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Compensation in co-operatives: Values-based philosophies

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Envisioning bold and challenging traditional boundaries

This paper outlines the appropriate principles from which compensation approaches should be developed and why we believe these principles are the best approach for a co-operative. This requires significant changes in how things are done now by the majority of co-operatives, and making these changes will not be easy. For bold, values-based co-operatives, it's time to shift away from the mainstream compensation approaches toward a holistic, human-centred compensation philosophy. New generations of employees are looking to engage in work that matters, and compensation needs to align with this purpose.

It is often the case that organizations leap to a governance-level compensation or human resources policy without starting with a philosophy. As a result, the underlying paradigm (worldview) and assumptions driving the implementation of a policy remain obscure and potentially inconsistent. In this paper, we stay high level with the philosophy in mind. We focus on compensation principles and the objectives of compensation backed by research. We aim to address the questions on the “why” of compensation, but not the “how”.

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In short, the role of compensation in a co-operative is to heighten and preserve human dignity by paying people adequately and fairly, and affording them autonomy to act (as opposed to exerting control on them). This will increase the right kind of motivation, improve employee participation and productivity, and more likely align personal success with organizational success through stewardship, psychological ownership, and real control over their productive lives.

Summary of recommended principles

A principles-based compensation philosophy enables the development of policies, procedures, and frameworks, but it also constrains the possibilities and forces a bold, values-based approach. It provides a set of filters for decision-making around the “why” of compensation, but it does not

provide guidance on the “how”. The principles are a “test” for all lower level policies, procedures, and frameworks to ensure consistency with the most fundamental aspects of work.

We recommend a compensation philosophy as a set of principles that do not delve into operational aspects at all – a philosophy that speaks to the essence of the collective “work” of an organization. These principles must be:

- distinct but comprehensive, and;
- adhere to stewardship theory (not a principal-agent conflictual paradigm).

For organizations with a human-centred design and expectations of a culture of innovation and creativity, their compensation philosophies must aim to:

- Embrace work as a source of **human dignity** (transparency, fairness, freedom, respect, accountability).
- Create a work environment where psychological needs required to induce autonomous motivation (**autonomy, mastery and purpose**) are realized:¹
 - Autonomy = Self-determination / empowerment / decision-making / democracy
 - Mastery = Competence / learning/ personal growth / reliability
 - Purpose = Values / needs and relevance / relate to colleagues and community
- Develop approaches that ensure **equity and justice**.
- **Go beyond money**. Pay well, pay fair, and then forget the money as a motivator.²
- **Embrace employee participation**. Commit to engagement in, open communication about, and transparency of compensation within the organization.

It is the list of principles above that we recommend as the framework for a co-operative Compensation Philosophy.

¹ These elements form the components of the Self-determination theory of motivations (SDT, developed by Edward Deci in various writings since 1971), covered in detail within the body of this report as well as in the Appendix.

² This implies decoupling of performance assessment from compensation.

Carrots and sticks.... and connection to principal-agent thinking

Employee compensation structures linking pay to performance have been influenced by the **principal-agent theory** that has dominated discourse on motivation in economics and management literature and practice since the late 1970s.³ The agency theory rests on the assumption of separation of ownership from control of the enterprise. Firm's absentee owners (principals) delegate control of the enterprise to management (agents). In a similar agency relationship, managers delegate control over day-to-day decisions to the employees.

Principals and agents are assumed to have diverging interests. In both cases the 'principal' cannot predict the specific decisions that may need to be made; therefore contractual arrangements cannot capture a lot of the tasks that need to be completed and are often not measurable, or not predictable. Employee compensation then serves two purposes – one, to secure the livelihood of the employee, and two, to incentivise the right kind of action and behaviour which lines up with the principal's vision.

Companies provide salaries, employee benefits, and bonuses to secure decent pay (livelihood), induce loyalty to reduce costly turnover, and motivate employees to deliver particular outcomes in line with the vision of the principals. For investor-owned enterprises, the latter is typically measured by the increased share value, so management (and employee) bonuses are often delivered in the form of company stock, in order to align the interest of the principal (to maximize profitability and stock value) and the agent. Employees are also often paid a portion of their salary in goal-specific bonuses (merit pay, or pay for performance / incentive compensation).

Agency theory is based on some crucial assumptions, namely that individuals are opportunistic and self-serving (therefore the agent will always make decisions that advance her own interest, different from the interest of the principal), and that they respond to extrinsic rewards. From this thinking come the governance structures promoting independent directors, in which the role of the Board of directors is to monitor and control the manager.⁴ Co-operatives often follow these

³ Jensen and Meckling 1976

⁴ See Novkovic and Miner 2015

mainstream corporate standards in governance and compensation philosophy based on agency, at times also influenced by the regulator.

Motivation of stewards moves beyond carrots and sticks

For governance and compensation philosophy in co-operatives, we advocate the **stewardship school of thought**, influenced by research findings in organizational psychology, sociology and, more recently, behavioural economics.⁵ Stewardship (and humanistic management, more widely) advocates a different human being, one shaped by social and contextual circumstances, ethical considerations, reciprocity and trust. Under the assumptions of the stewardship model, manager's interest and measures of success are aligned with collective interest and goals of the organization.

Values are what motivates us

(This is a direct quote from Mayo, Ed. 2016. Values: how to bring values to life in your business. P. 4)

If you woke up one morning as a donkey, the choice between the carrot or the stick might be more than just a metaphor. You are stubborn, of course, and, after the metamorphosis, probably a little prickly. The carrot dangled in front of you, is to encourage you to get up. For now, of course, you can think of little you'd find more tasty.

But getting up is not quite what you feel like. So, next, the stick gives you a thwack. Even with your new thick hide, it is a bit painful. The carrot or the stick seem to be opposites. But they are designed to do the same thing - to get us to behave. In the language of economics, both would be classed as 'incentives'. But, you might muse, with all the costs of carrot growing and stick wielding, isn't there a better way to influence donkeys... and people?

So, a little psychology comes to mind. Punishments and rewards for behaviour tend to be set by someone else. Both carrot and stick are externally controlled – or 'extrinsic' in terms of the motivation of the person being targeted. There is a different way. It is called the theory of self-determination, a fairly well established and proven approach in social psychology that says that what makes us happy to act is down to what we feel from inside - 'intrinsic' motivations, such as our personal values. Acting on our intrinsic values keeps us satisfied and motivated. It saves on the costs of carrots and sticks.

We can call this the rose - an alternative motivation to both the carrot and the stick. The rose is something of beauty. It is something that draws you to act because you already care for it, rather than something that has to offer you an instrumental pain, or gain, to change course.

⁵ Davis, Schoorman, and Donaldson 1997; Bowles 2016

While under ‘pure’ stewardship, the individual is driven by common goals and results, and perceives her interest as aligned with that of the organization and its owners, in a less radical view (one that maintains some agency and self-interest is bound to be present), it is also pointed out that relational aspects in organizations matter.⁶ So even when there is a lack of full information and possibly different interests between the managers and employees (or owners and managers), the two parties are guided by social aspects of the relationship, rather than purely economic one. This social context may result in greater weight put on factors such as reputation, personal satisfaction, honour, and trust; instead of quantifiable outcomes (percentage increase in revenue, profitability targets, and the like).

The role of compensation then is to ensure that intrinsic motivation is not hindered, and that other forms of autonomous motivation are supported by its design. *Why and how* compensation is delivered matters for the motivation, productivity and psychological well-being of employees.

Self-determination theory and autonomous motivation

Compensation programs in organizations, besides satisfying the employees’ basic needs, have been designed with the intent to *increase employee motivation and productivity*, and thereby secure long term viability of the organization. However, managers often assume that employees respond only to extrinsic incentives - good wages, promotion, job security. Employees on the other hand, value internal motivation - interesting work, challenge, growth, and learning. Motivations are not always purely extrinsic or intrinsic. Self-motivation (autonomous motivation) matters; sometimes extrinsic ideas, goals and measures are internalized if they are justified by the values and a greater purpose.⁷

....how and why people are motivated to be productive has shifted from purely economic incentives evoking extrinsic motivation and a sense of being controlled, to ones that satisfy psychological needs and induce autonomous motivation.

⁶ Wiseman et al. 2012

⁷ Fowler 2014

Motivated employees are the key ingredient in successful organizations that make a difference, but the understanding of how and why people are motivated to be productive has shifted from purely economic incentives⁸ evoking extrinsic motivation and a sense of being controlled, to ones that satisfy psychological needs and induce autonomous motivation.⁹

Self-determination theory (SDT)¹⁰ is a more nuanced theory of motivations going beyond the simple division into extrinsic and intrinsic motivations (see Appendix A). It differentiates between controlled and autonomous motivation, where autonomous motivation includes intrinsic, but it widens the scope to include internalized behaviours as well.

This example serves as an illustration:

Goal: Protect the environment and adopt environmentally sound practices at work through achievement of specific targets – e.g. carbon neutral, tons of recycled paper, etc.

How to induce behaviour.

Controlled:

- Pay per target (extrinsic, controlled). This gets the job done, but will not last when incentive is removed.
- Shame: ‘out’ people if they misbehave, e.g. install cameras by the recycling bins (extrinsic; self-imposed sense of shame, guilt).

Autonomous:

- Extrinsic, but people *align* with the purpose, e.g. explain why it is important to protect the environment; education.
- Extrinsic, but *integrated* in one’s own beliefs (beyond understanding the importance; now one does it on their own volition and conviction; often resulting from education).
- Intrinsic, because it is an *existing value* and no incentive is needed to generate motivation. A person has always been mindful of the environment - cares about it anyway, loves the outdoors; volunteered with Greenpeace.

⁸ Salary, bonuses, employee rewards, health benefits, etc.

⁹ Gagné and Deci 2005

¹⁰Deci 1971, 1972; Deci and Ryan 2008, 2017. See the Appendix for a classification of motivations according to SDT.

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Autonomous motivation

As stated above, **autonomous motivation** includes intrinsic as well as internalized forms of extrinsic motivation. This is important for organizations, because they can design workplaces to induce autonomous motivation and improve well-being of their employees. While intrinsic motivation is inherent, internalized extrinsic motivation encompasses:

- understanding and accepting the importance of particular external goals, acting on them, and working toward goals. In the example in the box above, this is reflected in understanding why it is important to protect the environment, and change one's behaviour to align with organizational goals (e.g. reduction of energy use, use of recycled paper); and,
- internalizing important external goals as one's own - understanding the importance of the goal, and, in the context of the above illustration, going beyond recycling to apply learned behaviours in their life (e.g. start community recycling programs, support a ban on plastic bags, use of active transportation, etc.).

Those internalized types of motivations can be induced with appropriate policies that speak to basic human needs to be free to make choices, to grow, and to connect to others and to a larger purpose. Organizational culture, leadership style, as well as compensation systems will affect satisfaction of those needs in the workplace.¹¹

Psychological needs

Satisfying basic **psychological needs** proves to be increasingly relevant today, in the complex and changing knowledge economy that requires self-motivation, self-action, leadership and innovation from every employee. Studies have shown that extrinsic rewards often thwart intrinsic motivation, adding to the complexity of the compensation issue. In other words, the promise of a bonus for a particular outcome will evoke short term motivation to deliver on

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¹¹ Gagné and Forest 2008

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the specific task, but not long term motivation to continue to do the job well because there is inherent value in what one does. Furthermore, if an employee is doing the work because they enjoy doing it, offering them money may result in reduced effort (e.g. the company doesn't understand that the employee isn't motivated by the money, and the financial compensation can be viewed as an insult; believing that the company only values the outputs of the labour in monetary terms).¹²

The basic psychological needs that induce the right kind of motivation and well-being, described by the SDT¹³ are:

- autonomy,
- relatedness (purpose), and
- competence (mastery).¹⁴

Workplaces structured to be autonomy-supportive, purposeful, and enable education and learning to increase competence, result in dynamic and innovative organizations, but also in healthier workers. Examples include Results Only Working Environments (ROWE) at Semco (Brazil), Best Buy offices, Google, Atlassian, 3M.¹⁵ These organizations use tools that motivate employees in a more profound way than a pay raise could. Employees choose when to work, how to work, their salary, and who will be in their teams. Twenty percent of their working time is free to embark on any project they are passionate about.¹⁶ They also ensure the right kind of people, with shared values, join their workforce, by offering to pay them to walk away, if potential employees feel they are not the right fit after a week of training.¹⁷

¹² An often used example is blood donation - people who donate blood because it is the right thing to do (intrinsic motivation) will no longer participate if they are offered money (extrinsic reward).

¹³ Edward Deci 1971, 1972, 1976; Deci and Ryan 2005, 2008, 2017; Pink 2009; Fowler 2014; Gagné 2015.

¹⁴ SDT forms the basis of new thinking about motivation beyond the agency relationship that has dominated the practice for a long time. Mounting evidence from organizational psychologists and behavioral economists has influenced consultants (Daniel Pink, Susan Fowler, for example) to apply the premises of this theory of motivations.

¹⁵ Pink 2009

¹⁶ This 20% free time resulted in multiple innovations at 3M, Google, and Atlassian; from post-it notes to Google apps.

¹⁷ Vancity (Canada) also uses a similar onboarding policy with success.

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Therefore, successful organizations use ***compensation mechanisms combined with organizational practices that support worker autonomy, team-work and a higher purpose, and personal growth (learning, challenge, increased competency).***

Organizational justice

Besides the three basic components of psychological well-being (autonomy, relatedness, and competence), **organizational justice** plays a direct role in evoking autonomous motivation in workers. Organizational justice is thought to include:

- distributive justice,
- procedural fairness, and
- interactional justice (interpersonal fairness).

Distributive justice refers to ‘who gets how much’ and how people are paid relative to others. It influences pay satisfaction, job satisfaction, and the employee's intentions to stay or leave their organization. Fairness of the processes used to set and administer compensation is even more important. Procedural fairness requires procedures that are consistent, unbiased, accurate, correctable, participative, and ethical.¹⁸ Lastly, interactional justice involves the treatment people receive by those who set and carry out organizational policies and procedures; this has a significant impact on whether employees believe their employment contract is a simple economic transaction or a relationship built on trust and mutuality (Greenberg and Cropanzano, 2001 cited in Bloom 2004).

Putting it all together

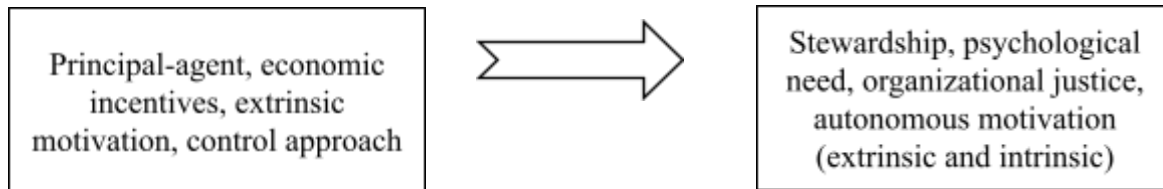
Values-based organizations look to enhance overall psychological well-being of their employees. They do that by ensuring their purpose is aligned with the values of the people involved with the organization; by creating an autonomy-supportive environment; deploying transformational leadership; ensuring fairness by being transparent and inclusive; and treating their employees

¹⁸ Bloom 2004

with respect. Compensation systems reflect organizational culture, but they also reinforce it.¹⁹ See Appendix B for examples.

Compensation in co-operatives

Paradigm Shift in Thinking about Motivation and Why/How to Compensate



Most co-operative compensation philosophies do not embrace the elements of this report. Hence a paradigm shift is needed so that new thinking is integrated into the “why” and “how” of compensation.

Therefore, we conjecture that compensation and incentives in co-operatives need to:

- be aligned with the co-operative organizational values and principles;
- adhere to stewardship theory (not a principal-agent conflictual paradigm); and,
- induce values-based motivations (autonomous motivations) in employees, management, and members.

Co-operative organizational values and principles

For co-operatives staying true to a business model rooted in co-operative identity, values, and principles, adhering to a compensation philosophy that embraces the elements outlined in this report should be a part of the social fabric of co-operation, and an element of the co-operative advantage.

Alignment with co-operative values and principles is essential for loyalty, trust, and autonomous motivation of employees. When co-operatives miss the mark on transparency, fairness, solidarity

¹⁹ Gagne and Forest 2008

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and human dignity, the disappointment and disengagement is potentially more severe due to high expectations of organizational justice.

Stewardship theory

Co-operatives ought to be leading the pack, but somehow their purpose and message was lost in the decades dominated by agency theory and practice. Governance and management approaches supported by compensation mechanisms that assume opportunism became a self-fulfilling prophecy in many cases. Successful co-operatives today are embracing their co-operative values and building their philosophies and strategies around the values and principles of co-operation. The advantage co-operatives have to implement the new paradigm, besides meeting human needs and having a clear purpose, is they do not have shareholders to stall the process if perceived as too costly. Evidence shows, however, that these costly practices (investments in people) make up in productivity of a happy work force.²⁰

The co-operative enterprise model is well aligned with stewardship theory of governance, and with the premises of humanistic management practice, its structures can support the tenets of SDT outlined in this report. In particular, stewardship theory assumes that:

- people are intrinsically motivated and respond to rewards that are not easily quantifiable, such as growth and self-actualization;
- they identify with the success and purpose of the organization;
- power and leadership come from personal competence, rather than formal roles in the organization;
- management philosophy is involvement-oriented and transformational, rather than control oriented and transactional;
- stewards thrive in, and support, collectivist cultures; and,

²⁰ See Sisodia et al 2007 and Mackay and Sisodia 2014. For worker co-operative performance see Perotin 2016.

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- stewardship creates environments with low power distance, placing greater value on equity and equality among colleagues and team members.²¹

Values-based motivations

Co-operatives are about meeting human needs and enhancing human dignity; fairness and social justice form an integral part of the co-operative mission. Compensation that induces autonomous motivation should therefore not be a stretch. However, compensation philosophies and subsequent policies and approaches in a co-operative must take the psychological need for autonomous motivation into account.

It seems to us that co-operatives generally have an advantage over at least two needs areas – **education/competence**, and a **purpose** beyond financial return. The third key aspect of employee self-determination – **autonomy** - is expected in worker co-operatives, but it need not be in other types of co-operatives where employees may be perceived simply as a resource, and compensated accordingly.

Investor-owned businesses are also providing autonomy-supporting structures, as illustrated in the Appendix with examples of values based enterprises which “best exemplify a high standard of humanistic performance”.²² An increasing number of cases of ‘conscious capitalist’ enterprises are at the forefront of innovative thinking about employee value and well-being. These companies are rethinking their purpose and stakeholder engagement (See Appendix B for examples).

Employee role in co-operatives

Employees are key to the success of any enterprise. They hold a special role in co-operatives since they carry the co-operative vision, and deliver the mission through an active engagement with the members, or are members themselves. The tenets of SDT, and research findings that support it, fit well with co-operative organizations based on values and principles of co-operation and centred on meeting human needs and aspirations.

²¹ Davis et al 1997

²² Sisodia et al. 2007

All types of co-operatives can learn from worker co-operative arrangements and focus, because **their purpose is to preserve human dignity in the work place through self-management, participation, and self-determination.** Although there will be differences, with other types of co-operatives more likely to have a more hierarchical leadership structure, there are lessons to be learned from worker self-determination at its fullest.

Literature on motivation cites workplaces such as Semco²³ in Brazil as poster-cases. If co-operatives are mentioned among examples of work collectives with autonomous decision-making, they are typically worker co-operatives (e.g. Mondragon).

We see a direct parallel between autonomy-supporting features in the literature on motivations (and consulting that follows from it), and worker co-operative structure. If anything, worker co-operatives can go further than the investor-owned alternatives because they are fully owned and controlled by the workers themselves.²⁴

Laboral Kutxa: Multi-stakeholder bank (worker, consumer and primary co-operative members)

Mondragon's founder father Arizmendiarieta instilled a clear focus on the transformative power of work from the onset of the first co-operative established in 1956. Over the next half century the Mondragon network grew to some 120 co-operatives and 80,000 workers. Many co-operatives in the Mondragon network today feature the multi-stakeholder governance form, giving voice to diverse stakeholders in a network governance structure (Turnbull, 2002). It is important to understand the Mondragon story from the pragmatic, multi-stakeholder engagement and governance perspective, in order to explore its evolution into today's powerhouse of networked co-operation. A few years after the first worker co-operative was established in Mondragon, the co-operative bank Caja Laboral was founded as the second tier co-operative by the group of co-operatives "comprised of Ulgor, Arrasate, and Funcor worker co-operatives and a consumer co-operative San Jose" (Whyte and Whyte, 1991, p. 52). All co-operatives include workers in their membership, thereby securing worker autonomy and self-determination. The bank, renamed Laboral Kutxa, is a multi-stakeholder, second tier co-operative, that is owned and governed by worker members, consumer members and primary co-operatives; the first multi-stakeholder, second-level co-operative in the Mondragon system .

Source: Novkovic, S. 2018

²³ Ricardo Semler 1993 and 2004

²⁴ Mondragon is probably the best known case of a worker co-operative featuring self-determination, participatory management, and pay equity and solidarity. Lowest to highest pay ratio in Mondragon is 1:9 according to Young foundation's study <https://youngfoundation.org/publications/humanity-work-mondragon-social-innovation-ecosystem-case-study/> , although Mayo (2016) cites 1:15. In any case, it is controlled by the worker-members, and much lower than industry standards. Other cases of exemplary worker co-op practice include SUMA (UK) and REI (USA).

Workers have control over their working lives; they choose their salary scales, pay differentials, distribution of income between surplus sharing, reinvestment and indivisible reserves. They also design their working times and spaces.

Often, worker co-operatives are non-hierarchical work places, where ‘management is a function, rather than a status’.²⁵ Mondragon is an inspiration in that many of their co-operatives include multiple stakeholders in their ownership and governance, always including the employees. A co-operative bank, for example, is owned by customers, co-operatives and workers.

It may be a challenge, however, to support workers’ autonomy when ‘the way we do things’ has been marked by years of extrinsic rewards and expectations. The challenge is not just in the leadership, but the employees themselves. A lack of exposure to alternative workplaces, and a lack of ‘radical imagination’²⁶ may be an obstacle to implementation.

Coming full circle: Principles

We conclude this report by coming full circle back to a comprehensive set of principles for a compensation philosophy fit for a self-determined and intrinsically motivated labour force (autonomous; purposeful; and competent):²⁷

- Embrace work as a source of **human dignity** (transparency, fairness, freedom, respect, accountability).
- Create a work environment where psychological needs required to induce autonomous motivation (**autonomy, mastery and purpose**) are realized:
 - Autonomy = Self-determination / empowerment / decision-making / democracy
 - Mastery = Competence / learning / personal growth / reliability
 - Purpose = Values / needs and relevance / relate to colleagues and community
- Develop approaches that ensure **equity and justice**.

²⁵ Bob Cannell 2015

²⁶ The term is borrowed from the book title and project by Max Haiven and Alex Khasnabish 2014.

²⁷ Deci et al. 2017

- **Go beyond the money.** Pay well, pay fair, and then forget the money as a motivator.
- **Embrace employee participation.** Commit to engagement in, open communication about, and transparency of compensation within the organization.

We conclude with a practical set of questions that complement these principles. The principles and these questions act as a “test” for all lower level compensation policies, procedures, and frameworks (see Box below).

Questions to test autonomy-supportive practices

Test policies/practices related to employees against the following questions. Is the policy or practice likely to:

- (a) allow the employees to gain competencies and/or feel confident,*
- (b) experience the freedom to experiment and initiate their own behaviors and not feel pressured and coerced to behave as directed, and*
- (c) feel respect and belonging in relation to both supervisors and peers.*

Policies or practices that are likely to support the employees in each of these three ways are likely to facilitate autonomous motivation, well-being, and high quality performance.

Those that thwart any of these employee experiences are likely to promote controlled motivation or amotivation, along with ill-being and, at best, quantity but not quality of performance.

For example, work settings, in which supervisors acknowledge employees' perspectives, encourage self-initiation, offer choices for individuals and groups, provide meaningful feedback, assign tasks that are optimally challenging, and give a rationale when requesting a behavior, are likely to lead to both high-quality performance and wellness, as mediated by basic psychological need satisfaction and autonomous motivation.

Source: Deci, Olafsen & Ryan 2017

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Appendix A: Self-determination theory (SDT)

Table 1 illustrates the elements of the Self-determination theory (SDT). With the aim to induce autonomous motivation, compensation ought to do two things:

- not hinder intrinsic motivation (A3) and /or,
- ensure that extrinsic rewards are internalized into autonomous motivation (A1 and A2).

Besides this, a co-operative has to live its values to ensure organizational justice and alignment with self-determination of its people.

The following table is a summary of different types of motivation according to SDT, developed by Edward Deci and Richard Ryan. Coming from an understanding that agency-based incentives²⁸ have limited effect, as well as negatively impact psychological health of employees and hinder intrinsic motivations, SDT has been adopted and promoted as a better way to design compensation systems that increase well-being and productivity (Daniel Pink 2009; Susan Fowler 2014, and others).

Table 1. Types of motivation according to self-determination theory

Motivation	Extrinsic and intrinsic motivations	Example (hypothetical scenarios In the context of a credit union)	Spectrum of actions
Controlled	C1. External individuals perceive their behavior as being directly controlled by others, often through contingent rewards and penalties. External regulation can powerfully motivate specific behaviors,	An employee is given a target to sign up a specific number of new accounts / new members in a month. Her bonus is contingent on meeting the target, and she has to submit regular reports about her progress.	No autonomy . .

²⁸ This refers to incentives that aim to align the interests of the ‘owners’ (principals) and the ‘employees’ (agents) because it is assumed that the agents would otherwise act in their own self-interest which may be mis-aligned with owners’ interest (most often being an interest of maximizing profitability for owners).

	but it often comes with collateral damage in the form of long-term decrease in autonomous motivation and well-being, sometimes with organizational spillover effects.	If new accounts are in marginalized social groups, intrinsically motivated employees may feel uncomfortable receiving money for reaching out to underprivileged communities - they could reduce efforts on acquisition of ‘social’ accounts as a result.	.
	C2. Imposed (introjected) People being focused on approval versus disapproval in their jobs and from their leaders. Imposed behavior is self-controlled by processes such as contingent self-esteem, ego-involvements, and guilt, as well as a concern with status and recognition.	Same as above, but now the supervisor posts individual results for the numbers of new accounts / products sold every day for all sales persons on the team. This generates peer pressure to do well / compete with others. If bonus is divided among the team members, underperforming adds stress.	.
Autonomous Facilitated by basic psychological needs: *Autonomy (choice;	A1. Aligned (identified regulation) – internalized extrinsic motivation. Individuals have personally identified with the importance or value of their work roles and behaviors. Because they have accepted as their own the rationale for acting, they are more	Supervisor explains: Social accounts are important; reaching out to communities without access to finance makes a difference in peoples’ lives. Yes, we have to charge them interest on loans, but they are better off than they would be without our services. Employee goes into the community to sign up new accounts and receives a bonus	.

self-determination)	autonomously self-regulated and are flexible in both selecting and sustaining their behavior and activities.	for the job, but understands the importance of doing it and the importance of signing up as many members as she can.	.
*Competence (mastery)			.
*Relatedness (purpose)	A2. Integrated regulation – internalized extrinsic motivation; People assimilate and integrate their identifications-this is the most mature and volitional form of extrinsic motivation.	Employee feels her job is important and seeks opportunities to reach out and help people in need (she joined the CU because it felt like a family, doing the right thing she wanted to be a part of). Her supervisor is supportive; she allows her free time to explore different options, talk to other team members, come up with ideas and proposals on how to be a change agent in an organization that is doing good. Money is not a factor - they are all well paid, trusted to do their job, and supported with generous benefits (they know the financial KPIs and understand the need to meet certain targets). They can take opportunities to learn and grow (conferences, lectures, volunteering, university courses). They support and learn from each other in self-designed collaborative sessions.	.
	A3. Intrinsic (inherent) A specific type of autonomous	Employee comes from an immigrant family. Her parents	.

Self-determination

	<p>motivation. It refers to activities for which the motivation lies in the behavior itself. Employees can be intrinsically motivated for at least parts of their jobs, if not for all aspects of them, and when intrinsically motivated the individuals tend to display high-quality performance and wellness.</p>	<p>struggled to make ends meet. They had to survive paycheck to paycheck and pay exorbitant fees to loan sharks to feed the family and put her and her siblings through school. She is passionate about helping other newcomers avoid a similar path. Since childhood, she has been volunteering as an interpreter helping new arrivals. She and her family loaned money to many struggling families, and she started a community micro-loan group as a high school project. Getting a job at the CU is a dream come true. She now has an organization, a team of like-minded colleagues, and a paycheck behind her to continue to help others as she always has.</p>	
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Table 2 provides commentary on the common compensation practices using a SDT lens.

Table 2: Compensation practices in relation to satisfaction of basic human needs.

Propositions (SDT based research findings)	Impact on psychological needs and perceptions of organizational justice
High base pay level / or base pay above the market average	Signals recognition of high competence; improved perception of distributive justice.
Low performance related pay (variable), relative to fixed pay	High proportion of contingent pay (pay for performance) may impede intrinsic motivation; when variable pay is linked to group success, and paid ex post, it has positive impact on autonomous motivation.
Objectivity of performance appraisal methods	<p><u>Skill-based</u> pay (individual characteristics) is positive for needs satisfaction via competence.</p> <p><u>Commissions</u> (individual performance) impacts negatively, reducing relatedness and autonomy.</p> <p><u>Merit pay</u> relies on manager’s subjectivity and has negative impact on autonomous motivations (procedural injustice).</p> <p><u>Profit sharing/gain sharing</u> – group incentive, positive impact through relatedness, as well as organizational commitment; but could have negative impact as individual competence is not recognized.</p>
Individual vs. group incentives	Group incentives have a positive impact on relatedness, and autonomous motivations; if they invoke peer pressure, they can have negative impact.
Justice perceptions	High base pay is perceived to be fair by distributive justice criteria. Some studies also found that commission pay and stock options are perceived as fair. ²⁹

²⁹ Pay by commission or stock options is perceived fair by some, but it thwarts intrinsic motivations on the other hand, as an instrument of control. For co-operatives, fairness also includes focus on people, rather than capital. Shares are not traded, and capital is a means, rather than the goal of co-operative organizations.

Organizational culture	A culture that values cooperation over fostering individualism will increase need satisfaction (relatedness). Group based rewards support co-operative culture (profit sharing/gain sharing); commission reinforces individualistic, competitive culture.
Work climate support	Managerial support and job design; more meaningful work increases autonomous motivation; transformational leadership (leaders who support employees' psychological needs also increase autonomous motivation). Work climate will influence how variable to fixed pay ratio is interpreted- as more/less controlling, or more/less informative about competence. It will also influence whether these compensation forms will be perceived as fair or not. Compensation systems that are less controlling, and more informative will increase need satisfaction.
Need satisfaction	Money has an impact on lower order needs (e.g. shelter and food), but not on higher order needs (self-realization, growth)

Source: Adapted from Gagne and Forest 2008

Appendix B: Examples of SDT supporting compensation policies and practices

This appendix provides examples of compensation policies and practices reinforcing organizational culture in values-based organizations.

Triodos bank (Global Alliance for Banking on Values member)³⁰ subscribes to principles in line with SDT proposals:

- salaries are transparent;
- Triodos pays fixed salaries to support intrinsic motivation;
- bonuses, if any, are small and given as a token of appreciation;
- employees can take a three month sabbatical leave every seven years to recharge; and,
- highest to lowest pay ratio is fixed at 10:1.

“Triodos works to align its employees’ compensation with the market—pay enough to attract the right people, but not so much that people stay too long for the wrong reasons.”

GLS Bank in Germany (GABV member) has one of the most noteworthy compensation schemes within the GABV.³¹ Its core philosophy is to invert the relationship between work and income from “I work so that I get income” to “I receive income so that I can work.” In this view, income enables a co-worker to spend his or her time and talent in the bank; it is not a reward. The underlying thinking is the ideal of a free human being who does not need incentives in order to work, but who wants to grow and develop and step into the work based on free choice and passion. GLS Bank adapted this philosophy to the following compensation scheme:

- Everyone receives a basic income. This is the foundation of the payment scheme, and other elements are added on.

³⁰ Kaeufer et al 2018. Draft GABV report.

³¹ Ibid.

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- Additions are based on two factors: (1) individual need related to social considerations such as family situation, location, etc., and (2) functional groups: GLS Bank works with eight functional groups that are defined in the work contract and based on educational level as well as the range of responsibility and the number of years of experience.
- There are no bonus payments.

1:6 Shifts to 1:15 Pay Ratio³²

The Spanish worker co-operative Mondragon draws on its values to extend the core list of co-operative principles from seven to ten. An example of its difference in action is on pay, as one of the first international companies to operate a ratio, set between top and bottom pay. The original ratio was up to 1:6 and was chosen as a way of encouraging managers to raise pay if they needed a pay rise themselves. In the 1980s, the ratio grew to 1:15 – as too many managers were being lured away by higher pay elsewhere. Alongside this, pay at Mondragon is set according to measures which include productivity and absenteeism and measures of how well staff members get on with other people (constituting 20 per cent of the pay decision).

“Firms of endearment”³³

Outdoor apparel and equipment company Patagonia has an environmental internship program that gives employees up to two months a year, with full pay and benefits, to volunteer with an environmental organization of their choice.

Outfitter REI supports community organizations (\$2.5 million in grants in 2005), but only issues grants to organizations nominated by employees. This is not just another exercise in corporate social responsibility (CSR). These socially responsible human resource activities are integral elements of a strategic system that reduces costs, improves productivity, and engenders superior customer and employee loyalty.

[Values based companies] can afford to be highly selective in employee recruitment because they are attractive places to work and generally rank well above average in their categories for

³² Mayo 2016

³³ Sisodia et al 2007; Chapter 4

wages and benefits. [Progressive Insurance] goes far beyond the norm in benefits. It extends medical benefits to employees' grandchildren, parents, and kids under 23.

Professor Charles O'Reilly of Stanford [...] shows that if companies create a culture in which employees take psychological ownership, even average employees can perform at high levels. Employees need to feel that they are listened to and appreciated and that they can make a difference.

Most [values-based companies], especially those catering to unique customer lifestyles, try to hire employees with a passion for the lifestyle focus of the business. For example, Patagonia, LL Bean, and REI try to hire only outdoors enthusiasts. This creates tight bonds between employees and customers. Trader Joe's, Wegmans, and Whole Foods recruit "foodies." Google describes its hiring policy as "aggressively nondiscriminatory" when it comes to potential employees' backgrounds. Its chief operations engineer is also a licensed neurosurgeon. Design firm IDEO's employees come from an amazing array of backgrounds, from physicians to architects. Executive leadership [...] typically comes up through the ranks. This turns into a big motivator for new employees, giving them hopeful and bright dreams about their future with the company.

[These companies] draw on four key elements to build trust with employees: respect for individuals, transparency, empowerment, and team building.

“Conscious Capitalism”³⁴

Whole Foods co-CEO Walter Robb describes [...] “...the single most important reason [people come to work for us] is that we line up with their own personal values, and that they truly feel we are a place where they can make a difference in the world. That is the language of purpose.”

Conscious Hiring and Retention Practices: The Container Store puts candidates through eight interviews with eight people. At Whole Foods Market, everyone is hired into a particular team on a probationary basis for thirty to ninety days, at the end of which a two-thirds positive vote by the entire team is required before a new hire is granted full team member status.

³⁴ Mackay and Sisodia, 2014

Promoting Teamwork: Working in teams creates familiarity and trust and comes naturally to people. Most of the “teams at Whole Foods have between six and one hundred members; larger teams are subdivided into subteams. The leaders of each team are also members of the store leadership team, and store team leaders are members of the regional leadership team. This interconnected team structure continues all the way up to the executive team at the highest level of the company. Teams make their own decisions regarding hiring, the selection of many products, merchandising, and even compensation. Teams have profit responsibilities as well. Most of our incentive programs are team-based, not individual. For example, gain-sharing bonuses are awarded according to team performance. Our experience at Whole Foods Market shows that trust, cohesion, and performance are optimized in this type of small-team organizational structure.”

A Conscious Approach to Compensation: Whole Foods Market has total transparency on compensation; everyone who works at the company knows what everyone else is paid. This is an essential part of the company culture; it ensures that the compensation system is fair; gain sharing in teams reinforces solidarity.

Everyone in the executive leadership team (the seven top executives) is paid exactly the same salary, bonus, and stock options.

Internal Versus External Equity: the firm caps the total cash compensation, including bonuses, for any team member at nineteen times the average pay of all team members. [..]

Senior executives are well compensated, but they are clearly not making the most money they could earn elsewhere.

Egalitarian Benefits: everyone from the CEO to entry-level team members has the same benefits. The only differences are based on length of tenure with the company. A cashier enjoys the same benefits as the two co-CEOs. At Whole Foods, team members vote every three years on the benefits they want.