

Research project:

METRICS FOR EVALUATING WORKERS' AND MANAGERS' COMPENSATIONS

Abstract (English version) – November 2019

1. INTRODUCTION

The research “Metrics for evaluating workers’ and managers’ compensations” aims to investigate the issue of remuneration systems within organizational contexts, with particular attention to the implications in terms of well-being, satisfaction and employee engagement.

The issue of salaries and - more generally - of recognitions, as well as the balance between the value generated by the employee for the company and the value perceived as a return, are arguments that have always been extremely delicate and fundamental for the success of the organization, especially if evaluated according to the Civil Economy perspective.

The hypothesis underlying the research is that the adoption of total compensation remuneration policies oriented towards equity (aimed at reducing the excessive salary gap: between managers and workers, gender, ...), leads to greater satisfaction and to a greater well-being of the employees, with positive implications on the organization as a whole (e.g. in terms of employee engagement, retention, talent development, internal “climate”).

The results of the research are aimed at identifying to what extent and under which conditions this hypothesis is verified, providing useful indications for the evaluation of companies in relation to the remuneration systems adopted, aimed at maximizing the positive impacts on employees and on the entire organization.

The research is divided into main chapters:

- **a review of broad-spectrum literature** (both Italian and foreigner) on company remuneration systems with a specific focus on the topic of reward and incentive systems, with the aim of highlighting the main theoretical and applied models and their effects on organizations in terms of equity, well-being, performance and salary gap;
- an **analysis of market cases** (carried out starting from the literature that allowed us to define an ideal-typical construct of "civil remuneration model" then used for the analysis of *ad hoc* cases) with which to gather empirical evidence related to remuneration systems adopted in different companies. A comparison is made between different sectors and between different organizational paradigms (e.g. traditional companies, ethical companies, companies of the Economy of Communion and Organizations with Ideal Motivation - OIM).

2. LITERATURE REVIEW

In the last decade, several scholars rediscovered the Italian Civil Economy tradition. With its roots in the 18th century, the Civil Economy tradition proposed a vision of the market which

differs from the neoclassical ones. The Civil Economy approach, indeed, considers the market relations not only as a conditional exchange, but also as mutual assistance processes that values the gratuity and unconditional elements.

So far, the Civil Economy debate has developed, especially, in the domain of the history of economic thought and in the economic and philosophy field (Becchetti and Cermelli 2018; Bruni 2013; Bruni and Porta 2003; Bruni and Santori 2018; Bruni and Sugden 2000, 2008; Bruni and Zamagni 2016; Pabst 2018); whereas, it has considered in a minor way the organizational field, although some scholars investigated also this latter (Argiolas 2014, Grevin 2015, Baldarelli 2011). Our research tried to adopt a 'civil' vision of the economic sphere in the organizational context, in order to analyse in further depth, the remuneration system, which is a central dimension within companies.

The Civil Economy tradition looks at the market as a 'place' where it is possible to foster people 'human flourishing' (Nussbaum, 2000). Therefore, it promotes not only the increasing of the economic utility, but it allows also the arising of unconditional relationships (based on gratuity) which are not considered in the economic sphere. In the organizational context, that implies a corporate engagement for companies oriented towards Civil Economy, to be 'places' where these elements can manifest, tied together by trust, defined by Genovesi as that 'rope which ties and unifies' (Genovesi, 1852, p. 751). Therefore, as places which foster both the rising of human virtues and workers' intrinsic motivations (Bruni, 2009).

There is a hypothesis lying behind this research we present, which is that these elements, in civil firms, involve all the aspects of the organizational life, leading them to implement some original remuneration systems.

In order to examine this hypothesis in depth, we need to analyse the mainstream literature about remuneration systems, which is adopted in current business schools, so as to recognize the differences with the Civil Economy system. Canice, Prendergast, Edward Lazear, Bengt Holmstrom and Michael Gibbs are the main authors dealing with these remuneration forms. From the analysis of the mainstream literature, it is possible to notice how the dominant remuneration model focuses especially on a value determination of every subject, in relation to his/ her performativity and technical-managerial capacity. From the mainstream economic vocabulary, the terms reciprocity, gratuity and trust, are excluded.

Theoretical studies and the corporate praxis show that individuals' performance is evaluated on the basis of the reached results, correlated to the assigned quantitative objectives and/ or to the subjective judge of the evaluator, who expresses only an evaluation of the workers' behaviour related to the corporate goals. On the basis of this evaluation, managers establish both remunerations and the incentive system. Furthermore, the supervisor can decide to assign awards linked to the personal contribution on the company efficiency. Of course, this decision will not be easy in as much as it is difficult to manage the prizes in an equal way in

order to satisfy the organizational justice and to promote a strong engagement of capabilities in workers.

Adopting some multiple performance systems produces many problems in determining bonuses. Therefore, managers decided for a subjective evaluation in the incentive system. Adopting subjectivity makes the contract flexible and allows the top management both to reduce the manipulations' phenomenon - connected to short term measurements - and to diminish the incertitude level derived from non-controllable factors (positive or negative) on managerial results.

In this framework, it is important to specify how the current corporate remuneration system is changing in relation to both competences and performance, with reference to monetary and non-monetary rewards, fixed and variable rewards, and independent and coordinated rewards (Chen and Hsieh, 2006). According to Yao and Fang (2005), the total reward system deserves attention in as much as on the one side a good remuneration system can motivate employees, so as to reduce the 'escaping' of workers; on the other part, benefits for employees have an important role in retain talents.

Following this logic, in almost every company of medium/ large dimensions, it is possible to find a total compensation system, that is something that goes beyond wages, by including essential elements such as the basis remuneration, the variable ones (linked to performance), bonus and money awards, but also some elements which contribute to the intangible value of workers' life. These latter can include the employees' abilities learned in the workplace, the training activities, the opportunity to evolve in more important leadership roles and advantages such as fitness courses, healthy assurances, educational incentives (such as the school tax reimbursement), remunerated holidays, flexible hours, placement options, supplementary pension, special programs, and so on.

We must do a special mention also to those academic studies connected to investigate the awards' and incentives' effects on employees' motivation. For example, if on the one hand the incentives' aim is to align the worker's behaviour to corporate goals, on the other hand the incentives' effect crowds out the workers' intrinsic motivation, modifying individuals' preferences to align them to corporate objectives (Frey and Gallus, 2017; Lazear, 2018).

An alternative to the concept of incentive is the concept of award. This latter - especially when it involves a public recognition through ceremonies - increases workers' availability and intrinsic motivation (Bruni et al., 2018). In particular, Frey and Gallus (2017), through an empirical study on awards in the academic field, suggested that awards generate an amelioration effect both of workers' status and of their performance (on p. 110 you can find the main differences between awards and incentives).

Shifting the attention from the classic mainstream vision to the civil-economic one, related to the remuneration system, several recent studies showed how the cooperation dimension is

easier to reach in multi-winner competitions compared to where there is only one winner (Becchetti et al., 2014). To increase both cooperation and super-additivity, the civil company should build multi-winner competitions in relation to awards and incentives' usage.

Anyhow, it is necessary to contextualize the usage of both incentives and awards, in relation to the same goals that the company wants to obtain. When the corporate goal is most oriented to value the workers' intrinsic motivation and sense-making, then, it is better to emphasize the award system rather than the incentive one. In this case, it is important to have a correct usage of management tools, which is coherent with the Civil Economy logics.

Moreover, the Civil company, should consider the reward system in a double manner. First, it should look at well-being at work, which does not relate only to wages and to given rewards, but also to other factors, such as the employees' participation level in the corporate life, so as to increase the workers' satisfaction degree (Albertini and Leoni, 2009; Argiolas, 2014; Wood and Wall, 2007). It is also fundamental to value the ethical component of the reward system in the evaluation process, so as to avoid that individuals act only for extrinsic motivations, but are also guided by the intrinsic ones.

Currently, companies are discussing their internal remuneration system, by including it in a total compensation logic, so as to increase well-being at work.

In this research, we selected some company cases that are innovating their remuneration system, following a logic which is similar to the Civil Economy ones.

3. MARKET CASES ANALYSIS

The second part of the research is based on the study of a selection of market cases, aiming to provide useful recommendations about specific compensation policies and their effectiveness in terms of employees well-being.

The **selection of market cases** was implemented according to the following process:

- A. **desk analysis** for identifying an initial panel of market cases => **95 organizations**;
- B. **request for availability to participate** to the research => **37 organizations**;
- C. **pre-screening interviews** (conducted in a homogeneous way starting from a shared interview track) => **21 organizations**;
- D. **in-depth interviews** (conducted in a homogeneous way starting from an interview track and a shared data request) => **16 organizations**, chosen for the originality of the existing remuneration system.

The panel of analysed cases, both in the pre-screening and in the in-depth phases, was based on the criterion of "biodiversity", including organizations with different characteristics in terms

of: size (small and medium size, but also some multinationals), sectors (banking, insurance, large-scale retail, packaging, healthcare, IT, industrial, consulting and municipal companies), paradigm (traditional companies, ethical companies, Organizations with Ideal Motivations - OIMs and companies of Economy of Communion - EoC).

Organizations included in the final research panel are:

- ABS - Alternative Bank Switzerland
- ICT Italian company
- AMAP – Azienda Municipalizzata dell'Acqua di Palermo
- Assimoco
- Chimar
- Federcasse (Credito Cooperativo)
- General Motors – Global Propulsion Systems (GPS)
- German ethical Bank
- Istituto Serafico di Assisi
- Leroy Merlin
- Liomatic
- Multinational Consultancy company
- TeamDev
- Dutch ethical Bank
- Canadian ethical Bank
- Mondora srl sb (part of TeamSystem Group)

Out of the analysis on selected market cases we highlighted some **key words**, grouping **most interesting evidences** both as **market trends** and **specific initiatives**.

For each key word, references to specific market cases (described in research full report) are reported.

i. Employees (stakeholder) participation to profits

- Participation to Company economical results (Leroy Merlin)
- Distributed shareholders (Leroy Merlin)
- Profit Sharing Plan (Canadian ethical Bank)

ii. Level of differentiation in compensations and diversity management

- Definition of a threshold for the ratio between highest and lowest compensation (ABS)

- Definition of a threshold for the ratio between highest and lowest compensation (Dutch ethical Bank)
 - Monitoring of ratio between highest and lowest compensation (German ethical Bank)
 - Low level of compensation differentiation – managers and employees (Chimar)
 - Active management of gender salary gap (ABS)
 - Promotion of cultural and ethnical diversity (Chimar)
 - Focus on diversity: measurement of % of foreigners and disabled employees working in the Company (Leroy Merlin)
 - Attention paid to gender salary gap – compensation transparency (Mondora)
- iii. No variable compensation (no incentives)**
- No variable remuneration (ABS)
 - No variable remuneration (German ethical Bank)
 - No variable remuneration (Serafico)
 - No incentives in order not to crowd out intrinsic employees' motivations (Dutch ethical Bank)
- iv. Company welfare**
- Company welfare: rationalization, internal communication and change management (AMAP)
 - Company welfare for employees and their families (Serafico)
 - Welfare as a way to concretely promote employees well-being, both during working time and outside work (Liomatic)
 - Welfare system: medical insurance, discounts, Counseling, ... (TeamDev)
 - Innovative and “human centred” Company welfare (Mondora)
- v. Team awards/ incentives (not only for individuals)**
- Variable compensation linked also to team objectives (ICT Italian Company)
 - MBO team incentives – claims payment unit (Assimoco)
 - Transformation of awards/ incentives schemes from individual to team (Chimar)
 - Team incentives linked to “premio di progresso” (Leroy Merlin)
 - Individual and team awards for extraordinary results and commitment (Dutch ethical Bank)
 - Team awards, with a collective decision about allocation (Mondora)

- vi. Recognize adhesion to Company values and identity**
 - Commitment to identify indicators linked to mission and identity of mutualistic Banks in order to be used within “Premio di risultato” (Federcasse – Credito Cooperativo)
 - ESG indicators to calculate “Premio di progresso” (Leroy Merlin)

- vii. Symbolic and no-monetary awards**
 - Symbolic and collective recognitions based on Company results (Dutch ethical Bank)
 - Valuing of no monetary compensation components (Canadian ethical Bank)

- viii. Quality ranks**
 - Monthly rewards (symbolic or experiences) based on ranks linked to quality indicators – e.g. customer satisfaction (AMAP – initiative under construction)

- ix. Innovation awards**
 - Global Innovation award (General Motors – Global Propulsion Systems)
 - Patents awards (General Motors – Global Propulsion Systems)

- x. Recognition programs**
 - Recognition program (General Motors – Global Propulsion Systems)
 - Symbolic awards and recognitions: gadget and social (Mondora)

- xi. Celebrations**
 - Public celebrations (rituals): transparency, focus on results, target behaviours and Company values (ICT Italian Company)
 - Celebration occasions e.g. “Project day” (Assimoco)

- xii. Communication and transparency**
 - Transparent communication processes for variable compensation components (Assimoco)
 - “Vademecum” for communicating and valuing different compensation system components (Multinational Consultancy Company)
 - Opportunities for exchange and dialogue between leadership and employees

(Canadian ethical Bank)

- Full transparency on compensations within the organization (Mondora)

xiii. Mutuality/ Solidarity

- Company fund for employees' needs (Serafico)
- "Banca del tempo solidale" (Federcasse – Credito Cooperativo)

xiv. Family support

- Compensation policies to support employees' families (Liomatic)

xv. Employees well-being

- Well-being initiatives both for employees and their families: benefits, welfare, initiatives (Assimoco)
- Particular focus on employees well-being (German ethical Bank)
- Particular focus on employees well-being (Dutch ethical Bank)
- Particular focus on quality of working life (TeamDev)

xvi. Flexible working time/ Smart Working

- Flexible working time management: Smart Working and agile clocking in/ out (Assimoco)
- Paid sabbatical time (German ethical Bank)
- Extended Smart Working program (Multinational Consultancy Company)

xvii. Time for voluntary activities

- Time for voluntary activities (Federcasse – Credito Cooperativo)

xviii. Training

- Funding for courses and training chosen by employees, also not strictly working related topics (ABS)

xix. Employees participation

- Participation culture: e.g. team for compensation system or Company welfare (ICT Italian Company)
- Internal team to improve and redesign compensation system (Assimoco)
- Budget goals defined through a bottom-up-bottom process (Leroy Merlin)
- Collective decision (leadership team) about rewards and promotions (ICT)

Italian Company)

- Concrete dialogue opportunities between leadership and employees (Liomatic)
- Dialogue opportunities between leadership and employees (Leroy Merlin)

xx. Awards and performance management systems

- Distinction between performance management system and awards system (German ethical Bank)

Coming to the conclusion of market cases analysis, we summarize below a **check list** including **main topics to be addressed when dealing with incentives/ awards system** design or re-design:

- Which aspects are to be incentivized/ awarded? Target/ results achievement or commitment or activities developed?
- Who to award? Only the best (exceptional role models) or all of those who performed satisfactory? How to measure exceptional results (e.g. extra time or extra quality of delivery)? Individual or team? Extra contribution is already “paid” by standard salary or it should be “paid” by incentives and awards?
- How to reward employees with very different job roles (e.g. salesman vs back office)?
- Which type of rewards? Monetary vs no-monetary ones? Symbolic ones? Leave the choice to employees or not?
- You have to connect rewarding system with performance management system or not?
- Who decides about rewards? Centralised vs decentralised decisions?
- Publicize or not awards decisions? Celebrations or not?
- Incentivize positive behaviours (e.g. cooperation) and also punish negative behaviours?

4. TOWARDS A DEFINITION OF METRICS FOR EVALUATING WORKERS' AND MANAGERS' COMPENSATIONS

Through the research work, both in the context of literature review and in the context of market case analysis, it has been identified an initial set of metrics that organisations can consider to adopt for the analysis of their workers' and managers' compensations.

Each of these metrics has one or more references to key concepts of the Civil Economy paradigm, which, in turn, influence employee welfare.

The first set of identified metrics is:

- Ratio between maximum and minimum salary
- Ratio between maximum and average salary
- % of variable remuneration on total remuneration (for monetary component only)
- % of variable remuneration allocated as incentive vs premium (given the definition of premium and incentive – ref. Frey)
- % of no-monetary remuneration on total salary value (including no-monetary components)
- Dispersion indicators of salary concentration (e.g. Gini index)
- Gender salary gap indicators
- Diversity salary gap indicators (for the most relevant diversity categories, regarding the specific business context)
- % of total ESG objectives allocated (with reference to productivity premiums *erga omnes*)

The identification of these metrics, rather than others, derives from looking at the compensation systems through Civil Economy perspective. As emerged in the literature review, and also in the table showing the differences between the standard compensation model and Civil compensation model, it is possible to identify four main elements related to the Civil Economy tradition.

1. In the ‘Civil compensation model’, which is person-centred, the compensation factor should consider several human needs: not only the economic ones, but also the relational, spiritual and cultural ones. In the article “*Da Genovesi a Zappa. Appunti per un’analisi dei legami tra l’economia aziendale e l’Economia Civile*”, Professor Renato Ruffini (2011) highlights how company goal is not only based on profit maximization, but also on reaching the common good. With reference to the above mentioned metrics, pursuing the common good consists, for example, in valuing the Corporate Social Responsibility dimension. That means including the ESG elements among parameters which are considered with the aim to evaluate the incentive and award system.
2. The ‘Civil remuneration model’ promotes cooperative relationships, rather than competitive ones. That means, for instance, that rather than aiming to defining the individual incentives, the civil-economic model prioritizes the collective incentives and awards (see pp. 91-98). This mechanism, within metrics, can be seen in the definition of the ‘percentage of the variable remunerations given as incentive vs. award.’ Collective incentives foster the rising of a team spirit, in a collaborative logic oriented to achieving the common good.

3. The attribution of intangible awards, identified within metrics as “the percentage of no-monetary remuneration on the total value of remuneration (including the no-monetary component)” highlights the importance of both the intangible benefits (for example, time flexibility, education fellowships, family support) and of symbolic awards. As commented by Bruni and Smerilli (2011), we meet gratuity every time that people act for intrinsic motivations, and not only for an external goal. The term ‘gratuity’ is a keyword of every speech related to a civil life; the common life cannot be thought, indeed, without behaviours oriented towards the gratuity dimension, in as much as without gratuity there is not a true encounter with the other and there is not the rising of a real trust, without which neither the market nor the society cannot function. Civil Economy is not only gratuity, but there is not Civil Economy without gratuity. Moreover, the society would implode without these kind of behaviours. A total compensation remuneration system, which includes both the tangible and the intangible components, fitted well within the Civil Economy logics. In fact, rather than aiming exclusively to extrinsic motivations, this system allows to look also at the workers’ intrinsic motivations.
4. The other metrics above mentioned, refer especially to the civil-economic factor related to highlighting the equality dimension on the one hand, and the diversity integration (gender, role, cultural, ethnical, ability) on the other hand. The wage equity is a key factor which influences the workers’ well-being. In the Civil Economy tradition, it is possible to see that equity and justice are close as terms. Both definitions, indeed, include a strong values dimension, that is important for those companies that choose to put people first. Within the equity and social justice categories there are also the considerations related to the salary gender gap and to the diversity integration. With reference to this latter, several studies showed as the diversity integration is always a corporate advantage and it is never a problem neither for reaching higher performance nor for well-being at work.

5. CONCLUSIONS

The research “Metrics for evaluating workers’ and managers’ compensations” is intended to be a first step towards the analysis of the relationship between compensation policies based on equity and awards (as defined by Civil Economy) and employees’ well-being, thus positively influencing organization as a whole (e.g. employees’ engagement, employees’ loyalty, talents development, company “climate”).

The research work developed so far, highlighted some qualitative suggestions (e.g. list of initiatives emerged by market cases analysis) which – in a potential following research phase – could be deep dived also with a quantitative approach, in order to investigate their influence on organizational well-being, paying always attention to different organizations specificities. Future research perspectives could also be focused on the application of Civil compensation model through field experiments, in order to empirically investigate its impact on employees well-being.