

Rewards Systems in Self-Managed Organizations

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Organizational forms have continuously evolved alongside broader societal and economic trends. Today there is a quest to reinvent organizations that have a much flatter hierarchy than traditional structures, characterized by increased delegation of decision-making power to lower levels in the organization. These new structures, known as self-managing organizations (SMOs), have abolished manager-subordinate relationships throughout the whole organization. This paper addresses the overriding question, “If there is no traditional managerial hierarchy, how can SMOs ensure that employees will take the actions that are needed to create value for the organization?” It examines an organization that has enjoyed business success while practicing the principles of self-management, focusing on pay transparency, peer-based decisions and horizontal career paths. It presents valuable information about developing and implementing rewards programs for organizations that are giving more decision-making power to their employees.

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REWARDS SYSTEMS IN SELF-MANAGED ORGANIZATIONS

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INTRODUCTION

Organizational forms have continuously evolved alongside broader societal and economic trends. Hierarchy first emerged in the late 19th century to optimize coordination among all the units in an organization. As the Industrial Revolution unfolded, the bureaucratic hierarchical organization became the prevalent model in the market. In contrast, recent years have witnessed the emergence of new organizational designs, where work gets organized in a very different way. Companies such as Supercell, Spotify, Haier, Zappos, Buurtzorg, Valve and W.L. Gore have emerged across geographies and are often the central topic of study in books showing how some organizations get things done in a very different way. One book referred to them as “corporate rebels” (Minnaar and Morree 2019), highlighting the frustration some people experience in the hierarchical corporate structures, feeling there is little room for creativity or initiative. Another introduced the term “humanocracy” (Hamel and Zanini 2020) to highlight that it is possible to create organizations that are as inspiring and ingenious as the humans inside them.

Among these new organizational forms, we can count cells, squads, micro-communities, amoebas, circles, chains, fractals, honeycombs, lattice, networks and mini-factories. Although the names given to these forms are almost as numerous as the companies implementing them, at the core of the quest to reinvent the organization is a much flatter hierarchy and a high degree of delegation of decision-making power to lower levels in the organization. In essence, these organizations can be characterized as self-managing organizations (SMOs) in which the manager-subordinate relationships are abolished throughout the whole organization (Bernstein et al. 2016).

Such change brings with it the need for companies to revamp their rewards systems. This paper provides information about how reward practitioners can help ensure that empowered employees, who make many of the decisions that used to be in the hands of managers, create value for the organization.

The rationale for the emergence of SMOs is that, compared to traditional hierarchies, these fluid organizational forms enable companies to more quickly adapt to customers' changing needs and demands. Bureaucracy is reduced while employees are empowered to make decisions that expedite the execution of tasks (Martela 2019; Lee and Edmondson 2017). In addition, SMOs are often portrayed as workplaces where employees can enjoy more meaningful and fulfilling work (Lee and Edmondson 2017). However, reaping the benefits of delegation imposes non-trivial challenges on SMOs. Indeed, the way to go about solving the fundamental problem of ensuring the coordination across the different organizational entities is necessarily transformed in these type of organizations. If there is no traditional managerial hierarchy, how can SMOs ensure that employees will take the actions that are needed to create value for the organization?

To answer that question, we take a close look at an organization that since its inception has been organized around the principles of self-management. Founded in 2007 in Finland, Vincit is a software development and digital consultancy company that has grown to more than 800 employees. On their website, Corporate Rebels lists Vincit as a "pioneer" that is "known for its radical transparency and 'Leadership as a Service'" ("Bucket List: 150+ Pioneers Revisited"). The company's services cover the digital value chain from management consulting to design, software development and software maintenance. Vincit has been growing steadily and profitably over the years, both organically and through mergers and acquisitions. Vincit Oyj is listed on Nasdaq First North Growth Market Finland (VINCIT: HE) and apart from Finland operates in the United States, Sweden, and Poland.

Vincit has received numerous accolades for its innovative approach to personnel management. Among others, the Great Place to Work Institute of Finland has regularly named Vincit as the best workplace in Finland from 2014 through 2022. Vincit was also awarded the best workplace in Europe in 2016 by the Great Place to Work Institute. What is the key to this success? As academics, we embarked on a journey to provide an answer to this question. We conducted an in-depth study on the company's approach and came to the conclusion that Vincit has been able to create a coherent set of decentralized work practices that not only reinforce each other but that clearly support the company strategy of providing highly innovative and customized solutions to its clients. Furthermore, guided by the principles of trust, community, collaboration and caring, the company has managed to create a workplace in which employees can thrive and craft their own careers according to their personal preferences. An innovative approach to employee rewards has been a key element in its success, providing both value to customers and a great place to work for employees.

DECENTRALIZING DECISION MAKING AT VINCIT

At Vincit, many of the decisions that in a traditional hierarchy are made by managers are in the hands of lower-level employees. Vincit's organizational design is composed of fluid self-managed teams that are flexibly organized around customer-facing projects and whose employee membership usually changes from one project to another. As the teams are fluid, so are the roles in which workers can engage. The teams are responsible for the execution of the work. They autonomously decide how to divide the tasks as well as how to go about managing the work. Each project team has its own goals, timeline and budget, and is responsible for delivering a specific outcome or product to the customer. Team members work closely together and share information openly to ensure that everyone is aligned and working toward the same goals.

Vincit uses a number of practices and tools to ensure coordination among teams, such as daily stand-up meetings and regular retrospectives to reflect on their work and identify areas for improvement. This helps ensure that employees are constantly learning and adapting to new challenges. In addition to empowering employees to take ownership of their work, Vincit is known for its transparent communications. It uses a self-made enterprise resource planning (ERP) system, where every employee has access to business information such as project resourcing, contracts, team utilization and billing. Employees are encouraged to participate in decision-making processes and share their ideas and perspectives on the company's internal platforms and discussion channels. This helps ensure that decisions are made collaboratively with input from all employees.

In this company, there are no titles — almost. Indeed, the only managers in the organization are the few unit leaders who oversee all the operations of each geographical location, referred to as “cells.” Although the ultimate decision of assigning employees to projects rests with the head of each unit, employee preferences are seriously considered during the work allocation process and taken into account when staffing projects. To do so, every employee's bio and description of expertise and preferences can be found within Vincit's internal network. Thus, the work design and resource allocation are to a large extent decentralized.

Employee development is largely decentralized through an internal digital platform, where decisions about developing others and oneself are taken by employees without the oversight of direct managers. Inspired by Grant's *Give and Take: Why Helping Others Drives Our Success* (2014), the Vincit approach to employee development is designed as a “give and take” philosophy in which employees are expected not only to invest in developing their own skills but also to “give,” (i.e., invest in others to develop their skills). Every employee at Vincit can freely offer services related to developing the competencies of others. The

platform works like a marketplace in which employees offer services depending on what they feel they can help others with. Interested employees can subscribe to those services.

Depending on the number of individuals who want to receive the service in a given time point, the services can be delivered in the form of training, if for example there is a group of people interested in receiving a specific skill development or on a one-on-one basis as coaching services, if only one individual is interested. Individuals can also propose to form a study group to develop knowledge and expertise in an area, for example, a new technology or tool. As in any market, if a service is offered but nobody wants to consume it, then the transaction does not happen.

The content of the services varies and includes specialized coaching in soft skills, such as fostering client relationships or improving time management; the development of technical skills such as how to use a certain project management tool; and the organization of study groups to learn about a specific new technology. Interestingly, the exchanged services are not limited to skill development. Any member of Vincit can also organize social events and activities, such as socializing over a shared meal, organizing a free-time activity/hobby (e.g., a running club, a cooking class) or activities enhancing well-being (e.g., mindfulness). All these activities are offered as “services” on Vincit’s platform, which the company originally named the “Leadership-as-a-Service” platform but is now called “Guidin.”

Vincit has delegated most of the decision making related to work design, work execution and personnel management (e.g., employee development) to employees. In the context of such a high degree of decentralization, how has the company ensured that employees’ actions and behaviors align with the company’s goals?

A DECENTRALIZED EXPERIENTIAL TOTAL REWARDS SYSTEM

Aligning the rewards system with the kind of value an organization seeks to create is crucial for any company. SMOs are no exception. However, the abolition of hierarchies requires SMOs to reinvent the way they go about ensuring that all the employees put their shoulders to the wheel. The elimination of ladders eliminates one of the main incentive mechanisms used in organizations to curb the behavior of employees: vertical promotions to the next job. In addition, in bureaucratic hierarchical organizations, direct managers are usually the ones responsible for allocating rewards to employees, selecting who has shown the right performance and skills to be promoted to the next level and rewarding best performers with salary increases. Without a ladder to climb and without managers to decide who should take the elevator and get the prize, Vincit has designed an innovative total rewards package that helps the company thrive.

Vincit's approach involves many of the elements that could be characterized as an experiential rewards strategy (Gomez-Mejia and Balkin 1992), in which rewards are designed to be flexible so they can be adapted to constantly changing circumstances. Experiential rewards strategy patterns emphasize:

- Employee skills and personal attributes (rather than job evaluations) as pay basis.
- Performance assessments at multiple levels (rather than a single source).
- Pay transparency (rather than secrecy) and risk sharing between employees and the organization (Gomez-Mejia and Balkin 1992).

In a less-hierarchical organization focusing on autonomous innovation, the rewards system is then centered on motivating individuals to maximize the value that they can uniquely contribute (Hamel and Zanini 2020). Thus, aligned with the empowering culture in the organization, any Vincit employee can suggest a pay raise for another employee. Furthermore, employee interests need to be tied with that of the organization via profit-

sharing, stock options and broad-based employee ownership (Blasi, Freeman, and Kruse 2016; Doucouliagos et al. 2020).

Importantly, the rewards at Vincit involve not only monetary but also nonmonetary aspects as part of the total rewards system (Heneman 2007). Indeed, the company places high emphasis on components that foster the intrinsic motivation of employees. Intrinsic motivation is a strong predictor of the quality of employee performance, especially in tasks involving creativity (Cerasoli, Nicklin, and Ford 2014). Aspects such as autonomous employee development, individualized career paths and meaningful work are a crucial part of the value proposition that Vincit gives its employees. These nonmonetary rewards are also experiential in the sense that they keep constantly being adapted depending on the needs of the company and those of the employee. Overall, Vincit's approach could be called a decentralized experiential total rewards system.

HOW TO GET IMPLEMENTATION RIGHT

Some elements of the experiential total rewards system may be received by the reader with certain skepticism:

- How can you ensure that if you give autonomy to employees to decide whom to grant salary increases, they will not reward only their very dear friends?
- What prevents people from simply suggesting pay increases to everyone?
- What ensures that employees will not simply be wasting their time in offering services that have little relevance for the company business?
- Will people be motivated if they cannot advance via promotions?

We have decided to shed light on the most innovative components of Vincit's total rewards system: pay transparency, peer-based decisions and horizontal career paths (see Table 1).

We think that these are the key elements to support the decentralized experiential total rewards system at Vincit. However, these are also probably the most controversial aspects, raising many questions regarding implementation. Thus, in this section, we highlight the main benefits and costs of each element and elaborate on the mechanisms that Vincit has put in place to mitigate potential negative consequences. By looking at Vincit’s example, we can learn how to get implementation right.

TABLE 1 Potential Benefits and Costs of the New Elements in Vincit’s Experiential Total Rewards Strategy and Its Approach to Implementation

	Benefits	Costs	Vincit’s approach to implementation
Pay transparency	<ul style="list-style-type: none"> • Improved performance • Trust • Accountability 	<ul style="list-style-type: none"> • Envy that can lead to conflict, lower satisfaction or helping • Pay compression and/or hidden idiosyncratic deals • Counterproductive workplace behaviors 	<ul style="list-style-type: none"> • Opt-in process for sharing salary information • Clearly conveying that peer recommendations lead to discussions with cell leaders • Foster a culture of trust and transparency
Horizontal career paths	<ul style="list-style-type: none"> • Promote needs satisfaction (autonomy, competence, relatedness) • Promote intrinsic motivation through skill variety and task significance 	<ul style="list-style-type: none"> • Can be a difficult adjustment • Longer induction period for new employees • Balancing internal and external equity considerations • Ensuring alignment with company goals 	<ul style="list-style-type: none"> • Employees choose own value creation path through landscape set by organization • Company promotes a culture of coaching, in which contributing to the development of the community is a shared value • Unit leaders have conversations with employees regarding where they can best contribute and paths of development, and employees commit to their goals • Collective monthly profit-sharing plan and stock options plans
Peer-based pay recommendations	<ul style="list-style-type: none"> • Create more accurate and broader picture of performance • Improve individual performance • Employees receive more and 	<ul style="list-style-type: none"> • Can introduce conflicts among peers • Can lead to the wrong performance criterion: “popularity contest” • Can consume considerable 	<ul style="list-style-type: none"> • Support integrated in organizational design for both cell leaders and members • Managers react to peer-based signals and support trust, perceptions of fairness, and needs satisfaction • Planned bi-annual “salary weeks” to collect peer

	less-biased feedback <ul style="list-style-type: none"> • Draw employees' attention to other job aspects, such as knowledge sharing, team contributions, and organizational citizenship behaviors 	amounts of time and effort <ul style="list-style-type: none"> • Managers may push back to having power taken away • Peers need to be accountable and take initiative 	recommendations and host related discussions
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Pay Transparency

Research suggests that pay transparency can be beneficial for organizations when employees can understand the reasons for observed pay differences in pay outcomes. Under these conditions, employee performance has been found to improve (Brown et al. 2022). Transparency in pay decisions is also closely related to greater accountability for decision makers (Castilla 2015). Furthermore, there is indirect evidence that pay information disclosure can help build trust, based on research that found that a lack of pay information disclosure was typically interpreted by employees to be for malevolent reasons, thus leading to a loss of trust in management (Brown et al. 2022).

However, pay transparency also bears potential costs. The most notable are a higher likelihood of conflict among employees (Brown et al. 2022); less likelihood to help higher-paid co-workers (Bamberger and Belogolovsky 2017); and lower job satisfaction (Schnauffer et al. 2022). Each of these behaviors were found to be mediated by episodic envy (e.g., from envious social comparisons with geographically or socially close others). In addition, pay transparency has also been found to unintentionally lead to pay compression, which in turn could lead individuals asking for hidden idiosyncratic deals (Abdulsalam et al. 2021). To avoid counterproductive workplace behaviors, it is important that employees both understand the pay process and perceive the outcomes to be fair (SimanTov-Nachlieli and Bamberger 2021).

At Vincit, employees can choose to transparently share their salaries, and the vast majority (80% to 90%) of employees opt into pay level transparency. This involves sharing salaries openly through a database that is accessible to all employees. Notably, Vincit doesn't only share pay level information, but a host of business information including individual and team goals. Vincit further mitigates against potential drawbacks to transparency in its total rewards strategy by actively fostering trust among cell members and leaders as well as a collaborative culture that values contributions toward both clients and the Vincit community. Any employee who receives a recommendation from a peer is automatically invited to a discussion with the cell leader concerning that employee's developmental path. Although peer recommendations do not always lead to a salary raise, they always lead to a discussion. Employees thus know that these peer recommendations are taken seriously and contribute to the individuals' development. Trust and collaboration effectively function as the "social glue" that binds and propels the total rewards system. Thus, the goal of pay transparency at Vincit is to increase perceptions of fairness in compensation, reduce pay inequality, and promote trust and collaboration among employees.

Horizontal Career Paths

Individual development and career growth is radically reshaped in less hierarchical organizations. As hierarchies no longer exist, mobility within the organization can happen only through horizontal moves rather than vertical ones. Horizontal career development, which centers on growing one's knowledge, skills and capabilities, is an ideal avenue to unleash intrinsic motivation. When employees can pursue self-directed growth along with a collective coaching culture, this effectively allows individuals to satisfy their basic psychological needs of autonomy, competence and relatedness (Deci, Olafsen, and Ryan 2017). When individuals are given the freedom to coach others in whatever ways they believe they can best contribute, they can directly see that their work bears significance and that the

meaningfulness of their jobs increases (Hackman and Oldham 1980). Enabling career changes and self-selection of individuals into different types of projects in the organization also fosters the development of a variety of skills.

All this being said, horizontal career path development can represent a difficult adjustment for employees that are used to hierarchies. This may potentially represent a barrier to attracting employees. Once they are in, newcomers may also require longer induction periods to understand and adapt to a model in which they are asked to design their own career trajectories (Hamel 2011). More broadly, the horizontal career paths need to be coupled with collective measures of success, and avoid encouraging individuals to focus on self-serving goals as opposed to contributing to common goals (Foss and Lindenberg 2013). Furthermore, organizations need to pay attention to external equity comparisons to make sure that they are able to attract and retain talent.

At Vincit, employees can follow horizontal developmental paths that connect their individual “value creation points.” Peer-based pay raise justifications follow the individual’s progress, which should assuage concerns regarding self-serving behaviors. At the very least, the behaviors of employees need to be valued by another peer to be considered for a salary increase. In addition, the company provides a collective monthly profit-sharing plan as well as options plans. Indeed, the desire to facilitate the employee ownership and stock options plans was one of the reasons for the decision to take the company public in 2016. Having such profit-sharing programs helps everyone be in the same boat, and row in the same direction.

Vincit allows employees to pursue what they are personally interested in within the landscape of what brings value to the organization. It follows the mantra stated by Vincit founder Mikko Kuitunen: *“It doesn’t matter what your direction is, it’s enough that it’s helping the company go forward.”* The company gives guidelines to employees by drawing

out a landscape of what constitutes valued contributions to Vincit. But then it allows employees to choose where and how they wish to move within this landscape. Employees know they can choose from a variety of options and can self-select into contributing more to the internal community or to the external client. Importantly, Vincit very clearly states that it values both contributions for external clients and internal community. To foster the credibility of this message, employees are given total freedom to offer and consume services from the internal platform the company has put in place to foster internal development. Through all these elements, Vincit has managed to implement a coaching and collaborative culture that supports the desire to act appropriately in the service of the collective entity instead of self (Lee and Puranam 2017).

Peer-Based Recommendations

The driving force of peer-based pay systems is that the “wisdom of the crowd” can be harnessed to create an accurate and aggregate picture of an individual’s performance. Peer-based pay systems could also function as an effective informal control mechanism, especially when coupled with transparency in the organization. Employees can also receive a greater quantity of feedback and be less subjected to the individual biases of just one manager (Di Fiore and Souza 2021). Peer-based control has indeed been found to improve individual performance in the context of self-managing teams (Stewart, Courtright, and Barrick 2012). Another crucial strength of a peer-based pay system is that it can draw employees’ attention to other aspects of work that are usually hard to incentivize, such as knowledge sharing, team contributions and organizational citizenship behaviors. This stands in contrast to supervisor evaluations, because supervisors may find it harder to observe such collaborative behaviors.

However, the practice of decentralizing compensation decisions to peers raises several concerns. First, peer-based participation consumes a lot of time and effort. Gathering and consolidating this greater volume of feedback can also be very demanding in terms of time

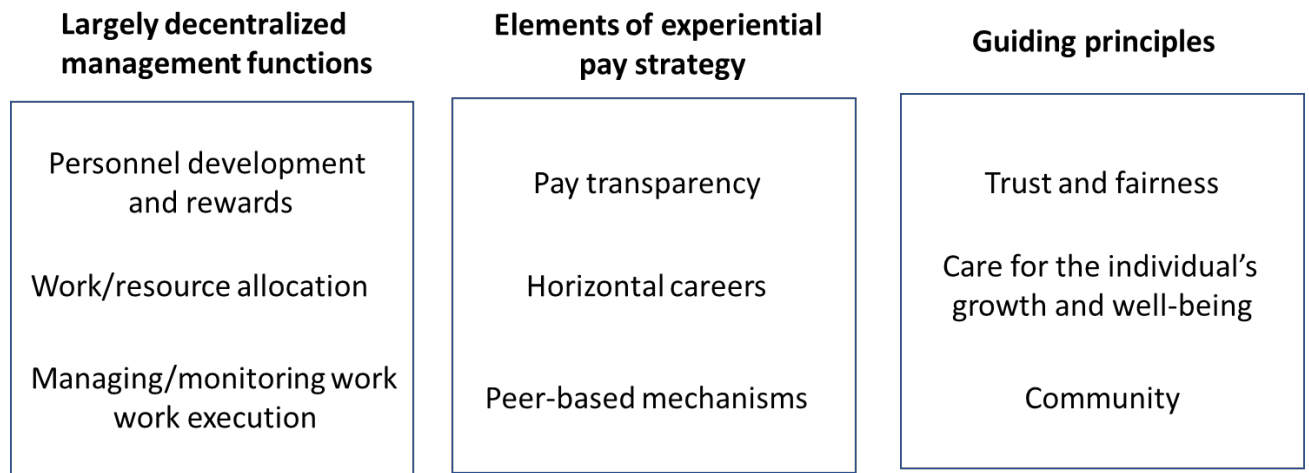
and energy. How can the organization ensure that these peer evaluations are taken seriously? In addition, peer-based systems could introduce bias by turning performance appraisal into a popularity contest. There needs to be accountability to act with a certain level of courage to call out colleagues who may violate policies or norms (Hamel 2011), and some form of oversight is necessary.

At Vincit, when making a recommendation, peers must provide a justification for their suggestion, and cell leaders can always request further information. A key indicator of an employee's valued contributions is the number of recommendations they have received, which helps increase confidence in the validity of the recommendations and curbs biases that could arise from colleagues who are close friends recommending one another, for example. The company hosts bi-annual or annual "salary weeks," when employees are reminded via email about the opportunity to recommend pay raises for their peers. The final decision regarding whether a final pay increase is granted is in the hands of the CEO and board of directors. But the practice is very different from traditional organizations, because decisions about who gets a pay raise rely on peers, not managers.

A SYSTEMS APPROACH TO EFFECTIVE SMOS

Although the number of companies following radical and systematic decentralization of decision making has increased over the past decade, not all companies have taken the same approach to manage the employees who work at these companies. We argued that in the absence of supervisor-subordinate hierarchies, companies face the challenge of how to ensure coordination among employees to support the goals of the organization. We have found in Vincit, an SMO that since its inception, has been able to flourish. The key to the success of the company seems to have been the development of reinforcing principles and practices. Our analysis of the systems approach to Vincit's organizing can be summarized in Figure 1.

FIGURE 1 Vincit’s Systems Approach to Organizing



Companies can choose to decentralize many of the decisions that used to be made by managers to lower-level employees to support an autonomous strategy of innovation that can quickly adapt to customers’ unique needs. To ensure that workers are incentivized to engage in behaviors that are aligned with the company’s purpose and values, companies may also need to embrace innovative approaches to distributing rewards, including radical transparency, peer-based pay raises, and horizontal careers. Because implementation of this kind of experiential total rewards system can be challenging, companies need to foster a set of guiding principles that support the whole system. The company we studied focused on the community of its employees first, fostered a culture of care and well-being, and enhanced an environment of trust and collaboration.

Democratic leadership style and a collaborative approach to decision-making, where everyone's opinions are valued and considered before reaching a consensus (House, Hanges, Javidan, Dorfman, and Gupta, 2004) are common elements in the Nordic culture. There is low power distance, which means less emphasis on hierarchical structures and formal authority within organizations (Hofstede, Hofstede, and Minkov, 2010). Such cultural elements may facilitate the emergence of self-managed organizing in the Finnish context.

That said, the emergence of SMOs is not restricted to the Nordics but appears across the globe. For example, Corporate Rebels list more than 100 “pioneers” on across geographies on their website. The Experiential Total Rewards Strategy principles and practices discussed here may manifest to a different extent and in a different manner across SMOs depending on the company’s business, the local context and the scale of operations. It is important to adopt a systems approach to ensure that the elements fit together.

CONCLUSION

Having a rewards system aligned with company strategy and culture is fundamental to any organization, and SMOs are not an exception. However, the implementation of effective rewards systems in organizations without hierarchical supervisor-subordinate relationships presents several challenges that need to be carefully considered by the leaders of these organizations. While pay transparency, horizontal careers and peer-based pay can be extremely helpful as part of the system, SMOs need to make sure that they put in place the right mechanisms to mitigate the potential costs associated with such elements.

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