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When should managers set subordinate goals? Investigating managerial goal setting discretion

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Abstract

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ABSTRACT

Using a unique dataset from the New Zealand real estate sector, we study how managers adapt their approaches to subordinate goal setting. Specifically we investigate the level of discretion managers give subordinates in setting their performance goals. Our results show low levels of managerial goal setting discretion are particularly effective for guiding inexperienced subordinates. Yet, these same levels of discretion not only reduce goal setting effectiveness for experienced subordinates but can even have a counterproductive impact on performance. These results suggest that managers need to carefully adapt their use of authority in subordinate goal setting if they are to reap its benefits.

Key Words: authority, goal setting, delegation, managerial discretion, decision making, hierarchy

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INTRODUCTION

Delegation has significant motivational and performance consequences for both the principal, who grants authority to lower levels, and the agent, who is granted greater or lesser degrees of freedom (Hayek, 1945; Jensen & Meckling, 1976; Aghion & Tirole 1997; Fehr, Herz & Wilkening, 2013). Interestingly, experiments in economics have shown that principals retain authority even when it is not in their monetary interest to do so, and agents underprovide effort despite having monetary incentives to the contrary (Fehr, Herz & Wilkening, 2013). These puzzling results draw attention to the actual design of the principle-agent relationship, especially in a real-world business context.

Managers have traditionally been viewed as taking an authoritative monitoring role (Burns & Stalker, 1961) that has left little space for subordinate discretion or empowerment (Calvo & Wellisz, 1978). One of the key aspects, if not even the key aspect, of how managers execute authority and guide the action of subordinates is by defining their performance goals. These goals represent performance levels that guide the actions that subordinates take (Locke & Latham, 1990; 2006; 2013, Latham & Locke, 1991). Goals also provide subordinates with a performance standard that gives instant feedback, allowing them to reflect on own prior efforts, as well as to compare themselves with others (Locke & Latham, 1990; 2013, Phillips & Gully, 1997; Wood & Bandura, 1989). Studies in several areas have shown that managers are more likely to intervene in the goal setting of subordinates, when their individual performance targets fall below those required to collectively meet the aspiration levels of the firm (Erez & Earley, 1987; Latham & Yukl, 1975; March & Shapira, 1987), than when their performance exceeds them (Lant & Mezias, 1990; Lant, 1992). Moreover, subordinates can be granted more

autonomy in managerial decision making processes. Managers can share knowledge on processes and routines where it is expected that subordinates will increasingly take initiative, termed structural empowerment. This is accompanied by encouraging subordinates to develop increasing feelings of control over their work through, for example, being given increased discretion, which can increase their psychological empowerment (Maynard, Gilson & Mathieu, 2012) with the intent of motivating goal directed behavior.

At the same time, this choice of empowerment type restricts the manager's ability to monitor and control the subordinate (Jensen & Meckling, 1976; Aghion & Tirole, 1997). Given the undeniable importance of organizational aspirations and subordinate goal setting in explaining strategic behaviour and performance (Cyert & March, 1963; Ethiraj & Levinthal, 2009; Locke, Schweiger & Latham, 1987; Shinkle, 2012), it is surprising that we do not have any detailed empirical account of how managers delegate authority in subordinate goal setting. Following recent calls to examine the microfoundations of behavioural strategy (Powell, Lovallo & Fox, 2011; Levinthal, 2011; Baer, Dirks & Nickerson, 2013), we attempt to shed light on how managerial goal setting discretion can be a mechanism with which managers delineate subordinate's development paths. In this paper we therefore ask: When should managers set subordinate goals and when should they not?

To investigate this question, we propose and then test three hypotheses that specifically focus on how managers grant autonomy to their subordinates' goal setting. We apply our hypotheses to a unique data set of 215 real estate salespersons within the context of 36 branches (18 firms) in the New Zealand real estate industry. By focusing on the management-subordinate unit we use the smallest organizing unit that can be observed in a hierarchical organizational goal setting context. Our data includes qualitative interview data, governmental data concerning regional real estate sales, and performance data on individual salespersons, their experience levels, as well as the nature and extent of discretion that managers give to subordinates in their

goal setting. The results support our hypotheses to demonstrate that less experienced subordinates benefit from less managerial goal setting discretion, while experienced subordinates that are confronted with low levels managerial discretion in goal setting display lower performance outcomes.

This study adds to the delegation literature by highlighting the importance of subordinate goal setting. We show when managerial discretion is likely to improve subordinate performance. While novices are likely to benefit from less discretion it may be harmful for experienced subordinates. This not only points to diminishing returns arising from the role of organizational authority (as subordinate experience increases), it also highlights the importance of the early-stage “window of opportunity” that managers and organizations should seize with non-experienced subordinates. In our setting, this window of opportunity is a three to four year window in which goal setting is an organizational mechanism that managers can effectively employ to improve subordinate performance. The results also reveal that especially experienced employees may be less inclined to follow a managerially imposed subordinate goal-setting logic. Instead other means of management may be more fruitful for such employees, which seems to be an underexplored and promising area for management research. The adaptive managerial discretion mechanism also enables us to explain how the components of structural and psychological empowerment can be used and adjusted overtime. Furthermore, we add to the debate on the merits of assigned versus participative goal setting, and the role of managerial goal setting discretion in behavioural strategy.

This paper is structured as follows. In the next section we review the literature and develop hypotheses. After the methods section we present and discuss our results. From here we develop conclusions to highlight the theoretical and practical contributions this study makes, and its limitations.

LITERATURE

Organizations are complex systems comprised of interdependent decision rules developed in response to feedback from the external and the internal environments (Cyert & March, 1963). Yet, these interactions are often viewed as driven by macro-behavior rather than from the micro-processes within the firm (Gavetti, et al., 2012; Miller & Page, 2007). Micro-foundational behavioral strategists (e.g. Baer et al., 2013; Levinthal, 2013; Jensen, 2001) argue for the value in establishing a micro-awareness of strategic problems so that managers can engage in more informed decision making. Baer et al., (2013) suggest this arises from analysing the behaviour of, and the interaction between, key actors' such as managers and subordinates in firm settings. In this section we briefly summarize prior literature that examines the manager-subordinate interaction.

Initiating Managerial Goal Setting Discretion

The ability of individuals to engage in behavior is closely related to how competent, or as referred to by Deci (1975), intrinsically motivated they feel (Deci, Koestner & Ryan, 1999; Gagné & Deci 2005). One way subordinates can develop goal directed competence is by receiving lesser goal setting discretion from their managers. When managers do become involved they typically have the intent of sharing the firm's procedures, policies and operating requirements (Spreitzer, 2008; Laschinger, Finegan, Shamian & Wilk 2004; Bromley & Papehausen, 2003). As such, lesser managerial goal setting at this time is likely to be positively received by novice subordinates, who in turn are more likely to engage in adaptive behavior that supports the firm's endeavors (Lucas, 1986; Lant & Shapira, 2008). Reduced managerial discretion can be effectively used to teach subordinates how to set appropriate performance levels and to motivate goal achievement. While managers should encourage goal

setting with an appropriate level of challenge, it is also important subordinates feel comfortable, where they interpret this level, as a signal of their performance capability (Jeffrey, Schultz & Webb, 2012). During this time it is also expected subordinates will learn from other external sources such as peers and customers (Slater & Narver, 1995) that include informal and non-formal learning activities (Menon & Pfeffer, 2003). The core skills required by subordinates, such as salespersons, include the ability to make decisions swiftly and independently, and to be innovative and adept at recognizing and managing new client situations, that support achieving their goal setting efforts (Wang & Netermeyer, 2002; Cohen & Levinthal, 1990).

As subordinates gain experience this period of time should be accompanied by feelings of increased autonomy and competence as their level of psychological empowerment grows (Laschinger et al., 2004; Mathieu et al., 2006; Maynard et al., 2012) that leads to goal directed behavior. The competencies that a subordinate builds should naturally translate into a higher level of intrinsic motivation (Deci, Koestner & Ryan, 1999; Gagné & Deci 2005; Zuckerman, Porac, Lathin & Dec, 1978). One way in which managers can encourage and empower subordinates is to give them discretion to set their own performance goals (Locke & Latham 1990; Locke & Latham, 2013; Huang, 2012). Whitener, Brodt, Korsgaard & Werner (1998) suggest when managers engage in behaviors such as delegating control to their employees, these actions are viewed as social rewards where employees develop trust in the manager. Further studies have found managers who empower subordinates, by for example, providing them with increased autonomy or authority in decision making, signal increased levels of trust that gets reciprocated (Moye & Henkin, 2006). Hence, we would expect:

H1: The higher (lower) the experience of the subordinate, the greater (lesser) the level of discretion the manager gives to the subordinate in the formation of their own performance goals

Managerial Goal Setting Discretion and Experience

If managers are to intervene with the intent of positively influencing subordinate behavior, it is important they are aware of how the use of managerial goal setting discretion is likely to be perceived by their subordinates, particularly across differing levels of prior experience. The expertise subordinates accrue through task knowledge and performance skills is typically accompanied by developing competency in self-regulation (Narciss, 2008; Zimmerman & Schunk, 2001). This competency arises from the internal adjustments individuals make based on, for example from managerial feedback implicit in assigned or participatively set goals intended to offer structural empowerment and enhanced feelings of psychological empowerment (Seibert, Wang & Courtright, 2011; Logan & Ganster, 2007; Zimmerman, 2006; Maynard, et al., 2012). During this time the boundary spanning role of particularly competitive or innovative subordinates, such as salespersons, are likely to become evident as they seek out and learn from people, resources and policies both within, and beyond the boundaries of their firm (Bateson 1985; Ahearne Mathieu & Rapp, 2005). Such activity can encourage more autonomous behavior that in turn leads the subordinate to frame their task driven navigation differently (Carver & Scheier, 1988). This self-regulatory process usually builds over time to translate into a corresponding increase in performance, and the accumulation of expert knowledge (Ericsson & Lehman, 1996). The routinized behavior developed will have embedded the firm's rules and regulations (Mills & Ungson, 2003; Crossan, Lane & White, 1999) that include awareness together with internal drive, to proactively set and achieve the minimum performance levels required by the firm. These features provide management with less direct and more subtle opportunities to influence subordinates.

In contrast, when managers intervene in the activity of experienced subordinates, this may be perceived as the manager using his or her role to exert influence where subsequent tensions arise. These tensions are likely to develop in more experienced subordinates between the assimilation of new learning from feedback, and the exploitation of what has already been learned (Crossan et al., 1999). Narciss (2008) identifies the existence of two feedback loops. One loop compares feedback from internal sources such as the individual's personal values; and the other compares feedback from external sources, such as managerial intervention with their own self-evaluation. Conflicts arise when these two feedback loops do not correspond. While the intent of the manager might have been to encourage competitive behavior, the individual becomes reactive rather than proactive in meeting their performance goals (Mantere, Schildt & Sillince, 2012). This situation is brought about as negative, rather than positive, discrepancies which are developed between the subordinate's goals and past performance that, in turn, leads to the setting of future goal levels that are lower than for past performance (Phillips & Gully, 1997). Bromiley and Papenhausen (2003) further suggest that while beginners benefit from learning basic rules, and even moderately skilled individuals can benefit from further developing their rule repertoire, it can be challenging to encourage experienced individuals to adopt rules that might benefit their performance. These authors suggest "superstars may exist for whom additional rules will not help performance . . . however, most players are not at this level" (p.20, 2003). As such we hypothesize:

H2: The lesser (greater) the level of discretion the manager gives in subordinate goal setting and the higher (lower) the subordinate's experience, the lower (higher) the subordinate's performance

Reinforcing Managerial Goal Setting Discretion

Managers are aware that subordinates, particularly for example, salespersons in the service industry, are likely to be their most valuable resource. As such, there is heightened interest on how to empower subordinates to use their initiative, for example, by encouraging self-initiated or participatively set performance goals (Locke & Latham, 2013; Latham & Yukl, 1975; 1976; Latham & Marshal 1982; Rantakari, 2012). Yet, managers are acutely aware that the level of autonomy they give in subordinate decision making needs to be balanced against the performance outcomes and ultimate responsibility they have to the firm (Mantere et al., 2012). Managers are likely to give those subordinates who achieve their goals increased discretion, to the point of granting full autonomy in decision making, with the intent this action will reinforce feelings of psychological empowerment in future behavior. Ideally subordinates should perceive they have the competence to choose and work independently on the processes they select to achieve desirable outcomes (Mathieu et al., 2006; Laschinger, et al., 2004; Conger & Kanungo, 1988; Spreitzer, 1995).

In contrast, when subordinate performance goals are not met, managers are likely to sanction non-achievers by withdrawing goal setting discretion. This decision is aimed at getting subordinates to return their focus to the rules and performance required by the firm, to motivate future goal setting and performance efforts (Baldauf, Cravens, & Grant, 2002; Piercy et al., 2012; Lant & Mezias, 1990; Gavin, Green & Fairhurst, 1995; VandeWalle, Cron, & Slocum, 2001). It is the intent of management to ensure the collective performance outcomes of subordinates align with their respective firm's overall performance targets (Baldauf, Cravens, & Grant, 2002; Piercy et al., 2012).

H3: The higher (lower) the success of the subordinate in achieving their own performance goals, the higher (lower) the level of discretion in goal setting that the manager gives

RESEARCH SETTING, DATA AND METHODS

Research Setting

We chose the New Zealand real estate sector as the setting of our study for several reasons. First, the industry is well-defined; there are very few cross-border sales, the registration of salespersons and real estate firms is regulated, and precise regional sales figures are closely monitored by the government. Statistics New Zealand, a government agency, publishes accurate annual base statistics, such as the number of units sold, average price per unit per region, etc. These sources provide accurate industry-wide data and a good understanding of general trends in the sector, as well as regional differences. In addition, several institutions offer detailed information regarding the registration and training of salespersons. We used this information to obtain a general overview of the industry. Second, a key feature of the real estate industry is that the great majority of the salespersons' have an affiliation with a real estate firm and a branch manager who guides and supervises the scale and scope of their work. Each salesperson's income is based on their own individual performance. All sales persons represent a partially self-governing sub-unit since all salespersons are mostly free to engage in their preferred sales activities. This structural feature is ideal for studying subordinate goal setting since it almost perfectly captures the baseline model 'manager-subordinate', with the manager being responsible for a broader organization and the subordinates' sales performance, and the subordinate being responsible for a more narrowly defined set of sales activities.¹ This setup

¹ Please note that many real estate persons rely on services of others, i.e. many have secretaries, background researchers, receptionists, etc. Hence, they are not just individuals that have a job assigned to them. Rather, they chose their target customers, how they approach people, etc.

also focuses attention on the organization with a singular goal, i.e. overall annual sales performance, and considerably reduces the risk of having competing goals (Greve, 2008).

Data

Our core dataset combines several sources of data. We contacted a series of small to medium-size real estate firms randomly across the country. Eighteen firms agreed to participate with 36 branches. The managers from these firms contacted their salespersons to ask if they would voluntarily agree to participate in our study. In total 215 salespersons agreed to participate.² They received an online survey where we asked them to answer several questions regarding demographics and salesperson goal setting in their organization. For all real estate salespersons who participated in the survey, the firms provided us with precise figures on (a) what the individual performance targets were for a given year, and (b) what the actual sales figures were. We obtained these figures for the years 2005 to 2010. All actual and aspired sales figures³ and the survey data are combined in one dataset with a total of 617 individual-level observations.

In all firms we also conducted semi-structured interviews with the managers of all branches and 10 selected salespersons that accumulated to a total of 46 interviews. In these interviews we obtained general information about the industry, the developments in the manager's respective sales areas, and insights into how their particular organization developed salespersons by offering training and coaching. The latter also include information regarding the way annual goal setting meetings are run at a firm level, and information concerning each manager's approach to subordinate goal setting. Following research on authoritative decision making we identified goals can be self-initiated, participatively set or assigned (Latham & Marshall 1982; Heslin & Wang, 2013). However, the notion of participation vs. delegation in

² Both the firms and the salespersons were offered a summary of our studies at the end of the analysis. We also ensured the confidentiality of personal sales data and survey responses.

³ Regional differences are accounted for using Statistics New Zealand data on annual regional averages. Also, for some salespersons we were not able to obtain all sales data.

employee goal setting predominates (Locke, Schweiger & Latham, 1987; Latham & Yukl, 1975; Latham & Steele, 1983; Latham, Erez & Locke 1988). To explore the approach used in our setting, we reviewed the interviews with the branch managers, who we asked to explain their approach to subordinate goal setting. We found that the above approaches are all, to some extent, reflected in the way managers engaged in goal setting. At the same time, we realized that the existing approaches may overly simplify what managers actually do. The five examples in Table 1 represent standard responses across managers regarding how they define and refine their level of discretion in the goal setting. The quotes in Table 1 also exemplify how we arrived at our coding scheme for our key variable managerial goals setting discretion, which we introduce subsequently.

Insert Table 1 here

Method and Variables

Our dependent variable is performance measured as a salesperson's annual income and this was log transformed to induce normality (Cohen & Cohen, 1983).

Our independent variables are as follows: Success in current year is binary and measures whether or not the salesperson met the performance targets in the given year. The variable Success in previous year is again binary and measures whether or not the salesperson met the performance targets in the previous year. Managerial goal setting discretion derives from the interviews and is measured with a 5-point Likert scale, based on the question "How are your personal sales goals currently set?" The pre-designed answers that best reflected the responses from interviewees are listed, with the interview quotes, in Table 1. Experience measures the number of years that a salesperson has been working in the industry. It is discrete count data from 1 to 5 (the latter representing 5 and more years). The variable Risk preference captures the individual's general inclination to risk taking. It uses a standard approach with a 5-point Likert scale (1= risk averse; 3= risk neutral; and 5= risk seeking). Self-efficacy was measured

using three items by Woodruff and Cashman (1993), coded 1=strongly disagree, 5=strongly agree. A sample item is “When I decide to do something, I go right to work on it”. This measure has been validated (Bosscher & Smit, 1998), and in the present study, the measure was found to be reliable ($\alpha = .71$).

Williams, Vandenberg, and Edwards (2009) warn that indiscriminate use of control variables in structural equation modeling (SEM) analysis is problematic. As such, we control for a small number of variables that may influence our variables of interest, especially around potential firm effects. We controlled for real estate firm code (Firm) representing each of the participating 18 firms. This is to account for some firms outperforming others. We also controlled for demographic characteristics of the agents, specifically Gender (1=male, 2=female), because there is some evidence that female employees have greater superiority in performance (Hyde & Lynn, 1988); Age (1=upto 29 years, 2= 30-39 years, 3= 40-49 years, 4= 50-59 years, 5= 60 years and over) because younger agents might be ‘hungrier’ and perform better, as other-rated performance is typically better for younger employees (Waldman & Avolio, 1986); and Tenure (time in years in their current real estate firm), which was coded 1= less than 6 months, 2=6-11 months, 3=1-2 years, 4=3-5 years, 5=6-10 years, 6=over 10 years, where we expect greater tenure will enhance performance due to greater understanding of their firm and their role within it.

Measurement Model

The study variables were confirmed with SEM using AMOS v. 22, and assessed using three goodness-of-fit indexes recommended by Williams et al. (2009): (1) the comparative fit index (CFI), (2) the root-mean-square error of approximation (RMSEA), and (3) the standardized root mean residual (SRMR), with a superior model is reflected in scores of $CFI \geq 0.90$, RMSEA

≤ 0.08 and $SRMR \leq 0.10$ (Hu & Bentler, 1998). The hypothesized measurement model and two alternative models are shown in Table 2.

Insert Table 2 here

Overall, the hypothesized measurement model fit the data best for the expected six-factor solution, and this was confirmed as being superior to the alternative model using recommendations by Hair, Black, Babin and Anderson (2010).

Analyses

Hypotheses were tested using SEM in AMOS to assess the direct and mediational effects of the study variables. We also tested the potential moderating effects of risk preference on self-efficacy in SEM following the approach of Haar, Russo, Sune, and Ollier-Malaterre (2014). The self-efficacy and risk preference items were z-scored (Aiken & West, 1991), and we re-ran the structural models with the two interaction measures and a new measure representing the interaction of self-efficacy x risk preference.

RESULTS

Correlations

Table 3 presents the means, standard deviations, and correlations among study variables.

Insert Table 3 here

Table 3 shows income is significantly correlated to tenure ($r = .21, p < .01$), experience ($r = .26, p < .01$), success current year ($r = .21, p < .01$) and success previous year ($r = .13, p < .01$). Managerial goal setting discretion is significantly correlated to firm ($r = -.17, p < .01$), success current year and success previous year (both $r = .15, p < .01$), while the two success variables correlate significantly only modestly ($r = .23, p < .01$). Self-efficacy is significantly correlated with tenure ($r = .10, p < .05$), while age is significantly correlated to experience ($r = .31, p < .01$) and risk preference ($r = -.09, p < .05$).

Structural Models

To test hypotheses between the study variables, three alternative structural models were tested to determine the optimal model based on the data: (1) a direct-effects-only model, where self-efficacy, experience, risk preference predicting income, managerial goal setting discretion, success in current year and success in previous year; (2) a full mediation model, where self-efficacy, experience, risk preference predict income predict success in current year and success in previous year only, and in turn, success in current year and success in previous year predict managerial goal setting discretion which in turn predicts income; (3) a partial mediation model, where self-efficacy, experience, risk preference predict income, managerial goal setting discretion, success in current year and success in previous year, and where success in current year and success in previous year predicted income and managerial goal setting discretion, and managerial goal setting discretion also predicts income. The three structural models and comparisons between them are shown in Table 4.

Insert Table 4 here

We tested comparison models (Hair et al., 2010) and found that model three (partial mediation model) is superior to the other models.

Having established the partial mediation model is the best fit, we then analysed the potential moderating effect of self-efficacy x risk preference. The moderated SEM model included an additional interaction term to the SEM model: self-efficacy x risk preference, and as such, the moderated model is a larger and thus poorer fit than the best fitting SEM model (Haar et al., 2014). Despite this, the moderated SEM model still resulted in a good fit to the data, meeting minimum requirements: CFI = 0.92, RMSEA = 0.07 and SRMR = 0.04. The final structural

model is shown in Figure 1 which shows the partial mediation model with the interaction effect as well (ultimately modelled together in SEM).

Insert Figure 1 here

Aligned with the recommendations of Grace and Bollen (2005), unstandardised regression coefficients are presented. Figure 1 shows that experience is significantly linked to self-efficacy (path coefficient= 0.06, $p < 0.01$) and income (path coefficient= 0.23, $p < 0.001$). Self-efficacy is significantly linked with success current year (path coefficient= 0.19, $p < 0.05$) and success previous year (path coefficient= 0.15, $p < 0.05$). Success current year is significantly linked with managerial goal setting discretion (path coefficient= 0.14, $p < 0.05$) as is success previous year (path coefficient= 0.13, $p < 0.05$), and both are also linked to income: success current year (path coefficient= 0.22, $p < 0.001$) and success previous year (path coefficient= 0.10, $p < 0.01$). Also, managerial goal setting discretion is linked to income (path coefficient= 0.06, $p < 0.05$). Of the control variables, both age and gender are significantly and negatively related to income (path coefficients= -0.10, $p < 0.05$ and -.14, $p < .05$ respectively), while firm is positively linked (path coefficient= 0.02, $p < 0.01$). Finally, the interaction effect between self-efficacy x risk preference was significant towards income (path coefficient= 0.18, $p < 0.05$), but not towards managerial goal setting discretion, success in current year and success in previous year.

Interaction Plots

To provide greater understanding of the interaction effects, the plot is presented in Figure 2.

Insert Figure 2 here

The interactions for self-efficacy x risk preference on income (Figure 1) show that there are significant differences between respondents with low self-efficacy, with respondents having a

low risk preference reporting higher income compared to those with a high risk preference. At high levels of self-efficacy, these effects are reversed. Those with a low risk preference report a significant decline in their income while those with a high risk preference report a significant increase in income. Overall, agents with high self-efficacy out perform their colleagues when they also have a high risk preference, supporting the hypothesis.

Qualitative Analysis

Insert Figure 3 here

The importance of managerial goal setting discretion was further explored. The underlying mechanism can be found in Figure 3, which displays the percentage of individuals who receive different levels of managerial goal setting discretion depending on whether they achieved the set performance goal. What is expected and can also be found in the data is that managers offer less discretion when subordinates are failing to achieve the goal that is set. We draw on the interview data to further explore this variable. An example of a higher level of managerial goal setting discretion with an inexperienced salesperson who recently achieved her sales targets reports, stated “I work closely with [my manager] to set my annual performance targets. At the same time he helps me with setting a sales unit target for the week, the month, and for the quarter . . . that were realistic.” This level of discretion is further supported by a manager who says, “We would rather work closely with our new people to make sure they succeed especially in the first year.” When compared with experienced salespersons both the managers and salespersons interviewed had a general preference for own goal setting. One manager reports “By this time . . . they know what they are doing. . . There are some top performers and you will always get some plodders. Providing we are confident in what they are doing we leave them to set their targets.” An experienced top achiever salesperson says “I’m very well organised and systematic with everything I do right down from listing to giving a gift at the

end of the process. I need to set my own targets.” While a low achiever experienced salesperson reports “My manager knows me, he knows I don’t have top aspirations but I can set my targets and usually make them . . . I am happy”. Overall, there is strong support for the role that managerial goal setting discretion plays in the ultimate success of agents income earned.

DISCUSSION AND CONCLUSIONS

This paper sets out to examine how the level of discretion that managers give subordinates in setting their performance goals impacts on their performance. Our results show low levels of managerial goal setting discretion provided to inexperienced subordinates are particularly effective in increasing performance. However, if these same low levels of managerial goal setting discretion are provided to more experienced subordinates this not only reduces goal setting effectiveness but can be counterproductive to the performance of these individuals. In particular, our results suggest managers should carefully adapt their level of discretion in subordinate goal setting if they are to gain the benefits associated with the use of this form of authority.

Our findings highlight the importance of an early-stage “window of opportunity” that managers and organizations should seize with non-experienced subordinates. In our setting, this window of opportunity is a three to four year window in which managerial goal setting discretion can be used as an organizational mechanism that managers can effectively employ to improve subordinate performance. During this time non-experienced salespersons are likely to benefit from less managerial goal setting discretion, while they learn how to set the performance goals that align with the requirements of the firm. Since, this same level of reduced managerial goal setting discretion negatively impacts on experienced subordinates, it is important to understand why this shift in the reaction of these individuals might occur and how manager might adapt. We now discuss some implications from these findings.

A key reason for the change to reduced effectiveness of managerial goal setting discretion in experienced subordinates may be attributed to a shift in how these subordinates view the authority held by managers. When subordinates are first employed they are likely to value the building of firm related competencies (Bromley & Papenhausen, 2003) where the firm retains all decision rights without delegating to lower levels. At the same time, organizations may delegate because of many well justified reasons (Jensen & Meckling 1976; Aghion & Tirole, 1997; Rantakari, 2012). Our results highlight the importance of discretion within subordinate goal setting and that failing to adapt managerial goal setting discretion can have detrimental performance consequences. We find that there are diminishing returns arising from the role of organizational authority as subordinate experience increases. Since individual level goal setting and organizational aspiration formation are fundamental to behavioural strategy and theories of the firm more generally (Powell, Lovallo & Fox, 2011; Levinthal, 2011; Baer, Dirks & Nickerson, 2013), it is thus important to consider goal setting discretion as an adaptive delegation mechanism. Our investigation introduces this adaptive mechanism and explains boundary conditions that it sets for decision makers and organization designers.

We contribute to understanding on the microfoundations of behavioural strategy. While the behavioural theory of the firm (Cyert & March, 1963; Gavetti et al., 2012) assumed organizational aspirations are transferred in a homogenous ‘disaggregated’ manner to lower levels in the firm; more recently researchers (e.g. Baer et al., 2013; Levinthal, 2013; Jensen, 2001) argue for the value of identifying specific outcome dimensions brought about by heterogeneous interactions between actors. When managers identify specific problem outcomes they can make more informed decisions. Our findings point to heterogeneous boundary conditions with the disaggregation mechanism, that arises where goal setting at the individual level is a function of subordinate experience and managerial discretion; which is different from the aggregated organizational level dimensions that are often based on strategic

concerns regarding market growth and a firm's competitive behavior. The adaptive managerial goal setting dimension provides managers with a mechanism to decide between 'When should managers set subordinate goals?' And, 'When should they not?'

We extend understanding in the empowerment literature which calls for better understanding of the relationship between the two core component parts of structural and psychological empowerment (Maynard et al., 2012; Menon, 2001; Spreitzer, 2008). Using the adaptive managerial goal setting discretion mechanism we shed new light on how these core components are used and adjusted over time. Low managerial discretion in goal setting with inexperienced subordinates points to the intent of managers to use structural empowerment (i.e. organizational policies and routines concerning e.g. decision making) to inform and motivate; while high managerial discretion is favoured with experienced subordinates in the form of self-initiated goal setting with the intent of encouraging psychological empowerment. These contrasting discretionary approaches to goal setting lead to differing levels of effectiveness for each of the two empowerment components. We also find that when subordinates fail to meet their performance targets, regardless of their prior experience, managers withdraw this form of discretion to reinstate the use of structural empowerment.

We also support and extend existing findings in the goal setting literature. We add to the long held debate on the merits of participative versus assigned goal setting (Locke & Latham, 1990; Locke & Latham, 2013), and more particularly to the effectiveness of goal setting styles. The controversy between Latham and colleagues (e.g. Latham, Erez & Locke, 1988; Locke, Schweiger & Latham, 1987) and Erez, Earley and Hulin (1985) reached a point of agreement where assigned goals were found to be as effective as participatively set goals, so long as the purpose and rationale were provided in a 'tell and sell' style (Latham et al., 1988). In our study we found both assigned goals and participative goals to be effective in goal setting in lesser experienced subordinates. Introducing both experience and managerial goal setting discretion

as novel variables in the debate enables us to explain the transition between these two goal setting styles and to provide background for when and how the goal setting styles are likely to be most effective. Our study also shows that managerial goal setting discretion is a mechanism by which decision makers can adapt their use of authority, i.e. they reduce the use of external force in the hope to gain a stronger sense of internal micro-behaviors for the formulation of goals (Gavetti, et al., 2012). In particular the feedback provided from the goal setting process provides managers with important information to empower subordinates in future goal setting.

We acknowledge our study has several limitations. First, we only obtained data on the relationship between managerial goal setting discretion and subordinate performance during the annual goal setting process. It would be interesting in future studies to do a longitudinal examination that investigates how the perceptions of subordinates change over time with different levels of authority, and the response of managers on performance change. Second, since we have not observed those salespersons that had left the industry during the observation period, our analysis is subject to a sample bias. It would be interesting to examine how subordinate's "fading out" trajectories compare to "success trajectories" and how managers actively engage in designing various levels of discretion to encourage goal setting and performance. Third, as our study focused on the real estate industry it would be interesting to compare our results with salespersons in other industry sectors. We believe managerial goal setting discretion is an exciting and interesting area for future research, particularly for those interesting in understanding how this form of discretion serves as an adaptive organizational mechanism.

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Table 1: Development of Scale for Managerial Goal Setting Discretion (*reverse coded for analysis)

| | Exemplary quote from a branch manager | Corresponding answer in survey* |
|---|---|---|
| 1 | “XX salesperson is new. She’s only been with us three weeks. She wouldn’t have any idea of what goal to set, so I set her goal for her.” | My goals are set: My manager sets them for me (1) |
| 2 | “XX salesperson has been with us 18 months. I sit down and go over her last annual target and how she needs to break things down into months and the number of units [houses] she thinks she can list or sell. Then we set her goal.” | My goals are set: I set them jointly with my manager (2) |
| 3 | “You know XX salesperson has been with us now for 10 years. He’s an average kind of performer who knows what’s required. I get him to set his goals and then he brings them to me just to check.” | My goals are set: On my own and my manager approves them (3) |
| 4 | “XX salesperson is up and coming . . . been with us three years. I like to encourage XX to set his own goals and get him to check with me if he thinks he needs to. I trust him.” | My goals are set: On my own and I tell my manager (2) |
| 5 | “XX salesperson is a top performer. He works 80-100 hours a week . . . We know these kind of guys don’t need us to give them any help to set their goals.” | My goals are set: On my own (1) |

Table 2. Results of Confirmatory Factor Analysis for Study Measures

| Model | Model Fit Indices | | | | | Model Differences | | | Details |
|---------|-------------------|----|-----|-------|------|-------------------|-------------|------|--------------|
| | χ^2 | df | CFI | RMSEA | SRMR | χ^2 | Δ df | p | |
| Model 1 | 20.7 | 12 | .96 | .03 | .03 | | | | |
| Model 2 | 37.4 | 16 | .85 | .05 | .04 | 16.7 | 4 | .01 | Model 2 to 1 |
| Model 3 | 45.0 | 17 | .81 | .05 | .04 | 24.3 | 5 | .001 | Model 3 to 1 |

Model 1= Hypothesized 6-factor model: Income, Target Achieved, Lagged Target Achieved, Self-Efficacy, Goal-Setting Type, and Risk-Taking.

Model 2= Alternative 4-factor model: As model 1 with Income, Target Achieved and Lagged Target Achieved combined.

Model 3= Alternative 6-factor model: As model 1 with Self-Efficacy, Goal-Setting Type, and Risk-Taking combined.

Table 3: Correlations and Means of Study Variables

| Variables | M | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---------------------------------------|------|-----|--------|-------|-------|-------|------|-------|-----|-------|-------|----|
| 1. Firm | 9.2 | 6.4 | -- | | | | | | | | | |
| 2. Age | 3.7 | 1.0 | .20** | -- | | | | | | | | |
| 3. Tenure | 5.0 | 1.2 | .08 | .43** | -- | | | | | | | |
| 4. Experience | 4.1 | 1.4 | .06 | .31** | .77* | -- | | | | | | |
| 5. Risk Preference | 3.0 | .88 | -.07 | -.09* | .04 | .01 | -- | | | | | |
| 6. Managerial goal setting discretion | 3.8 | 1.2 | -.17** | .04 | .04 | .03 | .01 | -- | | | | |
| 7. Self-efficacy | 3.6 | .81 | .02 | -.04 | .10* | .05 | -.00 | .07 | -- | | | |
| 8. Success current year | .47 | .44 | -.10* | -.07 | -.07 | -.04 | -.05 | .15** | .08 | -- | | |
| 9. Success previous year | .43 | .34 | -.07 | -.03 | .00 | -.02 | -.05 | .15** | .07 | .23** | -- | |
| 10. Income‡ | 11.3 | .96 | .07 | -.01 | .21** | .26** | .06 | .04 | .02 | .21** | .13** | -- |

N=617 individual-level observations. *p< .05, **p< .01.

‡=Income was computed to a natural logarithm in the regression analysis to induce normality (originally M= \$111,855.60, SD= \$87,313.85).

Table 4. Model Comparisons for Structural Models

| Model | Model Fit Indices | | | | | Model Differences | | | |
|----------------------------|-------------------|----|-----|-------|------|-------------------|-------------|------|--------------|
| | χ^2 | df | CFI | RMSEA | SRMR | $\Delta\chi^2$ | Δ df | p | Details |
| 1. Direct Effects Model | 171.2 | 25 | .90 | .10 | .05 | | | | |
| 2. Full Mediation Model | 149.8 | 22 | .91 | .11 | .05 | 21.4 | 3 | .001 | Model 2 to 1 |
| 3. Partial Mediation Model | 103.5 | 20 | .94 | .08 | .03 | 67.7 | 5 | .001 | Model 3 to 1 |
| | | | | | | 46.3 | 2 | .001 | Model 3 to 2 |

Figure 1: Final Structural Model (Mediation & Moderation)

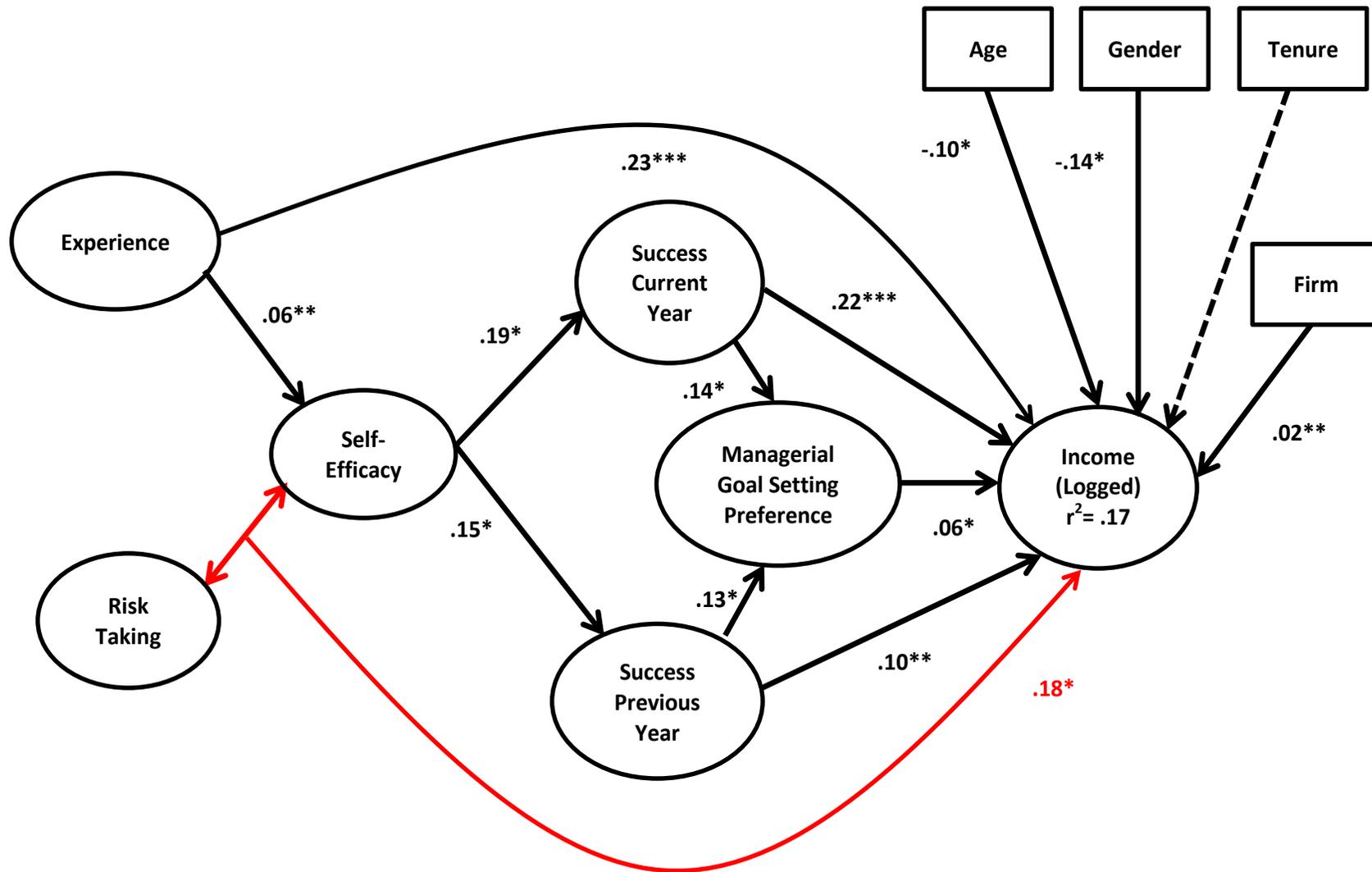


Figure 2: Interaction between Self-Efficacy and Risk Preference Final Structural Model (Mediation & Moderation)



Figure 3: Managerial goal setting discretion and goal achievement. Comparison of the percentage of individuals who achieved (success) and who did not achieve (failure) their goals in the current year.

