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Managing Moral Motivations

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Abstract

Firms confront three problems: (1) shirking (sub-optimal provision of effort), (2) smooth transfer of knowledge, and (3) eliciting new knowledge. The motivations possessed by firm members are four: (a) instrumental rationality (i.e., self-interest), (b) moral motivations and integrity, (c) intrinsic motivations, and (d) fairness motivations. The trick for the firm is to manage motivations in a way that solves its particular problems. The purpose of this paper is to provide the foundations for moral motivations and moral integrity, and to discuss the kinds of problems that they can and cannot solve, particularly in context of the complex motivational mix.

Managing Moral Motivations

1. Introduction

As the capabilities view of the firm matures, researchers have begun to turn their attention to underlying motivations. Initially not much was said on the matter, rather the focus was (and to some extent still is) on the firm as a social entity in which knowledge is coordinated and generated. In contrast, the traditional theories centering on exchange, the transaction cost and agency theories, have steadfastly adhered to the assumption of material and/or strategic self-interest for workers and contractors. Those literatures have thus focused on incentive alignment under conditions of information asymmetries or bounded rationality, with risk-aversion and asset specificity posing extra complications. The problem is that mounting experimental (and other) evidence suggests that economic agents don't behave the way agency and transaction cost theorists assume they do even in far more sterile settings, that is, contrived experimental settings devoid of meaningful social interaction amongst familiars (Sally 1995; Ledyard 1995). Since the behavioral assumption is key for those literatures, the evidence is particularly damaging.¹

What about capabilities theories? In an interesting contribution, Kogut and Zander (1996) suggest that firms can best be understood as social communities that create and transfer knowledge that is embedded in the competencies of individuals and organizing principles of work. Firms must create the "discourse and learning that promotes innovation and motivated behavior." While firm members are self-interested, they also long to belong, which means that identity through association is important. Identity further implies certain rule-based and moral norms which come to characterize the social nature of the firm. That leaves the door cracked for managing different kinds of motivations. Osterloh, Frost and Frey (2002) move the idea forward by suggesting that the firm confronts the particular social dilemma of preventing members from free-

¹ One of the transaction cost school's biggest proponents, Oliver Williamson, curiously admits that (in contraposition to the assumption always invoked): "People usually will do what they say (and some will do more) without self-consciously asking whether the effort is justified by expected discounted net gains. " (Williamson 1996, p. 49). But he believes that no other assumption than opportunism can take us as far in understanding the structure of economic organization. Capability theorists might disagree, but the point I want to make is that all theories will benefit by a more realistic characterization of workplace behavior.

riding on *firm-specific pool resources*--- club goods like "corporate culture, mutual commitment, common organizational rules and routines and accumulated firm specific knowledge, or absorptive capacity as widely discussed within the knowledge-based theories of the firm." In their view, techniques like monitoring that act only on extrinsic motivations will not work. Instead, inducing members to share their knowledge may require participatory and interesting work processes that otherwise act on intrinsic motivations (i.e., work for its own sake). The trick for the firm is to manage motivations in a way that strikes a balance between intrinsic and extrinsic motivations.

But even that characterization is too simple. Firm members may also hold truly moral motivations, particularly in the sense that they can be counted on to do what they agreed to do. The existence of moral integrity implies that shirking may not be the problem traditional organizational theorists think. Integrity also adds a new avenue for capabilities theorists because it provides a way out of social dilemmas. Thus, members of integrity would keep their word about not shirking, as well as not free riding on firm-specific pool resources.

The task ahead for the capabilities literature is to incorporate a more complex view of motivation into its analyses, one that adheres to the methodological principle of realism in assumptions. Intrinsic motivations are currently getting a hearing. My aim is to introduce moral motivations and the types of problems they solve so that they can be fully integrated into the mix. The rest of the paper is organized as follows. The next section provides the basis for moral motivations and integrity. To do so I draw heavily from philosophy. The section also introduces the important notion of mutual deceit and discusses the necessity of sincere workplace agreements to effectuate moral motivations. The third section presents contributions from the fairness literature and illustrates the complex motivational roles it can play. The fourth section reviews the evidence from a variety of literatures on incentives, and moral, intrinsic, and fairness motivations. The fifth considers the three types of problems and four types of motivations firms confront, and discusses the task of managing motivations. The conclusion offers some speculations on what types of firm structures might best enable the full range of motivation management.

2. Identity, Moral Principles, and Integrity

Peoples' identities are determined by how they define themselves. Economists define people by their preferences and utility functions. *Homo Economicus* is committed to the principle that his own preferences, whether they include others' welfare or not, are what counts and that his identity stops at his own skin. In contrast, social scientists and organization theorists have explored wider notions of self-definition that includes membership in groups (e.g., Kogut and Zander 1996; Wenzel 2002). The idea is that some people have a larger notion of self and commit to adopting group goals as their own, no matter if their own preferences conform or not. In this account, people can identify with many larger groups to one degree or another and their decision processes are framed as such. But even that expanded notion of identity formation is incomplete because people can also identify with principles. Principles are codes purported to be true that prescribe and prohibit certain behaviors. Individuals can embrace certain principles so strongly that they come to define themselves through those principles. People who identify themselves as honest or temperate or as pleasure seekers need not refer to or identify with particular groups. The account of integrity I offer is based on this last kind of identity formation.

The first task is to find a widely held principle relevant for organization members. In what follows I argue that the principle "not lying" not only qualifies, but also is central to the notion of integrity.

According to Bok (1995) a minimalist interpretation of morality acknowledges that all groups must work out basic values of (1) positive duties of care and reciprocity, (2) negative injunctions concerning harm, betrayal, and deceit, and (3) norms for what counts as just. Additional principles can be included on a maximal interpretation, but that invites all kinds of disagreements and charges of cultural imperialism. Nor does one need to agree with Bok's reasoning that the basis for the minimalist interpretation rests in human survival and coexistence to adopt it as a sound framework. It is sufficient that all major ethical and religious doctrines speak to these values, as do all human societies.

The first category can be roughly categorized as including moral sentiments (and perhaps the feminist notion of an ethic of care as well) and refers to the obligation to care for children, the sick and the weak, and the reciprocity of gratitude towards kindness.

The second can be categorized as ethics (or moral philosophy) and refers to injunctions (or negative obligations) against violence, lying, breaches, and theft. The third category, usually the domain of political and legal philosophy, refers to processes adjudicating disputes and determining what is considered fair. I use Bok's second category as the source of the principle ascribed to at least some firm members, and focus on the third category for a later discussion on fairness.

Lying is "any intentional deceptive message in the form of a statement" (Bok, 1978, p.15). Both intent and deception are necessary. A promise-breaker may not initially intend to break a promise, but may subsequently do so if circumstances change. If a promisor intends to break a promise at the time of the promise, perhaps out of strategic motives, he is also a liar. Lying is unethical because it coerces people to act against their will. It also breaks down societal trust by calling into question the reliability of promisors. For our purposes, lying is important because of its relationship to shirking. If a firm member agrees to do something (e.g., provide effort, not free-ride on firm-specific pool resources) while never intending to do so, he is not only a shirker or free-rider, he is also a liar. Economists have tended to shrug off such broken agreements as merely instrumentally rational, but morality says otherwise.²

Is lying ever justified? Immanuel Kant and some theologians like St. Augustine say no. Kant argues that lying always violates the moral law, as discovered through the categorical imperative: act in such a way that one can will the maxim of one's action to be a universal law. Therefore, it would be wrong for me to make a promise with the intent of breaking it (i.e., lie), because if it were a universal law that people made promises they do not intend to keep, promises would be impossible, and I could not will such a state. Most philosophers and theologians are not so unconditional. For instance Utilitarians argue that if by the act of lying one could bring about positive net consequences then one should do so. One could also ask: Should one lie to liars? Should one lie to prevent some harms? And, should one lie to a spouse in order to make thi/her feel good, especially if both partners recognize it as such and agree to engage in mutual deception? Bok (1978) addresses all of these questions and suggests that the answers depend on their justifications. She argues that justifications must be able to withstand public scrutiny by reasonable persons. On this account, lying to liars in order to exact revenge, as one would do in certain fairness or tit-for-tat strategies in game theory, would not be

² In fact, Kant has quite a different notion of rationality. On his view it is our capacity for rationality which requires us to follow moral law, not lying being a chief obligation.

justified.³ Lying to prevent harm may be justified. And lying in cases of mutual deceit for reasons of spousal affection, in recreational games like poker, and even in some buyer-seller relationships are indeed justified. The issue of mutual deceit is pivotal and the question of whether the firm can be seen as an arena of mutual deceit will be considered shortly.

2.1 Integrity

At its coarsest level, a person of integrity can be thought of as one who is honest and of character. Philosophers probe deeper. The Oxford Companion to Philosophy puts it this way:

To have integrity is to have unconditional and steady commitment to moral values and obligations. For such a person, the fundamental question whether to conduct life on the plane of self-concern or of moral seriousness has been decisively resolved, though particular life situations will doubtless continue to put that commitment to strenuous test. This moral commitment becomes a crucial component in his or her sense of identity as a person: it confers a unity of character... (p.410)

Similarly, McFall (1987) defines integrity as identity-conferring commitments to principles. Commitments are internal requirements or constraints imposed on oneself (see, for instance, Halfon 1989; Harcourt 1998). Qualifying principles can be either moral (e.g., don't lie) or not (e.g., art for art's sake). Being committed prevents one from considering certain alternatives one might prefer. So commitments are different than preferences. In economics, preferences are exogenously determined desires. In contrast, commitments are the product of conscious reflection. The distinction is crucial because the aim of economic man is to expeditiously fulfill desires in order to achieve maximal happiness, while one who is committed to principles doesn't necessarily have such a goal. Commitments and desire can conflict, but the person of integrity is obligated to choose in favor of the former.⁴

³ For instance, Rabin (1993, p. 1281) writes: "If someone is being nice to you, fairness dictates that you be nice to him. If somebody is being mean to you, fairness allows-- and vindictiveness dictates-- that you be mean to him." This passage illustrates how certain conceptions of fairness may not be particularly moral.

⁴ Minkler and Miceli (2002) construct a simple two-stage game amongst agents differentially endowed with integrity. In the first stage agents randomly couple and promise to cooperate or not in the second stage. In the second stage agents either keep or break their promises. It turns out that if there is sufficient

Integrity is more than moral identity. Integrity requires coherence between commitments and action and between the commitments themselves (McFall 1987). A person of integrity must uphold commitments against temptation for reasons the agent takes to be sound. For McFall, one possesses *personal* integrity if one holds identity conferring commitments and meets the coherence criteria. One further exhibits *moral* integrity if one possesses personal integrity but also commits to moral principles. There is no guarantee that agents will choose the right principles for the right reasons, but virtually all moral philosophy and religious doctrines endorse the principle of "don't lie," and one who adopts that principle as his own can be said to possess moral integrity so long as coherence is also satisfied. He may violate the principle to prevent some great harm, but he would not coherently differentiate between lying to left-handed and right-handed people, say. Nor could a person of moral integrity exhibit consistently honest behavior at home while consistently stealing at work. Coherence requires consistency, so in order for an agent to maintain integrity in the face of what appears to be inconsistent choices, the agent must be engaging in self-deception (Konow 2000) or participating in a context of mutual deceit.

Why would a person of integrity act on moral principles? There are two reasons, one a cognitive one from philosophy stemming from "internalism," the other from social psychology focusing on meaning.

The question for moral philosophers is: even if an agent recognizes a (minimalist) moral principle as right, does that give him reason to act on it? Moral philosophers distinguish between internal and external reasons (see, for instance, Nagel 1978). In the first case, the truth of the ethical proposition provides (or the agent believes it does) the moral justification for acting. Externalism, in contrast, holds that reasons for acting are based on the agent's own interests; the truth or perceived truth of moral propositions are insufficient by themselves to motivate action. If an agent believes lying to be wrong, but could otherwise benefit from a lie, say it would increase his utility, internalism would

initial integrity in the population, all agents make promises to cooperate in the first stage. In the second stage three groups endogenously emerge: some always keep their promises, some always lie, and some behave conditionally. The existence of integrity otherwise enhances the level of cooperation in a social dilemma setting.

give reason to not lie, whereas externalism on these facts would not. A person of integrity thus has (internal) reason to act on those principles he holds to be true.

Social psychologists have often equated well-being with happiness and its source in efficacy. Efficacy refers to doing well, or, more formally, to the likelihood of one's personal projects being successful. But that is only one aspect of well-being. McGregor and Little (1998) identify and provide evidence for "meaning" as another. Meaning refers to "being yourself" and to feelings of purpose, connectedness, and growth. In order to achieve meaning the authors posit that people try to make their projects consistent with core aspects of themselves, which is just the notion of coherence in integrity already discussed. Moral principles are one kind of project, and thus meaning gives the person of moral integrity reason to align those principles with her core identity and to act on them, quite apart from any happiness considerations. Indeed, one who experiences meaning needn't be happy (and vice versa).

2.2 Mutual Deceit and Moral Standing

As mentioned, games of poker, so called "white lies" for spousal affection, and buyer-seller interactions all qualify for contexts of mutual deceit. According to Bok (1978), what's critical is that the agents know the rules of the game -- meaning that lying is acceptable behavior, and also that each consents to those rules. A person of integrity does not suffer diminishment by lying wildly in a poker game. All involved know that misrepresentation is possible and morally permissible. In some buyer-seller contexts it is well understood that sellers will exaggerate their products attributes and their ability to lower price while buyers will understate their willingness-to-pay. Incumbent blustering about post-entry behavior to potential entrants in entry games surely represents mutual deceit. Many bargaining situations seem to have at least elements of mutual deceit.

The question is: are firms arenas of mutual deceit? The old Soviet adage "we pretend to work, they pretend to pay us" colorfully characterizes the concept. If firm members attribute moral standing to the firm and its other members, violations of agreements without some other compelling reasons then impose a loss of integrity and discordant identity and meaning. Stated differently, persons of moral integrity, persons

who coherently identify with and commit to the moral principle of not lying, have reason to keep agreements in their firms if they do not view the context as one of mutual deceit. In the context of the firm, there are three possibilities regarding workplace agreements, each of which bears differently on member integrity. First, firm members could believe that agreements exist and are important to honor because others have moral standing. Second, members could believe that agreements exist but are not important to honor because of mutual deceit. Third, members could believe that no workplace agreements exist, and thus performance, to the extent it exists, must arise for other reasons. Consider each in turn.

The first case mirrors in some respects the relational contracting found in organization theory (Rousseau and Parks 1993). Relational contracts are characterized in part by loyalty, long-term mutual commitments and fair dealing. In my framework those elements provide a *prima facie* case for the continued moral standing of the other, and hence people keep agreements because of their moral motivations. In particular, fairness by the other party indicates their sincerity and moral concern, and a person of integrity could not reasonably rationalize the relationship as one of mutual deceit. Thus in my framework fairness plays an instrumental role, it operates through mutual deceit rather than the moral principles underlying integrity. I will discuss this issue in more detail in the next section.

The second case, where agents believe that workplace agreements exist but are not important to honor because of mutual deceit, appears similar to the agency and transaction cost characterizations, but really is not. In those frameworks agents may agree to honor an agreement without ever really intending to (if they could get away with it) because such a promise would be contrary to their own interests (leisure over effort), and thus instrumental rationality dictates non-performance over promises. In contrast, the person of integrity may break a promise because either she does not believe the rules of the game require it, or because she does not believe the promisee possesses moral standing. The first possibility arises if the agent otherwise ascribes moral standing to the promisee, but believes agreements within the organization as something akin to games of poker where notions of advantage and winning dominate. The second possibility occurs if the agent does not ascribe moral standing to the promisee and hence does not think

agreements important to honor. That case would be akin to lying to a liar for reasons other than revenge, where the latter does not deserve moral consideration. Breaking a promise might be seen as justified punishment. Either possibility, however, diverges from the one stemming from instrumental rationality because the solutions are different. In the agency and transaction cost frameworks, performance requires incentive alignment. Here, the solution working on integrity requires the elimination of mutual deceit, independently of the incentive structure.

The last case refers to situations where no perceived agreements exist. Even though the agency and transaction cost literatures use the language of (made) contracts, this is the case most germane. To the extent agent integrity exists, it is simply not relevant. Performance could still occur through incentive alignment or by operating on intrinsic motivations, for instance, but in order for integrity to become a motivating influence, agreements would need to be articulated, understood, agreed to (at least implicitly), and the moral standing of the other recognized.

3. Fairness

Economists typically invoke reciprocity, real or anticipated, for their notions of fairness (Rabin 1993). In contrast, those working in psychology and social psychology have identified three different types of fairness (sometimes referred to as "justice"): distributive, procedural, and interactional (Cohen-Charash and Spector 2001). The first focuses on the perceived fairness of outcomes (e.g., income and promotion distribution in organizations). Perceived unfair outcomes are expected to affect a person's emotions (e.g., anger) and cognitions, which in turn affects their behavior. Procedural fairness, in contrast, focuses on the perceived fairness of the process determining outcomes. A fair process is consistent, unbiased, accurate, prone to corrections, inclusive, and ethical. The last, interactional, refers to the perceived fairness of interpersonal interactions by particularly focusing on polite, honest, and respectful communications.⁵

⁵ Interactional fairness might be closely related to the reciprocity notions found in economics. Examples of those most closely aligned with distributive fairness might include Konow's (1996) focus on allocations varying in proportion to one's contribution, and Fehr and Schmidt's (1999) focus on inequity aversion.

All types of fairness, distributive, procedural, and interactional, sincerely exhibited by another contributes to their moral standing. This recognition is a cognitive problem, not a social one (Landy and Becker 1987). Thus where sincere fairness occurs, mutual deceit rationally does not.

Let me briefly summarize the argument so far. People of integrity construct their identity through moral principles and thus have reason to act on those principles. A minimalist moral principle relevant for organizations is "don't lie," meaning that an agent would have reason not to shirk if she promised not to do so. Still, persons of integrity might engage in promise breaking if the context were one of mutual deceit, where the promisee lacks moral standing for instance. However, if the promisee herself is acting fairly, mutual deceit cannot be rationalized and the person of integrity has reason to keep her agreements.

In this account the role for fairness is indirect. Fairness can also play a more direct role in different kinds of identity formation. For instance, Kogut and Zander (1996 p. 503) suggest that "firms provide a sense of community by which discourse, coordination, and learning are structured by identity." For those authors, our employment gives us one of our most important identities, and this identity has important implications. It provides organization members a shared cognitive model of the world which improves coordination, communication, and learning and ultimately promotes motivation and innovative behavior. Since organizations are social communities, norms of fairness influence individual behavior. While not explicit, the further implication seems to be that organizations not successful in following fairness norms would experience the kinds of transactional contracts found in the economics literature with their attendant motivational properties. So members identify and act fairly with fair firms, but act more self-interestedly and identify less with those perceived as unfair. Wenzel (2002) likewise attributes identification with common groups, which means that members will be concerned with their status within the group and hence prone to follow group fairness norms.

Studies related to procedural fairness include: not exploiting fortuitous circumstances (Kahneman et al. 1986) and equal division of gifts (Frey and Bohnet 1995).

Fairness considerations could also influence members who identify with other individual members. Brockner (1988 p. 224) outlines the argument in his study of members who survive layoffs as follows: "if party A identifies with party B, and if party B has been treated unfairly by some external agent then party A may seek to redress party B's unfair treatment by retaliating against the external agent." This idea is conceptually distinct from those focusing on either identification with the collective as a whole, or with moral principles.

There has also been a lot of work done on the role of fairness on member performance without making reference to identity formation. Cohen-Charash and Spector's (2001) meta-analysis of the empirical literature already referred to nicely summarizes the theoretical literature. Distributive fairness is closely linked with equity theory, and one hypothesis is that outcomes perceived unfair will cause behavioral reactions aimed at particular outcomes. In contrast, procedural fairness predicts cognitive reactions toward the entire organization because that kind of fairness concerns the way in which the organization allocates its resources. Interactional fairness predicts attitudinal reactions toward those in decision-making roles, like managers, because it is those whose communications are being judged by members.

The relationship between fairness and motivations is complex. It may enter (a) indirectly and through identity formation based on moral principles (the account offered here), (b) directly through group or individual identity relationships, or (c) directly without any reference to identity at all. Or the relationship may be any combination of the three. To get some clarity on this and other motivational determinants, I next consider the evidence.

4. Evidence on Motivations

This section reviews the evidence on four kinds of motivations: incentive, moral, intrinsic, and fairness. This section takes a brief look at each.

4.1 Incentives

While economists usually assume that incentives are the sole motivating factor driving organizational members, little evidence exists to support the view. As mentioned in the introduction, the experimental evidence from social dilemma (and dictator and ultimatum) games seriously challenges the idea that participants act solely on their material self-interest. An important empirical regularity is that very high cooperation rates (typically over 80%) occur in repeated games with communication-- the context most closely resembling organizational interactions (Sally 1995; Ledyard 1995). Of course even those experimental settings cannot replicate the identity issues and social dynamics inherent in organizations.

Prendergast (1999) provides the most comprehensive literature review of the underlying assumptions of agency theory, including the incentive one. He does find limited support for the incentive assumption in "simple jobs," those not exhibiting a team nature necessitating joint contributions from different members. Piece rate payment schemes can boost salaries and productivity in windshield installation, Canadian tree planting, and on an aggregate level, Chinese agriculture. Prendergast further notes that, contrary to the literature, the vast majority of employers do not use pay-for-performance incentive schemes, instead opting for subjective performance evaluations to determine pay, promotion, and training. Nagin et al. (2002) analyze data from a telephone soliciting firm and find that solicitor performance does decline for some members when monitoring declines. However, they also find that a substantial fraction are disinclined to shirk and suggest that managers need to balance monitoring and incentives against fairness considerations. Again, their data covers a work setting where joint contributions are unnecessary.

4.2 Moral Motivation

Since it has been little recognized, few (if any) attempts have been made to assess the importance of moral motivation. The experimental evidence on repeated games with communication might seem indirect evidence, but it's not clear that moral rather than

some other motivation is responsible. Sally's (1995) meta-analysis does indicate that when experimenters elicit promises from participants cooperation rates do increase by 12-30%, depending on the regression model. That result seems to confirm the importance of a "don't lie" principle for many experimental participants.

Minkler (2002) provides evidence that workers are morally motivated. That study employed a national U.S. survey of 1005 randomly selected participants who were asked: "Suppose that it is almost impossible for your employer to check up on you. Would you say that you are very likely, somewhat likely, somewhat unlikely, or very unlikely to work hard if you agreed to?" 82.7% answered "very likely," 12.1% "somewhat likely," 1.9% "somewhat unlikely", and 1.6% "very unlikely." For those 94.8% in the "likely" categories, the motivations in rank order were: (1) moral, (2) intrinsic, (3) peer-pressure, and (4) positive extrinsic (e.g., promotion). Negative incentives (monitoring) were judged to be unimportant relative to a common anchor. Regression analysis of the variation in the likely group found that the higher the respondent's moral and intrinsic motivations, the more likely it was they were to choose "very likely" to work hard.

The study also investigated the role of mutual deceit. To gauge the extent of each of possibilities suggested earlier, the survey included the following question (with mean responses).

Q. Some people think that employers agree to provide a good working environment , and employees agree to work hard. Which of the following comes closer to your own opinion?

- a. These agreements exist in the workplace and are important to honor. 66.1%
- b. These agreements exist but are not important to honor. 11.3%
- c. No such agreements exist in the workplace. 19.7%

Over 30% of the respondents judged the workplace to be either a context of mutual deceit (b), or one where even basic agreements are absent (c). Of the respondents who answered (a) to the above question, 87.5% also answered "very likely" to the question about working hard if they agreed to, versus 72.4% for those who answered (b) or (c). While the evidence suggests that a very large percentage will keep agreements they

make, the number is higher for those who believe that such agreements do exist and are important to honor.

4.3 Intrinsic Motivations

In contrast to incentive alignment, intrinsic motivations serve to fulfill one's needs directly. An intrinsic motivation occurs if an activity is undertaken "for its own sake" (Deci and Ryan 1985). In the workplace setting that means members work not just for the indirect monetary rewards, but also for the direct satisfaction and fulfillment provided. A particularly interesting aspect of intrinsic motivation is its link to other motivations, particularly external incentives. Incentives might theoretically be structured so as to "crowd-in" intrinsic motivation, amplifying its effect. However, Osterloh and Frey (2000) survey the literature and note that the preponderance of evidence suggests a "crowding-out" effect, meaning a trade-off between the two (also see Frey 1997). Those authors attribute the crowding-out effect to two sources: the controlling aspect of cognitive evaluation theory, and a reciprocal appreciation of intrinsic motivations underlying psychological contract theory. In the first, intrinsic motivation decreases if the agent perceives that external interventions like pay-for-performance (e.g., incentive contracts) shifts the locus of control from the agent to the principal. In the second, extrinsic compensation brings into question the reciprocal nature of members intrinsic motivations, with an emotional reaction transforming the relationship into the kind of transactional/ externally motivated one posited by economists.

As noted, Minkler (2002) also provides evidence for the importance of intrinsic motivations. Intrinsic motivation was represented by the response "I enjoy my work" as a reason why people would keep their agreements to work hard. That response was second on the rank order and a significant determinant in the regression analysis. Moreover, the response "my employer might catch me" was used both to check the power of the monitoring (negative incentive) argument and also the crowding-out effect of intrinsic motivation theory. Once the respondent had placed themselves of having a likelihood of keeping an agreement to work hard, the question becomes to what degree would they do so because of employer monitoring? It turns out that respondents not only

judged the factor to be unimportant relative to a common anchor, but also increases in the response were negatively and significantly associated with increases in the likelihood of keeping agreements to work hard. In other words, those that thought the reason less important were more likely to respond with a preference to keep their agreement--- supporting the crowding-out effect of intrinsic motivation theory.

4.4 Fairness

Significant evidence from different sources suggests that fairness considerations influence organizational member behavior. Consider a small sampling.

Cohen-Charash and Spector (2001) offer a meta-analysis most on point. The authors study the correlates of distributive, procedural, and interactional types of fairness from 190 laboratory and field studies consisting of 64, 757 participants. The evidence suggests that each type of fairness is conceptually distinct, but that also each is highly correlated with the others. A key result finds that work performance was mainly related to procedural fairness (mean correlation coefficient of .47 for 11 field studies with 2061 participants).⁶ Performance included measures of effort, official performance ratings, in-role behavior ratings, and study specific performance measures. Similarly, perceptions of distributive and procedural fairness were negatively related to counter-productive work behaviors (mean $r = -.24$ and $-.29$, respectively, for 3 field studies with 597 participants). The authors also find that all satisfaction measures are strongly correlated with all fairness types. Finally, the organizational practices of voice, communication with employees, organizational support, and pay raises were each significantly related with perceived procedural and distributive fairness. Evidently, organizations can intentionally influence the perception of fairness through their practices and policies.

Researchers have also looked at the relationship between fairness and "organizational citizenship behavior" (OCB). Organ (1990 p.46 writes: "OCB consists of informal contributions that participants can choose to proffer or withhold without regard to considerations of sanctions or formal incentives." Examples include constructive

⁶ Interestingly, the relationship is much weaker for procedural fairness and virtually non-existent for the other types of fairness in laboratory settings.

statements, interest in others' work, respecting housekeeping rules, punctuality and attendance beyond standards, and *refraining* from expressing faults with others, resentments, and complaints about small matters. Organ (1990) hypothesizes that fairness judgements are cognitions related to OCB and that employee participation can legitimize procedural fairness. Cohen-Charash and Spector (2001) find some support for the relationship between OCB and distributive fairness (mean $r=.27$ for 7 field studies with 1688 participants) and procedural fairness (mean $r=.21$ for 8 field studies with 1835 participants).

Evidence from survivorship studies indicates that fair treatment of those laid off reduces the negative behavioral responses by survivors who strongly identify with the newly unemployed (Brockner 1988). Equity theory provides one possible explanation: members try to attain and maintain fair relationships with their organizations. If an employer treats others with whom a member identifies unfairly, that reduces an outcome associated with the organization and the member fairly responds by altering an input, reducing performance in this case.⁷

5. Managing Motivations

Firms confront at least three types of problems that must be managed. The first is the well known shirking problem of the principal-agent literature. If agents are self-interested and prefer leisure to effort, and if it is costly for principals to know agents' contributions, then agents will shirk. Depending on the information conditions, transaction costs, and risk-preferences, the solution usually involves monitoring, positive incentives (promotions, tournaments), and/or incentive contracts. The next two problems relate to managing knowledge. Recall that Osterloh, Frost and Frey (2002) identify the particular social dilemma of preventing members from free-riding on *firm-specific pool*

⁷ Minkler (2002) investigates the role of fairness in motivating members to keep agreements with their organizations. The question: "On a scale of 0 to 10, with 0 being not likely at all and 10 being very likely, how likely is it that you would keep an agreement to do a good job if you know your employer to be honest?" elicited a mean response rate of 9.69. Employer fairness would seem to be very important to respondents. The reported intensity of the attitude was not a significant determinant in the likelihood of keeping an agreement to work hard, however. Wenzel (2002) provides evidence from social dilemmas and tax compliance settings supporting the notion that social identity can transform social dilemmas and enhance fairness motivations.

resources. Such free-riding impedes the value creating transfer or sharing of knowledge within the organization. While the authors may view efficient knowledge transfer and sharing as the same thing, I will treat them differently.

What does it mean to free-ride on club goods like corporate culture, mutual commitment, common organizational rules and routines and accumulated firm specific knowledge? That seems to me to be a crucial question largely unaddressed. Consider mutual commitment. If someone free-rides on the commitments of others, that could mean something like breaking an agreement to do certain tasks, thereby slowing or otherwise subverting a project's completion. It could mean slowing the transmission of knowledge. How about free-riding on organizational routines? That could mean violating accepted rules for doing work tasks, since they are interrelated, meaning that others will have to decode the non-conforming processes, which in turn could mean the slowing of the transmission of knowledge. Framed another way, consider the elements of a social dilemma like a public goods game. In such settings, the individual dominant strategy is to withhold contributions. But if too many do that then the efficient amount of the public good is not provided and everyone receives lower, known, payoffs. In the workplace context, it means that members who do not make the effort to facilitate the transmission of knowledge free-ride on the benefits of whatever stock of knowledge is available. I take this knowledge transfer problem to be the knowledge equivalent to shirking. The knowledge contribution in question is analogous to individual contributions in public good games; everyone knows what contributions each could (and should?) make. That is the second problem that firms must manage.

A third, separable, problem concerns the sharing of knowledge. I take the transfer of knowledge to relate to some level of *existing* knowledge, where the inefficient transfer of knowledge due to member free-riding reduces the stock of knowledge and hence its payoffs. Whatever its origins, knowledge that flows smoothly creates higher value, and presumably that's one advantage of (efficient) firms over markets. While sharing can mean transfer, it can mean more. I take sharing to mean an agent's *contribution* or net addition to the stock of existing knowledge. It is one thing for an agent to participate in the smooth delivery of knowledge, it is quite another for an agent to add to that knowledge. I discussed the latter at length in earlier papers on the contribution of firm

member (particularly worker) *ideas* into the production process (Minkler 1993a and 1993b). Ideas are knowledge surprises that can not be planned for in advance. Returning to the social dilemma characterization, productive new ideas and innovations further increase payoffs (beyond that of smooth transfer) in unknown and unpredictable ways. One could not pre-specify the payoffs from currently unknown ideas and innovations, especially in a dynamic context. Principal-agent analyses and real-life work structures emphasizing known possible outcomes cannot adequately address situations where knowledge is dispersed and firm members themselves are the sources of new knowledge. If the need for this kind of sharing can be thought of as different from the need for efficient transfer, a different kind of solution may be required. It turns out that Osterloh, Frost and Frey's (2002) analysis mostly relates to this third problem.

So firms confront three problems: (1) shirking (sub-optimal provision of effort), (2) smooth transfer of knowledge, and (3) eliciting new knowledge. The motivations possessed by firm members are four: (a) instrumental rationality (i.e., self-interest), (b) moral motivations and integrity, (c) intrinsic motivations, and (d) fairness motivations.⁸ The trick for the firm is to construct a structure and processes that solves its particular problems by acting on the relevant motivation(s). Consider each problem in turn.

5.1 Shirking

If the nature of production is such that shirking is the central problem, the firm has to choose what motivation it wants to act on. If it is self-interest, then monitoring (a "negative" incentive devise), promotions (a positive one), or pay-for-performance or incentive contracts (neutral) schemes would work. Of course economists typically propose these solutions, quite appropriately in this case. However, if firm members hold intrinsic motivations, then those schemes may be counter-productive because incentive mechanisms that work on extrinsic motivation (self-interest) may crowd out intrinsic motivations. To the extent members would have performed the work for its own sake, monitoring and pay-for-performance may actually decrease overall effort as members

⁸ Obviously there are a myriad of both problems and motivations firms have to contend with, but the lists here are longer than in most efforts.

perceive the locus of control being shifted away from them. To act on intrinsic motivations the firm could instead institute processes members find interesting, participatory, and ones that promote and exhibit mutual loyalty.

The firm could also choose to act on moral motivations and moral integrity by making clear, sincere agreements with its members. That means transparent expectations and responsibilities, fair distributions and processes, and that members otherwise recognize the moral standing of the firm and its other members. Note that fairness plays the instrumental role of eliminating the rational basis for mutual deceit.

Fairness motivations might enter more directly. First, fair procedures, distributions, and interactions are associated with positive emotions, cognitions and behaviors. Fair organizations can expect positive worker behaviors. Organizational citizenship behavior is related to fairness judgements, for instance. Second, for members who construct their identities at least in part through their employment and/or with other members, norms of fairness sustain that identification and the resulting positive behaviors. In some sense to shirk in that case would be to harm oneself.

5.2 Transfer of Knowledge

As mentioned earlier, I take the transfer of knowledge problem to be similar to the shirking problem of withholding effort. The problems are equivalent if knowledge transfer is routine and a monitoring unit (or principal) could know what each member should be doing. If that's the case, then all of the solutions discussed in the last section pertain here as well.

Knowledge transfer could pose problems for the monitoring solution if member contributions were all different. Even if transfers were routine, the complexity could prove too costly or difficult for a monitor to effectively mete out sanctions. Of course the same could be said for production processes that require different kinds of effort contributions. Even still, carefully constructed incentive contracts, promotion schemes, and profit-sharing could prove sufficient to motivate self-interested members to perform. Added complexity should not similarly effect the other solutions. For instance, for the case of integrity it would not matter if member performance could be externally

monitored or not, so long as members know what they should be doing and if they view their agreements as having moral weight they are obligated to keep their agreements and perform.

5.3 Sharing or Eliciting New Knowledge

The final problem concerns the elicitation of ideas, new knowledge. Monitoring is powerless because managers could not direct or instruct firm members to have ideas. This is the case most relevant for Osterloh, Frost and Frey (2002) because they focus on knowledge assets that are largely tacit. But the tacit feature of the type of knowledge to which they refer means that managers could not monitor because one cannot instruct on what one doesn't know. This is the case I draw out at length in Minkler (1993a and 1993b).

In contrast, positive incentives could work if those contributing ideas are so motivated and if the value of individual ideas and contributions to knowledge can be measured and accurately apportioned. Bonuses, promotions, and profit-sharing schemes could all qualify. The caution about extrinsic incentives crowding out intrinsic motivations remains relevant.

On the minimalist interpretation, the relevant class of moral principles has to do with not breaking agreements. But it is not clear how an organization could exact an agreement with its members about generating and then sharing ideas. The problem is that ideas form the most intimate aspects of ourselves which no universal moral principle can obligate us to surrender. Agreements about ownership of ideas *once they've been introduced* are certainly possible and quite common. But there is no moral imperative for members to contribute them in the first place. Thus, perhaps surprisingly, I do not find a case for moral motivations or moral integrity solving the knowledge sharing problem.

Processes working on intrinsic motivations could prove successful. If members enjoy innovating for its own sake, and if the work processes are supportive, there is reason to share. Organizations confronting the knowledge sharing problem would benefit from screening for intrinsically motivated members.

It is more difficult to assess the likelihood of success of organizational solutions focusing on fairness motivations. We know that fair organizations can expect positive worker behaviors. The question is whether innovative behavior qualifies in the sense that members feel that fairness necessitates it. Given the elements of organizational citizenship behavior, it seems clear that the generation of new knowledge is beyond its scope. However, if fairness fosters member identity with the organization then it might also promote innovative behavior. Such members contribute because it is good for the organization, which in some sense is to say good for themselves.⁹

If the preceding is correct, three important points stand out. First, well constructed schemes working on self-interest, intrinsic, and fairness motivations can solve all three types of problems: shirking, knowledge transfer, and knowledge sharing. In the case of self-interest, positive incentive schemes will be necessary to solve the knowledge sharing problem. It appears that moral motivations cannot solve the knowledge sharing problem. Second, processes working on moral motivations can solve the shirking and knowledge transfer problems and may be an effective substitute for schemes working on incentives for those problems. Third, fairness not only affects fairness motivations directly, but also moral and intrinsic motivations indirectly as well. As such, fair organizational practices are efficient in the sense that they operate on three different sets of motivations. Unless self-interest can be shown to be an overriding motivation, or that processes acting on self-interest cost less, the analysis here reinforces the case for fair organizational practices.

6. Conclusion

The question becomes what kinds of firm structures support the different kinds of processes that act on the different motives. That question has been addressed for self-interest and shirking. Hierarchy supports monitoring, incentive contracts, promotions

⁹ One motivation not considered but probably warranting further attention is a work ethic based *personal* integrity. Such a person would commit to and identify with a principle like "hard work is good." Meaning provides the reason for such a person to work hard, quite apart from moral agreements with others, instrumental payoffs, or the degree of interest in the work itself. This worker may share knowledge if it is seen as a duty. It is not clear how the firm could inculcate such a principle, except perhaps by establishing a culture where hard work is the norm.

and tournaments. Of course the analysis here points to other motivations and solutions. Still, the transaction cost literature might be right about the hazard of certain exchanges even if it is wrong about what motivates organization members. If members identify with their organizations they may contribute positively. However, that identification also creates "others" not identified with, including other exchange partners (Kogut and Zander 1996). If self-interest or opportunism is the dominant motivation for such transactors, then the transaction cost literature is right to point out the hazards of asset specificity under bounded rationality. Once transactions occur within the scope of an organization, however, the analysis is far less compelling because of the other motivations that come into play.

To the extent moral motivations are important, their operation could mediate both intra and inter organization transactions. The possibility of clear and morally binding agreements exists inside of and between organizations. Any kind of organization would seem to meet these criteria. The key for the firm is to convince its members of its moral standing. Organizational fairness would achieve that purpose. In contrast, moral motivations do lose their force in buyer-seller relationships if such relationships are perceived or rationalized as ones of mutual deceit. False claims seem both rampant and acceptable in many such settings, at least enough so that counting solely on moral motivations would be foolhardy.

Intrinsic motivations suggest work processes that are interesting, personal, and participatory. One possibility is small firms or small work groups. Small firms are characterized by flatter hierarchies, less division of labor (so members do more kinds of work), and relationships that are personal (more face-to-face interactions).¹⁰ Of course smaller firms also provide less possibility for advancement.

¹⁰ The survey in Minkler (2002) provides some support for small firms. In a previously unreported question it was asked:

Q. Now we want ask you about different kinds of employers including corporations, small businesses, government agencies, and not-for-profit firms. For which of the following are you most likely to do your best work?

- a. Corporation. 11.2%
- b. Small Business. 25.9%
- c. Government Agency. 4.7%
- d. Not-For-Profit Firm. 10.1%
- e. No difference among them. 46.3%

Fair organizational practices include giving members a voice, open lines of communication, organizational support, and fair pay among others. The first two in particular are associated with member participation. Participatory organizations are inherently less hierarchical. So that kind of structure would seem to be able to better capture at least some elements of fair work processes. Since fair work processes are so important in acting on moral, intrinsic, and fairness motivations, perhaps the advantages of non-hierarchical organizational structures has been under-appreciated. Future research could also investigate extreme forms of participatory organizations, labor-managed firms and (to a lesser extent) franchises, to see if they do indeed offer high performance due to their ability to act on a richer set of motivations.

The evidence seems clear that organization members act on a rich set of motivations and the complex task firms confront is to manage and coordinate them effectively. The question is why do researchers, particularly economists, and some organizations themselves continue to rely on the behavioral workhorse of self-interest and its attendant incentive prescriptions? Heath (1999) offers one clue. In a set of one field and three laboratory studies he finds evidence of an "extrinsic incentives bias," where people predict that others are more motivated by extrinsic incentives than themselves and less motivated by intrinsic motivations. One implication is that the bias leads managers and principals of organizations to enact work processes that operate on the wrong motivation. Perhaps it should be added that researchers need to be mindful of the bias as well. But while it might be somewhat difficult for transaction and agency cost theorists to grapple with methodological realism regarding worker motivation, the time is right for that evolution. To their advantage, capability theories are not reliant on any one foundational motivation and a fuller motivational mix is easily accommodated.

While the largest response indicated no preference, for those who expressed a preference half report they would do their best work for a small firm.

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