition. Since corporations are not duly elected in the same way as states (Grant & Keohane, 2005, p. 33; Steffek, 2004, p. 91), one might argue that lead firms do not have the regulatory legitimacy to govern private actors in

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society other than those that work for the corporation. This section shows that lead firms have a plausible claim to legitimacy in the regulation of their supply chains.

Legitimacy of a rule or institution has been defined as "the normative belief by an actor that [the] rule or institution ought to be obeyed" (Hurd, 1999, p. 381). The legitimacy of a lead firm's transnational competition governance includes the internal and external aspects, which reflect the beliefs of the regulated actors and observers who are not subject to the governance mechanism.

The Internal Aspect of Legitimacy

The internal aspect of legitimacy is the belief on the part of the regulated that they ought to comply with the governing actor's rules. Contractors accept the legitimacy of lead firms for two reasons. First, a lead firm, in its business interactions, persuades contractors that the codes of conduct serve to create a sustainable supply chain (see, for example, *The A.P Moller—Maersk Group's Third Party Code of Conduct*, 2013; and The Starbucks Company, 2003). Lead firms can persuade contractors by their expertise in internalizing law, for example, the availability of corporate codes of conduct, an effective auditing mechanism, and a clean compliance history. The processes of persuasion and trust, perhaps assisted by potential contractual enforcement, gives contractors an internal reason to comply with the codes.

A second reason for contractors to accept the legitimacy of lead firms is that contractor codes of conduct internalize legitimate national laws. Unlike other private rules such as standards or best practices, contractor codes of conduct need not prescribe any substantive obligations but can, and often do, refer to national laws including those of developed, developing, and least-developed countries. Corporations complying with national laws would, therefore, accept the legitimacy of national laws internalized by lead firms.

The External Aspect of Legitimacy

The external aspect of legitimacy refers to the endorsement of observers that a governance mechanism is desirable and proper. The legitimacy of a private governance mechanism must also be understood to have an external aspect because actors in world politics are interdependent and the interaction between two participants may influence others. For example, the transactions between a lead firm and a contractor may affect the interests of some states and people therein who are not regulated by the lead firm's mechanism. The legitimacy of a lead firm, therefore, would be enhanced by taking into account the view of observers who are affected by its supply chain.

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Observers of a lead firm's governance include a transnational network of private and public actors. These observers are demanding that responsible corporations actively engage in making a better world. Non-state actors such as consumer NGOs, anti-sweatshop NGOs, trade unions, media, local communities, and even institutional investors form transnational networks that help construct the social responsibility of MNCs (Cotterrell, 2008, p. 16; Macdonald, 2007, p. 263; Macleod, 2007, p. 236). For example, NGOs and consumers would punish lead firms with reputational sanctions where lead firms fail to enforce their codes of conduct. Also, the external legitimacy of lead firms is supported by public actors such as states, the U.N., and the OECD.

The Global Compact initiated by the United Nations is an example of what states and the public expect of firms in a global governance context. The initiative encourages business to share "responsibility for achieving a better world" (The United Nations, 2019). Participants in the Global Compact expect companies to comply with Ten Principles when making business decisions and encourage firms to "take strategic actions to advance broader societal goals".(The United Nations, 2019).

The OECD Guidelines for Multinational Enterprises ("Guidelines") is another example of observer endorsement of the legitimate role of lead firms in global governance. The Guidelines "provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards" (OECD, 2011, p. 3). The OECD members and adherents also suggest that enterprises "encourage … business partners, including suppliers and sub-contractors, to apply principles of responsible business conduct compatible with the Guidelines" (OECD, 2011, p. 20).

Contractor codes of conduct indicate the implementation of the commitment of lead firms to the Global Compact and the OECD Guidelines. These codes aim to align the conduct of contractors with law and globally recognized standards (OECD, 1999, para. 36). By requiring business partners to comply with laws and respect public interests, lead firms seek to fulfil the expectations of states, intergovernmental organizations and other actors in transnational networks that corporations should participate in global governance.

Controlling the Power of Lead Firms

As discussed above, the legitimacy of a lead firm is socially constructed from the beliefs of various actors that the firm's rules ought to be obeyed. One might argue that the enforcement of contractor codes of conduct makes lead firms ruling or dominant actors in global governance. Transnational competition law discussed in this chapter, however, do not result in lead firms becoming private hegemons in global governance for two reasons.

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First, the internalization of national laws by lead firms does not necessarily result in private hegemonic actors because these firms check and balance each other, and the legitimacy of such internalization is recognized and overseen by civil society. The lead firm of a supply chain may be the contractor in another chain. If, for example, corporation A, which is the lead firm of its supply chain, violates competition law of a country, it would be punished by the lead firm of supply chain B in which corporation A is a contractor. The effectiveness of this mechanism, however, is not dependent upon any critical mass of lead firms internalizing competition law because any abuse of power can also be remedied by civil society through actions such as boycotts or NGO activism (Macdonald, 2007, p. 262; and Nisen, 2013). In addition, corporations can be involved in collaborative governance along with states and civil society (Santos & Rodríguez Garavito, 2005, p. 6; and The Coca Cola Company, 2017, p. 46). From this perspective, transnational competition law projected by lead firms allows MNCs to protect vulnerable social participants such as consumers and small businesses in global society from more powerful ones such as cartel members or firms with a dominant position in relevant markets.

Second, transnational competition law projected by lead firms does not replace state law, regulatory authority or result in "severe hardship, injustice, imbalance and crisis linked to the rise of private global rulers" as Bakan concerned (Bakan, 2015, p. 298). Unlike some other forms of transnational law, contractor codes of conduct internalize state law and enforce it transnationally. This helps to strengthen the regulatory power of states at the transnational level. In addition, the internalized contractor codes of conduct help to enforce law of a less powerful country in the territory of a more powerful country and thus enhance justice and fairness in international society. For example, in 2014, three of the world's largest shipping companies, Maersk Line, Mediterranean Shipping Company, and CMA CGM, planned to create a joint venture to operate a network named P3 Network (CMA CGM, 2013). Although the companies' headquarters and the proposed joint venture were located outside Vietnamese territory, the participating companies voluntarily submitted a merger notification to the Vietnam Competition Authority ("VCA") pursuant to Article 20 of the *Competition Law* of Vietnam because the joint venture had potential effects on the Vietnamese markets. Such compliance helped to enforce the Vietnamese *Competition Law* in European territory.

CONCLUSION

In modern global governance, states are no longer the only actors that possess authority. MNCs also participate in governing society in a responsible way—a process that can promote reciprocal benefits between firms and society. Through

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the internalization of national competition law, MNCs are increasingly projecting private transnational rules.

By discussing the role of corporations in enforcing transnational competition law, this chapter makes some significant contributions to the literature on transnational law. First, it suggests a private transnational regime that has a potential to deal with certain cross-border competition problems and does not necessarily cause MNCs, or any particular MNC, to become a ruling or dominant force in global governance.

Second, this chapter shows that transnational competition law does not replace state law or diminish state regulatory authority. Unlike some other forms of transnational law, contractor codes of conduct internalize state law. This helps to strengthen the regulatory power of states at the transnational level. In addition, transnational competition law helps to enhance justice and fairness in international society by allowing MNCs to act alongside states and society to protect consumers and small businesses in global society from cartels or firms with a dominant position in relevant markets.

Third, while the literature on transnational law discusses private transnational rules such as best practices and good governance without explaining how these rules are made (Aguilera & Cuervo-Cazurra, 2004; Bondy Krista et al., 2008; Eijsbouts, 2017; Santoro, 2003), this chapter examines a process that constructs some best practices and good governance. This chapter analyzes how lead firms internalize and enforce strictest standards among applicable competition laws, which allow them to construct best practices in competition law that consider cartels as illegal transnationally.

There are some limits on the discussion of transnational law in this discussion. First, transnational law analyzed in this chapter does not include other forms of private rules such as industrial standards and substantive codes of conduct but focuses on only contractor codes of conduct that internalize state law. Second, this chapter merely conducts a qualitative study on transnational law. It does not study the number of lead firms that set out and enforce these codes. Third, this chapter does not examine the cost of enforcing contractor codes of conduct by lead firms, especially the enforcement against violations of contractors.

This chapter suggests that more studies should focus on the enforcement of the internalization of national law and how the strict enforcement of supplier codes of conduct affects the supply chain of lead firms. This chapter also timely discusses a private mechanism dealing with cross-border challenges in the context of the rise of nationalist populism such as Brexit and American President Donald J. Trump's policies against multilateral agreements (Bogaards, 2017; O. Fitzgerald & Lein, 2018; Post, 2017; Reader, 2016). This discussion, therefore, suggests the need for more studies on the role of private transnational governance in dealing with the negative effects of nationalist populism. The argument I have advanced uses

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competition law as an example to examine the internalization of law by corporations. This process may work in other areas such as human rights, labour, anti-corruption, and environmental law.

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Chapter 13
Teacher Perception of Head of School Transformational Leadership, Transparency, and Accountability of School Financial Management

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ABSTRACT

This study investigates the effect of teachers' perception of head of school transformational leadership, transparency, and school's financial management accountability. Using 120 samples from high school teachers' perception in Madiun Central Java region, this study found that teachers' perception of head of school transformational leadership has a positive impact on the transparency and accountability of the school's financial management. This implies that transformational leadership style of the head of school is an important factor of the school's financial management to increase its transparency and accountability.

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INTRODUCTION

The effectiveness of Indonesia Act. No. 32 year 2004 about District Administration dictates the foundation changes in the education area which is from the centralistic management system to the decentralization management system. This transformation demands the adjustment and changes in the school organization management that in some issue should be managed similar to private organization (Onorato, 2013). This reformation of course have been impacted the head of school leadership. Ling and Ibrahim (2013) said that school leadership have been become a priority on the international education policy agenda, play the important role to increasing school performance by impacting motivation, teacher ability, and school environment.

Leadership is one of the crucial factor that functioning any organizational effectively (Gemeda and Lee, 2020; Syafi, et.al, (2019); Iscan, Estari and Naktiyok, 2014; Antonakis and House, 2014). Leadership is an important organization moving factor trough management and handling changes on the organization (Komariah and Triatna, 2006; Hall, Johnson, Wysocki, & Kepner, 2008). Thus, the existence of leadership is not only a matter of a symbol of an organization but it is more to the positive influence on the organization. Based on those statement, in the case of a school, it can be argue that the successful of a school to achieve its goal depends on the school leadership, whether the leadership able to manage all of the school resources effectively and efficiently.

There has been a great interest in term of leadership styles and its effects on organization. Among those styles, transformational leadership style has received extensive popularity as compared with other style (Khalili, 2016; Mittal & Dhar, 2015; Schaubroeck et al., 2012). According Gupta, Singh, Kumar, & Bhattacharya (2012), the popularity of transformational leadership is due to the different methods in motivating creativity of employees as compared with other leadership style. Transformational leadership has been found effected many organizational outcome both directly or indirectly (Gemeda and Lee, 2020; Eliyana, Ma'arif, and Muzakki, 2019; Syafi, et.al, (2019)). However, the results are still not conclusive.

Indonesia Act. No. 17 year 2003 about governance financial management stated that principally governance financial management should be conducted in accordance with the regulation, efficient, economist, effective, transparent, and accountable based on fairness and properness. Such that on the Education Ministry Regulation No. 19 year 2007 about education management standard which stated that the direction of management of investment and operational cost of a school should be socialized to the whole school members to guarantee the transparency and the accountability of the fund management. With the transparency and accountability of the fund management, the school stakeholders will get the information about the consumption of the fund.

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Research on transparency and accountability in education sector has been done by many researchers (see for example: Eric and Margaret (2006); Lee and McWilliam (2007); Boy and Siringoringo (2009); and Anggraini (2013)). Those prior researches suggest that transparency and accountability have relationship with economy, performance, reducing gap (Eric and Margaret, 2006); learning process management (Lee and McWilliam, 2007); fulfilling the demand from the stakeholders (Boy and Siringoringo, 2009); and the school member participation (Anggraini, 2013). Therefore, it can be concluded that transparency and accountability have a positive impact on school management.

However, the issues of transparency and accountability are still become an interesting topic. There are still many problems and cases regarding transparency and accountability occurred in the education area. Jawa Pos (2014) releases news that many high schools in Madiun Central Java region have stopped their teaching learning process as the school members carry out a demonstration to protest their head of schools and his/her teams. The demonstration forces the head of schools to resign from their position as they do not put their trust to the head of schools anymore in their school management. Furthermore, the media release news about the cases of ex-head of school of SMAN 1 Madiun and SMAN 5 Madiun who have been sued five year jail and repay governance loss and fine by Surabaya corruption court. From all of the above cases, it can be notion that the head of school has not manage the school financial according to the standard of transparency and accountability as mandated by regulation and expected by stakeholders. Therefore, the aim of this research is to explore the relationship between teacher's perception of the head of school transformational leadership, transparency and accountability of school financial management.

The rest of this paper organized as follow. Brief literature review is discussed as follows with hypothesis development. Research method is then presented, including the sample and hypothesis testing method. In the next section, data, empirical findings and discussion are presented. The final section concludes the paper along with limitations and future research.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Leadership is the most commonly discussed topic in many area of research. Leadership is one of the important aspects of management. Topic of leadership has been investigated since many decades ago. The theory of leadership has been developed from many of view. Trait, behavioral, inspirational, and characteristic of leadership is among those views (Gemeda and Lee, 2020; Robbins et al., 2009; Carasco-Saul et al., 2015). As stated before, among many styles of leadership, transformational

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leadership style has received extensive popularity as compared with other style (Khalili, 2016; Mittal & Dhar, 2015; Schaubroeck et al., 2012).

Theory transformational leadership is a theory of leadership that has been recently become a popular topic (Givens, 2008). Vincent-Hoper et al., (2012) conducts literature review on this theory concludes that leaders with transformational characteristics manage organizations by anticipating and communicating organization visions, common goal, and share values. To achieve the organization goal, transformational leaders set an illustration of the requested behavior of their employees.

A range of literatures found that transformational leadership impacted organization performance, both directly and indirectly trough many organization outcomes or factors. Prior studies find that transformational leadership directly positively related to innovative work behavior (Gemeda and Lee, 2020; Iscan, Estari and Naktiyok, 2014) and work engagement, while indirectly positively related to work outcomes (task performance and innovative work behavior via work engagement) (Gemeda and Lee, 2020). Shafi, et.al, (2019) also find that transformational leadership positively effect organizational innovation. Eliyana, Ma'arif, and Muzakki, (2019) find that transformational leadership has positive effect on job satisfaction and organizational commitment. However, they fail to prove that transformational leadership directly effect work performance, rather than through job satisfaction. This finding is in contrary with Iscan, Estari and Naktiyok, (2014) who concludes that transformational leadership affects organizational performance. In sum, those prior studies find that transformational leadership has relationship with organizational outcomes that finally impacted performance. However, the effect of transformational leadership on transparency and accountability, which are important factors of organizational performance, seems to be ignored, especially in education organization. Therefore, this study contributes to filling the gap.

Burns (1978) develops the idea of transformational leadership model and implemented it in a politic context; and continues it into school management context. The head of school have to be able to enlighten the national education visions and bring transparency and accountability in the school financial management. Managerial tasks in a school include personal management, budget control, developing strategic goals, networking with external parties, and applying accountability in education sector (Odomery and Ogbonna, 2013). The school needs strong leadership in the school financial management.

Transformational leader is a leader who is skillful in leading, champion change, transforming organization into a better or the best one (Warrick, 2011). Keller (1992) stated that transformational leadership is a leadership who focusing on the fulfillment of the highest level of Maslow's hierarchy which are the need for self-esteem and self-actualization. The fulfillment of the highest level of Maslow's hierarchy in line with Simic (1998) witch stated that transformational leadership has attributes witch are

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creativity, team orientation, appreciation, influence, responsibility, and recognition. Transformational leadership has ability to inspire and motivate the employer to achieve higher than its plan. There are four factors that characterized leadership transformational known as four 'I' which are: idealized influence, inspirational motivation, intellectual stimulation, and individual consideration (Simic, 1998; Amstrong, 2002; Given, 2008; Hall *et al.*, 2012; Odumeru and Ogbonna, 2013; Shafi, et.al., 2019). Sarros and Butchatsky (1996) argue that transformational leadership model is the best leadership concept to characterize a leader.

Transformational leadership is an ideal leadership in a school (Hallinger, 2003) as it is a key success for an organization transformation (Simic, 1998). Furthermore, Fullan (2005) stated that with the transformational leadership in a school, it will occur the changing process on the leadership that are refer to school accountability, unacceptable status quo, new strategy adoption, and strive for transparency system. Onorato (2013) on his research argue that the transformational leadership in a school able to change status quo with leadership framework similar to leadership in business company how manage private industry, which include human resource management, budget control, determining strategic goals, collaborate with the external strength, and accountability in education sector.

From the discussion above, it can be concluded that transformational leadership is a leadership that able to force the increasing of individual behavior of the organizational member into a better changes. According to Hall, Johnson, Wysocki, and Kepner (2012) and Shafi, et.al, (2019), there are four factors that characterized transformational leadership, known as "four I", which are idealized influence, inspirational motivation, intellectual stimulation and individual consideration. Therefore, in the case of school financial management, the head of school with the "four I" characteristics should be increased the transparency and the accountability of the school financial report.

Indonesian Act. No. 20 year 2003 section 48 indicates that management education fund should fulfill a few principles such as fairness principal, efficiency, transparency and accountability for public. The transparency and accountability for public are crucial as one of responsibility report for public (Nuraini, Suhartati and Rahman, 2012; Boy and Siringoringo, 2009; and Salama, Catheart, Andrews, and Hall, 2006). Nuraini, Suhartati and Rahman (2012) stated that management financial government is an activity that will influence the public prosperity, while Boy and Siringoringo (2009) said that financial fund for school is not only from government but its from students parent trough the school committee, therefore it should be manage transparently and accountably. Salama et al. (2006) argues that transparence and accountability are important factors to achieve education institution reformation. The demand of transparency is increasingly considered as a fundamental part of the accountability of the higher education institution (Saraite-Sariene, Rodriguez and Rosario, 2018).

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Transparency is an openness or disclosure of all action or policy taken by government or institution (Hamid, 2007; Saraite-Sariene, Rodriguez and Rosario, 2018). Transparency principal create trust between institution and public via the availability of information that guarantee easiness to get reliable information. In school context, transparency means full disclosure of what school has been done (Hamid, 2007). Ricci (2013) stated that transparency increasing legitimacy as professional entities that provide public service; avoiding bad management practices; and facilitate public debate and participation regarding the school/university strategic decision. Transparency also can prevent corruption (de Mingo and Cerrillo-i-Marinez (2018). In this case, information is important for public in order to participate on the school management. Thus, the school should actively provide information about policies and services for public for example trough brochure, leaflet, website, newspaper, radio, or television (Dharma, 2007). School's financial transparency is crucial in order to increase student parents' support, society, and government on the implementation of all education programs in the school (Dharma, 2007).

Accountability can be seen as the ability to provide accountable report (Suharto, 2005). Budiardjo (1998) and Mardiasmo (2002) defines accountability as responsibility from agent to principal. In more detail, Hamid (2007) states that accountability is the agent (in this case the school management or the head of school) obligation to provide any information about all of the school activities and its performance to the stakeholders. Furthermore, Zamroni (2000) indicates that accountability is associated with participation, meaning that accountability is only exist when there is participation from all school stakeholders. Therefore, the goal of accountability is to create public trust on the school in order to increase the stakeholder's participation on school management.

According to Jalal and Supriadi (2001) there are three aspects that will guarantee an education institution quality, which are competence, accreditation, and accountability. Dharma (2007) states that there are three main pillars as prerequisite to develop accountability, which are: (1) transparency of school management by accepting feedback and participation from all stakeholders in school management; (2) measurable key performance indicators; (3) participation to always create comfortable environment to provide community services with easy procedures, low cost, and quick.

From the discussion above, it can be argued that transparency and accountability are two important factors to manage a school in order to achieve education institution reformation as mandate by Indonesian Act. Transformational leadership is the best leadership type that requires in achieving the institution reformation. It is expected that the transformational leadership from the head of school can increase the stakeholder participation including all teachers in school financial management. Therefore, the hypotheses developed in this paper are as follows.

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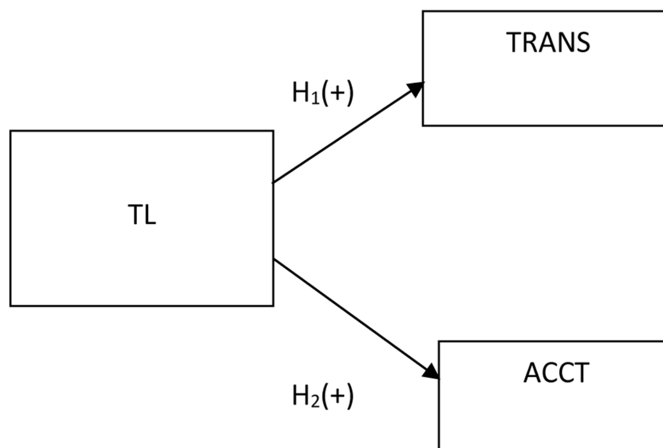
H_1: Teacher's perception of the transformational leadership of the Head of School positively influence on the transparency in school financial management.
H_2: Teacher's perception of the transformational leadership of the Head of School positively influence on the accountability in school financial management.

The arguments can be seen in the illustration below.

Figure 1.
Whereas:
TL: Teacher's perception of the transformational leadership of the Head of School
TRANS: Transparency in school financial management
ACCT: Accountability in school financial management



RESEARCH METHOD

Population, Sample and Sampling

We use primary data to test the hypothesis. The population in this study is all high school teachers in Madiun Central Java regency. We employ purposive sampling method to choose the sample with criteria as follows: (1) Teachers who have been acting as head of school before, as this teacher assumed have done leadership process in the school. (2) Teachers who ever did candidate examination for head of school and pass the test, as this teacher assumed have ever did on job training in one of the schools. (3) Teachers with position as vice head of school. (4) Teachers who have ever been as vice head of school. (5) Teachers with position as school treasury. (6) Teachers who have ever been as school treasury. To gather the data, this study using

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survey technique with close ended questionnaire with five point Likert scale from (1) very disagree to (5) very agree.

Variables and the Measurement

There are two dependent variables in this study, which are transparency in school financial management and accountancy in school financial management. Transparency in school financial management is defined as the provision of financial information with full disclosure and honest from school management to society based on the consideration that society have right to know honestly on the school responsibility about financial management entrusted to the school (Hamid, 2007). We use twelve indicators from Hamid (2007) to measure variable transparency in school financial management.

Accountability in school financial management is defined as the obligation to provide responsibility or to answer and to explain the performance and activities in the school management to parties who have right to get information in order to reach goals or objectives set periodically (Hamid, 2007). We use ten indicators from Hamid (2007) to measure variable accountability in school financial management.

The independent variable in this study is teacher's perception of transformational leadership of head of school. Transformational leadership is a type of leadership which proactive in management human resource, budget control, determination of strategic goals, collaboration with external parties, and accountability in education sectors (Warrick, 2011). We use three components of transformational leadership which are leading, championing change, and transforming organizations from Warrick (2011) indicators to measure this independent variable.

Data Analysis Method

We develop two simple regression models to test the hypothesis in this study as we have two dependent variables, which are transparency and accountability. We use *Statistical Product and Service Solutions* (SPSS) with level of significance 0.05 ($\alpha = 5\%$). The simple regression models in this study are as follow.

H_1: TRANS = $\alpha + \beta$ TL + e

H_2: ACCT = $\alpha + \beta$ TL + e

Whereas:

TL: Teacher's perception of transformational leadership of the Head of School

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TRANS: Transparency in school financial management
ACCT: Accountability in school financial management
e: error term

RESULTS AND DISCUSSION

Based on the purposive sampling characteristic, the number of samples of this study is 120 high school teachers in Madiun Central Java regency with the total response rate 83.33%. The detail information of the sample is presented in Table 1, while Table 2 shows the results of demographic respondents and Table 3 the results of descriptive statistics test.

Table 1. Sample

No.	Explanation	Unit (Exemplar)
1	Questionnaires distributed	144
2	Questionnaires collected	133
3	Uncompleted questionnaires	(13)
4	Questionnaires analyzed	120
5	Total response rate	83.33%

From the Table 2, it can be seen in Panel A that the respondents' gender are equally almost the same. From this result we can confidence conclude that there are no gender bias in this study. Panel B indicates that the respondents mostly have age between 31 – 50 years old. It can be implied that most of the teachers are in the productive age. Panel C shows that all of the teachers have higher education with bachelor degree are 70%, while master degree are 30%. This result is in accordance with regulation in Indonesia that dictates all of teachers must have an education degree minimal bachelor degree. Panel D indicates that most of the teachers have teaching experience between 11 – 30 years. It means that the respondents have sufficient knowledge to express their perception about teaching and the school financial management.

This study aims to test the hypothesis that the perception of teachers about transformational leadership of the head of school has positive impact on the transparency and accountability of school financial management. Therefore, before we test the hypothesis, we conducted all tests that should be done in regression analysis as well as doing reliability and validity test of all items to measure latent

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Table 2. Demographic Respondent

	Explanation		**Percentage**
Panel A	***Gender***		
	Male	58	48.3
	Female	62	51.7
		120	**100**
Panel B	***Age (year)***		
	20 – 30	14	12
	31 – 40	42	35
	41 – 50	48	40
	51 - 60	16	13
		120	**100**
Panel C	***Education***		
	Bachelor	84	70
	Master	36	30
		120	**100**
Panel D	***Tenure (year)***		
	1 – 10	10	8.3
	11 – 20	57	47.5
	21 – 30	45	37.5
	31 – 40	8	6.7
		120	**100**

Table 3. Descriptive Statistics

Variable	**N**	**Range**	**Min**	**Max**	**Mean**	**Std. Deviation**
TL	120	36	39	75	53.63	6.44
TRANS	120	32	24	56	36.62	5.37
ACCT	120	37	28	65	42	6.33
Valid N (listwise)	120					

variable. All of the test requirements have been fulfill. The results of the hypothesis test are presented in Table 4 and 5.

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Table 4. Regression Model-1

Variable	Coefficient	Std. Error	t	Sig.
(Constant)	12.373	3.49	3.545	.001
TL	0.452	.065	6.995	.000
Adjusted R^2	0.287			
F-Statistic	48.937			
Prob. (F-Statistic)	0,000			

Dependent Variable: TRANS

Table 5. Regression Model-2

Variable	Coefficient	Std. Error	t	Sig.
(Constant)	21.92	4.519	4.851	.000
TL	0.374	0.084	4.475	.000
Adjusted R^2	0.138			
F-Statistic	20.03			
Prob. (F-Statistic)	0,000			

Dependent Variable: ACCT

The value of adjusted R^2 is 0.287 and 0.138 as indicated in Table 4 and 5 respectively. It means that 28.7% of the variable of transparency of school financial management can be explained by the variable perception of teachers about transformational leadership of the head of school, while the remaining 71.3% is influenced by other factors beyond this study. Furthermore, the accountability of school financial management is influenced by the variable perception of teachers about transformational leadership of the head of school only 13.8%, while the remaining 86.2% is influenced by other factors beyond this study. The significance value of the model (F test) in both regression model of this study is less than 0.05, therefore it can be concluded that both of the model is feasible to predict the impact of independent variable on dependent variable as it can be seen in Table 4 and 5 respectively.

Table 4 and 5 indicates that both hypotheses (H_1 and H_2) are supported by data, as significance values of the t-test are 0.000, which is less than 0.05 of significant level. Thus, it can be concluded that the perception of teachers about transformational leadership of the head of school has positive impact on the transparency and accountability of school financial management, as shown in Table 4 and 5, respectively.

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The results of this study provide evidence that head of school leadership has a positive impact on transparency and accountability of school financial management. It can be inferred that head of school has a very strategic role to manage and regulate policies in a school. The leadership characteristic that suitable to fulfill an education reformation is transformational leadership (Bass and Avolio, 1992). The existence of good head of school leadership, especially transformational leadership, will be able to influence every activity in the school environment. In this case, the activity includes transparency and accountability in school financial management.

According to Logos (2003); and Saraite-Sariene, Rodriguez and Rosario, 2018), transparency and accountability are two concepts that correlated, as without transparency it will be impossible to be accountable and vice versa. Transparency of school's financial management means provide financial information openly and honestly to community. School financial management that is transparent has characteristics such as: the existence of school responsibility; the existence of accessibility on financial report by community; the existence of school financial report publication; the existence of community right to access audit report of the school financial report; and the existence of school performance information. Transparency of financial management in school closely related with the character and policy implements by the head of school. Thus, the character of the head of school influences the policy of financial management the school he/she leads. Financial transparency is crucial in order to increase support from parents, community and government to implement all education programs in the school (Dharma, 2007). It will increase the legitimacy of the school as a public institution (Saraite-Sariene, Rodriguez and Rosario, 2018).

Furthermore, the results of this study provide evidence that head of school leadership has a positive impact on accountability of school financial management. This result is in accordance with previous studies that found transformational leadership of the head of school has positive impact on the accountability of school's financial management (Boy dan Siringoringo, 2009; and Anggraini, 2013). Similar with other organization, the implementation of accountability concept conducted with the existence of regular audit of financial report published by government auditor. The head of school transformational leadership increasing the honest and full disclosure of financial report, thus the possibility of finding nonconformity on the audit process will decrease.

CONCLUSION

Based on the analysis and discussion, it can be concluded that the perception of teachers of transformational leadership of the head of school has positive impact

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on the transparency and accountability of school financial management. This study has implication that to fulfill the transparency and accountability in school financial management as mandate by regulation, a school should be led by a head of school with transformational leadership characteristic. Head of school who managed school financial transparently and accountably is expected to gain trust from all stakeholders (e.g. government and school committee) and it will easier to get funding. However, the results should be used with cautiously to generalize it into other context, as this study has many limitations. The limitations of this study are (1) the respondents of this study are only limited on high schools teachers in Madiun Central Java Regency, (2) the limitation attached in survey studies, (3) the ability of independent variable to explain the dependent variables is still relatively low.

Topic of leadership characteristic and the impact on financial management in education is still a rapidly evolving area, and new research is clearly needed to understand the key factors important in this issue. Therefore, this study suggests further research in a way; such as (1) expand the sample into different regency as different regency perhaps has different culture, (2) differentiate between public and private school, as some regulation in financial management will not prevail to private school, (3) employ interview method to collect data in order to gather depth understanding in this topic.

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