

THE PERCEIVED EFFECTIVENESS OF EMPLOYEE SHARE OPTIONS AS A MECHANISM OF TALENT MANAGEMENT IN SOUTH AFRICA

Mthunzi Bhengu: Dept of Industrial Psychology & People Management: University of Johannesburg

Mark Bussin: Dept of Industrial Psychology & People Management: University of Johannesburg

PURPOSE OF THE STUDY: The purpose of the study was to explore the views of a sample of employees, industry experts, academics, and professionals to determine whether employee share options (ESO) are an effective talent management tool in the South African context. Talent management refers to the attraction, motivation, and retention of employees, as well as fostering their loyalty to the company.

PROBLEM INVESTIGATED: This study sought to explore and provide empirical evidence as to whether or not ESO are an effective talent management strategy and remuneration tool.

DESIGN AND METHODOLOGY: A quantitative research design was used for this study. A survey was constructed by the researchers, using the main themes identified in the literature. A purposive sampling methodology was then employed, using the key informant technique. A total of 4 300 surveys were electronically distributed, and 256 completed surveys were received. Data were analysed using descriptive statistics.

FINDINGS: This study suggests that while ESO are seen as an important component of a total reward solution, they are not the primary drivers of the attraction, retention, and motivation of talent. Respondents indicated that the quality of the work environment and the presence of developmental opportunities are far more significant considerations. Furthermore, the majority of respondents (41%) indicated that they would prefer the allocation of share options to correspond with individual performance.

VALUE OF THE RESEARCH: The study suggests that employee reward preferences have evolved over time. Whilst ESO may have been considered a pivotal component of talent management in the late 1990s, today they are only a component of an expected total reward solution. The study demonstrates the importance of consistently reviewing the employee value proposition to ascertain the changing preferences of employees in order to accordingly adapt and maximise talent management. The study can be used as guidance in the design and implementation of share schemes.

CONCLUSION: This study suggests that while ESO are perceived as an important component of a total reward solution, these are not the primary drivers of the attraction, retention, and motivation of talent. Respondents indicated that the quality of the work environment and the availability of developmental opportunities are far more significant considerations. The findings suggest that employee reward preferences have evolved over time. Today's employee has a desire to have reward linked to individual performance, which implies that employers will have to revisit their reward solutions as part of their total value proposition.

KEY WORDS: *Employee share options; talent management; reward strategies; employee perceptions; quality working environment; developmental opportunities; South Africa.*

INTRODUCTION

As traditional sources of competitive advantage such as financial capital, technology, and location become more easily accessible and less significant, companies are increasingly relying on human capital as a key source of differentiation. The demand for talent exceeds the supply, and the global war for talent wages on. Kuptsch and Fong (2006) assert that companies that ignore the importance of talent as a key competitive differentiator are likely to become 'emigration nurseries.' The key to success in global markets is widely accepted as the capability to recruit and retain skilled personnel (Rosen, Case & Staubus, 2005a).

There is a large body of literature on talent management, which includes a multitude of theories and models on the best ways to attract, retain, reward, and motivate talent (inter alia Mariott, 2001; Morton, 2005; Faragher, 2006; Vohra, 2006; Cunningham, 2007b; Rueff, 2008; Wellins, Smith, Paese & Erkel, 2008). Talent management is defined by Rice (2007:2) as "the systematic attraction, identification, development, engagement/retention and deployment of those individuals with high potential who are of particular value to an organisation." The focus of the research described in this article is the management of talent, with specific reference to reward and employee share options (ESO).

The use of ESO as part of corporate remuneration schemes and talent management strategies has become commonplace (Leape, 2006). Historically, ESO plans were seen as a way to maximise shareholder value by creating a cadre of motivated employees with a personal stake in the success of the company (Martin, 2006). Of late, the lure of ESO has declined, and management is being challenged to revisit the basics of the company's employee value propositions to drive engagement and increase retention (Martin, 2006).

Share options are often seen as a drawcard for talent by many large and talent-orientated companies. Martin (2006) states that numerous young executives prefer this type of remuneration to traditional pension funds. Despite the stated preference for non-salary benefits, such as ESO, the assertion of their efficacy in driving performance and improving retention remains contentious.

Martin (2006) asserts that gestures such as the recognition of good work are more effective than slightly higher salaries in driving employee engagement. This finding was reinforced in a more recent study (Hughes, 2008), which found that salary-based strategies are less effective than career development strategies in retaining employees. 64% of participants surveyed indicated that non-salary benefits, such as ESO, are an effective means of employee retention (Hughes, 2008).

Casey (2002) contends that one of the disadvantages of share options is that they tend to lose their effectiveness outside the executive arena. The reason for this is that companies comprise many divisions but have only one share price. Employees want to be rewarded on their own merits and efforts, rather than on the basis of conflicting inputs from other employees and market forces. In addition, to benefit from share options, employees are usually induced to remain with a company for an extended tenure (Hall & Murphy, 2003). Although this strategy may lead to increased retention, there is also the risk of the share options being viewed as the proverbial 'golden handcuffs' that limit career mobility, leading to resentment.

Proponents of ESO believe that these serve as a critical component of participative management, where employees and management work as a team. Employees strive to achieve a set of organisational goals in exchange for collective, promised rewards (Bussin & Thomson, 2000). Gilbert (2005) and the New Brunswick Innovation Foundation (2006) highlight potential benefits accruing from an ESO plan to the company, employees, and the shareholders. These potential benefits are described in Table 1.

Table 1. Benefits of ESO Plans

Benefits of Employee Share Option Plans		
Company Benefits	Shareholder Benefits	Employee Benefits
<ul style="list-style-type: none"> • Create a culture of ownership and accountability amongst employees • Recognise and value the contribution of employees • Boost productivity and competitiveness • Improve tax treatment, including tax deductible dividends • Decrease reliance on cash flow to meet monthly salary bill • Enhances attraction, retention, and motivation of employees • Can be used as an exit strategy for company owners 	<ul style="list-style-type: none"> • Increase the value of the company, as employees have a vested interest in overall company success • Create an opportunity to create long-term, capital-based wealth among employees • Increase returns, as shareholders' interests are in line with those of employees • Create liquidity at fair market value • Maintain organisational control 	<ul style="list-style-type: none"> • Allow employees to share directly in the equity growth of the company • Motivate and build unity and team spirit • Allow employees to feel 'connected' to the business • Create an opportunity for employees to earn more than their annual salaries if the company performs well • Serve as a type of savings plan and/or investment • Allow employees to delay paying taxes on the stock they own until the shares are sold

STUDY OBJECTIVES

The primary objective of the research presented in this article was to explore the views of a sample of employees, industry experts, academics, and professionals to determine whether ESO are an effective talent management tool in the South African context. Talent management includes the attraction, motivation, and retention of employees, as well as fostering their loyalty to the company.

METHODOLOGY

Research Design

A quantitative research design was used for this study. A survey was designed by the researchers, using the main themes identified in the literature. Completion of the survey was voluntary, and all surveys were anonymous. The confidentiality of all information supplied by respondents was maintained, and there were no material ethical concerns. Data were analysed by means of descriptive statistics.

Research Sample and Data Collection

A purposive sampling methodology was employed, using the key informant technique. The survey was distributed to 300 University of Johannesburg master's students from the classes of 2006, 2007, 2008, and 2009, as well as approximately 4 000 employees of client companies of 21st Century Pay Solutions (a consultancy based in Gauteng, South Africa). A total of 4 300 surveys were electronically distributed through STATKON (a statistics consultancy based at the University of Johannesburg). Respondents were given five working days to complete the survey. A total of 256 completed surveys were received – a 17% response rate.

Research Instrument

A research survey comprising a mixture of 21 closed- and open-ended questions was constructed from the results of the literature review. The survey was divided into three sections, namely background information, reward preferences, and talent management. The survey was administered electronically to all prospective respondents.

ANALYSIS AND INTERPRETATION OF FINDINGS

Demographic Characteristics

The demographic characteristics of the sample are described in Table 2 below.

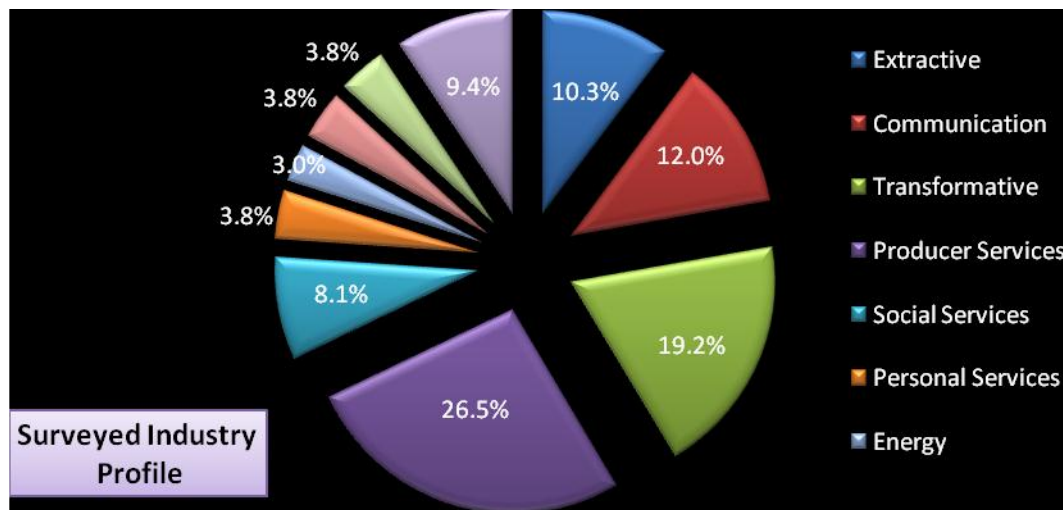
Table 2. Demographic Characteristics of the Sample

Demographic Characteristics of the Sample, n=256		
Demographic Characteristic	Frequency	Percentage
Gender		
Male	143	56%
Female	113	44%
Age		
18-25	2	1%
26-40	122	48%
41-50	74	29%
51-60	53	20%
61 and older	5	2%
Ethnicity		
Black	92	36%
White	125	49%
Coloured	19	7%
Indian	1	0.4%
Asian	19	7%
Level of Seniority		
Management	84	33%
Senior management	64	25%
Executive	89	34%
Other	19	8%
Level of Education		
Matric	15	6%
Certificate or diploma	41	16%
Postgraduate degree	136	53%
Other	64	25%
Tenure with Current Employer		
0-3 years	64	25%
4-6 years	44	17%
6 years +	148	58%

Of the respondents, 56% were male and 44% were female. The majority (48%) of respondents were between 26 and 40 years of age. In terms of ethnicity, 49% of the respondents were white and 36% were black. This accurately reflects the current South African corporate reality, where white South Africans still dominate the gender distribution of board members. All respondents indicated that they are in management, senior management, or executive positions. The remaining 8% indicated that they are specialists, retired executives, non-executive directors, consultants, or proprietors.

The industry profile of the sample is illustrated in Figure 1 below.

Figure 1. Industry Profile of Respondents



The sample for this study comprised a broad spectrum of sectors. The 9.4% of respondents who indicated "Other" sectors or industries fell under the producer services industry, as they include communication, retail, research, and skills development. The industry profiles are described in Table 2.

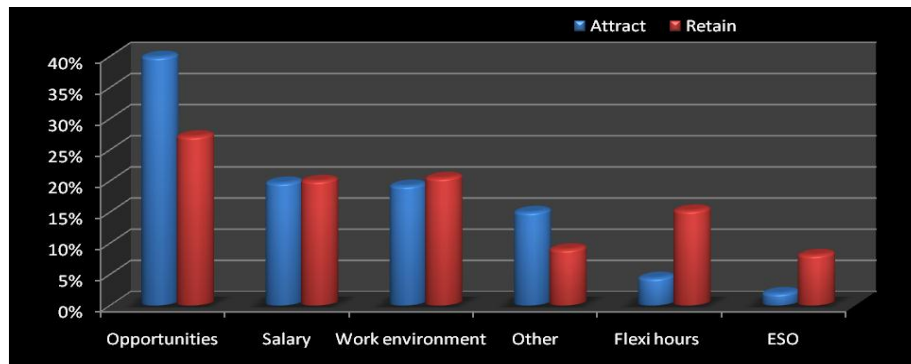
Table 2: Description of Industry Profiles

Description of Industry Profiles	
Industry Profile	Description
Extractive	Agriculture, forestry and paper, mining, oil, and gas
Transformative	Construction and building, utilities and energy, and manufacturing (food, textiles, metal, electrical, machinery, chemicals, pharmaceutical, automobiles, and miscellaneous)
Producer services	Banking and financial services, insurance, real estate, engineering, accounting, consulting, legal, and miscellaneous business services
Social services	Medical and health, hospital, education, welfare and religious, postal, and government, as well as non profit organisations, state-owned enterprises and parastatal regulators, and miscellaneous social services
Personal services	Domestic, hotel, food and beverages, repair, laundry, barber and salon, entertainment and leisure, media and advertising, and miscellaneous personal services
Distributive services	Transportation, logistics, communication, wholesale, and retail

Importance of ESO

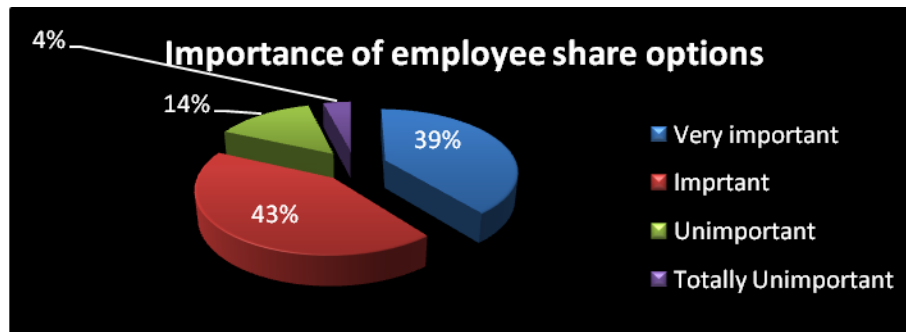
Only 39% of respondents regarded the share option schemes offered by their companies as a preferred reward. The analysis of data revealed that, although ESO schemes exist in organisations, they are not as preferred as (i) developmental opportunities, (ii) salary, and (iii) a quality working environment. In fact, ESO as a reward was ranked *last* as a tool with which to retain and attract talent. It is also interesting to note that ESO were considered more effective in retaining employees than in attracting talent. The comparison of reward preferences is illustrated graphically in Figure 2.

Figure 2: Reward Preferences



Despite the fact the ESO were ranked as the least preferred reward, 82% of the respondents indicated that share options are an important reward mechanism.

Figure 3. Perceived Importance of ESO



No significant relationship was found between the importance of EOS as a talent management strategy and the age, tenure with current employer, level of seniority, or industry profile of the respondents.

ESO and Talent Management

82% of the respondents indicated that share options are an important part of a talent management strategy. In order to determine whether employee share options contribute to the attraction of talent, respondents were asked to indicate which of the factors listed in Table 3 (below) attracted them to their current employer. Respondents were requested to select only one factor.

Table 3: Factors that Attracted Respondents to Current Employer

Developmental opportunities	40%
Quality work environment	24%
Monthly salary	20%
Other, please specify	10%
Other benefits (medical, pension, etc.)	4%
Employee share options	2%

Only 2% of the respondents indicated that they were attracted by ESO to join their current employers. 40% of the respondents cited *developmental opportunities* and 24% cited *working environment* as the main sources of attraction. This finding supports the research conducted by Vaknin (2002), which found

that ESO have lost their magnetism. This presents a challenge to management and companies to revisit the basics of what makes them attractive to desirable employees.

To assess whether ESO contribute to the retention of talent, respondents were asked to indicate which of the factors listed in Table 4 (below) encourage them to stay with their current employers. Respondents were requested to select only one factor.

Table 4: Factors that Encourage Respondents to Remain with Current Employers

Quality work environment	36%
Developmental opportunities	27%
Monthly salary	20%
Employee share options	8%
Other, please specify	6%
Other benefits (medical, pension, etc.)	3%

Only 8% of the respondents cited ESO as the reason why they are encouraged to stay with their current employer. A quality work environment and developmental opportunities far exceeded ESO in terms of perceived retention value.

To assess the significance of ESO in motivating work performance, respondents were asked to indicate which one of the factors listed in Table 5 they considered to be the greatest motivator of work performance.

Table 5: Factors Considered the Greatest Motivators of Work Performance

Quality work environment	33%
Developmental opportunities	29%
Monthly salary	18%
Employee share options	11%
Other, please specify	8%
Other benefits (medical, pension, etc.)	1%

11% of the respondents indicated that ESO motivate them to perform at their best, while 33% cited *working environment* and 29% cited *developmental opportunities*.

Allocation of ESO

Respondents were asked how they would prefer ESO to be allocated. Table 6 presents their preferences.

Table 6. Preferences Regarding Allocation of ESO

Linked to individual's performance	41%
Linked to company's performance	38%
Linked to my team's performance	12%
Other, please specify	9%

The majority of respondents preferred share options to be linked to individual (41%) or company (38%) performance. ESO are usually linked to the company's share performance on the stock market. In this way, reward is linked, not only to individual performance, but to externalities and market forces that are beyond the control of the company or any individual.

The findings reveal that only 48% of respondents prefer a shorter vesting period. This could suggest that these respondents are satisfied with other reward solutions offered by their employers.

GENERALISATIONS FROM THE STUDY

This study suggests that while ESO are seen as an important component of a total reward solution, they are not the primary drivers of the attraction, retention, and motivation of talent. Respondents indicated that the quality of the work environment and the presence of developmental opportunities are far more significant considerations. One of the reasons for this could be the fact that ESO are usually linked to company performance, which has a locus of control that is external to the employee. Reward is thus not based on individual performance, but on numerous factors that are within the control of neither the individual nor the company. This rationale is supported by the fact that the majority of respondents (41%) stated they would like their share options to be linked to individual performance.

CONCLUSION

The purpose of this research study was to explore the views of a sample of employees, industry experts, academics, and professionals to determine whether ESO are an effective talent management tool in South Africa. A survey was designed using themes from the literature and distributed to a potential sample of 4 300 respondents. 256 completed surveys were received. The findings suggest that employee reward preferences have evolved over time. Whilst ESO may have been considered a pivotal component of talent management in the late 1990s, today they are only a component of an expected total reward solution. A quality work environment and developmental opportunities were found to be far more significant drivers of the attraction, motivation, and retention of talent than the offer of ESO. It is suggested that one of the main reasons for this is the employees' desire to have reward linked to individual performance.

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