Whether the Adjustment of Compensation Incentives Within a Company Has an Impact on the Non-Employee Directors of the Company and Brings Profit or Not

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Abstract. The compensation structure plays an important role in a company's non-employee employees. The compensation structure includes an employee's base salary and other incentives. Compensation structure incentives can make non-employees work harder and bring more profits to the company. But after my research not all cases are valid. In a word, according to the data we have obtained so far, the conclusion can be drawn that the salary incentive plan of non-Employee directors cannot play a significant role in some moments.

Keywords: Compensation Incentives; impact; non-employee directors; profit.

1. Introduction

Within a company, its pay structure is often debated. Possible directions of discussion fall into the reasons for the pay structure set by the company. So, how to create a compensation plan that has a positive impact on the company's revenue. Meanwhile, in order to maximize their interests, employees will also carefully study the salary structure of a company. In this case, people pay great attention to the composition of the compensation structure, because the setting of the compensation structure can directly affect the interests of the two parties. In order to maximize the benefits of both parties, the company usually sets incentive measures for employees to encourage them to work their best. This hard work can bring more results to the company, but it is for the benefit of the employees themselves. Therefore, in order to explore the possibility of the true situation of this concept, the scholar plan to study the theme of compensation incentive plan. At the same time, both economic theory and business management theory talks about paying attention to employees' motivation, in which financial rewards will be used to motivate employees to work in order to achieve the goal of stimulating their interest in work. Therefore, in order to verify the accuracy of the theory, the scholar decided to study topics related to the actual effect of compensation incentive policies.

For correct analysis, the scholar checked out several investigations related to incentive plans. Scholar believes that incentives don't necessarily have the same effect as expected, and sometimes incentives work in the way managers expect. But sometimes, on the contrary, these pay-for-performance methods can backfire, leading to contentious behavior among employees, complaining about unfair pay distributions, or overwork and stress. At the same time, in order to better analyze, the scholar believes that in the Journal of Human Resource Management, job satisfaction, organizational commitment, and trust in management measure the degree of correlation between each compensation system and the experience of employee happiness. The Scholar believes that first producing a profit-related compensation incentive that did not have a similar positive impact, as these incentives could lead to disagreements and arguments that precede the company and employees. [3] However, the scholar thinks there might be a disadvantage to this analysis of the information-gathering process. Because these data are based on some magazines for satisfaction analysis of the survey and the formation of questionnaires to obtain relevant information. However, these data are subjective, so there may be some deviations in details or concepts. Negative comments may be made about the company because the employee recently had a bad day at work, or because the employee recently had a dispute with management. At the same time, employees may also give high evaluation because their recent situation is very much in line with the ideal state, so the conclusion drawn from this questionnaire may affect the direction of the conclusion drawn by the scholar for the analysis of this article.

Another essay mainly describes sholar belief that the incentive plan does not play a positive role [2]. Scholar believes that writes that most managers and those who advise them have a lot of trust in the incentive plan. And the vast majority of U.S. companies have some kind of program that motivates employees by linking compensation to performance metrics. But even more striking is the little-studied belief that people do better if they are promised some kind of incentive. The scholar believes that then describes that this view is not necessarily correct. According to numerous studies in labs, workplaces, classrooms, and other settings, rewards often disrupt the processes they are meant to enhance. The findings suggest that the failure of any given incentive program is due not so much to the failure of the program itself, but the inadequacy of the psychological assumptions underpinning all of them. One area where I think this essay needs improvement is that there are so few examples of data cited. Often, the accuracy of a conclusion needs to be summarized and analyzed by comparing the two states before and after. However, the scholar believes that this article cited a lot of textual literature but there are not many numerical examples to support it. So the persuasiveness aspect may need to be improved, so I think my article needs to use numerical support along with the verbal argument. Later, when I collected basic information on the Internet related to Citigroup, the scholar found that almost all the income of Citigroup employees were involved. So, for the sake of accuracy, During the planning of this paper, the scholar decided to narrow my research to just one type of employee. When narrowing the target, the scholar found that Citigroup had a detailed description of the compensation structure and incentives of non-employee directors and displayed the actual annual income of non-employee directors. This detailed record of the non-employee director makes me think that there is sufficient data reference for future analysis. Meanwhile, the detailed record of income of each non-employee director can be concluded through calculation and comparison of multiple data. Therefore, the summarization of this information believes that the accurate data and the analysis of the non-employee directors of Citigroup can help the scholar make the conclusion of the scholar's paper more accurate and convincing.

After I summarize all the information that has already been investigated and consideration of the related material, then the topics of this paper come out. Which is Whether the adjustment of compensation incentives within a company has an impact on the non-employee directors of the company and whether, as is generally expected, it will ultimately result in a substantial revenue benefit to the company's total revenue. The scholar decides to conduct basic research on the selected company Citi Group.

2. Investigation and data

2.1 Method

The scholar gets information by researching various websites. The first way to obtain basic information is to search on Google. Search Citigroup's official website and you can get authoritative basic historical information and relevant information about the company's field [1]. The research on Citigroup's official website is to obtain basic information about the company for the convenience of understanding its background. To search for salary information beyond the background, I need to search on another site https://www.sec.gov/about.shtml. [4]

On this website, I can search for specific salary information of the target company. To accurately obtain the information about the target company, we need to screen the information, including the period, keywords, and the name of the target company. This selection filter helps me target information more precisely.

2.2 Data

Citigroup is a New York-based U.S. multinational investment banking and financial services company. The company was formed in 1998 by the merger of banking giant Citigroup and financial group Travellers Group; Travelers subsequently spun off from the company in 2002. Citigroup owns Citicorp, the holding company of Citibank, as well as several international subsidiaries. Citigroup is incorporated in Delaware. Citigroup is the third-largest banking institution in the United States; It is one of the four largest U.S. banking institutions, which the Financial Stability Board considers a systemically important bank, often considered "too big to fail." It is one of the nine largest investment banks in the world. Citigroup is the first financial group in the United States to combine commercial banking, investment banking, insurance, mutual funds, securities trading, and many other financial services businesses. The combined Citigroup has total assets of $700bn, net income of $50bn, 100m customers in 100 countries, and about 60m credit cards in circulation. Citigroup is the financial service group with the largest asset scale, the largest profit, the highest global chain, and the most complete business categories in the world. It was formed by the merger of Citicorp and Travelers Group in 1998 and went public in a swap deal at the same time. After the listing, Citigroup carries out large-scale equity operation and expansion using additional issuance of new shares to raise funds through stock market acquisition or directional equity replacement and carries out Cititian-style strategic output and global business integration for the acquired enterprises.

3. Results and Discussion

3.1 Description of current condition

Based on the research, I found that Citigroup's compensation structure consists of the four parts mentioned above, which I will elaborate in this section. In 2015, non-employee directors received base compensation of $75,000 a year in cash advances and deferred stock awards worth $150,000. And each non-employee director of Citibank is entitled to an annual cash retainer of $25,000. After investigation, Citigroup's main incentive methods for non-employee directors are stock and bonuses, and non-employee directors can get rewards such as participation fees after becoming chairman. Rewards mainly include two payment methods. For example, all annual and chairman's fees are paid in cash or stock in four quarterly installments. In addition to the usual incentives, Citigroup offers other types of incentives and assistance to non-employee directors. Citigroup will reimburse its board members for their attendance at board and committee meetings, or other services rendered to Citigroup while they are directors. If the non-employee director has made a sufficient contribution to the company, the non-employee director can also receive the incentive method of sharing.

In 2014, Citigroup planned to offer various types of awards to nonemployee directors in the form of common stock. This plan aims to align the incentive compensation plan with Citi's long-term business goals and shareholder interests to attract and retain employees by offering competitive compensation opportunities in the global financial services industry. And offer pay opportunities that discourage reckless risk-taking.

After investigating the salary structure in 2015, I also explored the salary structure between 2021 and 2022. I found that non-employee directors received $75,000 yearly in cash advances and deferred stock awards worth $150,000 for Citigroup in 2021-2022. In addition to the basic compensation structure and stock incentives, each of Citigroup's non-employee directors will receive a certain amount of cash retention upon taking the position and will be entitled to an annual cash retainer of $25,000. Citigroup's chairman gets $50,000 a year in chairman's fees. Citi Group's GM plan takes effect on April 16, 2019, and expires at the annual meeting of shareholders in 2024. Various types of awards denominated in common stock are planned for city employees, senior management, and non-employee directors in 2019. As of Feb. 28, 2022, the closing price of Citi common stock on the New York Stock Exchange was $59.23. $59.23 if a non-employee director receives a common stock schedule type award.

After basic research, the scholar concluded that, in the big picture, Citi Group's overall incentive plan did not change in real-time from 2015 to 2022. For example, the basic compensation structure of Citi Group was the same in 2015, including the deferred stock awards, and there was no change. There has also been no change in the annual cash retainer for non-employee directors, I.e., every non-employee Citibank director is entitled to an annual cash retainer of $25,000. Therefore, the scholar is more focused on the compensation structure incentive of non-employee directors.

Non-employee directors are earning more, even though the underlying structure of rewards and pay has not changed at all. Therefore, the scholar raises the question of whether the adjustment of compensation structure and incentives can affect the change in corporate income. Therefore, I plan to write out whether compensation incentive has a positive, negative, or no impact on the performance of non-employee directors of the company.

3.2 Citigroup analysis

My research question about the company Citigroup is, whether the adjustment of compensation incentives within a company has an impact on the non-employee directors of the company and whether, as is generally expected, it will ultimately result in a substantial revenue benefit to the company's total revenue.

(1) sales revenue between different years. Because a company's revenue is often the best proof of a company's ability to run itself. This means that if a company's revenue is up this year compared to last, it usually means that its employees (including non-employees) are doing better and bringing in more revenue. Therefore, I plan to explore this company based on this perspective. After investigating, I concluded that non-employees don't necessarily make a difference. In contrast, non-employees continue to bring positive benefits to the company even though the number of their salaries and incentives have not changed.

In addition to the total income and incentive plan in 2015 and 2021, I also investigated the salary structure and total income in 2016, 2017, and 2018 to assist my conclusion (2019 and 2020 are not investigated because they are vulnerable to the epidemic). The scholar finds that regardless of the year, the compensation structure and incentive plan have remained unchanged, that is to say, since 2015, non-employee directors have been earning the same base value and maintaining the same incentive plan. However, the total income in each of these five years is different, with some years' income increasing and some years' income decreasing. Citigroup's income decreased harshly in the year 2017 [5]. Also, there is some decline in the year 2021. However, 2021 is near the end of coronavirus so the resulting income may be affected by the pandemic, which means it could be a disturbing factor for the evaluation of the essay.

Therefore, the current preliminary conclusion is that the unchanged salary structure and incentive plan of non-employee directors will not affect their active negative performance, because employees will often cause conflicts or even demotivation with directors due to their dissatisfaction with salary. This series of demotivation usually affects a company's revenue. To test this inference, I decided to search for annual changes in gross income for non-employee directors.

Table 1. Some key data

Years	Quantity of non-employee directors	Annual changes in gross income for non-employee directors
2015	14	$4017500
2016	15	$5179058
2017	18	$5353320
2018	16	$5272500
2021	15	$6160419

These are some information that scholar’s found online on non-employee directors' income and share and incentive stock for 2015, 2016, 2017, 2018, and 2021. I made statistics on them. The total income of 14 non-employee directors was 4,017,500 DOLLARS in 2015, the total income of 15 non-employee directors was 5,179,058 dollars in 2016 [6], and the total income of 18 non-employee directors was 5,533,320 dollars in 2017, and the total income of 16 non-employee directors was 5,272,500 dollars in 2018 [7]. Non-employee directors will earn $6,160,419 in 2021 [8]. Even though the number of non-employee directors varies from year to year, when we average them out, their total earnings almost keep rising. Even though the figures for 2018 are lower in the middle, it can be seen that the income of non-employee directors is not closely related to the company's annual net income loss performance.

Although Citigroup's earnings have risen and fallen over the years, comparisons with non-employee directors show little correlation. Especially in 2017, the company lost a lot of profits, but the non-employee directors can still gain more profits through excellent performance. Therefore, it can be seen that the increase in non-employee directors' performance is not related to the decrease in the company's total income. On the contrary, since non-employee directors keep good performance and bring benefits to the company, they can get more income from the company. The value based on the income of non-employee directors has been increasing almost all the time and their compensation structure and incentive measures have not changed any over the years. The scholar can conclude that incentives in this firm do not affect non-employee directors. Even with no change in incentives, non-employee directors have been making more money on top of their revenue-generating performance. So based on the data and result in analysis for Citigroup, the adjustment of compensation incentives within a company doesn’t impact the non-employee directors of the company and the beneficial or harmful ultimately result in a substantial revenue are not related to the changes of compensation incentive plans to the company's total revenue.

4. Conclusion

In a word, according to the data we have obtained so far, the conclusion can be drawn that the salary incentive plan of non-Employee directors cannot play a significant role in some moments. As the data in the paper generally shows, the compensation structure and incentive measures of Citigroup have not changed from 2014 to the first half of 2022. However, the income brought by non-employee directors to the company did not decrease significantly, on the contrary, it brought higher income in some years. Even though Citigroup's total income did decline in some years, the profits brought by non-employee directors in that year were not much different from those of previous years. In addition, the income of some non-employee directors has increased, which indicates that the task completion status of non-employee directors has improved compared with last year. This one set of data proves it, the total income of 14 non-employee directors was 4,017,500 DOLLARS in 2015 [9], The total income of 15 non-employee directors was 5,179,058 dollars in 2016, and the total income of 18 non-employee directors was 5,533,320 dollars in 2017, And the total income of 16 non-employee directors was 5,272,500 dollars in 2018 Earned $6160419 in 2021. In some years, Citigroup's annual total income declined, but it can be seen that the income of non-employee directors was on the rise, even if there was a decline in the middle. Non-employee directors have been bringing sufficient profits to the company because the company's performance is quite impressive. Therefore, it can be concluded that Citigroup has not changed any incentive plan for non-employee directors, but non-employee directors still bring good results to the company, so their incentive plan may not have a substantial effect.

In some cases, the scholar indeed believes that the lack of any update on the salary incentive structure does not lead to a significant increase in the benefits of non-employee directors [10]. However, according to the data comparison, the stable data of non-employee directors can overturn this suspicion, because the incentive plan has not been updated, but they get a higher income than the basic salary in some moments. This means that they have no demotivation effect due to the unchanged incentive plan, thus not bringing revenue to the company or reducing revenue. In this way, the scholar formed an opinion by reversely deducing that the compensation incentive plan has no great effect on non-employee directors from the comparison of non-employee directors' income after increasing or decreasing. Therefore, the scholar concludes that according to the data and analysis obtained so far, it can be judged that the incentive plan does not necessarily play a substantial role.

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