Performance and Motivation in a Not-For-Profit Organization: an Examination of Stewardship Theory

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Abstract
The aim of this study is to understand the ability of stewardship theory, as compared with agency theory, to explain motivation of staff in Not-for-Profit (NFP) organisations. Agency theory is seen as providing an explanation of motivation in the business sector however the different cultural and organisational conditions weaken the explanatory power of agency theory in the NFP sector.

The interviews sought to answer the question: What is the main source of motivation in the organisation? Analysis of interview data has shown that a stewardship theory framework best explains motivation of employees in the NFP sector.

keywords: intrinsic rewards, extrinsic rewards, motivation, not-for-profit sector
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Introduction

The aim of this study is to understand the ability of stewardship theory to explain motivation of staff in Not-for-Profit (NFP) organisations. Agency theory is the accepted explanation of motivation in the business sector. Brown, Evans and Moser (2009) argue that agency theory is widely-accepted as an explanation of human behaviour. However, they make the point that the hypotheses of agency theory studies are such that agency theory will be confirmed as the most appropriate explanation.

The NFP literature presents a number of examples that suggest that agency theory may not have the same explanatory power in the NFP sector. In studies of employee motivation much of the evidence indicating the importance of extrinsic rewards comes from the business sector or was obtained using an experimental research method in which the context of the task is not considered. In fact participants in experiments are often required to perform trivial tasks. However, in a human services context the nature of the task is not trivial and in all likelihood is the reason for the employee being in the sector (Schepers et al., 2005). The fact that an individual is working in a NFP organisation is indicative of a set of values in which extrinsic rewards are not the first consideration (Weisbrod, 1983; Preston, 1989; Roomkin and Weisbrod, 1999). This is counter to what agency theory would predict.

Orthodox management considers that the performance of activities and the measurement of that performance occur in an organisational context in which there is a contractual relationship between employer and employee, both of whom are considered to be self-interested (Jensen and Meckling, 1976; Eisenhardt, 1989; Baiman, 1990). Hence, orthodox management employs agency theory to explain motivation. However, Jensen and Meckling (1976) make the point that organisations are made up of individuals who make decisions independently, and therefore the impact of inter-personal dynamics is ignored in agency theory.
Brinberg (2009) argues for a broader approach to researching the question of control systems, of which agency theory is one. Agency theory describes a method of control that measures individual employee performance and assumes that specific extrinsic rewards motivate performance. Brinberg calls for research into the control cycle in non-traditional settings, and argues for allowing practice to inform theory.

The literature

According to Merchant, Van der Stede and Liu (2003) the primary goal of an incentive scheme is to motivate employees. They state that there are, broadly speaking two strands of literature dealing with incentive schemes: the economic, based on agency theory, and the behavioural, based on psychology and sociology. The behavioural theory being considered in this paper is stewardship theory. The economic-oriented research focuses on incentive schemes for corporate management in large public for-profit firms, whilst in the behavioural literature there is a greater concern with subjective assessments of performance and job-related tensions.

If one assumes an economic identity for man then motivation can be explained by economic theories. Bonner and Sprinkle (2002) state that it is generally thought that the effect of monetary incentives on effort and performance is to lead to greater effort than if they had not been paid. In the business sector, the support of extrinsic rewards is a powerful norm (Kunz and Pfaff, 2002). Kunz and Pfaff (2002) point out, though, that there is a lack of understanding as to how monetary incentives lead to improved performance. In an attempt to explain the link between monetary incentives and improved performance, Bonner and Sprinkle (2002) consider four economic theories: agency theory, expectancy theory, goal setting theory and social cognitive theory.

Under agency theory the assumption is that individuals are rational and have clear priorities. In addition it is presumed that self-interest is the only motivator of individuals comprising of an increase in wealth and / or a reduction in effort. According to Kunz and Pfaff (2002) agency theory assumes a risk-neutral principal employs a risk-averse and work averse agent who has
access about the effort level and the nature of the task that is not available to the principal (information asymmetry). It is assumed that the combination of information asymmetry and the work and risk aversion will encourage the agent to be uncooperative. These characteristics of agency theory would suggest that it is not applicable to NFPs, in particular the assumption that only self-interest can be a motivator seems contrary to the values found in most NFPs.

Agency theory incorporates many of the features of expectancy theory that states that extra output will result in additional compensation and the motivation and consequential effort of an individual are likely to be greater if compensation is based on performance because of an increased expectancy about the effort/outcome relationship and the increased importance of the outcome. Goal-setting theory and social-cognitive theory may add to our understanding of the relationship between motivation and reward. According to Locke and Latham (1990) personal goals are the main determinant and precursor to performance. Locke, Shaw, Saari and Latham (1981) suggest three ways in which incentives can influence effort through goal setting.

The presence of financial incentives may encourage individuals to set goals which they would otherwise not do. Second, financial incentives may lead people to set more challenging goals than they otherwise would and these more challenging goals can lead to greater effort. Third, monetary incentives should lead to greater commitment to the goals and therefore greater effort than would be achieved if there were no incentives. However, Van Slyka (2006) is in agreement with Kunz and Pfaff (2002) and notes that there is the potential for goal conflict between the wealth-maximising behaviour of the principal and the utility maximising behaviour of the agent.

Social-cognitive theory (Bandura, 1986, 1991, 1997) expands on both expectancy theory and goal-setting theory by further explaining the cognitive factors that influence effort and thereby the possible cognitive mechanisms by which financial incentives can change performance.

While this theory attempts to provide a more detailed explanation of the effects of extrinsic rewards on an individual its underlying assumptions are similar to those of agency theory.
Brown, Evans and Mosser (2009) point to research that indicates anomalies in agency theory as an explainer of employee behaviour. Two of the more important of these anomalies are that employees report more honestly than agency theory would predict, and that the decisions of agents are based on a range of factors much wider than the emphasis upon wealth that agency theory predicts.

**Stewardship theory explaining motivation**

Whilst the economic theories discussed do include social cognitive behaviour and goal-setting, they are underscored by the assumption that the agent is motivated by self-interest. Stewardship does not make this assumption. Rather, stewardship theory assumes that an employees’ behaviour be aligned with the interests of the organisation, not solely self-interest (Davis et al., 1997a). Under stewardship theory the employee attaches greater importance to collectivist behaviours centred on the organization rather than self-interest (Merchant et al., 2002). According to Van Slyka (2006) stewardship theory examines behaviours and relationships ignored by the economic theories. The behaviour on which stewardship theory is predicated includes collective, pro-organizational behaviour that emphasizes goal convergence rather than self-interest. Stewardship theory assumes that long-term relationships are based on trust, collective goals and involvement where the goal alignment between management and staff is developed by relational reciprocity. Davis, Donaldson and Schoorman (1997b) argue that a steward gives primacy to collective goals over individual goals, the interests of the principal over self-interest, and sees the success of the organization as an accomplishment and encouragement despite the lack of financial incentive or individual utility. Under stewardship theory the goals of the principal and agent are more aligned than is the case with agency theory. Agency theory assumes conflict between principal and agent, stewardship theory argues that conflict is not necessarily so. Stewards are motivated by trust, reciprocity, autonomy, responsibility, job satisfaction, stability and mission alignment (Van Slyka, 2006). Some contexts are characterized by altruism and trust and where employees are involved with the operation of the organization despite there not being an incentive scheme.
Rewards in the Not-for-Profit Sector

Holcombe (1995) argues that bringing about a congruence of individual values with organizational values creates a sense of personal mission that becomes an employee's commitment to the mission of the organization. This is in keeping with stewardship theory. In her study of the Grameen Bank, Holcombe demonstrates the importance of employee identification with the goals and values of the organization to the achievement of its mission. According to Brown and Yoshioka (2003), NFP staff, particularly volunteers, tend to be motivated by the values and mission of the organisation. However, they also found that a perception that pay was inadequate was a source of dissatisfaction, which could lead to a reduction of commitment to the organisation. Thus, extrinsic rewards cannot be ignored.

According to Berry, Broadbent and Otley (1995) people working in the 'caring services' may consider remunerative reward as less important than the normative reward of 'doing a worthwhile job'. Similar conclusions were drawn by Bouillon et al. (2006) in their study of hospital managers, indicating that stewardship theory may better explain motivation in a NFP environment than agency theory.

Research question and Method

The question to be answered by this research was whether stewardship theory provides the better explanation than agency theory for motivation in a NFP context. Determining the main source of motivation for NFP staff was seen as a means of answering this question. Interviews were conducted with 16 staff of a large Australian overseas development agency, many of the interviewees belonged to the organization's Development and Relief Service (DRS). Interviews were between 45 minutes and an hour in length.

5. Staff Interviews

Interviewees were asked whether the values of the organization were an important source of motivation.

Certainly for me personally. I always speak of myself as an aid worker, a development worker so I am here because I have an interest in development and working with the poor and improving their lives.
A second interviewee commented:

*I think probably when most people join the organization they have not read the mission statement and say “oh yes I subscribe to that” but it is clear what organization is about in terms of tackling poverty, working with the poorest and trying to advocate for the oppressed and so on. I get the impression from most people I know at the organization that that is the key driving force and why they joined.*

Given the importance of values, staff were asked what was done to maintain them.

*They get used a fair bit to reference our decisions so when big decisions are made they are quite often checked. That is very powerful.*

The establishment of a supportive culture is believed to be important for the development of a positive relationship between the individual staff member and the organization therefore staff were asked how the organization promoted morale.

*I think it is a pretty friendly non-competitive environment and everyone tends to get on fairly well and because of that it helps people to work here.*

*The devotion times are interesting morale building moments I think. There is half a hour once, twice, three times a week. The Tuesday one is the whole organisation. In those little bits of time you can discuss anything you want to discuss within teams. You can discuss your family, reflect on your morale so it goes to people’s hearts and souls when those conversations are allowed to happen and it is very supportive to people. It reflects the individual is supported as a whole person and free parking or a day off or birthday cake are maybe indicators of something but seem a bit more trivial than saying “I want to treat you as a whole person”. Giving a car park or a birthday cake can be done mechanically without much human engagement and those meetings get a lot of time. So the teams end up with a lot of understanding of each other and a lot of human support for each other. I have never seen a workplace do that before and it is very good.*

The responses above indicate that the efforts of the organization are appreciated and are seen as unique to the organization. The impact of the culture on motivation can be seen from the following comments:

*Really the whole DRS department puts a lot of extra time in but generally speaking it is a good organisation and gives a lot of support as well.*

*I think everybody puts in extra hours and nobody necessarily complains about it. I know I average about an extra hour every day.*
I have been here 6 years and started as a volunteer. It is something I really wanted to do. The organization provides more opportunity for that than most agencies in Australia.
I enjoy working at the organization. I believe in the values. It is trying its best to get the best out of its employees.

I wanted to get into aid and I started with volunteer work. I definitely can see that everyone is very committed here and I like to be in that environment.

As a personal thing I always feel pretty good when I land a big project for a country. The intrinsic reward is knowing that you have done a good job I suppose. There are other rewards and there may be some kind of recognition in terms of if a team is very successful there will be a pat on the back. Not monetary but more personal.

The interviewees have clearly indicated that they were motivated by the organization’s mission and culture and that there was significant congruence between their personal goals and those of the organization. Asked what the likely impact would be of the introduction of extrinsic rewards an interviewee responded that:

It would create a different culture.

Staff also expressed the opinion that extrinsic rewards would be inappropriate in the organization.

I think it may be difficult given the nature of the work we do and the organisation. It is not like selling cars, it is not a sales job. Certainly in DRS it may be more difficult. Marketing may be able to manage it a bit easier if they are linking it up with a number of children sponsored but I think in the work we do we do not necessarily look for quantity in our day to day work. That is not the issue and I think most people that are in DRS it is more a quality thing rather than a quantity thing. It is so difficult to measure that and to put a reward system against it.

This opinion was reinforced by the following comment:

The other reward we receive is within the field itself – we can transform lives and in some way you can contribute.

Discussion
The interviews reveal the close association between the organization's mission and culture and the values and motivation of the staff also reveals the complex interactions between them. The interviewees reported being motivated by the mission and values of the organization rather than by levels of pay or promotion contradicting agency theory with its emphasis on self interest. In addition the notion of managing performance through extrinsic rewards, as outlined in agency theory, was rejected by the interviewees. Davis, Donaldson and Schoorman (1997b) and Van Slyka, (2006) point out that stewards are more concerned with behaviour that is collective, pro-organizational emphasizing goal convergence rather than self-interest. Stewardship theory assumes that long-term relationships are based on trust, collective goals and involvement where the goal alignment between management and staff is developed by relational reciprocity.

Conclusions

This paper takes a behavioural perspective in both its research method and the research question and is in contrast to the economic studies undertaken in the business sector. This paper questions the widely-held assumption that agency theory has primacy in explaining motivation. (Brown Evans and Mosser (2009). The qualitative data reported in this paper suggests that stewardship theory, rather than agency theory, offers a better, richer explanation of employee motivation in the NFP sector.

Intrinsic motivational factors have been found to be important. The interviewees were concerned to achieve the organization's goals and their behaviour lacked the self-interest expected under agency theory. In addition stewardship theory takes account of inter-employee relationships and their potential to affect the attainment of organisational goals while agency theory emphasises the interaction between the individual employee and extrinsic rewards.

This paper highlights the complex nature of motivation which we suggest cannot be accommodated by agency theory. This paper also underscores the fundamental difference between business and NFP sectors and points to the appropriateness of
stewardship theory to explain motivation in that sector. The results reported in this paper were gained from one NFP organisation and therefore the conclusions should be regarded as tentative, they are strongly indicative. The findings do give direction to future research – which, we suggest, should be based on an inter-disciplinary approach.

Bibliography


