

## Getting Your Money's Worth: Measuring the Effectiveness of Equity Compensation Programs

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### **The Design-Administration Continuum**

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- Close the loop between program design and administration
  - How is the process (design-admin) now conducted?
  - How should it be conducted?
- How do you know if you got good advice from your compensation consultant?



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## About ACAS

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- Director, Equity Compensation Programs
- Type of share plans
  - Stock option plan
  - Incentive bonus plan
- Participation
  - Broad-based
  - U.S., Germany, France, U.K., Spain
  - 600 participants



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## Effective Equity Compensation: ROI

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### Costs

- Administration
- Accounting
- Shares
- Opportunity

### Benefits

- Recruit
- Retain
- Productivity
  - Working hard
  - Working smart



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## Equity Compensation Effectiveness Survey

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- Funded by Schwab
- Managed by National Center for Employee Ownership (NCEO)
  - Research and information nonprofit
  - Founded in 1981
  - [www.nceo.org](http://www.nceo.org)



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## Equity Compensation Effectiveness Survey

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- Sources of data
  - 2001 NCEO Study with Dr. Katherine Klein  
*1,700 employees at 17 companies*
  - Ongoing NCEO employee surveys  
*7,000 employees at 36 companies*
  - Public academic research
  - Custom-written items



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## Measuring EC Effectiveness

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- Do plan participants...
  - know *what* they have?
  - *value* what they have?
  - know how to *get* it?
  - know how to *affect* it?



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## Measuring EC Effectiveness

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- Do plan sponsors...
  - understand why employees participate in 401(k) and/or stock purchase plans?
  - know what employees do with their equity compensation?
  - know if equity compensation makes a difference in...
    - retention?
    - motivation (performance)?



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## Demographics

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- Gender
- Age
- Work location
- Education level
- Years of service
- Job classification
- Annual pay



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## Understanding Equity Compensation

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- In which of the following programs do you currently participate?

	My company does not offer this program	I am not eligible for this program	I choose not to participate	I participate
Stock Options				
ESPP				
401(k)				
[Other?]				



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## Understanding Equity Compensation

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- This company has explained to employees how the [equity compensation] program works.
- I understand the tax consequences of my [equity compensation] package.
- I find [equity compensation] fairly confusing.



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## Understanding Equity Compensation

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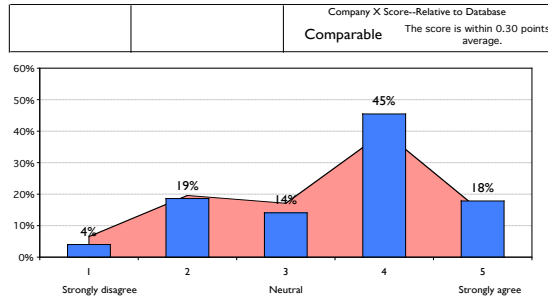
- When the time comes for me to exercise or sell my stock options, I know what steps I need to take to complete the transaction.
- When the time comes for me to sell the stock I purchased through the ESPP, I know what steps I need to take to complete the transaction.



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## Understanding Equity Compensation

"I really understand how [equity compensation] works."



\* indicates statistical significance ( $p < 0.1$ )  
† indicates high statistical significance ( $p < 0.001$ )

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## Value to the Employee

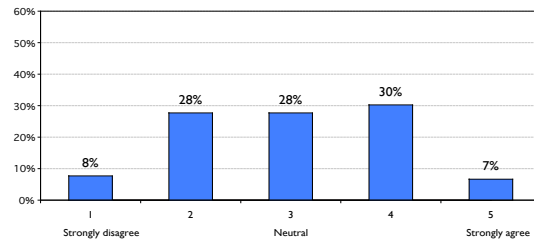
- This company goes to great lengths to teach employees the value of [equity compensation].
- I know how much money I'd make if I exercised my options and sold my shares today.
- [Equity compensation] is over-rated as an employee benefit.

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# Value to the Employee

"If I were to consider looking for a job at another company, my [equity compensation] at this company would be an important factor in this decision."

Company X Score--Relative to Database	
Not available	There is no comparison data



\* indicates statistical significance (p<0.1)  
 † indicates high statistical significance (p<0.001)

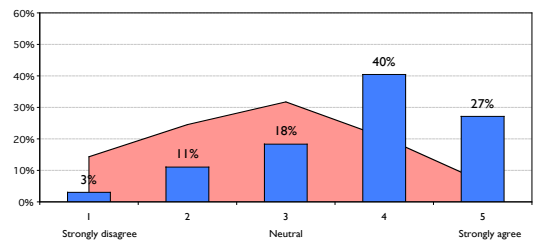


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# Value to the Employee

"I feel like a real owner in this company."

Company X Score--Relative to Database	
Much Stronger	The score is at least 0.50 point database average.



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 † indicates high statistical significance (p<0.001)



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## Performance Linkages

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- At this company, the better an employee's performance evaluation, the more stock options he or she receives.
- At this company, there is no relationship between how well an employee does his or her job and the number of stock options the employee receives.



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## Performance Linkages

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- [Equity compensation] motivates employees at this company to improve the company's performance.
- [OurCo] employees feel it is important to know how [their workgroup] affects the bottom line.

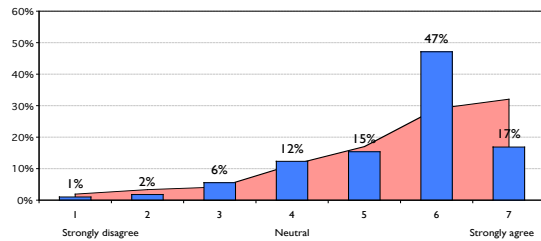


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# Performance Linkages

"People recognize that the future value of their [equity compensation] depends on the success of the company."

		Company X Score-Relative to NCEO Database <b>Comparable</b> The score is within 0.30 points average.
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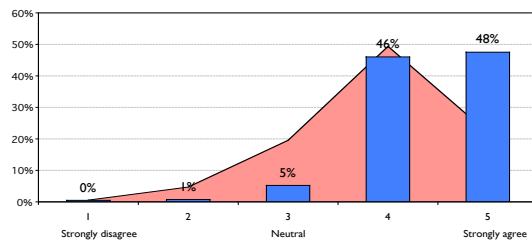
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# Performance Linkages

"I often think about what I can do to improve my company's performance."

		Company X Score-Relative to Database <b>Stronger</b> The score is at least 0.30 point database average.
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## Information Sharing

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- The company makes a sincere effort to share information with employees.
- People here feel “in the dark”—they don’t know what is happening with the company.



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## Motivation

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- When the company really needs it, I am willing to do extra work to get the job done.



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## Retention

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- Which one of the following four statements best describes how you think of your current job? Is it..
  - A LONG-TERM job you will stay in?
  - An opportunity for ADVANCEMENT in this SAME company?
  - Part of a CAREER or profession that will probably take you to DIFFERENT companies?
  - A job you will probably LEAVE that is NOT part of a career?



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## Retention

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- How much loyalty would you say you feel toward the company you work for as a whole?
  - A lot of loyalty
  - Some loyalty
  - Only a little loyalty
  - No loyalty at all



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## Financial Views, Goals, and Needs

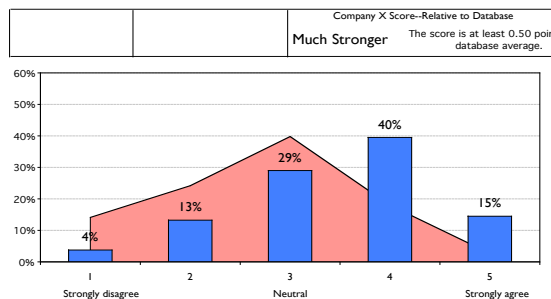
- I set financial goals for myself.
- This company's future performance will affect my financial security.
- I receive my fair share of company successes.
- [Equity compensation] is an expected part of the benefit package for people who have jobs similar to mine.



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## Financial Views, Goals, and Needs

"My [equity compensation] will provide me with substantial financial gains in the future."



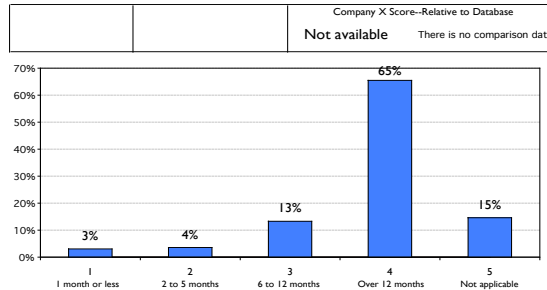
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## Financial Views, Goals, and Needs

"How long do you expect to hold on to your current [equity compensation] after it becomes vested?"



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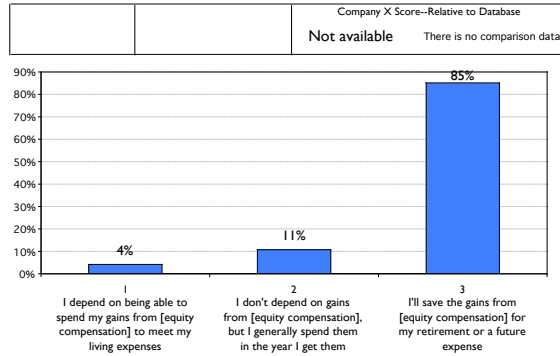
## Financial Views, Goals, and Needs

- What percentage of your pay do you typically put into the...
  - 401(k) plan?
  - ESPP?
- On average, how long have you held on to shares...
  - after the exercise of stock options?
  - acquired through an ESPP?

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## Financial Views, Goals, and Needs

"Which of the following best describes the way you use or plan to use the gains from your [equity compensation]?"



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## Financial Views, Goals, and Needs

- How do you decide what to do with your gains from equity compensation?
  - I do my own financial planning.
  - I get advice from friends, colleagues or family members.
  - I work with a professional financial advisor.

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## What's in it for You?

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- Save money, shares and time
  - Targeted communication and education programs
  - Greater perception of value
  - More appropriate design and re-design
  - Better alignment of company and employee
  - More efficient administration



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## Easy to Participate: Questions to Answer

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- When do you want to conduct the survey?
- Who do you want to survey?
- Will the survey come from the NCEO or your company?
- From whom is the invitation (call) to participate?
- Who do you want to invite to the analysis party?



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## Easy to Participate: Contact Us

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