1 Introduction

1.1 Research Questions

The aim of this research is to describe and explain the effects of the introduction of market forces in the Dutch child-care sector on employee governance, employee motivation, and employee performance. These effects are studied using a structure-conduct-performance approach. This approach, originating from the study of industrial organisations, assumes that an industry’s performance depends on the conduct or behaviour of the firms, which, in turn, depends on the structure of the market (Carlton and Perloff 1994). In this research, employee motivation and employee performance are assumed to be dependent upon the employee governance of child-care organisations, which, in turn, is assumed to be dependent upon the strength of the market forces the child-care organisation is confronted with (see Figure 1-1).

The following research questions are formulated:
1. To what extent does the introduction of market forces in the Dutch child-care sector influence the employee governance of child-care organisations?
2. If the employee governance of child-care organisations changes, to what extent do these changes influence employee motivation?
3. If employee motivation changes, to what extent do these changes influence employee performance?

<table>
<thead>
<tr>
<th>Sector level</th>
<th>Market forces</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Organisation level</td>
<td>Employee governance</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee level</td>
<td>Employee motivation</td>
</tr>
</tbody>
</table>

Figure 1-1: Graphical representation of research questions
1.2 The introduction of market forces in child care

The Dutch child-care sector is transitioning from a welfare sector into a market sector. The transition process in child care is concurrent with a trend in Dutch society as a whole towards a more business-like approach and an accompanying emphasis on raising efficiency (Turksema, Siegers and Van Emmerik 1998; Putters 2001). Even in traditionally welfare-oriented sectors, such as the care sector, market forces are introduced.

Policy makers assume that the introduction of market forces in the Dutch child-care sector improves the balance between supply and demand and increases efficiency. Due to the introduction of market forces in the Dutch child-care sector, parents are expected to receive more possibilities of choice and the sector is expected to become more attractive for new providers (Ministry of Health, Ministry of Social Affairs & Employment and Ministry of Finances 2000). While in discussions regarding the introduction of market forces in care work the possible effects for providers and costumers are taken into consideration, usually no attention is paid to the possible effects for care employees. Apart from the question whether or not the transition from a welfare sector to a market sector results in a realisation of the expected goals, which as we know from earlier research is not always the case (Van Thijn 2002; Van Staveren 2003; Tonkens 2003), there is the question of whether the possible effects on employees are rightly dismissed.

In this research, we will describe and explain the effects of the introduction of market forces on employees working in the Dutch child-care sector. The reasons for focusing on the child-care sector are threefold. In the first place, the child-care sector is a representative example of the care sector as a whole with regard to sector-specific characteristics like the fact that it is highly labour intensive, that there is a high percentage of female employees and a large amount of part-time employees (Nivel, Prismant and OSA 2003). Second, child-care employees are representative for other care employees with regard to the motivation they derive from different aspects of their work. Both child-care and other care employees mention autonomy and work that is meaningful as the most important aspects of their work, while they are least motivated by the financial compensation and career perspectives (Lindsay and Lindsay 1987; Philips, Howes and Whitebook...
1991; Grunveld 1999). Finally, due to the introduction of a new act in the Dutch child-care sector (Wet Kinderopvang), the child-care sector as a whole is forced to change in a very short period of time from a financed welfare sector into a demand driven market sector. The Dutch child-care sector therefore forms a unique case to analyse the consequences of the introduction of market forces in care work on the motivation and performance of care employees.

1.3 Explaining employee motivation and employee performance

1.3.1 Overview of Literature

The introduction of market forces in the Dutch child-care sector is expected to affect employee governance, motivation, and performance. The Dutch child-care organisations are expected to adapt to the changes in the market structure of the Dutch child-care sector. In order to increase the efficiency of personnel, child-care organisations are expected to alter the way in which they govern their employees. These changes in employee governance are, in turn, expected to affect the performance of the childminders.

In order to be able to understand how changes in organisations may affect employee performance it is of great importance to understand the effects that changes in the organisation may have on employee motivation. Because while employees might be able to perform a certain job, if they aren’t willing to give their utmost while doing this, employee performance will be low. Employee motivation, therefore, is an important determinant of performance at the workplace (Houkes 2002).

The concept of employee motivation has been the subject of study in many different disciplines. However, within each discipline different theories prevail about what motivates people to go to work each day and how these motivations can be affected by changing the rewards of working. While economic theory attributes changes in behaviour to changes in relative prices, psychology generally focuses on people’s preferences (Frey and Benz 2002). Psychologists have argued for a long time that people are not only motivated to do things because of rewards from the outside. According to these psychologists, people can also be motivated
to do things even though there is no external reward but the behaviour itself. In this case people are said to be intrinsically motivated (Deci 1975).

The assumption that certain activities provide their own inherent reward raises the question of how external rewards will affect people’s intrinsic motivation for these activities (Deci, Koestner and Ryan 1999). The social-psychological model of the interaction between extrinsic and intrinsic motivation is introduced in economics as the crowding theory by Frey (1992). Frey assumes, in line with Deci (1975), that intrinsic motivation increases when individuals perceive an external intervention as supportive. In this case, a crowding-in effect is said to occur. However, if individuals perceive an external intervention as controlling, intrinsic motivation decreases and a crowding-out effect is said to occur (Frey 1997a). In social psychology, the phenomenon of crowding out is known as ‘the hidden cost of reward’ or ‘the overjustification effect’ (Snelders and Lea 1996; Frey and Osterloh 2002, p. 13).

It is important to note, however, that Frey uses the term external intervention. According to Frey, intrinsic motivation is not only influenced by external rewards but also by regulations and commands. In Frey’s definition, intrinsic motivation has ‘acquired the meaning of being motivated to do something without being forced by commands and without being paid to do it’ (Lindenberg 2001, p. 319). While enjoyment or fun derived from an activity is at the heart of Deci’s definition of intrinsic motivation (Ryan, Koestner and Deci 1991; Deci and Ryan 2000), Frey’s definition of intrinsic motivation, therefore, also includes feelings of obligation, such as work morale (Frey 1993).

1.3.2 Explaining employee motivation and employee performance in child care

In this research we describe and explain how external interventions, and changes in the employee governance of child-care organisations in particular, affect employee motivation and performance. In doing so we will make use of the social production function approach introduced by Lindenberg (1991;1996).

The social production function approach assumes that everyone has one universal goal in life: subjective well-being. Subjective well-being is made up of two components: physical well-being and social well-being. In addition, the social production function approach specifies two lower-level goals that produce
physical well-being and three lower-level goals that produce social well-being. Physical well-being can be produced by comfort and stimulation, and social well-being can be produced by affection, status and behavioural confirmation from yourself and others.

One of the sources that people have for the production of well-being is having a job: this provides employees with extrinsic and intrinsic rewards or so-called production factors for the production of well-being. The higher the level of well-being employees are able to produce with the extrinsic and intrinsic rewards they derive from their job, the higher their level of extrinsic and intrinsic motivation is assumed to be. The extent to which employees are able to produce well-being with the extrinsic and intrinsic rewards they receive from their job is, however, neither the same for all employees nor stable over time, but depends on how effective the rewards are in the production of subjective well-being.

The extrinsic and intrinsic rewards employees derive from their job as well as the productivity of these rewards therefore influence the level of well-being and thus the level of extrinsic and intrinsic motivation employees display within their job. Therefore, changes in the possibilities of producing well-being affect the level of employee motivation. External interventions are assumed to affect extrinsic and intrinsic motivation by influencing the extrinsic and intrinsic rewards employees derive from their job. In addition, the intrinsic motivation of the employees is assumed to be influenced by the way in which an external intervention is perceived. If, on one hand, an external intervention is perceived as controlling, the productivity of the intrinsic rewards that are derived from performing the activity decrease and intrinsic motivation will be crowded-out. On the other hand, if an external intervention is perceived as supportive, the productivity of the intrinsic rewards that are derived from performing the activity increase and intrinsic motivation will be crowded-in.

Applying this theoretical framework to the Dutch child-care sector, we presume that the introduction of market forces in this sector affects employee motivation by influencing the extrinsic and intrinsic rewards the childminders are able to derive from their job as well as the productivity of the intrinsic rewards. The expected effects of the introduction of market forces in the Dutch child-care
sector on the motivation and performance of the childminders are presented in Figure 1-2.

First of all, the introduction of market forces in the Dutch child-care sector is expected to affect the employee governance of child-care organisations. The employee governance of child-care organisations represents the way in which the child-care organisations have been structured in order for the childminders to carry out their work and is described by four elements: employment contracts, job design, reward system, and career system. With regard to the reward and career systems, we distinguish between the focus on pay-for-performance and the attractiveness of the reward and career system.

![Diagram of the effects of market forces on employee motivation and performance](image)

**Diagram Legend**
- **Sector level**: Market forces
- **Organisation level**: Employee governance
  - * employment contracts
  - * job design
  - * reward system
  - * career system
- **Employee level**: Employee motivation
- **Employee performance**: Employee motivation
  - extrinsic rewards → extrinsic motivation → performance
  - intrinsic rewards → intrinsic motivation

**Figure 1-2: The effects of the introduction of market forces in the Dutch child-care sector on the motivation and performance of the childminders.**

Employee governance is, in turn, expected to influence the extrinsic and intrinsic motivation of the childminders by affecting the extrinsic and intrinsic rewards...
employee motivation is derived from their job. As will be explained in Chapter 3, changes in the employee governance are expected to have both positive and negative effects on the extrinsic and intrinsic rewards childminders derive from their job. Therefore the overall effect of the introduction of market forces on the extrinsic and intrinsic motivation of the childminders is uncertain.

Second, the intrinsic motivation of the childminders is also expected to be influenced by the way in which the changes in employee governance are perceived. We expect that the changes in employee governance are perceived partly as being positive and partly as being negative by the childminders. An increase in the attractiveness of the career system is, for example, expected to be perceived in a positive way, whereas an increase in the tightness of the job design is expected to be viewed upon as being negative. The interaction effect between employee governance and intrinsic rewards is therefore expected to have a positive or negative effect on the intrinsic motivation of the childminders, depending on whether the change in employee governance is perceived as being positive or negative.

Finally, the introduction of market forces in the Dutch child-care sector is expected to influence the intrinsic motivation of the childminders by the way in which the transition itself is perceived. The transition of the Dutch child-care sector from a welfare sector to a market sector is expected to be perceived in a negative way by the childminders, since financial considerations have put the transition in motion and the position of the childminder has not been the focal point of the transition. The introduction of market forces is expected, therefore, to negatively affect the productivity of the intrinsic rewards that childminders derive from their job. As a result, the interaction effect between market forces and intrinsic rewards is expected to negatively influence the intrinsic motivation of the childminders.

The effects of the changes in the Dutch child-care sector on the extrinsic and intrinsic motivation of the childminders are, in turn, expected to affect the performance of the childminders. In describing and explaining the effects of the introduction of market forces in the Dutch child-care sector on the performance of the childminders, we will focus on the quality of employee performance. We assume that in the child-care sector in particular, it is important to focus on the
quality of employee performance, since the quality of child care depends heavily on the employees who are working in the sector.

Both extrinsic and intrinsic motivation are expected to have a positive effect on the quality of employee performance. The link between the level of motivation and the level of employee performance is based on the mutual-investment model, which defines the relationship between employer and employee as a social exchange relationship and claims that the employer will invest in the employee whereas the employee will respond by displaying a high level of performance (Tsui et al. 1997).

Thus, the effect of the introduction of market forces in the Dutch child-care sector on the quality of the performance of the childminders depends on the effects of the introduction of market forces on employee motivation. Since the changes in the child-care sector are expected to have varied effects on the extrinsic and intrinsic motivation of the childminders, the effect of the introduction of market forces in the child-care sector on the quality of the performance of the childminders is not clear beforehand.

1.4 Importance of research

The scientific relevance of this research is that it attempts to contribute to a better understanding of what the theoretical construct of intrinsic motivation in the context of paid work comes down to. Even though the theoretical importance of intrinsic motivation is widely accepted currently, in practice organisations don’t seem to pay much attention to intrinsic motivation but focus mainly on extrinsic stimuli in their attempt to motivate their employees. The recent discussions on the importance of pay-for-performance systems are an example of this focus on extrinsic motivation (Kohn 1993; Wiegeraad 2002).

The fact that organisations don’t seem to pay much attention to intrinsic motivation in trying to motivate their employees is caused by both theoretical and empirical deficits in the research on intrinsic motivation. Theoretically there is still no unifying definition of what intrinsic motivation actually is and when one can consider intrinsic motivation to be crowded-out or crowded-in. As a consequence
there is also no agreement with regard to the effects of external interventions on intrinsic motivation (Wiersma 1992; Deci, Koestner and Ryan 1999; Eisenberger, Pierce and Cameron 1999).

Moreover, the research performed so far is primarily based on activities for which people typically don’t expect to be paid, such as puzzle solving or volunteer work. In situations in which people do expect to receive a financial reward, external interventions may have a different or no impact on intrinsic motivation. Because financial rewards are typically expected in economic contexts, additional research is needed to make the point that in the context of paid work external interventions may affect the intrinsic motivation of employees also (Fehr and Falk 2002). By describing and explaining the effects of external interventions on intrinsic motivation in the context of paid work, this research contributes to a field of empirical research that has not yet been extensively explored.

The societal relevance of this research is shown in the fact that it’s important to know how employees can be motivated to give their utmost while doing their job. As stated previously, it’s likely that people don’t just work for the money but are influenced by other rewards too. The assumption that people are driven by extrinsic rewards only is therefore too limited and may even lead to counter-productive results when trying to motivate employees.

Gaining a better understanding of employee performance is especially important in the care sector given the fact that the work in this sector is highly labour intensive. The performance of this sector, therefore, depends strongly on the willingness and quality with which the employees working in this sector apply themselves to their tasks (Franco, Bennett and Kanfer 2002). Moreover, the care sector faces a high percentage of employee absence and a high personnel turnover rate (Statistics Netherlands 2002; Nivel, Prismant and OSA 2003) which puts even more pressure on the performance of the employees within this sector.

Finally, the care sector in the Netherlands is confronted with a transition process towards a more market-oriented organisation. It is the question if and how this transition affects the extrinsic and intrinsic rewards the employees working in this sector derive from their job, and how changes in rewards affect their motivation and performance. By achieving a better understanding of the effects of the transition in the Dutch child-care sector on the motivation and performance of
Chapter 1

care employees, recommendations with regard to the introduction of market forces in formerly welfare-oriented sectors might be given.

1.5 Research design

For this research, data are collected in 30 Dutch child-care organisations. The child-care organisations are differentiated with regard to the extent to which they are financially dependent on the government, the urbanity of the area in which they are located and their size. Information on employee governance in the year 2003 is collected at the level of child-care organisations. On the childminder level, information is collected on employee motivation and performance. In addition to collecting information on the actual situation in the year 2003, we have measured how changes have been perceived over time. The perceived changes over time have been measured both retrospectively – i.e. how certain aspects have changed over the past three years - and prospectively – i.e. how certain aspects are expected to change during the coming three years.

1.6 Outline of the book

In this book we describe and explain to what extent the introduction of market forces in the Dutch child-care sector affects employee governance, motivation and performance. Chapter 2 gives a description of the Dutch child-care sector. Chapter 3 presents the theoretical model that explains the effects of the introduction of market forces in the Dutch child-care sector on employee governance, employee motivation, and employee performance. Chapter 4 describes the data, the operationalisations and the statistical models that will be used in this research. In Chapter 5 the descriptive analyses of the employee governance of child-care organisations and the employee motivation and employee performance of childminders will be presented. Chapter 6 presents the analyses performed to explain employee governance, motivation, and performance. Finally, Chapter 7 contains the summary and conclusions.