

Managing the Ratcheting Risk in Target Setting in the Nigeria Financial Sector

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Abstract

Target setting and performance measurement are very crucial roles of the managers while harnessing the resources of the organization together to achieve its objectives. Ratchet build-up is a risk and counter productive within organization system due to communication gaps among members hence, it must be well managed. The study was a descriptive research which used the data obtained from 239 staff in the marketing departments of the 15 quoted banks operating in Lagos, Nigeria. It documented that communication with subordinates during target setting has insignificant impact on the expected performance (P - Value = 0.074 which is >0.05). Also, bonus award, job rotation and performance measure have significant impact on the expected performance of the subordinates (P -value = .021, .000 and .003) respectively which is <0.05 . The study established that communication will encourage ratchet build-up when the workforce have the opportunity to discuss and share experiences among themselves to inter-temporal manage their output. However, it has its positive side when an active interaction with the subordinate is allowed. It helped the superior to determine the level of reliance to be placed on past performance of the subordinate to set new targets.

Keywords: Ratchet, Performance measurement, Target setting, communication, job rotation.

Introduction

Target setting is an important step in management as it is required when planning and budgeting. Therefore, managers have the task of getting it right. Setting accurate target is important for resource allocation and coordination. (Locke and Rock, 2002). Targets are often based on past performance. For example, the current year's target is set based on previous year's performance. This is known as Target Ratcheting. Past research suggests that 'forecasts are based on past performance – so people don't over achieve when it will make next year's target so much harder'. (Franco-Santos and Bourne, 2008). This phenomenon is known as the Ratchet effect. This study aims to contribute to the contemporary discuss on the use of past performance as a measure of future target setting leading to the possibility of managers reducing present performance to avoid higher future target.

Various works have been done on target performance resulting in the ratcheting. That is, managers deliberately tend to reduce their work capacity so that next year's target will not be a burden onto them. There are different schools of thoughts on the issue. According to Brown et al. (1994), "a ubiquitous example of the ratchet effect in market economies is the setting of sales target. Having observed that a salesperson's sale this period exceeded the current targets, the principal uses this information about the attainable result and raises next period's sales target. If the principal pays the agent a bonus for achieving or exceeding the target, higher sales this period reduces next period's expected bonus. Consequently, the ratchet creates an incentive for the agent to underperform.

Setting targets based on past performance is seen as a form of de-motivation for managers. Because rewards are based on the achievement of set targets, this means a manager who achieved a target in the previous period and received a bonus could have the bonus reviewed down in the next period if the target was reviewed upwards based on past performance as the target may be difficult to achieve. Setting challenging but achievable targets is important for motivation, performance evaluation and reward purposes (Merchant and Van der Stede 2012). According to Leone and Rock (2002), firms revise their targets upwards when managers exceed prior year's target but do not revise it downwards when managers fail to meet prior year targets.

Target Setting as a motivational tool

Target setting and managerial behavior has been debated over a period of time. Some school of thought believed that setting target based on past performance motivates people and make them work harder. Otley (1999) argues that, from a motivational point of view, the concept of target setting revolves around two central issues: (a) what type of targets, and (b) what process of setting these targets, are likely to maximize the impact on managerial motivation.

Locke and Latham's (1990) *goal-setting theory*, states that specific and difficult targets will enhance individual performance more than "do your best" type of targets. Atkinson (1957, 1974) *achievement motivation theory* proposes that individuals are motivated mainly by performance targets that are set at levels of

intermediate difficulty –neither too high nor too low. Individual motivation (and performance) decreases as the perceived difficulty approaches the very easy (i.e. the individual is certain that s/he will achieve his/her target) or the impossible (i.e. the individual is certain that s/he will fail to achieve his/her target), (Franco-Santos and Bourne, 2008). Vroom's expectancy theory (1964), proposed that if targets are set at a very high level they will diminish motivation and performance as people will perceive a low probability of achieving them.

Allowing managers to participate in target setting could result in improved behavior. Target participation refers to the extent to which managers are allowed the opportunity to influence the targets within the targets setting process (Kenis, 1979). Mia (1989) argues that a participative target setting process has the potential to increase managers' feelings of 'ownership' of the targets, and the personal responsibility they feel to achieve them.

Competition and Ratchet Effect

Some studies have suggested that the ratchet effect is eradicated when there is competition as the agents (managers) have the choice of moving to a different environment if they are not satisfied with their present situation. According to Charness et al. (2008), ratchet behavior is significantly reduced by competition; interestingly, this is true regardless of whether market favour workers or firms.

Theoretical Review of Ratchet Effect Hypothesis

Ratchet effect originated from the soviet economic system. Since the soviet enterprise would penalize good performance by managers by increasing standards for the next quarter, the managers did not exert sufficient effort to improve productivity and were reluctant to institute changes that could radically reduce cost (Milgrom and Roberts, 1992).

Theoretical studies suggest that managerial behavior is affected by target setting leading to the Ratchet Effect. Information revealed by workers could be used against them in subsequent rounds. If they work too hard, tougher quotas were put in place causing a ratchet effect. High type workers hid their type by mimicking low type workers (Cooper et al 1999). Therefore managers tend to work less than their capacity in the present year so that when next year's target is set based on this year's performance, the target is within their capacity and they do not have to over exert themselves.

Theoretically, it is well-understood that targets contingent on past performance lead to withholding of productive effort as managers try to prevent future target increases. This ratchet effect on incentives can be avoided if firms can commit to long-term contracts assuring managers that past performance information will not be used to make future targets more difficult to achieve (Laffont and Tirole 1993).

Weitzman (1980) shows that managerial effort is decreasing in the extent to which targets are based on past performance. However, he assumes an exogenous target revision rule and does not analyze how targets depend on past performance in equilibrium where targets-setting policies anticipate managerial responses. Therefore, it is not clear whether target ratcheting is optimal or whether it is an inefficient practice unlikely to be observed in equilibrium (Indjejikian, Matejka and Schloetzer 2014).

This theoretical review has shown that managers tend to modify their behavior in order to lower future target setting, setting in motion the Ratchet Effect.

Empirical Review of Ratchet Effect Hypothesis

The empirical review focuses on evidence of the relevance of ratchet effect on target setting and managerial behavior. There is empirical evidence that targets ratchet in the sense that exceeding performance target in one period is associated with target increases in the next period (Leone and Rock 2002; Bouwens and Kroos 2011). On the other hand, recent studies suggested that setting target based on previous year's performance does not necessarily affect current year's target and does not result in ratchet effect.

In the research conducted by Mahlendorf et al. (2014), using data collected by annual survey between 2011 and 2014 and 962 firm years of data on performance relative to target and nominal target revisions for next year and by measuring perceived target difficulty or respondent's assessment of the likelihood that next year's target will be achieved. They found that when earning's exceeding target by 100, the next year target increases by 39 on average.

They found that failure to meet an earning's target is not significantly associated with a change in next- year target. They also found that target ratcheting is more pronounced for poorly - performing than for well performing managers. Specifically, when poorly – performing managers exceed their earning's target by 100, next year's target increase by 70 on average.

Mahlendorf et al. (2014) also used real target revisions and found strong evidence that exceeding an earning's target is associated with a decrease in perceived difficulty of the next year's target. They therefore, concluded that good performance in one period is not penalized by next period target that are difficult to achieve.

Target setting and managerial behavior resulting in the ratchet effect started in the soviet era. If the factory

met or exceeded its plan target, the target for subsequent years was increased, thereby reducing current effort incentives for the factory manager (Weitzman, 1980). Managers were often penalized for increased output by planners who claimed they didn't work hard enough in the early periods. These managers therefore decided to reduce their efforts to avoid facing the criticism of shirking in the early period resulting in the ratchet effect. The adverse effects of target ratcheting are the subject of large stream analytical work. (Gibbons and Roberts, 2013).

Leone and Rock (2002), using data on business units target of a U.S manufacturing firm found that good performance relative to target in one period is associated with increases in the next period. Moreover, target revisions downward following a failure to meet a target are significantly smaller than target revisions upwards following good performance. They found that when earnings increases are expected to be transitory, managers use discretionary accruals to reduce earnings and thus avoid target increase.

Aranda et al. (2014), when testing the hypothesis: relative target setting is negatively associated with the following year's target using qualitative and quantitative field data from a large European travel company together with official government data for the industry. Analyzing five years of data obtained from 376 branches of the travel industry in Spain, they found that sales target revisions are strongly associated with prior-year relative to target. Their study also utilized data on peer performance to show that performance relative to peers is also important in target setting. Operationalizing past performance as the difference between actual and budgeted "guided sales" ($[A_{1,t-1}] - [B_{1,t-1}] / B_{1,t-1}$), they predicted a change in budgeted "guided sale" and past performance.

Their conclusion was that well performing-managers experience small target increase on average than poorly performing managers and that target revisions for well performing managers are less sensitive to past favourable performance and more sensitive to past unfavourable performance than those for poorly performing performance. In contrast to previous findings as a result of introducing peer performance, Aranda et al. (2014), found that targets for well-performing managers are commonly revised downwards, while target revisions upward are limited. They suggested that peer performance should be incorporated in further studies of target setting and performance. However, their study is limited to one company and the result cannot be generalized to other setting.

Mahlendorf et al. (2014) demonstrated the effect of target setting on managerial behavior by distinguishing between target increases or decrease as mentioned in prior studies and real target revisions as defined as year to year changes in perceived target difficulty or the likelihood that targets will be achieved. Their aim was to determine whether favourable performance relative to target renders next period's target more or less difficult to achieve. They collected data by means of four waves of survey conducted annually between 2011 to 2014 using survey panels consisting of CFOs and controllers from Austria, Germany and Switzerland. Collecting 962 firm-years of data on performance relative to target and nominal target revisions for next year and obtaining a sub-sample of 338 firm –years where respondents participated in two or more consecutive surveys and provided data on year-to-year changes in perceived target difficulty, Mahlendorf et al. (2014) found that by using a more general autoregressive distributed lag, when earnings exceed target by 100, the next-year target increases by 39 on average and that failure to meet an earnings target is not significantly associated with a change in next-year target. They also found that ratcheting is more pronounced for poorly-performing than for well-performing managers. When poorly-performing managers exceed their earnings target by 100, next year targets increase by 70 on average. This is in agreement with the findings of Aranda et al. (2014). In other word, poorly performing managers are more susceptible to target ratcheting.

However, their study did not fully demonstrate if past performing managers in the previous year became affected by the ratchet effect and reduced their effort in the next year. The knowledge of target setting and managerial behavior and the ratcheting effect could help managers and decision makers find a balance in achieving targets and motivating managers and enhancing their commitment.

Statement of the Problem

Generally, target setting and performance measurement are very crucial to the growth and development of any organization. However, the process of setting these targets and performance measurement is very subjective. In fact, Carmen, Javier and Antonio (2014), submitted that managers use the flexibility associated with the subjectivity of the target setting process to weight peer and individual information differently across different units.

It should be noted that the inability of the managers to determine the maximum capabilities of the subordinates upon which the targets for the future performance will be rated led to their being subjective, thus building-up ratcheting in the process. Most organizations suffer from ratcheting unnoticed simply because they still cover their costs. The fact remains that, the resources provided by these organizations to achieve their present level of performance are, most of the time enough for them to double their bottom line numbers.

The previous literature reviewed revealed the impact of communication, bonus award, job rotation and performance measurement in encouraging the workforce to perform better. However, there has been dearth of

study carried out to show which of these variables can actually best mitigate ratchet build-up among the employees or work force. This study has been designed to bridge the gap in the literature in this area. It intends to investigate the gap, using the data obtained from the marketing department of the quoted commercial banks in Nigeria.

It is the primary function of the staff in the retail banking to source for deposit for the bank aggressively; hence they work with set targets. This study investigated the process of setting these targets and the likely implication of communication between supervisors and subordinates as well as making bonus award process less cumbersome. It also investigated the frequency of job rotation and the impact of applying unique performance measurement on the expected output of the workforce. This might mitigate the risk of ratcheting and in the final analysis, increase the productivity of the subordinates which is the ultimate goal of the organization, hence this study.

Objectives of the Study

The study has been designed to achieve the following objectives:

1. To determine the extent to which communication flows between the managers and the subordinates during target setting, mitigate the noise factor in the expected performance of the subordinates.
2. To determine the extent to which the bonus award attached to target achieved affects the expected performance of the subordinates.
3. To determine the impact of frequency of job rotation on the expected performance of the subordinates.
4. To determine the impact of type of performance measure (unique Vs Common) on the expected performance of the subordinate.

Research Questions

The following research questions have been generated from the set objectives:

1. To what extent does communication flows between managers and the subordinate during target setting mitigate against noise factor in the expected performance of the subordinate?
2. What is the significant impact of bonus award attached to performance achieved above set targets on the expected performance of the subordinate?
3. To what extent does the frequency of job rotation affect the expected performance of the subordinates?
4. How does the option of performance measure (unique/common) affect the expected performance of the subordinate?

Hypotheses

The following hypotheses will guide the study.

H_{01} : Communication flows between the manager and the subordinates during target setting has no significant impact on mitigating the noise factor in the expected performance.

H_{02} : Bonus award to target achieved above set targets has no significant impact on the expected performance of the subordinate.

H_{03} : Frequency of job rotation has no significant impact on the expected performance of the subordinate?

H_{04} : Option of Performance measure applied, has no significant impact on the expected Performance of the subordinate.

Methodology

This study used the descriptive research designed to statistically investigate the significant effect of communication, bonus award, job rotation and performance measure (independent variable X) on the expected performance of the employees in the marketing difference and quoted banks in Lagos State. The communication bonus are taken as independent variables while expected performance are dependent variables (Dependent variable Y).

The data used for the study were obtained primarily from the administration of a purposefully designed questionnaire titled "Managing the Risk of Ratchet Effect in Target Setting and Performance Measurement". The instrument was designed by the researcher on a six-point Likert rating scale which ranged from 6 to 1. It was validated by a team of experts in performance management and management accounting which included a Professor of Management Accounting to certify the integrity of the data generated for the study.

A pilot study was conducted to test and certify the reliability of the data collection instrument through the administration of 30 questionnaires on 3 commercial banks in Lagos. The internal consistency of all the items used to measure the variables gave excellent reliability result of an average Cronbach's Alpha index of 0.898.

The Table A below shows the numbers of staff in the various quoted banks in Nigeria and the estimate of 20% working in the marketing departments in Lagos State. The 20% was arrived at based on Lagos State having the largest concentration of staff in marketing departments.

Table A

No of Staff in the Banks and Estimate of 20% in the Marketing Departments in Lagos State As At 2016

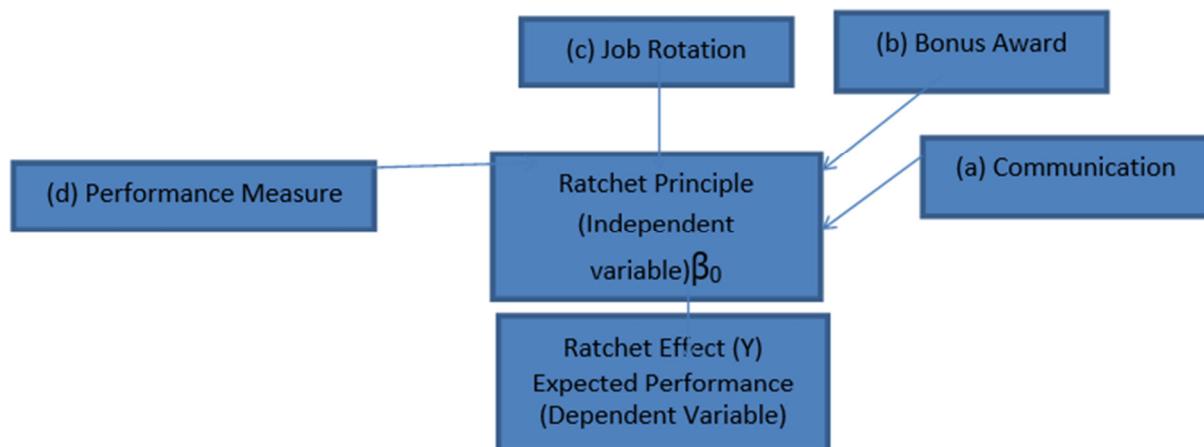
Table 1: Banks in Lagos State, staff population and estimated staff population of marketing department as at 2016.

S/N	Bank	Total No of Staff as at 2016	Estimated Number of staff in marketing departments in Lagos State as at 2016 (20%)	Remark
1.	Wema Bank Plc	1011	202	
2.	Zennith Bank	5970	1194	
3.	Access Bank	2958	592	
4.	Diamond Bank	3555	711	
5.	FCMB	3485	697	
6.	GTB	3349	670	
7.	Fidelity	3358	672	
8.	First Bank Nig. Plc	9043	1808	Estimate
9.	Skye Bank	2768	553	Estimate
10.	UBN	2767	553	
11.	UBA	9374	1875	
12.	ECO Bank	9182	1836	Estimate
13.	Stanbic Bank	2926	585	
14.	Sterling Bank	2261	452	
15.	Unity	1954	391	
Total		63,961	12,791	

Source: Audited Accounts and Reports for 2016

The population of the study was all the staff in the marketing departments of the 15 quoted and licensed commercial banks operating in Lagos State as at 2016, estimated to be 12,791. A sample size of 371 staff of Marketing Department was selected using Yaro Yamane Formula and the research instrument was administered on the while 239 copies (64%) of all the questionnaires were completed and returned about 64% of the Figure 1

Research Model



Source: Researcher's Model 2017.

***Note:**

1. The risk lies in Ratchet Principle (β_0) where:
 β_0 = level of reliance placed on last year actual performance to determine the current year target.
2. β_0 = Last year Actual Performance
 New Year Performance

The significance of the impact of any of the variables (a) to (d) will determine the Effect on the expected performance (Ratchet effect).

Source: Researchers' Model (2017).

Regression Model

Y	=	f(X)
Y	=	Ratchet Effect (Dependent variable-Performance Outcome)
X	=	Ratchet Principles (Independent variable)
Y	=	f(a + b + c + d)
Y	=	$\beta_0 + \beta_0 (A + B + C + D) + \mu$
Y	=	$\beta_0 + \beta_1 a + \beta_2 b + \beta_3 c + \beta_4 d + \mu$
Where:	Y	Dependent variable (Performance Outcome)
	X	Independent variable (Ratchet principles)
a,b,c,d	=	These are factors that may have significant impact on the independent variable (X). They are to be tested in the research.
	a	= Communication
	b	= Bonus Award
	c	= Job Rotation
	d	= Performance Measure
β_0	=	The risk element which is the level of reliance on the previous year's actual performance to determine the current year's target.
$\beta_1 - \beta_4$	=	Coefficient of variables a – d i.e. the risk element of the variables.
μ	=	Error term.

Data Presentation and Analysis

Descriptive statistics

Table 1
Descriptive Statistics

	Mean	Standard Deviation	N	Actual SD	Level of Distribution from the mean	Remark
Expected Performance of the workers	4.9902	.54116	239	9.221	90.7	Slightly below normal distribution
Communication	5.2301	.62364	239	8.386	91.6	Slightly below normal distribution
Bonus Award	49.4059	17.4912	239	2.824	97.2	Within normal distribution
Job Rotation	4.8271	.77111	239	6.260	93.7	Within normal distribution
Performance Measurement	4.7852	.95725	239	4.100	95.9	Within normal distribution

Researchers Computation 2017

The observations in table 1 above, revealed that the data distributions slightly fell below normal distribution of about 96% with a standard deviation range of ± 2 deviation from the mean for expected performance of the workers and communication. Thus suggesting that, expected performance of the workers and communication are not as variable as Bonus Award, Job rotation and performance measurement.

Table 2
Correlation

		Expected Performance of Workers	Communication	Bonus Award	Job Rotation	Performance Measurement
Pearson Correlation	Expected Performance	1.00	.236	.287	.395	.365
	Communication	.236	1.000	.358	.221	.063
	Bonus Award	.287	.358	1.000	.140	.307
	Job Rotation	.395.	.221	1.140	1.000	.429
	Performance Measurement	.365	.063	.307	.429	1.000
Sig. (i-tailed)	Expected Performance of Workers		.000	.000	.000	.000
	Communication	.000		.000	.000	.167
	Bonus Award	.000	.000		.015	.000
	Job Rotation	.000	.000	.015		.000
	Performance Measurement	.000	.167	.000	.000	
N	Expected Performance of Workers	239	239	239	239	239
	Communication	239	239	239	239	239
	Bonus Award	239	239	239	239	239
	Job Rotation	239	239	239	239	239
	Performance Measurement	239	239	239	239	239

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The observations in table 2 above, indicated a positive linear correlation between the independent variables (communication, bonus award, Job rotation and performance measurement) and dependent variables i.e Expected performance of workers. There is a positive correlation (.236) between communication and expected performance of the workers which is significant ($P<.005$). This means that, the higher the level of communication allowed between the subordinates and their supervisors during target setting, the higher the expected performance of the work force generally.

Also, the observation reveals that, there is a positive correlation between bonus award (.287), job rotation (.395), performance measurement (.365) and expected performance. These positive correlation coefficients have indicated a statistically significant ($P<.005$) linear relationships between these variables. This means that the higher the bonus award that is tied to target achievement, frequency of job rotation and uniqueness of choice of performance measure among the employees, the higher the expected performance of the workers.

Test of Hypotheses

Table 3
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F change	df1	df2	Sig.F change
1	.496	.240	.233	.47389	.246	19.091	4	234	.000

a. Predictors: (Constant), Performance Measurement, Communication, Bonus Award, Job Rotation

Researchers Computation 2017

The above table 3 revealed that, there was a linear positive correlation of .496 between the independent variables. The R square value which indicated how much of the total variation in the dependent variable can be explained by the independent variable revealed that 24% of the observed variations in the expected performance of the workers (dependent variable) can be explained by the independent variables of communication, Bonus Award, Job rotation and performance measurement of the workers. The Adjusted R square value of .233 indicated that about 23.3% of the variability of expected performance of the workers is accounted for by the model, even after

taking into account the number of predictor variable in the model. However, the P-value of the overall model with F – change of .000 shows the model is statistically significant at $P < .005$.

Table 4

anova

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	17.149	4	4.287	19.091	.000 ^a
Residual	52.550	234	.225		
Total	69.699	238			

- a. Predictors: (Constant) Performance measurement, Communication, Bonus Award, Job Rotation.
- b. Dependent Variables: Expected performance of the workers.

Researchers Computation 2017

Table 4 above indicated that the model is statistically significant since P-value = .000 which is less than .005.

Table 5
Coefficients^a

Model	Unstandardized Coefficients		Beta	t	Sig.
	B	Standard Error			
(Constant)	2.821	.310	-	9.103	.000
Communication	.097	.054	1.2	1.795	.074
Bonus Award	.005	.002	.149	2.321	.021
Job Rotation	.186	.045	.265	4.101	.000
Performance Measurement	.112	.037	.198	3.005	.003

A Dependent Variable: Expected Performance of the works.

Source: SPSS Verse. 17

From the above table 5, the results of the test of hypotheses revealed the followings:

Test of Hypothesis 1

The result revealed that communication with subordinate during target setting has significant impact on mitigating the noise factor in the expected performance. P-value = .074 which is higher than P – value of .005. The null hypothesis was rejected while the alternative hypothesis was accepted.

This result corroborated the conclusion of Leon and Rock (2002), in their study on empirical tests of budget ratcheting and its effects on managers' discretionary accrual choices. They established that if an active interaction between voice and explanation is allowed in the target setting process, subordinates can help their superior to discern the level of reliance to be placed on the previous year's performance while setting the target for the future. This stresses the importance of communication above most other variables in setting target and mitigating the risk of ratcheting.

It is possible for a worker to easily attain its set target based on the unusual circumstances which have direct unsustained overbearing influence on the work environment. Such event is referred to as a noise factor which can only be eliminated through interaction or communication with the worker during target setting. Of course, communication has its negative side, it can allow ratchet build-up among the workers as evidenced from the study of Bellemare and Sheaver (2014). They reported that workers withheld more output on the second and third days of planting as they had a better opportunity to communicate with each other after the first planting day, thereby cooperating to build-up ratchet effect.

This reveals that success can only be made out of the set targets when workers contribute fairly to setting such targets. In fact, this is in line with the submission of Ahn and Merchant (2010), that a fair target setting should have voice and explanation Components. While voice is the contribution of the subordinate, explanation is the reason given, by the supervisor for his action.

Test of Hypothesis 2

The result revealed that bonus award to target achievement has no significant impact on the expected performance of the subordinates. P-value = .021 which is less than P-value of .005 thus indicating the acceptance of the null hypothesis. This result negates the submission of Murphy (2001), that by recognizing managers that met their targets, they are in a way being given incentives to achieve more in a more competitive environment.

Of course, it should be noted at this point that any incentive in the form of bonus award to be attached to target achievement must be discussed and agreed to by all the parties involved during target setting including the process of awarding such incentive. This is the only way that such bonus award can have meaningful effect on target setting.

In fact, Kim and Merchant (2012), stated that the weight attached to a performance measure to obtain such

bonus might be too high and not encouraging to the work force thus leading to ratcheting. However, this would have been streamlined and agreed at the beginning of target setting process by all parties, which emphasizes the importance of communication in target setting.

Test of Hypothesis 3

The result revealed that, frequency of Job rotation has no significant impact on the expected performance of the subordinates. P-value =.000 which is less than P-value of .005 thus indicating the acceptance of the null hypothesis.

The result supported the submission of researchers like, Burke and More (2000), Ickes and Samuelson (1987) and Campion, Cheraskin and Stevens (1994), that job rotation can lead to productivity loss since transferring individuals to new jobs sacrifices job-specific human capital. This suggests that job rotation if not properly managed may not have positive impact on the expected performance of the work force and can be counterproductive.

Test of Hypothesis 4

The result revealed that making performance measure unique to the workforce has no significant impact on the expected performance of the workers, P-value =.003 which is less than P-value of .005 thus indicating acceptance of the null hypothesis.

It is an obvious fact that, employee's performance varies with his capability and knowledge of the job which ordinarily should have significant impact on the expected performance. Hence, Kim and Merchant (2012) submitted that target achieving and target setting behaviour should vary with the type of performance measures. This submission has not really supported the finding from the research as the decision of the employee to engage in ratcheting or not is based on the level of his involvement in setting the target that will affect him.

Conclusion and Recommendations

The study recognizes that ratcheting is a risk to target setting as most organizations that are doing well might perform higher if their Management is proactive about managing the risk of ratcheting within the organization. The study revealed the relative importance of communication, bonus award, job rotation and performance measure in mitigating ratcheting among the work force. However, among the four factors, only communication with subordinates during target setting has significant impact on preventing the risk of ratcheting.

In fact, communication either in the form of dialogue or interaction during target setting among all the parties involved, provides avenue for the managers to get feed-back from the subordinate who helps out in the management decision making. It is important that employees are involved in setting the targets that will affect them through communication, for the organization to mitigate the risk of ratcheting and perform maximally. The risk is ravaging most organizations and they are oblivious to this fact since they are covering their costs and returning profits not recognizing that the resources provided to attain such level of performance was enough to double their numbers.

The study recommends that targets should not be slammed on the subordinates or workforce rather, they should be involved through communication which according to Ahn et al (2010), the voice of the subordinate in the target setting and explanation of the managers for their actions are important mitigants of ratcheting in target achievement.

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