

Good Governance and Social Responsibility

Lecture 6: External Institutions and Influences of Corporate Governance

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Lecture Learning Objectives:

At the end of the lecture, you will be able to:

1. Enumerate and explain the different external environment of corporate governance.
2. Understand corporate protection within legal boundaries
3. Explain what anti-takeover defenses mean including its advantages and disadvantages.
4. Pinpoint liability issues and indemnification of officers
5. Understand and explain shareholders' impossible limitations.
6. Identify and expound on the leading behavioral management theories that contributed to the understanding of human behavior at work.
7. Explain stock ownership plan (ESOP)

Auditors

One of the most important external institutions in governance is **the independent auditors**. Their job is to help to ensure that firms are run efficiently by keeping public records accurate, adhering to standards of reporting for public purposes, taxes paid properly on time. **Independent auditors** analyze and communicate financial information for various entities such as companies, potential investors, individual clients, government both at the local and national level. Beyond carrying out the fundamental tasks of attesting the information provided by management, they may also engage in consultancy services which may include, financial and investment planning, information technology consulting, and limited legal services.

Some independent auditors and public accountants specialize in forensic accounting investigating and interpreting white -collar crimes such as securities fraud and embezzlement, bankruptcies, and contract disputes, and other complex and possibly criminal financial transactions, including money laundering by organized criminals. These auditors and accountants combine their knowledge of accounting and finance with law and investigative techniques to determine whether a certain corporate activity is illegal. Many auditors and forensic accountants work closely with law enforcement personnel and lawyers during investigations and often appear as expert witnesses during trials.

Legal Environment

Some contend that it is the market that can really press real governance considering that it is a variable from anybody. There are, however, some limits to this contention. Markets may be good for some governance tasks, weak for others. Markets may be good at limiting some types of “skirting” but be less good at value. If a low

percentage of a firm's assets is stolen in relation to forgone market opportunities, the market may not deter the manager. The manager may never get another job, but the manager will leave rich. Law and other institutions are more important here than markets. That is sometimes the non-market institutions are better, cheaper, and faster at governing the firm than any of the market constraints.

The legal environment is derived partly from the general political climate in a country. The legal environment has **3 distinct dimensions**:

- 01 The domestic laws of home country
- 02 The domestic laws of each of foreign markets
- 03 International law in general

Markets

Markets are considered the most important institution of corporate governance. There are **three central and important points of the term markets**, these are:

- 01** The firm's product market
- 02** Capital market
- 03** The managerial labor market

The above three are important barometers if the firm could survive, grow, expand, diversify, and lastly, retain a good stock of human capital to manage the company as it battles the unforgiving arena of competition.

In seriously considering the effects, some analysts belittle the importance of other corporate governance institutions, their contention is that all of the three markets punish nonstandard firms and reward well-performing firms. The contention is correct in response to the idea that failure in nonmarket corporate governance variables would necessarily destroy all firms.

Market imperfections press those charged with governance to make the company afloat in terms of governance standards, to have their outstanding conduct visible and leave it to the market to make some natural pickings. Good internal decision can make the firm react well to product market changes, economize on capital, or make sure good managers come, stay, and perform.

Product markets can be considered as the most feared disciplinarian by managers; it is a simple "no product, no firm thing". **Capital markets** also favor those who have good track records in terms of governance. **Financial institutions** do not impose much risk-offsetting features like:

- 01 Higher interest rate
- 02 Conservative lending
- 03 Strict characteristic when they make some financial arrangement with the company. This is one of the prime benefits of good corporate governance.

A **labor market** is also an important variable in selecting the “right” people for positions in the company. In competition to haul the right stock of people good governance is always a factor to be reckoned with, the general pattern is that, people want to be with the desirable companies to utilize the best skills available in them.

Other external factors

External environment may create major threats or in some cases precursor of openings and possibilities for an organization. An **organization** is directly affected by events happening in the environment that it is supposed to be functioning in. The **external environment** offers the model, the thrust and the most essential variable that shapes an organization. Any **organization** that adapts to the external environment without difficulty essentially survives and the ones that do not are the ones that are eliminated in the competition; it’s a plain survival of the fittest. Who can blend into its environment will stay alive.

External environment may affect the following areas:

(1) **POLITICAL ENVIRONMENT.** The politics of a country or region that an organization is functioning affects the policies and benefits that an organization derives from a system. It is also the major pool from which the human resources of an organization are selected from and hence it is likely to shape an organization both internally and externally.

(2) **TECHNOLOGICAL ENVIRONMENT.** Any new development may render an organization’s processes and systems obsolete if it is not quick to adapt to the new changes. To move forward it is essential to keep u[dating an organization on a reiterative basis. This becomes even more relevant in the case of businesses that rely heavily on technology and are technologically sensitive.

(3) **SOCIAL ENVIRONMENT.** Perhaps the most basic is the **social environment**, which comprises the general behavior of the society and the ethical leanings of the individuals responsible for the functioning and eventual long-term existence of the organization. **The social environment** is practically the ecosystem within which organizations thrive, then enabling atmosphere in which business is situated into.

Corporate Protection Within Legal Boundaries

Anti-takeover defenses

Anti-takeover tactics come in many different forms and appearances. **Technical languages** such as “**shark repellent**” and “**poison pill**” are used to describe the defensive means or tactics that companies use to challenge a lurking merger of two or more businesses into one. Another instance wherein anti-takeover defenses will be employed is in case when there is a **hostile takeover**, a setting where a business is acquired against the management’s or some of shareholders’ wishes. **Anti-takeover tactics** are designed to make a company unattractive to predators.

The following maybe done to **prevent the unwelcome takeover**:

- (1) The “**flip-in**” which allows existing shareholders to purchase more shares at a discount in order to dilute the value of the shares.
- (2) The “**flip-over**” allows the shareholders to purchase the bidder’s shares at a discount.
- (3) Acquisition of previous issued stock in the open market
- (4) Provision such as “**one can never be a board member**” if you are already a board member of a competitor company.
- (5) **Supermajority vote** as prerequisite of company’s major move like merger, consolidation or acquisition, issuance of additional stocks and reacquisition of previously issued stocks
- (6) A provision in the company’s charter or articles of incorporation which allows **shareholders to sell their shares** to the bidder for more than the market price.
- (7) The “**debt facade**”, a ploy wherein a company takes on plenty of debts to make it unappealing, as a bidder would be answerable for those debts once he will become shareholder.
- (8) The “**debenture sheltering**” business issues bonds that will have to be redeemed at a higher price in the future.
- (9) The company offers its employees **stock options, high bonuses, and exceptional severance pay** that would hurt the bidder’s pocket very much if a takeover took place.

- (10) Staggered elections to the board of directors over a number of years. This would mean that a potential bidder will be “**locking horns**” with a hostile board of directors until new elections can be held.

In some countries, anti-takeover strategies are illegal or some control to a greater degree on their use is mandated. In the United States however, it is legal. The recent economic decline and =fear of becoming a prey or an acquisition target by these large opportunistic corporations who are trying to take advantage of the situation have renewed interest in anti-takeover tactics in all their forms and substance.

Advantages of anti-takeover defenses

- Are positive when a company has the sense to believe that its stock has a higher market price than reflected and thus may become the target for a takeover.
- Are good when the predator company’s purpose is to acquire the company and then use it for not good purposes which would not benefit the constituent companies. e.g. load the company being taken over with liabilities, hide the predator company’s corporate inefficiencies, distorting the performance of the acquired companies and hiding the corporate inefficiencies of the predator company.
- Short-term **poison pills** may help businesses go through difficult financial periods when they could be defenseless targets.

Disadvantages of anti-takeover defenses

1. It will prevent a genuinely good takeover purpose or aim. **Anti-takeover tactics** are good when the predator company’s purpose is to acquire the company and then use it for good purposes which benefit the constituent companies. Examples of these are more coverage, diversification, strengthening integration and ties.
2. **Anti-takeover tactics** are sometimes used to embed management and prevent shareholders from selling their stock and maximizing its price.
3. **Board members**, who are already in their comfort zone, sometimes hide behind poison pills to retain their positions.

The ff. action should be observed in using anti-takeover defenses:

1. Check that the use of anti-takeover strategies is legal in the country or jurisdiction in which the company is operating.
2. Thoroughly examine what method would provide the greatest protection without hurting the company’s image and value.

3. Avoid tying the company to stock options, lofty bonuses, and special severance pay for those employees you might later want to fire.
4. Calculate risk associated with debts. If you are taking on debts or issuing bonds to make the company unappealing, make sure that you can handle those debts even if the economy slides down.
5. Consult with partners, directors, lawyers, and accountants before initiating anti-takeover strategies.
6. Don't use anti-takeover strategies except when you are sure that it will not backfire leaving the company at risk and defenseless.

Liability Issues and Indemnification of Officers

Liability can accrue for officers and directors when they cause financial and nonfinancial harm to the corporation, or when they act solely on their behalf which is detrimental to the corporation, this can be in a form of commission of a crime and other wrongful acts. Certain acts may place an officer or director to personal liability (uninsured), and other acts, although they would otherwise openly expose them to liability, may be either compensated by or insured against by the corporation.

Personal liability of officers and directors. The following are issues that may subject officers and directors to personal liability:

- a. Issues that may subject officers and directors
 - a.1 Issues involving misappropriation
 - a.2 Issues involving non-disclosure of conflict of interest
 - a.3 Issues on loyalty
 - a.4 Issues on non-separation of personal and business concerns
 - a.5 Issues on prudence

Indemnification of officers and directors

Refers to the act of the reimbursing officers and directors for expenses incurred, liabilities accrued, and amounts paid in defending claims brought to them for actions taken on behalf of the corporation. **Shareholders** should recognize that in the absence of this method of trying to limit the personal liability of officers and directors for claims brought against them, it will be difficult for corporations to find anyone willing to take such a risky job of serving as officers or directors.

As a result of this, some corporate by-laws are now containing provisions regarding indemnification and insurance for officers and directors. Provisions may

vary as to where and when indemnification will apply. Provision for indemnification and insurance of officers, directors, and person holding sensitive positions can also be included in the by-laws of the corporation to have a strong basis as to where, when, and how the related process will be done.

Directors' and Officers' Insurance

There are matters that cannot be indemnified under the law or the company does not have enough resources to indemnify officers and directors. In this case, the appropriate remedy would be insurance coverage. **Corporations** are allowed to purchase insurance to cover matters resulting from acts taken by officers and directors. This insurance coverage is different and separate from the general liability insurance the corporation purchase for the corporation itself in general. Insurance of this type hurts corporate pocket considering that it is not cheap. The reasons for the increase of the cost are **two (2) things**:

First, the cost for directors' and officers' insurance has gone up dramatically due to the inherent risk associated with it. (it involves big fishes in the corporation who can decide bug things).

Second, the exclusions for coverage have also increased; insurance companies understandably want to trim down their assumed risk, the less specific coverage, the better.

Shareholders' Imposable Limitations:

Through Classes of Stock

A company may have many different types of shares that come with different conditions and rights. There are **four main types of shares**:

(1) ordinary shares

These are standard shares with no special rights or restrictions. They have the potential to give the highest financial gains, but also have the highest risk. They are the last to be paid if the company is wound up.

(2.) preference shares

These shares typically carry a right that gives the holder preferential treatment when annual dividends are distributed to shareholders. Shares in this category have a **fixed value**, which means that a shareholder would not benefit from an increase in the business' profits. However, usually they have the right to their dividend ahead of ordinary shareholders if the business is in trouble. Also, where a business will be liquidated and winds up, they are likely to be repaid the par/nominal value or liquidating value of the shares ahead of ordinary shareholders.

(3.) **cumulative preference shares**

These shares give holders the right that, if a dividend cannot be paid one year, it will be carried forward to the succeeding years. Dividends on cumulative preference shares must be paid, despite the earning levels of the business.

(4.) **redeemable shares**

These shares come with an agreement that the company can buy them back at a future date - this can be at a fixed date or at the choice of the business. A company cannot issue only redeemable shares.

Supermajority

Refers to percentage of ownership that is way above the simple majority which is, one half ($\frac{1}{2}$) plus one (1) of the total shares outstanding. Usually, supermajority could mean 67% to 90%. Unlike other percentage holding which can only have significant influence on corporate affairs. **Supermajority** can have full control on major goings on in the corporation. A **supermajority** is often requisite for a company to take certain actions, such as amending the charter. In some cases, to protect the company from predators, some companies require supermajorities as anti-takeover measures. For example, a company may require two-thirds of shareholders to approve a merger or acquisition. Supermajority provisions may be needed principally to make certain of the company's independent survival. This may limit, however, the board of directors' elbow of authority and may even hamper a friendly and rational takeover that may do more good for the company.

One issue about supermajority is that of the small business owners who often look for "angel investor" to increase capitalization of the business. As an investor, that carries along with it the recognition of equity in the business by virtue of their investments. It is fairly normal for these angel investors to have equity for their investment. They also seek to have some say in how the company is run to protect their interests. Faced with capital needs, small business owners often not only give these minority (equity-wise) owners preferential but also provide them with supermajority voting rights for certain actions that require the owners' consent.

Shareholder Voting Agreement

Is a legal contract among shareholders of a corporation involving voting shares. The shareholder voting agreement frequently covers how members of the **board of directors** are to be selected and occasionally covers major corporate events such as mergers and acquisitions. **Venture capitalists** often expect a shareholder voting agreement to be executed in connection with their investment in a startup company.

In a **shareholder voting agreement**, shareholders may choose to pool their votes for a particular goal. **Voting agreements** may stipulate that the involved

shareholders will cast the vote for their shares collectively or cooperatively. **Corporation Code of the Philippines** does not prohibit a shareholder voting agreements as long as they relate to issues upon which shareholders can vote and it does not have any malicious intention or any violation on any agency regulation which governs corporate operation.

In some advanced countries, the state may require that voting pools follow detailed procedures and guidelines to be valid. The laws may limit the length of a shareholder agreement or may require a copy of the agreement and have it deposited with the corporation. Violators of the valid agreement may be sued, and the court may require voting according to the agreement otherwise violating votes will be disqualified.

Shareholders- Management Agreements

“Together with the company’s articles of incorporation which regulate the conducts of the company, what gives investors their most important contractual protection is the shareholders’ agreement. This agreement will only be relevant, of course, if the corporate structure is being used. Agreements of this kind are by far the most recommendable system or method for the protection of shareholders.” (Source: Chris Southorn, www.cmck.com).

The main features of a shareholders’ agreement are:

1.) board appointment right

It is common for the shareholders agreement to establish the relative rights of representation that the shareholders will have on the company’s board of directors of the company. A **minority shareholder** may seek to have one director on the board in order to be kept informed of matters discussed at board level. A **larger shareholder** may seek to a point a large number of directors to reflect its proportionate holding of shares at board level. Usually, the agreement will provide that any director appointed by a shareholder can only be removed by that party.

2.) veto right

Refers to the right to overturn decisions reached by the board. This process involves listing of material things that cannot be done without the investors’ prior consent and ratification. These normally range from fundamental matters, such as issuing further shares, commitment of assets, capital expenditure and so on.

3.) adoption and amendment of business plans and budgets

The agreement may provide a process for adopting and amending business plans and budgets, to ensure that individual shareholders or their appointed directors are properly represented in that process.

4.) scope of business

Although this thing can be found in the charter of the corporation, it is common particularly in a joint venture or a start-up company, for the shareholders' agreement to specify the scope of the business that the company will conduct, and provide that consent is required from the shareholders before the company can change the nature of its business or do some diversification attempts.

5.) Intellectual property rights

Where shareholder parties are contributing unique and distinct advantage or process such as patent, trademark, copyrights, or any form of information or competencies to a venture, the shareholders' agreement may provide for the ownership and licenses of intellectual property rights, preserving certain such rights for the parties themselves and others to the company. This is another common agreement in a joint venture company.

6.) right of information

It is extremely important for the investors to monitor performance closely, particularly to give them an early warning if things are starting to go wrong. Accordingly, they will expect a contractual right to receive regular reports, management accounts, cash flow forecasts and so on, together with statutory accounts. The investor will also often seek the right to have its own director appointed to the board. He will expect board meetings to be held regularly and all material decisions to be made by the board.

7.) warranties from the management team

In general terms, these are a series of statements about the company that the investors would expect to be true and accurate. At a first-stage capital raising, it is unlikely that these statements will be little more than confirmations: that the team stands behind its business plan; that the company is clean; and that the team knows of nothing that has been withheld from investors. However, at subsequent funding rounds, once the company has a track record, the warranties will extend to the company's general trading affairs. This actually the statement of management responsibility intended to be given to shareholders and other interested parties (stakeholders) of the corporation.

8.) strategic investor rights

Where a shareholder is looking for more than a return on its investment, the shareholders' agreement may provide an opportunity to negotiate terms covering secondary commercial arrangements, such as giving a shareholder or its group first rights of refusal on certain type of business or contract with the company or the right to be informed of and to co-invest to be made by the company.

9.) **restrictions on transfer of shares**

The investors will be keen to make sure that the management team they are backing holds on to their shares. In certain circumstances, managers will be permitted, through an agreement, to transfer shares to the family or to trusts.

10.) **restrictive covenant**

These will make it clear that, while members of the management are employed and for a period of time afterwards, they cannot compete with the company or solicit customers or employees. One would expect these covenants to fit together with restrictive covenants contained in employment agreements but the covenants in the shareholders' agreement will be directly in favor of the investor. It is obviously critical from the management's perspective that they are comfortable with the covenants they are entering into.

11.) **exit provisions**

A shareholding in a private company is by its nature illiquid because there is no market live and open of the shares. Accordingly, a shareholders' agreement will very often include provisions that are intended to encourage or facilitate the realization by the shareholders of their investments. Once again, this is particularly important for minority shareholders who are unable to control an exit process.

There are of course many other detailed provisions in an average shareholders' agreement. It is normally a sophisticated legal document. No business angel, private equity firm or institutional investor should invest a substantial amount in any company without protecting himself with contractual rights in a shareholders' agreement.

BEHAVIORAL MANAGEMENT OF THEORY

As management research continued in the 20th century, questions began to come up regarding the interactions and motivations of the individual within organizations. Management principles developed during the classical period were simply not useful in dealing with many management situations and could not explain the behavior of individual employees. In short, classical theory ignored employee motivation and behavior. As a result, the behavioral school was a natural outgrowth of this revolutionary management experiment.

The **behavioral management theory** is often called the **human relations movement** because it addresses the human dimension of work. Behavioral theorists believed that a better understanding of human behavior at work such as motivation, conflict, expectations, and group dynamics improved productivity.

The theorists who contributed to this school viewed individuals, resources, and assets to be developed and worked with - not as machines, as in the past. Several individuals and experiments contributed to this theory.

ELTON MAYO

Contributions came as part of the **Hawthorne studies**, a series of experiments that rigorously applied classical management theory only to reveal its shortcomings.

The Hawthorne experiments consisted of two studies conducted at the Hawthorne Works of the Western Electric Company in Chicago from 1924 to 1932.

The first study was conducted by a group of engineers seeking to determine the relationship the relationship of lighting levels to worker productivity. Surprisingly enough, they discovered that workers' productivity increased as the lighting levels decreased - that is, until employees were unable to see what they were doing, after which performance naturally declined.

A few years later, a second group of experiments began. Harvard researchers Mayo and F.J Roethlisberger supervised a group of five women in a bank wiring room. They gave five women in a bank special privilege such as the right to leave their workstations without permission, take rest periods, enjoy free lunches, and have variations in pay levels and workdays. This experiment also resulted in significantly increased rates of productivity.

In this case, Mayo and Roethlisberger concluded that the increase in productivity resulted from the supervisory arrangement rather than the changes in lighting or other associated worker benefits. Because the experimenters became the primary supervisors of the employees, the intense interest they displayed for the workers was the basis for the increased motivation and resulting productivity. Essentially, the experimenters became a part of the study and influenced its outcome. This is the origin of the term Hawthorne effect, which describes the special attention researchers give to a study's subjects and the impact that attention has on the study's findings.

The general conclusion from the Hawthorne studies was that human relations and the social needs of workers are crucial aspects of business management. This principle of human motivation helped revolutionize theories and practices of management.

ABRAHAM MASLOW

A practicing psychologist developed one of the most widely recognized need theories, a theory of motivation based upon a consideration of human needs. His theory of human needs has two assumptions:

1. Human needs are never completely satisfied.
2. Human behavior is purposeful and is motivated by the need for satisfaction.

Needs can be classified according to a hierarchical structure of importance, from the lowest to highest. Maslow broke down the need's hierarchy into five specific areas:

1. **Physiological needs.** Maslow groups all physical needs necessary for maintaining basic human well-being, such as food and drink, into this category. After the need is satisfied, however, it is no longer a motivator.
2. **Safety needs.** These needs include the need for basic security, stability, protection, and freedom from fear. A normal state exists for an individual to have all these needs generally satisfied. Otherwise, they become primary motivators.
3. **Belonging and love needs.** After the physical and safety needs are satisfied and are no longer motivators, the need for belonging and love emerges as a primary motivator. The individual strives to establish meaningful relationships with significant others.
4. **Esteem needs.** An individual must develop self-confidence and want to achieve status, reputation, fame, and glory.
5. **Self-actualization needs.** Assuming that all the previous needs in the hierarchy are satisfied, an individual feels a need to find himself.

DOUGLAS MCGREGOR

Was heavily influenced by both the Hawthorne studies and Maslow. He believed that two basic kinds of managers exist. One type, the **theory X manager**, has a negative view of employees and assumes that they are lazy, untrustworthy, and incapable of assuming responsibility. On the other hand, the **theory Y manager** assumes that employees are not only trustworthy and capable of assuming responsibility, but also have high levels of motivation.

An important aspect of McGregor's idea was his belief that managers who hold either set of assumptions can create self-fulfilling prophecies – that through their behavior, these managers create situations where subordinates act in ways that confirm the manager's original expectations.

FREDERICK HERZBERG

Was a well-respected American who has contributed greatly to the way in which managers think about motivation at work. He first published his theory in 1959 in a book entitled "**The Motivation to Work**" and put forward a two-factor content theory which is often referred to as a two-need system. It is a content theory which explains the factors of an individual's motivation by identifying their needs and desires, what satisfies their needs and desires and by establishing the aims that they pursue to satisfy these desires.

Herzberg original research was undertaken in the offices of engineers and accountants rather than on the factory floor and involved interviewing over two hundred employees. His aim was to determine work situations where the subjects were highly motivated and satisfied rather than where the opposite was true, and his research was later paired with many studies involving a broader sampling of professional people.

In his findings, Herzberg split his factors of motivation into **two categories** called **hygiene factors** and **motivation factors**. The **hygiene factors** can demotivate or cause dissatisfaction if they are not present, but do not very often create satisfaction when they are present; however, **motivation factors** do motivate or create satisfaction and are rarely the cause of dissatisfaction.

The **two types of factors** may be listed as follows in order of importance:

Hygiene factors (leading to dissatisfaction)

- Company policy
- Supervision
- Relationship with boss
- Work conditions
- Salary
- Relationship with peers

Motivators (leading to satisfaction)

- achievement
- recognition
- the work itself
- responsibility
- advancement
- growth

The **dissatisfiers** are hygiene factors in the sense that they are maintenance factors required to avoid dissatisfaction and stop workers from being unhappy, but do not create satisfaction in themselves. They can be avoided by using “hygienic” methods to prevent them.

It is clear from the lists that the factors in each are not actually opposing which means that the satisfiers are not the opposite of the dissatisfiers. The opposite of satisfaction isn't dissatisfaction but is “no satisfaction”. Both lists contain factors that lead to motivation, but to a differing extent because they fulfill different needs. The **hygiene factors** have an end which once fulfilled then cease to be motivating factors. while the **motivation factors** are much more open-ended, and this is why they continue to motivate.

He also developed the concept that there are **two distinct human needs**:

1. **Physiological needs**: avoiding unpleasantness or discomfort and may be fulfilled via money to buy food and shelter, etc.
2. **Psychological needs**: the need for personal development fulfilled by activities which cause one to grow.

He identified this as the Adam and Abraham concept where **Adam** is animal and wants to avoid pain or discomfort, but **Abraham** is human and needs to go beyond the physical requirements and expand psychologically too. Herzberg believed that the hygiene factors causing no satisfaction are not applicable to the task an employee undertakes but are external to that task. They are the Adam part of the concept where an incentive may be attributed to a fear of punishment or increase in discomfort or as he phrased it “A Kick up the Ass” (KITA). He thought that these did work but only as short-term motivators e.g. constantly increasing someone’s salary to motivate them will merely encourage them to look for the next wage rise and nothing else; however, salary may also be a de-motivator where the employee perceives it to be too low or low compared to that of their peers. The long-term motivators are the Abraham part of the concept that led to satisfaction and are intrinsic to the job itself and the job design. Consider the chambermaid who prefers to receive a note of appreciation for her high standards from a guest than a carelessly delivered gratuity.

It is important to understand that the two types of factors are not mutually exclusive, and that management must try to fulfill both types of need for an employee to be truly satisfied with their job. Once the **hygiene factors** have been satisfied providing more of them will not create further motivation but not satisfying them may cause de motivation; unlike the **motivation factors** where management may not fulfill all of them, but the workers may still feel motivated. Major companies have recognized this situation when designing their methods of reward and recognition.

Probably one of the most important ideas that Herzberg postulated based on his findings of satisfaction is that of “**job enrichment**”. This is the addition of different tasks to a job to provide greater involvement and interaction with that job. It is obviously a continuous management process.

- The job must use the full ability of the employee and provide them with sufficient challenge.
- Any employee who demonstrates an increasing level of ability should be given correspondingly increasing levels of responsibility.

If a job cannot be designed to use an employee's full ability management should consider employing someone of lesser skills or perhaps automation of the task. If a person's skills cannot be used to the full, they will experience problems with motivation. Most job frustrations arise from hygiene factors such as frustration due to bureaucracy, poor organization, internal politics or feeling exploited.

Reframing organization

As organizations have become pervasive and dominant, they have also become harder to understand and manage. The result is that managers are often nearly as clueless as the Dilbert's of the world think they are. The consequences of myopic management and leadership show up every day, sometimes in small and subtle ways, sometimes in organizational catastrophes. Our basic premise is that a primary cause of managerial failure is faulty thinking rooted in inadequate ideas.

Managers and those who try to help them too often rely on constricted models that capture only part of organizational life. Learning multiple perspectives, or frames, is a defense against thrashing around without a clue about what you are doing or why. Frames serve multiple functions. They are filters for sorting essence from trivia, maps that aid navigation, and tools for solving problems and getting things done.

There are **four frames** which are all rooted in both managerial wisdom and social science knowledge.

1. The **structural approach** focuses on the architecture of organization - the design of units and subunits, rules and roles, goals, and policies.
2. The **human resource lens** emphasizes understanding people, their strengths and foibles, reason and emotion, desires, and fears.
3. The **political view** sees organizations as competitive arenas of scarce resources, competing interests and struggles for power and advantage.
4. The **symbolic frame** focuses on issues of meaning and faith. It puts ritual, ceremony, story, play, and culture at the heart of organizational life.

Each of the frames is both powerful and coherent. Collectively, they make it possible to reframe, looking at the same thing from multiple lenses or points of view. When the world seems hopelessly confusing and nothing is working, reframing is a powerful tool for gaining clarity, regaining balance, generating new options, and finding strategies that make a difference.

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

A company which wants to set up an ESOP creates a trust to which it makes annual contributions. These contributions are allocated to individual employee accounts

within the trust. A number of different formulas may be used for allocation. The most common is allocation in proportion to compensation, but formulas allocating stock according to years of service, some combination of compensation and years of service, and equally, have all been used. Typically, employees with the company, where any year in which an employee works at least 1,000 hours is counted as a year of service.

The shares of company stock and other plan assets allocated to employees' accounts must vest before employees are entitled to receive them. **Vesting** is a process whereby employees become entitled to an increasing percentage of their accounts over time. Employees receive the vested portion of their accounts at either termination, disability, death, or retirement. These distributions may be made in a lump sum or in installments over a period of years. If employees become disabled or die, they or their beneficiaries receive the vested portion of their ESOP accounts right away.

In a publicly traded company, employees may sell their distributed shares on the market. The form of distribution of a privately held firm can vary, depending on the plan document or all or substantially owned by the ESOP with by-laws that only authorize company stock to be owned by employees. But if privately held, the company makes the distribution in stock, it must give the employees a put option on the stock for 60 days after the distribution. If the employee chooses not to sell at that time, the company must offer another put option for a second sixty-day period starting one year after the distribution date. After this period the company has no further obligation to repurchase the shares.

An ESOP company may make an installment distribution provided that it makes the payments in substantially equal amounts, and over a period to start within one year for a retirement distribution, within five years for a pre-retirement distribution, and not to exceed five years in duration in either case. The company must provide adequate security and pay interest to the ESOP participant on the unpaid balance of an installment distribution.

Textbook:

Good Governance & Social Responsibility, Dr. Christopher Biore, Dr. Roberto Gonzales, Prof. Jose Lemuel Caparas, Dean Nilo Burgos and Prof. Win Ballada, ASEAN (Academicians, Students, Educators and Alliance) Inc.

2024