

# Controlling deviant behaviors in employee-owned cooperatives: The role of leadership

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## Abstract

Controlling deviant behaviors is important for employee-owned cooperatives especially when engaged in project business. From a case study of a high performance construction cooperative, we find that peer pressure, value espousal, and transparency can lead to lower managerial overheads to control deviant behaviors and obtain stable high performance equilibria.

**Keywords:** Deviant behavior, Peer pressure, Value leadership, Game theory

## INTRODUCTION

The topic of employee-organization relationship (EOR) has been a subject of intense and prolonged debate in multiple fields such as organizational behavior, economics, and industrial psychology. How organizations relate to their employees, has been studied principally through the theoretic lenses of exchange and reciprocity between the human actor and the organization (Levinson, 1965; Shore and Coyle-Shapiro, 2003). Most EOR studies appeal to some combination of social exchange theory, and/or economic exchange theory, e.g. inducements offered by the organization in exchange for the employee's contributions (Tsui et al.1997; Coyle-Shapiro and Shore, 2007). The dominant view of the employee in these studies is that of an independent actor participating in contracts (economic exchange), or investing in EOR with some expectation of future benefits (social exchange). The survival of the assumption that the parties retain independence implies that the tenure of relationship does not affect their choices or valuations. When mixed with the notions of bounded rationality and information deficiency, the independence assumption readily supports transaction cost economics (Williamson, 1981) and principal-agent theory (Eisenhardt, 1989). The necessity of organizational controls on employee behaviors can be said to arise from the independence of the parties, the information deficit, and the opportunism of the agent. These controls take complex forms through organizational hierarchies, defined rules, behavioral norms, standards, operating processes and procedures, and incentive regimes. It is not necessary to completely or explicitly state all the norms of proper

behavior. They appear to evolve over time as employees interact within the organizational boundaries. When employees exhibit *proper behaviors*, they signal to other organizational actors that they intend to participate in the social and/or economic exchanges. Thus, we say that *deviant behaviors* are those that are considered by the human actors to be sufficiently outside the explicitly-stated and/or implicitly-evolved normative apparatus of the organization, and the ones that are considered to be detrimental to the organizational goals, motivating adverse action against the deviant employee.

While the independence assumption might hold true for investor-owned firms (IOF), it is not so clear that it applies equally to employee-owned cooperatives (EOC). The latter represent a contrast to IOF by having majority of the ownership and control in the hands of workers on a democratic one-person-one-vote principle. The principle of equal ownership would suggest elimination of agency problems discussed above, and would be expected to lead to greater productivity by minimization of deviant behaviors and reduction in the overheads for organizational control. There is some empirical evidence that EOC can be more productive than IOF (Doucouliagos, 1995), but this is inconclusive due to sparse studies and the rather small proportion of EOC in the industrial economy (Ben-Ner, 1984, 1988; Levine, 1990; Kremer, 1997). Indeed, as the EOC gets larger in size, direct linkage between an individual employee-owner's labor contribution and receivable benefits gets weaker. Unless some form of organizational control is imposed over the employee-owners, it could motivate free-riding or social loafing tendencies (Albanese and Van Fleet, 1985; Karau and Williams, 1993). We develop a model to show that this would degenerate into a prisoner's dilemma-type equilibrium where both parties, i.e. the employee and the organization are locked into a sub-optimal equilibrium. On the other hand, when EOC is small, the employee-owners could enjoy high levels of familiarity and autonomy and could be reluctant to monitor and control the free-riding behaviors of each other (Langfred, 2004).

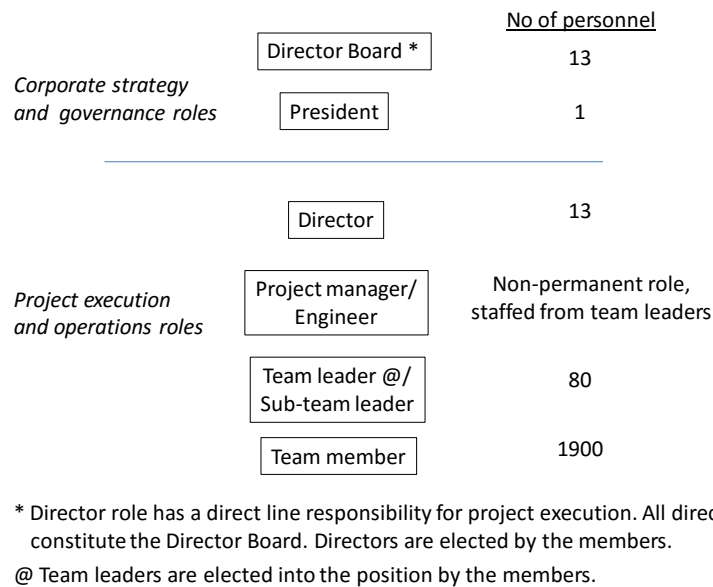
The question of how EOC controls deviant behaviors of its employees motivates this paper. We conduct a case study of a high-performing EOC in India to assess the methods used to control deviant behaviors, and propose a game-theoretic model to identify the workings of the phenomena. The next section describes the case study target and the research design. The following section provides the analysis of interviews, and develops the model involving the motivations of key players. We argue that emphasis on the organizational values, trust-building, and transparency constitutes an important mechanism for controlling deviant behaviors. We conclude with a summary of findings, and the limitations of research.

## **CASE STUDY AND RESEARCH DESIGN**

The target of the case study is a 90-year old labor-owned producer cooperative society (LOCS) located in the southern part of India and engaged in civil construction projects. We chose it as a candidate for case study because it has had a stellar record in project performance, and is known for good labor relations.

LOCS consists of approximately 2000 members each having equal shares and voting rights, and around 300 non-voting employees. It is driven by the values of integrity and ethics in business, and strives to deliver quality and on-time performance. It has had an exemplary record of successful project completions. It has won several national and international awards for

excellence in construction projects and social work. LOCS follows a four-tiered hierarchical structure for executing projects (Figure 1) under the overall stewardship of President who reports to the Director Board.



*Figure 1: LOCS organization structure (source: LOCS data)*

A few points about the organization structure should be noted. First, the Director Board consists of the directors who also have the day-to-day operational responsibility for projects. Second, the low count of managerial positions indicates that the organization structure is relatively flat with low supervisory overheads. Third, everyone joining the organization starts as a voting shareholder (class A member) at the level of team member who must perform physical/manual tasks on the construction projects before advancing in the organizational hierarchy; or as an employee without voting rights (class C member). Every class A member must be invited for membership, which is offered based on assessment of value congruence. Fourth, the positions of Team leader and Director are chosen through elections where the members vote from among themselves. Apart from receiving wages for the work, members receive performance bonuses and dividends at the close of financial year. Benefits include free meals, medical facilities, education for children and low-interest loans. Members typically enjoy long tenures (unless expelled for disciplinary actions) and tend to spend long durations at a given position in the hierarchy. Over its history of 90 years, LOCS has never faced industrial disputes or strikes, and enjoys good relations with members (Table 1).

*Table 1 – LOCS's labor relations record (source: LOCS data)*

Period	LOCS size at period end	(1)	(2)	(3)	(4)
1925 – 1950	142	0	236	94	38 (2.1%)
1951 – 1975	82	0	141	201	62 (2.2%)
1976 – 1990	202	0	234	114	79 (3.7%)
1991 – 2005	408	0	272	66	101 (2.2%)
2006 – 2015	1527	0	1233	114	147 (1.0%)

*(1): Number of industrial disputes, work stoppages, strikes, etc.*

*(2): Count of voluntary member additions*

*(3): Count of member expulsions/terminations*

*(4): Count of disciplinary actions (Annualized rate)*

Top reasons for dismissals/expulsions are: a) Financial misconduct (80%), b) Procurement/materials related (10%), c) Works-related. Top reasons for disciplinary actions are: a) Workplace misconduct such as violence, alcoholism, etc. (90%), b) Absenteeism, lateness (10%). The low annual rate of disciplinary actions (1%) shows that LOCS enjoys a relatively low incidence of deviant behaviors. In context of flat organizational structure, the low incidence of deviant behaviors is of particular interest.

As our research motivation was to examine the methods and practices to control deviant behaviors of employee-owners, it was necessary to obtain the data freely without imposing prior theoretic structure. Therefore, we chose semi-structured interview as the method of data collection for our research. To facilitate the process of interviews, LOCS assigned a senior and long-tenured member (SLT) to work with us. The choice for interview candidates was made jointly by us and SLT based on variety of hierarchical levels, organizational roles and project types. A total of 45 informants were interviewed. Appendix 1 shows the interview questions. The interviews were conducted in-person at LOCS's offices and project sites. English or Malyalam (local language) was used as the language of interviews, based on the informant's familiarity with the language. Malyalam interview scripts were subsequently translated into English and independently verified for their correctness. The interview durations ranged from 45-60 minutes. The responses were audio-recorded as well as hand scripted. We observed semantic saturation emerging after about 8 interviews. The informant profiles and interview scripts are available with authors; they are not included here due to space limitations.

## **DATA ANALYSIS, RESULTS, DISCUSSION**

We performed content analysis of the interview responses to capture the meanings intended by the informants. For this purpose, we isolated key phrases from the interview scripts and associated codes that were semantically adjacent to the meanings. Next, we associated categories against the codes in order to group them into categories. This process was iterated until the key phrases were resolved and mapped into associated codes and categories. Due to space limitations, only an extract is shown below (Table 2).

*Table 2 – Relevant extracts from interview scripts and associated categories*

Extracted phrases	Codes	Categories	Type
“Disrespect for fellow workers”, “Abusive language”, “Physical violence” (Project manager)	Workplace misconduct	Ethics	Values
“Only team rewards ... we don’t single out people on performance. You must cooperate. Loners who don’t align, will move out. You can’t have ego” (Team leader)	Cooperate	Teamwork	Values
“Mistakes are ok. But you must be honest and transparent. You are not punished for that” (Team leader)	Transparency, accountability	Trust	Values
“Members are trusted people. If someone goofs up at site, they will report next morning” (Project manager)	Transparency, accountability	Trust	Values
“I must come on time. If I am late, I can be suspended” (Member); “Quality and timeliness is critical. Cost is not important if quality suffers” (Team leader, Design engineer)	Punctuality, Quality	Performance criteria	Norms
“Many times site teams nominate their own leader, even if he is younger” (Project manager)	Democracy	Trust	Values
“Information cannot be rationed for personal gain. You must quit if that happens” (Team leader)	Teamwork	Teamwork	Values
“Workplace violence or alcoholism is not acceptable. You can be sent to crusher” (Member)	Workplace behavior	Ethics	Consequence
“It is ok to slip on time, but never ok to slip on quality” (Team leader)	Quality	Performance criteria	Norms
“We never give bribes. Government officers know that. It is ok if the work stops. If someone gives bribes, we will dismiss that member” (Manager)	Ethical behavior	Ethics	Values
“We hired these workers from Jharkhand. They don’t understand our teamwork culture. There was violence. We removed them immediately. Schedules were affected, but that is ok” (Project manager)	Workplace misconduct	Ethics	Consequence
“At a site canteen, member was found inflating food procurement prices. He was expelled the next day” (Team member)	Financial fraud	Ethics	Consequence
“One member ... was drinking and beating his wife. He was sent to crusher for six months (hard physical labor in stone quarries)” (Project manager)	Personal misconduct	Ethics	Consequence
“If someone is negligent, we pull him up. The team is there to take care. We will not report it if we can correct it.” (Team member)	Cooperate	Teamwork	Values
“On-time or before time completions are appreciated. President or director will come and recognize you publicly”. (Team member)	On-time completion	Performance criteria	Consequence
“We don’t allow back-biting, or personal ego, sexual misconduct, taking commissions from suppliers” (Accountant)	Workplace behavior	Ethics	Values
“If I see my boss doing something unethical, I will report that to his boss. Such people are not fit to stay in our organization. If nothing happens after that, I will report to President.” (Junior employee)	Employee initiative	Trust, Ethics	Values

From the semantic analysis, we noted three major patterns of behavior. First, the employees tended to lay considerable stress on teamwork and cooperation. This extended to helping team members out when they were lagging. There was no attempt on part of the helping member to

report on the helped member and to gain individual credit or to make the other member look bad in the eyes of management. Second, members tended to take initiative and act in the interest of work or project when they noticed something was wrong, even if they did not have direct responsibility for the work, showing high organizational citizenship behavior. Third, members reported on others when they noticed instances of financial misconduct, personal or workplace misconduct, or behaviors that violate the trust, norms or values of the organization. In the latter case, the employees obtained the involvement of senior leadership, even when issues concerned their superiors. There was little evidence of fear when the employees needed to access the organizational hierarchy for reporting the violation of norms and values. Thus, the employees were able to distinguish between issues that required policing and resolving at their or team levels and those that required escalating to the leadership. The problems of free-riding or social loafing behaviors were tackled at their personal levels, or at the team levels, whereas the problems of agency, violation of norms, codes of conduct or organizational values were escalated to the senior leaders during the daily short meetings. The senior leadership took swift action on the instances of violation of organizational values, and publicly appreciated the efforts of the whistleblower employees. These distinct behavior patterns have an important bearing on our model of controlling deviant behaviors.

## Model development

We use game-theoretic concepts to model the work-related team interactions. Assume a team  $T$  having  $n$  employee-owners. When  $T$  works, the total output is  $O$ , contributed and divided equally. The simultaneous game of pure strategies has two players: Employee-owner  $E$ , and the remaining team  $R$ . Each has two strategies: Work (W) or Shirk (S). Strategy  $S$  equates to free-riding or social loafing behaviour. When  $E$  shirks, the output  $O$  reduces proportionately. By shirking,  $E$  receives a net utility from non-work pursuits equal to  $L$ , which represents personal utility of non-work pursuits *adjusted for cost imposed by other parties*. Thus, the two-player game has the following structure (Table 3):

Table 3 – Structure of team game

	$S^R = W$	$S^R = S$
$S^E = W$	$\frac{O}{n}, \frac{(n-1)O}{n}$	$\frac{O}{n^2}, \frac{(n-1)O}{n^2} + (n-1)L$
$S^E = S$	$\frac{(n-1)O}{n^2} + L, \frac{(n-1)^2 O}{n^2}$	$L, (n-1)L$

When there is no team, the above reduces to a two-player simultaneous symmetric game, in which both will shirk if  $L > O/n^2$ , leading to a unique Nash equilibrium of a prisoner's dilemma game. By extrapolation, the simultaneous game among  $n$  players without team structure leads to prisoner's dilemma, i.e. all will shirk if  $L > O/n^2$ .

When  $E$  plays against  $R$ , the game is asymmetric. For all  $L > O/n^2$ ,  $E$  will prefer Shirk. But for  $R$  to shirk,  $L$  must be greater than  $(n-1)O/n^2$ . Note that  $R$ 's threshold  $(n-1)O/n^2$  is greater than  $E$ 's threshold  $O/n^2$ . The difference in the two thresholds  $(n-2)O/n^2$  measures the effect of

peer pressure on  $E$ . For all values of  $L$  between these thresholds, i.e.  $O/n^2 < L < (n-1)O/n^2$ , the equilibrium will shift to ( $S^E = S$ ;  $S^R = W$ ), where  $E$  will prefer Shirk, and  $R$  will prefer Work, resulting into a reduced output  $(n-1)O/n$ . This situation can be viewed as a new member  $E$  joining an established team  $R$ . To motivate  $E$  to work,  $R$  must impose a cost of shirking greater than  $(L - O/n^2)$ . The imposition of this cost would obtain unique equilibrium ( $S^E = W$ ;  $S^R = W$ ) which is Pareto-optimal and improve the output by  $O/n$ . Clearly, the cost imposition by the team is worthwhile only if  $O > n^2 L / (n-1)$ . Thus, any increase in the team size  $n$  must be accompanied by a *nearly* proportional increase in  $O$  to sustain Pareto-optimality.

The magnitude of  $L$  in relation to  $O$  decides the outcome of the game. When  $L > (n-1)O/n^2$ , a cost greater than  $[L - (n-1)O/n^2]$  imposed on  $R$  is sufficient to ensure that  $R$  will not shirk. The cost imposition on  $R$  necessarily needs to come from parties outside the team, such as the leadership, the client etc. Assuming the external party is the leadership of the firm, it is sufficient to link the external cost to observance of values, trust, norms, teamwork etc., in the sub game between the leadership and  $R$ . These variables fall outside the immediate work contexts and are unlikely to be primary concerns for the team; since  $R$ 's economic value for adhering to these variables would not exceed the direct value received from  $E$ 's work. By conducting frequent team meetings to stress the values, norms and teamwork, the leadership would impose the cost on  $R$ . By conducting these meetings in open formats in the visibility of the employees, the leadership could set up a sub game directly with  $E$  and simultaneously alter  $E$ 's payoffs and the threshold  $O/n^2$ . Thus, the separate sub games set up by the leadership with  $R$  and  $E$  could be instrumental in altering the game outcomes; and is a key consideration for the workings of our model (Figure 2).

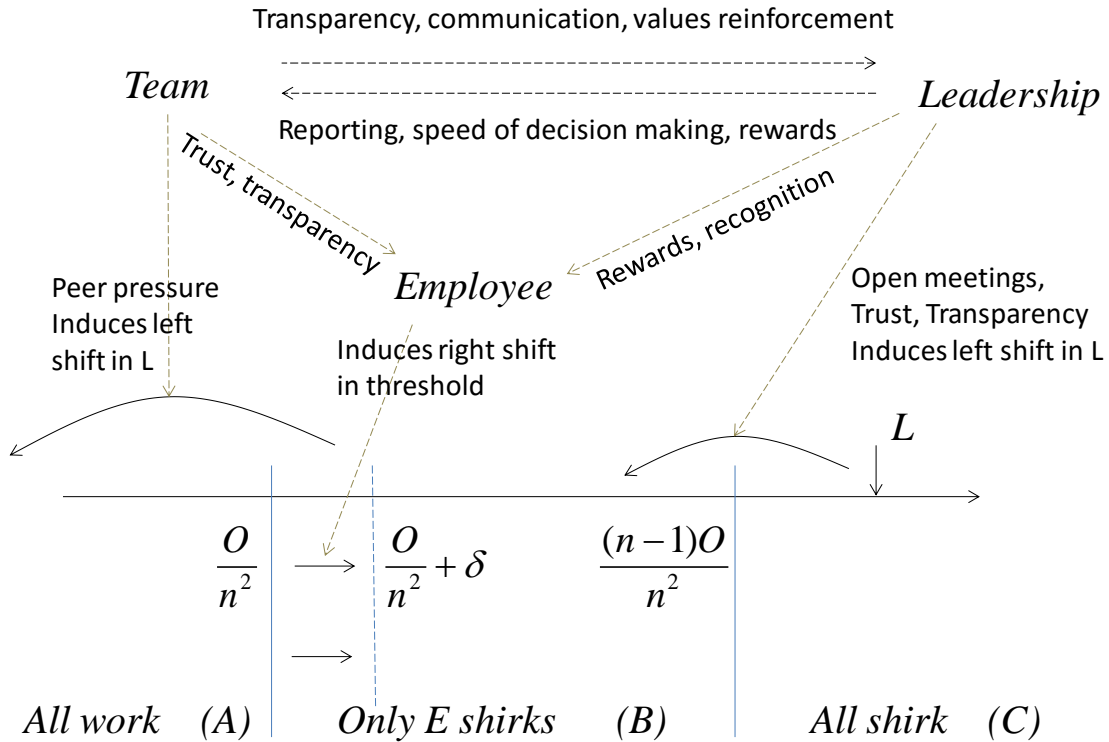


Figure 2: Model of behavior control

The left shift of  $L$  in Figure 2 can be explained as follows. Recall that  $L$  is the value of non-work pursuits of  $E$ , *adjusted for* the cost imposed by third parties, which we take to be LOCS leadership. We begin with  $L > (n - 1)O/n^2$ , which leads to a unique Nash equilibrium (Shirk, Shirk) of the game in Table 3. By conducting frequent meetings in an agile-like structure, the LOCS leadership reinforces values and norms; and imposes sufficient costs on  $R$  to induce a shift of  $L$  to region (B), where (Shirk, Work) is the new Nash equilibrium. As  $L$  is an exogenous variable, it can have arbitrary upper bounds; however we conjecture that the membership policies of LOCS ensure that the gap  $(L - (n - 1)O/n^2)$  remains quite small. Hence imposing the required cost on  $R$  should pose no difficulty for the LOCS leadership. Within region (B), the team's processes of peer pressure, trust, and transparency impose the required cost on the employee, which obtains a further left shift of  $L$  to region (A), where (Work, Work) becomes the new Nash equilibrium.

The sub game between LOCS leadership and  $E$  operates through visible and open meetings, where the LOCS leadership creates transparent interaction opportunities with individual employees. This induces a *right shift*  $\delta$  in the  $E$ 's threshold of  $O/n^2$  by altering the  $E$ 's payoffs through perceived or direct consequences for Work and Shirk. This sub game is of critical significance for two reasons:

1) As  $n$  increases, region (A) shrinks rapidly. The leadership sub game with  $E$  opposes this shrinkage through a right shift in  $E$ 's threshold. Region (A) has Pareto-optimal outcomes where no player shirks; its protection by the sub game outcomes improves the opportunity for Pareto-optimal outcomes.

2) As  $n$  increases, regions (B) and (C) expand, but region (B) expands faster than region (C). The expansion in region (B) increases the cost that  $R$  must impose on  $E$ . The leadership sub game with  $E$  reduces the expansion in region (B) and could potentially shrink it depending on the leadership's actions. This implies that the  $R$  experiences a reduced cost of aligning the new employee  $E$ . What this means is that when the leadership connects directly with the employee and espouses the organizational values and transparency, it improves the chance of superior equilibria at a reduced cost.

The open and frequent meetings conducted in public by the LOCS leadership constitute a credible commitment towards trust, transparency and espousal of organizational values. As  $n$  increases, per employee cost of this effort reduces rapidly since the threshold is an inverse function of  $n^2$ . By reinforcing the organizational norms and values, the LOCS leadership signals non-interference in the project management function, and supports the empowerment of teams. By increasing direct contact with teams and employees, the leadership facilitates creation of an agile-like, trust-bearing workplace (Owen and Koskela, 2006; Khalfan et al. 2007; Zhang et al. 2008).

## CONCLUSION

In this paper, we study a high performing labor-owned cooperative engaged in construction projects for deviant behaviours. From the case study interviews, we find that the leadership's espousal of organizational values and norms through open and frequent connections with teams



and employees constitutes credible commitment on part of the leadership, and creates an agile-like workplace invested with trust and transparency. The teams and employees respond with superior performance and low levels of deviant behaviours. We find evidence of self-policing by the employees and teams. By not interfering with the project management functions within the teams, the leadership supports empowerment of the teams and employees. We present a game-theoretic model to illustrate the phenomena and derive the characteristics of the thresholds for behavioural choices by the teams and employees. The two sub games by the leadership with the team and with the employee-owner are critical for sustaining equilibria having superior outcomes at lower cost. For practitioners, our study suggests that it may be useful for the leadership to override the hierarchical barriers and connect with employees to reinforce the organizational values, norms and codes of conduct, while letting the hierarchies engage with monitoring and control of work-related behaviours. We also show that careful attention to value congruence while selecting new organizational members substantially mitigates deviant behaviors and obtains superior equilibrium outcomes.

We acknowledge that our study is based on qualitative case study methods. Therefore the limitations of generalizability are applicable. Second, we make no claim about exhaustiveness of findings, since our study is a part of an ongoing research program. It is possible that new explanatory variables of deviant behaviour may emerge over the research program. Third, our model assumes rationality of human actors, and simultaneity of action choices. We acknowledge that organizational actors participate in multiple transactions in multiple contexts and multiple time periods, and these have complex effects via feedback loops on their action choices and assessment of payoffs. Such complex interactions have not been modelled and are left for future work. Likewise, we have not explicitly modelled the various sub games relevant to the phenomena among multiple parties. Fourth, the phenomena modelled in this paper are also influenced by interaction effects from organizational trust, fairness perceptions and leadership charisma. Modelling these influences is planned as future work.

## **Appendix 1: Interview questions**

1. Briefly describe your role and professional journey. What induced you to join LOCS?
2. How were (are) you trained for your job?
3. What are acceptable and non-acceptable behaviors at LOCS?
4. Are you concerned about non-acceptable behaviors after working hours? E.g. at home etc.?
5. What is done to prevent non-acceptable behaviors from members? At work? Beyond work?
6. Do you find your behavior constrained or controlled by others? From your superiors? From your peers or juniors?
7. Why and when are people rewarded? How? Who decides?
8. Why and when are people punished? How? Who decides?
9. How often do you meet or interact with your President and Directors?

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