

Influence of Employee Stock Option Program and Job Satisfaction on Employee Commitment (A Case Study of a Telephone Company in Indonesia)

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ABSTRACT

This study is conducted to analyse how much influence the Employee Stock Option Programme (ESOP) has on job satisfaction on employee commitment at the Financial Directorate of a telephone company in Indonesia. In 2013, the company offered ESOP to all employees including subsidiaries who were still active in 2012 as an incentive for performance in 2012. Variables in this study are ESOP and job satisfaction as independent variables and employee commitment as the dependent variable. Data are collected by distributing a questionnaire to respondents. This research used path analysis techniques to analyse the data. The results showed that employees of the telephone company perceived ESOP as being good, and that job satisfaction and commitment of employees were high. The influence of ESOP and job satisfaction to commitment is significant with a value of 56.3%. Therefore, the company should continue such programmes

Keywords: ESOP, job satisfaction, employee commitment

INTRODUCTION

In today's globalised world, Indonesia is facing intense competition, particularly from advanced countries that have an advantage in technology, capital and human resource. Human resource is a key success factor for all organisations, both big and

small to accomplish their business goals. Therefore, companies have to develop good rapport with their employees. Both parties, companies as well as employees, should mutually recognise one another's need of each other. Keeping in mind that all individuals have goals, a harmonious

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relationship between a company's goals and those of its employees is necessary. It is vital that a company and its employees acknowledge that each has its specific goals that each desires to accomplish.

Providing compensation is one of the ways that may enhance performance and harmonise the goals of a company and its employees. There are many compensation programmes in use among Indonesian companies such as profit sharing and the Employee Stock Ownership Programme (ESOP). ESOP is a stock ownership programme where companies give or sell their stocks in certain amounts to their employees. Robbins and Judge (2013) said that in the 1990s IT companies such as Cisco, Sun and Microsoft relied heavily on issuing stock options to employ and build loyalty between employees and executives.

Telephone companies in Indonesia that provide Initial Public Offerings (IPO) are known to have offered the ESOP programme to their employees in 2013. In this case, the ESOP was a substitute for annual incentives that used to be received in cash. The purpose of this programme was to strengthen employees' sense of belonging to the company so that the commitment of employees would increase and their performance would also improve. As a whole, the performance of an organisation improves when such rewards are distributed to employees. To motivate employees to take part in the ESOP programme, one telephone company offered wealth allowance to buy stocks. This was a form of aid from the company where employees

who participated in the ESOP programme could receive a better reward than those who did not. Employees who did not participate in the programme received cash incentives without a wealth allowance.

Erbasi and Arat (2012) found that there was a significant correlation between financial incentives and job satisfaction. However, employee job satisfaction is influenced by not only the finance factor. Other factors also influence employee job satisfaction. Smith, Kendall and Hulin (cited in Luthans, 2011, p.141) identified five areas that can be used to measure job satisfaction, namely, the job itself, wages, promotional opportunity, supervision by superior and relationship with co-workers. The telephone company considered what factors may enhance employee job satisfaction e.g. freedom of using an appropriate method in accomplishing work, incentives, promotional opportunity for all employees etc. Wu's (2007) research in Taiwan showed that satisfaction derived from an ESOP programme could influence employee commitment to the organisation. The telephone company did not measure the satisfaction of its employees as a result of the implementation of the ESOP. To increase the effectiveness of an ESOP programme, conducting a study of ESOP implementation is indeed crucial. Accordingly, one of the purposes of this study was to analyse employee perception of the implementation of the ESOP in the telephone company. The research was also intended to measure employee job satisfaction and employee commitment and to test the extent of the

influence of the ESOP on employee job satisfaction and the extent of the influence of the ESOP and job satisfaction on employee commitment both partially and simultaneously. According to Robbins and Judge (2013), ESOPs are one of the indirect financial incentives offered to employees as compensation for their work results (output). The ESOP is a benefit received by employees as stocks. It is usually offered to employees at a price below the market price. This is done as an employee benefit. ESOPs are often conveyed not in physical stock ownership, but rather as a stock nominal i.e. it is expected that employees would not sell the stocks while still working for the company.

When ESOPs are given as an incentive, the determination of the amount to offer may use incentive indicators. According to Handoko (2001), indicators commonly used in determining the amount of an incentive are: (1) performance, tying the amount of the incentive to the performance of the employee; (2) duration of work, where the amount of the incentive is determined by the time taken by the employee to accomplish a job; (3) seniority, where length of service or seniority of the employee in an organisation is considered; (4) necessity, where the urgency level of the employee's decent living needs is taken into account; (5) justice and feasibility, where existence of relationship between sacrifice (input) and output is considered; and (6) evaluation of position, where relative value or price of a position is determined so as to set a ranking in deciding on the amount of the incentive.

With reference to the indicator number 5 above, justice and feasibility, it should be noted that the higher the sacrifice, the higher is the incentive expected. In addition to justice in providing incentives, feasibility is also considered. This refers to the relative amount of incentives that other companies in the same business are providing to their employees.

Robbins and Judge (2013) suggested that job satisfaction could be defined as a positive feeling derived from one's work as a result of evaluation of its characteristics. Someone who experiences high job satisfaction has positive feelings towards his or her job. According to Bussing et al. (cited in Luthans, 2011, p. 141), there are three dimensions that are common to job satisfaction. First, job satisfaction is an emotional response to the employment situation. Second, job satisfaction is often determined by how large the results obtained are when compared with expectations. For example, if employees feel that they are working harder than others but receive fewer rewards, then they will develop a negative attitude towards their job, boss and colleagues. They become dissatisfied. On the other hand, if employees are treated very well and paid fairly and equally, then they tend to have a positive attitude towards work. They will be satisfied with their work. Third, job satisfaction is representative of inherent attitude.

The five dimensions formulated by Smith, Kendall and Hulin (cited in Luthans, 2011, p.142) are widely used to measure job satisfaction. The validity of the listed

indicators, the job itself, wages, promotional opportunity, supervision and relationship with co-workers, has also been done. The dimension of the job itself is used to evaluate the difficulty level an employee faces when accomplishing his or her job. An interesting job offers employees the chance to learn and experience new things and offers them the opportunity to receive new responsibilities. The wages dimension is an evaluation of employees on the fulfilment of their living necessities and the suitability between the wages rate and the duties accomplished. The dimension of promotional opportunity is an evaluation of whether or not employees have the chance of advancing their career during service. The dimension of supervision is a form of evaluation to evaluate the employees' attitude towards their supervisor. The dimension of co-worker is the employee's evaluation of other workers in the same working group.

Newstrom (2011) defined organisational commitment or employee loyalty as “the degree to which an employee identifies himself or herself with the organization and wants to actively keep participating in it” (p.175). Organisational commitment can be distinguished into three, namely, affective commitment, continuance commitment and normative commitment (Allen & Meyer, 1990). Affective commitment refers to the relationship between employees and their organisation that encourages them not to leave the organisation because the relationship is based on emotional bonding. Continuance commitment depicts the need

of individuals to remain in an organisation due to the recognition of related costs if he or she leaves the organisation. Meanwhile, normative commitment is a situation where an individual will remain in an organisation out of a sense of duty.

Research Model

This study employed two variables and indicators that could be measured using statistical testing, namely:

- a. The independent variable used was the Employee Stock Option Programme (ESOP) (X1). The indicator of its measurement was developed by the writer by adjusting company's needs and employees' job satisfaction (X2) by measurement indicators based on the Job Description Index (JDI) used by Smith et al. (cited in Luthans, 2011, p.145) combined with the Minnesota questionnaire.
- b. The dependent variable used was employee commitment (Y) by a three-dimension breakdown from Allen and Meyer (1990).

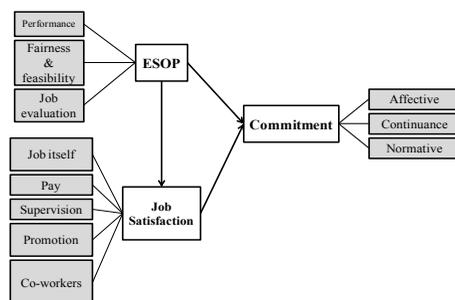


Figure 1: Research model

Research Hypotheses

- a) The Employee Stock Ownership Programme (ESOP) has a significant influence on employee job satisfaction.
- b) The Employee Stock Ownership Programme (ESOP) has a significant influence on employee commitment.
- c) Employee job satisfaction has a significant influence on employee commitment.
- d) The Employee Stock Ownership Programme (ESOP) and employee job satisfaction have a significant influence on employee commitment.

RESEARCH METHOD

The research used the causal research method because it was intended to determine the influence of the Employee Stock Ownership Programme (ESOP) and employee job

satisfaction on employee commitment. The research population was the entire staff of a telephone company, numbering 155 employees in total, with 111 employees selected as a sample. The data collection techniques used were the interview and the questionnaire. The scale employed in the questionnaire was a 5-point Likert scale.

Before the questionnaire was distributed to respondents, the validity and reliability of the questionnaire were tested. The data analysis technique used was path analysis. Path analysis examines the structural causality of independent variables and dependent variables by considering the relationship between the independent variable and the model complexity (Foster et al., 2006).

RESULTS AND DISCUSSION

Respondent Profile

Table 1
Respondents' Characteristics

Type of characteristic	Aspects	Frequency	Percentage
Gender	Male	66	59.5%
	Female	45	40.5%
Age	< 30	13	11.7%
	30 – 35	24	21.6%
	36 – 40	4	3.6%
	41 – 45	18	16.2%
	46 – 50	14	12.6%
	> 50	38	34.2%
Length of service	< 5	7	6.3%
	5 – 10	33	29.7%
	11 – 20	18	16.2%
	21 – 30	43	38.7%
	> 30	10	9.0%

Employees' perception of the ESOP was categorised as good with the sub-variable of performance resulting in the highest score and the sub-variable of evaluation resulting in the lowest score. This means that the employees agreed that the ESOP should be provided on the basis of job results. The highest value was for employee pride in the ESOP. Thus, the existence of the ESOP made the employees feel pride as they possessed some of the company's stocks.

The employee job satisfaction variable recorded a high value. The sub-variable of relationship among employees resulted in the highest score, while the sub-variable of wages resulted in the lowest score. This indicated that the relationship among employees resulted in satisfaction for the employees, and the wages dimension received the lowest level of satisfaction

compared to other dimensions. The commitment variable was perceived by the employees as being high. Both the dimensions of affective commitment and sustainable commitment gained the same scores, while the dimension of normative commitment gained the lowest score.

Hypothesis testing was conducted in two stages. The first stage determined the influence of the ESOP on job satisfaction. The second stage determined the influence of the ESOP and job satisfaction on commitment both simultaneously and partially.

Sub-Structural 1

The results of data processing in sub-structural 1 using the SPSS 20 programme are given below.

Table 2
Analisis of Sub-structural 1 Regression

Model	Unstandardised Coefficients		Standardised Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	27.752	2.924			
ESOP	0.966	0.112	0.637	8.623	0.000

a. Dependent Variable: Satisfaction

Table 3
Coefficient of Determination 1

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.637 ^a	0.406	0.400	6.44222

a. Predictors: (Constant), ESOP

Ho: $\rho_{X_2X_1} = 0$ The Employee Stock Ownership Programme has an insignificant influence on employee job satisfaction.

Ha: $\rho_{X_2X_1} \neq 0$ The Employee Stock Ownership Programme has a significant influence on employee job satisfaction

In Table 3 the R-squared value was entered as 0.406. This means that the extent of the contribution of the influence of ESOP on job satisfaction was 40.60%, with the remaining 59.40% being influence from other variables beyond the model. Based on the data, the causal influence of the ESOP and job satisfaction could be described by a structural-1 equation as follows:

$$Y = 0,637 X + 0,771 \varepsilon_1$$

Based on Table 2, the value of Sig. ESOP is 0.000. The value of Sig. 0.00 was less than the value of probability or $0.00 < 0.05$, so Ho was rejected and Ha accepted. Thus, it could be concluded that the ESOP had a significant influence on job satisfaction.

Sub-Structural 2

The results of data processing in sub-structural 2 are given in Tables 4, 5 and 6.

Table 4
Anova 2

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2235.208	2	1117.604	69.566	0.000b
	Residual	1735.063	108	16.065		
	Total	3970.270	110			

a. Dependent Variable: Commitment
b. Predictors: (Constant), Satisfaction, ESOP

Table 5
Analisis of Sub-Structural 2 Regression

Model	Unstandardised Coefficients		Standardised Coefficients		T	Sig.
	B	Std. Error	Beta			
(Constant)	6.873	2.459			2.795	0.006
ESOP	0.283	0.090	0.259		3.135	0.002
Satisfaction	0.404	0.060	0.559		6.771	0.000

a. Dependent Variable: Commitment

Table 6
Coefficient of Determination 2

Model	R	R Square	Adjusted R-Square	Std. Error of the Estimate
1	0.750a	0.563	0.555	4.00817

a. Predictors: (Constant), Satisfaction, ESOP

In the structural-2 equation, the hypothesis test was performed both simultaneously and partially as follows:

a. Simultaneous (whole) test

Ho: $\rho_{YX1} = \rho_{YX2} = 0$ The Employee Stock Ownership Programme and employee job satisfaction have an insignificant influence on commitment.

Ha: $\rho_{YX1} = \rho_{YX2} \neq 0$ The Employee Stock Ownership Programme and employee job satisfaction have a significant influence on commitment.

The results of the simultaneous (whole) test can be seen in Table 4 by Fcount of 69.566 and a Sig. value of 0.000. Based on the rule of the SPSS programme significance test, because the Sig. value of 0.000 was less than 0.05, Ho was rejected and Ha accepted. Thus, it could be concluded that the variables of ESOP and job satisfaction simultaneously had a positive, significant influence on employee commitment. Therefore, a partial (individual) test could be done.

Based on Table 6, the value of the R-squared was found to be 0.563. This meant that the extent of the contribution of the influence of the ESOP and job satisfaction on employee commitment was 56.3%, the remaining value being the influence

of other variables beyond the model. In Table 5, it could be seen that the value of the ESOP path coefficient on employee commitment was 0.259, while the value of the path coefficient of job satisfaction on employee commitment was 0.559. The causal influence of both ESOP and job satisfaction on employee commitment could be shown by the structural-2 equation as follows:

$$Y = 0,259 X_1 + 0,559 X_2 + 0,661 \varepsilon_2$$

b. Partial (individual) test

In the structural-2 test two hypotheses were tested individually, namely:

1) The influence of the ESOP on employee commitment

Ho: $\rho_{YX1} > 0$ The Employee Stock Ownership Programme has an insignificant influence on employee commitment.

Ha: $\rho_{YX1} = 0$ The Employee Stock Ownership Programme has a significant influence on employee commitment.

Partially, the results shown in Table 5 demonstrate that the t_{count} value of the influence of the ESOP on employee commitment was 3.135 and the value of Sig. ESOP $0.002 < 0.05$. Thus, Ho was rejected and Ha accepted. Therefore, it could be concluded that the ESOP had a positive, significant influence on employee commitment. This means that

the implementation of a good employee stock ownership programme tended to enhance employee commitment.

The percentage of the contribution of direct influence of ESOP on employee commitment was $0.259 \times 0.259 \times 100\% = 6.70\%$. The percentage of the contribution of ESOP indirectly on employee commitment (X_1 to Y by X_2) was $0.637 \times 0.559 \times 100\% = 35.61\%$. Thus, the percentage of the contribution of ESOP on employee commitment was $6.70\% + 35.61\% = 42.31\%$ in total.

- 2) The third hypothesis was the influence of job satisfaction on employee commitment.

Ho: $\rho_{YX_2} > 0$ Job satisfaction has an insignificant influence on employee commitment.

Ha: $\rho_{YX_2} = 0$ Job satisfaction has a significant influence on employee commitment.

A second partial test was conducted to find out the t-count value of job satisfaction on employee commitment, where a result of 6.771 was obtained, and the Sig. value of job satisfaction was $0.000 < 0.05$. Thus, Ho was rejected and Ha accepted. Therefore, it could be concluded that job satisfaction had a positive, significant influence on employee commitment. The percentage of the contribution of job satisfaction on employee commitment was $0.559 \times 0.559 \times 100\% = 31.25\%$.

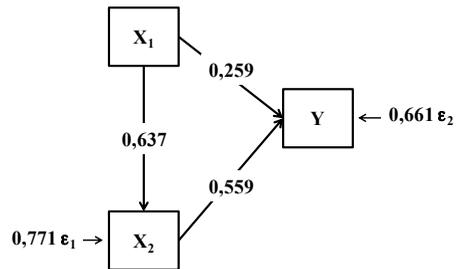


Figure 2: Diagram of the results of the path analysis

ESOP has influence on both job satisfaction and employee commitment. However, the influence of job satisfaction on employee commitment (31.25%) was greater than that of ESOP (6.70%). This means that job commitment was influenced more by employee satisfaction. Therefore, in order to enhance job commitment, the management should focus on paying attention to job satisfaction in general. Based on the result of the study descriptively, a factor that management should pay attention to in enhancing job satisfaction is wages. In terms of wages, the aspects to consider in enhancing performance are a match between the wages rate and the responsibility level of the employee and fulfilment of life needs. Accordingly, more research is needed into the effects of payroll on employee satisfaction. In addition, the research results also showed that the ESOP had influence on job satisfaction by 40.60%. Thus, the ESOP was also an aspect that needs special attention, although the extent of its direct influence on employee commitment was not particularly high.

CONCLUSION

The following conclusions were made based on the results of this research.

1. Employee perception of the ESOP was good. The majority of employees perceived that the ESOP they received in 2013 matched their performance and it encouraged them to work more industriously, more actively and more self-sufficiently. The ESOP they received had upheld feasibility and fairness among all employees, and matched the position of employees.
2. Job satisfaction among the employees was generally already high. The majority of the employees were satisfied with their work as well as with their wages, the supervision they received and the promotional opportunities available.
3. In general, the employees displayed high commitment to the company, be it affective, sustainable or normative commitment.
4. The results of the influence test disclosed that the ESOP had a positive, significant influence on job satisfaction, meaning that the better the implementation of the ESOP, the higher the job satisfaction level of the employees. The extent of the contribution of the ESOP on job satisfaction was 40.60%, the remaining being influence from other variables beyond the model.
5. Both simultaneously and partially, there was influence of the ESOP and job satisfaction on employee commitment.

Simultaneously, the ESOP and job satisfaction had a positive, significant influence on employee commitment, with a contribution of 56.30%, the remaining 43.70% being influence from other variables. Partially, the ESOP had a positive, significant influence on job satisfaction, meaning that the better the ESOP, the higher the employee commitment. The extent of the contribution of indirect ESOP influence on employee commitment was 35.61%; therefore, total contribution of ESOP to employee commitment was 42.31%. The same applied to job satisfaction, that is, partially it had a positive, significant influence on employee commitment. The extent of the contribution of the influence of job satisfaction on employee commitment was 31.25%, the remaining being influence from other variables beyond the model.

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