

Corporate Culture, Commitment & Motivation

The Impact of Employee Stock Options

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Abstract

The study considers the impacts arising out of the granting of stock options to employees at Elan Corporation's primary operating site in Athlone, Co. Westmeath, Ireland. In July 1996, qualifying employees were granted options over a significant number of shares, thereby giving employees the right, but not the obligation to purchase these shares at \$28.50 at future dates commencing in July 1999.

To date, the value of these options has increased significantly given the current share price of \$73. Accordingly, employees stand to benefit from significant windfall payments if they remain with the company until one or all of the vesting dates falling between the middle of 1999 and 2001.

Survey questionnaires were sent to the majority of those who received their option grant during 1996 and 130 responses were returned and analysed, thereby providing empirical evidence in respect of recipients' sentiment.

The results of the survey highlighted causal relationships between the granting of share options and increases in respondents' levels of loyalty, partnership and commitment, as well as increases in the levels of respondents' motivation. In short, the granting of share options was found to have aligned respondents' interests with those of the company's shareholders.

These survey results are considered against the backdrop of theory relating to employee motivation and the anticipated effects of strong corporate cultures. Further consideration is given to the socialisation process and its impact upon actors' behaviour. Evidence in respect of the links between strong corporate cultures and anticipated effects on employee sentiment were supported.

Contents

I	Introduction	4
II	Culture & Commitment	16
III	Motivation	47
IV	Research Methodology	58
V	Findings	63
VI	Analysis	76
VII	Conclusion	93
	<i>Bibliography</i>	98
	<i>Appendix</i>	103

I

Introduction

In considering the impact of stock options on recipients' levels of commitment, loyalty and motivation, the context in which the option grant was made should first be considered. A review of the nature of Elan's competitive position is provided as this is thought to have a material impact upon the likely performance of the stock and hence the financial value of the options received, furthermore, this serves to provide an appreciation of the nature of the operating and business environment. The option grant was intended to align employee and stockholders interests, however, the potential for further benefits in terms of improvements in recipients' levels of commitment and related sentiment is also considered.

Elan Corporation, plc is a leading worldwide drug delivery and biopharmaceutical company which is registered in Dublin and quoted on the New York, London and Dublin stock exchanges. Established by an American national, Don Panoz, in Dublin during the late 1960s, the company has grown at a phenomenal rate and is now the world's largest drug delivery company when measured in terms of market capitalisation.

In the fiscal year ending December 31st, 1997, Elan posted record revenues of over \$389m and had a net profit of \$175m. Additionally, gross margins on product sales were approximately 40 per cent, (Elan, 1998). With 112 million shares outstanding and a current share price of \$73, the company currently has a market capitalisation of \$8.2 billion. Institutional investors hold almost 75 per cent of Elan's outstanding shares, the majority of which are traded on the New York Stock Exchange. Accordingly, the company's focus has been on growing earnings per share and

returning shareholder value in the form of share price appreciations, (Elan does not pay a dividend).

Recently, the company has been involved in a number of major acquisitions, Athena Neurosciences Inc. (1996, \$537 million), Sano Corporation, (1997, \$375 million), Carnick Labs, (1998, \$150 million) and Neurex Corporation, (1998, \$670 million), which have served to expand the company's product pipeline, technology platform and sales force. Despite dilution of outstanding stock, all acquisitions have been successful in terms of earnings and share price appreciations. Additionally, with a healthy balance sheet and cash reserves of over \$600 million and less than 10 per cent debt, the company makes no secret of its intention to engage in further acquisitions of both products and companies. Off balance sheet financing vehicles are used to fund research and development expenditure, hence, the risk of R&D losses or writeoffs are reduced and retained earnings can be used to pursue further growth opportunities.

The company's mission is to strengthen its position to become the leading worldwide drug delivery and biopharmaceutical company with sales of \$1 billion by the end of the year 2000. This objective has been publicly stated by Elan's Chairman and CEO on numerous occasions in the recent past and is being taken seriously by the investment community. Furthermore, with first half revenues for the six months ending June, 1998 up more than 66 per cent over the same period in 1997, net income for the same period up 49 per cent and earnings per share up 31 per cent, Elan may be seen to be well on its way to achieving revenues of \$1 billion by the end of fiscal 2000. Such growth will be achieved through further acquisitions of both companies and products which have attractive short to medium term, high and sustainable, revenue and profit generating potential.

Until the acquisition of Athena Neurosciences in July 1996, Elan was positioned squarely within the drug delivery industry sector. The Athena acquisition served to change Elan's focus by giving the company products and expertise in the biopharmaceutical sector, that is, in the discovery and development of drugs used to treat central nervous system (CNS) disorders, including Parkinson's disease,

Alzheimer's and multiple sclerosis. However, despite this recent diversification, a large proportion of Elan's current sales, research and royalty revenues/fees are generated through drug delivery activities. Increasingly however, research revenues are being earned from activities on the biopharmaceutical side of the business and as new product approvals are sought and granted for drugs in the Athena portfolio, this revenue mix will change significantly. This new focus will serve to alter the orientation of the company which is now being classified as an integrated pharmaceutical company and is no longer being viewed exclusively in terms of niche drug delivery activities.

Drug delivery refers to the methods and technologies used to ensure that drugs are delivered to sites of infection/disease in reduced dosages, at lower costs and with reduced side effects. Greater patient compliance is a feature of drug delivery technologies as products are taken less often and/or in more convenient dosage forms. For example, in its most basic form, oral controlled release products allow drugs to be taken once per day instead of three or four times daily as is often the case with conventional dosage methods. Once daily versions of medication are designed to give extended release profiles to drugs within a patient's plasma over a 24 hour period. The beads of active drug found in controlled release capsules are coated with polymer timing membranes, (of varying thickness which allow for varied dissolution profiles), and hence some dissolve and release their active drug after 30 minutes, others after 3, 6, 9 or 12, hours and so on. Plasma levels remain constant over this period and hence more frequent drug administration is not required.

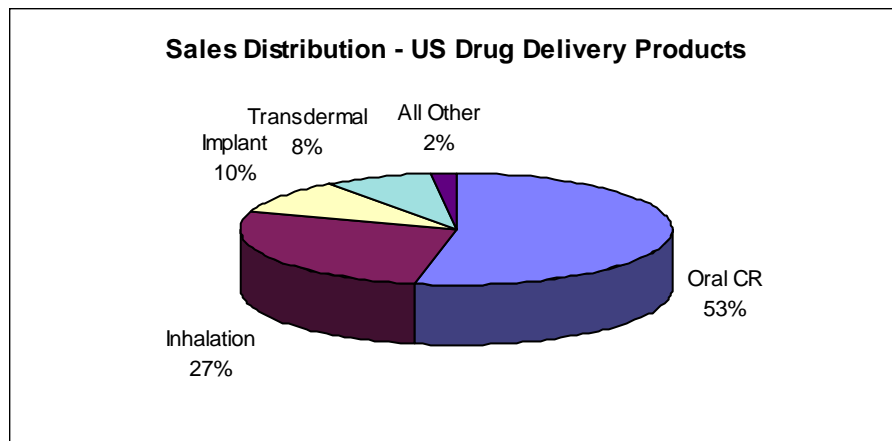
Such developments are particularly beneficial for paediatric and geriatric patients who would otherwise be less likely to comply with more frequent dosage regimes. Hence, effective drug delivery methods and technologies have benefits in ensuring compliance with dosage regimes where non-compliance could have significant adverse events, for example, fatalities among patients with cardiac conditions. Likewise, healthcare costs are reduced due to reduced monitoring requirements. Also, as less active drug is required in patients' dosages due to the efficiency of drug delivery systems and their improved release profiles, associated costs and side

effects are also reduced. This has particular benefits for chronic sufferers as well as managed care organisations and health insurance companies. Chronic sufferers are also likely to show severe side effects such as intestinal bleeding, ulceration and perforation when taking NSAIDs (Non Steroidal Anti-Inflammatory Drugs) like ibuprofen, ketoprofen or naproxen which are used to treat pain associated with inflammation, for example, arthritis. With controlled release drug delivery technologies, such side effects are less likely as lower concentrations of active drug are present in the intestine at any one time, furthermore, concentrations are spread over a larger intestinal area as the drug is slowly released when beads of active drug move through the patient's system.

The majority of Elan's drug delivery products are administered on an oral controlled release basis, however, the recent acquisition of Sano Corporation has augmented Elan's technology platform to include advanced transdermal delivery methods. Prior to the Sano acquisition, Elan did have limited transdermal capabilities such as Prostep® for smoking cessation, however the technology was generally recognised as being old and a likely candidate for divestiture. However, Elan's Medipad™ system has very significant potential as an effective iontophoretic delivery method and Diastat® (a rectal diazepam gel for controlling epileptic seizures) in the Athena portfolio also serves to provide the company with technologies beyond oral controlled release capabilities. In addition, the company has other developmental stage products which utilise buccal, implant and tissue targeting technologies, however, its core competency should be seen as existing within the oral controlled release arena.

The market for drug delivery products in the US was worth \$11.5 billion in 1996 and grew at 18 per cent per annum since 1994 when it was valued at \$8.4 billion (Warburg, 1998, p. 26). Industry growth forecasts vary, but expectations are that the industry will post sales of between \$28 billion and \$29 billion per annum in the US by the year 2000, that is, a growth rate of 25 per cent per annum. This forecast does not seem overly optimistic when one considers that the average annual growth rate has been 29 per cent per annum each year since 1991. Likewise, the basis for such

optimistic growth forecasts have an intuitive appeal when one considers the economic and user benefits associated with drug delivery technologies.



Source: IMS America, cited in SBC Warburg Dillon Read, Industry Report, p. 26.

Reduced dosage requirements, reduced health care costs, greater adherence and reduced side effects all serve to grant health care providers and patients with multiple benefits. While drug delivery reformulations were previously used primarily to prolong a product's patent lifetime, more tangible and recognised benefits now serve to present managed care organisations with real cost benefits. This can have a significant impact upon a pharmaceutical company's ability to gain and retain its drug's posting on managed care organisations' formularies or approved prescription lists.

Drug delivery products now account for over 12 per cent of total pharmaceutical sales in the US and this is estimated to reach 20 per cent by 2005 when sales are forecasted to reach \$50 billion per annum, (Warburg, 1998, p.21). Greater emphasis is being placed on drug delivery technologies for the reasons outlined above, and also because a greater return on investment is expected as discovery risk is reduced as only drugs with known historical sales are utilised/reformulated. Furthermore, time to market is less than that required with new chemical entities and a perpetual drug delivery pipeline exists and is replenished as future drugs see patent expiry.

The Athena division develops and markets speciality neurological drugs with particular emphasis on multiple sclerosis, Parkinson's and Alzheimer's diseases. Sano's expertise is in the area of transdermal drug delivery and though Elan did have capabilities in this area, its transdermal products were considered to be outdated and a lack of research and development expertise served to undermine future potential. Sano's advanced transdermal delivery capabilities serve to enhance Elan's drug delivery portfolio and will prove to be earnings enhancing in the short term. The Carnick acquisition increases Elan's dedicated sales force by another 130 personnel, (bringing the total to 320), and thereby serves to allow Elan to increase its mix of directly marketed products as a percentage of revenues, additionally, this acquisition also serves to augment the company's product portfolio. Finally, the acquisition of Neurex gives Elan entry into a second therapeutic area, namely pain management and acute care, this serves to complement the company's niche neurology drug portfolio.

While the foregoing serves to illustrate the company's strategic positioning, a review of Elan's past financial performance and future potential may be seen by reference to the company's share price performance.

Recent gains point largely to the upside revenue potential which is anticipated to accrue from the acquisitions of Sano, Neurex and, to a lesser extent, Carnick, together with the company's move away from being a niche player in the drug delivery industry to becoming a fully integrated pharmaceutical company with its own direct marketing and sales capabilities.



Source: Bloomberg, 1998.

As a result of this transformation and associated product approval potential, Wall Street analysts have continuously upgraded their revenue and stock price forecasts for Elan over recent times. For example, Merrill Lynch's 12 month forecast on the stock was \$65 in January, 1998, in March this was increased to \$80 and in July, the price objective was again raised, this time to \$100, (*cf.* Merrill Lynch, 1998). The realisation of this \$100 stock price target by July 1999 would constitute an appreciation of 100 per cent over 18 months, (the stock was trading at \$50 in January, 1998), and if past trends are projected forward, the potential for such an appreciation can certainly be justified as a 50 per cent appreciation has already been noted from January to July 1998, even though the Neurex acquisition is not scheduled to close until the commencement of the fourth quarter of fiscal 1998 and hence has not yet contributed to sales revenues.

It should be stated that the Merrill Lynch (\$100) target is the most bullish forecast on the stock at present. While other analysts continue to rate the stock with a 'buy' recommendation, consensus earnings (EPS) estimates of *c.* \$1.95 per share for fiscal 1998 give the stock a price earnings (P/E) ratio of 37, hence, the stock is seen, by some, as being fairly valued at its current price of \$73. It is for this reason, (as well as concerns over the dilution of earnings arising out of future all paper or stock

based acquisitions), that CIBC Oppenheimer give the stock a 'hold' recommendation, (Oppenheimer, 1998). More bullish analysts point to the company's projected growth rate (25 to 30 per cent - medium term) and upside revenue potential for new products as well as expected product approvals, thereby arguing that forecasted consensus earnings per share (EPS) of \$2.50 by the end of fiscal 1999 will reduce the P/E ratio to 29 and hence the stock is seen to be undervalued at present prices.

In any case, with a healthy balance sheet, cash reserves of c. \$600 million, less than 10 per cent debt and very promising growth opportunities, it is reasonable to expect that the company will continue to increase revenues and profits at a rate of 25 to 30 per cent, at least over the short to medium term, and that such growth will be reflected in the stock price despite the dilutive effect of future 'all paper' acquisitions. The move to direct marketing of products leads to a more attractive revenue mix while the transition to become a fully integrated pharmaceutical company also serves to make Elan an attractive investment option.

Share Options

Elan recently issued share options to all employees who had in excess of two years' service. The rationale behind this initiative was related to a desire on the part of the company to promote a greater sense of loyalty, partnership and motivation among 'established' employees, that is, those who satisfied the required tenure qualification.

"To ensure that our employees were properly motivated, we introduced an incentive stock option plan which, we believe, has the effect of uniting the interests of management and employees with those of our shareholders. The board made available options over some five million shares for this purpose. These options vest over five years and promote employee continuity in that the first one third will vest on the third anniversary of the grant and rateably thereafter. This will enable our employees to participate in the development and growth of the company and will, we believe, encourage them to act as owners as well as employees . . . I believe that the

inclusive nature of this programme is truly innovative and will promote unity of interest with employees and shareholders.

(Elan, Annual Report, 1996, p. 10)

This initiative was welcomed by those who were in receipt of the option grant and, to date, with a strong share price performance, all recipients stand to benefit from significant windfall payments when these options become exercisable in 1999 and thereafter.

The present analysis seeks to determine whether there is, in fact, a relationship between the granting of share options and improved employee commitment, motivation, loyalty and the promotion of a greater sense of partnership. Some argue that pecuniary rewards are poor performance motivators, however, a more complex relationship may exist in the case of share options where a gradual vesting period is concerned. Additionally, with the first vesting date still almost one year away, and hence any potential benefits not realisable until that time, is an option grant likely to have any positive impact upon commitment, performance or motivation at this relatively early stage? These and other questions will be considered during the course of the present analysis.

The theoretical foundations for any possible links between the granting of share options and the establishment of a corporate culture, commitment and motivation are first considered. Once reviewed, the analysis considers the empirical findings of a research survey which was conducted among a sample of 276 employees who received stock options under the Elan Incentive Stock Option Plan. These findings are considered against the backdrop of various theories relating to corporate culture, commitment and actor motivation - an attempt is thereby made to place the research findings within an operational context.

* * *

The company announced the introduction of the Elan Incentive Stock Option Plan, for employees in all categories of employment on October 3rd, 1996. Share options were previously granted only to managerial personnel and the company's executive

and non-executive directors, however, Board approval was obtained to grant a significant quantity of share options to all employees who had greater than two years' service on July 1st, 1996. All qualifying employees would receive a minimum of 500 share options at an option price of \$28.50 per share. In essence, like most option schemes, this allows option holders to buy Elan stock at \$28.50 at some future date when the options become exercisable and sell the same stock at the prevailing market price. Such transactions can obviously be conducted on a cashless basis, thereby eliminating the need for employees to raise the necessary capital to purchase the options at the exercise price. Hence, if the stock is trading at \$78.50 after the vesting date, the option holder can buy or exercise the option at \$28.50 and immediately sell the stock at \$78.50, thereby netting a difference of \$50 for each share option they hold.

Given the company's share price performance during the previous two years prior to the option grant, (over 100 per cent growth), as well as positive market and product forecasts, it was not unreasonable for employees to expect that the share price would double again by July 1999; the first vesting date. In fact, the share price had doubled by February, 1998, almost one and a half years before the first vesting date and furthermore, has since increased to almost \$76 before easing off to \$73 after investor profit taking (July 1998). Taking more conservative analysts projections, it is reasonable to assume that the stock will be trading at between \$85 and \$90 by the first vesting date in July 1999; such a value would constitute a trebling of the option or grant price in July 1996.

If this does prove to be the case, qualifying employees in entry grade positions stand to earn a minimum of \$28,500 (gross) by exercising their options, however, this estimate does not take into account share price appreciations in excess of \$85.50 after July 1999. In truth, therefore, recipients who choose to retain their options until 2001 are likely to gain significantly more if one accepts that current growth forecasts are justified. Supervisors in manufacturing, quality and R&D functions could expect to earn \$114,000 (gross) and middle managers in excess of \$200,000 (gross) over a three year vesting period. To realise such earnings, qualifying employees would simply have to remain in employment until the end of the three

year vesting period and see the share price grow in accordance with the above estimates. Under the terms of the option scheme, one third of employees' options will become exercisable each year from July 1st, 1999 through to July 1st, 2001; accordingly, qualifying employees will become eligible to earn one third of the above amounts each year over a three year period; again, contingent upon stock price performance.

* * *

While the objective of the present analysis is to determine whether there is, in fact, a relationship between the granting of share options and the establishment of commitment and improved employee motivation or loyalty, any relationship assumes that there is a perception that the share price will increase in accordance with, or in excess of, the above projections. Furthermore, in the case of motivation, there is an assumption that an employee's contribution is perceived to have an impact upon such outcomes. This basic tenet will have to be explored. While share options have been granted to qualifying employees, has this served to increase employees' disposition towards the company? Has employee commitment been increased as a consequence of the option grant and do employees now take a greater interest in the company's strategy, share price and financial performance? Can they be said to be more aware of, or more closely aligned to the company's strategic direction and operational focus? Has employee motivation increased as a result of this? Is there a temporal factor which should be taken into consideration which may lead to increased motivation/loyalty closer to the shares' vesting dates but which does not affect actors' underlying dispositions so far in advance? Do employees feel that they can positively influence the stock price through their individual performance or is the share price dictated only by the actions and decisions of senior executives and external economic forces? Do employees anticipate that they will still be in the employment of Elan at the time of the first vesting date in order to become eligible for any anticipated rewards and if so, has the granting of share options served to influence their decision to remain with the company? These and similar questions will be explored in an attempt to determine whether the granting of

share options can positively affect commitment, performance, motivation or employee loyalty.

The significance of Elan's operating environment and competitive position should not be overlooked when considering the potential effects of the granting of stock options upon recipients' dispositions towards the company. Furthermore, the company's financial and related stock price performance should be seen as having a material effect upon the value of the option grant and hence, the potential for marked changes in recipients' sentiment towards the company. Accordingly, the impact of the option grant should be viewed within context, paying particular attention to company's competitive and financial circumstances.

II

Culture & Commitment

In considering the factors which serve to impact upon the establishment and perpetuation of a corporate culture and employee commitment, the following section seeks to highlight theoretical and research findings in this regard. A distinction between general workplace cultures and stronger corporate cultures is made and the importance of associated norms and values are highlighted. To this extent, the analysis considers corporate cultures from the perspective of the social sciences and evaluates the importance of the prevailing normative system and social control mechanisms. Consideration is given to the importance of hygiene factors and the psychological contract which exists between the company and its employees. Workplace commitment is considered from a similar perspective and distinctions are drawn between the strength of commitment to the corporate culture and the strength of actors' commitment to their primary reference groups such as family, friends and religion. Commitment to the corporate culture is seen as weaker than commitment to primary reference groups, however, conformity with prevailing norms is explained by reference to the normative system which exists to influence behaviour on the part of the group's members together with their desire to remain in membership.

In many respects, the focus on organisational culture which became evident during the 1980s may be seen to mark, if not the birth of human resource management, then certainly its popularisation in both academic and business circles. That is not to say that the foundations of modern human resource management were not in place prior

to this time, indeed, evidence of such foundations may be found in research work which was being conducted by behavioural scientists in the 1950s and 1960s; particularly work which was being undertaken Elton Mayo and Douglas McGregor, (cf. Business Week, 1981, pp. 597-8).

Though the forefathers of modern human resource management may have been active prior to the 1980s, it took the 'threat' of Japanese corporate success to make Western business writers and practitioners take note of issues such as corporate culture and commitment.

Japanese corporate success was explained, not by reference to economic principles relating to labour market growth and supply factors in the Japanese macro-economy, but instead by reference to the perceived strength of Japanese national and organisational cultures. The American sociologist, Bill Ouchi was one of the first writers to popularise this concept with the publication of *Theory Z* in 1981. This was followed soon thereafter by Peters and Waterman's *In Search of Excellence* (1982). This latter publication proved to be a phenomenal success and remained on the New York Times best seller list for in excess of three years. Peters and Waterman pointed to the importance of the so-called 'soft Ss' in organisational culture and structure, namely, staff, style and skill as outlined in the McKinsey 7-S framework, (Peters & Waterman, 1982, pp. 9-12). The authors argued that 'excellent' companies had come to understand the significance of these 'soft Ss' and recognised their fundamental importance in explaining the achievement of superior performance, output and quality. Such companies, they argued, had managed to reconcile the seemingly incongruent nature of these variables with the more tenuous 'hard Ss', namely structure, strategy, and so on, (Lundy & Cowling, 1996, pp. 163-5). As this concept was popularised, a focus on the cultural characteristics of organisations spread; first to business consultants and then, more importantly, to the captains of American industry. No doubt, more cynical commentators may have wondered whether this explosion would prove to be short lived, however, when one considers the impact of such thinking on the practice of human resource management and more recently strategic human resource management, then this, combined with the rational appeal inherent in the underlying philosophy, leads one

to consider that the analysis of cultural variables is worthy of more than a cursory review.

Corporate Culture

In considering the relatively elusive concept of corporate culture, one must consider its essence as well as the distinction between the culture of an organisation and that of a nation or community. Additionally, if parallels are drawn with national cultures, then one must consider whether corporate cultures may be seen as subsets of national cultures and also consider whether the socialisation process for agents or actors is similar.

Various definitions have been proffered in an attempt to capture the essence of a corporate culture, however, no single all encompassing definition is likely to emerge given the intangible nature of the subject under consideration. Deal and Kennedy cite *Webster's* dictionary definition as follows:

“the integrated pattern of human behavior that includes thought, speech, action, [*sic.*] and artefacts depends on man's capacity for learning and transmitting knowledge to succeeding generations”
(Deal & Kennedy, 1982, p. 4).

However, not content with this formal definition, the authors' then seek to capture the essence of corporate culture with a less formal and more succinct definition: simply, “the way we do things around here”, (*Ibid.*, p. 4). Despite the advantages of such a simple definition, it is important to consider the basic elements of culture and hence reference to the disciplines charged with analysing culture and social structure are likely to prove beneficial. To this end, a simple but more comprehensive definition is offered by Cosgrove - “The shared norms and values of members of a social system”, (Cosgrove, 1978, cited in Lundy & Cowling, 1996, p. 169).

Commenting on the degeneration of industry in the United States during the early 1980s, the authors consider the potential for a renaissance through the application of

Japanese management practices. They conclude, however, that the answer is more simple and rests with culture and its importance in bonding and integrating people in their daily lives, (Deal & Kennedy, pp. 4-5).

Strong Cultures

In attempting to understand the distinction between a corporate culture and a 'strong' corporate culture, it is perhaps best to consider a definition of culture and then determine the additional characteristics required before it can be described as a *strong* culture.

Using the social scientific definition provided by Cosgrove, one may build upon this foundation and describe a strong culture as one in which the shared norms and values held by members within the social system are intensely felt and widely supported. Accordingly, breaches of such norms and values will be met with admonition and sanction as deviance from the group's norms and values threatens the very fabric and foundation of the group's existence, development and perpetuation. Ultimately, in societal cultures, breaches of norms and values which are fundamental to the group's existence will be met with incarceration and even death. Such severe sanctions are required primarily to ensure that the group's most basic needs, namely existence and safety are protected, and secondly to act as a deterrent for would be deviants.

Whether such intensity can be felt within even the strongest of corporate cultures is unlikely. However, such intensity is commonplace in societal and national cultures and is even more pronounced among members of religious cults or those national cultures which are built upon religious fundamentalism.

Accordingly, corporate cultures are not likely to develop the level of intensity found within, for example, religious cults or very closely integrated societal groupings. This is believed to be the case for a number of reasons as follows: firstly, employees are not socialised into the norms and values of their companies from infancy, hence,

unlike societal groupings or cultures, a greater number of outside reference groups exist to challenge the actor's adoption of, or belief in, the values being espoused by the company. Secondly, while the actor's identity may, in part, be influenced by the role which he adopts as an employee within the organisation, he continues to alternate between roles, such as father, neighbour, community activist, and so on. As a result, his identity is not determined exclusively by his role within the company and hence normative prescriptions are challenged and behaviour adapted, as he moves between the various roles which he plays during daily life. This is not the case for the cult member whose identity is defined exclusively by his position within his primary, (and only), reference group, furthermore, the socialisation process is more intense as the cult member has been brainwashed, not just to accept the validity of the cult's norms and values, but to be defensive and guarded about external norms and values which conflict with the cult's norms.

In considering the strength of corporate cultures, it should be remembered that organisational norms and values may be felt more intensely in some, (strong culture), companies, while this will not be the case in others, where, for example, the organisational culture is weak or difficult to define.

In accepting that some organisational cultures may be stronger than others, the impact of cultural strength within organisations should be considered. Proponents of the advantages associated with strong cultures argue that employees internalise the goals and values of the organisation and apply them to their daily occupational activities. It is argued that employees within strong culture organisations have a clearer sense of the organisation's purpose and hence tend to identify more closely with the organisation where its purpose is not at variance with the employee's own philosophy. In turn, a sense of pride, commitment and identity is fostered and this is said to result in extra effort on the part of employees.

Deal and Kennedy go one step further by arguing that:

“[their] evidence that the impact of values and beliefs on company performance was indeed real”

(Deal & Kennedy, 1982, p. 7).

Peters and Waterman present a similar thesis by pointing to their empirical sample and highlighting a correlation between organisational effectiveness in their 'excellent' companies, and the existence of strong cultures within a significant number of such companies. However, unlike Deal and Kennedy, they temper their argument by pointing to the necessity for cultural fit between the organisation's core competencies and the culture itself.

However, to suggest that cultural strength in itself, leads to organisational effectiveness overlooks the importance of factors such as a company's core competencies, operating environment, competitive position and so on. Indeed this point has been made by critics of Peters and Waterman who point to the demise of their so-called excellent companies during the late 1980s and thereafter.

Shein, (1992, p. 242), points to the importance of environmental challenges and a company's ability to adapt to such challenges; specifically, he argues that:

"... young groups strive for culture strength as a way of creating an identity for themselves, but older groups may be more effective with a weak total culture and diverse subculture to [*sic.*] enable them to be responsive to rapid environmental change."

(Shein, 1992, p. 242).

The suggestion that organisational flexibility may be hampered by the existence of a strong culture is further developed by Legge who argues that:

"... the downside of a strong organisational culture is an inward looking, conformist, complacent organisation, sunk into a morass of group-think, rigid, rather than flexible in its outlook"

(Legge, 1995, p. 203).

It is generally accepted that some strong culture companies may have a tendency to become complacent and perhaps arrogant after protracted periods of success. Such complacency has resulted in the return of poorer performance and IBM's demise during the 1980s is cited as an example of this, (*ibid.*, p. 204), just as the same

argument is offered to explain the demise of one of the world's strongest cultures, that is, that of the Roman Empire.

Apart from the benefits arising out of an intensity of belief in an organisation's norms and values, one must consider the other and related potential benefits accruing to organisations which display strong culture characteristics. Legge, (1995, p. 203), argues that the existence of a strong culture can act as a 'moral glue' which serves to bind the organisation together. The significance of consensus is underscored as organisations adopt a 'commitment' rather than a 'control' strategy in the management of their human resources, (*cf.* Walton, 1985), particularly if such an approach is seen as necessary to support the company's strategies or core competency.

Despite the disadvantages associated with strong cultures, Legge suggests that such cultures can prove beneficial where responsiveness in decision making is required as lengthy discussion is eliminated and commitment to implementation is more likely. However, this advantage can prove problematic where environmental factors change and, by definition, more debate is required in order to deal effectively with new contingencies. It is further suggested that the relationship between strong cultures, commitment and adaptability poses problems and challenges as strong cultures may facilitate decision making and consensus where familiar issues arise. However, where new challenges present themselves, such cultures, (which are characterised by 'groupthink' in extreme cases), find it more difficult to deal with more complex contingencies. In contrast, weak cultures may be more flexible under such circumstances, but are less likely to generate commitment to action once a decision has been made. Notwithstanding this, Legge argues that strong cultures may ultimately be more supportive of change once consensus is ultimately achieved.

The advantages associated with the existence of strong cultures within organisations are claimed to be many and varied. Primarily, the existence of a strong culture is said to ensure control; though in keeping with the central philosophy, such 'control' is generally referred to as 'commitment', that is, commitment to the values and norms of the organisation. Accordingly, deviance or a breach of the normative and

value system is unlikely among members who are committed to the strong culture group. In this sense, control is described as being marked by a 'simultaneous loose-tight' arrangement, (*cf.* Peters & Waterman, 1982, pp. 318-25), in as much as actors do not sense the presence of a restrictive order, but rather are guided, quite willingly, by the norms of behaviour which define the group's nature. Subscription to the values of the group implies acceptance of the normative system which prevails - more importantly, acceptance is not seen as necessary, but rather as desirable, given that the prevailing norms and values coincide with those held by the group's members. In essence, membership of the strong culture group may be seen to create an extension to the actor's identity as the norms and values espoused by the group coincide with those held by the individual. This is not to suggest that all of the group's members will subscribe to, or conform with, the normative system or order which prevails, however, where this normative system is adopted with intensity by a majority of the group's actors, (by definition a strong culture group), then those who oppose the prevailing value system will be left with one of three alternatives as follows: they may alter their behaviour in order to avoid the negative sanctions which would arise in the event of deviance from the group's norms, that is, conform, alternatively, they may leave the group or be expelled in the event of deviance, or finally, they may attempt to change the normative order.

The manifestation of this commitment to group values results in a situation in which agreed/adopted norms such as quality, performance, flexibility, conflict management, innovation and so on, all come to be espoused by the group and so determine behaviour and output. Furthermore, it is suggested that when the prevailing culture supports the firm's strategy, for example, where a culture of innovation exists to support a firm competing on innovation, then a competitive edge may be gained through the existence of a strong (supportive) culture within the organisation.

It should be remembered that while a firm's culture may be apparent to the observer, different subcultures may exist within and among different workgroups. While R&D, finance and manufacturing personnel may all work together at one operating site, very different subcultures may exist within the respective groups. Furthermore,

within the R&D group, separate and distinct subcultures may exist, for example, among laboratory analysts, scientists and chemists – with each subculture displaying varying degrees of strength and intensity. While one group may demonstrate strong culture characteristics, another may lack direction, intensity and cohesiveness. In turn, this may lead to perceptions of superiority/inferiority on the part of different groups, this, in itself, can lead to interesting dynamics and related conflict as in-group and out-group personnel begin to interact and conflict over issues.

The challenge for all organisations is to ensure that subcultural group differences do not lead to destructive conflict, and furthermore, to ensure that integration is made possible so that the organisation as a whole can achieve its objectives. Consensus around group norms is obviously easier to achieve in strong culture organisations as, by definition, actors have subscribed to the organisation's superordinate goals and hence unity in pursuit of such goals becomes possible.

The benefits arising out of the existence of a strong corporate culture include: support for the company's norms and values, an internalisation of corporate goals and objectives on the part of employees, a deeper sense of organisational purpose, the creation of a sense of pride and commitment as well as the promotion of an increased level of identification with the organisation. Additionally, the existence of a normative order acts as a 'moral glue' which supports prescribed behaviour while simultaneously acting as a deterrent against antisocial or deviant behaviour. Finally, a focus on the pursuit of organisational objectives is promoted instead of the pursuit of individuals' own objectives which might be at variance with those of the organisation.

In terms of the impact upon company performance, the benefits are less clear and one should not accept the argument that performance is enhanced simply as a consequence of the existence of a strong corporate culture. Indeed, all other aspects of an effective operational, product and marketing mix must be present if shareholder value is to be returned. However, when a firm's culture supports its strategy, for example, in the case of firms competing on innovation, operational excellence or marketing, associated benefits are likely to accrue through the

existence and contribution of a supportive corporate culture, that is, as long as all other aspects of the competitive relationship with other firms are equal. This point is made in reference to a number of successful blue chip companies as follows:

“PepsiCo encourages competition and punishes failure to compete. Service is a pivotal norm at IBM; innovation is recognised as central at 3M. It is through norms - the expectations shared by group members and the approval or disapproval attached to these expectations - that culture is developed and maintained.”

(O'Reilly, 1989, p. 455).

Strong Culture Creation

In attempting to explain the establishment of strong cultures within organisations, it is perhaps best to draw upon the logic inherent in the research and writings on human resource management and organisational behaviour. In particular, emphasis should be placed on the literature and findings which consider the distinctions between control and commitment in the management of personnel.

The foundations of this approach to the management of personnel may be found in the work of early pioneers in the behavioural sciences, however, the adoption of this concept into occupational psychology may be credited to Fredrick Hertzberg with the publication of *Work and the Nature of Man*, (1966). In essence, Hertzberg considers the concept of employee motivation and concludes that motivation does not result from an improvement in working conditions, or for example, job rotation. Instead, he argues that there is an important distinction between ‘hygiene factors’ and ‘motivators’ - with each having a separate role to play in the explanation of worker satisfaction. In short, motivational factors such as achievement, recognition, responsibility, advancement, and so on, are all seen as being responsible for motivation and satisfaction, however, when absent, there is a *lack* of satisfaction and motivation rather than more destructive dissatisfaction or demotivation. Similarly, the absence of hygiene factors such as poor working conditions and relationships, inequity in remuneration, benefits and company policies, can all lead to feelings of dissatisfaction - these in turn, can undermine employee motivation. However,

equity or positive sentiment in respect of such variables will not lead to motivation, but at least will serve to ensure that employees are not demotivated.

Hertzberg's theory is valuable as it serves to highlight the importance of ensuring that hygiene factors are positive in all cases if motivation is to become possible. Accordingly, in attempting to foster commitment or establish a strong corporate culture, care must be taken to ensure that sufficient attention is given to hygiene factors so that attempts to inculcate and perpetuate a sense of commitment are not undermined.

Taken to its logical conclusion, this suggests that those responsible for fostering positive sentiment towards the organisation must be prepared to invest heavily in ensuring not just equity, but the perception of equity among a very significant majority of the workforce. Furthermore, equity must exist, not just within and between the organisation's subgroups, but also between internal subgroups and external reference groups. A failure to ensure equity and associated perceptions of equity will lead to a situation in which hygiene factors have not been satisfied and hence efforts to foster commitment will prove futile. As such, the satisfaction of hygiene factors is a necessary prerequisite for the establishment of commitment.

Organisations which seek to foster a sense of commitment among employees generally ensure that hygiene factors are positive and equity is seen to exist. This is achieved by placing significant emphasis on factors such as effective communications, competitive reward systems and employment security. Foulkes (1981) points to the importance of a number of initiatives which are generally found in companies which place significant emphasis on proactive human resource management practices and organisational culture. In respect of hygiene factors, Foulkes points to the importance of: a sense of caring for employees; the creation of trust between all the organisation's members; profit sharing; job security; promotion from within; carefully considered and internally consistent personnel policies; competitive pay and benefit arrangements; effective communicative and voice systems; well trained and effective supervisory management and so on. In addition, Walton (1984) points to: the individualisation of the workforce through meritocracy

in payment systems; variable rewards; extensive training; single status environments; mutuality in labour relations; flexibility and careful job design.

These and similar factors must be attended to before one can expect to create the consensus necessary to establish a foundation upon which an effective organisational culture can be built. While the presence of all of the aforementioned and related variables are desirable if attempts to create such a culture are to be effective, it is important to note that strong cultures may be created in certain circumstances where one or two of these variables are absent, that is, as long as their absence is believed to be unavoidable or justifiable by a significant majority of the workforce. For example, employment assurances may simply not be possible in certain cyclical industries, however, the absence of such assurances may be understood and accepted by employees where effective communicative programmes have been initiated in order to explain why this is the case. Furthermore, where business variables dictate that such hygiene factors cannot be satisfied, a high degree of trust will need to have been established and the company's executives will have to be seen as responsible and sympathetic to the employees' plight if understanding and acceptance on the part of the workforce is to be achieved. In such circumstances, aggression may actually be vented, not towards the company but towards competitors or other third parties in the event of layoffs or redundancies, that is, as long as the company's managers are genuinely seen to be doing all within their power to avoid such outcomes. Furthermore, the threat of external competition with subsequent job losses may actually serve to foster a greater sense of commitment among group members as the in-group, (employees) bind together in face of external threats:

“Conflicts with some produce associations or coalitions with others. Conflicts through such associations or coalitions, by providing a bond between the members, help to reduce social isolation or to unite individuals or groups otherwise unrelated or antagonistic to each other. A social structure in which there can exist a multiplicity of conflicts contains a mechanism for bringing together otherwise isolated, apathetic or mutually hostile parties and for taking them into the field of public social activities. Moreover, such a structure fosters a multiplicity of associations and coalitions, whose diverse purposes criss-cross each other . . . thereby preventing alliances across one major line of cleavage.”

(Coser, 1982, p. 183).

Accordingly, where a lack of resources and/or unavoidable circumstances lead to the absence of certain hygiene factors which would normally be required, their absence will not always serve to undermine attempts to foster commitment, that is, so long as the reasons for their absence are clearly understood and the company's executives are seen to be trustworthy, well intentioned, blameless and sympathetic to the prevailing circumstances. As such, the absence of these hygiene factors under such circumstances serves to alter their status. Accordingly, factors which would normally be seen as hygiene factors, cease to be seen as such. In short, the changed circumstances alter the nature of such variables so that their presence is no longer required and hence their absence is not detrimental to attempts at fostering commitment.

While Foulkes (1981) and Walton (1984) point to the importance of what may be seen essentially as tangible measures of equity, McFarlane-Shore and Tetrick (1994) point to less tangible psychological variables. In considering the dynamics of the employment relationship, the authors point to the importance of the psychological exchange contract which is formed through interaction between the organisation and its employees. As such, the psychological contract is seen as:

“... the employee's perception of the reciprocal obligations existing with their employer; as such, the employee has beliefs regarding the organization's obligations to them as well as their own obligations to the organization”

(McFarlane-Shore & Tetrick, 1994, p. 92).

An example of the psychological exchange relationship is illustrated by the commitment to hard work and loyalty on behalf of the employee. This commitment is made in anticipation of, or in return for job security and promotional opportunities. By definition, the psychological contract is subjective as either party will have expectations which may or may not prove to be realistic or warranted. However, a distinction is drawn between psychological and more tangible 'economic' contracts with the psychological contract requiring a foundation which

is built on trust if obligations are to be met. As a consequence, breaches of the terms of the psychological contract are met with greater abhorrence as the decision to renege on the contract serves to erode the basic foundation of interpersonal and intergroup relationships. Where a number of minor breaches are noted, employees are likely to view the organisation or its senior management team with cynicism, likewise, where one significant breach is noted, the organisation is likely to find it difficult to recover from the consequent erosion of trust. Accordingly, the employee's level of commitment is obviously likely to diminish where his disposition towards the organisation and the security of the psychological contract have been undermined.

McLean-Parks and Kidder (1994) argue that the significance of the psychological contract may be seen in the extra efforts which employees make in excess of their basic contractual obligations. Where the psychological contract is healthy, 'pro-role behaviour' will be a feature of the relationship; as such, the actor's disposition towards the organisation may be seen to move along a continuum from compliance to conscientiousness, sportsmanship, civic virtue and ultimately altruism in line with increases in the strength of the psychological bond. Conversely, where the psychological contract is broken or undermined, 'anti-role behaviour' will be evident. Again, we may note an increasingly negatively response as we move along the anti-role continuum from mere compliance to negligence, negativism, theft, harassment/ threats and ultimately overt damage, (*cf.* McLean-Parks & Kidder, 1994, pp. 114-121).

Referencing Van Dyne *et al*, 1995, the authors argue that:

"A steady stream of research over the last decade would support the contention that contracts with longer time frames (e.g. tenure), higher quality social and exchange relationships (e.g. leader behaviours and group cohesiveness; relationship orientation) and higher commitment levels, are more likely to produce pro-role behaviors."

(McLean-Parks & Kidder, 1994, p. 117.)

The reaction to breaches of the psychological contract is explained, in part, by considering the specific nature of the employment contract. Transactional contracts are seen as clinical, instrumental and almost mercenary; two parties agree to meet specifically agreed obligations solely in return for effort and reward. Such contracts are generally of a short duration and obligations cease upon payment and the provision of agreed effort. Consider, for example, the contract which exists between a temporary secretary and an employment agency - expectations and obligations are limited to those stipulated in the economic agreement. A more complex and arguably dependent relationship exists in the case of relational contracts which generally exist among an organisation's permanent and longer serving employees. By definition, these employees seek emotional, financial and role satisfaction by virtue of their relationship with the firm. Expectations of promotion, reciprocal loyalty and bonuses arise in return for the extra effort and associated sacrifices which the actor makes for the greater good of the firm. In relational contracts, the value of the relationship, in itself, is seen as important, this is not the case in transactional relationships which instead are characterised by self interest.

It becomes apparent that violations of the relational psychological contract are likely to be met with extreme reactions as the actor's sense of identity and feelings of security and trust are undermined. Furthermore, where the existence of a hegemonic relationship between the employer and employee leaves the actor with little alternative but to accept the breach, for example, where the actor cannot afford to leave the company's employment, he is likely to react by moving along the anti-role continuum in accordance with the degree to which *he* feels an injustice has been done. A dangerous situation may prevail in which the now disaffected employee feels that he has no alternative but to remain in the company's employment - to reconcile his plight, he may seek retributive justice by performing only the basic requirements of his job in cases where, for example, he has become demotivated, ('mere compliance'). Alternatively, he may take things to more extreme lengths in an attempt to 'balance the scales of justice': in such circumstances the actor may engage in theft where he believes or manages to convince himself that he has been the subject of an injustice, perhaps in respect of his remuneration. Yet more

extreme feelings may manifest themselves in overt damage to company property or even violence towards his superiors.

Consequently, the significance of the psychological contract and the requirement to ensure that its terms are satisfied is a crucial hygiene factor which must be attended to if commitment to the organisational culture is to be fostered and perpetuated. Though less tangible than issues surrounding equity in reward structures and internally consistent personnel policies, attempts to establish the perceptions of trust and equity will prove superfluous in cases where the psychological foundation has not been firmly established. More important perhaps, is the need to ensure that the actions of all the firm's officers are consistent as a breach of trust by one officer may serve to undermine the credibility of all. Likewise, the communication and interpretation of management's actions must be correct if damaging misconceptions on the part of the organisation's members are to be avoided.

In short, when attempting to establish the positive disposition towards the company which is required in order to facilitate strong culture creation, the most important hygiene factor to attend to is the psychological contract which exists between the organisation and its actors.

Fostering Commitment

To suggest that an organisational culture can be created is certainly a bold statement, however, if we revisit an earlier definition of organisational culture, ("the way we do things around here"), it becomes apparent that cultures do exist within organisations. Although such cultures exist, intensity of sentiment or feeling will obviously vary between organisations and subgroups. To this end, we can conclude that strong cultures certainly do not exist within all organisations or subgroups even though most organisations are likely to have their own idiosyncrasies and particular methods of achieving their objectives. However, in the absence of intensity or a strength of feeling to support such methods, a strong culture cannot be said to exist. Accordingly, while all organisations may have their own 'way of doing things', the

absence of such sentiment serves to remind us that strong cultures exist in only a few.

In attempting to ascertain the factors which are responsible for creating strong cultures, different writers point to the importance of issues such as: the beliefs of the company's founders, objective setting and the promulgation of mission statements, clearly articulated norms and values, careful recruitment and selection methods, symbolic action on the part of managers, internally consistent personnel policies, employee participation, carefully designed reward systems, the importance of prevailing national cultures, company structure, strategy and systems, psychological contracts, effective internal and external communicative systems and so on, (*cf.* Schein, (1984), Kelly & Gavigan, (1987), Davis & Newstrom, (1989), O'Reilly, (1992), Payne (1991) and Baron (1994)).

In truth, any or all of these factors are likely to have an influence on the creation or modification of a particular corporate culture, however, one must be careful not to underestimate the complexities of human nature by concluding that a strong corporate culture is simply a manifestation of careful recruitment methods and the promulgation of the founder's values and beliefs. However, this is the position which has been taken by Davis and Newstrom, (1989), in their approach to the explanation of employee socialisation.

Too many writers are willing to accept and perpetuate this deterministic view of human nature and thereby seem to accept the view that actors are passive recipients of a prevailing normative or value system. Such a view is challenged by the basic tenets of the social sciences, disciplines such as sociology, psychology and economics see actors as active agents who are responsible, to a large extent, for their own destiny. The more deterministic view of human nature suggests that individuals *behave* in response to environmental stimuli and are therefore not capable of *acting* in pursuit of their own beliefs, convictions and experiences. Such an deterministic view of human nature has no place in the behavioural sciences and should not go unchallenged in the management literature.

If one accepts this argument, it becomes self-evident that the establishment of a strong corporate culture is not only difficult, but extremely ambitious. Furthermore, it is impossible to create such a culture if the actors within the social system are not open to, and supportive of, the values which are being espoused. While some actors may be willing to subscribe to the value system which is being promoted by the company and filtered/modified by all within the social milieu, others may be more cynical and less susceptible to attempts at behavioural modification. In addition, if attempts are made to modify behaviour through hegemonic means, such coercion will be avoided, possibly resented and espoused values will certainly not become internalised.

As discussed above, actors within the work environment have been socialised into the wider cultural system and alternate between many different roles on a daily basis. Accordingly, the occupational group is not the primary reference group for any of the group's participants and their membership of, and socialisation into, other groups gives them numerous alternative outside perspectives from which to critically evaluate, not just the attempts to socialise them into this occupational group, but also the values which are being espoused within this group.

For this reason, the acceptance of, and subscription to the group's norms must be seen to be of net benefit to the actors within the occupational group before adoption of these norms will become possible. Furthermore, while actors may tolerate a certain level of role conflict and even see it as an inevitable part of daily life, (perhaps where occupational demands conflict with obligations towards, for example, their families), they will be less likely to tolerate conflict within their internalised value system. As such, the norms and values espoused by the company must be seen to be acceptable from the perspective of the actor's wider reference groups and related value systems if value conflict and associated actor alienation is to be avoided.

In short, for actors to subscribe to the organisation's value system, the values espoused by the company must not conflict to any significant extent with the actor's own internalised value system. Essentially, for commitment to become possible,

workplace experiences, (hygiene factors), must at least be positive and thereafter, the creation of a sense of pride, commitment, enthusiasm, belongingness, value, identity and satisfaction may arise among at least some members within this social system where these needs are being met through membership of the company or participation within a particular occupational grouping.

The concept of commitment, however, should be carefully examined and clearly illustrated given the numerous connotations which may arise in reference to it. Citing Cooper and Hartley, Legge (1995) points to an interpretation of commitment which refers to the actor's psychological bond with the organisation as 'affective attachment and identification', (p. 180), Legge's interpretation of commitment suggests that:

"This is operationalised in terms of three factors: a strong desire to remain a member of the organisation, a strong belief in, and acceptance of, the values and goals of the organisation; and a readiness to exert considerable effort on behalf of the organisation."

(Legge, 1995, p. 180)

A distinction should be drawn between commitment as defined in the above illustration, namely commitment based on psychological and behavioural factors and more calculative or mercenary 'commitment' which is said to arise where actors begin to rely on factors such as pension schemes, status and organisational training. It is the view of the present author, however, that this latter reference to 'commitment' should not be seen as such and would perhaps best be described as a form of dependency.

Similar distinctions have been presented by other authors, Allen and Meyer (*cf. ibid.*, p. 180) argue that: actors may choose to remain in the employment of an organisation as a result of their positive disposition towards the company, namely, 'affective commitment', secondly, they may become dependent for calculative or mercenary reasons such as pension scheme benefits and even a lack of alternative employment, that is 'continuance commitment' or thirdly, the coincidence of personal and organisational norms and values, namely 'normative commitment'.

One might reasonably argue that the first and third points are interrelated as the actor would be unlikely to feel positively predisposed towards the organisation if there was a lack of coincidence between the actor's and the organisation's normative and value systems. Regardless, the distinction between dependency 'commitment', or that which arises out of a reliance on benefits associated with the employment relationship, and psychological/behavioural commitment should be clearly understood. In essence, the former may be seen as akin to 'golden handcuffs' and hence may have negative ramifications where a departure from the organisation would be in the best interests of both the employee and the company, but the dependency which has arisen serves to preclude this from occurring. Where the actor remains in the employment simply to avail of pension and similar benefits, he is likely to continue his employment in a state of apathy, demotivation and possibly negativism - something which may serve to undermine true commitment for all concerned.

* * *

While the importance of variables such as careful selection and espousal of the founder's value system have perhaps been overemphasised by some writers, (most notably Davis & Newstrom, (1989)), the significance of such factors should not be discounted. Indeed, in attempting to inculcate and perpetuate an appropriate value system, effective selection procedures will ensure, in part, that those whose value systems are diametrically opposed to that of the company will either be deselected by the organisation's officers or will deselect themselves. Likewise, by promulgating the founder's values, new and existing members of the organisation are reminded of the prevailing normative and value systems and potential candidates are granted an opportunity to assess what life in the organisation might be like before committing to it.

In essence, if a strong culture can be created, it may be assisted through a combination of factors including the provision of hygiene factors, careful selection and deselection of potential members, the promotion of a clear value and reward system which is clearly evident to all, as well as internally consistent structures and

systems. Furthermore, members must feel a strong sense of identity and pride in their association with the organisation and the actor's occupational needs, (reward, motivation, recognition and so on), must be met and must be recognised as being met through his association with the company. Where any of these variables are not satisfied by the organisation, the exchange relationship will be called into question and negative sentiment will serve to undermine attempts at establishing employee commitment.

An appropriate corporate culture, that is, a culture which fits comfortably with the actor's internalised value system, may be created and perpetuated where carefully selected personnel subscribe to a clearly evident normative and value system which is supported and rewarded, not just by the company's managers, but by all the organisation's members. For such support to be forthcoming, the value system must meet the needs of a significant majority of the actors within this carefully constructed social system, furthermore, prevailing norms and values must be seen to be fair. Hygiene factors must be attended to and all aspects of the relationships must be internally and externally consistent if commitment to the relevant culture is to be developed and perpetuated.

Thereafter, reinforcement through intrinsic and extrinsic reward systems can serve to foster increasing levels of support for the prevailing culture - through such reinforcement, a culture may change, over time, to become a strong culture.

Implicit in this description is the suggestion that cultures which deviate from the normative value system espoused by actor's primary reference group and internalised by the actor, cannot be established or survive as effective cultures within occupational groupings. The reason for this is clear - where behaviour which conflicts with the actor's internalised value system is being espoused, feelings of alienation, guilt and dissatisfaction will result from consequent breaches of the primary reference group's normative system. Furthermore, the rewards associated with membership of a particular occupational group will not generally outweigh the guilt associated with such deviance. Hence, due to the stronger socialisation into the

primary reference groups, loyalty to such groups will have a stronger attraction than loyalty to the (secondary) occupational group.

This is not to suggest that the constraints imposed by societal value systems serve to preclude actors from deviating from prevailing normative systems in all cases - the prevalence of crime serves to demonstrate that this is certainly not the case. However, for such deviance to occur, the rewards associated with the deviant behaviour must serve to outweigh the guilt and potential risk of sanction which is associated with a breach of the prevailing value system. Generally, the rewards associated with membership of a particular occupational grouping or organisational subculture are not sufficiently attractive to compel actors to breach the more intensely felt and prevailing (primary reference group's) value system.

By analysing the actor-occupational relationship from this perspective, it becomes apparent that the actor's primary loyalties are to his primary reference groups, namely, society, family, religion, and so forth. Loyalty to the organisation is secondary and generally will not serve to encourage the actor to forsake his loyalty to his primary reference groups. Accordingly, while commitment to an organisational group or corporate culture may be fostered, it will be more easily forsaken or jettisoned if or when it conflicts with the values and demands of the primary reference group(s). It becomes evident, therefore, that corporate cultures may be fostered, but that their strength should not be overemphasised - indeed, such subcultures should be seen as existing in a secondary category where the strength of association is less than that which exists between the actor and his primary reference groups.

A more complex situation may arise in which the actor is enticed by the attraction of short term benefits, the attainment of which require deviance from the values espoused by the primary and secondary reference groups, for example, the case of workplace theft. Under such circumstances, the actor may attempt either to ignore feelings of guilt or rationalise the deviant behaviour. Again, however, the point to emphasise is that even within a very strong corporate culture, deviance from the primary reference group's normative system does not become acceptable behaviour

from the perspective of the actor's own value system, even in cases where such deviance is actually accepted or promoted within the secondary group's subculture, for example the 'embellishment' of sales figures or similar activities. In such circumstances, membership of the primary reference group serves to prescribe behaviour through the existence of the primary reference group's prevailing normative value system - the pursuit of conflicting values, (even if prescribed and encouraged by the secondary reference group), will lead to feelings of guilt and/or associated attempts at rationalisation of the deviant behaviour.

As an aside, it should be stated that situations may arise in which the normative system which is espoused by the primary reference group is actually jettisoned in favour of the value system being espoused within the strong subculture. For example, situations may arise in which the actor internalises the values of the strong subculture and forsakes the primary reference group's normative system - as such, the strong subculture takes the place of the actor's primary reference group in cases where this reference group fails to meet the actor's innate needs. Such a situation may arise where the actor's identity and belongingness needs are not met by wider society and hence, he may revert to the subculture of, for example, the religious cult, where such needs are met, at least in the initial stages, until dependency is created through the practice of techniques in mind control. It is no coincidence that the recruitment of potential cult members involves the targeting of 'vulnerable' people and those who may be lonely or isolated. Likewise, the initiation process involves 'love-bombing', or the satisfaction of the desire for belongingness, followed by degradation in order to create a feeling of dependency, (*cf.* Thompson, 1986). Similarly, the study of juvenile gang delinquency shows that a significant proportion of such delinquents actually engage in 'deviant' behaviour during their formative years, that is, between the age of 11 and 17, as they feel an acute need for identity and acceptability at this stage of their life cycles. Belongingness and identity is provided through association and membership of the gang subculture, however, to achieve acceptance into this subculture, actors are required to conform with the gang's norms. Accordingly, acceptance is gained through the gang member's ability and willingness to engage in behaviour which is seen as deviant by wider society but actually prescribed and demanded by the gang, for example, 'joy-riding', theft,

street fighting, and so on. In such situations, the innate need for identity and belongingness serves to override feelings of guilt or alienation which would otherwise be associated with such deviant behaviour, hence, such behaviour is entered into as the actor seeks to satisfy these innate needs.

This degree of commitment is unlikely to be noted in occupational groupings due to the fact that they do not exist as primary reference groups for their members. An exception may, perhaps be found in the case of membership of religious orders, however, it is probably inappropriate to describe these groups as occupational groupings. Accordingly, the occupational group should not be seen as being capable of socialising the actor to such a degree that their loyalty lies, first and foremost, with their company or profession.

Socialisation & Social Exchange

We have argued (above) that strong cultures may develop in situations where hygiene factors have been attended to, members have been carefully selected, and a clear value and reward system has been presented, subscribed to, and adopted by those participating in the relevant social system. Internally consistent structures and systems must exist to support the culture and members must feel a strong sense of identity and pride in their association with the company which simultaneously satisfies the actor's occupational and related needs.

Where the culture satisfies the needs of its participants, the normative system will be closely guarded and perpetuated by those who have come to benefit from its existence. In strong culture companies, a significant majority of actors have come to benefit from such and hence, the culture is perpetuated by the participants within the social system. As such, new members are socialised into the prevailing normative and value system as behaviour which is internally consistent is rewarded and that which is at variance with that prescribed by the group is admonished.

Again, in ensuring that an overly deterministic view of human nature is not presented, it is important to emphasise that actors do not lose their identity or individuality when they participate in strong corporate culture or similar social systems. Actors do not become passive respondents as a result of their associated membership. Autonomy and individuality is retained and the prevailing normative system which exists within the strong culture company may be questioned, modified or changed significantly by the new (active) participant. However, the fundamental norms and values which are seen to be essential for the group's survival must be respected by new and existing participants within the group.

Social control systems exist to guide behaviour and admonish actions which deviate from the group's fundamental norms, that is, the norms which have been adopted and upheld by the group as a means of promoting its existence, efficacy and perpetuation. As long as such norms are not undermined or threatened, the actor is free to display his individuality and even act in an unconventional manner as individual idiosyncrasies are granted freedom of expression. Identity is not suppressed through membership of the strong culture social system - as long as its expression does not threaten the normative value system which is recognised as being crucial for the group's survival.

Social change may also occur as new and existing members begin to challenge assumptions which may no longer be valid or fundamental for the purpose of promoting the group's existence or perpetuation. It therefore becomes evident that strong cultures, whether in organisations or wider society, are not rigid, intransigent structures which exist to suppress actors' individuality. Instead, they should be seen as existing to provide parameters which guide the actor's behaviour but which are also fluid, transitional and organic. Hence, they serve to facilitate adaptation and change, as appropriate, over time.

Pascale (1985), like others, also presents a deterministic view of corporate culture. Pascale describes socialisation as occurring through the careful selection, (and deselection) of actors by means of sophisticated recruitment methods. The traits of the 'company man' are sought and only those displaying the necessary fundamentals

are ultimately recruited by the strong culture organisation. Thereafter, new recruits are subjected to 'humility inducing experiences', (*ibid.*, p. 30), which comprise of overworking new recruits, providing them with responsibility for completing menial tasks and so on. Through such methods, the new recruit's level of self confidence and comfort is actively and intentionally undermined so that he becomes more susceptible to the internalisation of the organisation's norms and values.

Pascale's third stage in the socialisation process is referred to as 'in-the-trenches training' - during this stage, the new recruit is obliged to participate in a carefully designed and protracted induction programme in which the ways of the firm are clearly outlined and instilled. Regardless of the actor's previous occupational or professional experiences, all are required to participate in this part of the socialisation process. Short term, expedient behaviour is admonished and all are taught to understand that conformity with the prevailing value system is necessary and required if the achievement of success as defined within the prevailing subculture is to be realised.

The fourth stage of Pascale's treatise serves to identify the behaviour and practices which are promoted and also necessary to enhance the firm's success in the market place. Again, emphasis is placed on the importance of compliance with the company's norms and the consequences of deviance are also made apparent. According to Pascale, this stage serves to emphasise the importance of adherence to the organisation's 'transcendent values' and the identification of common values enables employees to reconcile the personal sacrifices which are necessitated by virtue of organisational membership, (*ibid.*, p. 32). Commitment is tested as employees are requested to endure inconvenient assignments at not insignificant personal cost, however, all is offered up for the greater good of the organisational 'family'. At stage six, folklore is used to reinforce the organisation's values and provide participants with a greater sense of understanding and identity. As such, the firm's culture is validated as members are reminded of, and inspired by, the organisation's history, origins and founding fathers. Finally, at stage seven, role models are presented - the firm's winners - be they expert consultants in consultancy practices, highly effective brand managers or skilled negotiators; all are extolled as

heroes and serve to provide the protege with a blueprint for effective behaviour within the organisation. Nothing is so powerful as a means of illustrating effective behaviour and these heroes provide new members with a showcase of effective traits which should be emulated if success, (as defined by the organisation), is to be achieved.

A number of difficulties arise with Pascale's presentation of the prerequisites for the establishment of corporate cultures. First, not all strong culture firms practice such highly sophisticated recruitment methods, yet manage to achieve high levels of commitment. Also, the effectiveness of such selection processes should not go unchallenged as this would suggest that variances in human nature can be measured and predicted accurately through the use of psychometric testing or other similar means and furthermore, that such variances can be predicted by measuring a small number (usually four to six) of variables. Additionally, many strong culture firms manage to achieve, by definition, high levels of commitment without engaging in many of the other practices which Pascale refers to. Consider, for example, the acceptability of, and reaction to, 'humility inducing' experiences if such methods were practised in the majority of firms, particularly among employees who see their occupational life as a means to an end and as such are not career oriented and perhaps unwilling to work beyond their contracted hours. The fact that such actors do display strong culture characteristics in the absence of 'humility inducing' experiences suggests that high levels of commitment can be fostered in the absence of such overt attempts at socialisation.

Given that corporate commitment can be established in the absence of many of Pascale's variables serves to undermine his basic premise and subsequent explanation of the factors responsible for socialisation in strong culture companies. The student of strong culture socialisation methods should not build a theoretical foundation upon the manifest practices noted in strong culture firms, rather, he should review the nature and explanations of socialisation which are evident within social systems in general. As such, the strong culture organisation should be studied in the same manner as the social scientist would assess the dynamics at play in any group or social system. Actors in society are not subjected to an entry test, nor are

they subjected to humility inducing experiences prior to being accepted as citizens. Accordingly, our focus should remain on:

- (i) the importance of the prevailing normative system,
- (ii) the actor's desire and need for acceptance into the relevant social system,
- (iii) the nature and importance of interaction between points one and two.

As long as the prevailing norms and values have been clearly defined and the normative system serves to meet the needs of the group's members, then behaviour will be guided and modified as long as members value acceptance and membership of the group. Membership may be valued as the group presents advantages in terms of belongingness, recognition, security and so forth. Where these needs are not met, or are likely to be satisfied more comprehensively by membership of another group, the actor may deselect himself at the recruitment stage or leave/abandon the group at a later stage.

As such, socialisation occurs, not as a result of humility inducing or other similar experiences, but because the actor voluntarily enters into an exchange relationship. Granted, where the actor's psychological defences and self confidence has been undermined or destroyed, he may be reluctant to leave the relative 'safety' of the group, however, in normal circumstances, the actor will consider the net advantages and disadvantages associated with membership of a particular group and will act accordingly.

In understanding the nature of socialisation, the importance of the exchange relationship is crucial, though essentially straightforward. The sociologist George Homans is credited with developing exchange theory in 1961, (*cf.* Ritzer, 1988, pp. 368-398), essentially Homans argues that all social behaviour may be explained by human motivation and the actor's pursuit of what is anticipated to be of net personal gain. While this might seem overly simplistic at first glance, it should be understood that reward or advantage is not derived simply from selfish or hedonistic behaviour but may also be achieved through altruistic self-sacrifice. Hence, Homan's theory purports to explain the selfless activities of Mother Theresa as

much as the hedonistic pleasures enjoyed by the characters presented in the existentialist philosophy of Satre and Camus. Where the sense of joy and identity which is experienced in helping others outweighs the personal sacrifice associated with such efforts, exchange theory predicts that such altruism will be evident.

In explaining socialisation, exchange theory serves to rationalise human behaviour and interaction within the social subsystem. Essentially, certain rewards are derived from group and social system membership and as long as such rewards outweigh the personal costs entailed in group membership, the actor is likely to comply with, or subscribe to, the prescribed normative system. Actors do not have to be humiliated or have their self confidence undermined in order to inculcate a sense of loyalty, to the contrary, such activities are likely to undermine loyalty and perhaps, in some cases, create a psychological dependency on the group - something which is likely to have the effect of limiting the actor's contribution towards the group's organic growth and development.

Once the importance of the exchange relationship is understood, conformity with the group's normative system can be explained. Thereafter, in assessing the socialisation of members into corporate cultures, one must consider the advantages which are perceived to be associated with membership of a particular corporate culture from the perspective of the actor at a particular time. This assessment must be made before attempting to predict the extent to which the actor will engage in self sacrifice when conforming with the group's norms.

In essence, as long as the demands made by the organisation do not outweigh the benefits associated with membership, the actor can be expected to conform with the basic norms and values which are extolled by the company. As benefits are expected to increase, with, for example, the satisfaction of needs for recognition and identity, (in the case of career professionals), one can expect that greater sacrifices will be made as the actor seeks to achieve these ends.

The extent to which such sacrifices are made, however, should be seen as alternating over time and in line with changed circumstances. At times, family needs and

responsibilities may become more demanding than the need for self actualisation while at other times, career progression opportunities may no longer be offered by the company and the actor may then make a decision to move to another group where such needs can be satisfied.

At such times, conformity with the company's normative value system will not be seen to be as important as at other times when the actor displays a higher level of commitment or 'dependency', however, expulsion is not likely to occur unless the actor actively violates one of the company's primary norms or repeatedly violates or undermines one of the organisation's secondary norms and the circumstances surrounding his actions do not offer reason for reprieve.

It becomes apparent that a clear distinction should be drawn between the cultures which generally exist within most organisations, and more influential strong corporate culture organisations. The foregoing analysis highlights the significance of the strength and pervasiveness of the normative and value system which is so evident and critical to strong culture companies. A sense of commitment, pride and identity may be fostered in some strong culture companies where clearly articulated norms and values are espoused and promoted for all to believe in. However, it should be remembered that even though support for such values may appear strong, the strength of such sentiment is only truly assessed when employees are asked to make significant personal sacrifices for their organisations. At such times, differences between the strength of the actor's allegiance to his primary and secondary reference groups will become more apparent.

Where the actor's psychological and related needs are not met by the organisation, loyalty and commitment to the prevailing culture offers few rewards, hence, the actor is more likely to ultimately leave the organisation as he seeks to satisfy such needs. Accordingly, the level of support for the organisation's norms will be directly related to the strength of association and identification which the actor feels towards the organisation.

III

Motivation

In considering the question of motivation and particularly the potential effects of share options on employees' dispositions towards their companies and occupations, it is important to explore the central theories which purport to explain actor motivation. The following pages consider such theories and suggest that the satisfaction of hygiene factors is crucial where the establishment of positive employee sentiment is concerned. Furthermore, the basic tenets of equity theory, goal setting and expectancy theory are also considered. Thereafter, any links between the granting of share options and employee motivation are considered in light of the suggestions inherent in these theories of motivation.

For generations, social scientists and management theorists have grappled with the question of actor/employee motivation. In many respects, the topic has proved to be an elusive 'holy grail' for those who have sought to discover one all encompassing theory which would predict and explain how actors are motivated within their social environments. This quest has not only been futile but somewhat naive as the search for one framework to explain human motivation does not take sufficient account of human complexities or the many and varied factors which serve to impact upon actors' behaviour. Once again, therefore, we see evidence of a deterministic approach to the explanation of human behaviour.

However, this quest has served to highlight the complexities involved in any explanation of actors' behaviour and, as such, demonstrates that to be useful, any

worthwhile theories are unlikely to be specific but are more likely to be broad and general.

Equity theory argues that actors are motivated by the level of equity which is perceived to exist between actors within the working environment. An actor will consider the relative equity of rewards applying to the actor himself and to other actors (comparators) within the working environment. Where inequity is perceived to exist, the theory argues that actors will alter their inputs or outputs in order to restore a sense of equity, for example, where an actor perceives that his efforts are not being adequately rewarded, he may seek to address the situation by altering the level of input or effort applied to the task. Alternatively he may seek to alter the level of output, for example, by demanding a pay rise; or may alter his perceptions of others' inputs, leave the situation, alter perceptions of his own value to the organisation and so on. Such adaptations are required in order to reconcile the prevailing situation and thereby restore equity.

The theory argues that effort is directly related to perceptions of equity: where actors perceive that they are rewarded less favourably than others, they are likely to seek to restore a balance by restoring equity to the situation. Similarly, where they perceive that their rewards are more favourable than those which others are in receipt of, the theory predicts that their efforts are likely to increase as a result of the increased motivational effect! Not surprisingly, research findings have pointed to stronger support for the theory in cases of underpayment, however, the more significant problem associated with the theory is that research has focused narrowly in the area of pay and quality/quantity of output.

The concept of the reference group is important as, in assessing relative equity, the actor analyses the social reality which presents itself and in which he participates. Accordingly, the actor will not compare his situation with that which prevails, for example, in the company's overseas subsidiary; nor will he compare his rewards with those earned by the company's chief executive officer. Instead, comparators will be selected primarily from among the actor's own workplace peers and then

from among other comparable companies. Likewise, they will be assessed in accordance with variables such as skill, experience, qualifications and so on.

While the theory argues that actors who perceive themselves to be overpaid are likely to experience greater levels of motivation, this suggestion is certainly debatable - additionally, if such as consequence were found to exist in reality, one would certainly be justified in questioning the longevity of any increased level of motivation. The reason for this should be apparent and is related to the fact that pay and similar rewards or differences between actors in the reference group are, by definition, extrinsic rewards. Hence, they cannot be expected to satisfy the actors intrinsic or innate needs: the satisfaction of which are fundamental for motivation.

In taking this argument to its logical conclusion, it may be suggested that equity and equity theory should be presented as a 'hygiene' variable which must be satisfied if actors are not to become demotivated by the prevailing situation. Where inequity is perceived to exist, demotivation is likely to result, but where equity exists, actors are not likely to be motivated simply as a consequence of its existence. When considered from this perspective as a hygiene factor, the theory can serve to provide the analyst with a useful adjunct to Herzberg's theory relating to motivation. The benefit lies in equity theory's explanation of the lengths to which actors will go in order to reconcile the prevailing situation and their attempts to restore equity. By re-evaluating the situation, actors are likely to alter perceptions of their own effort and value to the organisation, or alter their perceptions of others' efforts and associated value. Likewise, they may seek, and be successful in their endeavour to increase the rewards which they receive in return for their effort, alternatively, they may choose to leave the situation/company if unsuccessful in their attempts to change or reconcile the perceived inequity. Many other methods of reconciling the situation may also be used, however, it should be recognised that most actors are unlikely to remain fully demotivated over a protracted period of time as a result of perceived inequity. In short, actors are more likely to reconcile the situation by some means, rather than find themselves still demotivated one year hence.

Hertzberg (1968) points to the importance of hygiene factors and their impact upon actors' behaviour within the working environment. As discussed, actors may be motivated by many and varied factors such as job satisfaction, pecuniary reward and recognition; in the absence of relevant hygiene factors, however, actors are likely to become dissatisfied and demotivated. While hygiene factors do not serve to motivate actors, their absence will have a demotivational effect, thereby serving to undermine the effect of other motivational forces. Hertzberg's contribution is crucially important to the understanding of actors' motivation as it serves to highlight the importance of the socio-psychological environment within which the actor exists.

The origins of goal setting theory are attributed to E.A. Locke who formulated his theory in 1668, however, this premise was built upon by Peter Drucker in his work on Management by Objectives (MBO), (*cf.* Statt, 1994, p. 289). The basic premise of goal setting theory is that actors will be motivated to achieve a specific goal once they have identified and subscribed to that same goal and have made a conscious effort to pursue this chosen objective. Intention is therefore important, as is the process of goal identification.

As one might expect, goal difficulty is important as actors are said to work harder to achieve goals which are challenging and require more effort, however, goals and objectives must not be so difficult as to be perceived to be unattainable. In short, a trade-off exists between the potential for achievement and the necessity for stimulation in the completion of requisite tasks.

It is suggested, (Statt, 1994, pp. 289-293), that three factors must be recognised as being important in order to achieve an understanding of the dynamics involved in goal setting and consequent motivation. Firstly, *feedback* is necessary if the actor is to have access to information regarding his progress towards the identified goal or end, that is, positive feedback is likely to reinforce positive actions and other information is likely to help to reorientate the actor or allow him to modify behaviour after reevaluating the effectiveness of a particular course of action. Through such methods, he may modify or tailor his activities towards the

achievement of a particular end. Secondly, the identification of a *specific goal* is said to be necessary in order to improve performance; as such, the identification of specific targets are believed to be of assistance psychologically. Finally, as discussed, a trade-off exists between *task difficulty/stimulation* and the actor's own potential to achieve the desired result.

A number of provisos are made as follows: actors must have the requisite ability; extra material incentives can assist if viewed (by the actor) as desirable rewards for effort; a justification and understanding of the importance and relevance of the goal is necessary in situations where objectives are being assigned by the company, furthermore the actor's confidence in his ability to achieve the task is likely to be positively related to achievement, all other things being equal.

While the theory has a logical appeal, it may be criticised as having a middle class perspective. Though actors may be motivated to achieve their personal goals, these may exist independently of the working environment – for many, work may be seen as a means to an end rather than an end in itself, hence, goal setting, when applied to such occupations, is likely to have little value, particularly within routine or monotonous environments. Consider the actor whose occupation requires the completion of routine assembly line activities; the establishment of a new output target is unlikely to positively affect performance, particularly in situations where work is seen as a means to an end and the actor's objective is to minimise time engaged in routine activities and maximise personal time. In contrast, the aspiring executive is more likely to work aggressively as he pursues occupational goals particularly where the achievement of such goals confers both intrinsic as well as extrinsic rewards. Often, the aspiring executive's identity is defined in terms of success at work and hence occupational success brings its own intrinsic rewards. Where a middle class definition of success is foisted upon an inappropriate occupational foundation, the desired results are not likely to be realised as the motivation for such achievement is not likely to exist among actors who see their occupations as little more than a means to an end, and hence work to achieve extrinsic rather than intrinsic rewards.

Expectancy theory was developed by Vroom in 1964 and is still considered to be valuable in explaining the rational aspects of decision making. The theory considers the extent to which an actor desires a particular reward and how likely its attainment is perceived to be. Expectancy theory has a broad appeal as its focus is not limited to pecuniary or similar extrinsic rewards; in this respect it is similar to exchange theory which sees actors as being motivated by many and varied forces such as satisfaction arising out of altruistic behaviour or other intrinsic rewards. Expectancy theory goes further than exchange theory in its application to the working environment; effort to performance expectancy looks at an actor's level of effort and predicts that, in respect of any given task, it is proportionate to the perceived probability that the effort will lead to performance or success with the given task. Additionally, performance to outcome expectancy is also considered - will success with a given task result in the desired outcome such as a pay rise or promotion? The probability of success must be positive for motivation to result. Where the outcome probability is poor, the actor is unlikely to expend the necessary effort on what would then be seen to be a futile exercise. However, the actor may be motivated by a number of different factors and while a promotion may not be likely, the actor may continue to be motivated to perform in order to gain valuable experience, job satisfaction or a similar perceived benefit.

While an outcome may be achievable and desirable, the actor will also consider the personal costs associated with the achievement of such an end. The valence of an outcome is the attractiveness (or otherwise) of the outcome to the actor in question. Pay rises and promotions may have positive valences while stress and similar costs are seen as negative valences. People vary in the strength of their outcome valences, stress may be seen as a significant negative factor for one person but only as a slight annoyance for another. Accordingly, actors will vary in their disposition towards such costs as well as the value which they place on the various outcomes which they seek to attain. Hence, the theory is broad enough to take account of actors' varying motives and dispositions.

Three conditions must be met for motivation to result, namely, a reasonable expectancy that exertion/investment will produce high levels of performance (goal

achievement). Also, outcomes must be seen to be worthwhile, likely and valued. The sum of all the valences for the possible outcomes must be positive: one or more valences may be negative so long as the positives outweigh the negatives, for example, stress and fatigue may be negative so long as pay, promotion and related benefits are positive and valued enough to outweigh these negatives.

Though expectancy theory presents a rational and logical approach to the explanation of human motivation, the theory is sometimes criticised for presenting an overly calculative or rational view of human nature. The attractiveness of many activities may simply not be measurable or quantifiable to the extent to which expectancy theory suggests. If one considers activities or experiences which are neither overly attractive or unattractive to the actor, expectancy theory would suggest that actors should experience a higher level of ambivalence than is actually the case in reality, furthermore, many activities would simply not be pursued where rewards barely outweigh the costs associated with engagement. Additionally, when risks are factored into the calculative analysis, many actors would be likely to refrain from engaging in particular activities as outcomes would be less than perfectly predictable and hence any potential benefits would be undermined by cost and risk factors.

The theory does little to reconcile situations in which actors may make personal sacrifices just because they are motivated to do 'a good job'. Many situations arise in daily life where actors could do enough simply to 'get by', but are actually more conscientious and dedicated, going above and beyond the call of duty, (without prospect of extra reward), simply because they are dedicated to their tasks or are generally conscientious in all their activities. Taking this criticism of expectancy theory to an extreme, it could be suggested that expectancy theory sees actors as motivated by clear and tangible rewards, but as essentially lazy and unlikely to expend effort or energy in situations where outcomes are unpredictable or risky. Accordingly, in attempting to explain human motivation, the theory is calculative and deterministic, presenting an overtly rational view of human nature at the expense of more subtle psychological and behavioural aspects.

The foregoing review of some of the theories of motivation serves to elucidate one common trend, namely, that actors must believe that their actions are likely to result in the achievement of the goals which they are in pursuit of. Where they perceive that they are powerless to influence outcomes, they are unlikely to attempt to do so as their efforts would then be perceived to be futile. Looking at expectancy theory in particular, the actor must anticipate that his efforts can reasonably be expected to result in the achievement of his goal before the necessary expenditure of effort is invested. Considering this in respect of the granting of share options and resultant employee motivation, the theory would suggest that employees are unlikely to be motivated to work harder as a consequence of the granting of share options, unless, of course, they believe that their efforts are likely to have a positive impact upon the company's share price. Of course, this view would only be consistent with the tenets of expectancy theory where one believes that non-executive employees are powerless to positively influence a company's share price. Where non-executive employees perceive that they can positively influence the share price, motivation and improved performance is obviously more likely.

Where such a perception does not exist, the foregoing theories would suggest that actors may value the prospect of enhanced rewards through the anticipation of a share price increase, however, increased motivational effort would be unlikely to arise. However, while the granting of share options might not lead to increased effort, it may serve to promote a greater sense of loyalty and morale among the workforce. As a consequence, such changes might result in improved productivity and work performance due to the importance of hygiene factors - assuming that the employee's disposition towards the company can be expected to positively affect performance.

In this case it is not accurate to conclude that the granting of share options serves to increase employee motivation, rather the granting of share options may serve to improve the employees' dispositions towards their company and improve employee morale. In turn, this increase in morale may have the effect of increasing productivity, however, a more empirical basis is necessary to understand the

interplay between the granting of share options and effects on employee motivation and loyalty.

A number of researchers and authors have pointed to improved company performance where employee stock ownership schemes are operational. Park and Moon, (1995) argue that where such schemes are in existence, improved performance arises as a consequence of the efficiency of the ownership structure and the resultant focus on the monitoring of individual and company performance. All have a vested interest in the firm's success and hence performance is likely to improve.

Vander Weyer (1995) looks at the introduction of share ownership schemes as a method of retaining key executives as well as talent in people based operations such as advertising, consulting and legal firms. While share options may have the effect of retaining key executives, (assuming positive growth forecasts and perceptions), they may equally have the effect of retaining other less talented personnel.

Anfuso, (1995) considers PepsiCo's 'Share Power' stock ownership plan in which stock options are granted to employees each year - with grants amounting to ten per cent of annual salary. At PepsiCo, it is intended that the inculcation of an 'ownership culture' will lead to the creation of an entrepreneurial culture. The firm's 500,000 employees are encouraged to think and act as if they were owners of their own small companies. Anfuso argues that the scheme is a success "motivating PepsiCo employees to 'go the extra mile' and stimulating their interest in the company's financial performance".

While there is no doubt that interest in the company's financial performance is likely to be stimulated through the granting of share options, one may question whether employees are motivated to work harder. The complexities associated with actor (employee) motivation may preclude one from arriving at a conclusive and straightforward answer to this question, however, this in itself makes the topic worthy of consideration.

Consideration of this question is important and any motivational effects should not be interpreted simply as a consequence of the prospect of pecuniary gain. The dynamic of any motivational relationship, (if one exists), is likely to be a consequence of the interplay between a combination of variables such as the satisfaction of hygiene variables, the potential for an increased level of identification with the company and its objectives, the interplay between the actor and the organisation and so on. To suggest that the actor is motivated by the prospect of financial gain through participation in a stock option scheme would be tantamount to suggesting that the actor operates within a vacuum.

Furthermore, if non-executive employees believe that they are powerless to influence a company's stock price, regardless of how hard they work, then benefits accruing from share price appreciations cannot be perceived, (by the employee), to be related to employee effort/performance; hence, the effort to reward relationship cannot be said to exist. In this respect, it would be a mistake to apply research into the area of performance related pay to the present area of review as the fundamental link to effort cannot be said to exist. On the other hand, if non-executive employees *believe* that their individual or group efforts can serve to positively affect the company's share price, then such links to performance may be explored even if such effort does not have the perceived effect in reality.

It becomes apparent that the various theories of motivation are useful in highlighting some of the variables and interrelationships which should be considered when attempting to understand actor motivation. However, the explanation of human nature cannot be achieved through the application of any one theory to observed behaviour. Accordingly, such theories should be used to facilitate a consideration of further questions, which, in themselves, may assist with the discovery of an explanation of some factors, some of the time.

IV

Research Methodology

The objective of the present analysis is to determine whether there is, in fact, a link between the granting of share options and a change in actors' dispositions toward the organisation. While certain hypotheses can be drawn from an analysis of the theoretical promulgations contained in our earlier considerations of culture, commitment and motivation, it is necessary to ascertain whether such assumptions can be supported by empirical research. While logical conclusions can be drawn by researchers and students, it is important to recognise that such conclusions are often bounded by the perspective of the researcher and the limitations of his *weltanschauung*. While Marx speaks of the ability of the 'free floating intelligentsia' to make validity claims on the basis of their superior insights, such an arrogant claim is obviously easy to refute. Accordingly, in order to place our conclusions on a foundation of greater epistemological rigor, it is necessary to use the foregoing review of relevant theoretical analyses to raise questions and then to use empirical research findings to assist in elucidating answers to such questions.

Research data was collated through the use of attitudinal survey questionnaires which considered respondents' sentiment on a number of issues such as whether the granting of share options served to: increase their interest in the company's share price; influence their decision to remain in the employment of Elan; increase their interest in the company's performance; improve their level of motivation and commitment; increase their sense of partnership with the organisation and so on. Additionally, respondents were asked to indicate whether they thought that their actions could serve to influence the company's share price, (*cf.* Appendix I). Every

effort was made to ensure that survey completion was not unnecessarily onerous or demanding, accordingly Likert scales were used extensively throughout.

Survey questionnaires were circulated to the majority of employees who received their option grant in 1996, (the first year of operation of the Elan 'Incentive Stock Option Plan'). This population group was targeted specifically as (at the time of survey completion), respondents had just one year to wait until the first vesting date whereupon one third of their options would become exercisable. Accordingly, with the benefits of the option scheme accruing just one year hence, (assuming that employees remained in the employment of the company), the value of the scheme could be assumed to be quite apparent to this population sample. Furthermore, all respondents in this sample had a minimum of two years' service prior to the option grant date, (July 1st, 1996), and hence comprised the largest single population to which an option grant was made, that is, all current employees who had joined since the establishment of the company. Finally, this population sample had received their stock options at an exercise price of \$28.50, - the market price at the close of business on July 1st, 1996 - hence, their options were worth significantly more than those received by employees who qualified for an option grant in July 1997 at an exercise price of \$43.50 or July 1998 at an option price of \$64.875.

While comparisons with these latter groups could have been made if sampling had been extended to include these personnel, it would have been difficult to control for variables such as time before benefits would accrue, expected continuity of tenure to vesting dates, perceived financial benefit and so on. Accordingly, the survey was limited to those who had received their stock options in 1996.

While approximately 315 of the personnel who satisfied the service qualification in 1996 were still employed by Elan at the time of survey distribution, (July 14th to 24th, 1998), certain employees were specifically excluded from the study, firstly, those absent from work at the time, secondly, part-time personnel, and thirdly those employed at the company's Dublin offices. These categories were excluded to control for the environment, culture and mood which prevailed at the Athlone facility at the time under examination as these (excluded) personnel could not be

said to participate adequately in the prevailing environment, something which would be likely to influence their disposition towards the company. In assessing employees' dispositions towards the organisation, it is obviously important to acknowledge that actors do not operate within a vacuum and hence their dispositions are likely to be strongly influenced by the prevailing culture or environment – something which is generally not replicable elsewhere.

Accordingly, survey questionnaires were circulated to 276 of the 315 employees who satisfied the tenure qualification and 130 or 47 per cent were completed and returned for analysis.

Surveys were circulated to a cross section of employees in occupational groups as diverse as manufacturing, maintenance, quality assurance, quality control, research and development, regulatory affairs, administration, finance, information technology, engineering, planning, safety, training, human resources and commercial development. However, for the purpose of comparative analysis, responses were categorised according to more general occupational classifications with groupings as follows:

1. Manufacturing and maintenance,
2. Quality assurance and quality control,
3. Regulatory affairs and R&D,
4. Administration, finance, IT, engineering, HR, planning, safety, training and commercial development.

Approximately equal numbers of responses were received by employees in the above category classifications with 24 per cent of responses from employees in manufacturing and maintenance, 28 per cent from those in quality assurance and quality control, 26.4 per cent from regulatory affairs and R&D and the remainder from those in category four.

Respondents were asked to indicate the seniority of their respective positions as 'Managerial', 'Supervisory' or 'Lab/Scientist/Operations/Admin.'. The importance

of this classification was twofold as, for example, managers might have a different orientation towards the company and also because option allocations were made on the basis of seniority with supervisors receiving four times more options than operators, and managers, in turn, receiving more than supervisors. Accordingly, in assessing the impact of share options, the relative and absolute value to the recipient of the option grant must also be considered.

Respondents anonymity was preserved as they were asked only to indicate their department, year of joining the company, gender and seniority. Confidentiality was also assured as respondents were advised that the study was concerned with overall trends.

The gender breakdown of respondents was approximately equal with males comprising 48.8 per cent of respondents and females comprising 51.2 per cent. Obvious correlations with departmental gender biases were noted, for example more females in laboratory and administrative functions and more males in manufacturing.

Questionnaires were circulated through departmental managers/supervisors and respondents were requested to return completed questionnaires directly to the human resources department in a sealed confidential envelope using the company's internal mail system.

The mood which prevailed at the Athlone facility during the time of survey completion, (July 14th to 24th, 1998), could generally be described as being good. It also coincided with the ten days prior to the summer shutdown period in manufacturing and quality; a period when many other personnel also take their annual summer holidays. There were no disciplinary or other negative issues arising at this time, however, cause for concern over the future of a particular product in manufacturing was relayed to relevant personnel, (the majority of whom did not form part of the relevant population), two days prior to the closing date for receipt of completed questionnaires. This news was communicated and received without cause for alarm and affected personnel were reassigned to other projects without

jobs loss. Furthermore, over 95 per cent of responses had been received at this stage, hence, the nature of the announcement is not thought to have had a material impact on results.

Interestingly, the share price closed at a record high of \$75 and 15/16 on July 17th, having rallied from *c.* \$65 just two weeks earlier. The reason for this rally was related largely to market expectations surrounding financial results for the first half of fiscal 1998 as well as the publication of positive sentiment by a number of respected Wall Street analysts. During the survey period the stock price ranged from \$69½ to \$75 and 15/16, thereby generating extra interest and discussion on the part of employees during this time. The average stock price over this nine day trading period was *c.* \$73, that is, significantly higher than the average stock price of \$62.371 for the period January, 27th, 1998 to July 27, 1998, (Bloomberg, 1998).

These factors are thought to have had an effect on respondents' interest in, and awareness of, the value of their stock options over the period under review.

V

Findings

Consideration was given to the impact of the option grant in terms of changes in respondents' sentiment towards the company in a number of different respects. Assessments of the impacts in terms of continuity of tenure, interest in company performance, importance of share options, changes in levels of motivation, loyalty and commitment as well as the nature of commitment changes were all examined. The results of this analysis point to significant positive effects arising out of the option grant under the circumstances which prevailed.

Survey research data was coded and analysed using SPSS (Statistical Package for the Social Sciences) in order to elucidate the nature and strength of relationships between the variables under investigation. Accordingly, the strength of correlations between variables are presented, as are chi-square and other relevant statistical values where appropriate. Important distinctions are drawn between respondent sub-populations in order to highlight different perceptions regarding the perceived impact of share options.

Managerial personnel accounted for 18 per cent of the respondent group while supervisory personnel accounted for 25 per cent and more junior personnel accounted for 57 per cent: broadly reflecting typical organisational hierarchies. As discussed, supervisory and managerial personnel received a greater allocation of share options in both absolute and relative terms and this is thought to explain some of the noted differences among these sub-populations.

Notwithstanding these differences in seniority, over 99 per cent of respondents stated that they had an interest in the company's share price performance and when this stated interest was tested, all respondents were capable of stating, in broad terms, whether the stock price had increased, decreased or remained the same over the previous two week period. Additionally, over 97 per cent of respondents were able to estimate the company's share price without referencing internal company notice boards which display the closing market price for the stock on the previous trading day.

Apart from testing interest in the company's share price, respondents were also asked to indicate the importance which they placed on the receipt of share options. Firstly, however, respondents were asked to indicate whether they expected to remain in the company's employment until the first vesting date, (July 1st 1999), thereby indicating whether they expected to realise at least some (one third) benefit from their option grant. Almost 92 per cent of respondents across all categories stated that they did expect to be employed by the company at this time, with 7 per cent unsure and just 1.5 per cent stating that they did not hold this expectation. Asked whether share options served to influence their decision to remain in the company's employment, over 60 per cent confirmed that this was the case. Interestingly, when this question was considered by respondent category/seniority, 74 per cent of managers stated that their decision to remain with the company was influenced by the receipt of share options, this compared to 69 per cent of supervisory personnel and just 50 per cent of respondents in more junior categories, (chi-square probability = .067). Again, this may reflect the relative value of the option grant to the different categories under consideration.

Table IV.i – Impact on Tenure

	All Categories	Managerial	Supervisory	Ops./Admin./Lab /Scientists
Expect to be employed by Elan on July 1 st , 1999.	92%	96%	91%	92%
Share options influenced decision to remain within Elan.	60%	74%	69%	50%

Consistent with the statement by over 60 per cent of respondents that share options had served to influence their decision to remain with the company, 94 per cent of respondents stated that share options were either ‘very important’ (49%) or ‘important’ (45%) to them. Interestingly, when considered on a departmental basis, just 25 per cent of respondents in Quality Assurance/Quality Control stated that share options were very important to them, compared to 45 per cent in R&D/Regulatory Affairs and over 60 per cent in other departments, (chi-square probability = .031). Various reasons may be offered to explain this differential, however, with higher numbers of more junior staff in our respondent sample, (reflecting typical organisational hierarchies), and share option value representing a smaller relative proportion of (higher) salaries among professional personnel in Quality Control, R&D and Regulatory Affairs, the relative value of 500 options is obviously less and hence may explain the reduced level of relative importance to these respondents.

Table IV.ii – Significance of Option Grant

	All	Mfg./Main.	QA/QC	R&D/Reg.	Adm., Fin, etc.
Share options as ‘very important’.	49%	63%	25%	45%	60%
Share options as ‘important’.	45%	33%	60%	51%	37%
Total: ‘Important’ / ‘very important’	94%	99%	85%	96%	96%
Share options as ‘valuable’.	97%	100%	91%	100%	96%

While 94 per cent of respondents stated that share options were important to them, (6 per cent stated that they neither agreed nor disagreed with the statement), a slightly higher number – 97 per cent – stated that they ‘valued’ their share options.

The importance of share options was considered in relation to other benefits such as the provision of a company gym, crèche and pension scheme. Fifty three per cent of all respondents ranked their stock options as being of highest relative importance, compared to 32 per cent for the pension scheme, 8 per cent canteen, 6 per cent crèche and 1 per cent gym. Again, it would be reasonable to assume that those with

a greater number of share options, (managers and supervisors), would place a greater priority on this benefit. Interestingly, when the importance of share options was considered by respondent position, 100 per cent of managerial personnel stated that share options were either important or very important to them, compared to 97 per cent of supervisory personnel and 90 per cent of personnel in more junior categories of employment.

Interest in Company

Respondents were asked to indicate whether the granting of share options had served to encourage them to take a greater interest in the company's activities and performance. Given the findings relating to the perceived importance of share options, it is not surprising that almost 85 per cent of respondents stated that they did take a greater interest in such issues since receiving their option allocation. When considered on the basis of seniority, 99 per cent of managers confirmed that this was the case compared to 78 per cent of supervisory personnel and 84 per cent of more junior personnel, (chi-square probability = .001).

Table IV.iii – Interest in Company Performance

	All Categories	Managerial	Supervisory	Ops./Admin./Lab/ Scientists
Greater interest in Elan's performance	85%	99%	78%	84%
Greater interest in financial performance	85%	100%	97%	77%

Similarly, almost 85 per cent of all respondents stated that this had encouraged them to take a greater interest in the company's financial performance with 100 per cent of managers confirming that this was the case versus 97 per cent in supervisory categories and 77 per cent in more junior categories, (chi-square probability = .038).

On the broader issue of the company objectives, 65 per cent of respondents stated that the granting of options had served to make them more interested in the

company's goals and objectives. This sentiment was tested further by asking respondents to indicate their views in respect of the statement; "Although I have received share options, I don't believe that I have become any more aware of the company's overall goals and objectives". Interestingly, 64 per cent of respondents disagreed with this statement, thereby confirming their position, (a correlation coefficient of $-.372$ was noted between these variables). Furthermore, approximately equal sentiment, (between 64 and 66 per cent), was noted among managers, supervisors and more junior personnel.

Motivation

Considering our earlier discussion of expectancy theory, it was necessary to determine whether respondents felt that their actions could serve to influence the company's share price. Interestingly, almost 74 per cent of respondents stated that they felt that their individual performance could serve to positively affect the share price with just 5 per cent stating that they did not believe this to be the case and 21 per cent stating that they neither agreed nor disagreed with the proposition. On the broader question of the impact of their contribution to the 'Elan team', 81 per cent stated that their concerted contributions could positively affect the company's share price with just over 2 per cent disagreeing and 17 per cent neither agreeing nor disagreeing.

This sentiment was tested further by asking respondents to indicate their views on the statement: "Regardless of how hard I work, my efforts will not serve to increase the company's share price". The finding was confirmed with 70 per cent disagreeing with the statement, 24 per cent neither agreeing nor disagreeing and 6 per cent agreeing. Negative correlations of $.53$ and $.54$ were noted when compared with responses to questions relating to individual performance and contribution to the Elan team.

Table IV.iv – Effort & Share Price

	Agree	Neither	Disagree	Correlation w/ Q.3
1. Individual performance can positively affect share price	74%	21%	5%	-.53
2. Team performance can positively affect share price	81%	17%	2%	-.54
3. My efforts <u>cannot</u> positively affect share price	6%	24%	70%	1

Having established that respondents did have an expectation that their actions could serve to positively influence the company's stock price, perceived changes in motivation arising out of the receipt of share options were then assessed. Seventy per cent of respondents disagreed with the statement: "Since receiving share options, I am not motivated to work any harder for the company", 20 per cent neither agreed nor disagreed and 10 per cent agreed. While this finding might indicate that 70 per cent of respondents felt that they were motivated to work harder, considerably fewer – 39 per cent – stated that they actually did work harder since receiving share options and 61 per cent stated that this was not the case. Interestingly, 47 per cent of supervisory personnel stated that they did work harder since receiving share options, this compared to 39 per cent of more junior personnel and 26 per cent of managerial personnel. However, these findings relating to analysis by occupational seniority should be tempered by the high chi-square probability of .293 which was found when this crosstabulation was run.

IV. v – Effort & Motivation

	Agree	Neither	Disagree
<u>Not</u> motivated to work any harder.	10%	20%	70%
Work harder as a result of receiving share options.	39%	0%	61%

Though not prompted in the questionnaire, quite a number of respondents added comments such as: "In truth, I work as hard as I always did, but now [*sic.*] more focused/aware" or "I've always worked as hard as I can, share options haven't changed this". These and similar sentiments would suggest that while perceived

effort may not have increased, in some cases this was because motivation was already high.

Of the 39 per cent who stated that the receipt of share options had served to motivate them to work harder, two thirds stated that they worked between 10 and 25 per cent harder. However, it should be stated that such an assessment measure is obviously crude and somewhat arbitrary.

Interestingly, 87 per cent of those who said that they were motivated to work harder agreed with the statement: "I work harder because I believe that this will lead to an increase in the value of my share options", a correlation coefficient of .559 was noted when respondents' answers to these questions were considered.

Loyalty, Commitment & Partnership

Considering our earlier discussion of culture and commitment, respondents were asked to consider whether the granting of options had served to influence their disposition towards the company. Interestingly, 48 per cent of respondents stated that their sense of loyalty had increased as a result of receiving share options and a high correlation of .53 was noted between sentiment on this question and similar sentiment relating to the statement: "Since receiving share options, I take a greater interest in the company's activities and performance".

When considered by position, 31 per cent of managers stated that their sense of loyalty had increased as a result of receiving share options, this compared to 69 per cent of supervisory personnel and 43 per cent of more junior staff, (chi-square probability = .027).

In total, 55 per cent of respondents stated that the receipt of share options had made them *feel* like part owners of the company with less than 20 per cent disagreeing with this view. Likewise, 35 per cent stated that the receipt of options had served to

make them *behave* like part owners of the company, with 40 per cent neither agreeing nor disagreeing and the balance disagreeing.

Similarly, 47 per cent of respondents stated that they felt that the granting of options had served to increase their sense of partnership with the company and high correlations were noted with respondents' sentiment on this question and others relating to their feeling like a part owner (.70), behaving like a part owner (.74), greater identification with the company's basic values (.53) and a greater sense of alignment with the company's interests, (.53).

IV.vi – Options, Loyalty & Partnership

	Agree	Neither	Disagree	Correlation w/ Q.4
1. Increased sense of loyalty since receiving options.	48%	30%	22%	.39
2. Feel like part owner since receiving options.	55%	26%	19%	.70
3. Behave like part owner since receiving options.	35%	40%	25%	.74
4. Increased sense of partnership since receiving options.	47%	30%	23%	1.0

Consistent with these findings, 50 per cent of respondents stated that for them, the granting of share options had served to create a greater identification with the company's basic values while 52 per cent stated that their interests were now more closely aligned with the company's interests.

On the specific question of commitment, 50 per cent of respondents stated that their degree of commitment had increased as a result of receiving share options, again, however, this figure does not adequately reflect the level of commitment felt by respondents as many added that their commitment was always high and was not affected further by the option grant. Accordingly, a more useful indication might be gleaned from respondents' sentiment on the statement: "As a result of receiving share options, I am more supportive of the company's overall goals and objectives". To this, 62 per cent of respondents agreed, with 18 per cent disagreeing and 20 per cent neither agreeing nor disagreeing. On a similar measure, 57 per cent of

respondents stated that their desire to contribute to the success of the organisation had increased as a result of receiving share options; 16 per cent disagreed with this statement.

IV.vii – Commitment & Support

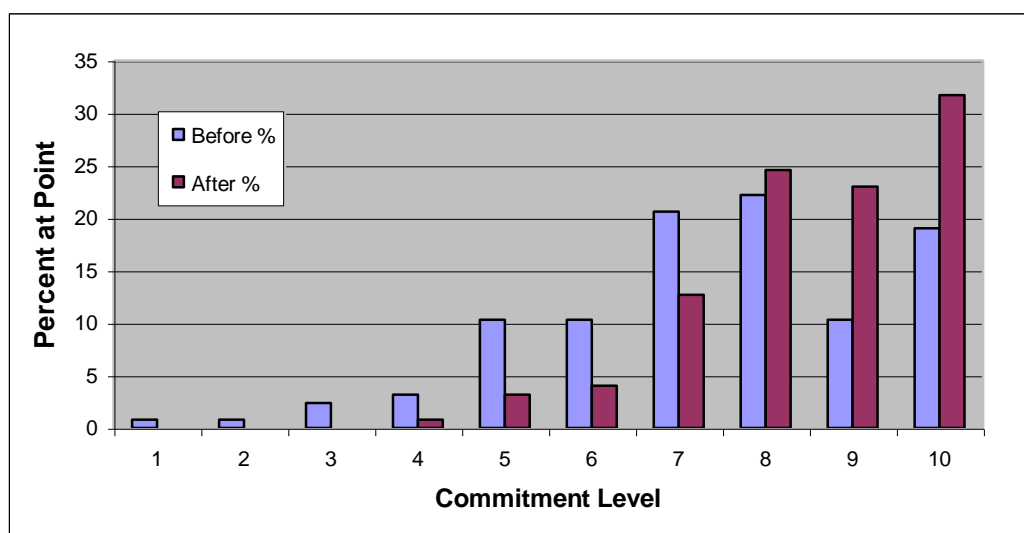
	Agree	Neither	Disagree
Options served to increase level of commitment.	50%	26%	24%
Options served to increase support for company goals.	62%	20%	18%
Options increased desire to contribute to Elan's success.	57%	27%	16%
Options served to increase focus on productivity/quality	48%	20%	32%

On the issue of productivity and quality, almost 48 per cent of respondents stated that the granting of share options had served to make them pay more attention to such issues – 32 per cent disagreed and 20 per cent neither agreed nor disagreed.

An attempt was made to measure levels of commitment as well as any changes in commitment which were perceived to be attributable to the granting of share options. Accordingly, respondents were asked to indicate their level of commitment to the company's goals and objectives on a scale of 1 to 10 (1 = weak : 10 = strong) prior to receiving share options and also to indicate whether or by how much this had changed as a result of receiving share options.

A number of interesting findings were noted: firstly, the mean score was seen to increase from 7.4 to 8.5 which may be seen to correspond to an increase of 11 percentage points allowing for the crude measure. Similarly, the median moved from 8 to 9 and the mode from 8 to 10.

IV.viii - Commitment Levels – Before & After Option Grant



Furthermore, 28 per cent of respondents indicated that their level of commitment to the company's goals and objectives was 6 or less, (weak to medium), prior to receiving options, but this decreased to just 8 per cent as a result of the option grant. Similarly, 79 per cent of respondents rated their level of commitment at 8 or higher as a consequence of the option grant; this compared to 51 per cent who rated their commitment this high prior to receiving options.

While almost 50 per cent stated that their level of commitment did not increase, the remaining 50 per cent indicated that their commitment levels did in fact increase. Eighteen per cent stated that their commitment level increased by 1 point; 17 per cent by 2 points; 8 per cent by 3 points; 3 per cent by 4 points and 5 per cent by 5 points on this ten point scale.

When considered by respondent sub-categories, a number of interesting findings relating to commitment are noted. Firstly, in terms of gender differences, 60 per cent of male respondents stated that their level of commitment had increased versus just 39 per cent of females. When mean scores are considered, the mean for males moved from 7.6 to 8.7 on our ten point continuum while the mean for females moved from 7.2 to 8.3, thereby highlighting higher levels of average commitment among males.

Levels of preexisting commitment among managers were found to be quite high with a mean of 8.0 noted among this category compared to 7.5 for supervisory personnel and 7.2 for more junior personnel. The granting of options served to increase commitment levels across all categories with the managerial mean score increasing from 8.0 to 8.7, the supervisory score moving from 7.5 to 8.7 and the score for more junior personnel moving from 7.2 to 8.4.

This finding does lend support to the unprompted suggestion on the part of a number of respondents that their preexisting commitment levels were high and that the option grant did not serve to affect this preexisting sentiment. However, it also highlights the effects of the option grant on the 50 per cent of respondents who suggested that the grant served to increase their level of commitment to the company.

When considered by department, significant increases in commitment levels were noted across all sub-categories. The mean score increased from 7.8 to 8.8 among those in manufacturing/maintenance, from 7.5 to 8.4 in R&D/regulatory affairs and from 7.5 to 8.4 in the admin./finance/engineering group. Likewise, mean commitment levels in the quality assurance/quality control group increased from 6.9 to 8.2.

In attempting to elucidate the reasons for any changes in the level of commitment, respondents were asked to indicate their sentiment in respect of the statement: "If I'm honest about it, I may be more committed to the company as a result of receiving share options, but only because there is something in it for me if the company continues to do well". Interestingly, 41 per cent of respondents stated that this was the case, 31 per cent disagreed and 28 per cent neither agreed nor disagreed. This sentiment was further tested by asking respondents to indicate their views on the statement: "Leaving aside the financial benefits which I am likely to receive, the receipt of share options has served to make me more committed for other reasons". Just 24 per cent of respondents disagreed with this statement, thereby indicating that their commitment had increased solely because of the *financial* benefits likely to

accrue, however, 42 per cent agreed with this statement, thereby suggesting that they had become more committed for other reasons.

IV.ix - Nature of Commitment

	Agree	Neither	Disagree
Only committed due to financial benefits.	41%	28%	31%
Committed for non-financial reasons.	42%	34%	24%

Finally, in an attempt to further assess the impact of the option grant on sentiment/behaviour, respondents were asked whether they were more likely to get angry with colleagues who worked against the company's best interests and also, whether they were more likely to work through lunch as a result of receiving share options.

IV.x - Effort & Sentiment

	Agree	Neither	Disagree
More likely to get angry with negativity among colleagues	37%	31%	32%
More likely to work through lunch.	19%	22%	59%

In all, 37 per cent of respondents said that they would be more likely to get angry with colleagues who worked against the company's best interests while just 19 per cent stated that they would be more likely to work through lunch. Again, these results should be considered carefully and should not be seen as an indication of low commitment levels. Rather, as with other similar questions, unprompted comments and the high levels of commitment noted suggested that respondents were previously willing to work through lunch or were previously likely to get angry with negativity on the part of colleagues: the receipt of share options had not served to change this preexisting sentiment. Evidence to this effect can be seen if we return to our 10 point commitment scale and note the high level of positive commitment (7 to 10 on

the scale) which was present among 72 per cent of respondents before they received share options and 92 per cent of respondents thereafter.

The strong link between the option grant and positive sentiment in terms of respondent levels of commitment, motivation and loyalty, as well as a closer alignment of employee and shareholder objectives, point to the significant benefits associated with the grant. In short, the granting of options under the prevailing circumstance can be said to have had a positive effect upon employees' dispositions and sentiment towards the company.

VI

Analysis

In analysing changes in respondent sentiment arising out of the option grant, the findings are considered in the context of the theories of motivation which were discussed in chapter II. Improvements in respondents' dispositions towards the company and positive effects on employee behaviour serve to support the theoretical promulgations referred to in our discussion of motivation and commitment. The research findings are considered against related theoretical references and links with noted changes in employee sentiment and behaviour are highlighted.

In assessing the impact of share options on employees' levels of motivation, the question may be considered from a variety of different perspectives which broadly coincide with the different perspectives noted in the various theories relating to actor motivation which were discussed in chapter III. As discussed, equity theory suggests that demotivation is likely to arise in situations where inequity in rewards are perceived to exist between an actor and his comparators. As such, equity may be seen as a hygiene factor which must be satisfied before motivation can result. While actors' absolute levels of motivation were not assessed during the course of the present analysis, the high levels of commitment which were noted among respondents, (72 per cent of respondents rated their commitment level at 7 or above before receiving options and 92 per cent after), would suggest at least that a significant majority of actors were not demotivated. This assumes that demotivation would be highly correlated with low levels of commitment as one would not expect actors to be demotivated by the occupational environment and simultaneously highly committed to it – accordingly, the opposite should also be true.

Equity theory predicts that where actors perceive that they are rewarded less favourably than their comparators, they attempt to reconcile the situation by seeking increased rewards or reducing effort in order to restore equilibrium. Similarly, where actors are in receipt of more favourable rewards than their comparators, the theory predicts that increased levels of motivation will be evident. While our earlier discussion challenges the sustainability of any increased motivational levels arising out of the provision of more favourable rewards, (challenged largely on the basis of differences in the value of intrinsic and extrinsic rewards), the theory raises interesting questions in respect of the present study.

On the one hand, equity theory suggests that option recipients should be more motivated than their colleagues who did not receive share options, but similarly, recipients in more junior categories should be demotivated when they consider that they received just one quarter of the option allocation granted to their supervisors, (a fact which is well known and often commented upon by the former group).

Again, drawing a link between commitment and motivation, this latter suggestion of demotivation on the part of more junior employees can be challenged if one accepts the argument that actors cannot be simultaneously demotivated by, and highly committed to, the company. Evidence to support this can be found in the fact that just 8 per cent of respondents indicated that since receiving options, their commitment was weak to medium, (1 to 6) while 92 per cent indicated that their commitment was strong, (7 to 10). Likewise, with all categories, (managerial, supervisory and more junior personnel), rating their post option commitment levels at between 8.42 and 8.73, (mean 8.55), no significant differences were noted between commitment levels among these various groups. This suggests that the differences in option allocations did not serve to demotivate those who received fewer options in the grant allocation.

While this might suggest that those who received options came to experience relatively higher levels of motivation than their colleagues who have not yet received them, (or who received them at higher exercise prices in 1997 and 1998),

simply because they received more favourable rewards, such a conclusion could not be defended with any rigour as many other variables are likely to impact upon this relationship. Similarly, while it may be argued, (as per the basic tenets of equity theory), that more junior personnel should have experienced demotivation as a result of receiving a relatively smaller option grant than their colleagues in supervisory positions, the absence of such a finding should not be taken to mean that actors will not become demotivated if they are in receipt of inequitable rewards. Rather, it should be seen to indicate that the relationship is complex and not explained by considering one variable in isolation. This finding may also suggest that options may be seen as secondary rewards which are unlikely to have as strong a relationship with motivation or demotivation as pay or intrinsic rewards

Goal setting theory suggests that actors will be motivated to pursue a goal once they have identified and subscribed to that goal and have made a conscious decision to pursue the chosen objective. While 39 per cent of respondents stated that the receipt of share options had served to make them work harder, (many said that they previously worked to capacity in the absence of a share option provision), almost 9 out of every 10 who stated that they did work harder also agreed with the statement; “I work harder because I expect that this will lead to an increase in the value of my share options”.

The goal in this instance can be said to be related to the maximisation of share option value, hence, it is interesting to note that almost 9 out of every 10 of those who felt that their option grant served to increase their motivation stated that their extra effort was related to a desire to increase the value of their options.

Regardless of whether the extra effort will actually serve to increase the stock price, the goal can be said to relate to a perceived ability to increase the option value and this is pursued through the application of extra individual effort. In reality, however, stock price changes have more to do with increased corporate earnings and macro-economic factors, hence, the efforts of employees operating below the company’s senior executive level are likely to have little impact upon stock. However, in such cases, perceptions are more important than reality and such perceptions in

themselves can lead to the investment of extra effort, particularly, as we have seen, where this is perceived to lead to extra reward.

Our review of expectancy theory and related comments in respect of exchange theory suggest that for motivation to result, actors must have a reasonable expectation that their efforts will lead to the achievement of anticipated and desired rewards. Where the desired outcome is unlikely, expectancy theory predicts that the requisite motivation will be absent. Accordingly, in assessing any motivational effects associated with the granting of stock options, it becomes apparent that actors must have a reasonable expectation that any extra effort will serve to positively affect the value of their stock options before such extra effort will be invested.

Interestingly, our findings suggest that 74 per cent of respondents believed that their individual performance could serve to positively affect the company's stock price, while 81 per cent stated that their contributions to the 'Elan team' could have a similar effect. While perceptions relating to the degree of anticipated impact on the stock price were not assessed, this finding is significant in itself and serves to suggest that the requisite expectancy is present and hence serves as a foundation for extra effort on the part of those who may wish to maximise their option value through an increase in effort or output.

Indeed, with 39 per cent of respondents stating that they are motivated to work harder as a result of receiving share options, the granting of options can actually be said to result in increased levels of motivation among recipients, all other things being equal.

Furthermore, 9 out of every 10 who stated that they were motivated to work harder also stated that they worked harder because they believed that this extra effort would lead to an increase in the value of their stock options. This finding lends support to the stated assumptions outlined in goal setting theory; namely, that actors will invest extra effort in anticipation of greater rewards.

For actors who believe that their efforts can serve to positively affect the value of the stock price and who state that they are motivated to work harder in pursuit of this objective, it may be suggested that this view is reinforced among those who have noted or monitored the increasing stock price trend over the past number of years. Accordingly, positive feedback which is seen as so essential and necessary in goal setting theory and by definition, in expectancy theory, may be said to exist to reinforce behaviour even though actors' efforts, in reality, may not actually have the perceived impact upon the stock price. Again, perceptions are more important than reality when reinforcement is considered in this regard.

While a significant number of respondents stated that they were motivated to work harder as a result of receiving stock options, and a significant majority of these stated that their effort was related to their desire to maximise the value of their stock options, it should be remembered that employees simply have to remain in the company's employment for one or all of the three vesting dates over the next three years in order to receive the financial benefit associated with their option grant. Additionally, they will obviously be anxious to ensure that neither they nor their colleagues do anything which would serve to erode the value of their options. In truth then, for the majority of the relevant population, much of the motivation is likely to be related to a desire to ensure that they remain in the company's employment for all or part of the remaining vesting period as well as an assumption that the stock price will perform in line with expectations. Indeed, this motivation was confirmed by 60 per cent of respondents who stated that the decision to remain with the company had been influenced by the granting of stock options.

Though a significant number of respondents, (39 per cent), stated that the option grant served to increase their level of motivation, it would certainly be overstating the point to suggest that the granting of stock options leads to improved levels of motivation in all cases. However, improvements in actors' dispositions towards the company may lead to higher levels of commitment, flexibility and productivity, thereby resulting in performance improvements while levels of motivation are perceived to have remained constant.

Other motivational impacts arising out of the granting of stock options may be seen to have arisen when one considers that 99 per cent of respondents stated that they had an interest in the company's stock price. Likewise, 85 per cent stated that they took a greater interest in the company's activities and performance, while 85 per cent also stated that the granting of stock options served to increase the level of interest in the company's financial performance. Similarly, 65 per cent of respondents stated that their awareness of the company's goals and objectives had been increased as a result of receiving stock options. Such consequences can obviously help to align employee's interests with those of the company, with associated positive effects on quality and output performance all other things being equal. To this end, it is noteworthy that 48 per cent of respondents stated that their sense of loyalty had been increased as a result of receiving stock options while 47 per cent stated that their sense of partnership had been increased for the same reasons.

* * *

Considering our earlier discussion of culture and commitment, the impact of the granting of stock options upon actors' orientations to the company should be analysed from this perspective. We considered the concept of corporate culture from the perspective offered in the social sciences and particularly from the perspective offered by Cosgrove with his definition of culture as: "The shared norms and values of members of a social system", (Cosgrove, 1978 cited in Lundy and Cowling, 1996, p.169). Furthermore, we suggested that a strong corporate culture was one in which these norms and values are intensely felt and widely supported. Hence, in strong culture companies, breaches of such norms will be met with sanction and admonition on the part of group's members.

Changes in the strength of Elan's corporate culture were assessed from a number of perspectives and changes in the company's normative value system were assessed by asking respondents for their views in respect of the statement; "As a result of receiving share options, I am more likely to get angry if I see my colleagues working against the company's best interests". Interestingly, even though it was stated that

this sentiment was pre-existing and hence the granting of options did not serve to increase existing sentiment, a further 37 per cent stated that the option grant did serve to make them more likely to get angry with colleagues who worked against the company's best interests. Hence, the granting of options can be said to have increased support for positive behaviour or at least to have had the effect of eroding tolerance for negative behaviour in some cases. Interestingly, when considered by respondents' professional positions, 48 per cent of managers stated that they were more likely to get angry with colleagues who worked against the company's best interests, compared to 44 per cent of supervisory personnel and 30 per cent of more junior personnel, (chi-square probability = .048). Similarly, 50 per cent of respondents said that the granting of options had served to increase their identification with the company's basic values

Likewise, 48 per cent of respondents stated that their loyalty to the company had increased as a result of receiving share options and though many indicated that their loyalty had already been high, 31 per cent of managers stated that their loyalty had increased, compared to 69 per cent of supervisors and 44 per cent of more junior personnel, (chi-square probability = .027). As loyalty to the company indicates support for the prevailing norms and values, the strength of commitment to the company's culture can be said to have increased significantly across all employment categories as a result of the granting of stock options.

Furthermore, with 55 per cent of respondents stating that the granting of stock options had served to make them *feel* like part owners of the company, and 35 per cent stating that the option grant had served to make them *behave* like part owners, this finding lends further support to the suggestion that the option grant served to increase commitment levels and identification with the company. Similarly, with 47 per cent of respondents stating that their sense of partnership with the company had been increased as a result of the option grant, the relationship with commitment and identification is further underscored.

Our review of the literature on culture and commitment suggests that employees in strong culture organisations also have a clearer sense of organisational purpose.

This suggestion was tested by asking respondents whether the granting of options had served to increase their interest in the company's performance, and more specifically, their interest in the company's financial performance. In both cases, an overwhelming 85 per cent of respondents confirmed that their interest in such issues had in fact been increased. Similarly, 65 per cent of respondents stated that the granting of options had served to make them more interested in the company's goals and objectives and when further tested by stating this question in the negative, 64 per cent confirmed that their awareness of such issues had been increased. Obviously, such interest is stimulated by the effect which the company's financial performance and achievement of objectives is likely to have upon the value of the option grant, however, the net effect in terms of the sense of organisational purpose is the same.

Closer identification with the organisation is said to be a feature of strong culture companies and in addition to 50 per cent of respondents stating that they tend to identify more with the company's basic values and 52 per cent stating that their interests are now more closely aligned with those of the company, 61 per cent stated that the granting of options had served to make them more supportive of the company's overall goals and objectives.

Strong culture organisations are also said to be characterised by a greater sense of pride and commitment; this is said to result in extra effort on the part of the organisation's employees. Indeed, on the question of pride, the increased level of closer identification, partnership and support for the company's basic values suggests that a certain amount of pride has been generated through the granting of stock options. On the specific and central question of commitment, we saw that there was a very strong relationship between the granting of options and increased levels of commitment. This is despite the high levels of commitment which were found to exist prior to the granting of stock options. Interestingly, 50 per cent of respondents stated that their level of commitment had increased as a result of receiving share options. Additionally, similar findings in respect of an increased desire to contribute to the success of the organisation, (57 per cent), and increased support for company goals, (62 per cent), lend further support to the finding that an

improvement in commitment levels arose as a consequence of the granting of share options.

Interestingly, when increased levels of commitment were considered by gender, 60 per cent of males stated that the receipt of options had served to increase their level of commitment compared to just 39 per cent of females, (chi-square probability = .032). Furthermore, commitment levels among female respondents were found to be lower with a mean of 7.23 moving to 8.34 compared to a level of 7.61 moving to 8.70 for males. High levels of commitment were noted when considered by respondent gender, position and department, with all categories displaying mean increases of 1.1 on our ten point continuum, that is, moving from a mean of 7.4 to 8.5 in each case.

While Deal and Kennedy, (1982), argue that the impact of positive values and improved employee sentiment on a company's performance is real, the increased levels of support for company goals, improved commitment levels, greater focus on quality and productivity as well as an increased desire to contribute to the organisation's success, can all reasonably be expected to impact positively upon performance. However, care should be taken to ensure that factors such as the company's core competencies, competitive position, product characteristics and financial health are given due consideration before concluding that company performance will be enhanced in all cases. All things being equal, it would be reasonable to assume that a company's performance could be improved through the existence of a highly motivated and committed workforce – assuming that positive sentiment on the part of employees is likely to have a material effect on the company's competitive position. This is more likely to be the case where the company operates in a sector in which employee dedication and innovation is necessary to promote organisational success.

Though Legge argues, (1995, p. 203), that the existence of a strong organisational culture may lead to arrogance on the part of the company and its members, this suggestion was not considered during the course of the present analysis. Instead, the core focus of the study sought to determine whether the granting of stock options

could serve to increase the strength of the prevailing organisational culture which was not considered to have been particularly strong or intensely felt prior to the option grant. However, some of the changes in sentiment surrounding issues such as commitment, loyalty and group cohesion might be said to result in an inward focus in strong culture companies where the level of sentiment in support of such variables is very high and the culture does not promote a critical analysis or examination of itself. To this extent, Legge's suggestion can be said to have a rational appeal, however, the findings of the present study cannot be said to either prove or disprove this position.

Our findings suggest that an improvement in levels of commitment to the organisational culture can serve to create the 'moral glue' which Legge refers to. By definition, higher levels of commitment to the organisation's norms and values are promoted and the consequences of this may be seen in higher levels of loyalty, support for, and interest in, the company's objectives. Walton (1985) suggests that commitment rather than control strategies are used by strong culture companies in the management of human resources and the higher levels of commitment which are noted to have arisen as a result of the granting of stock options serve to indicate that, under similar circumstances, option grants may be used to increase the strength of a corporate culture.

Legge's suggestion that strong cultures can prove beneficial by serving to eliminate lengthy discussion and create commitment in decision making is given some tentative support when findings relating to loyalty and support for the company's goals and objectives are considered. Accordingly, with higher levels of commitment, loyalty, support for the company's objectives and an improved desire to contribute to organisational success, responsiveness in decision making and support for such actions can reasonably be assumed.

Peters and Waterman's (1982, pp. 318-325) reference to 'simultaneous loose-tight arrangements' for social control or commitment to the normative order is given support in our findings. The authors argue that actors who are committed to the prevailing norms in strong culture companies do not sense a restrictive order but

rather ensure that their behaviour accords with the normative value system which prevails within that culture. References to increased levels of loyalty, commitment and identification with the organisation's basic values lend support to Peters and Waterman's view, however, the degree to which actors will go to support these values was not assessed. Peters and Waterman suggest that membership of the strong culture group may serve to create an extension of the actor's identity, however, this was not assessed during the course of the present study as the culture which prevails at Elan, though stronger than that which prevailed previously, is certainly not as strong as the cultures which prevail within so called strong culture companies such as IBM, Hewlett Packard, Intel and so on. Indeed, while reference is occasionally made to the 'Elan family', human resource and related structures are relatively unsophisticated and the company has not made overt attempts to inculcate a strong culture within the organisation.

While those responsible for initiating and authorising the option grant anticipated that the scheme would present benefits by aligning employees' interests with those of shareholders, and further anticipated that the scheme could serve to assist in the retention of key personnel, it would be an exaggeration to suggest that the concept arose out of a particularly insightful or enlightened approach to the management of human resources.

Notwithstanding this and regardless of the manifest intent, the latent consequences associated with the granting of options should not be ignored. In essence, while the company did not intend to create a strong culture the like of which might be noted in some of the oft quoted progressive blue chip multinationals, survey results would indicate that support for the culture which exists within Elan was strengthened in certain respects, mainly through increased levels of commitment, loyalty and partnership and partly as a consequence of the granting of share options.

Accordingly, certain consequences may be anticipated where the modification of actors' behaviour is concerned. With 37 per cent of respondents stating that they are more likely to get angry with colleagues who work against the company's best interests, it would be reasonable to assume that certain types of negative behaviour

would be met with admonition by at least some members, some of the time. Again, while some would have said that their anger at such occurrences pre-existed and did not increase as a result of the option grant, admonishment would need to be more widespread or commonplace before it could be said to have a significant impact upon behaviour. However, with 48 per cent of respondents stating that they paid more attention to issues such as quality and productivity, this change obviously serves to support changes in behaviour on the part of group members. Likewise, it may also be seen to arise as a consequence of changed behaviour or at least a change in orientation or philosophy on the part of some members.

In this regard, the disposition of actors across all categories can be said to have changed positively with mean commitment scores increasing from 7.4 to 8.5. Furthermore, larger increases were noted within certain subcategories such as quality assurance/quality control which increased from 6.9 to 8.2 and R&D/regulatory affairs which increased from 7.5 to 8.8.

In short, many of the benefits associated with the existence of a strong corporate culture can be seen to have arisen as a result of the granting of stock options and associated changes within Elan's culture. To this end, the option grant has served to strengthen the organisational culture at Elan. Increased support for the company's norms and values, an internalisation of company goals and objectives, a stronger sense of organisational purpose, the creation of an increased sense of pride, commitment and identity with the organisation; these and related changes all serve to strengthen the prevailing culture.

While the impact upon company performance is less clear, it is reasonable to assume that the alignment of individual with company objectives is likely to lead to improved flexibility, quality and commitment. This, in turn, is likely to lead to improved operational results, all other things being equal.

In identifying the factors required to create a strong culture within an organisation, we pointed to the importance of hygiene factors and the need to ensure that they were satisfied prior to attempting to build upon pre-existing commitment levels, (*cf.*

chapter III). As such, the satisfaction of hygiene variables was identified as a necessary prerequisite to the establishment of commitment.

Obviously, the importance of certain hygiene variables will differ according to the different perspectives of the actors involved, hence, the importance of, for example, effective communicative or voice systems may be more relevant to some as opposed to others. Notwithstanding these differences in actor orientation, certain hygiene factors may be seen as essential to all actors within the working environment and hence, must be attended to before a foundation for motivation can be established. One such hygiene factor is obviously trust – the absence of which will serve to undermine attempts to foster commitment and loyalty.

The importance of the psychological contract should not be overlooked and as suggested, pro-role behaviour is likely to arise where the psychological contract is well maintained. The erosion of trust or breach of the psychological contract is said to result in anti-role behaviour which may, in extreme cases, manifest itself in incidents of theft and violence – thereby highlighting the significance of the psychological contract and associated consequences where this contract is broken.

In assessing the health of the psychological contract among respondents, it can be said that the high levels of commitment noted before and after the granting of stock options would suggest that the psychological contract between the organisation and its employees can generally be said to be quite healthy. Again, the assumption is that respondents were generally predisposed towards the organisation on the basis of their stated (high) levels of commitment. In short, commitment levels would be unlikely to be high if respondents were not generally predisposed towards the organisation.

One must then consider the impact of the option grant upon the health of the psychological contract. Again, considering that commitment levels were enhanced as a result of the option allocation, (commitment levels increased in 50 per cent of cases), loyalty was found to increase in 48 per cent of cases, partnership in 47 per cent, identification with company's basic values in 52 per cent and support for the

company's goals and objectives in 62 per cent of cases, it can be said that the granting of stock options has served to strengthen the psychological contract which exists between the company and a significant number of employees. Pro-role behaviour was also found to have increased with 48 per cent of respondents stating that the option grant had served to increase their focus on issues such as productivity and quality, while 57 per cent stated that it had increased their desire to contribute to the organisation's success. Here, the actor's disposition towards the organisation can be seen to be moving along the continuum which runs from compliance to conscientiousness, sportsmanship, civic virtue and ultimately altruism, (*cf.* McLean Parks & Kidder, 1994).

While the benefits associated with the establishment of a healthy psychological contract speak for themselves, companies and their executives must be aware that once created, the psychological contract must be respected and managed with care. In short, a breach of the psychological contract is likely to be met with anti-role behaviour which, in extreme circumstances, may include sabotage, theft and even violence as disaffected actors seek retributive justice from their employers.

Considering our discussion of some of the factors which are seen to facilitate the establishment of commitment, the environment which prevails at Elan's Athlone site can be said to be reasonably fertile. Hygiene factors are generally recognised as being positive with average pay levels and the provision of an above average benefit package. The workforce is young, thereby promoting increased levels of conviviality and an above average level of social interaction - accordingly, the company is generally seen as being a pleasant place in which to work. Care is taken to ensure that employees' voices are heard and reasonable suggestions are generally acted upon with related structures and employee voice systems generally being seen as effective. However, the company's mission, norms and values are difficult to ascertain and quite separate and distinct subcultures exist within different departments and functional areas.

In essence, it may be said that the company is not seen to be overly demanding when the obligations of entry level and supervisory personnel are considered. Hence,

commitment to such a culture may be seen to be easier to achieve than would be the case within a more demanding or onerous occupational environment. In short, while stated levels of commitment may be relatively high, this level of commitment might possibly be eroded if greater demands were made of personnel in these categories. Accordingly, it might be said that employees at these levels are quite likely to be committed to a culture which rewards them but is not overly demanding of them in return. Regardless, the demands which are made of the company's managerial personnel are generally seen as being high, both in terms of time and emotional sacrifice.

Interestingly, despite the greater demands placed on the company's managerial personnel, pre-existing mean commitment levels were found to be highest among members of this group at 8.0 compared to 7.5 for supervisory personnel and 7.2 for more junior personnel. Similarly, the option grant served to increase commitment levels with managers' mean score rising to 8.7, supervisors' also increasing to 8.7 and the mean score for more junior personnel rising to 8.4. Hence, despite the greater demands which are placed on managers, they were found to display higher levels of pre-existing positive sentiment and continue to display very high levels of commitment since receiving their option grant.

Taking Legge's definition of commitment which refers to the actor's psychological bond with the organisation as 'affective attachment and identification', (1995, p.180), it becomes apparent that true commitment should be seen as an active rather than a passive process. Legge argues that there are three elements to organisational commitment, namely: a desire to remain in the organisation; secondly, a belief in and acceptance of the values and goals of the organisation and finally, a readiness to exert considerable effort on behalf of the organisation.

Such an approach to the analysis of commitment highlights the necessity to distinguish between psychological or behavioural commitment and more calculative or mercenary commitment. The latter is based on rewards, not sentiment and hence should perhaps be seen as a form of calculative dependency rather than true commitment in the psychological sense.

We have argued (*cf.* chapter III), that loyalty to the organisation should be seen as falling into a secondary category when the strength of such loyalty is considered against, for example, loyalty to the actor's primary reference groups such as family, friends and religion. Hence, the strength of even the strongest corporate cultures should not be overemphasised as the intensity of sentiment in support of related norms and values is less likely to lead to personal self sacrifice on a grand scale.

In assessing the type of commitment which prevails at Elan, it is noteworthy that 41 per cent of respondents agreed with the statement: "If I'm honest about it, I may be more committed to the company *as a result of receiving share options*, but only because there is something in it for me if the company continues to do well, [emphasis added]. Hence, it can be suggested that though these 41 per cent may not be *uncommitted*, any *increases* in their levels of commitment arising as a result of the option grant may be seen as simply mercenary or calculative commitment increases, that is, of the dependency type to which we referred. Accordingly, they may already have been committed in the true sense, but any commitment increases are purely related to pecuniary reward.

However, the benefit of the option grant in terms of increased levels of true commitment should not be overlooked. In fact, 42 per cent of respondents agreed with the statement: "Leaving aside the financial benefits which I am likely to receive, the receipt of share options has served to make me more committed for other reasons". Accordingly, 42 per cent of respondents indicated that the option grant served to increase levels of psychological commitment and such increases, by definition, were said to be unrelated to the financial benefit which is likely to accrue. This finding may be supported by related findings which point to an increase in psychological commitment, through, for example, an increased sense of loyalty among 48 per cent of respondents, an increased sense of partnership among 47 per cent of respondents and a closer identification with the company's basic values in 50 per cent of cases.

The foregoing analysis serves to support much of the theory relating to employee commitment, the importance of hygiene factors and the psychological contract. Findings in respect of improved levels of motivation, commitment, partnership and loyalty point to the impact of the option grant and its effects on recipients' dispositions under the circumstances prevailing at Elan. To this end, it may be said that the granting of share options under such circumstance can serve to facilitate a move to strengthen an existing corporate culture, making it more supportive of business objectives and aligning employee and stockholder interests.

VII

Conclusion

In granting stock options to all employees in 1996, the company sought to align the interests of employees more closely with those of stockholders, furthermore, it was anticipated that if the stock price performed in line with expectations, the option grant would have the effect of retaining key personnel. In effect, the stock price not only performed in line with expectations but even exceeded the most bullish forecasts of the time. While it was anticipated that the stock price would reach \$60 by July 1999, the current price of \$73, together with analysts' short term forecasts of between \$85 and \$100, serve to enhance the potential value of recipients' stock options.

It becomes apparent that the relationship between the granting of stock options and employee commitment/motivation is complex and multifaceted. Additionally, the present findings should be viewed against the backdrop of the financial value of the stock options – a factor which is likely to have a significant impact upon the orientation and behaviour of recipients. Nevertheless, while a significant number of respondents acknowledged the financial value of their option grant, they stated that their commitment to the organisation had been enhanced for other reasons.

Indeed, while the financial benefits associated with the option grant serve to focus the minds of recipients, the fact that they have become more focused on the company's goals and objectives, having aligned their interests with the organisation, serves to enhance the prospects of organisational success, all other things being equal.

The findings are encouraging when one considers that under similar circumstances an option grant can serve to increase employee commitment, motivation, loyalty, partnership and so forth. However, the introduction of an employee share option scheme should not be seen as a panacea for all ills in organisations where, for example, employee commitment levels are low. Such an approach would be likely to lead to interest in the company's stock price only for financial reasons, and in the absence of a concern for the company's success in its own right.

The achievement of an increase in employee commitment levels should be seen as possible only in situations where related variables are positive. Hygiene factors must be satisfied and equity within the working environment should be seen to be the norm. This is not to suggest that status and related differentials can be eliminated, (being substituted with a more equitable working environment and the provision of stock options for all), in the expectation that commitment will be fostered soon thereafter. To the contrary, such an approach would be likely to be seen for what it is, namely an attempt to manipulate employees. Hence the most fundamental hygiene factor – trust – would not be fostered, but instead would be further undermined.

For genuine commitment to be fostered, the relationship must be established upon a foundation of trust. In the absence of such trust, employees would be more likely to view the option grant simply as a mercenary exchange contract in which financial rewards are granted in return for continuity of service. In such situations, possibly demotivated and apathetic employees are likely to remain with the organisation only until such time as they have become eligible to exercise all or part of their option grant. In these circumstances, employee contributions are likely to be minimal as disaffected employees are motivated only by the prospect of pecuniary reward. Where such a relationship prevails, the disaffected employee may be said to be 'in the organisation but not of it', that is, not contributing to, or supporting the culture, but perhaps undermining it through negativity and certainly not contributing to the organisation's growth and success.

A more fruitful relationship may arise where the employee is seen by himself and others to be a participant in the company's growth, development and effectiveness. In such circumstances, a symbiotic relationship can be said to exist with all members being seen to be integral to the operation and effectiveness of the social system. Where hygiene factors are attended to and commitment is enhanced through a unity of focus in support of the company's goals and objectives, the alignment of employee and company interests can be seen to promote harmony and the effectiveness of the social system.

Despite the fact that in order to realise the value of their options, employees simply have to remain with Elan to see one or all of the three vesting dates falling between 1999 and 2001, it is noteworthy that the relationship between the company and these employees has been enhanced through increased levels of commitment, loyalty, partnership and so forth. In essence, the relationship may be seen to be much more than a simple financial contract; instead, the psychological contract may be seen to have been further developed and strengthened through the introduction of the stock option scheme. Employees' dispositions towards the company have improved significantly as a result of the option grant and increases in levels of commitment, partnership and related psychological sentiment have led to a greater focus on issues such as quality, productivity, financial performance and the company's goals and objectives.

Accordingly, we can conclude that as anticipated, the granting of stock options under the circumstances which prevailed at Elan did serve, among other things, to align employees' interests with those of stockholders.

Evidence was also found to support the potential for change in the prevailing normative system given respondents' sentiment in respect of their support for the company's values and likely admonishment of negativity on the part of colleagues. However, the culture which prevails at Elan is not seen to be as tangible or obvious as the cultures which exist in stereotypical strong culture companies. Given the high level of commitment to the organisation, together with support for its values and objectives, it is reasonable to assume that commitment to values such as excellence

and innovation would be forthcoming if espoused and effectively presented as new corporate goals. Though the existing culture is not seen to be particularly strong or tangible, the prevailing level of commitment would be likely to support a stronger organisational culture. Accordingly, associated benefits such as enhanced direction, focus and innovation would be likely to arise.

The establishment of greater clarity in terms of organisational and subunit goals would also be likely to lead to a reduced tolerance of activities or behaviour which would be seen to be at variance with such objectives - thereby enhancing the potential for improved organisational success.

It is important to emphasise that though levels of commitment and related sentiment may be high, such sentiment is built upon the most important hygiene factor, namely trust. Hence, this commitment can be quickly undermined if one significant, or a number of minor breaches are noted. Again, perception is more important than reality and employees' definitions of the situation in themselves, determine whether or not trust is undermined. Accordingly, the company and its officers must ensure that they remain aware of employee sentiment and work to continuously inform personnel of issues which are likely to affect this relationship.

Furthermore, as the organisational subculture and the bond between the actor and the organisation is seen as significantly weaker than the bonds which exist between actors and their primary reference groups such as family and friends, levels of resilience should be seen to be relatively lower, even in the strongest of organisational cultures. Accordingly, there are limits to which actors will go in the expression of commitment and loyalty to the organisation – particularly where there is anything to suggest that the maintenance of the health of the psychological contract is not seen to be one of the primary objectives of the company and its officers.

In short, the relationship between the granting of stock options and improved sentiment on the part of employees at Elan should be seen as real. However, the strength of employees' dispositions towards the organisation, (a secondary reference

group), should not be overemphasised. While a number of respondents stated that changes in commitment were influenced by mercenary or financial factors, a significant majority pointed to improved levels of real or psychological commitment, loyalty and partnership. The impact of the option grant should also be viewed in the context of the financial value of the options themselves, as well as the healthy environment and high levels of commitment which existed prior to the option grant and continue to prevail within the company. Accordingly, it should be recognised that the effects of the option grant which were noted among respondents within Elan would be unlikely to exist within a 'low trust' company environment.

The following questionnaire is part of a research project which is being conducted in association with the Graduate School of Business at UCD. The survey looks at the granting of share options and perceptions relating to same. All responses will be treated confidentially as the study is concerned with overall trends. Responses should be returned in a confidential sealed envelope to Florry Lawlor or Peter Ryan before Friday, July 24th next.

Department _____

Year Joined Company _____

Gender 1. Male ☐ 2. Female ☐

Position: 1. Managerial ☐ 2. Supervisory ☐ 3. Lab./Scientist/Operations/Admin. ☐

1. Do you have an interest in Elan's share price performance?

1. Yes ☐ 2. No ☐

2. Without reference to notice boards, can you estimate the price of Elan shares this week?

1. Yes ☐ 2. No ☐ If 'yes' please estimate the value of same \$ _____

3. In general, how has the Elan share price performed over the last 2 weeks?

1. Increased ☐ 2. Remained Same ☐ 3. Decreased ☐

4. You will be eligible to profit from your share options each year over 3 years commencing on July 1st, 1999 assuming that you remain in employment with Elan Corporation plc. Do you plan to still be employed by Elan at this time?

Yes Definitely

1. ☐

Yes Probably

2. ☐

Don't Know

3. ☐

Probably Not

4. ☐

Definitely Not

5. ☐

5. Has the granting of share options influenced your decision to remain in the employment of Elan?

1. Yes ☐ 2. No ☐

6. How important are your share options to you?

Very Important

1. ☐

Important

2. ☐

Don't Know

3. ☐

Unimportant

4. ☐

7. Please indicate your views on the following statements:

7.1 “I value the share options which I have received”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.2 “I believe that my individual performance can positively affect the Company’s share price”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.3 “I believe that my contribution to the ‘Elan Team’ can positively affect the Company’s share price”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.4 “Regardless of how hard I work, my efforts will not serve to increase the Company’s share price”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.5 “Since receiving share options, I am not motivated to work any harder for the Company”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.6 “Since receiving share options, I take a greater interest in the Company’s activities and performance”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.7 “As a result of receiving share options, my interest in the Company’s Financial performance has increased”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.8 “As a result of receiving share options, my sense of loyalty to the Company has increased”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.9 “The granting of share options has served to make me feel like a part owner of the Company”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.10 “The granting of share options has served to make me behave like a part owner of the Company.”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.11 “For me, the granting of share options has served to increase my sense of partnership with the Company.”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.12 “As a result of receiving share options, I tend to identify more with the Company’s basic values.”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.13 “As a result of receiving share options, I believe that my interests are now more closely aligned with the Company’s interests.”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.14 “As a result of receiving share options, I believe that my sense of commitment to the Company has been increased”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.15 “Although I have received share options, I don’t believe that I have become any more aware of the Company’s overall goals and objectives”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.16 “As a result of receiving share options, I have become more interested in the Company’s goals and objectives.

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.17 “As a result of receiving share options, I am more supportive of the Company’s overall goals and objectives.”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.18 “As a result of receiving share options, I am now more likely to work through lunch.”
[Regardless of whether you have actually done so].

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

7.19 “As a result of receiving share options, my desire to contribute to the success of the organisation has increased.”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

8. Prior to receiving share options, my level of commitment to the Company’s goals and objectives was: *[Please encircle the appropriate point on the scale]*

1	2	3	4	5	6	7	8	9	10	
Weak										Strong

9. Now, as a result of receiving share options, my level of commitment to the Company’s goals and objectives is: *[Please encircle the appropriate point on the scale]*

1	2	3	4	5	6	7	8	9	10	
Weak										Strong

10. “If I’m honest about it, I may be more committed to the Company as a result of receiving share options, but only because there is something in it for me if the company continues to do well.”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

11. “Leaving aside the financial benefits which I am likely to receive, the receipt of share options has served to make me more committed for other reasons”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

12. “As a result of receiving share options, I am more likely to get angry if I see my colleagues working against the Company’s best interests.”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

13. “As a result of receiving share options, I now pay more attention to issues such as quality and productivity.”

Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
1. <input type="checkbox"/>	2. <input type="checkbox"/>	3. <input type="checkbox"/>	4. <input type="checkbox"/>	5. <input type="checkbox"/>

14. “As a result of receiving share options, I now work harder.”

Yes ☐ No ☐

If “Yes”, please indicate your view of the following:

15. "I work harder because I expect that this will lead to an increase in the value of my share options."

Strongly Agree

1. ☐

Agree

2. ☐

Neither Agree nor Disagree

3. ☐

Disagree

4. ☐

Strongly Disagree

5. ☐

16. "As a result of receiving share options, I generally work *X* percent harder" [Please indicate percentage]

1-5%

☐

5-10%

☐

10-15%

☐

15-20%

☐

20-25%

☐

Other

_____%

18. Please state the number of share options you received: _____ [Optional question].

17. Of the benefits which the Company provides, please indicate, in order of priority, the importance of these benefits to you:

(1 = Most Important, 5 = Least Important)

Canteen

☐

Gymnasium

☐

Creche

☐

Share Options

☐

Pension Scheme

☐

Other: _____

☐

Please include any additional comments which you would like to make:

Many thanks for your time and assistance