

Improving Company Production: The Role of Organizational Incentives in Enhancing Employee Discretionary Effort

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The purpose of this paper is to study the relationship between organizational incentives and employee discretionary effort. To examine this relationship data collected from 753 individual employees from 2003-2004 composing the Professional Worker Career Experience Survey, (PWCES) United States, was analyzed through a linear regression test. Results indicate a significant positive relationship between organizational incentives and employee discretionary effort. When organizational incentives increase, so does employee discretionary effort. The results of this study suggest that as businesses increase employee incentives, employee proactivity and satisfaction will increase. An increase in employee satisfaction results in increased employee productivity and company profitability. Possible limitations and future research on the measurement and study of discretionary effort are reviewed.

Introduction

A common question in industrial society today is how does one make their business successful? Answers to this question have varied greatly; but one area of focus for researchers is the productivity of organizations. Productivity can be measured through various rates such as product output, net gain, turnover, work safety, etc. The examination of the many variables that impact productivity could be important to business success. The concept of employee discretionary effort will be examined so that we can expand our understanding of increasing productivity. Employee discretionary effort as defined by Reed is “the difference between productivity and performance between ‘*minimum acceptable standards*’ and ‘*outstanding*’ on a performance evaluation form” (2007). This difference is discretionary effort only “*when the employee has the potential to perform at an outstanding level*” (2007). Literature focused solely on discretionary effort is limited. This paper will examine the impact of employee satisfaction and organizational procedures on discretionary effort.

One area of extensive study is employee satisfaction. According to research, employee satisfaction has a direct positive impact on job efficiency (Bontis et al. 2011; Silvestro, 2002; Whitman, Van Rooy, & Viswesvaran, 2010). Job efficiency is related to productivity. Studies have shown that when employees are satisfied, efficiency increases. Increased employee efficiency leads to more productivity. Employee satisfaction has been shown to have a positive correlation with customer satisfaction, or that when employees are satisfied this leads to more customer satisfaction (Chi & Gursoy, 2008; Dimitriades & Papalexandris, 2012; Brown & Lam, 2008; Evanschitzky et al. 2011; Mathe & Slevitch, 2013; Van De Voorde, Paauwe, & Veldhoven, 2012; Gerpott and Paukert, 2011). Customer satisfaction is also related to productivity, which is based on the relationship with employee satisfaction. Further examination of practices used by organizations to increase employee satisfaction is useful since employee satisfaction has been shown to be a catalyst for discretionary effort.

Organizational procedures have closely been studied to see how a widespread policy change can impact productivity.

Organizational procedures have been found to impact productivity (Antoncic & Antoncic, 2011; Luo & Homburg, 2012; Van De Voorde, Paauwe, & Veldhoven, 2012; Koh & El’fred, 2004; Khanin, Turela & Mahto, 2012; Cho & Perry, 2012; Spinelli & Canavos, 2000; Singh & Sharma, 2011), whether they are for good or bad outcomes. Procedures have also been found to impact employee satisfaction, which is a vehicle for productivity (Garcia-Izquierdo, Moscoso, & Ramos-Villagrasa, 2012; Lin, et al. 2011; Su, Baird, & Blair, 2009; Gillet et al. 2012; Beheshtifar, Rashidi & Nekoie-Moghadam, 2011). Knowledge of practices that either increase or decrease employee satisfaction can help employers motivate employees to increase their discretionary effort. The well-established research concerning the impact of organizational procedures on productivity and employee satisfaction can assist organizations to adopt practices to improve productivity. According to Locke (1976), research related to job satisfaction began in 1930. He found 3,350 articles and dissertations focused on job satisfaction between the years of 1967 and 1972. Research focusing on job and employee satisfaction has increased and grown since Locke began examining this issue. Locke stated that the areas that relate most to satisfaction were mentally challenging work, personal interest in their work, work that is not too challenging physically, rewards based on performance, working conditions that are well-suited with their needs, high self esteem, and agents within their organization that helps them attain values they want.

Based on his findings, organizational procedures have a great impact. These impacts include the attributes of the work whether it’s challenging and not too physical, working conditions, the people within the organization, or the people they hired within their company. Focusing on the procedure of giving rewards or incentives to employees could possibly result in motivating employees to increase discretionary effort in attracting the best candidates to work for the company. Edmans (2011) studied the top 100 best companies to work for and found that these companies were positively impacted with shareholder returns. This indication supports the idea that employee-oriented companies experience a positive increase in productivity as employees put forth more effort

(Edmans, 2011; Park, 2012). It is possible that these companies through initializing certain procedures increased the happiness for their employees, which resulted in shareholder returns. This shows how the procedures, whatever they may be, implemented by these companies caused the employees to love their job which then increased in shareholder returns. Helping employees be happy through incentives increased employees discretionary effort. Other studies also found that human resource outcomes, or in other words procedures, caused employee satisfaction along with increasing intrapreneurship, (Antonicic & Antonicic, 2011; Koy, 2001) which could be a product of discretionary effort. Which incentives are best at increasing productivity through employee satisfaction?"

Research supports the idea that employees who have a proactive attitude and a sense of empowerment experience satisfaction in the work environment (Greguras & Diefendorff, 2010; Wallace et al. 2011; Fernandez & Moldogaziev, 2013; Fay & Sonnentag, 2012). Organizational incentives can impact employees' attitudes, but further examination would be helpful in understanding the relationship between incentives and a proactive attitude. This proactive attitude, which could also be called discretionary effort, may be an important factor in increasing productivity, according to Reed (2007). This discretionary effort goes beyond just employees being productive. If employees do the minimum requirements, the organization can survive because it is performing the minimum. However, how do businesses become innovative and excel beyond other businesses? Knowing the employer actions that encourage discretionary effort may increase business success. One concern with Reed's research is the fact that discretionary effort has yet to be effectively measured and studied due to it trying to test a person's "heart". Addressing this concern would involve exploring what effect organizational incentives can have on discretionary effort. This is the main purpose of this research. In other words, how and why do organizational incentives impact employee discretionary effort and why? By researching this question, a better understanding can be reached concerning factors that influence business productivity. Many different variables can provide answers to the question of productivity, but studying the effect of organizational incentives on the discretionary effort of employees can help organizations understand how incentives can change attitudes. Understanding this effect is something that organizations often overlook and can possibly help explain levels of productivity within an organization.

Theory

Following the perspective of Hechter (1987), man is a "rational egotist" continually self-interested and always seeking to increase benefits while lowering costs. Assuming that most individuals are motivated by increased benefits and reduced costs, an exchange between these organizations and their employees is expected. Both parties continually seek to increase the benefits and lower the costs with the consequence of affecting each other. While the company seeks to better control its costs and benefits it also needs to devote enough resources to motivate its employees. Employees in turn attempt to attain the most incentives with the lowest cost. Both parties could experience satisfaction or distress (Blau, 1964). The organization could create new incentives for their

employees, motivating them to increase their proactivity. Seeing that these incentives require more effort, employees would decide to increase their proactivity to gain access to both social and material rewards (Homans, 1958). A combination of both material rewards and internal or social rewards could be a tantalizing proposition for these employees. With a little sacrifice to reward its employees, both externally and internally, the organization's productivity and innovation would increase as a result of the employees' proactive discretionary effort because they have received a return on their investment. This practice of incentives helps fight the "free rider" problem where individuals see opportunities to gain the rewards with no cost to them personally (Olson, 1965). An example of this would be when a group gives forth positive discretionary effort while a few of the group members put forth little or no effort.

With a selective incentive practice within the organization, the employees not providing proactive discretionary effort will not receive the rewards. Fellow workers could enforce compliance because their free riding actions would be visible. These free riders will then either experience punishment from coworkers or the organization in order to motivate them to put forth more discretionary effort (Hechter, 1987). Overall, on an individual and group basis, the practice of organizational incentives will increase employee discretionary effort because the benefits would be greater than the costs. Both the company and the employee would thrive because even those less productive individuals would feel the need to improve in order to gain access to these benefits.

This study proposes that as *organizational incentives* increase, employees will exhibit more *discretionary effort*. Organizational incentives are specific courses of action that an institution takes to motivate and inspire productivity. Incentives would include both external rewards such as bonus incentives and internal rewards such as employee of the month awards. Employee discretionary effort will be defined as proactive and voluntary effort, energy, and enthusiasm that a staff member provides to their organization. This includes the willingness to perform above their basic responsibilities with customers or fellow coworkers.

Data and Methods

Data from the Professional Worker Career Experience Survey, (PWCES) United States, 2003-2004 will be used to examine the hypothesis for this study. The Inter-university Consortium for Political and Social Research, (ICPSR) with researchers Joshua L. Rosenbloom and Ronald A. Ash conducted this survey. Data was collected via web based surveys sent through email; the surveys were taken from employees at several large organizations with offices in the central United States, from students at business schools, and computer science alumni of a large Midwestern university, and through contact lists provided by several regional professional associations for IT workers. In certain samples there was a chance for one fifth of the participants to receive a \$50 gift card. All were employees at different companies. In other instances the first 20 percent to take the survey were eligible to be randomly selected to receive a gift card. This particular study was administered by the ICPSR and was funded by the National Science Foundation.

Table 1: Descriptive Statistics

	N	Mean	%	Standard Deviation	Range
Dependent Variable					
Discretionary Effort	711	34.79		4.635	20-45
Independent Variable					
Organizational Incentives	533	33.40		8.362	10-52
Control Variables					
Length of Occupation (Years)	579	10.68		8.429	1-48
Male	752		57.7		
Earned Graduate Degree or Above	585		44.8		
Employed in Management	551		63.2		
Employed in Management/Financial/Professional Career	753		43.7		

Sample

The unit of analysis was professional workers, those who were employed in Information Technology (IT) careers and those who were not. Five hundred and forty-nine participants were placed in careers fields listed as other, and 200 listed as IT. Those who were not IT integrated those who had “similar education level (but not specific degree fields) and who work in jobs with comparable human attribute demands, including written comprehension, oral comprehension, oral expression, written expression, and deductive reasoning.” Seven hundred and fifty two surveys were completed and represent the total sample. With fluctuations concerning the N according to the researchers of PWCES that they listed as missing. No reason was stated but due to the internet based survey it is possible the whole survey was not completed.

Independent Variable

The independent variable in this study is organizational incentives. This was measured by asking participants in the PWCES to indicate their level of agreement with the following statements about their organization: (1) I feel I am being paid a fair amount for the work I do. (2) There is little chance for promotion on my job. (3) I feel unappreciated when I think about what they pay me. (4) The benefits package we have is equitable. (5) I don’t feel my efforts are rewarded the way they should be. (6) I am satisfied for my chance of promotion. (7) Many of our rules and procedures make doing a good job difficult.

The coded responses for these questions were: (1) Strongly Disagree, (2) Moderately Disagree, (3) Slightly Disagree, (4) Slightly Agree, (5) Moderately Agree, and (6) Strongly Agree. Other measures of organizational incentives included questions regarding their level of satisfaction: (8) Satisfaction with opportunities for advancement, (9) Satisfaction with salary and benefits. Answers to these questions were coded with: (1) Very Dissatisfied, (2) Dissatisfied, (3) Neither Satisfied or Dissatisfied, (4) Satisfied, and (5) Very Satisfied. Questions 2, 3, 5, 7 were reverse coded.

In this study these nine variables were combined to create a scale variable for organizational incentives into a 52 point scale. The purpose of this scale is to show if an

organization has a high or low amount of incentives for its employees; zero being an organization with no or very low incentives and a 52 being an organization with very high incentives. When tested for reliability using Cronbach’s Alpha the organizational incentive scale was scored at .548 out of a possible 1.0 indicating a moderate reliability.

Dependent Variable

The dependent variable in this study is employee discretionary effort. Discretionary effort was measured in PWCES by asking participants to indicate their level of agreement with the following statements: (1) I take the time to do the best possible job on a task. (2) I have evaluated my job against personal standards rather than comparing it with what others do. (3) I strive for excellence in everything I do (In their work). (4) In the past year I have thought about looking for a new job outside my current field. (5) In the past year, I have applied for a job outside my current field. Questions 4 and 5 were included because if they are focusing on finding new jobs besides their current one, they are not showing discretionary effort. (6) I spend free time on activities that will help my job. The coded responses for these questions were: (1) Strongly Disagree, (2) Moderately Disagree, (3) Slightly Disagree, (4) Slightly Agree, (5) Moderately Agree, and (6) Strongly Agree.

Other measures of employee discretionary effort include: (7) I work hard to accomplish my goals. (8) I am a productive person who always gets the job done. (9) I strive for excellence in everything I do. The coded responses were: (1) Strongly Disagree, (2) Disagree, (3) Neither Agree or Disagree, (4) Agree, and (5) Strongly Agree.

In this study these eight variables were combined to create a scale variable for employee discretionary effort into a 45 point scale. Scoring on this scale is designed to show if an employee has a high or low amount of discretionary effort; zero being an employee with none or very low discretionary effort and a 45 being an employee with very high discretionary effort. Questions 4, and 5 were reverse coded. When tested for reliability using Cronbach’s Alpha employee discretionary effort scale was scored at .838. This indicates a strong reliability.

Table 2: Determinants of the Discretionary Effort

	Model 1	Model 2	Model 3	Model 4
Male	-.147	-.135	-.177	-.362
Earned Graduate Degree or Above	.057	.128	-.046	.135
Length of Occupation (Years)		.063	.059	.075*
Employed in Management			.851	.632
Employed in Management/Financial/Professional Career			.062	-.177
Organizational Incentives				.152***
Constant	34.696	34.346	34.135	29.238
Adjusted R ²	-.004	.000	.004	.084

*P<.05, **P<.01, ***P<.001, N = 486

Control Variables

Five control variables were chosen for this study which were length of occupation in years, being male, having a graduate school degree, if the respondent is in the management/financial/professional careers, and having a management or executive job. Being male, having a graduate school degree, management/financial/professional careers, and having a management or executive job were coded as dummy variables. These controls were selected due to the data lacking in the dataset concerning communication channels, human resource policies, and organizational culture, customer satisfaction, and profit.

Hypothesis: There is a positive relationship between organizational incentives and employee discretionary effort.

Procedure

A linear regression test will be used to test the strength of the relationship between organizational incentives and employee discretionary effort.

Results and Discussion

In model 1, controlling for those who are male and for having a master’s degree or higher and model 2, also controlling for length of occupation in years explained no variance. Model 3, adding having a management, executive, and top executive jobs and those that are in management financial and professional careers explained 0.4 percent of variance. In model 4, the focal relationship between organizational incentives and discretionary effort along with all the controls explains 8.4 percent of variance of discretionary effort. For every unit increase in organizational incentives, discretionary effort increases .152 units it was also found at the P<.001 significance level. All the other models were not found to be significant. Length of occupation in model 4 was found to be slightly significant at the P<.05 significance level. Based on these findings it was found that organizational incentives have the most significant relationship with discretionary effort when compared to all of the control variables.

The hypothesis that there is a linear relationship between organizational incentives and employee discretionary effort was supported through the analysis of the data. This study supports the proposition that as organizational incentives increase, employees will exhibit more discretionary effort. Therefore, the theory that investing in incentives can result in

increased profitability for a company is also supported. Examining this linear relationship with the perspective of the exchange theory shows that when organizations provide incentives for their employees their desire to put forth more effort will increase. When a company provides these incentives, the staff will increase their discretionary effort in order to earn these rewards. This exchange between organization and employee helps both parties by increasing benefits and lowering costs. The corporate/employee relationship becomes a symbiotic relationship that is beneficial for both parties. The company seeking greater profitability can accomplish this through proper and well-planned incentives.

These incentives however do not always have to be monetary gains. This study supported the proposition that recognizing employees for their good work and even giving them a chance for greater responsibility can serve as an incentive. Actual monetary benefits and rewards for greater effort also serve as good incentives. These results can impact businesses in our society by helping them understand one aspect that can help increase profitability. Using incentives to increase their profitability can serve as a profitable business tactic.

Within other literature, employee satisfaction has shown to positively affect overall customer satisfaction, profitability, and customer purchase intentions. Different internal procedures of companies have also been found to impact employee satisfaction such as communication channels, human resource policies, and organizational culture. This study has narrowed these relationships by indicating that organizational incentives increase employee discretionary effort. Organizational change can alter employee’s attitudes. This study gives aid to Reed and the call to examine and study discretionary effort. It was found that discretionary effort is something worthy to study. Previous research supports the positive relationship between employee satisfaction and organizational productivity. The study of discretionary effort expands this by examining the complex relationship of discretionary effort to productivity and employee satisfaction.

When examining the control variables only one was found to be significant. One weakness of this study is that although the data set contained accurate variables for the independent and dependent measures, the relationships between employee’s discretionary effort and communication channels, human resource policies, and organizational culture, customer satisfaction, profit could not be examined. These

control variables were more focused on business culture and assumptions.

Management, executive or top executive jobs were not analyzed as a variable influencing discretionary effort because those in these positions may not be so concerned with giving discretionary effort. Individuals in top management positions may be more concerned with other cognitive factors. It might be valuable to examine the relationship between these positions and discretionary effort in future studies.

Having a master's or higher graduate degree was not found to be a determining factor of discretionary effort. A possible explanation could be that these individuals have gone through many experiences requiring a lot of effort. The cost of giving more effort might be too high or they may feel that they have given enough extra effort. The benefits or incentives do not become greater than their past efforts and they choose not to be more proactive. Since the relationship between discretionary effort and level of education was not found to be significant, it cannot be assumed that education level impacts discretionary effort. The study of the relationship between employee discretionary effort and level of education in the future might be helpful.

Being in the management, financial and professional career field was not found to be a decisive factor for determining discretionary effort. Individuals in this career field may not be attracted to the idea of discretionary effort. Again the cost may be too high for them to feel it would be worth their time. It would be interesting to examine the difference in employee discretionary effort between white-collar jobs and blue-collar jobs. This relationship could be examined in future studies.

Both male and female participant responses were analyzed as control variables, and males explained greater variance, however neither gender was found to be significant. Gender may not be an influencing factor on effort. Discretionary effort may be more an individual personality factor than one of gender.

Length of occupation in years in their career field was found to be a slightly significant factor in discretionary effort. However it was found to be significant only in model 4. For every unit increase in years in occupation, discretionary effort increased .075. One possible explanation for this result could be that those who are further in years learn to give more discretionary effort. Studying the level of discretionary effort over time in a career field could be a focus for future study.

Conclusion

Current research on the relationship between organizational incentives and how they impact workforce behavior is well researched. The research has found that employee satisfaction positively impacts company profitability, customer satisfaction, and customer purchase intentions. Previous studies have also found that organization procedures impact employee satisfaction but have only been researched at the macro level or the organizational level. What lacks in this area of study is the relationship between organizational incentives and employee discretionary effort and examining this at the individual employee level. Examining this via the perspective of the exchange theory one would surmise that when organizational incentives increase, discretionary effort increases, through the process of maximizing benefits and lowering costs. Data was collected

from various business professionals and linear regression was used to analyze organizational incentives and employee discretionary effort.

Through this study it was found that organizational incentives do increase employee discretionary effort. When incentives increase, discretionary effort increases. This finding has highlighted another procedure that a business might examine to increase profitability and company satisfaction. Companies that take the time and effort to create incentives can boost pro-activity within their company. This study has contributed to the body of research by measuring employees on an individual basis instead of as a group, department, or organization. From an individual standpoint it shows and concurs with current research that employees that give more effort bring profitability to companies. Organizational incentives can increase employee discretionary effort. Limitations of this study are that only one relationship was found to be highly significant. Only one of the control variables were found significant for other possible explanations of discretionary effort, which was length of occupation in years. However, these non-significant findings also provide an opportunity for further research such as how do different jobs and career fields, education, personality types, number of jobs, and years in your career field impact discretionary effort? Other research may include which incentives may bring forth a greater change in attitude such as monetary or non-monetary incentives.

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