

Implications of Discretionary Retirement Benefits: Evidence from India



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Abstract

The Employees' Provident Funds and Miscellaneous Provisions (EPF&MP) Act, 1952 provides for a government mandated wage-ceiling over which employers are not required to contribute for retirement benefits for enrolled employees. We term contributions over the wage-ceiling as discretionary. Discretionary retirement benefit expenses borne by firms are sticky downwards and are a positive function of time. As a result, the present value of discretionary contributions to be paid by a firm would be much higher than what it would be if it had just paid following the wage-ceiling mandated by the statute. In this research, we are trying to answer why firms commit to offer discretionary contributions when they could have easily escaped with a much lesser financial burden. Whether such expenses bring some desirable outcomes? We have divided the research at two levels as per the unit of analysis – firms, and individuals. In the first study we look at the impact of discretionary contribution on firm performance, and in the second, we explore the relationship between such expenses and individual level attitudinal outcomes of organizational commitment and job satisfaction.

The first paper looks at the deferred profit-sharing plans (PSPs) and uses the gift-exchange model to draw informed parallels with discretionary retirement benefit expenses. The former provides us with empirical findings as regards firm performance, while the latter gives us theoretical lenses to study the phenomena. We also explore the linkage between discretionary retirement benefits, corporate image, and firm performance. As in the case of PSPs, we test the association between discretionary retirement expenses paid by firms on behalf of their employees and firms' financial performance. We analysed a panel data of 16141 firm-year observations of publicly listed Indian companies over the period 1990-2016. Results indicate that such expenses are indeed associated with firms' financial performance positively and significantly, whether an accounting or a market-expectation based measure is considered. The results obtained are robust to alternate measures of firms' financial performance or retirement benefit expenses. We also tested for endogeneity and ran the two-stage least square (2-SLS) procedure to confirm our findings.

In the second paper, we carried out a field survey to see whether discretionary contribution led to organizational commitment and job satisfaction. Based on the responses from 471 employees in 24 establishments that are covered under the EPF&MP Act, we found that awareness of discretionary contribution was significantly related to affective commitment and job satisfaction for firms that actually paid such contributions. For firms that paid only up to the mandated wage ceiling, the awareness of discretionary contribution lost its significance. We also found that financial literacy was positively and significantly associated with awareness of retirement benefits. We further established that financial literacy significantly affected the affective and normative commitments and also job satisfaction through the mediating role played by the awareness about the discretionary contribution when firms actually extended such benefits.

Keywords: Discretionary Retirement Benefits, Financial Performance, Profit Share Plans, Corporate Reputation, Gift Exchange, Organizational Commitment, Job Satisfaction, Overall Fairness Perception, Financial Knowledge, Financial Behavior, Financial Attitude

Table of Contents

Abstract.....	1
Acknowledgement	2
List of Tables	6
List of Figures	7
Chapter 1-Introduction	8
1 A Brief History of the genesis of EPF.....	8
2 EPF Act to EPFO.....	10
3 The Context of the present Study	13
References	16
Appendix-1 (An illustration of discretionary contribution)	17
Chapter 2 - Discretionary Contribution and Firm Performance	18
1 Introduction	18
2 Literature Review and Hypothesis Development	21
2.1 Institutional Setup of Retirement Benefit Expenses in India	21
2.2 Discretionary Retirement Benefit Expenses	22
2.3 Effect of retirement benefits/pension plans.....	23
2.4 Hypothesis Development.....	30
3 Data and Variable Definition.....	31
3.1 Data.....	31
3.2 Variable Definitions.....	32
3.3 Correlations.....	34
3.4 Descriptive Statistics	35
4 Methodology.....	38
5 Results and Discussion	39
6 Robustness Tests.....	42
6.1 Alternate Measure of Performance	42
6.2 Alternate Level and Growth Variables Related to Old Age Social Security Expenses.....	43
6.3 Tests for heteroscedasticity and serial correlations	44
6.4 Fixed versus Random Effect	46
6.5 Tests of Endogeneity.....	46
6.6 Testing for the endogeneity of variables	47
6.7 Test for the strength of the instrumental variables used	48
6.8 Using financial constraint as a control.....	49

6.9	Controlling for macroeconomic factors	50
6.10	Controlling for stability and quantum of cash flows.....	51
6.11	Checking for the lead-lag relationship between profitability variables and PF expenses	54
6.12	Profitability and PF Expense.....	55
6.13	Considering the number of employees.....	56
6.14	Considering the ratio of PF expenses to Net Employee Expenses as the hypothesis variable.....	57
7	Limitations and Conclusion	59
	References	62
Chapter 3 – Discretionary Retirement Benefits and Attitudinal Outcomes		94
1	Introduction	94
2	Literature Review and Hypotheses Development	97
2.1	Discretionary retirement benefit expenses and affective commitment	97
2.2	Discretionary retirement benefit expenses and continuance commitment	99
2.3	Discretionary retirement benefit expenses and normative commitment.....	101
2.4	Discretionary retirement benefit expenses and job satisfaction.....	103
2.5	Financial literacy and Retirement Benefits	104
3	Method	105
3.1	The Measures.....	105
3.2	The Pilot	111
3.3	Final Sample Collection	113
3.4	Sample Characteristics	113
3.5	Variable Description.....	114
4	Results and Analysis.....	122
4.1	Descriptive Statistics	122
4.2	Principal Component Analysis.....	123
4.3	Construct Validity and Reliability	126
4.4	Correlations.....	127
4.5	Regression Analysis.....	129
5	Discussion.....	134
6	Suggestions, Limitations, and Conclusion.....	138
	References	142
	Annexure-2 (English Questionnaire)	162
	Annexure-3 (Hindi Questionnaire).....	170

Annexure-4 (Brief interviews with senior HR Managers)	178
Chapter 4 - Conclusion	183
References	186

List of Tables

Table 1.1 (Contribution Rates).....	12
Table 1.2 (Illustration of discretionary contribution)	17
Table 2.1(Sample Description)	68
Table 2.2(Variable Definitions)	69
Table 2.3 (Correlations).....	70
Table 2.4 (Descriptive Statistics).....	71
Table 2.5 (RoA as Firm Performance measure)	72
Table 2.6(Tobin's 'q' as Firm Performance Measure).....	73
Table 2.7(Robustness check using RoE as performance measure).....	74
Table 2.8(Robustness check using scaled level and difference provident fund expense variables using ROA as firm performance measure)	75
Table 2.9(Robustness check using scaled level and difference provident fund expense variables using Tobin's 'q' as firm performance measure).....	76
Table 2.10(RoA as firm performance measure with robust standard errors)	77
Table 2.11(Tobin's 'q' as firm performance measure with robust standard errors)	78
Table 2.12(Hausman Test)	79
Table 2.13(2 Step Least Square Regression)	80
Table 2.14(Tests for Endogeneity)	81
Table 2.15(Strength of Instruments Used)	81
Table 2.16 (Checking the effect of financial constraint on profitability variables).....	82
Table 2.17 (Checking the effect of including macro variables on profitability).....	83
Table 2.18 (Effect of Cash flow Quantum and Stability).....	85
Table 2.19 (Expense variables and Forward Cash Flows)	86
Table 2.20 (Lead-lag relationship between PF Expense variables and Profitability)	88
Table 2.21 (Profitability and PF Expenses).....	89
Table 2.22 (Number of firms for which number of employees data was available)	90
Table 2.23 (Descriptive Statistics for Number of Employees)	90
Table 2.24 (Regression after incorporating the Number of Employees).....	91
Table 2.25 (Regression after taking proportion of PF expense to net employees expense as the hypothesis variable).....	92
Table 2.26 (Regression after taking discretionary PF expense per employee as the hypothesis variable)	93
Table 3.1 (Sample Size)	151
Table 3.2 (Variable Description).....	154
Table 3.3 (Descriptive Statistics)	155
Table 3.4 (Principal Component Analysis)	156
Table 3.5 (Reliability and Construct Validity).....	157
Table 3.6 (Correlations).....	158
Table 3.7 (OLS Regressions)	159
Table 3.8(Table showing the regression on EPF awareness variable with respect to the financial literacy variables).....	160
Table 3.9 (Mediation effect of awareness about discretionary contribution)	161

List of Figures

Figure 3.1 (Sample Characteristics)	152
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