DLSU Business & Economics Review 25.2 (2016), pp. 115-128

Principal-Agent Compensation Practices in a Stakeholder-Oriented Smokey Mountain Cooperative

Paz Esperanza T. Poblador
De La Salle University, Manila, Philippines
paz.poblador@dlsu.edu.ph

While developing the operations manual of three eco-laundry shops established by a Smokey Mountain cooperative, I discovered an alarming disparity in salary schemes among the social enterprises. Cooperatives in the Philippines embody the values of stakeholdership in that they balance the needs of all stakeholders to increase social performance. But in this case, principal-agent compensation practices were implemented towards increasing profitability. A discussion on compensation and organizational rewards allows for further understanding of the process in which these compensation packages were developed by the decision-makers. After using the survey method, measurable business indicators were evaluated to distinguish the effects of profitability, productivity, customer loyalty, and service quality on compensation. This study will show that leaders in this case did not uphold stakeholder values congruent with cooperatives, but instead implemented performance controls at the expense of more hardworking employees. A proposed compensation scheme which could be seen as more equitable by all employees is then discussed.

JEL Classification: *J33*

Keywords: compensation, motivation, Agency theory, Stakeholder theory, sustainability, poverty, cooperatives

In the case of the three eco-laundry centers, there is a clear discrepancy between compensation packages of employees amongst three branches. Two of the laundry centers are remunerated based on a fixed base daily wage (salary scheme A), while the third branch compensates their two employees based on an incentive scheme of Php 5.00 per kilogram of laundry processed (salary scheme B). As cooperatives are stakeholder firms which should be practicing employee-friendly compensation packages, it is necessary to propose a more equitable compensation package, without jeopardizing continued profitability of all three businesses. Hence, five research objectives were framed: (1) to determine if there is a difference between the profitability of laundry centers with salary scheme A employees and the laundry center with salary scheme B employees;

(2) to determine if there is a difference between the productivity of salary scheme A employees and salary scheme B employees; (3) to determine effect of salary scheme on service quality of laundry centers; (4) to determine the effect of salary scheme on customer loyalty of laundry centers; and (5) to assess the relationship between productivity and profitability across all three laundry centers.

LITERATURE REVIEW

Principal-Agent Compensation Practices

Jensen and Meckling (1976) define an agency relationship as:

> A contract under which one or more persons (the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximizers there is good reason to believe that the agent will not always act in the best interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities, of the agent. (p. 308)

Agency theory is defined by the principal-agent relationship bound by a contract which specifies compensation, and guarantees that the principal reaps outputs from the agent or jobholder, to increase shareholder wealth. Jensen and Meckling (1976) are proponents of this theory, which claims that because humans have the tendency to prioritize personal gain, certain control mechanisms must be executed to ensure that they will resist deviating from their tasks, given their decision-making power. These control measures have corresponding agency costs, which include "monitoring expenditures by the principal" (Jensen & Meckling, 1976, p. 308), that seek to control the behavior of the agent through compensation policies. Giving incentives is an example of a principal-agent compensation structure still in popular practice today. Incentives are used to "create alignment of interests between principal and agency...[it] is a primary mechanism proposed by the theory to reduce agency costs...[and] is without doubt one of the main (if not the main) theoretical frameworks in the area of compensation management" (Cuevas-Rodriguez, Gomez-Mejia, & Wiseman, 2012, p. 526). According to Fehr and Falk (2002), agency theory has come into much criticism because of its "pessimistic assumptions of human behavior as opportunistic [which] would seem to preclude trust and cooperation between the principal and agent" (as cited in Cuevas-Rodriguez et al., 2012. p. 527).

Stakeholder-Oriented Firm

Stakeholder theory on the other hand, goes beyond increasing firm shareholder wealth by focusing on organizational social performance (Miles, 2012). Management "should try to understand, respect, and meet the needs of all those who have a stake in the actions and outcomes of the organization. Involving stakeholders in corporate decisions is considered an ethical requirement and a strategic resource, both of which help provide organizational competitive advantages" (Miles, 2012, p. 305). This entails balancing the needs of both the organization and its stakeholders. Freeman, Wicks, and Parmar (2004) thus offered:

> The focus of stakeholder theory is articulated in two core questions (Freeman, 1994). First, it asks, what is the purpose of the firm? This encourages managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. This propels the firm forward and allows it to generate outstanding performance, determined both

> in terms of its purpose and marketplace financial metrics. Second, stakeholder theory asks, what responsibility does management have to stakeholders? This pushes managers to articulate how they want to do business—specifically, what kinds of relationships they want and need to create with their stakeholders to deliver on their purpose. (p. 364)

A stakeholder is "any group or individual who can affect or is affected by the achievement of the firm's objectives" (Freeman, 2010, p. 25). Stakeholders are also defined by Rhenman (1995), as "the individuals and groups who are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence" (as cited in Horisch, Freeman, & Schaltegger, 2014, p. 2). Stakeholder theory proponents argue that human behavior is not always opportunistic, and relationships between constituents are interdependent and consequential (Cuevas-Rodriguez et al., 2012).

Philippine cooperatives are examples of stakeholder firms based on Republic Act No. 9520, also known as The Philippine Cooperative Code of 2008 (2009):

> A cooperative is an autonomous and duly registered association of persons, with a common bond of interest, who have voluntarily joined together to achieve their social, economic, and cultural needs and aspirations by making equitable contributions to the capital required, patronizing their products and services and accepting a fair share of the risks and benefits of the undertaking in accordance with universally accepted cooperative principles. (Article 3)

One such stakeholder group is the *Samahan ng Muling Pagkabuhay* Multi-Purpose Cooperative (SMP-mpc). This parish-based cooperative in Smokey Mountain was established in 1987 by Fr. Rev. Fr. Benigno Beltran, SVD, and was registered on May 14, 1991. The 200-member organization aims to "develop a God-centered, people-empowered, and prosperous community" by providing livelihood to constituents (Samahan ng Muling Pagkabuhay Multi-Purpose Cooperative, n.d.). For nearly four decades, Smokey Mountain was Metro Manila's primary garbage dump where scavenging was the main source of income. In 1995, President Fidel V. Ramos finally pursued its long-planned rehabilitation through the Smokey Mountain Development and Reclamation Project (SMDRP), which was overseen by the National Housing Authority (NHA). Through the SMDRP, approximately 20 five-story buildings were erected with about 20 units per floor, housing roughly 30,000 of our penurious fellowmen (Villanueva, 1995).

In 2009, Sustainable Project Management (SPM), an international not-for-profit development organization, partnered with SMP-mpc to establish micro-enterprises such as: a waste management center, a recycled paper enterprise, a water refilling station, and three eco-laundry centers. SPM "works towards environmental promotion, social equity and economic development, through transparent and inclusive governance" (Sustainable Project Management, 2014, par. 1). The three eco-laundry shops aspire to be the top-of-mind laundry service provider by ensuring a consistently high standard of customer service. As a sustainable enterprise, it has the following metrics: the use of eco-friendly laundry supplies (e.g. detergents, bleach, etc.), the amount of water saved through the use of a built-in rain catchment system, and the re-use of gray water from an augmented business such as the Coop's water refilling station. Social performance is measured through the fulfillment of community projects subsidized by the laundry centers. Bldg 24 provided children with uniforms for their physical education class, while Bldg 21 provided trash bins on each floor of the structure, apart from public comfort rooms and a multi-purpose hall.

As Project Manager for Social Enterprise Development, I offered to produce an operations manual. While mapping out basic workflow processes, I discovered that the first two centers to open (Bldg 24 and the Coop), were paying each of their employees Php 150 per day, while the last laundry center to open (Bldg 21), was remunerating their two employees through an incentive method of Php 5.00 for every kilogram of laundry processed. Further inquiry revealed that the SMP-mpc board voted on the new salary scheme based on the assumption that employees will work harder if they are incentivized to do so.

Compensation and Motivation

"Compensation refers to all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship" (Milkovich, Newman, & Gerhart, 2014, p. 13). Total compensation includes transactional returns as direct remuneration received in cash, such as base wage, merit, incentives, and cost-of-living adjustments. Cash compensation includes (1) base wage which is given to the agent for basic work delivered; and (2) incentives which is linked to pay increases to job performance and are introduced beforehand as a potential size of pay, based on outputs to be achieved, with the intention to motivate a high level of future performance (Milkovich et al., 2014).

The employer-employee relationship enables workers to give their time and skills to reap organizational rewards, which according to Grote (1996), falls under one of four organizational reward norms: (1) profit maximization makes the most out of net gain, without necessarily considering the welfare of the other. The goal is to "pay the least amount of salaries and wages while attempting to extract maximum effort. Conversely, a profit-maximizing employee seeks maximum rewards, regardless of the organization's financial well-being" (p. 304); (2) reward equity norm which have fairness and justice as a basis, in that "rewards should be allocated in proportion to contributions: Those who contribute the most should be paid the most" (p. 304); (3) reward equality norm ensures that all employees are rewarded equally, without consideration of comparative contributions, wherein "each worker receives exactly the same wage, regardless of any variations in production, seniority, or other factor" (p. 304); and (4) need wherein rewards are distributed based on the employee's need to survive. It is the general practice for firms to use the reward equity norm as there is a premium placed on high performance by awarding good performers with higher pay (Grote, 1996). This norm could be a basis for performance related pay (n.d.), which is defined as "a financial reward system for employees where some or all of their monetary compensation is related to how their performance is assessed relative to stated criteria".

Employees with the same tasks tend to compare their salaries with that of co-workers, and that of competing firms in the same industry. They undergo an acceptance process which includes two fairness evaluation sources: procedural justice which is the process under which a compensation structure decision is reached, and distributive justice which refers to the fairness of the resulting remuneration structure (Milkovich et al., 2014).

Congruency is "the degree of consistency or 'fit' between the compensation system and other organizational components such as strategy, product-market stage, culture and values, employee needs, and union status" (Milkovich et al., 2014, p. 678). Therefore, the research problem below essentially questions the congruency of a stakeholder firm that implements principal-agent compensation schemes.

RESEARCH PROBLEM

In the case of the three SMP-mpc laundry centers, which should uphold stakeholder values congruent with cooperatives, there is a clear discrepancy between compensation packages of employees among three branches (see Table 1 and Figure 1 below).

Figure 1 shows that the total salary over a 10-month period of the Bldg 24 employee is the highest among the three laundry centers at Php 35,500, which is 1% higher than the Coop employee, and 26% higher than the Bldg 21 employees.

Research Objectives

This study aims to:

(1) determine if there is a difference between the profitability of laundry centers with salary scheme A employees and the laundry center with salary scheme B employees;

(2) determine if there is a difference between the productivity of salary scheme A employees and salary scheme B employees;

Table 1. ***Two Salary Schemes of Three Laundry Centers***

Salary Scheme	Bldg 24	COOP	Bldg 21
A Base Wage of Php 150/day	1 employee	1 employee	
B Incentive Pay of Php 5.00 per kilo of laundry washed			2 employees

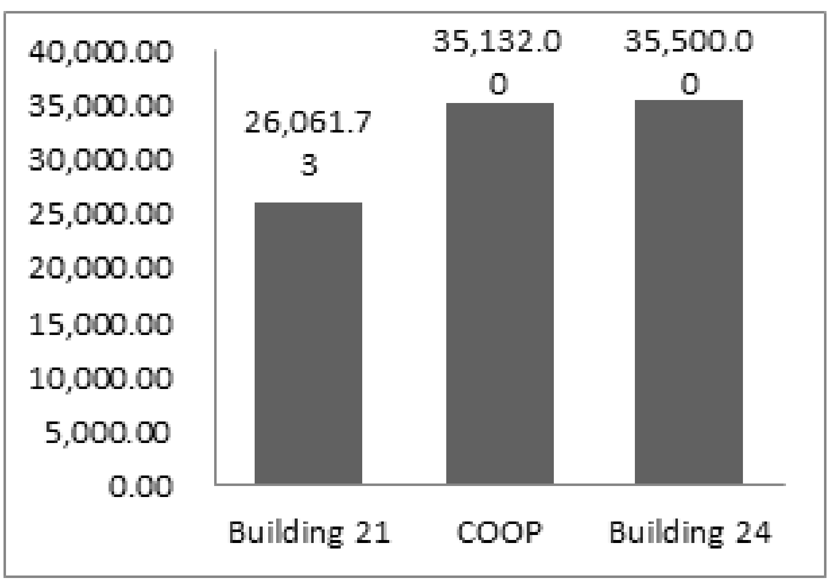

Figure 1. Total compensation per employee from June 2013 to March 2014.

(3) determine the effect of salary scheme on service quality of laundry centers;
(4) determine the effect of salary scheme on customer loyalty of laundry centers; and
(5) assess the relationship between productivity and profitability across all three laundry centers.

Theoretical Framework

Based on the literature review and the problem statement, I developed a theoretical framework (Figure 2) to test whether there is a significant difference in profitability, productivity, customer loyalty, and service quality, with respect to compensation schemes; and whether there is a positive relationship between productivity and profitability.

RESEARCH METHODOLOGY

Samples and Procedure

Descriptive statistics, hypothesis testing (ANOVA/F-test and post-ANOVA Tukey's HSD test), correlation, and regression, were used to check whether the hypotheses stated are true. Data from 95 respondents was gathered: 31 from Bldg 24, 34 from the coop, and 30 from Bldg 21. Informal interviews were also conducted with employees from each laundry center: (1) Bldg 24: Marlene Nibal, 30 years old, employee since April 2014; (2) The Coop: Arlene Aquino, 43 years old, employee since 2012; (3) Bldg 21: Erlinda Galicia, 47 years old and Myrna Basisbas, 43 years old, employees since 2013. To verify the decision-making process made on compensation schemes, an interview with SMP-mpc leaders Dominador Valencia, Lolita Gatpolintan, Leticia Reyes, Clarita Abaigar, and Anita Esteban, along with SPM Project Manager and Community Liaison Joyet Castor, was also conducted in the Coop office.

Instrumentation

The survey data was used to measure quality of service in terms of laundry output; employee friendliness and knowledgeability; perception of value in terms of price, cleanliness, and orderliness of laundry center; frequency of visit; and levels of customer satisfaction. A comparative analysis of the three laundry centers from the period of June 2013 to March 2014 in terms of sales, net profit, customer count, and

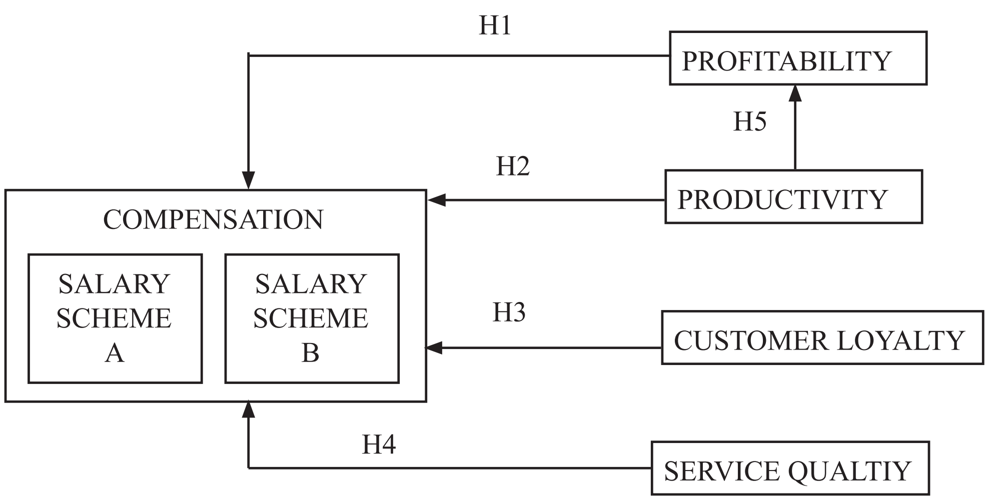

Figure 2. Theoretical model: The relationship between compensation, and profitability, productivity, customer loyalty, and service quality.

compensation per employee is included. This 10-month period was the only complete data available. This study was comprehensive in testing five hypotheses, namely:

(H1) There is a significant difference in profitability with respect to salary schemes;
(H2) There is a significant difference in productivity with respect to salary schemes;
(H3) There is a significant difference in customer loyalty with respect to salary schemes;
(H4) There is a significant difference in customer perception of service quality with respect to salary schemes; and
(H5) There is a positive relationship between productivity and profitability.

Note that an alpha level of .05 was used for all statistical tests.

RESULTS

As shown in Table 2 and Figure 3, there is a significant difference in the net profit among all three laundry centers.

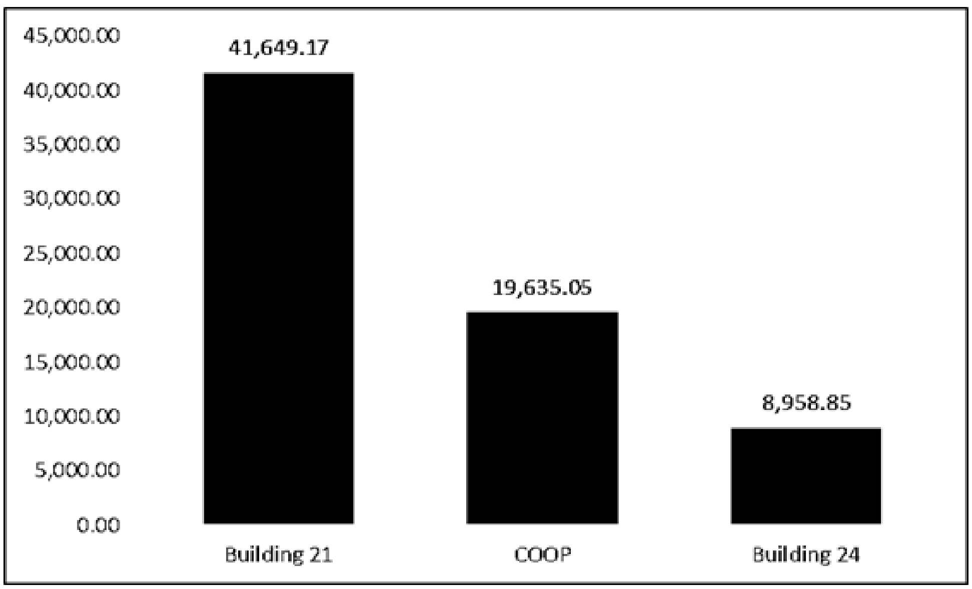

Figure 3. Net profit of three laundry centers from June 2013 to March 2014.

Table 2. ***One Way Analysis of Variance of Net Profit Between Laundry Centers***

Source	df	SS	MS	F	p
Between Groups	2	55,575,324.92	27,787,662.46	18.69	0.00
Within Groups	27	40,145,203.73	1,486,859.40		
Total	29	95,720,528.65			

Table 3. ***Tukey HSD Post Hoc Test for the ANOVA of Net Profit Between Laundry Centers***

	Mean Difference	**SE**	**p**	**95% CI**	
				Lower Bound	Upper Bound
Bldg 24 vs COOP	-1067.62	545.318	0.142	-2,419.691	284.451
Bldg 24 vs Bldg 21	-3269.03*	545.318	0.000	-4,621.103	-1,916.961
COOP vs Bldg 21	-2201.41*	545.318	0.001	-3,553.483	-849.341

*. The mean difference is significant at the 0.05 level.

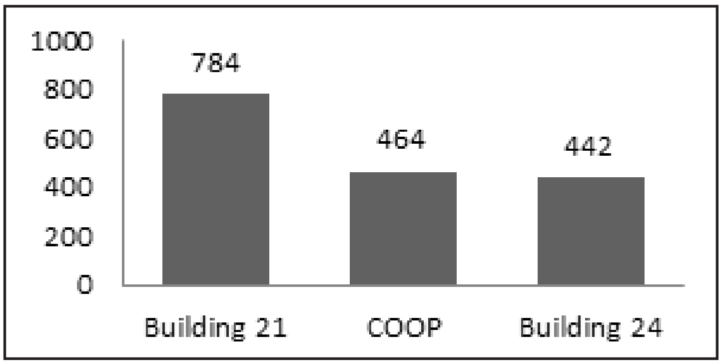

Figure 4. Customer count per laundry center from June 2013 to March 2014.

Table 4. *One Way Analysis of Variance of Customer Count Between Laundry Centers*

Source	**df**	**SS**	**MS**	**F**	**p**
Between Groups	2	7,328.27	3,664.13	90.07	0.00
Within Groups	27	1,098.40	40.68		
Total	29	8,426.67			

The post hoc comparison using Tukey HSD test (see Table 3) indicated that the net profit in Bldg 21 was significantly different from the net profit in Bldg 24 and COOP.

As shown in Table 4, there is a significant difference in the customer count across all three laundry centers.

Table 5. ***Tukey HSD Post Hoc Test for the ANOVA of Customer Count Between Laundry Centers***

	Mean Difference	SE	p	95% CI	
				Lower Bound	Upper Bound
Bldg 24 vs COOP	-2.20	2.852	0.724	-9.272	4.872
Bldg 24 vs Bldg 21	-34.20*	2.852	0.000	-41.272	-27.128
Bldg 21 vs COOP	32.00*	2.852	0.000	24.928	39.072

*The mean difference is significant at the 0.05 level.

Table 6. ***Frequency of Visit of Three Laundry Centers***

Laundry Centers	Once a month	2 - 3 times a month	4 or more times a month
Bldg 24	21	9	1
COOP	13	15	6
Bldg 21	1	14	15

Note: Actual respondent count

Table 7. ***One Way Analysis of Variance of Frequency of Visit Between Laundry Centers***

Source	df	SS	MS	F	p
Between Groups	2	19.10	9.55	24.32	0.00
Within Groups	92	36.12	0.39		
Total	94	55.22			

Table 8. ***Tukey HSD Post Hoc Test for the ANOVA of Frequency of Visit Between Laundry Centers***

	Mean Difference	SE	p	95% CI	
				Lower Bound	Upper Bound
Bldg 21 vs Bldg 24	1.11*	0.160	0.000	0.730	1.494
Bldg 21 vs COOP	.67*	0.157	0.000	0.299	1.046
Bldg 24 vs COOP	-.44*	0.156	0.016	-0.810	-0.069

*The mean difference is significant at the 0.05 level.

The post hoc comparison using Tukey HSD test indicated that the mean count of customer in Bldg 21 was significantly different from the mean count in Bldg 24 and the COOP. However, the customer count in Bldg 24 did not significantly differ from the customer count in COOP.

Tables 6 and 7 indicate that there is a significant difference in the frequency of visit across all three laundry centers.

The post hoc comparison using Tukey HSD test indicated that the frequency of visit in Bldg 21 was significantly different from the frequency of visit in Bldg 24 and COOP. Furthermore, the frequency of visit in Bldg 24 is also significantly different from the frequency of visit in COOP.

Tables 9.1, 9.2, and 9.3 show customer evaluation of levels of satisfaction on five attributes based on a Likert-scale of 1-7, with 1 as very unsatisfied and 7 as very satisfied.

Table 9.1 ***Weighted Percentages of Customer Satisfaction Levels of Bldg 24***

	Bldg 24		
	Not Satisfied	**Neutral**	**Satisfied**
Quality of Laundry Service	0.00%	0.65%	99.35%
Employee Friendliness and Knowledgeability	0.00%	1.61%	98.39%
Perception of Value (Price)	0.00%	0.00%	100.00%
Cleanliness and Orderliness	2.15%	12.90%	84.95%
Levels of Customer Satisfaction	0.00%	2.15%	97.85%

Note: Likert Scale 1 to 3 - Not Satisfied; Likert Scale 4 - Neutral; Likert Scale 5 to 7 - Satisfied

Table 9.2. ***Weighted Percentages of Customer Satisfaction Levels of COOP***

	COOP		
	Not Satisfied	**Neutral**	**Satisfied**
Quality of Laundry Service	1.18%	10.00%	88.82%
Employee Friendliness and Knowledgeability	0.00%	2.94%	97.06%
Perception of Value (Price)	0.00%	2.94%	97.06%
Cleanliness and Orderliness	0.00%	2.94%	97.06%
Levels of Customer Satisfaction	0.00%	1.96%	98.04%

Note: Likert Scale 1 to 3 - Not Satisfied; Likert Scale 4 - Neutral; Likert Scale 5 to 7 - Satisfied

Table 9.3. ***Weighted Percentages of Customer Satisfaction Levels of Bldg 21***

	Bldg 21		
	Not Satisfied	**Neutral**	**Satisfied**
Quality of Laundry Service	4.67%	3.33%	92.00%
Employee Friendliness and Knowledgeability	0.00%	0.00%	100.00%
Perception of Value (Price)	0.00%	3.33%	96.67%
Cleanliness and Orderliness	1.11%	0.00%	98.89%
Levels of Customer Satisfaction	0.00%	1.11%	98.89%

Note: Likert Scale 1 to 3 - Not Satisfied; Likert Scale 4 - Neutral; Likert Scale 5 to 7 - Satisfied

Table 10. ***Regression Results Between Productivity and Profitability***

IV	DV	F - test	P - value	R^2	β
Customer Count	Net Profit	16.8435	0.0003	0.3756	65.3193

Note: $\alpha = 0.05$

Each of the *f* categories above may have varying questions evaluating each attribute, but each question was treated with equal weight, with results grouped into three: Not Satisfied (with Likert scale scores from 1-3), Neutral. (4), and Satisfied (5-7). In terms of service quality, Bldg 24 scored the highest with 99% of customers satisfied, followed by Bldg 21 with 92%, and then the Coop with 89%. All three centers scored relatively equal in terms of employee friendliness and knowledgeability, value perception of price, and customer satisfaction. In terms cleanliness and orderliness, the Coop and Bldg 21 scored relatively equal with 97% and 99% respectively in satisfied customers, while Bldg 24 scored the lowest with 85% satisfied customers.

Since the p-value is less than α, we can conclude that β is not equal to zero. Therefore there is a relationship between customer count and net profit. Furthermore, the correlation of customer count and net profit were strongly and positively correlated, $r(28) = .61, p < .05$.

DISCUSSION AND CONCLUSIONS

Upon commencing operations in Bldg 24 and the Coop, the SMP-mpc board formulated salary scheme A, which is a blend of the organizational reward norms of profit maximization and reward equality, as it was based on an archaic minimum wage rate of Php 150 per day. According to the Department of Labor and Employment's (DOLE) National Wages and Productivity Commission, minimum wage in the National Capital Region for Retail/Service Establishments employing 15 workers or less was pegged at Php 150 per day in 1993. As of October 2014, minimum wage was increased to Php 429 per day (Regional Tripartite Wages and Productivity Board, National Capital Region, 2014). On the other hand, under salary scheme B, Bldg 21 follows an incentive program by paying their two employees Php 5.00 for every kilogram of laundry processed. The two lesser paid women viewed this as unjust, in terms of employee acceptance, procedural, and distributive justice, as they felt that the manner in which the decision was reached was questionable, and the wage amount was disproportionate.

Hypothesis 1

Results show that hypothesis 1 is true, that there is a significant difference in profitability with respect to salary schemes. Figure 3 shows that Bldg 21 has the highest net profit with 52% more than the Coop, and 78% more than Bldg 24. SMP-mpc leaders implemented a reward-equality norm for continued profitability, in the case of Bldg 24 and the Coop. Unfortunately, the same salary scheme was not followed in Bldg 21, due to an inopportune incident which occurred in Bldg 24 which involved conflict between former officers and the Coop members concerning the presence of the enterprise in the NHA structure. This issue caused SMP-mpc leaders to restructure compensation for Bldg 21 prior to its opening. Apparently, the new incentive scheme was suggested by laundry center trainer and Whirlpool salesperson Mr. Orilla. Since net profit is significantly different, the purpose for changing the salary scheme of Bldg 21 is indeed a move to implement stricter control measures, so as not to repeat the same incident. This monitoring cost directive backfired on SMP-mpc, as Bldg 24 and the Coop employees were not motivated to increase productivity because they received the same salary no matter the level of profitability. This is a behavior consistent with the organizational reward norm of profit maximization.

Hypothesis 2

Results show that hypothesis 2 is true, that there is a significant difference in productivity with respect to salary schemes. Figure 4 shows productivity levels through number of customers served by each laundry center, with Bldg 21 having 67% more than the Coop, and 77% more than Bldg 24. When comparing Bldg 24 and the Coop, $p > .05$ showed that there is no significant difference in their productivity levels, while when each was compared to Bldg 21, $p < .05$, which showed that there was a significant difference in productivity levels between them. This proves that Bldg 21 employees are indeed the most productive, though underpaid and overworked, since they provide higher net gain per employee than the other two centers. Linda of Bldg 21 is dismayed and hopes for a new package which would at the very least allow them to receive the same amount of monthly base wage as the rest. Even if it could be argued that Bldg 21 has higher productivity levels due to its number of employees, Linda said that they work longer hours compared to those from the two other centers.

Hypothesis 3

Results show that hypothesis 3 is true, that there is a significant difference in customer loyalty with respect to salary schemes. Bldg 21 has the highest customer loyalty among the laundry centers. Interviews revealed that residents and officers are supportive because the shared sense of value is clear to them. Meanwhile, Bldg 24 has the lowest level of customer loyalty due to inconsistent operations, which caused customers to perceive the center as untrustworthy and unprofessional. This could be why residents do not consistently patronize the service even if they are aware of the potential benefits to their community.

Hypothesis 4

Results show that hypothesis 4 is false, that there is no significant difference in customer perception of service quality with respect to salary schemes. Tables 9.1, 9.2, and 9.3 show that there is no substantial difference in service quality levels across all three centers, therefore customers as a whole are generally satisfied. Bldg 21 scored the lowest in cleanliness and orderliness, due to the cramped space of the business. The productivity of this center is the highest among the three and is perennially full of clothes to be washed and dried, therefore maintaining orderliness is a constant challenge for the two hardworking women.

Hypothesis 5

Results show that hypothesis 5 is true, that there is a positive relationship between productivity and profitability. Statistical tests showed that productivity and profitability are positively correlated, which means that the higher the productivity, the higher the profitability in the case of the laundry centers, congruent with what Freeman et al. (2004) proposed:

> Today's economic realities underscore the fundamental reality we suggest is at the core of stakeholder theory: Economic value is created by people who voluntarily come together and cooperate to improve everyone's circumstance. Managers must develop relationships, inspire their stakeholders, and create communities where everyone strives to give their best to deliver the value the firm promises. Certainly shareholders are an important constituent and profits are a critical feature of this activity, but

concern for profits is the result rather than the driver in the process of value creation. (p 364)

RECOMMENDATIONS

I recommend a reward-equity norm performance-based salary scheme with a base amount of Php 150 per day given each worker, since this operational expense can be accommodated by both high and low performing centers. To motivate and adequately reward hard working employees, an additional incentive scheme which provides commission to high performers who deliver beyond say, 1,000 kilograms a month, can be implemented. This ensures a balance between profitability and employee welfare. Along with the restructuring of compensation, leaders should also evaluate motivation. The mission of inclusive growth must be clear to all stakeholders so that there is an equitable contribution to value creation.

Further studies on Filipino values in cooperatives can be conducted to better understand motivation behind compensation. This study can be expanded into an exploration of motivation in the context of extreme poverty. Financial rewards are not the sole driver of organizational rewards, as there are also non-pecuniary benefits to be considered. External stakeholders should take more responsibility in ensuring that all constituents in partner entities are treated fairly by creating clear and measurable social performance measures that not only indicate degree of environmental conservation and poverty alleviation, but also specify whether organizational goals of balancing enterprise sustainability (in terms of profitability) and employee welfare (in terms of work-life balance) are indeed met. Finally, the government should be more effective in communicating the mission of shared value creation in cooperatives to ensure that no one constituent is enslaved by another.

REFERENCES

Cuevas-Rodriguez, G., Gomez-Mejia L. R., & Wiseman, R. M. (2012). Has agency theory run its course?: Making the theory more flexible to inform the management of reward systems. *Corporate Governance: An International Review, 20*(6), 526–546. doi: 10.1111/corg.12004

Freeman, R. E. (2010). *Strategic management: A stakeholder approach*. UK: Cambridge University Press. Retrieved from https://books.google.com.ph/books?hl=en&lr=&id=NpmA_qEiOpkC&oi=fnd&pg=PR5&dq=Strategic+Management:+A+Stakeholder+Approach&ots=6-eoL7J7ML&sig=I3rmq0PdSO9GijbESOa1GfGWRb4&redir_esc=y#v=onepage&q=Strategic%20Management%3A%20A%20Stakeholder%20Approach&f=false

Freeman, R. E., Wicks, A. C., & Parmar, B. (2004). Stakeholder theory and “The corporate objective revisited”. *Organization Science*, *15*(3), 364–369. Retrieved from http://0-eds.a.ebscohost.com.lib1000.dlsu.edu.ph/eds/pdfviewer/pdfviewer?sid=7ab2493f-2c2b-4540-b3b3-955318710922@sessionmgr4004&vid=5&hid=4102

Grote, D. (1996). *The complete guide to performance appraisal.* New York, USA: Amarican Management Association. Accessed from http://0-eds.a.ebscohost.com.lib1000.dlsu.edu.ph/eds/pdfviewer/pdfviewer?sid=93c714c6-3a80-4992-af1f-f3388a6635b3%40sessionmgr4005&vid=7&hid=4213

Horisch, J., Freeman, R. E., & Schaltegger, S. (2014, May 27). Applying stakeholder theory in sustainability management: Links, similarities, dissimilarities, and a conceptual framework. *Organization & Environment.* doi:10.1177/1086026614535786

Jensen, M.C., & Meckling, W.H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*(4), 305–360. Retrieved from http://ac.els-cdn.com/0304405X7690026X/1-s2.0-0304405X7690026X-main.pdf?_tid=d2de2f4c-456a-11e5-8176-00000aab0f01&acdnat=1439876261_e18b52430b74d6f6722289f8b15ffcad

Miles, J. A. (2012). *Management and organization theory*. San Francisco, CA: Jossey-Bass.

Milkovich, G., Newman, J., & Gerhart, B. (2014). *Compensation* (11th ed.) New York, NY: McGraw-Hill/Irwin.

Performance related pay. (n.d.). In *BusinessDictionary*. Retrieved August 29, 2014 from http://www.businessdictionary.com/definition/performance-related-pay.html

Regional Tripartite Wages and Productivity Board, National Capital Region. *Wage Order No. NCR-19: Providing a Wage Increase in the National Capital Region*. Retrieved from http://www.nwpc.dole.gov.ph/pages/ncr/Download/reg%20ncr%20-%20wo%2019.pdf

The Philippine Cooperative Code of 2008, Republic Act No. 9520 (2009). Retrieved from http://www.cda.gov.ph/resources/issuances/philippine-cooperative-code-of-2008/republic-act-9520

Samahan ng Muling Pagkabuhay Multi-Purpose Cooperative(n.d.) . Brochure. N.p.: Samahan ng Muling Pagkabuhay Multi-Purpose Cooperative.

Sustainable Project Management. (2014). *Who we are*. Retrieved August 29, 2014, from http://spminternational..com/wordpress/who-we-are/

Villanueva, M. (1995, November 22). Smokey Mountain development project to push through. *Manila Standard*, p. 15.