



Saint George Institute

Talent Shares

A new legal instrument for the knowledge economy

*This document presents a new form of incentive for key employees, more effective in our opinion than stock options: **Talent Shares**.*

Adequately prepared and implemented, and in some cases supported by organisational development decisions, this new form of incentive will help:

- *Improving team productivity of intellectual workers,*
 - *Retaining the best talent,*
 - *Developing proactive attitudes,*
 - *Leveraging innovation processes,*
 - *Protecting corporations against hostile industrial or financial raiders.*
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Objective: Create a new instrument to motivate and retain talent, by granting certain employees access to shareholders voting rights and dividends, without the capital gains expectations of stock options.

Legal Instrument: A new class of shares to be created, with the following characteristics :

- Each Talent Share has a face value of one cent ;
- The number of Talent Shares to issue is voted by the Shareholders ;
- The Board of Directors has authority to designate beneficiary employees;
- Beneficiary candidates must a) elect to be candidates, and b) meet access conditions defined by the Board of Directors. (For example minimum seniority, plus successful training, plus sponsoring by two or more senior executives, etc.);
- Talent Shares holders must be committed: they can acquire these shares without investing a purchase price, they must therefore make an investment in the form of a commitment to comply with the “Talent Shares Holders Charter”. This charter will be defined and periodically amended by the Board of Directors, to describe specific personal commitments such as :
 - Make personal talent and knowledge fully available to all parts of the corporation at all times,
 - Accept active participation in cross organizational project workshops and training sessions, over and above current operational duties.
- One Talent Share gives :
 - One voting right in the general Shareholders meeting,
 - And the right to receive the corresponding share of annual dividends.
- The corporation has the right at all times to purchase back any Talent Share at face value, if the access conditions - as defined initially or amended from time to time - are no longer met by the Talent Share holder. Beneficiary candidates formally accept this possibility when acquiring the offered Talent Shares. Under such conditions, the Talent Shares will never become a marketable instrument.

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Analysis:

- Cost
 - For the corporation : the administrative cost to create, allocate and repurchase from time to time these shares;
 - For “normal” shareholders: existing voting rights and dividend expectations will be diluted by the creation of these new shares.

- Benefit

This new instrument will produce three kinds of benefits: financial, motivational, and strategic:

 - Financial : offering Talent Shares will sometimes be a part alternative to paying higher salaries or bonuses, having therefore a beneficial impact on the P&L ;
 - Motivational: this innovation emphasises « being » motivations as opposed to « having » motivations. Being a partner involved in the strategic decisions and being directly interested in the company bottom line will motivate the best talent to be really dedicated and stay longer with their employer. Many surveys conducted in Europe and USA show that this kind of motivation is by far stronger than the hope for capital gains on stock options. (And to cash-in his profit, the stock option holder must cease being a shareholder by selling his shares. This is hardly a motivation to stay). But this motivational benefit will be closely dependant on how Talent Shares allocation will be decided and handled. In particular, Talent Shares allocation rules should not reflect merely age, seniority or ranking, but leave open expectations to valuable talent at all levels. Otherwise frustration might be generated as well as motivation.
 - Strategic: If part of the voting rights is held by the best talent working for the corporation, it will be harder for industrial or financial raiders to take control of the company.

- Accounting for Talent Shares :
 - The share capital of the corporation will not be significantly increased because of the very small face value of the Talent Shares;
 - There will be accordingly no increase on the asset side. (Even though annual reports often state that the most important asset of a company is talent, there is no accounting standard to put a figure on this value).

Implementation: This innovation will require new legal wording to be voted, in particular to make sure that « Talent Dividends » will not be treated as salary by tax and social authorities. It will be better to see such legal work performed at the European level, not only at national level.

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