HOME FIRES

Cos Tweak Esops to Retain the Best

From SARs to sweat equity and stock purchase plans, companies are lining up a bouquet of goodies in various combinations to make it attractive for employees who plan to jump ship

Same Carrots, New Hooks

Stock options have been resurrected in new avatars in a competitive market

PHANTOM STOCKS
These stocks are performance-based plans that provide a ghost/simulated ownership

STOCK PURCHASE PLAN
The employee gets to buy the stocks of the company at a reduced or face value

SWEAT EQUITY PLAN
Shares are given to employees who have developed the business from scratch

STOCK APPRECIATION RIGHTS
These are essentially rightS given to an executive to earn rewards proportionate to the increase in value of the company over a time period

RESTRICTED STOCK UNITS
Grant of specific number of stocks with complete ownership once the vesting conditions have been satisfied. Could be service or performance-based.

CASH LONG-TERM INVESTMENT PLANS
Cash LTIs are given once the pre-set goal has been achieved by the corporate or division. A specific dollar amount is granted once performance has been achieved

Earlier, stock options were like a treasure hunt that every employee would look for. Now, companies have to offer them in combinations so that if one does not work out, the other will

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Leader, Human Capital Advisory, Deloitte India

It is like the Russian roulette where risks are big in some cases but employees are ready to take them, and at times, prefer some of the newer options even on a reduced salary

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Stock options are back in a big way. At a time of major talent crunch and concerns about employability, new forms of employee stock options (Esops) are being used to lure and retain the best performers in organisations. Besides offering phantom stock options, which are performance-based plans with a 'simulated' or 'ghost' ownership, many companies are now seeking help from consultants to institute new kinds of sops. These include stock appreciation rights (SARs), sweat equity and stock purchase plans, among others. The idea is that a bouquet of reward plans – and in various combinations — is more likely to excite employees and keep them back.

Employee stock options were earlier offered mainly to the top brass who had stayed in the firm for a considerable amount of time, or provided to employees on the completion of important milestones by the company. This took a beating during the downturn, but has now been resurrected, say watchers. Many of the new reward instruments have been borrowed from companies in the US, which have been implementing different kinds of Esops for a longer period.

"Stock options were seen as some kind of hidden treasure, where every employee would seek them out. But the lean period in IPOs and markets has made them less popular," says P Thiruvengadam, leader, human capital advisory at Deloitte India. "Now companies have to offer them in combinations so that if one does not work, the other will." Deloitte has seen a 40 % increase in the kinds of stock options offered by companies in the last two years.

The big change is that from being time-bound, the new kinds of esops are now more performance-based — most likely the companies' desperate attempts to tap into, and reward talent. The number of companies providing performance-based stock options went from a mere 3% in 2009, to 19% in 2010, according to a survey conducted by consulting agency ESOP Direct last year. This year, the number is expected to reach 25%. ESOP Direct consults with companies on equity-based compensation, and the survey aimed to find the different instruments of stocks used by employers.

The survey also that showed 93% of the companies who participated in the study, used their stock plans for retention, while about 64% of them wanted to restructure and implement new instruments, like phantom stocks, SARs and stock purchase plans. The names thrown up by industry experts about cmpanies who have used some of the new stock options include Essar, Thomas Cook, Apollo Hospitals, iGate and Infoedge. "Driving performance, sharing of wealth, inculcating an ownership culture among employees are some other objectives," says Harshu Ghate, MD of ESOP Direct.

"Everybody dreams of another Infosys-like situation," says Ronesh Puri, managing director of the Delhi-based search firm Executive Access, referring to the IT company's vaied and innovative reward plans. "But some of the new esops are just old wine in a new bottle. Still, there's no reason to be skeptical about this." Executve Access has found that about 50% of its clients today offer stock options – and this is an increase of 25% since last year.

Infoedge, the company that owns wesites like Naukri.com, provides a cocktail of stock options to employees which includes SARs, restricted stock units and regular ESOPs. This array of sops was started in 2009, and offered to senior managers, AVPs, VPs and above. "Retention is a direct result that has helped us keep our employees engaged and improved their performance as well. Depending on the markets, we may make our stock options more broad-based," says Sharmeen Khalid, HR head for Infoedge. The company, which got listed in 2006, has over 2,000 employees and about 15% of them receive different kind of stock options.

Igate and Patni also recently changed their respective stock options plans after the two companies merged earlier this year. "While the stocks offered previously were time-bound, now we have become more stringent and only offer sops when any milestone is reached. This has been done to make the employee feel more responsible," says a spokesperson from Igate-Patni.

Sweat equity, which is another form of reward plan, is also seeing a comeback. Sweat equity are the shares given to founding-executives who have developed the business from scratch.

"This is done to increase the risk appetite and foster an entrepreneurial spirit among employees. Now it is offered to non-founders who have been integral to the firm's growth," says Banerjie of Absolute HR International. This, of course, is mainly provided by companies that are in their early stages of growth. When they started up, companies like Infosys, Wipro, Satyam Computers, HDFC bank, ICICI bank and Larsen & Toubro all provided sweat equity to employees, says an HR expert.

Many of the new reward instruments have been borrowed from companies in the US, which have been implementing them for long

The CEO of a Pune-based consulting firm, receives 15% of the profits of the Indian branch as sweat equity, and this was included in his contract when he joined the organisation, about four years ago. As the firm grew, the sweat equity given to the CEO also increased. "My performance in the company improves because I know the company has to do well for me to get the money," he explains. "It feels good to know that I get a part of what someone else has invested, but at the same time I know that if I do not perform, my job is on the line."

Adil Malia, the HR head at Essar, says phantom stock options, along with regular esops are offered to employees. Phantom stocks were instituted at the beginning of this year, and are offered to the top three cadres of senior management for the unlisted branches of Essar. Malia refused to disclose the amount, he says it was enough to boost employee output. With phantom stocks, employees are given notional shares at a benchmark price with the right to exit at a future price, which could be the market or traded price, or a price determined on the basis of pre-decided value. This ensures the company does not have to dilute its equity.

The HR head of the healthcare services provider Apollo Hospitals, Jacob Jacob, says his organization is in the process of finalising its esop plans, and therefore could not provide more details. However, an advisory firm expert says phantom stocks would feature quite prominently in the new plans offered to employees.

Similar to phantom stocks are the stock appreciation rights (SARs). These are essentially a right given to an executive to earn rewards proportionate to the increase in value of the company over a period of time. Therefore, if the valuation is at Rs 10 per share, and over a period of time the value becomes Rs 100, then the employee gets to gain Rs 90 as the long-term incentive. Although a difficult plan to administer – and expensive since it makes a considerable dent in the cash-flow of a company – consultants have seen a rise in the demand for these instruments. "We still find a sizeable proportion of unlisted, or soon to be listed, companies adopting the SAR mechanism. We believe that as organisations start seeing value in these programmes, they will pick up," says Anandorup Ghose, practice head for executive compensation and corporate governance at Aon Hewitt.

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