Departmental Research Seminar

A Premium for Informal Transactions? Employer employee loan choices in entrepreneurial firms

By

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Time: 10:30 am - 12 noon
Venue: M802, 8/F, Li Ka Shing Tower, PolyU

Abstract

At entrepreneurial firms, cash-strapped employees frequently request loans from employers because they cannot obtain money on reasonable terms elsewhere for exigent needs. In turn, employers choose whether to lend the money through formal (i.e. written, contractual, tax compliant) loans or more informal “off the book” loans. Considering the pervasiveness and significance of this choice among small firms, and the absence of studies that address it, we consider when employers would issue OTB versus formal loans and to what effect. Through an analysis of 459 informal and formal loans issued by 83 small business owners to their employees, we show when the choice to make OTB loans versus formal ones helps generate employee goodwill and commitment that confers value for small firm owner/employers. Analysis reveals how employers consider the vulnerability of high performing employees’ when issuing OTB loans in a manner that allows employers to increase firm value. Overall, OTB loans emerge as a pervasive, ubiquitous and valuable means of eliciting high-performing work from recipients.

Prof. Mathew HAYWARD is Professor of Entrepreneurship and Strategy at Monash Business School. His research articles on executives’ judgment and strategic decisions have been published in Academy of Management Journal, Academy of Management Review, Administrative Science Quarterly, Management Science and Strategic Management Journal. With a PHD from Columbia University, Mat worked at London Business School, UT Austin and University of Colorado Boulder (where he was a tenured Professor) before returning to his hometown of Melbourne, Australia.

All interested are welcome.