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The Public Service Mutual: Theories of Motivational Advantage

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The Public Service Mutual: Theories of Motivational Advantage

Abstract

Public service mutuals are a form of employee-led organization where service workers spin out of the public sector to form 'mutuals' that contract back with government to provide the service concerned. This article draws on economic and psychological theory to demonstrate that such mutuals can align both self-interested and altruistic or public service motivations so as to serve the social good; moreover, by offering greater autonomy to public service professionals, mutuals are predicted to encourage energetic and persistent behaviors. In both cases there is an advantage over alternative forms of organization such as the public sector bureaucracy, the shareholder-owned private firm or the nonprofit organization. The employee-led mutual form, however, may not appeal to risk-averse workers, its collective decision-making systems may be inefficient, and external mechanisms may be required to ensure that organizational outcomes are always directed towards the social good.

Practitioner Points

- Public service mutuals – independent employee-led organizations delivering public services under contract to government – can better serve the social good than more conventional organizations, such as public sector bureaucracies, for-profit corporations or non-profit organizations.
- The ownership structure of the mutual motivates both self-interested and altruistic employees to pursue the social good. By providing employees with greater autonomy and control, it can encourage more energetic and persistent behaviours.

- While the mutual structure promotes alignment between employee motivations and organizational outcomes, competitive quasi-markets or government regulation may be required to ensure that those outcomes always align with the social good.

The Public Service Mutual: Theories of Motivational Advantage

The motivation of those who provide public services is a key factor affecting the provision of those services. In a well-designed delivery system public service workers will be energised to work in a way that meets the objectives of policymakers and the requirements of service users. But a poorly designed system may lead to any of three negative outcomes: that workers are demotivated, that they are motivated to pursue their own interests (and these interests are not aligned with the social good), or that they follow some individually defined vision of the social good which is at odds with the preferences of policymakers and users.

Policy interventions that attempt to strengthen and direct motivations (either implicitly or explicitly) have been applied at multiple levels. Much attention has been focused on the overarching model of service delivery: the provision of services either through a unitary state bureaucracy or through a state-funded quasi-market. Interventions can also be focused directly at the individual level, such as the introduction of performance-related pay. This article, however, explores a policy initiative that has sought to intervene at the intermediate, organizational, level. The motivation of employees and the incentive structures they face differ between public, private and third sector organizations, and we need to know more about the motivational effects of the different organizational forms.

Since 2008 the British Government has attempted to stimulate development of the “public service mutual,” a private organization typically broken away or “spun off” from the public sector, that is characterized by a significant level of employee control, and that provides a public service under contract to a government agency. These mutuals are a specific form of social enterprise: organisations with the dual objective of profit and social purpose (Waddock and Post 1991, Robertson and Tang 1995, Besley and Ghatak 2013). They are similar to

private sector workers' cooperatives, types of which can be found in most developed economies. However, their focus on public services and their relationship with government make them potentially rather different from their private sector counterparts in terms of their motivational structure, especially with respect to the balance of motivations between self-interest and altruism. They are therefore of particular interest to scholars and practitioners working in the area of public service motivation.

Public service mutuals in various forms have enjoyed support across the political spectrum in Britain. Employee-led spin-outs were initially encouraged by a Labour Government in the field of community health and social work (DOH 2008; Le Grand 2007a). The subsequent Conservative/Liberal Democrat coalition extended such spin-outs to a range of local and central government services, with this organizational form being formally described as the 'public service mutual' for the first time (Cabinet Office 2011, 43). In 2010 there were nine public service mutuals; by August 2016, there were 115 employing 35,000 people, delivering £1.5 billion worth of public services, and operating in areas as diverse as health care, adult social care, children's services, libraries, education services and building control (Personal communication, UK Cabinet Office).

An overarching political justification for this policy initiative was that the change in the ownership and control of these organizations would have beneficial effects on the motivational state of public service workers. The claims paralleled assertions made about workers' cooperatives and other businesses with employee stock ownership plans (ESOPs) in the private sector - that they empower staff, strengthen their commitment to the organisation, and hence improve their productivity compared with those independent shareholder or family-owned firms (Kruse 2003, Lampel et al. 2010, Stocki et al. 2012, Pérotin

2012). In the public service mutual case, comparisons were made with government bureaucracies, with proponents arguing that, in contrast to such organizations, the structures of the mutual enabled a sense of ownership or a 'real stake' in the organization (Maude 2012) and facilitated worker autonomy and control (Mutuals Taskforce 2011, 2012). A range of motivational improvements were claimed: increased staff commitment to the organization (Cabinet Office 2011); deeper staff engagement (Ham 2014; Laird and Barton 2013); empowerment and heightened responsibility towards work and the organization (Maude 2012). And these improvements in the motivational state of public service staff were predicted to generate favourable behavioural consequences for the services themselves - whether in terms of increased productivity (Laird and Barton 2013), responsiveness (Warrilow and Jones 2012), and innovation (Maude 2014), or a decline in turnover and absenteeism (Ham 2014).

All these improvements were presented as necessary remedies to government failures in precisely those areas, with the 'human energy' of the worker-led cooperative being sharply contrasted with public sector 'red tape' (Norman 2010, 175). Of particular interest for our purposes, it was argued by government ministers that mutuals would liberate a public service ethos that had been constrained and frustrated (Maude 2012, 2014).

Although there has been attempts to assess motivation and performance through qualitative surveys (CIPFA 2017), public service mutuals have not been established long enough or on a large enough scale for the propositions concerning their motivational advantages to be subject to rigorous empirical testing. Yet more seriously, while carrying a certain common sense authenticity, their proponents' arguments have lacked theoretical foundations. As a consequence, the mechanisms by which mutuals affect the psychological states of staff, and

the manner in which such states affect behavior, lack theoretical specification and understanding.

This article remedies this gap by providing a theoretical basis for the motivational dynamics and mechanisms of the employee-led organization in the public service setting. It brings together the relevant theories of motivation and theories of cooperative and employee-led organizations in order to assess whether they are consistent with the case for the public service mutual. Where relevant, it draws comparisons with other organizational forms for public service delivery that are common in England, the United States and elsewhere: the directly managed government bureaucracy, and the shareholder-owned private firm or non-profit organization providing public services under contract to government.

The article's first section outlines the characteristics of employee-led mutuals, focusing specifically on those dimensions of the mutual form that may have particular relevance to employee motivation. The second section combines motivational theory with insights from the literature on employee-led organizations and cooperatives to introduce a series of propositions about the potential motivational advantages of the employee-led mutual in the public service context.

The Public Service Mutual

As a preliminary to considering the motivational advantages of the employee-led mutual delivering public services, we clarify the structural characteristics of this organizational form. We refer briefly to the organizational structures of emerging public service mutuals in order to understand how these structural characteristics are being enacted in a particular

empirical setting. The intention is to identify and to explain the organizational characteristics that are likely to be of specific relevance to employee motivation.

Organizational Dimensions

Ownership of an organization resides in two formal rights - the right to *control* the organization and the right to receive *residual profits* (Ben-Ner and Jones 1995). A simple conceptualization of these dimensions as they relate to employee ownership is presented in Table 1. As the Table indicates, none of the three common organizational forms within the public services field - the conventional profit-making firm, the state bureaucracy or the traditional non-profit organization - implies any formal ownership rights for employees. By contrast the mutual is characterised by employee rights both to the residual and to control.

[Table 1 here]

In practice there are multiple intermediate stages between a full right to control and no right to control, and between a full right to the residual and no right to the residual (Ben-Ner and Jones 1995). Three points are especially relevant. First, the extent of employees' influence varies according to the particular ownership structure of the organization. A key dimension is the location of majority control. There are three possibilities: employee majority control, whereby employees as a body have an effective veto on organizational policy; majority control by another single set of stakeholders (for instance, capital investors); and shared control, whereby no single stakeholder group has control. Second, the right to control can be exercised through different mechanisms: employees may directly exercise the right through democratic voting systems with one member one vote; such control may be delegated to a representative on a governing body; or employees may participate in councils or other fora.

Such mechanisms may carry not only different extents of objective influence, but also distinct subjective experiences of control and autonomy. Third, there are situations in which only some employees benefit from ownership rights. The partnership model, common in legal and medical practice, is an example. In such cases non-owner employees are in an equivalent position to hired staff in a profit-making firm.

Emerging Public Service Mutuals

Few of the emerging public service mutuals can be unequivocally considered complete cooperatives – that is, few grant to employees complete rights both to residual profit and to control. A variety of nuanced organizational forms have emerged (Myers and Maddocks 2016) that cross the two ownership dimensions of right to control and right to the residual.

First, the right to control. Some public service mutuals are explicitly controlled by staff, though mechanisms of control differ. In some cases there is an explicit system of one-member, one-vote on key decisions. In others control is exercised through representative or advisory councils. Employees may have different constitutional rights around, for example, the appointment of non-executives or the dismissal of an organization's chair or chief executive (Ham 2014). In other cases, control is shared. There is frequently formalised user involvement in organizational governance (Hazenbergh and Denny 2014): NAViGO, a provider of local mental health services, permits users and carers, as well as staff, to become members, with voting rights in organizational decisions. There are also joint ventures of different kinds where control is shared among venture partners. In the Behavioural Insights Team, a research think-tank spun off from the government in 2014, one third of the shares are owned respectively by the staff, by the government and by a charitable foundation that

provided investment. Sometimes majority control lies with private investors. Employees of MyCSP, a spun-out mutual that administers the civil service pension scheme, hold 25% of the organization's shares through an employee benefit trust; its private investment partner holds 51% and therefore has formal majority control. But employee influence is also exercised through other formal mechanisms: an elected staff council has a seat on the organization's management team; and there is employee representation on the organization's board (MyCSP 2015). In this case governance and ownership structures resemble an employee share ownership scheme strengthened by a workplace council arrangement. In sum, employee control is operationalized in different ways and to different extents.

Second, there are also varied approaches to the right to residual profits. At MyCSP employee shares carry a right to the residual, a right shared with other shareholders. At Leading Lives, an employee-controlled social care provider, the surplus may be distributed to staff. But there is a caveat: investment "for community benefit" has a prior claim on the surplus before any distribution to employees is considered (Leading Lives undated). This caveat reflects a widespread reservation about profit distribution across public service mutuals. A number of organizations have taken on a formalised not-for-profit structure: profits are reinvested in the service; employees' right to the residual is limited or foregone. A typical ownership structure in such cases is the allocation of symbolic £1 shares to staff: such shares carry substantive control rights, but no rights to profit distribution.

Public service mutuals in practice, then, are not identical. Not all necessarily fit within traditional definitions of the 'mutual' – organizations exclusively owned by members to the exclusion of outside shareholders (Birchall 2012). Nor can all the emerging organizations be considered to be fully controlled by employees. But a particular and unusual set of

organizations are emerging that are distinct from conventional capitalist firms, state organizations or traditional non-profits. Variety within their organizational structures is reflective of the multiple combinations, extents and mechanisms of the dual rights of ownership that are possible.

Public Service Mutuals: Motivational Advantage

Having thus set out the salient structural characteristics of the emerging public service mutuals, we now explore the potential motivational advantages of these structures. The following sections bring together theoretical approaches on motivation with insights from literature on employee-led organizations in order to introduce a series of propositions about the possible motivational advantages of the employee-led mutual in the public service context. Where appropriate, comparisons are made with other forms of public service delivery organization, notably the government managed bureaucracy, the shareholder-owned firm and the non-profit organization. The intention is not to provide a comprehensive overview of motivational theory, but to concentrate on those theories that are of specific relevance to the particular characteristics of the public service mutual and that generate hypotheses about the possible motivational advantage of this organizational form.

It is useful to distinguish between three dimensions of motivation: *energy/intensity*, *persistence* and *direction* (Perry and Hondeghem 2008; Ryan and Deci 2000). The direction of motivation concerns the focus of agents' concern. In particular, is the direction of agents' motivation towards themselves or, more specifically, the promotion of their own self-interest? Or do they possess an altruistic concern for the interests of others - often termed public service motivation? In terms of a metaphor used by Le Grand (2006), are agents primarily self-interested 'knaves' or altruistic 'knights'?

The other dimensions of motivation - energy/intensity and persistence - are part of what we might term generally the *force* of motivation. They refer, not to the direction, but to the strength of the motivational drive: its power and longevity.

Direction of Motivation: Self-interest

One theory, often ascribed to a particular strand of economic thought and indeed named after it, is homo economicus: that individuals are primarily self-interested knaves. In the 1970s and '80s this was used to develop theoretical propositions concerning private sector worker cooperatives under the label of the labour-managed firm (Vanek 1970; Bonin and Putterman 1987). This assumed that such cooperatives were controlled by their employees and that any profits made by the enterprise were not distributed to outside shareholders but were distributed among employees, usually on a per capita basis. Employees thus had income from two sources - their wages and their share of the enterprise profits – and their principal motivation was to maximise the sum of the two. This theory was used to develop predictions concerning the behaviour of such cooperatives: for instance, that they would restrict employment, be unresponsive to economic change, and that they would be slow to adopt technological innovations, especially if the latter were labor-displacing.

As this theory suggests, the self-interested worker – or knave – presents a managerial challenge in the public service context for both the shareholder-owned firm and the public sector bureaucracy. There are inherent principal-agent conflicts in both cases, whereby the employee's direction of motivation is not explicitly aligned with, and may be contrary to, organizational objectives. Employees of both shareholder firms and public sector bureaucracies have a direct self-interest in their wages and work conditions, in their job

security and in their career progression. However, shareholder firms' employees have no direct interest in the profits of their organization, in its productivity, or in the quality of the service it provides. In so far as activities in pursuit of self-interest conflict with activities designed to bolster profits, productivity and quality, they will prioritise the former and may impede the latter, unless the survival of the firm itself is at stake. Self-interested employees of public sector bureaucracies again have little direct interest in the financial performance of their organization, in its productivity or in the quality of the service it provides. Even the survival of the organization may be of less concern to its employees than to those of shareholder firms. They may assume that, if their organization performs badly financially or in other respects, political pressures will ensure that it is bailed out. With the non-profit organization, there is similarly no direct employee interest in the organization's financial performance, although, given that the non-profit is less likely to be bailed out, there are more incentives to fight for its survival.

Within the employee-owned mutual, by contrast, workers are both principal and agent. They have a material stake in the organization's success through their claim on its financial surplus. It is therefore in their interests to direct their behavior towards the interests of the organization (Ben-Ner and Jones 1995, Bradley and Gelb 1981). Employees may work harder, and exhibit more commitment to the organization. If involved in decision-making, they are more likely to seek organizational success rather than improved terms and conditions which might compromise efficiency (Ben-Ner and Jones 1995; Estrin 1989; Pérotin 2012). Employees, sharing a mutual interest in the organization's success, may also be more prepared to share information (Pérotin 2012) – a benefit of particular significance in the task environment of public services, where much valuable knowledge, insight and creativity resides with frontline professionals.

Evidence from the commercial sector confirms that employee share ownership schemes have a positive impact on organizational productivity (Kruse 2002). There is most likely to be an effect if ownership is combined with participation in decision-making, so that workers have some power to “respond to the incentives of ownership” (Kruse et al. 2003, 5, Ben-Ner and Jones 1995). The structure of the employee-led mutual provides just such a combination of ownership and control. There is anecdotal evidence of such effects in public service mutuals (CIPFA 2017, 30-31).

However, the mutual organization with self-interested employees is not trouble-free. In particular there is a potential free rider problem, since, under most mutual structures, employees benefit from the surplus irrespective of their contribution. There is thus a temptation to withhold effort and to rely upon the contribution of others. Also, the impact of an individual’s effort upon his/her share of the surplus may seem negligible and therefore pointless (Ben-Ner and Jones 1995). In large organizations the link between individual effort, the organizational surplus and the individual’s residual payment may seem especially tenuous (Kruse et al. 2003).

The risk of free-riding can be obviated by peer monitoring and pressure. Given the collective nature of rewards, there is an incentive for employees to monitor the effort of others to prevent shirking (Ben-Ner and Jones 1995). Of course, peer monitoring and pressure may take place in any type of organization, if the shirking of one employee is perceived to add to the workload of others. But peer monitoring in the employee-owned mutual carries a double dividend: not only does it ensure a fairer distribution of work, but it also ensures that the collective surplus is maximised. It is thus likely to be more intense.

Direction of Motivation: Public Service Motivation

The idea of pro-social motivations in the field of public services is often captured in the concept of public service motivation (Perry and Vandenabeele 2015; Ritz, Brewer and Neuman 2016). Public service motivation can be understood as an orientation that looks “beyond self-interest and organizational interest... [towards] the interest of a larger political entity” (Perry and Hondeghem 2008, 6). It is frequently presented as a subset of altruism that inheres in the public sphere: “[it] is a particular form of altruism or prosocial motivation that is animated by specific dispositions and values arising from public institutions and missions” (Perry, Hondeghem, and Wise 2010, 682). Although occasionally used as a justification for government provision (Francois 2000), increasingly the concept of public service motivation has been associated with a wider set of public organizations than simply the public sector (Bozeman and Su 2015).

Public service motivation should not be construed as solely altruistic. Perry and Wise (1990) note that there may be self-interest maximisation in terms of excitement or of reinforcing one’s sense of self-importance, while Bénabou and Tirole (2006) emphasize ‘self-image’, with agents being motivated to conform to a certain image of themselves: see also Perry and Vandenabeele (2008). More specifically, Perry (1996) has included both self-interested and altruistic motivations in his list of the dimensions of public service motivation: attraction to public policy making; commitment to the public interest and civic duty; compassion; and self-sacrifice. The argument that self-sacrifice in particular is an important component of public service motivation has been developed by Le Grand (2006).

But most definitions of public service motivation still emphasise altruism. So, as well as channelling self-interest to the public good, can the employee-led mutual successfully channel altruism in that direction?

Two propositions can be advanced. The first concerns trust or confidence in the motives of the organisation. The knight or altruist needs confidence that his/her effort indeed adds to the social good. But in complex organizations it is difficult to assess the relative impact of individual effort upon organizational effectiveness. In the shareholder-owned firm the effort of the altruist may be exploited by shareholders for extra profit, with no net increase in service quality or output. There is a reverse principal/agent problem – the altruistic agent cannot be confident that the profit-maximizing principal will not exploit his/her public-spirited efforts (Rose-Ackerman 1996). Nor is the public sector necessarily immune from this trust problem. The altruist may perceive that any extra effort might be exploited to meet the interests of senior managers and elected officials (for instance, in order to meet targets or enable tax cuts) rather than for the good of service users. The position of the altruist in the non-profit organization is ambiguous. In principle the organizational mission is a reassurance that employee effort is not misappropriated away from the public good; in practice the interpretation and implementation of mission is subjective and often open to value disputes, so that the perception of exploitation remains possible.

Now the structures of public service mutuals reduce the likelihood of such exploitation. Because the right to control and the right to residual surplus reside primarily with the employees, incentives and opportunities for actors to exploit altruistic effort are constrained. Employees' participation in decision-making provides a further safeguard by increasing the transparency of organizational process. In public service mutuals, moreover, some or all the

surplus may be reinvested into the organization for user benefit. Such reinvestment can signal the public service orientation of an organization, and has been identified as a source of motivation for public service professionals (Simmons 2008). Taken together these characteristics signal that the mutual organization is oriented toward the public good, and therefore that any altruistic effort should have a meaningful effect. Reinvestment of surplus for the benefit of users, furthermore, may be appealing to those actors who value a sense of self-sacrifice or seek reputational benefit (Le Grand 2006, Bénabou and Tirole 2006).

Second, the mutuals and cooperative movement is associated with a rich tradition of principles and values. Shared organizational ownership may actively support a spirit of reciprocity and solidarity among employees (Pestoff 2012; Zamagni and Zamagni 2012); Bradley and Gelb (1981: 217) suggest that the cooperative environment may encourage ‘a greater weighting of [the] other's welfare’ – a shift, in other words, from self-regarding to other-regarding preferences and actions. However, although such dynamics increase the likelihood of prosocial behaviours within the organization, they do not necessarily encourage the public-spirited altruist. The sophisticated pursuit of self-interest remains: by helping other workers, employees contribute to the organization’s performance, and hence help themselves (Zamagni and Zamagni 2012).

There are more far-reaching claims that mutuals are characterized by a broader social responsibility and public purpose (Stocki et al. 2012). These claims should be treated cautiously. As noted above, there is no automatic connection between solidarity within the mutual and a wider altruistic regard for others. However, two points are worth making. First, the encouragement of pro-social behaviors within the organization might make the mutual a receptive environment within which to nurture ethical commitments to individuals and

communities outside the organization. Second, the structures of the mutual emphasize, both symbolically and practically, a shared purpose: cooperatives have historically been vehicles for the pursuit of social justice and other social missions. In the case of public service professionals, the shared purpose of the mutual seems well-fitted to the collective pursuit of professional ethics and public service values; participation in decision-making may heighten the perceived meaningfulness of professionals' work by providing a window onto the organization's broader social mission and impact. Early empirical work confirms that staff are using the employee-led mutual form as a means 'to make a difference' to their community (Hall et al. 2012, 57; CIPFA 2017, 31-32). It can be tentatively suggested that not only may the mutual form facilitate the enactment of an existing public service orientation, but it may also encourage the growth of such an orientation through some socialising effect.

A Robust Incentive Structure

Although we do not yet have hard evidence concerning the actual motivations of those working in public service mutuals, it seems unlikely that these motivations would be captured exclusively by self-interest and more likely that they would be driven at least in part by some form of altruism. There are a number of reasons for this. First, many of those working in the mutuals are professionals, and the professions can be a repository of public service values. Second, they are mostly staffed by individuals who previously worked in the public sector and, in so far as their previous employment was oriented towards public service values, are likely to have retained that orientation. Of course, over time mutuals will employ new staff who will have not previously worked in the public sector, but it seems plausible to suppose that knightly organizations tend to recruit knightly staff. Third, many work in areas

where there is clear distress among users, and the alleviation of that distress will continue to be a strong motivating factor.

In any case determining the actual balance of knavish and knightly motivations in public service mutuals may not matter a great deal. For we have argued that the mutual organizational form carries the promise of a *robust* incentive structure: one that can direct the motivations of both self-interested and altruistic actors towards desired organizational objectives (Le Grand 2006). Thus both self-interested knaves and altruistic knights will be motivated to work in the same direction - towards the provision of efficient and effective public services.

However, this simultaneous appeal to the knave and the knight does present a challenge: that of possible 'crowding-out'. As pointed out by Richard Titmuss in his critique of proposals to introduce a market for blood for transfusion purposes, one motivation may crowd out another: what motivates the knave may demotivate the knight (Titmuss 1970; Frey 1992; Le Grand 2006). The distribution of surplus – an explicit extrinsic incentive – may crowd out altruistic motivations: the perceptions of self-sacrifice or of serving the other, and the motivational force of these states, may be diminished or compromised by receipt of profit. There is, further, a tension between different sets of self-interested actors – the money-maximizing preferences of one group may conflict with the reputation-seeking of others. There is therefore a delicate balance within the public service mutual: distributions from the surplus must be sufficient to incentivize self-interested actors of all kinds, and yet not adversely affect altruism. Employees, as owners, at least have control over the level of extracted profit, so that they can create a fit with their own needs in terms of material gain, sense of sacrifice, reputation, self-image and motivation.

It is worth noting that the mutual structure may also lead to ‘crowding-in’. In certain circumstances, external incentives can be seen as reinforcing or validating altruistic motivations (Le Grand 2006). Within the mutual, the fact that any employee knows that both his and his fellow workers’ altruistic efforts in relieving others’ distress will be recognised in the distribution of surplus may provide a further legitimation of those efforts, over and above the encouragement given by self-interest.

Force of Motivation: Public Service Mutuals and Self-Determination Theory

The mention of crowding out leads us to the dimensions of motivation other than direction: those of intensity and persistence or force. Here it is useful to refer to a central psychological theory of motivation: self-determination theory (Deci and Ryan 2000). The theory distinguishes between autonomous actions and those that are controlled by factors external to the self. Autonomous actions occur when people perform actions because they find them intrinsically interesting or enjoyable. These actions come about because of internal or intrinsic factors: they are a product of intrinsic motivation. Controlled actions occur when individuals are influenced by some form of external pressure: what is termed extrinsic motivation. While controlled action may be just as highly motivated as autonomous activity, evidence suggests that in general autonomous motivations give rise to higher quality performance as well as to greater wellbeing for the actor (Deci and Ryan 2000).

In self-determination theory, a central antecedent of the intensity and persistence of motivation is the extent of actors’ perception of autonomy. Where such autonomy is present, and the locus of motivation is wholly or partially internalized, then motivation and performance may be higher quality and more persistent. On the other hand, where behaviors

are externally regulated and autonomy felt to be constrained, then motivation will be correspondingly less energetic.

In the public service field the prevalence of professionals, for whom the ability to self-determine is central to their professional identity and fulfillment, implies that these effects may be especially strong. Professionals are typically accustomed to act independently and to exercise professional judgment and discretion. More specifically, we can draw out two strands of autonomous motivation. First, public service professionals tend to work to a set of values and ethics, which broadly corresponds with what self-determination theory terms identified regulation - the recognition by individuals of an external value or standard as personally important, so that behaviour directed towards that value is regarded as an essential part of their identity. Perry (2015) similarly makes a connection between identified regulation and public service motivation. Second, they invest significant effort in developing their human capital: there is likely to be an intrinsic motivation to use and develop these skills in self-fulfilling and self-determined ways. This valuing of autonomy and self-expression explains the resentment and apparent demotivation when professionals' action is constrained by external audit, process specification and targets (Le Grand 2007b). Study of the motivations of independent providers of residential care confirms the value placed upon autonomy by such professionals (Kendall 2001).

Advocates of the autonomy-promoting characteristics of the worker cooperative typically set up a contrast with the lack of self-determination and consequent demotivation of employees in the conventional capitalist firm (Estrin 1989; Stocki et al. 2012). There are similar tendencies within many public sector organizations created by the external regulation of behaviors and consequent erosion of employees' sense of autonomy. This regulation arises

from a variety of factors: steep hierarchies and decisions made at some distance from professionals, perhaps by apparently less knowledgeable managers; red tape and procedure which dictates behavior and constrains innovation; and political interference in program design. The collective effect of such dynamics is a feeling of having little control, of being reactive to decisions made elsewhere, of professionalism and creativity constrained. Good organizational design and management can mitigate these effects through employee involvement in task design or self-managing teams. But the basic ownership structures in state organizations, as in shareholder-owned firms, inherently tend (and intend) to constrain employee autonomy. The non-profit organization too may constrain autonomy through managerial hierarchies (especially in large organizations), through the oversight of the trustee board, or through prescriptive constitutions (Kendall 2001).

The proposition, therefore, is that the employee-led mutual offers a contrasting organizational space in which a sense of self-determination may flourish. The possibility of self-management and self-responsibility is central to the cooperative ideal (Estrin 1989; Zamagni and Zamagni 2010). The advantage derives primarily from employees' right to control. Being a participant in decision-making, rather than being the passive recipient of decisions made elsewhere, creates a sense of influence and an internalisation of behavior regulation which supports an autonomous motivation. Again agents become simultaneously principals. Employees' perception of autonomy, further, may derive not simply from the act of involvement in decision-making, but also from a broader psychological sense of ownership and control. In this context the embedded structures of the mutual, such as ownership of shares (even if there is no right to the residual) and formalised participatory mechanisms take on a symbolic function in supporting a sense of self-determination. Other features of the mutual are also important: flatter structures reduce the perceived gap between managers and

managed and bring employees closer to strategic decision-making (Bradley and Gelb 1981); and organizational procedures can be collaboratively constructed rather than remotely imposed.

Contemporary empirical research remains scarce, but generally confirms that the worker-led firm may produce a beneficial effect of this kind. Bradley and Gelb (1981) find a heightened perception of involvement in important decisions among the employees of a worker cooperative, implying that the organizational form supports a sense of self-determination; such a heightened perception of participation in decision-making is associated with both greater employee effort and greater peer monitoring in a study of organizations in which employees hold a majority ownership stake (Ros 2003). Several studies of worker cooperatives and employee share ownership programs describe associations between employee participation in decision-making and both employee commitment and organizational productivity (Pérotin 2012).

If autonomy is indeed a prime (if overlooked) dynamic within the motivational profile of public service professionals, then an organizational form which embodies self-determination has an especial relevance. Professional partnerships, whereby organizations are mutually owned by professionals, are already commonplace in professional-dominated fields in the commercial sector such as law, accountancy and architecture, as well as in primary health care in England through doctors' general practice partnerships. Self-determination theory offers a theoretical lens through which to understand the beneficial motivational effects: the structures of the mutual give professionals the perceived autonomy both to express their ethical commitment (identified motivation) and to exercise their professional judgement and expertise (intrinsic motivation) without the immediate constraint of external regulation - at

least from within the organization. Within the first accounts of emerging public service mutuals, fragments of qualitative evidence hint at such a motivational effect: nurse practitioners, for instance, having spun-out of the public sector and taken on a range of decision-making responsibilities, describe how the employee-led mutual creates a sense of being “in the driving seat” and helps them to remain “passionate about the service” (Warrilow and Jones 2012, 1261).

While the structures of the employee-led mutual are theoretically well-placed to support a perception of self-determination among employees, the practical experience of such a perception is not a given. Multiple mechanisms can be used to enact employee control, including elected employee representatives, employee voting, employee advisory groups and consultation – and emerging public service mutuals indeed exhibit a range of these. In creating a sense of self-determination, much may depend on the participatory mechanism and the work environment in which it is implemented. The size of the organization is also relevant. A sense of meaningful autonomy may weaken in larger organizations: strategic decision-making becomes too remote from the individual employee; in larger cooperatives members tend to become less involved, the obvious example being large financial and retail consumer cooperatives (Pestoff 2012). Also, even if there are structures designed to promote employee control, do all levels sense that they have an integral role in that control? In the case of the public service mutual, where spin-out from the public sector may be driven by a small group of committed professionals, the sense of control may remain fundamentally with organizational leaders rather than trickling down. There are, in sum, unanswered empirical questions about what decision-making mechanisms, what size of organization and what cultures of participation most effectively exploit the motivational potential of the employee-led public service mutual – and do so for all staff.

Three Reservations

These propositions supporting the positive motivational effect of employee-led mutuals carry some force. Nonetheless there are also three significant caveats. First, in some circumstances or for some individuals the responsibility of ownership may be stressful rather than motivating: by taking on the control of a public service organization employees become exposed to the full force of management, regulatory and accountability burdens. Also, the movement out of the relative stability of the public sector into an independent mutual operating within a competitive quasi-market may seem risky, and such uncertainty can be demotivating. Individuals may self-select into those who are willing to accept risk in return for more autonomy, and those who are not.

A second concern is that this increased motivation may be channeled in an unhelpful direction. There are two threats. First, self-interested actors may exploit the autonomy of the mutual for their own interests at the expense of the public good, perhaps by raising their salaries, improving their working conditions or lowering service quality. Second, altruists may pursue an interpretation of the public good incongruent with the outcomes desired by users or policy-makers. An example might be a service delivery organization run by a religious collective, but funded by a primarily secular state. The mutual members may believe that the religious values which they promulgate to service users will improve the latter's well-being or more generally contribute to the public benefit. However, the state may regard these religious principles as socially divisive and incompatible with the values of the wider community.

Such a principal-agent problem, of course, can arise in any organizational form of service delivery when a degree of autonomy is allowed to providers. Mechanisms are therefore required to create alignment between the self-fulfillment of the employee, organizational goals and the desired outcomes of users and policy-makers. One such mechanism is the stimulation of user choice within a competitive quasi-market with money following users' choices. Employee-led mutuals will be incentivized to offer high quality services that respond to user preferences: if they do not so respond, then as long as the market is competitive, the mutuals will risk having fewer clients and diminishing resources – an undesirable outcome for the altruist and the self-interested agent alike (Le Grand 2007c).

However, as with markets of any kind, quasi-markets do not always work. In areas of market failure, especially ones where user information about quality is poor, more formal accountability mechanisms may be required, such as direct performance management through centrally imposed targets, through regulatory inspection or through tightly specified contracts that channel organizational behaviors in the desired direction. The spinning-out of employee-led mutuals thus lies within a wider discussion of the technical appropriateness of outsourced delivery of publicly funded services and the maintenance of sufficient state capacity to oversee such arrangements - although ownership of the enterprise by frontline staff rather than by capital investors may reduce the temptation to exploit information asymmetries. There is a delicate balance to be struck, however, for regulation can put at risk the motivational effects of autonomy which the employee-led mutual offers. Matosevic et al. (2011) describe how independent private social care providers - in principle benefiting from autonomy - become demotivated by the weight of state accountability requirements.

In situations where either appropriate regulation or competitive markets are difficult to achieve, broader-based multi-stakeholder mutuals can include users and other stakeholders in the governance of the organization; as already noted, some emerging public service mutuals already involve users in this way. Such arrangements create channels for organizational accountability to users and other stakeholders, as well offering the opportunity for stakeholders to exercise voice around the operation and direction of the organisation. But again there is a trade-off: multi-stakeholder mutuals dilute employees' control of the organization, and thus potentially attenuate their sense of self-determination and consequent motivation.

Even if motivation within the employee-led mutual is both increased and well-directed, there is a final challenge: does this heightened motivation come at too high a cost, so that productivity gains are outweighed by the extra costs of collective decision-making? The process of employee governance can be unwieldy: there may be significant demands upon employees in gathering information and attending meetings (Hansmann 1996); collective decision-making systems can be slow and ill-suited to fast-paced organizational environments (Harrison and Freeman 2004; Pérotin 2012). The substantive quality of decisions may also be undermined: employees are not necessarily expert decisions-makers; they may lack skills, experience or a strategic perspective (Harrison and Freeman 2004; Pérotin 2012). In the particular context of public services such objections do not have a strong purchase, especially when compared to the alternatives. The public service mutual offers the possibility of decision-making that is swifter and more flexible than the status quo of the state bureaucracy (Warrilow and Jones 2012). Moreover, frontline professionals, far from being non-expert decision-makers, may have specific insight into their clients and into organizational practice which hierarchical decision-making structures cannot adequately capture. In practice the

extent to which collective decision-making systems prove procedurally or substantively costly may depend on design and implementation.

One particular cost of mutual governance must be acknowledged. Collective decision-making can be characterized by dispute and conflict, resulting in stasis in decision-making, laborious discussions or capture of the process by a minority. These challenges may become acute where views and interests are especially heterogeneous. Hansmann (1996) proposes that mutual ownership is efficient only where there exists homogeneity of interest among the owners (whether conceived as similar roles and status, or, more broadly, as shared culture). If interests are heterogeneous, then the costs of disagreement, or the irreconcilability of interests, might threaten the mutual organization's sustainability. Thus the prevalence of professional partnerships is underpinned by the professional owners' homogeneity of interest. In order to achieve such cohesiveness, other staff are excluded from ownership and instead hired to undertake para-professional or administrative tasks; they are thus also excluded from the motivational effects of organizational ownership. So public service mutuals may in the first instance be a good fit for situations when the employee owners tend towards homogeneity of role, status and outlook – for instance, community nurse partnerships, social work collectives or social care mutuals.

Conclusion

The provision of public services, and also the production of goods and services more broadly, occurs within an increasingly diverse economy. In many countries the political and social culture is changing. There has been a loss of faith in simple solutions to economic and social problems, whether these involve monolithic public providers or completely privatized

systems. Emerging organizations exhibit structures and forms that cross sectoral and national boundaries – including gain-sharing performance management, for-profit organizations such as ‘B’ corps that embrace social purpose, or non-profit social enterprises that use market mechanisms to pursue their mission. Such developments challenge existing assumptions around motivation at the organizational level and require new theoretical and empirical investigations.

This article has taken up that challenge in one specific respect, exploring the motivational theories underlying one such evolving organizational form – the public service mutual. It has drawn on theories of individual motivation to develop arguments as to why the employee-led public service mutual may have a particular advantage in directing and strengthening employee motivations, and therefore may perform better in delivering public services than shareholder-owned firms, public sector bureaucracies or traditional non-profit organizations. Although the cases chosen are from an English context, we believe that the theories discussed and their implications for organizational form and structure are directly applicable in other societies and economies.

Overall, we may summarize our arguments in the form of three propositions – ones that are in principle testable by data that should become available as public service mutuals develop. *First*, the interests of both self-interested and altruistic employees in possession of the right to control and right to the surplus of an organization delivering public services will be more closely aligned with the interests of the organization than in organizations where employees do not have such rights. *Second*, both self-interested and altruistic employees in such conditions will exhibit more behaviors intended for the social good than employees in other organizational structures. *Third*, employees in possession of the right to control of an

organization delivering public services and the right to a share in the organizational surplus will exhibit both more intense and more persistent motivation, mediated by a greater perception of autonomy, and more consistent and persistent behaviors intended for the social good than employees within other organizations without such rights.

Put less formally, in terms of the direction of motivation, employee-led mutuals are better placed than alternative organizational forms to channel both knavish (self-interested) and knightly (altruistic) motivations to serve the social good. Because of their claim on the residual, employees have a strong self-interested motivation in the financial success of their organization - arguably much stronger than that of employees in other organizational types. But altruistic employees are also likely to be more motivated, both because they perceive that their altruistic efforts are less likely to be exploited and because the very nature of the mutual and its associated values may reinforce concern for others. In short, the public service mutual offers a robust incentive structure that motivates both knight and knave, a structure that other types of organization struggle to replicate.

But public service mutuals not only score in terms of the direction of motivation but also in terms of its force. Self-determination theory holds that the more autonomy that individuals perceive, the greater the persistence of motivation and of the energy behind it. The expansion of autonomy is integral to the case of public service mutuals compared with other organizational forms, and it is proposed that this expansion will have especial purchase among professionals in the public service field, for whom self-identity and self-determination are typically strong drivers. Hence there is a strong case that employee-led mutuals have not only a robust incentive structure, but also a forceful one.

There are reservations. The structures of the mutual align employee motivations with organizational outcomes, but not necessarily with outcomes desired by users or policymakers. Mechanisms such as competitive quasi-markets or government regulation are required to remedy this principal-agent split. There may also be costs associated with mutual ownership – whether for organization in terms of inefficient collective decision-making, or for individual employees in terms of stress and risk. Some degree of self-selection is predicted, so that the employee-led organization will appeal to more entrepreneurial professionals who place especial value on autonomy.

As always, more research is needed on the motivational dynamics and performance outcomes of public service mutuals. The emerging mutuals are diverse, and the relative advantages and disadvantages of different arrangements around the right to control and the right to the residual require theoretical and empirical investigation. However, our analysis suggests that there are good reasons to suppose that the performance outcomes of employee-led mutuals will be positive - and significantly better than those of more traditional organizations. As new organizational forms appear within the emerging landscape of public service delivery, the traditional public sector may be neither the most effective domain to respond to diverse preferences around motivation, nor best-placed to nurture autonomous public service motivation.

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Table 1

Employee Control and Right to Residual

		Employee control	
		<i>No</i>	<i>Yes</i>
Employee right to the residual	<i>No</i>	Conventional firm Public sector organization	Employee-led nonprofit
		User-led, donor-led or multiple stakeholder nonprofit	
	<i>Yes</i>	Share ownership schemes; employee benefit trusts; bonus schemes	Worker cooperative Partnership (a proportion of employees only)