



The effects of nonfinancial and financial measures on employee motivation to participate in target setting



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ABSTRACT

Recent interest in nonfinancial performance measures has raised questions on how such measures influence employee reactions and behaviour. Surprisingly, the question of *whether* and *how* nonfinancial measures motivate employees to participate in target setting has remained largely unexplored. Employees can be motivated intrinsically or extrinsically to participate in target setting. Intrinsic motivation to participate in target setting initiates from *within the employee* and is perceived as *an end in itself* with the employee as the main beneficiary. In contrast, controlled extrinsic motivation to participate in target setting is *controlled by the organization* and is perceived as *a means to an end* with the organization as the main beneficiary. This study investigates the relative importance of nonfinancial measures vis-à-vis financial measures in engendering employee intrinsic and controlled extrinsic motivation to participate and how these two forms of motivation to participate in target setting translate into improved employee job performance. Based on a sample of 149 employees, the Partial Least Squares results indicate that *both* financial measures and nonfinancial measures are associated with employee *intrinsic* motivation to participate in target setting. However, only nonfinancial measures are associated with *controlled extrinsic* motivation to participate in target setting and because this form of motivation to participate is *controlled by the organization as a means to achieve better performance*, it is only this form of motivation which has a significant impact on employee job performance. These results provide important insights into the intricacies by which performance measures influence employee motivation to participate in target setting and job performance.

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1. Introduction

Research on performance measurement systems is becoming increasingly focused on employee perspective as opposed to organisational perspective. The relationships between performance measurement systems and their behavioural outcomes have received considerable research attention in current period. Recent studies suggest that performance measurement systems affect employee behaviour through intervening variables such as role ambiguity (Burney & Widener, 2007; Hall, 2008), procedural fairness (Lau, Wong & Eggleton, 2008) and feedback (Hartmann & Slapničar, 2009).

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This study focuses on the roles of *employee motivation to participate in target setting* on the relationships between performance measures and employee job performance. While research on employee budgetary participation was pervasive in the 1980s, the importance of performance measures on the different aspects of employee participation has not received much research attention particularly in the context of nonfinancial vis-à-vis financial measures. Some researchers have suggested that issues pertaining to the various aspects of employee participation including employees' *intrinsic* and *extrinsic* motivation for participation may affect employee attitudes, behaviour and performance (e.g., Covaleski, Evans, Luft & Shields, 2003; Locke & Schweiger, 1979; Shields & Shields, 1998; Wong-On-Wing, Guo, & Lui, 2010). Yet, the roles of this aspect of employee participation, namely, *employee motivation to participate in target setting*, have largely been overlooked. To date, no studies have investigated the mediating roles of employee motivation to participate in target setting on the relationships between performance measures (financial vis-à-vis nonfinancial) and employee performance.

The importance of employee motivation (intrinsic and extrinsic) *to perform well in tasks* is widely recognized. However, the notion that employee motivation can manifest in different forms is sometimes overlooked in management accounting research. Motivation (both intrinsic and extrinsic) is related to an activity or activities. While performing tasks is an important activity, it is not the only activity at organizations. There are other activities in relation to employee motivation including employee motivation to engage in organizational citizenship behaviours, employee motivation to conform to social norms, and for our research, employee motivation to participate in target setting. The recognition that there are different forms of motivation is important as *different motivations are associated with different consequences*. Vallerand (1997, p. 327, 329) describes this as the "specificity hypothesis" and explains as follows: "Motivation is particularly important...in large part because it leads to important consequences. Such consequences can...take place at three levels of generality in line with the motivation that produces them.... Thus, outcomes experienced in one specific context should generally result from motivation in that particular context and not from another context. For instance satisfaction toward school should be a function of school motivation and not leisure or interpersonal motivation...contextual motivation in education was a better predictor of educational consequences than either global motivation or contextual motivation on interpersonal relationships."

Hence, while there is an abundance of empirical research evidence on *employee motivation to perform well in tasks* (Deci & Ryan, 2012; Sansone & Harackiewicz, 2000), research evidence on *employee motivation in other activities*, particularly *employee motivation to participate in target setting*, is very sparse (Wong-On-Wing et al., 2010). Distinguishing between the effects of *employee motivation to participate in target setting* from those of *employee motivation to perform well in tasks* is important as these two types of motivation are conceptually very different and hence may have very different behavioural consequences. Vallerand (1997) suggest that employees' motivation is different from organizational goals. Organizational goals may include improved employee job performance. In contrast, employee intrinsic and extrinsic motivation may or may not be related to employee job performance. Employee motivation exists when employees have some intrinsic or extrinsic needs to fulfil. For example, employees' intrinsic needs may include the needs for challenge, the needs to control, the needs to satisfy curiosity and even the needs to fulfil fantasy (Deci, Connell & Ryan, 1989; Malone & Lepper, 1987; Ryan & Deci, 2000a). These needs are not necessarily related to the organizational goal of improved employee job performance. It therefore remains unclear if the empirical evidence from research on *employee motivation to perform well in tasks* is generalizable to situations where the motivation is *employee motivation to participate in target setting*, particularly in the management accounting context.

The purpose of this research is to ascertain if nonfinancial measures as performance evaluation criteria affect (1) the extent of employee *intrinsic* motivation to participate in target setting, and (2) the extent of employee *controlled extrinsic* motivation to participate in target setting. It also examines the mechanisms by which nonfinancial measures affect employee job performance indirectly through (1) employee *intrinsic* motivation to participate in target setting, and (2) employee *controlled extrinsic* motivation to participate in target setting. An integrated model incorporating both nonfinancial measures and financial measures is also used to ascertain the *relative importance* of nonfinancial measures vis-à-vis financial measures in influencing employee motivation to participate in target setting and employee performance. Specifically, it compares the relative strengths of nonfinancial measures vis-à-vis financial measures in influencing the three employee outcomes (intrinsic motivation to participate, controlled extrinsic motivation to participate and job performance). This addresses the question of if and how nonfinancial measures vis-à-vis financial measures engender positive influences on employee motivation to participate in target setting, and ultimately, employee job performance.

A study of the above issues contributes to the performance measurement systems debate in the following manners. It provides valuable insights into the effects of *employee motivation to participate in target setting*, a form of employee motivation which differs conceptually from employee motivation to perform well in tasks, but is equally ubiquitous in organizational settings. Specifically, it ascertains the relative importance of the two forms of motivation to participate in target setting, namely, *intrinsic* motivation and *controlled extrinsic* motivation, in influencing the relationships between performance measures and employees' job performance. No prior studies have addressed the mediating roles and the relative importance of *intrinsic* motivation vis-à-vis *controlled extrinsic* motivation to participate in target setting in the performance measures and job performance relationships (Wong-On-Wing et al., 2010). Intrinsic motivation to participate in target setting refers to motivation to participate initiated from within employees to fulfil some intrinsic needs (Deci & Ryan, 1985; Malone & Lepper, 1987; Deci & Ryan, 2012; Vallerand, 1997; Wong-On-Wing et al., 2010). Employees participate willingly because they view their opportunities to have a say in target setting as an end in itself. In contrast, controlled extrinsic motivation to participate in target setting refers to motivation initiated by sources (usually the organization) other

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