



## The Accounting Podcast Series

### S01E05: Sujay Nair

#### *Transcript*

Albie: Welcome to TAPS, [The Accounting Podcast Series](#). I'm Albie Brooks, and working with me is Abbey Treloar. Our guest today is [Dr Sujay Nair](#). Sujay is a lecturer in accounting, specialising in management accounting and control. Sujay joined the University in 2011 and has recently completed his PhD here at the University in the Department of Accounting. It's Sujay's PhD that is the focus of this podcast. We will explore the general thrust of Sujay's PhD and then focus in on one of the research areas specifically. Welcome to TAPS, Sujay.

Sujay: Thank you. It's a pleasure to be here.

A: Now, in broad terms, your PhD explores how management controls are used by organisational leaders to influence the behaviour of employees. You examined this through three research essays. If you don't mind, briefly, what did each of these explore?

S: Sure. So the first paper focuses on leniency bias, which is something that's quite prevalent in the organisation today. So if you look at the performance evaluation ratings distribution of organisations, you would find that most employees are rated quite favourably. A significant chunk of them will be potentially in the top two performance category out of, say, the possible five. So it's quite prevalent, and it's probably something that I've benefited from multiple times in the past as well, which is why I'm sitting here with you. So I look at lenient evaluation and what impact it has on organisational performance. And I try to distinguish lenient evaluation from lenient rewards, which are quite distinct in the setting that I was looking at these things. So that was the first paper. So the second paper looks at whether non-financial rewards can be used to strength relational contracts between leaders and employees. And I know we'll talk about this a little bit later as well in the podcast. The final paper, the third paper, looks at factors which are associated with a leader's choice

on whether to employ a contract worker versus a permanent worker. So I think that this topic is quite relevant today, given organisations are increasingly making use of non-traditional types of employment contract, be it independent contractors versus casual staff versus contract workers, part time workers, and permanent employees.

A: Excellent. A lot to cover and a lot that you did cover. I'd like to focus in on the paper that examines the role of non-financial rewards, leniency, and relational contracts, which was the second one to which you referred. A couple of introductory questions first before we explore the paper in a bit more detail. Perhaps you could tell us a little bit about the setting, and then what do non-financial rewards include in this setting?

S: Yes. So the setting was public schools in Victoria. So in this setting, the non-financial rewards that principals typically use would be verbal recognition, and this can take place either in private or in public, like in a town hall meeting or in planning days like what we have in this department. It also includes written recognition, which again can happen in private via, say, email, or in more public forums such as in organisational newsletters or in social media posts, et cetera. It also includes things like tokens of appreciation, mentoring, and the like.

A: Okay. And leniency, which is a feature through the PhD itself, but leniency with respect to this paper?

S: Yes. So leniency with respect to this paper looked at lenient rewards, particularly lenient non-financial rewards. And what I mean by lenient rewards would be where the principal gives out more rewards than what he or she believes is warranted based on performance alone. So if you're rewarding an employee with a non-financial reward when they perform perhaps slightly below expectations, I would classify that as a lenient reward.

A: Okay. And then thirdly, relational contracts, which is a term that is a significant part of this paper as well?

S: Yes, it is, Albie; you're right. So this is an informal or unwritten contract between parties. So I focus on the unwritten or informal contract between the principal and the employees, the leaders and the followers, and it covers terms like the leader's priority areas in terms of where he or she would like the employee to focus. Is it student engagement, is it parent engagement, is it the use of technology in the classroom, is it fundraising, et cetera. So these terms on where a teacher needs to focus are often not part of their formal employment contract, and hence they are part of an informal agreement between the principal and the teachers. Hence it's called a relational contract.

A: Okay, thanks. Well, that looks after three sort of key terms that you use throughout the paper. So why are we interested in this? What are the key drivers for investigating the connection between these things?

S: Well, relational contracts are typically hard to enforce legally, because they are informal and unwritten. So for them to work, two challenges need to be overcome. The first one is a challenge of clarity, which includes signalling what is expected of the other parties, because they're not documented. So that's the first challenge, the clarity challenge. The second challenge is credibility, which is making sure that the other party believes that you will do what you say you will do. So for relational contracts to work, clarity and credibility should be overcome. And so this paper looks at whether non-financial rewards can be used by leaders to overcome these two challenges. And the reason why I focus on non-financial rewards is because they are often given out in public, which means that they not only serve as a tool to motivate the individual or recognise the individual, team, or whoever they are rewarding, but it's also a form of communication or a signalling from the principal to the entire workforce.

A: How did you explore and execute the study to consider these relations?

S: So this research was actually co-authored with Maggie Abernethy and Anne Lillis, who are my supervisors. So we're in the process of writing it as a research paper. We also received a lot of support from the Department of Education and Training Victoria. They were really helpful. So as I mentioned earlier, the setting was Victorian public schools. So we surveyed school principals and their reward practices. We also obtained data from a survey of teachers that was conducted independently by the Department of Education and Training. And it's from this survey of teachers that we tried to get a sense of the teachers' perception on clarity in terms of what the principal requires them to do, and also what their perspectives are in terms of the credibility of the principal, which is important because we need to measure clarity and credibility from the perspective of the employee. And finally, we also had access to school profile information from the My School website. So these were mainly used as control variables for our study.

A: Excellent. So when you put all this together and run the analysis, what are the key findings that we get from this?

S: So a couple of those. I think the first one is that we find that non-financial rewards, when used leniently, can enhance a leader's credibility in the eyes of their employees, and also enhance the employees' clarity on what the leader wants them to do, what the leader's priority areas are. However, excessively lenient rewards can be counter-productive and lead to poorer clarity and

poorer credibility. So some leniency can help with clarity because it means that if the principal is a little bit lenient, then more rewards are given out. And typically these are given out in public, non-financial rewards given in public. So the signal gets sent out more frequently in terms of what they want their employees to focus on. But if they are overly lenient, if all sorts of different performance areas get rewarded, then clarity is obviously adversely affected. How does lenient non-financial rewards or lenient rewards in general – how does it help with credibility? There are a couple of reasons for this. The first one stems from the fact that people or individuals on average tend to over-estimate their performance levels and hence how deserving they are of a reward. So because individuals do on average over-estimate their performance, principals need to be a little bit lenient to ensure that they match the expectations of teachers or their employees. So that helps them build their credibility. Another reason how lenient rewards can help with credibility is that sometimes a principal requires a teacher to launch an initiative that takes a long time to bear fruit. In the short term, however, performance can suffer. So you need a little bit of leniency to say that, hey, even though short term the performance has been adversely affected, we believe in the long term benefits of whatever you're doing. But, of course, if you're overly lenient, credibility will suffer as well. If you reward all sorts of different levels of performance levels, even though it's very low then the principal will lose his or her credibility. Finally, we also find that lenient rewards are mostly used by a certain group of leaders or a certain group of principals, and these principals are those who are experienced in the role but new to the organisation. So these principals, because of their experience in the role as principals in other schools, would have formed a clear idea on what their priority areas are that they want the teachers to focus on. But because they are new in their existing school, they wouldn't have had the chance to communicate that to the teachers as much. And also, because they're new in the current school, they also wouldn't have had the chance to build their credibility. So for this group of principals, we find that they do use rewards a little bit more leniently than others, and it's consistent with our arguments that we try and make. Contrast that with a principal who has spent a lot of time in the existing school, in their current school. So these principals would have had the chance to communicate what their priorities are and also to build credibility with their staff. So for these principals, they don't need to be lenient as much. And finally, the last group of principals are the principals who are not experienced in the role. So they wouldn't have had the time or experience, I should say, to have a firm view on what their priority areas are that they want to reward. So those were our main findings.

A: Excellent. So how do these findings in this setting – a school environment – translate to a wider environment? So in other words, what's the advice for managers and organisations more generally out of this study?

S: So I would say, first, leaders should be given discretion with non-financial rewards. So in some cases, it might be beneficial for them to be lenient with these rewards, particularly since there's not a lot of financial costs associated with them. I think more specifically for experienced leaders who are new to their current organisation, it may make sense for them to be more lenient with regards to non-financial rewards because it can help them communicate what their priorities are and also help them with being credible in the eyes of their employees. But again, not too lenient because it can be counter-productive. Finally, it may make sense for leaders to change their reward strategy over time. And so if you're experienced but new to an organisation, you start off with being a bit lenient with regards to recognition and the use of non-financial rewards, but as you gain experience, once your employees know what your priority areas are, once they know that you are credible and you will not withhold rewards when they deserve one, once you've built up those two parts – clarity and credibility – then as an experienced leader, you can afford to raise the bar. Because raising the bar and being less lenient means that potentially it can be more motivational, more aspirational, for employees to try and hit a more difficult target.

A: A question without notice: so this is in a setting where financial rewards may not be as prevalent; do you think it holds in a setting where financial rewards may be more prevalent? Do you think that these issues around non-financial rewards would still be applicable?

S: We believe so, and it's because of the nature of non-financial rewards that make it particularly amenable to signalling, because it's public. If financial rewards are given out in public, can it have the same impact? Can it trump non-financial rewards? Potentially. But it's something that, I guess, we would leave for future research to look at. Giving financial rewards in parallel to non-financial rewards we don't think necessarily invalidates our results with regards to the strength or the benefits of using non-financial rewards.

A: Thanks, good. Now, going more broadly, back to your PhD more generally, what other interesting findings would you like to share with us that emanated out of the PhD in the other two papers?

S: None really, Albie. Just kidding. So in the first paper, I find that lenient performance evaluation is negatively associated with organisational performance. And this is in contrast with prior research, which finds a positive association between lenient evaluations and individual performance. So lenient evaluations have a positive association with individual performance but a negative association with organisational performance is what I find. And the reason why this can happen is because organisational performance is not simply the sum of individual performances. So an easy analogy would be to look at training costs, so if you incur training costs to upskill your employees then potentially individual performances will improve. But if the training is very costly, then from an

organisational perspective it could be that the costs outweigh the benefits and the organisational performance suffers. When it comes to lenient evaluation, one of the costs that I focus on is the cost of not being able or willing to replace under-performing employees. So if you're lenient when it comes to evaluating performance, then there is also a tendency for you not to replace under-performing staff, which then can affect performance because you're not replacing them with higher-performing individuals. And also people who are performing well – if they see that underperformers still stay in the firm and there are no consequences, they also might get less motivated. In terms of the third paper, I find that an organisation's informal controls, which includes organisational culture and the use of team-based controls can influence or are associated with a leader's tendency or choice between contract workers and permanent workers. Specifically, I find that schools that have a stronger organisational culture and where most of the teachers work in teams would be schools where there is a greater use of contract teachers. And this could be explained potentially by the fact that temporary workers or contract workers in general are seen as a little bit risky because their interests may not be aligned with the organisation because they are only there for the short term. But if you have a strong culture and if work is done in teams, then some of this potential risk of misalignment of interest can be alleviated, hence making the leader more willing to hire or use contract workers.

A: Excellent, thank you. Now, you've just been through this long journey of your PhD. What's your advice for someone contemplating or about to commence this journey?

S: I think they should do it. If there's a reasonable chance that you would benefit from it and you think you would enjoy the whole journey, I think they should do it. They should do the PhD. What's the worst thing that can happen? So you may enjoy it completely, which is my experience, but if something happens and you don't enjoy it, then if you leave the program you can always embark on a different career path and be able to say that, hey, number 1, you got into a PhD program at Melbourne or somewhere else, which should be a positive, and that you can explain to the people that you are trying to – get them to hire you in terms of why a career in academic wasn't suitable for you. And they might decide that maybe their organisation suits you better. So I think there's very little downside, I guess is what I'm trying to say, and a huge potential upside. For me, the main reason why I enjoyed the program was the level of autonomy and flexibility that was given to us as PhD students. So we could choose for a large part what is the research area that we're interested in, how do you go about solving that research question or research challenge that we've identified? Is it through a survey, is it through experiments, is it through analytical research? We choose to a large extent who we work with, who we get info from, when do we work on it, from where do we work, and these were all very important or really beneficial characteristics of the program for me. Of

course, with lots of autonomy and flexibility then comes the need to be self-motivated. So there are no weekly deadlines, there are no bosses or clients that demand stuff from you. So self-motivation is obviously key. I think another thing to keep in mind with regards to the PhD is that while it typically means a career in academia, if you decide after the PhD to move out to another sector or another industry, a lot of the skills gained from the PhD program will be valued by these organisations outside. The ability to handle data, potentially large sets of data, being able to manipulate it, clean it, get it ready for analysis – and perhaps more importantly being able to find links or connections between pieces of data that didn't seem connected at the start, and then use that connection to help make predictions. I think that's a skill that organisations increasingly want, given that they have now access to lots of data. So that's why I think a PhD is a very attractive and potentially flexible path for one to take.

A: Excellent. Thank you, Sujay. It's been excellent and enlightening to hear more about what you did with the PhD program. It's nice to see you've got a nice set of three papers going forward to work with. It looks like the results are of interest both within the sector and applicable outside of the sector as well that you initially studied in. And so we really appreciate you spending some time with us here at TAPS, so thanks a lot, Sujay.

S: Thank you, Albie, and thanks, Abbey, as well, for having me today.

A: Thank you.