

Online Appendix

Appendix 1. Experimental Instructions (High Performance Condition)

The following are the instructions used in the experiment.

Preliminary bonus determination (first stage)

Please read carefully the following scenario.

You are a manager of the owner-managed company Textilum, which manufactures and sells medical apparel. On account of its good corporate strategy and great effort, Textilum was able to establish itself as a market leader in a highly competitive market environment. Parts of the corporate strategy are the permanent pursuit of high efficiency, high investments in innovation and marketing campaigns, as well as the conscientious and individual care of customer relations. In addition, great importance is attached to responsible corporate management and correct behavior of executives and employees.

As the head of Textilum's sales division, you are the supervisor of several area managers. With their teams, the area managers are responsible for sales and customer relationship management in their assigned region. Your own direct superior is the owner of Textilum. Among other things, your duties include the determining of your employees' bonuses. On the one hand, an area manager's bonus depends on his/her objective performance in the period considered. Therefore, you set target values for selected key performance indicators for the area managers, at the beginning of the economic period, which are to be achieved by the end of the year.

In the case of a (over) fulfillment of the set targets, the area managers are credited with 100% of the maximum possible bonus amount. In the event of non-fulfillment, the potential bonus will be proportionally reduced. The target attainment levels of the objectively measurable key figures are calculated by the controlling department and delivered to you (see table below). The three target values are equally weighted for determining the objective bonus amount.

In order to reflect the aspects of good and responsible corporate governance in the remuneration system, there is a second bonus component that depends on your discretion. This means, if your area manager did not act compliant or responsible, you can reduce his/her

objective preliminary bonus amount, by up to 50%. This rule is known to you and all area managers at the beginning of the considered period.

You yourself do not have to disclose or justify your bonus decision made and take no position. Now you have to finalize the bonus decision for your subordinate area manager **Werner Berger**. He received about \$ 100,000 gross fixed salary in the financial year under review. The controlling department provided you the following table with information about Mr. Berger's degree of target achievement:

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. \$	124%
EBIT	0.5 Mil. \$	0.58 Mil. \$	116%
Market Share	25%	30%	120%

NOTE: The table shows that Mr. Berger has clearly exceeded the targets set very ambitious at the beginning of the year.

Now determine a preliminary bonus amount based on these objective criteria. The maximum possible bonus amount is \$ 15,000 gross.

Final bonus determination (second stage)

In the next step, you should now assess the responsible and compliant behavior of Werner Berger. Under the responsibility of Werner Berger, an extension of a Textilum office building was started in his area during the past business year. As part of responsible corporate governance, Textilum has a compliance policy for the allocation of investment projects. This rule states that for every major investment, at least three offers from different companies must be obtained before a decision on the allocation of the contract is made. It is known to you that Mr. Berger has awarded the construction contract –with good conditions for Textilum– to the company Herold. He has not obtained any other offers from other companies. The contractor Herold is led by Klaus Berger, the brother of the area manager Werner Berger. Although this connection is known to you, the information does not reach either the management or the employees of Textilum or the public.

Please set the final bonus amount for Werner Berger. You can reduce the preliminary bonus amount based on objective criteria that you set in the first step by up to 50%. The amount may not be raised. What is the final bonus that will be paid to Werner Berger?

Appendix 2. Questions for measuring confrontation costs

1	Asking Berger if he has any comments about your ratings of his performance
2	Responding to Berger who is upset over your rating of his performance.
3	Letting Berger give his point of view regarding a problem with performance.
4	Conducting a formal appraisal interview with Berger.
5	Berger's accusing you of playing favorites in the rating of your staff.

Note: Mr. Berger is the name of the subordinate who is the area manager in the scenario. All questions are measured on a 1 to 5 Likert scale (1 = not at all uncomfortable, 5 = very uncomfortable; Cronbach's $\alpha = 0.82$).

Appendix 3. Questions for measuring manipulation check

Please think now of Mr. Werner Berger and state to what extent you ascribe the following characteristics to him on a scale from 1 - 5 (1 = 'strongly disagree'; 5 = 'strongly agree').

1	Werner Berger is professionally competent
2	Werner Berger brings the company financially forward
3	Werner Berger has good business skills

Note: Cronbach's $\alpha = 0.87$.