An exploration of stewardship theory in a Not-for-Profit organisation

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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 the staff in a Not-for-Profit (NFP) organisation. Agency theory is seen as providing an explanation of motivation in the business sector however we argue that the different cultural and organisational conditions weaken the explanatory power of agency theory in the NFP sector. In pursuing this investigation, we were mindful of Brinberg’s (2009) encouragement for a more outward-looking approach to management accounting issues and in particular his call for the use qualitative research methods and to allow practice to inform theory.

Interviews were conducted with staff of a NFP organisation to gauge the impact of the introduction of a bonus scheme. The interviews sought to provide answers to three questions: what is the main source of motivation in the organisation? Were tensions created in the organisation by the introduction of the bonus scheme? Was there a change in the culture of the organisation, comprising camaraderie between staff, having fun at work, trust between management and staff, and an attitude of service to clients?

Practical implications: This finding has important implications for the management of NFPs. To maintain and improve motivation, management needs to look to the goals, or mission, of the organisation – in particular, to see that the goals include care of and service to clients. Originality/value: The originality and value of this paper stems from the fact that the data was gather in a NFP organisation that had introduced an extrinsic reward scheme.

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1. Introduction

The aim of this study is to inform the theoretical debate as to the appropriateness of stewardship theory, as compared with agency theory, to explain motivation of staff in the Not-For-Profit (NFP) sector. The study observes organisational practice with a view to informing theory. This is a departure from the experimental research method. Specifically, using qualitative data, we have examined the introduction of an extrinsic reward into a NFP organisation that, in the past, relied upon the intrinsic motivation of their staff. Hence, the contribution of the paper is twofold. It is carried out in a non-traditional setting, and it allows practice to inform theory.

Brown, Evans and Moser (2009) argue that agency theory is widely accepted as an explanation of human behaviour and holds a place of primacy in managerial accounting. However, these authors do make the point that the hypotheses of agency theory studies are so constructed that agency theory will be confirmed as the most appropriate explanation. 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 (Baiman, 1990; Eisenhardt, 1989; Jensen & Meckling, 1976). Jensen and Meckling (1976), in support of agency theory, make the point that organisations are made up of individuals who are wealth maximisers and who make decisions independently of others in the organisation, ignoring the impact of inter-personal dynamics. They will concentrate on tasks that provide opportunities to increase their pay, via such methods as a bonus scheme.

While agency theory appears to have received wide acceptance as an explanation of motivation in the business sector, there exists a substantial body of criticism of the theory. For example, Upton (2009) suggests that personality factors are important in the question of motivation.

Further, the NFP literature presents a number of examples that lead to the conclusion that agency theory does not have the same explanatory power in the NFP sector. While an exhaustive comparison of the explanatory ability of the two theories is beyond the scope of a single paper, an examination of the impact of an extrinsic reward on the motivation of staff sheds light on the ability of stewardship theory to explain the motivation of NFP staff. The criteria we use for assessing any impact on motivation of staff are staff collegiality, the relationship between staff and management, and staff attitudes toward service to and care of their clients.

The debate about the influence of extrinsic and intrinsic rewards on motivation appears to be cast in dichotomous terms. Intrinsic rewards are personal, “internal” responses, such as satisfaction or pride in an accomplishment. According to Ryan and Deci (2000) fun and challenge are of greater significance to an intrinsically motivated person than external pressures and rewards. Both sides of the debate point to research supporting the importance of extrinsic and intrinsic rewards, respectively, to the motivation of staff. However, 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. The focus of the experiment is usually to determine the effects of changing the level or frequency of rewards rather than what the participants are required to do. 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 (Preston, 1989; Roomkin & Weisbrod, 1999; Weisbrod, 1983). Because context is important, Brinberg (2009) argues for a broader approach to researching the operation of control systems, such as the use of extrinsic rewards. He calls for research into the control cycle in non-traditional settings, and argues for allowing practice to inform theory. The research reported in this paper follows Brinberg’s suggestion. It considers practice within an NFP organisation and uses this practice to inform the theoretical debate as to the ability of stewardship theory, as compared with agency theory, to explain motivation of staff in Not-For-Profit (NFP) organisations.

In the next section of this paper various theories of motivation will be examined, including a discussion of motivation in both the public sector and NFP organisations. Section 3 describes the organisation in which the research took place and explains the introduction of the extrinsic reward. Section 4 outlines the research questions and research method. This is followed by Section 5 – presentation of the interview data, and Section 6 is a discussion of the results. Finally, Section 7 presents our conclusions.

2. 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, while in the behavioural literature there is a greater concern with subjective assessments of performance and job-related tensions.

2.1. Economic theories explaining motivation

If one assumes an economic identity, then human 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 & 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 averse 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.
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<th>مرحله</th>
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<th>فرآیند</th>
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