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Abstract

This study examines the causes of leniency bias in managers' downward bonus adjustments following employee misconduct. While previous research attributes such leniency to unconscious halo effects, this study investigates whether managers intentionally make lenient evaluations to avoid confrontation costs. Using an online experiment with 150 participants acting as managers, we manipulated employees' objective performance (high vs. low) and measured perceived confrontation costs. The results showed that the higher the employees' performance, the greater the perceived confrontation costs, leading to more lenient reductions in their bonuses. These findings suggest that leniency bias is driven not only by unconscious cognitive biases but also by managers' intentional motivation to avoid conflict with high performers. Our findings expand prior research and can help firms implement compensation schemes that foster compliant employee behavior.

Keywords: Subjectivity, Downward Adjustment, Leniency Bias, Experiment, Confrontation Costs

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1. Introduction

Subjective performance evaluations play a key role in modern compensation systems, allowing managers to respond flexibly to employee behavior. In particular, downward bonus adjustments are important because they enable managers to address employees' unethical behavior, serving as a key compliance mechanism within these systems[1] . However, since such adjustments are based on individual impressions, they may lack accuracy, which is a significant issue that undermines their effectiveness.

Related to this issue, Maske et al. (2021) demonstrated that downward adjustments to the bonuses of employees who engage in unethical behavior tend to depend on their prior objective performance, resulting in more lenient evaluations for high-performing employees. They attributed this leniency bias to an unconscious halo effect. However, it remains unclear whether managers also intentionally adjust evaluations to serve their own interests or maintain relationships with employees. This distinction is crucial because if leniency stems not only from unconscious biases but also from strategic motives, it implies that subjective evaluations may systematically reflect managerial self-interest rather than purely performance-related considerations. Therefore, this study aims to examine whether managers' leniency in downward bonus adjustments is driven by an intentional desire to avoid confrontation costs with employees, such as resistance or deterioration of workplace relationships.

We conducted an online experiment in which participants assumed the role of managers and performed a task requiring the downward adjustment of bonuses for an employee who had engaged in unethical behavior. Using a 2×1 between-subjects design, we manipulated the employee's objective performance (high vs. low) and compared the degree of downward bonus adjustment across conditions. Furthermore, in the post-experimental questionnaire, we measured confrontation costs and examined whether they mediated the association between objective performance and the downward adjustment of bonuses for unethical behavior.

The mediation analysis revealed that confrontation costs mediated this association. Specifically, when employees' objective performance was high, managers' perceptions of confrontation costs increased, which in turn resulted in more lenient downward bonus adjustments. These findings provide new evidence that the perception of confrontation costs is a key factor underlying leniency bias.

This study makes three contributions. First, it extends prior accounting research demonstrating

[1] For example, at Mercedes-Benz Group, managers are permitted to retroactively reduce employees' bonuses as a response to compliance violations. Managers can decide whether to adjust bonuses—which are originally determined in advance based on financial objective targets—and to what extent, based on their subjective evaluations (Daimler, 2019).

that objective performance in one area can influence subjective performance evaluations in unrelated areas (e.g., Bol and Smith, 2011; Fehrenbacher et al., 2018). In particular, this study showed that when employees engage in unethical behavior, there is a tendency for the downward adjustment of their bonuses to be lenient if they have high objective performance. This finding has practical implications for organizations considering the introduction of compensation systems that allow for managers' ex-post bonus adjustments.

Second, this study is the first in the literature on subjective performance evaluation to measure confrontation costs using a psychological scale. While previous studies have highlighted the importance of confrontation costs (Bol et al., 2016), they have only measured them indirectly, such as by using hierarchical distance between supervisors and subordinates as a proxy (Bol et al., 2010; Du et al., 2012). By employing a questionnaire to measure confrontation costs more directly, this study makes a significant contribution to the existing literature.

Third, this study contributes to both the practice and the literature on clawback provisions. While the adoption of clawback provisions—systems that allow companies to reclaim previously awarded compensation in cases of executive misconduct or ethical violations—has increased in recent years, their actual enforcement remains rare and often opaque. This study highlights a potential risk in the implementation of clawback provisions: supervisors may hesitate to impose a penalty in order to avoid confrontation costs. By revealing this risk of unintended leniency, the study offers important insights for the design and implementation of more effective clawback mechanisms.

2. Hypothesis

Maske et al. (2021) demonstrated that the downward adjustment of bonuses for employees who engage in compliance violations tends to depend on the employee's prior objective performance, with high performers receiving more lenient evaluations. They attributed this leniency bias to the halo effect, an unconscious cognitive bias.

However, subjective performance evaluations may also involve intentional judgments by supervisors, such as considerations of self-interest or concerns about interpersonal relationships. For example, managers want to retain competent employees as valuable members of their teams; thus, they will want to avoid conflict with them. Therefore, we examine how leniency bias arises not only from the halo effect but also from managers' intentional attempts to avoid the confrontation costs associated with giving negative evaluations.

Confrontation costs refer to the psychological and political burdens borne by supervisors when providing negative feedback, including risks such as deteriorating relationships with employees, loss of trust, or backlash against the supervisor (Bol et al., 2016; Harris, 1994). While subjective performance evaluations are intended to provide flexible reward systems that fairly assess indi-

vidual effort and situational differences (Bol, 2008), the presence of confrontation costs may compromise the fairness and accuracy of these evaluations (Prendergast and Topel, 1993).

Importantly, confrontation costs are likely to be more salient when managers evaluate high-performing employees. Psychological research suggests that employees with higher status are more likely to challenge negative evaluations or resist supervisory authority (Anderson et al., 2001; Rahim, 1986). In addition, managers have an incentive to retain high performers as valuable members of their team, which further strengthens their motivation to avoid confrontation. In fact, previous research has observed that in subjective goal setting, managers tend to assign easier goals to high performers and more demanding goals to low performers (Bol et al., 2010).

Given this background, it is plausible that in situations involving subjective downward bonus adjustments—an archetypal form of negative feedback—managers may intentionally exercise leniency to avoid confrontation costs. This mechanism is consistent with evidence that when organizations link appraisals to consequential personnel decisions (e.g., pay, promotion, reductions in force), raters perceive greater importance and, in turn, higher performance appraisal discomfort (PAD) (Smith et al., 2000). From a resource-dependence perspective (Pfeffer and Salancik, 1978), high-performing subordinates are valuable resources whose retention and relationship maintenance are strategically important; thus, delivering negative feedback to such subordinates further heightens the perceived importance of the appraisal interaction and increases the manager's perceived confrontation costs[2]. Accordingly, we propose the following hypothesis:

Hypothesis: The employee's high objective performance negatively affects the extent of downward bonus adjustment, mediated by the manager's perceived confrontation costs.

3. Experimental Design

We used Prolific (https://www.prolific.co/)[3] to recruit participants and conducted the experiment using oTree (Chen et al., 2016). Because the experimental task required making decisions about subordinate performance evaluations, participants were recruited only from individuals with company work experience and current or prior managerial experience supervising subordinates.

Participants read the scenario and played the role of managers at a manufacturing company (see

2 In this study, 'perceived confrontation costs' denotes the interpersonal and political burden specific to negative/corrective feedback situations. It is not identical to PAD; rather, it corresponds to a confrontation-related facet within the broader construct of PAD (Smith et al., 2000). We therefore treat perceived confrontation costs as a scenario-specific operationalization of PAD's confrontation-related domain.

3 Prolific is an online participant recruitment and management platform specifically designed for academic research, and it is widely used in fields such as psychology, economics, management, and the behavioral sciences. Using Prolific's participant screening function, researchers can recruit only those participants who meet specified criteria (e.g., age, gender, nationality, or work experience).

Appendix 1 for experimental instructions). In the scenario, participants were assigned the task of determining bonus amounts for an employee who had committed a compliance violation. The process of determining bonus amounts consists of two stages. In the first stage, participants determined their employees' bonus amounts within a range of $0–15,000 based on objective performance indicators. In the second stage, participants were allowed to reduce the bonus amount they had determined in the first stage by up to 50% in response to the employee's compliance violation.

We conducted a 2×1 (high performance condition / low performance condition) between-subjects experiment. Specifically, we manipulated only the objective performance of employees presented in the first stage. As shown in Table 1, in the "high performance condition," employees' objective performance significantly exceeded the target values (on average by 20%), while in the "low performance condition," employees' objective performance significantly fell below the target values (on average by 50%). Using this manipulation, we examine whether differences in the objective performance of employees who committed a compliance violation affect the extent of managers' subsequent downward bonus adjustments.

Table 1. Objective Performance Indicators Presented to Experiment Participants

Objective performance criteria	Predetermined target value for the year under consideration	Actual value achieved at the end of the year under consideration	Degree of achievement
Sales Volume	1.5 Mil. $	1.86 Mil. $ **0.72 Mil. $**	124% **48%**
EBIT	0.5 Mil. $	0.58 Mil. $ **0.26 Mil. $**	116% **52%**
Market Share	25%	30% **12.5%**	120% **50%**

Note: This shows the objective performance indicators of employees in the first stage of the experimental task. Low performance conditions are indicated in bold.

The items measured in the post-experiment questionnaire were as follows. Perceived confrontation costs were measured using five items selected from the 20-item Performance Appraisal Discomfort Scale (Smith et al., 2000) that directly capture confrontation situations and were adapted to the study vignette by naming the focal subordinate (Berger); responses used a 1 ("not at all uncomfortable") to 5 ("very uncomfortable") scale, and reliability was acceptable (Cronbach's α = 0.82; see Appendix 2). This approach does not employ the full PAD instrument; rather, it extracts the confrontation-related facet to operationalize "perceived confrontation costs" in a scenario-specific manner. In addition, as manipulation checks, perceptions of employees' work performance and business skills were measured (Cronbach's α = 0.87; see Appendix 3).

A total of 150 participants took part in the experiment. Their average age was 34.82 years (SD

= 9.77), with 49.3% being female. They had an average of 13.21 years of work experience (SD = 9.11). The experiment took approximately 12 minutes to complete, and participants received a fixed payment of £1.95.

4. Results

4.1. Descriptive Statistics and Manipulation Checks

Descriptive statistics are shown in Table 2. The downward adjustment margin for bonus amounts was calculated as 1 − (final bonus amount / preliminary bonus amount) × 100%.

Next, we conducted a manipulation check using scales measuring participants' perceptions of their employees' job performance and business skills, as measured in a post-experiment questionnaire (see Appendix 3). The average scores for each condition were 3.96 in the high performance condition and 2.52 in the low performance condition ($t = -10.601$, $p < 0.01$). In other words, participants in the high performance condition perceived their subordinate (Mr. Berger) as more competent than did participants in the low performance condition. Therefore, the manipulation check was successful.

Table 2. Descriptive Statistics

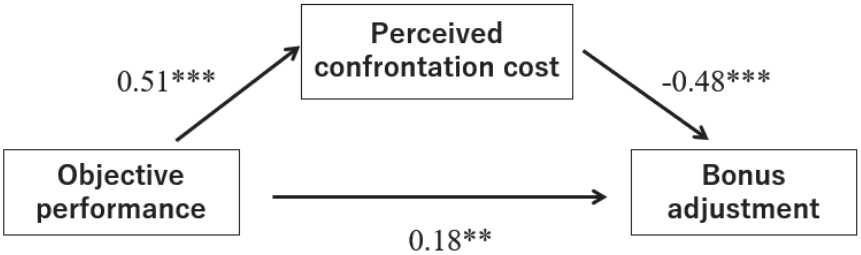
	N	Preliminary bonus Mean (sd)	Final bonus Mean (sd)	Bonus adjustment Mean (sd)	Perceived confrontation costs Mean (sd)
High Performance Condition	75	11,907 (4,242)	8,660 (3,868)	26.45% (20.99)	3.48 (0.76)
Low Performance Condition	73	6,776 (2,613)	4,803 (2,170)	29.00% (19.98)	2.61 (0.74)
Total	148	9,376 (4,362)	6,758 (3,686)	27.70% (20.47)	3.05 (0.86)

Note: The numbers indicate the average values, and the numbers in () indicate the standard deviations.

4.2. Hypothesis Test

The results of the path analysis indicate that high performance increases the perception of confrontation costs (standardized coefficient = 0.51; $p < 0.01$) and that the perception of confrontation costs lowers the downward adjustment of bonus amounts (standardized coefficient = −0.48; $p < 0.01$) (see Figure 1). Furthermore, to confirm the significance of indirect effects, we conducted a verification using the bootstrap method proposed by Preacher and Hayes (2004). The results showed that the 95% confidence interval based on bootstrap samples (sample size = 2000, sample generation method: nonparametric, confidence interval estimation method: bias-corrected method) did not include zero (95% CI = [−15.1, −5.78]), indicating the significance of the indirect effect of the perception of confrontation costs. Therefore, the hypothesis was supported.

Figure 1. Hypothesis Test (Results of Path Analysis)



Indirect Effect = -0.24, 95% CI = [-15.1, -5.78]

Note: The numbers indicate standardization coefficients. Objective performance is coded using dummy variables, with high performance conditions coded as 1 and low performance conditions coded as 0. The variable for perceived confrontation costs is measured using a scale that integrates the five questions shown in Appendix 2.** $p<.05$,*** $p<.01$.

5. Conclusion

This study examined the causes of leniency bias when making subjective downward adjustments to bonus amounts. The experimental results showed that employees' high objective performance increases managers' perceptions of confrontation costs involved in adjusting bonuses downward, which in turn leads to more lenient adjustments. This suggests that evaluators may intentionally make their evaluations more lenient in order to avoid confrontation, taking into account their relationships with the individuals they are evaluating. This is a novel finding that has not been discussed in previous research on factors contributing to leniency bias in downward bonus adjustments.

This study indicates three future research based on the limitation. First, because the participant screening function is based solely on self-reported information, there are inherent limitations associated with the research platform. In addition, in this study we did not collect demographic information beyond age, gender, and years of work experience, as we focused on variables directly relevant to our hypothesis. Therefore, future research should enhance the generalizability of the present findings by conducting experiments on different research platforms and replications with participants who have diverse attributes (e.g., years of managerial experience, organizational position). Second, this study has a limitation concerning the scenario. Since the experiment focused on a specific type of misconduct, it is uncertain whether the findings generalize to other forms of misconduct (e.g., accounting scandals). Thus, additional research is required to address this issue. Third, this study looked at why leniency bias occurs when bonuses are reduced, but it did not explore how to prevent it. Finding effective ways to address this bias is a remaining issue for future research.

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