

Employee Incentive Programs: Do Individual Differences and Trust in Management Influence their Effectiveness?

Allan Francis Bull

BA (Psych) Hons

A thesis submitted in partial fulfilment of the requirements for the degree of
Doctor of Philosophy



Division of Linguistics and Psychology

Macquarie University

June 2003

I hereby declare that this submission is my own work and that to the best of my knowledge it contains no material previously published or written by another person, nor material which has been accepted for the award of another degree or diploma at a university or institute of higher learning, except where due acknowledgement is made in the text.

Allan F. Bull

Acknowledgments

Without the encouragement, suggestions and support of many people too numerous to mention here, it would not have been possible for me to complete this thesis. However, I would like to acknowledge the late Associate Professor John Antill, my first supervisor, friend and supporter, who encouraged me to start down the path toward undertaking my PhD program. Then, to the supervisor who took John's place, after his untimely death, Dr Julie Fitness, and my founding supervisor, Associate Professor Graeme Russell, simply saying thank you is not enough to compensate for their generous gifts of time and cooperation at all stages of my research and for their prompt and vital feedback to my various drafts.

Thanks also go to Dr Alan Taylor and Dr David Cairns for their much valued support with my statistics.

Finally I would not be at the finishing line were it not for my loving wife, Janice, who gave me moral support during the inevitable times of frustration, generously lent her time and skills to much needed proofreading and acted as a sounding board for many of my less than clear trains of thought.

Table of Contents

<i>Abstract.....</i>	<i>viii</i>
<i>Chapter 1: Introduction and Overview of the Thesis</i>	<i>1</i>
Outline of the Thesis Chapters.....	7
Introduction to the Literature Review	10
<i>Chapter 2: The History and Theory of Labour and Capital Relations, Remuneration Systems and Flexible Work Practices</i>	<i>12</i>
<i>Chapter 3: The Role of Individual Differences and Contextual Factors in Employee Responses to Rewards.....</i>	<i>38</i>
<i>Chapter 4: The Methodology Employed to Measure Employee Motivation and Self-Assessed Performance.....</i>	<i>54</i>
<i>Chapter 5: Study One: Personality and Work Motivation: A Replication and Extension of Furnham, Forde and Ferrari (1999).</i>	<i>70</i>
Method	76
Results	81
Discussion.....	92
<i>Chapter 6: Study Two: Incentives and the Circumstances Under which they are Rewarding to Employees.....</i>	<i>97</i>
Method	110
Results	115
Discussion.....	129
<i>Chapter 7: Study Three: Going the extra mile: The role of Trust in Management</i>	<i>134</i>
Method	147
Results	153
Discussion.....	157
<i>Chapter 8: Study Four: How do I trust thee, let me count the ways: A test of the multidimensionality of trust.....</i>	<i>162</i>
Method	166
Results	170
Discussion.....	177
<i>Chapter 9: Study Five: Are the Effects of Incentive Rewards on Self-Assessed Performance Mediated by Trust in Management and Management Style?</i>	<i>180</i>
Method	190
Results	197

Discussion.....	208
<i>Chapter 10 General Summary and Conclusions</i>	<i>213</i>
<i>References</i>	<i>226</i>
<i>Appendix A Thesis Scales, Variables and Questions.....</i>	<i>245</i>

List of tables

Table 1 Means Modes and Standard Deviations of Continuous Demographic Variables	77
Table 2 Frequencies and Percentages of Demographic Variables.....	77
Table 3 18 Items Selected by Furnham et al (1999) to Represent Herzberg's Two Factors	79
Table 4 Range, Means and Standard Deviations of Study Variables	81
Table 5 Zero Order Correlations (Pearson, Two-Tailed).....	81
Table 6 Correlation Coefficients Between Personality Dimensions and Herzberg's Factors.....	82
Table 7 Regression Analyses with Herzberg's Two Factors as DVs and the Big-Five Personality Factors as IVs	85
Table 8 Factor Analysis of 18 WVQ Questions, with Loadings.....	87
Table 9 Factors with Eigen Values Greater than One.....	88
Table 10 A Two Factor Forced Solution.....	89
Table 11 Correlation Coefficients between the Big-Five Personality Dimensions and Intrinsic and Extrinsic Motivation	90
Table 12 Regression Analyses with Amabile's Intrinsic and Extrinsic Motivation as DVs	92
Table 13 Means, Medians, Modes and Standard Deviations of Continuous Demographic Variables	110
Table 14 Frequencies and Percentages of Demographic Variables.....	111
Table 15 Range, Means, Standard Deviations and Cronbach Alphas of Study Variables	115
Table 16 Zero Order Correlations (Pearson, Two-Tailed).....	116
Table 17 Average Estimated Mean Ratings of Incentive Type (within subject factor) by Between- Subject Factors	118
Table 18 Summary of Between-Subject Effects.....	128
Table 19 Summary of Hypotheses for Chapter 7	147
Table 20 Frequencies and Percentages of Demographic Variables.....	148
Table 21 Range, Means and Standard Deviations of Study Variables	154
Table 22 Zero Order Correlations (Pearson, Two-Tailed).....	154
Table 23 Summary of Nine hypotheses Tested in this Study	157
Table 24 Means, Medians, Modes and Standard Deviations of Continuous Demographic Variables	167
Table 25 Frequencies and Percentages of Demographic Variables.....	168
Table 26 Range, Means and Standard Deviations of Study Variables	170
Table 27 Zero Order Correlations (Pearson, Two-Tailed).....	170
Table 28 Two Factor Varimax Rotated Solution for Trust and Distrust.....	172
Table 29 Summary of Regression Analyses for Variables Predicting Motivation	174
Table 30 Summary of Regression Analyses for Performance Indicators (SAP, OCB and DWE).....	174
Table 31 Summary of Regression Analyses for Variables Performance Indicators (job satisfaction, intent to leave and affective commitment).....	176
Table 32 Means, Medians, Modes and Standard Deviations of Continuous Demographic Variables	191
Table 33 Frequencies and Percentages of Demographic Variables.....	191
Table 34 Range, Means and Standard Deviations of Study Variables	197
Table 35 Zero Order Correlations (Pearson, Two-Tailed).....	199
Table 36 Hypothesis 1, Test Results for the Mediating Effect of Trust in Management between Incentives and Performance Indicators.....	204

Table 37 Hypothesis 2, Test Results for the Mediating Effect of Distrust in Management between Incentives and Performance Indicators.....	205
Table 38 Hypothesis 3, Test Results for the Mediating Effect of Transactional Management Style between Incentives and Performance Indicators	206
Table 39 Hypothesis 4, Test Results for the Mediating Effect of Transformational Management Style between Incentives and Performance Indicators	207

List of figures

Figure 1 Organisational Performance Model.....	11
Figure 2 Location of DWE within the Domain of OCB.....	68
Figure 3 Estimated Marginal Mean Ratings of Incentives by Age Group.....	120
Figure 4 Estimated Marginal Mean Ratings of Incentives by Extraversion	121
Figure 5 Estimated Marginal Mean Ratings of Incentives by Intellectual Openness	123
Figure 6 Estimated Marginal Mean Ratings of Incentives by Self-Efficacy	124
Figure 7 Estimated Marginal Mean Ratings of Incentives by Management Level	126
Figure 8 Proposed mediating model.....	187
Figure 9 Generic Model Used to Test the Mediating Effect on Trust in Management and Management Style	200

Abstract

Researchers into the effectiveness of incentive programs continue to report mixed results in employee performance following the implementation of these reward systems (Jenkins, Mitra, Gupta, & Shaw, 1998). In an endeavour to account for this range of outcomes, the studies in this thesis examine relationships between incentive rewards, employee individual differences and contextual influences, such as trust in management, as possible sources of additional variance.

The thesis begins with a review of labour and capital relationships and the history and theory of compensation systems. The background of incentive and benefit systems and their theorised roles as employee motivators and productivity enhancers are then discussed. It is argued that despite their almost universal acceptance in industry as productivity enhancers, there is conflicting evidence as to the practical usefulness of incentive systems. Many researchers report inconsistent results regarding their performance with some finding they increase employee performance and others finding that they have the opposite effect. The basic argument of this thesis is that much of the variance observed following the implementation of incentive programs is a function of employee individual differences and contextual factors, which together either augment or detract from the effectiveness of incentive programs.

The first study reported is a replication and extension of Furnham, Forde and Ferrari's (1999) work which hypothesised that people with different personality traits will react differently to different workplace motivators. A large sample of 942 supervisors, managers and professionals completed measures based on Herzberg's two factor theory (i.e., motivator and hygiene), intrinsic and extrinsic motivation

orientations (the theorised equivalents of Herzberg's two factors), and the Big-Five personality dimensions. Results supported Furnham et al's (1999) hypothesis that personality does influence motivation orientation and thus lent support to my hypothesis that individual differences affect the way incentives operate.

The second study builds on the findings that individual differences (personality traits) influence employee preferences for rewards and analyses the preference of employees with different personality traits, working within a number of contextual settings and from a number of backgrounds, for the most commonly used incentive programs employed in industry. Results from this second study support the notion that a portion of the variance in the efficacy of an incentive programs, observed by researchers and practitioners alike, is due to employee individual differences and contextual influences. It also lends support to the concept of abandoning a 'one size fits all' approach when implementing incentive programs.

Theoretically, incentives are designed to improve employee productivity; the assumption being that the consequential behaviour will be increased performance. Based on a reading of recent literature, it is hypothesised that trust in management might mediate the effects of incentive rewards. Before testing this hypothesis a third study was conducted to examine the direct effect of trust in management on self-assessed performance. The main hypothesis of this study was that low trust in management would negatively affect self-assessed performance. The results confirmed the hypothesis and supported the work of other researchers who have demonstrated trust effects on employee performance and job satisfaction (Costa, Roe, & Taillieu, 2001; Dirks, 1999, 2000; Rich, 1997).

The objective of the fourth study was to further explore the concept of trust and test the hypothesis that trust is a two dimensional construct, comprising two distinct factors: trust and distrust, (Lewicki, McAllister, & Bies, 1998), rather than a single construct ranging from low to high trust. Lewicki et al (1998) have argued that distrust has a signature which includes scepticism, cynicism and vigilance: characteristics suggested by some researchers as implicit in the reduction of reward effectiveness (Kohn, 1993). Correlational, factor and regression analyses were conducted in order to test the multidimensionality of Lewicki et al's (1999) constructs. The results of this study confirmed that under certain circumstances Lewicki et al's (1998) two dimensions of trust (i.e., trust and distrust) do behave as orthogonal variables.

The fifth and final study tested the hypotheses that trust in management and management style (specifically transformational and transactional management styles), mediate the effect of an incentive reward. The hypotheses were tested using 1,230 employees from a wide range of industries in Sydney, Australia. The study's hypotheses were strongly supported, indicating that the effectiveness of an incentive reward system is mediated by trust in management and transformational management style, but not by transactional management style or distrust in management.

The first chapter presents a thesis overview and includes a summary of the topics covered in each chapter together with a justification for the research conducted in this thesis.