

Teamwork across diversified companies gets a boost from equity incentives, research shows

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Good salaries and cash bonuses are nice. But if businesses really want to get managers helping each other across divisions, they'll give them equity in the company as well, according to new research out of the University of Toronto's Rotman School of Management.

The use of company shares as part of executive compensation is nothing new, but it has increasingly filtered down to middle managers, particularly in "new economy," tech-based companies. The online retailing giant Amazon, for example, has one of the most equity-heavy management compensation packages in its industry. At the same time, Amazon pays no profit-based cash bonuses because, according to Amazon CEO Jeff Bezos, they are "detrimental to teamwork." So far there has been little research examining these changing practices, especially as they relate to cooperation across different business units and divisions.

Researchers developed a theoretical model where business unit managers were given an incentive package built on combinations of firm equity, unit profits and firm-wide profits. Managers put themselves out more when shares in the company were included in the mix, exerting more effort towards their own unit's tasks as well as towards helping managers of other units.

The model predicts that shifts to more equity-based incentives would be

likeliest in environments where short-term profits were uncertain but long-term growth looked good.

Based on that, future-oriented firms should consider pushing equity-based incentives further down the management chain than might have been done in the past, says Joanne Oxley who is the McCutcheon Professor in International Business and a professor of strategic [management](#) at the Rotman School. She co-authored the study with Gurupdesh Pandher of the University of Windsor.

As well, "our results suggest that you should use equity incentives more for managers who need to collaborate across divisions than for those who are focused on their own tasks," says Prof. Oxley. "All in all, it's just a really useful thing to have in the toolkit."

The study was published in a recent issue of *Strategic Management Journal*.

Provided by University of Toronto

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