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The Dark Side of Stock Options: Downside Risk and Employee Separation

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Abstract

This study empirically examines the popularized influence of underwater stock options on employee job search behavior. In a multi-industry sample of executives we find a positive relationship between the percentage of employee stock options that are underwater and job search frequency. In addition, we find that this relationship is moderated by important situational and individual difference variables. In particular, symbolic attributions toward money moderated participant's sensitivity to underwater options. Participants making more positive money attributions (e.g., money represents achievement, status, and strong work ethic) were more likely to engage in search when facing underwater options. Conversely, we found no moderating effect for perceived financial independence. These results suggest that the symbolic value of money is more important to executives than the economic value of money as reflected by its influence on job search behavior.

Keywords

stock options, employee, job, behavior, job search, individual differences, money, research

Comments

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WORKING PAPER SERIES

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Working Paper 01 – 09



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THE DARK SIDE OF STOCK OPTIONS: DOWNSIDE RISK AND EMPLOYEE SEPARATION

ABSTRACT

This study empirically examines the popularized influence of underwater stock options on employee job search behavior. In a multi-industry sample of executives we find a positive relationship between the percentage of employee stock options that are underwater and job search frequency. In addition, we find that this relationship is moderated by important situational and individual difference variables. In particular, symbolic attributions toward money moderated participant's sensitivity to underwater options. Participants making more positive money attributions (e.g., money represents achievement, status, and strong work ethic) were more likely to engage in search when facing underwater options. Conversely, we found no moderating effect for perceived financial independence. These results suggest that the symbolic value of money is more important to executives than the economic value of money as reflected by its influence on job search behavior.

Key Words: STOCK OPTIONS, JOB SEARCH AND INDIVIDUAL DIFFERENCES

THE DARK SIDE OF STOCK OPTIONS: DOWNSIDE RISK AND EMPLOYEE SEPARATION

Two significant and interrelated HR trends have emerged recently in the popular press. First, the widely publicized war for talent continues to wage, particularly for executives and other high level employees (Business Week, 1992). In a recent McKinsey (Chambers, Foulon, Handfield-Jones, & Hankin, Micheals, 1998) study, six thousand executives and managers projected "talent" to be the most scarce corporate resource of the next 20 years. Many have attributed this talent shortage to the recent strong economy and the aging workforce population (Fishman, 1998). A second trend is that stock option performance is playing an important role in the war for talent. Given the widespread use of broad based stock option grants at all levels¹, companies are under enormous pressure to offer competitive equity incentives to retain key employees that are being bombarded with job offers from rival firms and headhunters (Debaise, 2000). One headhunter notes: "The first question I ask is: 'What are your options worth?' if the answer is 'nothing,' candidates you couldn't budge six months ago are anxious to move" (Tully, 2000). Faced with the prospect of losing the very employees that are essential to their long term success, employers are now forced to look at expensive and unpopular retention strategies such as repricing, reloading, granting restricted stock, and other means of reducing option risk (Hall, 2000; Linney, 1999). In sum, consensus from the popular press suggests that stock option performance has become a key issue in employee retention and recruitment.

In principle, stock option grants are not a particularly risky form of compensation for recipients, because they are simply the right to purchase stocks at a "discounted" price. If the market price dips below the price at which the options were granted (i.e., the options go "underwater") it is only a loss on paper. However, in the reality of today's tight labor market, underwater options can represent a significant loss in terms of opportunity cost. Highly

¹ The Employee Stock Ownership Plan Association of America reports that about 6 million employees below the executive level now receive stock options (cf. Bryant, 1999).

marketable employees who could leave their company to receive more favorable option grants² or higher base salaries in effect forgo potential gains by remaining in their present position. It is now quite common for firms to buy out new recruits' old options so they are not penalized for switching jobs.

Surprisingly, very little attention has been paid to the impact of underwater options in the empirical literature. First, in the compensation arena, stock options are emerging as a topic of study. Stock options are often investigated as a means of testing hypotheses regarding risk. There is a substantial research vein for example on how CEOs mitigate risk in terms of firm level decision making. Research demonstrates that CEOs can mitigate personal compensation risk by influencing organizational level strategic decisions, such as pursuing conglomerate mergers (Amihud & Lev, 1981), using alternative accounting methods (Antle & Smith, 1986), reducing R&D expenditures (Hoskins, Hill, and Hitt, 1993) and engaging in interpersonal entrenchment tactics with boards of directors (Walsh & Seward, 1990). Thus, most research on stock options has focused on CEOs, and firm-level outcomes. Individual level effects (e.g., attitudes and behaviors) of stock options have been ignored in the compensation literature.

In addition, compensation in general and stock options in particular have been largely overlooked in the scholarly job search and turnover literature. Hom and Griffeth's (1995: 41) review and meta-analysis acknowledges that compensation has received inadequate attention in turnover literature despite its demonstrated importance in the popular press and in labor economics research (e.g., Ippolito, 1991; Peel & Wilson, 1990). Hom and Griffeth (1995) point out that what little research does exist is overly simplistic in its conceptualization and measurement of compensation, typically repeating the same three dimensions: total wage level, pay satisfaction, and perceived pay justice and equity. Surprisingly, research since 1995 has not advanced much. With only a few exceptions, compensation in job search and turnover models has continued to focus on pay level, pay satisfaction, and equity/justice perceptions (Sightler &

² Thanks to George Milkovich for pointing out that leaving underwater options for a better options package

Adams, 1999; Smither, Millsap, Stoffey & Reilley, 1996; Turnley & Feldman, 1999). Only a few studies have looked at the effects of benefits, incentives and other alternative forms of compensation on job search and turnover (e.g., Guthrie, 2000). Most notable is the absence of any published study that directly investigates the influence of stock option performance on job separation attitudes and behavior.

Given the apparent influence of underwater options on employee separation, the lack of research attention evident in the compensation and employee separation literatures demonstrates a significant knowledge gap. The purpose of this paper is to fill this gap by investigating the relationship of underwater options on job search behavior and to investigate individual difference variables that may influence this relationship. Doing so will advance the literature in two important respects: 1) by empirically testing theory and research-based hypotheses regarding a popular phenomenon, and 2) by extending stock option deficient employee separation and compensation literatures.

Reference Points

One particular vein of research that may inform the relationship between underwater options and search stems from the behavioral economics literature. The notion of reference points originate from Kahneman and Tversky's (1979) Prospect Theory. The notion of a reference point is that individuals' values change as a function of where investments (or any type of targets) stand relative to a certain reference point. The values most often studied in terms of reference points include risk preferences in investment decisions. For example, several studies have shown that individuals are risk taking when investments perform below reference points, and risk averse when investment perform above reference points (Ferris, Haugen, & Makhija, 1988; Heisler, 1994; Shefrin & Statman, 1985. Recently in an investigation into employee decisions to exercise "in the money" stock options³, Heath, Huddart, and Lang (1999)

at another firm may be considered a form of personal repricing.

³ Options are "in the money" when their exercise or "strike" price is below the current market price.

found evidence that the 52 week share price high was a powerful reference point for option holders. They found that the probability of option exercise roughly doubles when the market price exceeds the 52 week high.

The logic of reference points seems especially relevant to the employee separation process. It seems reasonable that the strike price would be an intuitive reference point for grant recipients. Following the reference point literature, one could reasonably expect employee attitudes and behaviors to change depending on where the market price of shares is relative to the strike price. Intuitively, one would expect job search activity to be higher when option shares go underwater. Thus, reference points may offer insight into the popularized relationship between underwater options and job search. It seems highly likely that market to strike price comparisons serve as an important psychological benchmark for employees who hold stock options.

H1: The percentage of underwater stock options will be positively related to the frequency of job search behaviors

Perceived Alternatives

Alternative employment opportunities have long been considered to be important determinants of turnover behavior. In 1958, March and Simon wrote, "under nearly all conditions, the most accurate single predictor of labor turnover is the status of the economy." March and Simon (1948) argued that the labor market influences turnover through employees perceived ease of movement from their current positions (cf. Gerhart, 1990). More recently, Mobley, Griffeth, Hand, and Meglino (1979) similarly proposed that labor market perceptions are an important factor in turnover behavior. A substantial body of subsequent work has tested these assertions, and have received support, though there was considerable debate about the exact mechanism (i.e., whether it is a direct or moderated relationship) through which labor market perceptions influenced actual turnover (Gerhart, 1990; Griffeth & Hom, 1988; Steel & Griffeth, 1998). However, it is widely accepted that perceptions of alternative employment

opportunities play an important role in turnover and should be included in separation models (Gerhart, 1990).

As noted earlier, much has been written about the tight labor market and the influence of stock option performance on retention and attraction (Linney, 1999). It is perhaps not surprising that employees are so easily enticed away by stock option grants given reports that they have so many lucrative alternatives to choose from. Under these circumstances poorly performing or underwater options may represent a significant opportunity cost when more lucrative compensation packages are available elsewhere, particularly when offers include penalty-reducing "option buyouts." Thus, following previous research on labor market perceptions:

H2: Perceived alternative employment opportunities will moderate the relationship between the percentage of stock options that are underwater and the job search, such that those who feel they have more external opportunities will search more in response to underwater options.

Financial Independence

One important individual difference variable that may play an important role in employee reactions to underwater options is one's financial status. Financial status has been included in Agency Theory based research as a variable that likely effects individuals reactions to risk. In particular, theorists have suggested that more wealthy employees are likely to be less sensitive to risk in compensation packages because they have less to lose economically (Eisenhardt, 1989; Huddart, 1994). In her review, Eisenhart (1989) noted that Agency Theory's assumptions that agents are always risk averse may be inappropriate under certain conditions. Citing previous research from the economics literature (Macrimmon & Wehrung, 1986) she argues that as agents become increasingly wealthy, their risk aversion is likely to decrease. Similarly, Huddart (1994) proposed that wealth is likely to have an influence on how soon after vesting employees decide to exercise their options. He shows that highly wealthy employees are able to

absorb more risk (and thus reap more profit) by holding their options longer before exercising, rather than at the earliest opportunity.

Extending these proposals, individuals' financial status is likely to be a key factor in employee reactions to underwater options. Surprisingly, financial independence as an individual difference variable has been largely ignored in the HR and applied psychological literatures. This may be due in part to measurement difficulties. Measurers of total compensation (or other dollar estimates of wealth) are deficient because they do not capture complex elements that go into overall financial status, such as lifestyle preferences, spending habits, and countless financial requirements. Even the most wealthy employees on paper may be the most financially dependent due to extravagant lifestyles.

A small literature on financial independence has emerged to assess the impact of perceptions of financial status on a variety of work attributes and behaviors. These studies have shown that financial independence perceptions are related to a variety of attitudes and behaviors such as life satisfaction (George & Brief, 1990), job satisfaction (Brief & George, 1991), organizational commitment (Gould & Werbel, 1983) and performance (Brett Cron, & Slocum, 1995).

It seems that the financial independence literature combined with Eisenhart's (1989) and Huddart's (1994) suggestions about wealth and risk aversion informs the relationship between underwater options and job search. As noted above, underwater options are a form of downside risk to employees who forgo alternative investments by remaining in their present company. Given that financial independence has been shown to play an important role in a variety of work attitudes and behaviors, it seems reasonable to expect one's perceived financial situation to effect one's response to downside risk in a stock option context. Specifically, those who are more financially independent should be less sensitive to poorly performing stock options, because they have less to lose economically. Thus,

H3: Financial independence will moderate the relationship between % of options underwater and job search, such that % underwater will have a stronger effect on search among those with lower financial independence.

The Meaning of Money

In an oft cited quote, Krueger, a scholar on the meaning of money noted that “money is probably the most emotionally powerful object in contemporary life: only food and sex are its close competitors as common carriers of such strivings” (Krueger, 1986:3). Most would agree with that statement. However, not all would agree on the meaning of money. As McClelland once stated, “the meaning of money is in the eye of the beholder” (McClelland, 1967). The meaning of money has been studied by a variety of researchers from a variety of perspectives. For example, money has been studied from the areas of sociology, anthropology, economics and psychology (Mitchell & Mickel, 1999). Relevant to the field of management, there have been three attempts to systematically measure the various meanings of money (Furnham, 1996; Tang, 1995). In particular, money is thought to represent achievement, success, recognition, status, respect, self-esteem, freedom, control, power, and even love. At a minimum the meaning of money goes far beyond mere economic value. In our society, it is a means of social comparison and feedback. In a widely cited survey, 74% of respondents agreed with the statement, “in America, money is how we keep score” (Rubenstien, 1981).

There have been three attempts to systematically define and measure the meaning of money. First, Tang's Money Ethic Scale (Tang, 1992, 1993, 1995) is designed to measure various positive and negative attributions people make toward money, such as achievement, self esteem, freedom, greed, etc. Second, Furnham's Money Beliefs and Behaviors Scale (Furnham 1984, 1995; Kircaldy & Furnham, 1993) also measures money beliefs and related behaviors, but from a more psychoanalytic approach. This scale identifies pathological characteristics in the way that people feel about and behave with their money (e.g., obsession, power, retention, security, inadequacy, etc.). Finally, Mitchell's Money Importance Scale

(Mitchell, et. al, 1998) is primarily behavioral in nature, assessing the importance of money, via the way individuals handle money. Empirical work using these scales has demonstrated that money attitudes and behaviors are associated with important outcomes, such as job satisfaction, intrinsic and extrinsic satisfaction and turnover (e.g., Tang & Gilbert, 1995).

The common theme running through these measures is that although there may be countless different attributions made toward money, each can be broadly classified as positive or negative (Mitchell, 1999). In addition, these negative and positive attributions can have an important influence on employee attitudes and behavior. Although the meaning of money literature is in its infancy, it offers potential insight into understanding the behavior of stock option holders. In particular, it seems likely that individuals who ascribe more positive attributes to money (i.e., those who believe that money symbolizes effort, achievement, status, happiness, etc.) will be more sensitive to underwater options than those for whom money has negative or less positive connotations. Thus:

H4: The symbolic importance of money will moderate the relationship between % of options underwater and job search, such that % underwater will have a stronger effect on job search for those who have more positive attributions toward money.

METHOD

Subjects

The data for the study consists of 404 executives and managers sampled from a database of a large national executive search firm who responded to a mail survey. Respondents were primarily married (89%) and male (89%), with an average of one child under 18. The average age was 49. Respondents had been in their jobs an average of 2.75 years and in their present organization 5.5 years. The average respondent has a yearly total salary (base plus bonus) of \$288,814, and was two levels below the CEO.

Procedure

Questionnaires were prepared by the hosting search firm and sent to respondents in October 2000. Respondents were instructed to return the survey (business reply envelope included) directly to the researchers, under assurances of strict confidentiality.

Measures

Dependent Variable: Job Search. Job search was measured with an 18 item Likert type scale (ranging from 1 "Never or 0 times" to 5 "Very Frequently or at least 10 times") designed to assess the frequency with which respondents engaged in a variety of search behaviors. Subjects indicated the frequency with which they carried out various search activities in the last 6 months. Sample search activities include "Listed yourself as an applicant in a newspaper, journal or professional association," "posted a resume on the Internet," and "Filled out an application on the internet." This scale was based on the 10 item Job Search Behavioral Index (JSBI; Kopelman, Rovenpor, & Milsap, 1992), with additional questions reflecting internet based search activities now available with advances in technology. Consistent with previous research using this measure, (e.g., Boudreau, Boswell, Judge, & Bretz, In press; Bretz, Boudreau, & Judge, 1994), items were averaged to create one job search index ($\alpha=.91$). A high number on this scale indicates greater job search behavior.

Independent Variables.

Perceived Employment Alternatives. Perceived employment offers was measured with three items designed to tap key dimensions of perceived alternative employment identified in previous literature such as the probability of finding acceptable alternatives (Billings, & Wemens, 1983; Mobley, 1977) and availability of alternative opportunities (Steers & Mowday, 1981). Respondents were asked "How difficult do you think it would be for you to obtain new employment?" (1=extremely difficult, 5=extremely easy Likert scale), "Give your best estimate of your present alternative employment opportunities? (1=no opportunities, 5 =many opportunities)", and "How long would it take you to find a comparable position if you were to

leave your current one? (1=within one day, 5=within 6 months). After recoding item 3 for its reverse wording, the three items were averaged to create a single alternative employment score ($\alpha=.67$).

Percentage of Stock Options Underwater. The percentage of underwater stock options was assessed by asking respondents how many stock options they had from their present company and how many of those options were currently underwater (i.e., meaning that at the date of the survey the strike price exceeded the market price for a given option share). The percentage of underwater options was then calculated by dividing the total number of underwater options by the total number of options held. Although stock options grants are typically made on a yearly basis, the distribution of the percentage of options underwater in the current sample appeared to be somewhat bi-modal. At the time of the survey, 24.7% of respondents had all of their options underwater and nearly 46% had all of their options in the money. The percentage of underwater options was 37%, yet the modal percentage was 0%.

Perceived Financial Independence. Perceived financial independence was measured with five items adapted from the Furnham's money inadequacy scale (Furnham 1995). These items were designed to measure the extent to which respondents felt that the money they have amassed is adequate to fulfill their lifestyle needs. Sample questions included: "The amount of money I have saved is never quite enough," and "I often argue with my spouse or partner about money." Questions were answered on a 6-point Likert scale ranging from 1= strongly disagree to 6= strongly agree. Consistent with previous use of the scale, the items were averaged to form a single financial independence score ($\alpha=.70$).

Positive Money Attributes-- The Meaning of Money. Positive money attributes were measured with nine items adapted from the Tang Money Ethic scale (Tang, 1992, 1993, 1995) and from Furnham's Money Importance scale (Furnham 1984, 1995; Kircaldy & Furnham, 1993). These items are designed to measure the extent to which employees make positive attributions toward money. Sample items include: "Money represents one's achievement,"

"money makes people respect you in the community," "money gives you autonomy and freedom", and "money will help you express your competence and abilities." All items were answered on a 6-point Likert scale ranging from 1= strongly disagree to 6= strongly agree. The items were averaged to form a single money attribution score ($\alpha=.80$).

RESULTS

Table 1 shows the means, standard deviations and intercorrelations of the dependent and independent variables. To establish the relationship between the percentage of underwater options and job search, we regressed (using ordinary least squares) the frequency of job search behaviors on the percentage of employee stock options underwater along with the rest of the independent variables (see Table 2, step 1). As predicted, we found a significant positive relationship ($p<.01$) between percentage of stock options that are underwater and job search activity, after controlling for the effects of perceived alternative employment opportunities, financial independence, and money attributions. This finding is consistent with the bivariate results in Table 1, and lends support to Hypothesis 1. Interestingly, though not part of formal hypotheses, we found that perceived alternative employment opportunities were negatively related to job search ($\beta=-.21$, $p<.01$), and that financial independence was positively related to job search ($\beta=.11$, $p<.04$).

TABLE 1
Descriptive Statistics, Inter-item Correlations, and Coefficient Alphas

<i>Variable Name</i>	<i>M</i>	<i>SD</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
1. Perceived Employment Alternatives	3.80	.96	.67				
2. % of Options Underwater	.37	.42	-.06	--			
3. Financial Independence	2.81	.78	-.23**	.17**	.70		
4. Positive Money Attributes	3.73	.86	-.06	.05	.26**	.80	
5. Job Search	1.78	.72	-.20**	.19**	.16**	.01	.91

Note: ** $p < .01$. Where appropriate, coefficient alphas are in boldface on the diagonal.

TABLE 2
Hierarchical Moderated Regression Analysis

Step	Variable	<i>b</i>	<i>R</i> ²	<i>ΔR</i> ²
<u>DV: Job Search</u>				
1	<i>Main Effects</i>		.10**	--
	Perceived Employment Alternatives	-.21**		
	% of Options Underwater	.16**		
	Positive Money Attributes	.01		
	Financial Independence	.11*		
2	<i>Main Effects + Interaction Terms</i>		.12	.02*
	Perceived Employment Alternatives	-.29**		
	% of Options Underwater	-.45		
	Positive Money Attributes	-.06		
	Financial Independence	.14*		
	% Underwater X Positive Money Attributes	.44*		
	% Underwater X Financial Independence	-.21		
	% Underwater X Employment Alternatives	.39†		

Note: †*p*<.08, **p*<.05, ***p*<.01, *N*=404

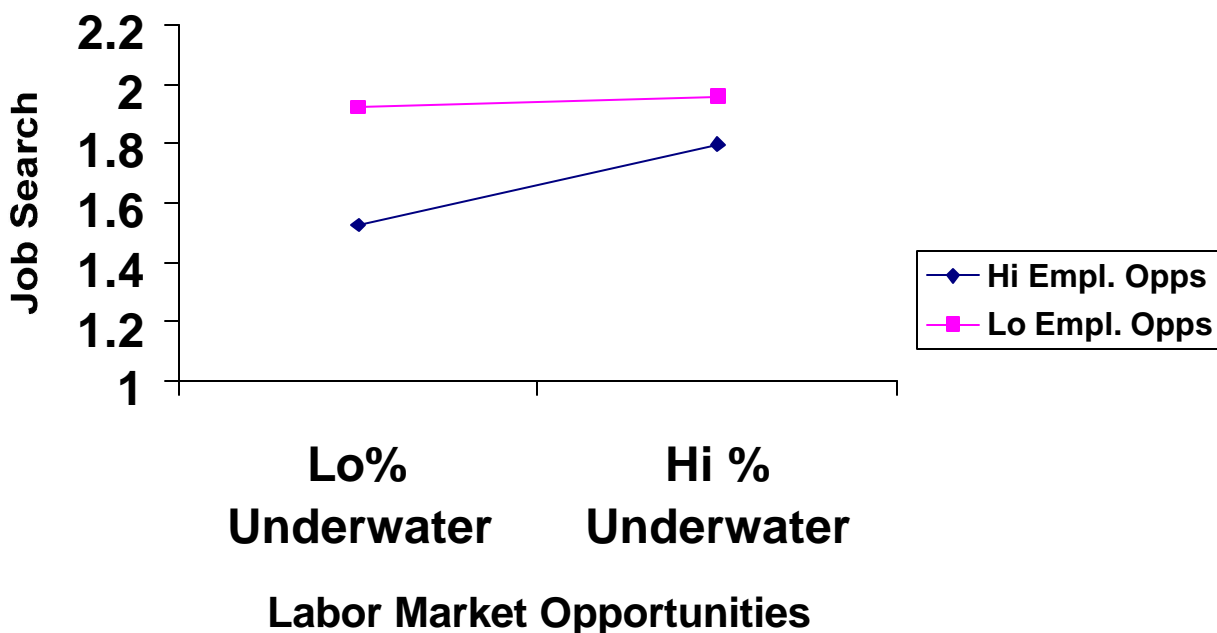
Hypotheses 2-4 were tested using a hierarchical moderated regression analysis (Stone & Hollenbeck, 1984). In this analysis, the hypothesized main effects are entered into the equation in the first step and then the hypothesized interaction terms are entered in together at the second step. If the interaction terms account for a significant amount of unique variance, then a moderated relationship exists. Overall, step two accounts for a significant portion of variance in job search over and above that of the main effects in step 1, ($\Delta R^2 = .02$, $p < .05$).

Hypothesis 2 predicted that perceived alternative employment opportunities would moderate the relationship between the percentage of options underwater and job search. Table 2 provides moderate support for Hypothesis 2 as the interaction term perceived alternatives X percentage of options underwater accounted for a marginally significant amount of incremental variance in Job Search ($p < .075$). Figure 1 depicts a graph of this moderated relationship, indicating a stronger positive relationship between the percentage of options underwater and job

search among those who perceive greater alternative employment opportunities than those who feel they have lesser alternative opportunities.

FIGURE 1

Percieved Alternatives as a Moderator



Hypothesis 3 predicted that financial independence would moderate the relationship between the percentage of options underwater and job search. Table 2 shows that Hypothesis 3 did not receive support from the data, as financial independence X percentage of options underwater interaction term did not account for incremental variance in Job Search.

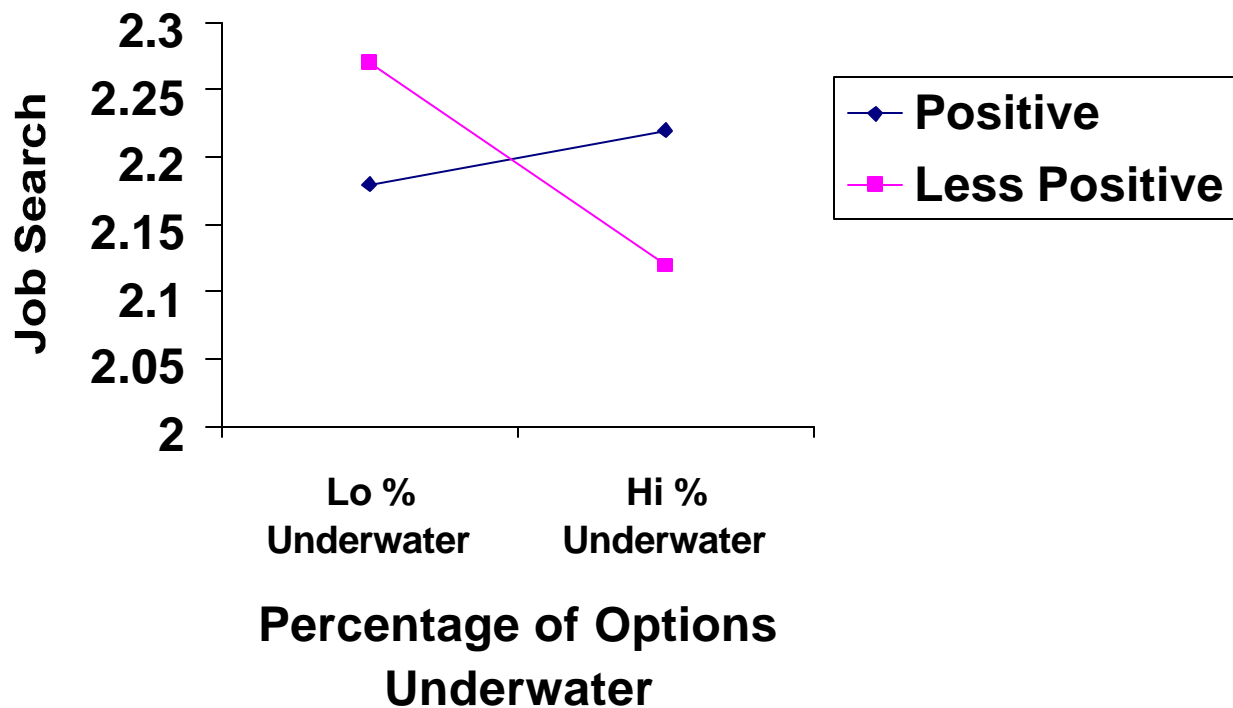
Hypothesis 4 predicted that money attributions would moderate the relationship between the percentage of options underwater and job search. Table 2 indicates support for this hypothesis. The interaction term for money attributions X percentage of options underwater accounted for a significant amount of incremental variance in job search ($p < .05$). Figure 2 shows this moderated relationship, indicating a positive relationship between the percentage of

options underwater and job search among those who make more positive attributions toward money, and a negative relationship for those who make less positive attributions toward money.

DISCUSSION

This study proposed to study the effects of underwater stock options on employee job

Symbolic Money Attributions as a Moderator



search behavior, using a sample of executives. We found that executives with a higher percentage of underwater stock options were more likely to engage in search behavior, and found evidence that this relationship was moderated by both individual and situational variables.

Underwater Stock Options and Job Search

The positive relationship between the percentage of underwater options and job search lends support to the view that the option strike price is an important psychological reference point in shaping employee separation attitudes and behavior. Specifically, the frequency of job

search in this sample was associated with the extent to which the market price was above or below the average strike price for employees. This finding suggests that having a large portion of underwater options may serve as a psychological trigger for attitudes of resentment and withdrawal, and may initiate the separation process. This seems especially plausible in today's labor market and culture of wealth among executives who are likely to have "everyone is getting rich" attitudes (Bryant, 1999). In sum, option performance relative to the strike price appears to be an important variable that should be added to existing separation models (e.g., Gerhart, 1990, Hom & Griffeth, 1991; Boudreau et al., in press; Bretz, Boudreau & Judge, 1994). Given the lack of attention stock option issues have received in the separation literature, this contribution represents an important first step.

Perceived Alternative Employment Offers

This study also found evidence to suggest that perceived alternative employment opportunities moderated the relationship between the percentage of underwater options and job search. As shown in Figure 1, the relationship between the percent of underwater options and search was positive for executives who feel they could easily find other employment. This suggests that if employees feel they are in demand, they may believe that they are losing out on opportunities for significant wealth creation. In other words, they may perceive that staying represents too high an opportunity cost. On the other end of the spectrum, the relationship between the percentage of underwater options and search was weaker for those who perceive fewer alternative opportunities. These individuals were still inclined to search, but to a lesser degree.

These findings add to existing literature on the role of perceived employment alternatives in the separation process. They offer insight into why some prior research has not found a strong relationship between measures of perceived alternative employment and actual turnover (Gerhart, 1990; Steel & Griffeth, 1989). This study suggests that perceived alternatives may

have the greatest effect on turnover when it interacts with negative outcomes such as having a high percentage of underwater stock options.

Financial Independence and the Symbolic Meaning of Money

This study found evidence that positive attributions towards money significantly moderated the relationship between the percentage of underwater and job search, but that perceived financial independence did not. Thus, it appears that the meaning people ascribe toward money is more important to understanding reactions to poor stock option performance than is their financial status. This suggests that money carries a symbolic value that can be far more important than its economic value. Individuals who make more positive attributions toward money may search more in response to underwater options because they feel frustrated by a lack of symbolic fulfillment. That is, if money symbolizes achievement, happiness, and self-worth to an individual he or she is likely to be frustrated when opportunities for significant wealth creation (via stock options) do not materialize. Such individuals are more likely to search for alternative employment as a means of finding symbolic fulfillment.

This study suggests that stock options can hold substantial symbolic meaning for executives even though the wealth (or loss of potential wealth) they represent exists only on paper. The apparent symbolic nature of stock options represents a ripe area for future research, and seems to be supported by the amount of press that stock options receive, and by the fact that options are now granted to employees at all levels (Bryant, 1999). One could reasonably argue that stock options have become a part of popular culture.

Limitations and Future Research

There are several limitations to this study that highlight potential directions for future research. First, the cross-sectional nature of the design provides only a glimpse into the relationship between two dynamic variables. Stock prices change daily, and therefore, the history of such fluctuations are likely to have an immense effect on the employee separation process over time. Cross-sectional data does not offer insight into how long options have been

underwater, and what the causes of such fluctuations may be. It is likely that a steady decline or constant dramatic variability in the stock price would have a much different effect on job search than steady growth punctuated by a sudden downturn.

A second limitation is that job search is only moderately related to actual turnover. Therefore, this study cannot provide a complete picture of how underwater options effect the separation process. Future research could offer substantial insight into the separation process by tracking how underwater options effect not only search but turnover and other outcomes (e.g., job withdrawal).

Finally, the study sample may not generalize to other employee groups. Predominately white, middle-aged, married male executives may react differently to underwater options than other groups. The ubiquity of stock options in compensation packages provides researchers with an opportunity to study how groups of non-executives react to stock option performance.

Conclusion

In conclusion this study offers unique insight into the employee separation process by demonstrating that in a sample of executives, stock option performance has an important influence on job search, moderated by perceptions of alternative employment opportunities and symbolic money attributions. These findings offer insight into a popular phenomenon and advance existing scholarly literature. This study suggests that stock option performance should be added to existing models of separation and raises several interesting issues to be addressed in future research.

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