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MOTIVATION PROGRAMMES FOR EMPLOYEES – ACCOUNTING APPROACH IN REFERENCE TO IFRS 2: SHARE-BASED PAYMENTS

Опціонні програми, як універсальний елемент винагороди працівникам й керівникам бізнесу, пов'язані з лояльністю співробітників та націлені на прискорення процесу ідентифікації співробітника з відповідним підрозділом, в якому він працює. Метою дослідження є встановлення закономірностей виникнення витрат, пов'язаних з виплатою винагороди на основі акцій та виявлення наслідків результатів цих угод

Ключові слова: акції, опціони, оплата, справедлива вартість

Option programmes as a multipurpose element of stimulation system mostly applies to senior management positions. It is closely related to loyalty programmes of the employees and it's aimed to hasten the process of identification with the entity the employee works for. The main objective of the paper is to present the rules governing the creation and activation of costs resulting from settlements in the form of shares and to define disclosures arising from those settlements.

Keywords: shares, option, payment, fair value

Economic entities operating as joint-stock companies frequently grant their employees or business partners treasury shares or options for treasury shares. In many countries the creation and implementation of share and option programmes into the economic performance of enterprises as a part of employees' remuneration schemes have become a common practice. As one of the ways of settlements with employees, it mostly applies to senior management positions such as executives, directors, board members or other employees. It is closely related with loyalty schemes of the employees and it is aimed to hasten the process of identification with the entity the employee works for.

Due to the years of economic crisis, the issue of remuneration of the senior management staff has become a public debate, particularly in reference to financial entities and institutions which manage equities on behalf of their clients. The common practice of assuming too high risk in order to achieve results which could guarantee the bonuses applied by managers in those financial institutions cause widespread quakes in the financial world, bringing about serious financial predicaments of many enterprises.

However, employees do not constitute the only group that receives payments in the form of shares. Some of the companies issue own shares or options for shares in order to make settlements with their business partners. The International Accounting Standards Board (IASB) released International Financial Reporting Standards 2: share-based payment (IFRS 2) in order to regulate that area of settlements and define regulations governing their presentation in financial statements. Within the implemented standards, economic entities are obligated to present in the financial statements any payment transactions in the form of shares made to employees or business partners, and which are supposed to be settled in cash equivalents, other assets or own financial instruments.

The main objective of the research is to present the rules governing the creation and activation of costs resulting from settlements in the form of shares and to define disclosures arising from those settlements.

Polish enterprises more frequently perceive remuneration in a complex way and they apply more advanced and differentiated financial motivation schemes. More flexible forms of employment have gained in importance and they are currently the most popular solutions in the areas of recruitment and employee retention. Bonus system is now one of the most popular tool of motivation which proves effective both in our changing business environment and in times of economic crisis. All economic entities which keep the accounting books wish to calculate the bonus schemes and to enter them into the accounts in accordance with the binding regulations in a clear and reliable way.

The entities which make payments in the form of shares in compliance with IFRS 2 are obliged to include: payment transactions in the form of shares settled as equity instruments in which the entity receives goods and services in exchange of own equity instruments (including shares or shares options); payment transactions in the form of shares settled in cash equivalents in which the entity acquires goods or services by means of assuming obligations towards the supplier of the goods or services for the amount which depends on price (or value) of treasury shares of the entity or its other equity instruments; transactions in which the entity receives or acquires goods or services and the terms and conditions of the contract provide the entity or the supplier of the goods and services with a choice of the form of the settlement of the contract, either in cash equivalents (or other assets) or through the issuance of own equity instruments.

Payment in the form of shares or share options is a long-term agreement in its nature and is concluded with the employees as conditional clauses, which means the buyout might take place after several years. If the employee quits the job, the options are remitted. The share options may also be granted conditionally, thus, the fulfilment of a particular employment period or, in some cases, work performance of the employee might constitute the necessity to proceed with the buyout. The rules of the shares and share options settlements and their conditional buyouts have been presented with the following examples.

Example 1.

The entity granted 200 share options to the selected management staff of 10 people. Every share option is conditional in its nature and every employee is obliged to work in the company for 5 years to enjoy the right of share options. The entity estimated the value of a single option at the level of PLN20 and the staff turnover at the level of 20%.

Solution: If all the predictions are fulfilled in accordance with the expectations, the entity shall enter them as follows:

Table 1

Costs estimate

Year	Calculation	Annual employment costs	Accumulated employment costs
1	2000 share options*80%* PLN20*1/5 of the period	PLN 6400	PLN 6400
2	2000 share options *80%*PLN20*2/5 of the period – PLN6400	PLN 6400	PLN 12800
3	2000 share options *80%*PLN20*3/5 of the period – PLN12800	PLN 6400	PLN 19200
4	2000 share options *80%*PLN20*4/5 of the period – PLN19200	PLN 6400	PLN 25600
5	2000 share options *80%*PLN20*5/5 of the period – PLN25600	PLN 6400	PLN 32000

Source: Own research

MANAGEMENT

Example 2

The entity granted 200 share options to the selected management staff of 10 people. The granting of the financial instruments is conditioned upon the performance of the entity and the acquisition period is changeable. At the beginning of the first year, the entity awards 200 own shares to each of the 10 selected employees but restricting the acquisition of rights to the shares upon rendering work by the employee within the given period. The rights to the shares shall be acquired: at the end of the first year if the profits of the entity rise above 15%; at the end of the second year if the profits of the entity rise more than 12.5% annually on average for the 2-year period; or at the end of the third year if the profits of the entity rise above 10% annually on average for the 3-year period. The fair value of the share at the of the first year is PLN20 and equals the price of the share on the day of granting the rights. No dividends are expected within the 3-year settlement period.

Till the end of the first year the profits rose about 12.75% and 2 employees resigned from work. The entity expects the profits to rise at a similar rate in the second year. That means, the rights to the shares shall be acquired at the end of the second year. The entity also expects the two other employees may stop rendering work. Consequently, it may be expected that each of the 6 remaining employees will enjoy the right to 200 shares at the end of the second year.

Till the end of the second year the profits rose about 11% the rights to the shares were not acquired. Also, in the second year, only one work agreement was terminated with one of the employees. The entity predicts the second work agreement to be terminated with the second employee in the consecutive year and the profit increase at the level of 9.25%. The rate which allows for an average profit increase of 10% within 3-year period and as a result fulfilment of the conditions necessary to acquire the rights to shares.

Till the end of the third year, two more employees resigned from work and the entity's profits rose about 8.25% resulting in annual average increase of 10.67%. Thus, each of the remaining 5 employees received 200 shares at the end of the third year.

Solution

Table 2

Costs estimate			
Year	Calculation	Employment costs in each year	Accumulated employment costs
1	6 employees*200shares*PLN20*1/2 of the period	PLN 12000	PLN 12000
2	6 employees*200shares*PLN20*2/3 of the period – PLN12000	PLN 3998	PLN 15998
3	5 employees*200shares*PLN20*3/3 of the period – PLN15998	PLN 4002	PLN 20000

Source: Own research

Example 3

The granting of the financial instruments depends upon the performance of the entity simultaneously assuming the number of equity instruments within the period is subject to change. The entity granted share options to 50 employees in the sales department. The acquisition of rights shall take place after 3 years if the employees remain at work and if the volume of sales increases about 10% yearly. If the volume of sales rises about 10–12%, each employee will be granted 50 share options. If the volume of sales rises about 12–15%, each employee will be granted 100 share options. If the volume of sales rises above 15%, each employee will be granted 150 share options. On the day of granting the share options the fair value of the shares is estimated at the level of PLN 20 and

the volume of sales is estimated within 12 – 15% annually. Upon the above assumptions, each employee who remains at work till the end of the third year shall receive 150 share options. The entity also estimated the employment resignation rate at the level of 20%.

By the end of the first year four employees submitted a notice and terminated the work agreement. The entity further assumes that 20% of the employees entitled to receive the financial instruments will resign by the end of the third year and as a result 40 remaining employees will continue the employment period for 3 full years. The sales volume increased by 11% and the trend is expected to continue in the two consecutive years.

By the end of the second year four more employees resigned from work, which means that jointly 8 employees quit the job within 2 years. At the end of the second year the entity expects that by the end of the third year only two employees will resign. As a result the joint number of the resigning employees equals 10 people and till the end of the third year 40 employees will still remain at their office. The volume of sales rose by 15% and increased the average of a 2-year period to 13% annually. The entity expects the volume of sales shall increase on average by 15% or more yearly within the 3-year period. Consequently, every employee of the 40 remaining employees shall receive 150 share options at the end of the third year. By the end of the third year, four more employees resigned from work, which means that till the end of the third year 38 employees remained at work. The sales volume rose on average by 15% annually within the 3-year period.

Solution:

Table 3

Costs estimate

Year	Calculation	Employment costs in each year	Accumulated employment costs
1	40 employees*50share options*PLN20*1/3	PLN 13332	PLN 13332
2	40 employees*100share options*PLN20*2/3 – 13332PLN	PLN 39996	PLN 53328
3	38 employees*100share options*PLN20*3/3 – PLN53328	PLN 22672	PLN 76000

Source: Own research

The settlement period and the rules of the conditional granting vary and depend on individual solutions acknowledged by the business entity. However, the allocation and activation of costs is based upon the presumed assumptions related to payment in the form of shares and applies to more than one settlement period. The number of years – the accounting periods depends on the agreement concluded with the employees and based upon the commensurability principle of maintaining adequate proportions between income and expenses arising from the income.

It is worth mentioning that the motivation system may be applied to all staff groups and it considers changeable economic conditions in which enterprises have to operate in our modern world. Moreover, the business entity allocates the amounts of running costs each time relating them to personnel costs and the increase of the authorised capital, which directly influences the numbers presented by the entity in the financial statement.

Pursuant to the Article 45 of IFRS 2, a business entity discloses information on the payments in the form of shares in such a way that the user is able to comprehend the nature and the scope of the agreements concerning payments in the form of shares. Thus, the entity is obliged to disclose at least the following information:

a) the description of each type of the agreement referring to payment in the form of shares which occurs in settlement period and basic time range and terms of the concluded agreements; for similar types of agreements the company may present the aggregate data;

b) the number and average weighted prices of the performance of the share options for each of the following groups: occurring at the beginning of the given period, granted within the given period, remitted within the given period, executed within the given period, expired within the given period, occurring at the end of the given period, viable to execute at the end of the given period.

c) the average weighted price for share options executed within the given period as of the day of their execution,

d) the price range of the execution and average weighted period remaining till the end of the contractual period arising from the concluded agreement.

Moreover, the entity shall disclose information regarding the rules of defining of the fair value of the goods and services or the financial instruments within the given period. Particularly, the model of the share options valuation and the entry data for the model comprising average weighted price of the shares, the price of execution, the expected variability based upon previous records, the duration, the expected dividends and market conditions which may influence the valuation.

The business entity shall also disclose the influence of the payment transactions in the form of shares on its profit or loss within a given accounting period and its financial standing. That is why the entity discloses:

a) total cost allocated within the given period arising from the transactions in the form of shares, in which the received good and services were allocated as costs,

b) for liabilities arising from the transactions in the form of shares: joint value of liabilities and the value of liabilities upon which the business partner is entitled to receive cash equivalents or other assets.

Payment transaction in the form of shares or share options is a transaction in which an entity receives goods or services in exchange of its own equity instruments, or it acquires goods or services via assuming obligations towards the supplier of goods or services of value dependent upon the price of the own shares or its other equity instruments.

Payment transaction in the form of shares requires from the business entity a specific approach towards the presentation of data related to the payments in the form of equity instruments in the financial statement. The entities applying that form of settlements are particularly obliged to present in the income statement the total results of such settlements. Moreover, the entity shall provide additional disclosures in the supplementary information, which allows the user of the financial statement to comprehend the rules of the assessment of the value of the transaction, including the method of the fair value assessment. The entity also presents the scope of the concluded agreements. The presentation of the information referring to motivation programmes has a particular significance and business entities are obligated to inform the users what agreements were concluded with the employees and what was the nature of the agreements.

Motivation programmes implemented in Poland constitute mostly counterparts of solutions applied by mother companies which have their headquarters abroad. They are usually addressed to key figures in a company due to the position the person occupies in the global pay spine of the company and they are not directly related to the performance of the Polish company. Nonetheless, the participation criteria are extensive and not only the reward and retention but also work appraisal of the employee and the overall performance of the company are taken into thorough consideration. It may be expected that the companies' pursuit to optimise their operations shall within a few years influence the local HR structures to incorporate them to a higher degree into both the process of

shaping the components of the remuneration of senior management employees as well as setting the indices conditioning such payments.

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