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Financial Rewards: Immediate Or Long Drawn?

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ABSTRACT

This academic paper seeks to establish any connection, which may or may not lie, between the trends in company stock profiles and their employees' choice between lump sum and equity payments as incentives. These payments are part of a corporate house's extrinsic means of motivation. This paper assesses the risk-taking abilities and commitment of an individual employee to the firm. A hypothesis has been presented and a survey has been conducted to test out the hypothesis.

INTRODUCTION

The stock market acts as a channel that brings together investors and companies for the sale of shares. The trends in stock profiles act as a medium through which investors as well as other stakeholder groups (any individual or group with a direct interest in the working and outcomes of businesses) gain insight into the advancement potential of a business. A distinct positive correlation has been established between a high stock price and rosier company prospects (Murphy, 2021). So how is it that trends in stock prices affect the stakeholders? The stock market is an inevitably volatile market with frequent dips and surges. It signals to the stakeholders through these trends the future returns on investments, stage of the business cycle etc.

Although there exists a plethora of stakeholders with a keen interest in the workings of an organisation, the influence of both employees and owners is undeniably prominent. This paper is concerned solely with 2 stakeholder groups, which are employees and owners. Employees make use of stock market prices to compare and evaluate the strength of a business organisation, which further helps them understand the financial abilities of a firm. Based on this data, they can press for wage increments. In addition to this, it helps them realise their contributions to the business, and it helps suggest ways to influence the workings of a firm. The predominant significance lies in compensation, however. Stock profiles, or the company's stock market share trends, act as a method to demonstrate to the employees, and stakeholders most largely, the past fluctuations in the stock prices, which inadvertently affect their choice between different types of reward payments. Nowadays, a myriad of businesses is choosing to financially incentivize employees through stock options, popularly called ESO (employee stock options) (Picardo,2022). The beneficiary can claim the stock at a specified price for a finite amount of time. Costing nothing at that particular point in time, it offers a future value attached to the firm, which makes it prominent in the startup category. These schemes tend to boost employee retention and fervour (Picardo,2022). It does so by facilitating a strong connection between employee performance and personal gain. Further, ESOPs are tax-exempt trusts, which translates to a substantial sum of tax benefits and higher profits. This is not to say that there is no downside to these schemes! Innumerable businesses have faced insolvency leaving employees with valueless stocks. On top of that, the idea of over dilution of stock is probable as start-ups rely on this form of payment in comparison to money-based compensation in order to avoid cash flow problems. Needless to say, diluting these stock options undermines their value and impacts the organisation in question. How gravely it impacts each employee is dependent on a plethora of factors. For instance, research illustrates that the sensitivity of pay for performance is considerably higher for employees below the top executive levels. These groups tend to regard the stock prices with less consideration and significance compared to top-level executives (Liang, Weisbenner,2001). Owners are concerned with the performance of an organisation in intricate detail. For instance, they want to identify the underlying causes of fluctuations in stock prices, which could be due to cash flow, public perceptions of the business, profits etc. Owners face a paradigm of dilemmas when making decisions and looking at stock data helps them evaluate future aspirations the business should harbour. Moreover, it helps them assess business performance in relation to that of competitor businesses. While these trends only depict explicitly the current profitability, they are considered when predicting future financial health for a firm by investors (Jiambalvo, Rajgopal, Venkatachalam, 2010). In continuation, stock prices indicate the overall financial health, performance of executives and risks of takeover (Murphy, 2021). For instance, depressed stock prices signal that it is relatively easy to purchase a block of stock, exponentially increasing the chance of a hostile takeover (Krantz, 2012).

It has been established that the stock market gravely impacts the employees in the case of equity as compensation. However, another common form of compensation called lump sum payment holds great significance as well. This form of financial incentive is immediate and satisfies human avarice almost instantly. The primary form of difference between equity and lump sum payments is the timeline for returns: equity offers returns over a period of time whereas lump sum payments are immediate forms of payment. Moreover, the factor of risk that tags along with equity payments is nonexistent here. These lump sum payments correlate to higher employee diligence and studies even show that it gets them to prioritise work over other aspects of life (Raczka, 2021). Compared to equity, there could be a multitude of reasons why employees would choose lump sum merit-based payments. For instance, it can address an urgent need for funds. Nevertheless, when compared to ESO (employee stock options), lump sum merit payments fall behind in terms of tax benefits. Considered supplemental income, they are liable for taxes. Now, this may be a nominal amount in cases of smaller bonus payments; however, substantial bonus payments may bring about large sums of taxes(“8 downsides to employee bonuses”,2017). on top of that, if work performance is fueled by immediate financial means such as bonuses, it is increasingly likely that these expectations may create performance lows in the workplace. (“8 downsides to employee bonuses”,2017). This paper discusses 2 of these financial rewards: one is lump sum payments and the other is equity. Both of these are forms of extrinsic motivation (refers to the incentives driven by an external reward for the task). The stock profiles work by influencing the choice between these. How organisations motivate their employees remains a crucial question for businesses and relevant academic work. Ganta (2014) discusses the idea that well-motivated employees are the pillar on which flourishing businesses stand. In the paper, he illustrates why motivation is the crux of the matter and is directly in relation to job performance, which he considers to be a function of the amalgamation of ability and motivation. further, a myriad of suggestions is offered on how to overcome the omnipresent issue of lack of motivation. These papers depict how motivation plays a crucial role in the workplace and how a better understanding of factors involving motivation can potentially increase productivity in the company. Other scholars also point out the importance of the two distinct types of motivation: extrinsic and intrinsic. For instance, Amabile(1993) describes how intrinsic motivation(which refers to the incentive to do the task without any desire for a separable outcome but rather the enjoyment derived from the task itself) interacts with extrinsic motivation (which refers to the incentives driven by an external reward for the task). Building upon the works of prior researchers, it showcases how extrinsic motivation when combined with intrinsic motivation, when it is high, can optimise performance in a business environment. Further investigating the subject of extrinsic and intrinsic motivation, a research paper (Hennessey, Moran, Altringer & Amanile,2015) discusses the idea that when a situation comprises both extrinsic and intrinsic motivation, employees tend to overlook the intrinsic and focus primarily on the extrinsic factors that are external validation which may include rewards or evaluation. Addressing intrinsic motivation, the paper claims that intrinsic motivation gravely impacts ‘creativity’, which consists of several factors like interest and willingness to take up the activity voluntarily, aspect of an employee (Hennesssey, Moran, Altringer & Amanile,2015). (nduka,2016) highlights the distinction that the motivational needs of each employee are distinct with some preferring extrinsic motivators as rewards. This suggests that although extrinsic and intrinsic motivators affect job performance the degree to which they impact depends almost entirely on the employee's motivational needs in question. This paper will build on that principle and will discuss the extrinsic motivational methods that are lump sum payments and equity rewards.

One of these extrinsic forms of motivation, which is ESO (employee stock options), involves a great deal of risk that tags along with the likelihood of greater future returns. Why is it that the risk factor is increasingly seen as prominent today? Addressing this, a research paper (Guiso, Sapienza, & Zingales,2008) discusses the overall lack of trust investors place in the stock market. This lack of trust eventually results in limited participation. The perception of this risk varies among investors as, as explained by the paper, the risk is a function of the data of the stocks and the subjective disposition of the investor. Other researchers (Poterba, Summers,1984) point out the relation between altering the volatility of stock market prices to stock market prices, stating that these concerns are relatively short termed and are weakly related. This paper acknowledges the risk and limited participation in the stock market, which are the foundations of this research paper. Is the risk factor suppressed by the chance of greater returns is the question we repeatedly ask ourselves. This research paper aims at identifying the connection between the trends in stock profiles and the worker's willingness to choose equity payments. Further, this academic paper seeks to gain greater insight into the underlying reasons and implications of the following study. Based on the work of related scholars, I hypothesise the following:

HYPOTHESIS: workers will tend to prefer lump sum payments over equity when a great factor of risk is associated compared to when a lower risk is associated, and when the overall trend in the stock prices is declining even if there are occasional surges in company stock prices.

METHOD

The research is concerned with finding the relationship between the employee's perception of the future prospects of the business venture and their choices between two unique forms of payment: equity and lump sum payments. This study had a within-subject design meaning that all participants saw the two conditions simultaneously.

-PARTICIPANTS

The survey was conducted at an established firm dealing in the logistics industry: XYZ Logistics Private Limited(name of firm masked for privacy concerns). A sample of 65 employees was selected randomly across a myriad of departments such as finance, marketing and operations. It was made clear to all employees the nature of the payment and the amount of monetary incentive in both cases which was kept constant. The employees were between the ages of

20-50 and in the case of gender distribution were largely male. The exposure to the business activities anywhere from 2 to 10 years. Around 5 employees left the survey incomplete which had to be disposed of and wasn't included in the study data.

-PROCEDURE

Employees were asked about their preferred form of payment in a hypothetical situation and their responses were noted. After which, employees were posed with two distinct types of trends in company stock prices. One of which involved an overall declining stock price trend in company stock prices with random very high surges, while the other involved an increasing trend in stock prices for the business with random very low dips. After presenting this hypothetical situation to each employee, they were given time to analyse their data and an informed choice of their preferred form of payment was noted. The key difference between the two stock profiles were imposed in order to determine whether the majority of people base their choice of payment on the general trend or the occasional triumphs and losses they may incur.

-MEASURES

Payment preference prior to company stock data. I measured payment preference by asking employees to respond to the following question: "when given a choice between bonuses and equity of equal market value, what would u choose?" Payment preference after being presented with a stock market profile featuring an increasing trend with occasional dips in value. I measured the following by asking employees to respond to the following question: “with a company featuring this stock profile, what do you choose between equity and a bonus of an equal amount at that time as a financial incentive ?” Payment preference after being presented with a stock market profile featuring a declining trend with occasional surges in value. I measured the responses to the following by asking the participants of the survey the following information: “with a company featuring this stock profile, what do u choose between equity and the bonus of equal financial value at that time as a reward?”

RESULTS

The survey was conducted on 65 participants at a corporate house and their responses to each of the questions above were recorded. 46 out of 65 participants reportedly preferred lump sum payments when asked about their preference before presenting the trends in stock information about the company in question. After presenting the stock market profile featuring a general increase and occasional dips, the number of employees preferring lump sum bonus payments over equity decreased from 46 to 30. Consequently, the number of employees choosing equity rose from 19 to 35. Lastly, when presented with the stock profile depicting a general decrease and occasional surges, the participants choosing lump sum payments over equity increased from 46 to 48. As a result, the number of employees choosing equity decreased from 19 to 17.

A Chi-square test (a statistic measuring the difference between the observed and expected frequencies of outcomes) was performed to determine the statistical significance of the data. The data were separated into two groups and a null hypothesis and alternate hypothesis were set up for both. The test was carried out at a 5 percent significance level with a degree of freedom of 1.

The first group consisted of the scenario with no stock information and the stock proline featuring a general increase with occasional dips. The null hypothesis was that there was no association between the high stock profile with occasional dips and the scenario where the stock data was unprovided. The alternate hypothesis on the other hand stated that there was an association. The test statistic was found to be 8.109161793, which lay in the rejection region of the null hypnosis. As a result, the alternate hypothesis was accepted.

The second group consisted of the scenario of no stock information and the stock proline featuring a general decline with occasional surges. The null hypothesis was that there was no association between the low profile with occasional peaks and the scenario where the stock data was unprovided. The alternate hypothesis on the other hand stated that there was an association. The test statistic was found to be 0.1536643026 which lies outside the rejection region of the null hypothesis. As a result, the alternate hypothesis was rejected.

DISCUSSIONS

The results from the survey out of the 65 participants depicted the strong likelihood of employees selecting lump sum payments over equity. 46 participants reportedly preferred lump sum payments when asked about their preference before presenting the trends in stock information about the company in question. Now, 46 may sound like a small number; however, it is a striking 70.8 percent. Nevertheless, the confidence in the stock market surged when the general trend showed a positive trend. The number of participants choosing equity increased by 47 percent. Nonetheless, there wasn't a significant difference in participants choosing lump sum payments in the case of a negative general trend, with a mere 0.04 percent increase. The above statistics give a case which suggests that humans tend to look at general trends more than occasional dips and surges when looking to choose between lump sum payments and equity payments. Lastly, as a large proportion of workers responded with lump sum payments are their choice of preferred payment, it can be reasonably inferred that workers prefer to avoid the risk factor associated with the stock market.

CONTRIBUTIONS

This paper intends to investigate whether a relationship between the two core constructs of interest exists. The statistical data that results from this can help businesses understand the perceptions of their employees regarding their business and how committed they are to the business. Employees who are committed and confident in the future prospects of the business venture will tend to choose equity over a one-time payout. Further, this could help businesses identify what proportion of their employees they can retain, as choosing equity suggests commitment and fervour to the company's unified vision. It will help identify any shifts in choice after a novel condition is introduced. In addition to this, it will, in effect, also test the risk-taking ability of employees as the stock profiles while showing a trend will also showcase extreme peaks and drops, which increases uncertainty. This can be simplified as 'all or nothing vs 'something' and what is it that the employees would choose on average. Additionally, the data collected signals whether employees majorly look at general trends or occasional instances when deciding upon a particular stock. Every other business is struggling with a distinct question: what evokes better productivity and motivation in my employees? By analysing the choice between these two financial alternatives, corporate businesses can get a better insight into which extrinsic form of motivation serves their employees best.

LIMITATIONS

There are several shortcomings that need to be noted. For instance, the pool of participants was relatively small to apply the results to a much larger group i.e. all corporate employees. Moreover, the data collected was obtained from a single organisation (XYZ Logistics Private Limited {name masked for privacy concerns). More widespread sources would generate reliable results. To minimise this shortcoming, a random sample of over 500 employees at various businesses across the country would be more suitable when making a generalisation about the results of this study. Moreover the relationship between the two variables-independent and independent -must be studied keeping all other factors constant(ceteris paribus). A plethora of factors could affect this choice including age, personal circumstances, individual risk-taking ability, gender and attachment to the company. Some of the factors are increasingly hard to isolate and thus this must be taken into account when applying the results to the larger part of the population. The standard deviations of some of these factors in my study such as age and number of years in the company are significant enough.

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