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Performance

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You get what you pay for. It is a classic piece of popular and business wisdom, invoked in hiring and pay decisions across the length and breadth of the economy.

But for many enterprises, some new research suggests, not only is this saying doubtful but the reverse is likely to be the case – specifically, in organizations that have an overriding social mission. These can be nonprofits, a sector, employing

about 10% of the private U.S. workforce, or they can be socially dedicated for-profit

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organization that pays higher wages.”

Such low-paid individuals, explain researchers Laura W. Wang and Clara Xiaoling Chen of the University of Illinois at Urbana-Champaign and Heather L. Pesch of Oregon State University, “derive considerable personal utility from advancing the social mission of the hiring organization. As a result, when they have the opportunity to choose between a job that advances an important social mission but pays below market and a non-social-mission job that pays market, they are willing to accept below-market pay for the opportunity to advance an important social mission.”

In sum, “for a social-mission organization, offering below-market pay provides an effective mechanism for sorting job candidates based on the extent to which they personally value the social mission of the organization,” something, the authors add, that recruiters otherwise “find difficult to measure or verify.”

In a series of behavioral experiments described in the paper, participants who accepted low pay to work on behalf of a social mission outperformed those working for higher pay. For example, in one experiment, 38% of subjects chose jobs involving a social mission over jobs without one, even though the social-mission jobs paid 20% less. And when assigned a task commonly used in laboratory behavioral research, these participants considerably outperformed a second group that also chose social-mission jobs but at a pay 20% higher than was offered for non-social-mission work.

In other words, the first group substantially outperformed the second group even though it was paid one third less.

The professors are at pains to emphasize that their results should not be regarded as a rationale for offering low pay as a universal screening tactic. They note such

disadvantages in doing so as increasing the time it takes to fill jobs, attracting low-

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conventional businesses, even ones attentive to corporate social responsibility.

These caveats notwithstanding, the paper's findings should have resonance in an economy where (according to a recent report from Big-4 accountancy Deloitte) companies are increasingly judged by "their impact on society at large—transforming them from business enterprises into social enterprises." The *Accounting Review* authors take note, too, of a much-cited survey of "431 students and 1,295 full-time employees [which reported] that 58% of students and 34% of workers would choose to give up a 15% higher salary to work for an organization whose values they identify with."

Comments Prof. Wang: "Our study should be particularly encouraging to startups that have a strong social mission but a very tight budget. It tells them that they don't have to sacrifice staff quality – and, indeed, are likely even to enhance it – by offering below-market pay. Our findings may also apply to cases where conventional companies create discrete units with distinct social missions and give them substantial autonomy in hiring and pay decisions."

The paper's findings derive from two principal experiments conducted via computer with hundreds of subjects enlisted through the crowd-sourcing Internet marketplace MTurk, often used in social-science research. In one experiment, one group of participants was given a choice between Job A that paid \$1 for doing a 10-minute task (which the professors estimated to be market rate on MTurk) and Job B that paid only 80 cents but could also earn (depending on performance on the task) up to \$2 for the American Cancer Society (ACS). A second group of participants was given a similar choice, except that Job B paid \$1.20 to the participant in addition to what would be earned for the ACS. Naturally, the great majority in this second group chose Job B, which was the choice of only 38% in the first group.

The researchers then compared the performance of participants in the two groups

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Having established low pay to be associated with superior individual performance, the researchers then investigated whether participants who chose below-market pay (80 cents) would also cooperate better with colleagues than would participants who chose market pay (\$1) or above-market pay (\$1.20). Again the comparisons were between groups that chose a social-mission job (earning money for the ACS) over jobs that paid the market rate of \$1 but entailed no social mission (no mention of the ACS). Cooperation in this experiment was gauged by performance on the Prisoner's Dilemma, a classic game scenario of behavioral research that probes the level of trust among participants.

The result: "Participants selecting the below-market social-mission job relative to participants selecting the at-market and above-market social-mission job are more likely to cooperate." Why? Because those willing to work for low pay on behalf of a social mission tend to be trusting of others willing to do the same. In the words of the study, "Below-market pay increases perceived partner value congruence, which increases expected partner cooperation and therefore facilitates team cooperation on a task that contributes directly to the organizational mission."

Indeed, further research revealed that this cooperation extends even to non-mission tasks, prompting this upbeat conclusion: "Since the organizational mission is *social* by nature, employees are likely to consider their value-congruent partners to be prosocial, and therefore expect their prosocial partner to cooperate on team-based tasks in general, regardless of whether these tasks contribute directly to the organizational mission."

The new study, "Selection Benefits of Below-Market Pay in Social-Mission Organizations: Effects on Individual Performance and Team Cooperation," is in the January 2020 issue of *The Accounting Review*, a peer-reviewed journal published six times yearly by the American Accounting Association, a worldwide organization

devoted to excellence in accounting education, research, and practice. Other journals

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