

EFFECTIVE SHARE PLAN STRATEGIES THAT IMPACT ORGANIZATIONAL STRATEGIC AND FINANCIAL OUTCOMES

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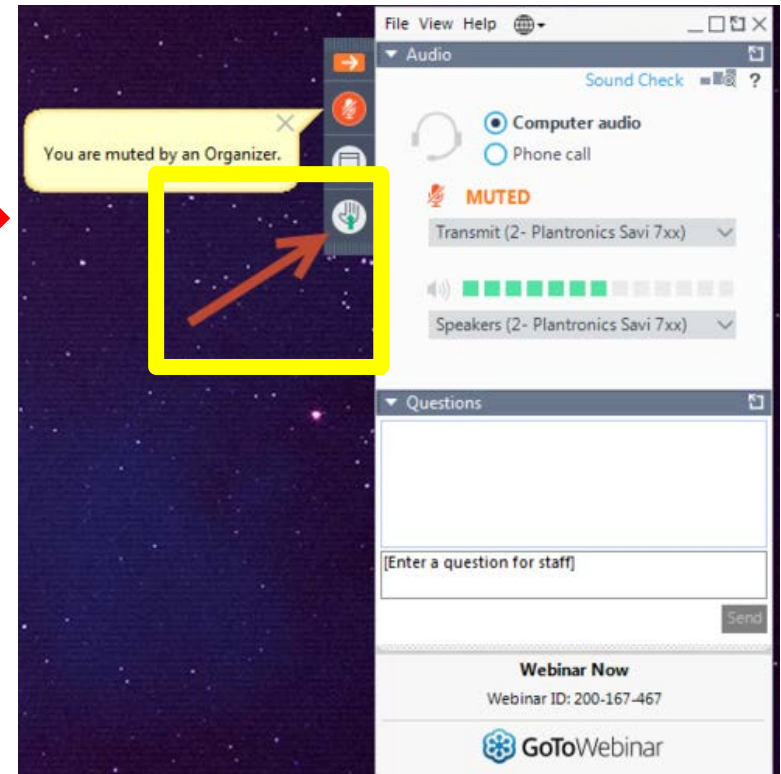
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- › Presentation qualifies for one CEP credit
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Introductions



Dr. Bill Castellano, Professor of Strategic HR Management, Rutgers University School of Management and Labor Relations

Dr. Bill Castellano is Professor of Strategic HR Management at Rutgers University School of Management and Labor Relations. He is also the Executive Director for the Center for Employee Ownership and an Executive Committee member of Rutgers Institute for the Study of Employee Ownership and Profit Sharing.

Bill also serves as a board member of the Global Equity Organization. Bill is the former Chair of the HR Department and Associate Dean of External Engagement and Executive and Professional Education and former Director of the Center for HR Strategy. His research, teaching, and consulting activities are focused on understanding the impact of employee ownership and equity compensation strategies on individual and organizational outcomes, the strategic management of human capital, employee engagement, and developing leaders for the challenges of the 21st century.

Bill has over forty years of experience working in corporate Fortune 50, entrepreneurial and research environments. Before joining Rutgers University, he held senior HR management positions at Merrill Lynch and Manufactures Hanover Trust where he was involved with human resource strategies and practices that supported both individual business groups and the global enterprise.

Bill is an accomplished researcher publishing his work in practitioner and academic journals and is a frequent speaker at national HR and business conferences.

Introductions



Charlie Russo, Vice President, Relationship Management, Computershare

Charles Russo is a regional manager for Computershare's Plan Management business, overseeing a team of relationship managers responsible for a portfolio of corporate clients across a wide range of industries. Since joining Computershare in 2008, Charles has leveraged his experience in the employee compensation business to ensure high levels of quality and satisfaction for all of his clients. Prior to joining Computershare, Charles was with UBS, Bankers Trust and JP Morgan. During his thirty-plus years of financial services experience, he has held positions in relationship management, product management and operations, across various disciplines. Charles earned his B.S. and MBA in Finance from Fordham University.



Effective Share Plan Strategies that Impact Organizational Strategic and Financial Outcomes

Computershare Webcast

1/23/2020

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Executive Director of Rutgers Center for Employee Ownership

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Presenter Biography




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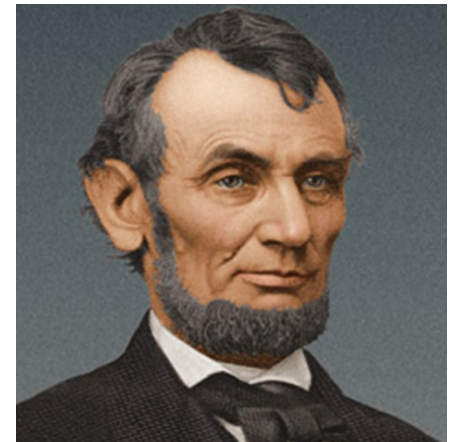
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Share Plan Strategies that Impact Strategic and Financial Outcomes

- Brief History of Capital Shares in the US
- Current Economic Trends
- Current State of Employee Ownership
- Creating Effective Share Plan Strategies:
 - Accumulating Wealth and Managing Risks
- Creating an Employee Ownership Culture:
 - Implementing Complementary practices and programs

Brief History of Capital Shares in the U.S.

- Washington signs law on Feb 16, 1792 to divide tax credits among cod fisherman and owners. 5/8ths going to the crew.
- Over the next 100 years Presidential administrations supported practical policies to broaden land ownership, including cheap pricing, the use of leverage (similar to the ESOP idea), and homestead grants as in Lincoln's Homestead Act.
- The initial idea was to broaden the ownership of land to grow an independent middle class whose economic stability would support political liberty.



Brief History of Capital Shares in the U.S.

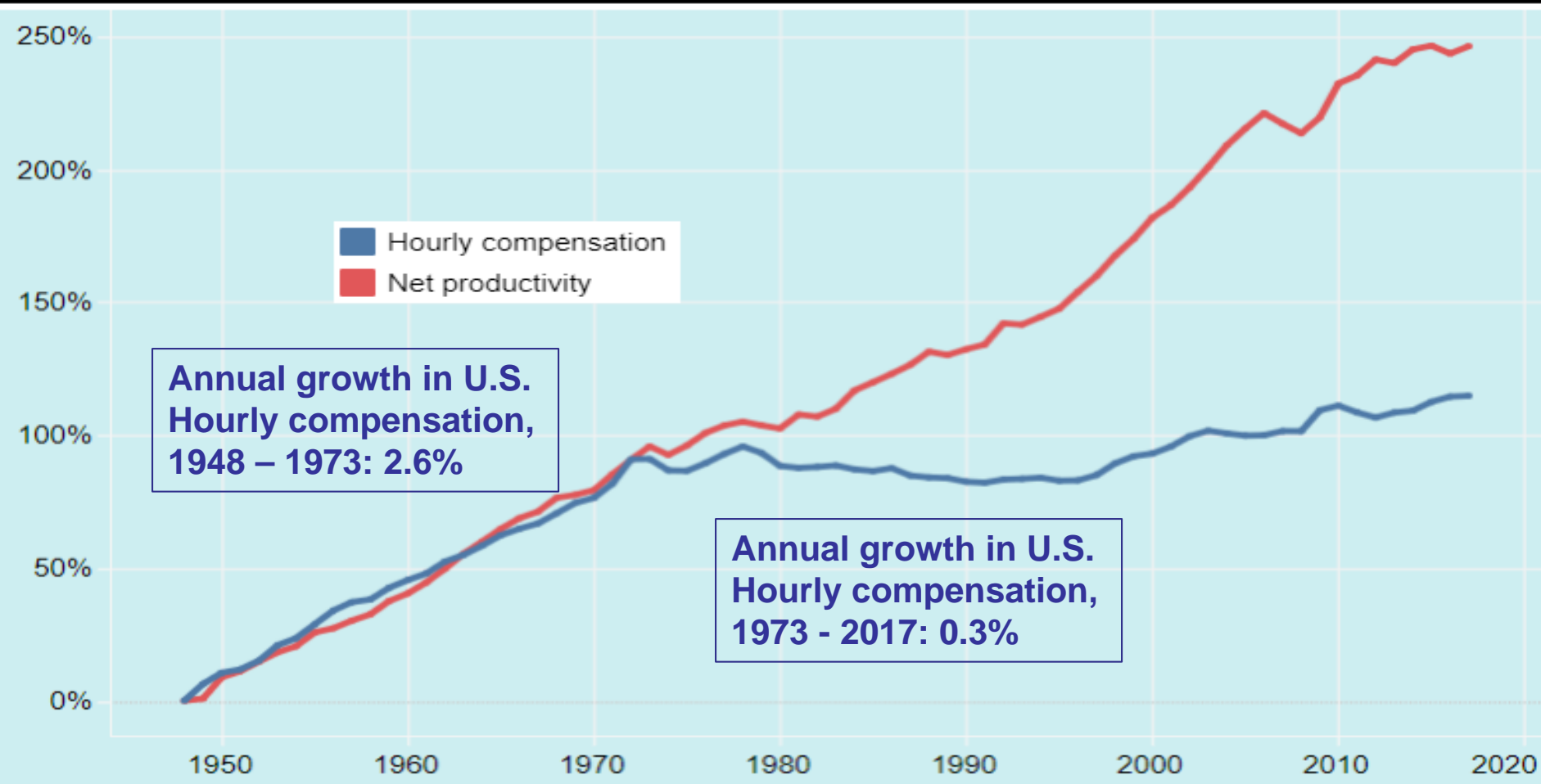
- Representative Galusha Grow said that the future of the homestead idea was in **shares in corporations**.
- By the end of the 1800s and in the early 1900s industrialists such as Charles *Pillsbury*, George Eastman (*Kodak*), and William Cooper Procter (*Proctor & Gamble*) developed a number of models similar to broad-based stock options and the ESOP using leverage.



Decoupling of Productivity and Income Growth

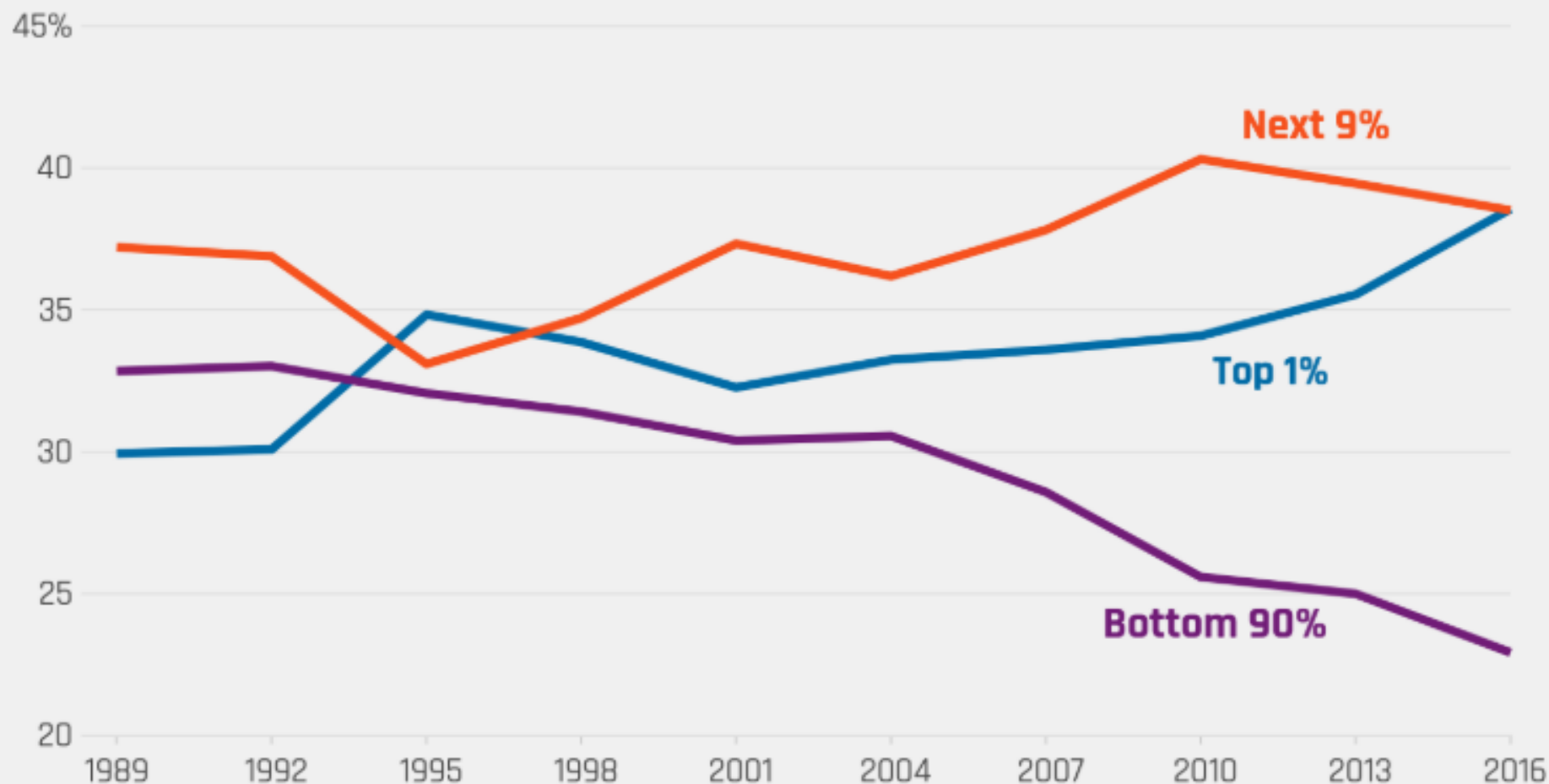
Worker Pay Has Not Kept Pace With Productivity Since the 1970s

U.S. productivity and average hourly compensation growth, 1948–2017



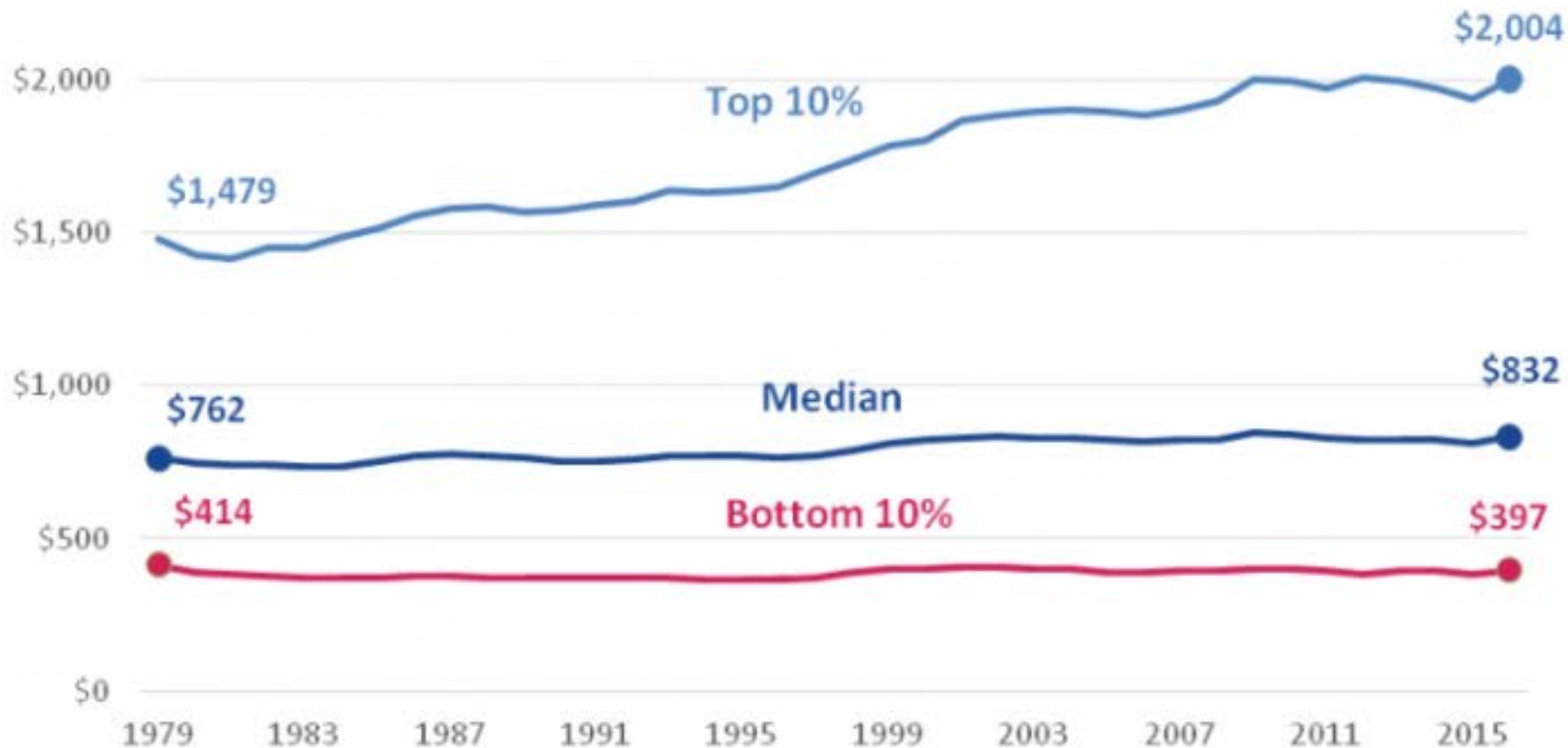
The wealthiest Americans own an increasing share of wealth

Shares of wealth in the United States by wealth percentiles, 1989-2016



Source: Authors' calculations using Federal Reserve Board, "Survey of Consumer Finances" (2017)

U.S. Real Weekly Wages, 1979-2016

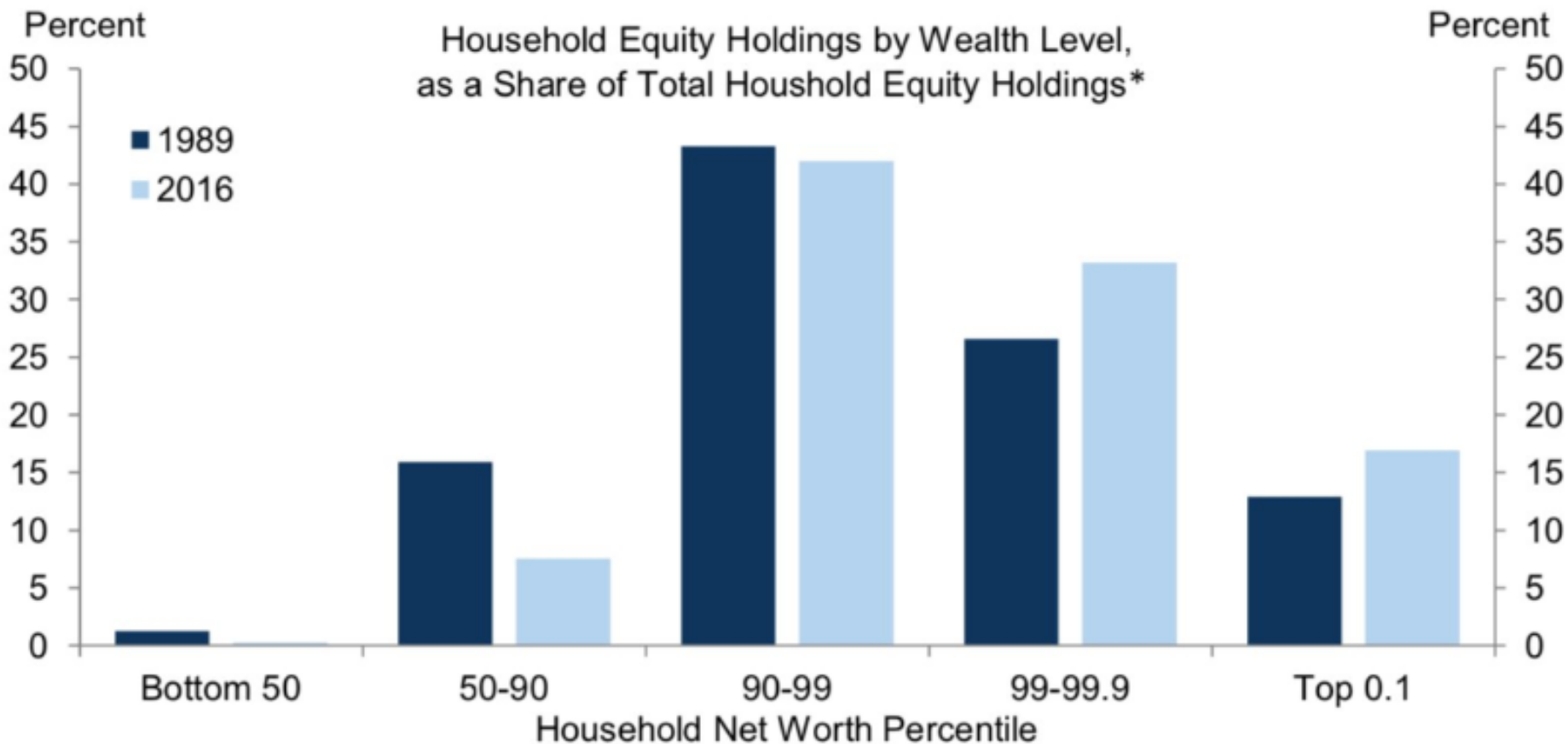


Source: Bureau of Labor Statistics.

Top 1% Share of Total U.S. Income, 1913-2015



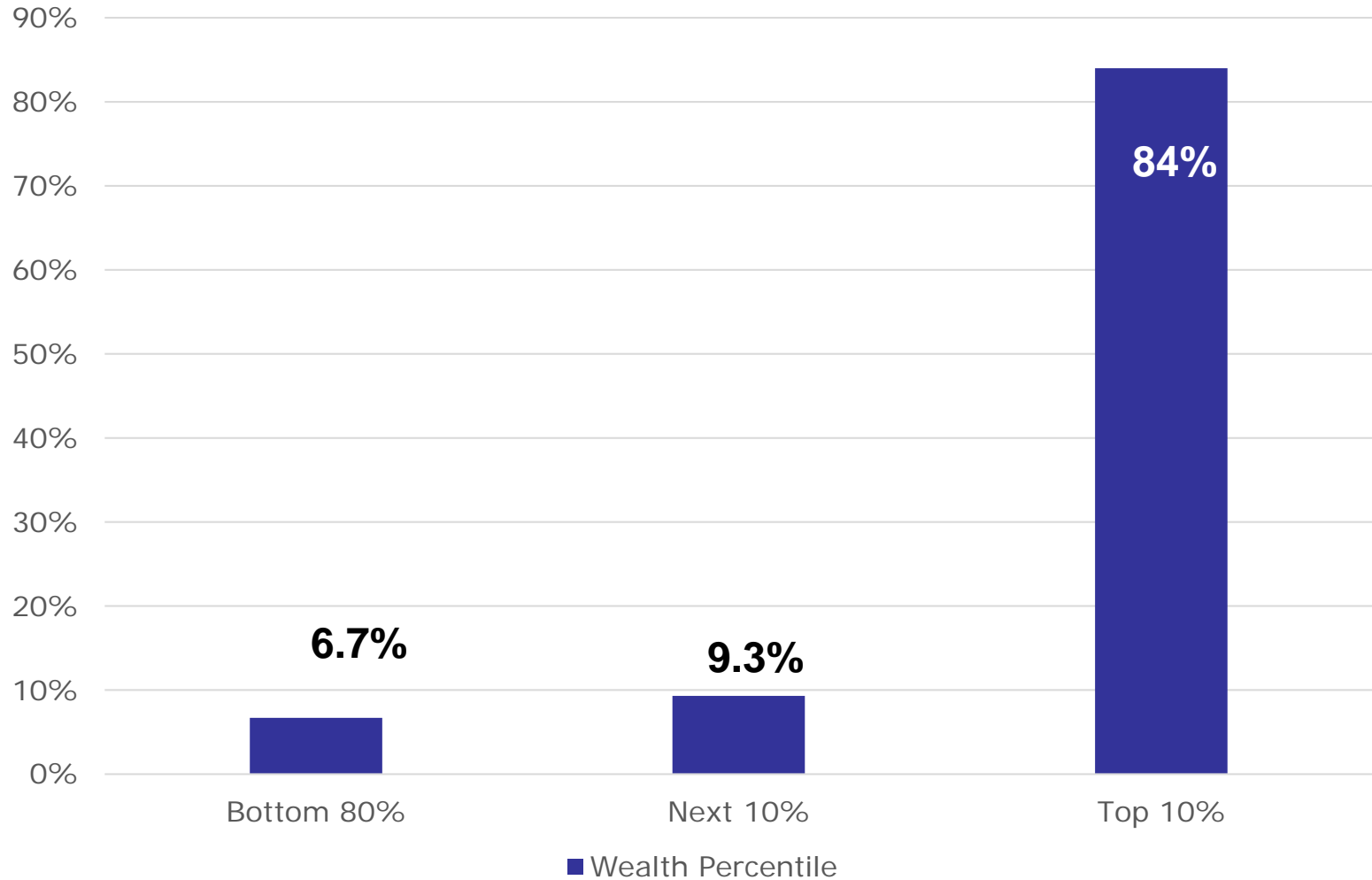
Stock Ownership is More Concentrated Among Wealthy Households



*Sum of directly held stocks, stock mutual funds and 50% of combination mutual funds.

Source: Federal Reserve Board

Stock Ownership By Wealth Percentile



Source: Household Wealth Trends in the U.S. 2016

Employees' Investments in Employer Stock

- **15.3% of families** with private-sector employees had employer stock in their portfolio, with 10.5% owning stock in pension plans and 6.9% holding employer stock directly.
- **4.5% of those in the lowest quarter of income** (0 - \$36,455) had any employee share ownership, compared to **27.3% of those in the highest quarter** (\$110,377 or more).
- Data includes **all forms** of employee ownership – direct purchase, grants, and ESOPs.

Source: Survey of Consumer Finances 2016

Equity: How Much?

- Average, the nation: \$111,200
 - Median, the nation: \$ 6,000
- } **Significantly Skewed**
-
- Mean, lowest 25% income: \$6,300
 - Mean highest 25% income: \$231,800
- } **Significantly Concentrated**
-
- Employee share ownership as a percent of **families' net worth** is 7.2% on average, and 3.1% at the median

Equity: Why?

**Equity
Compensation**

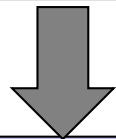


Return on Equity Contribution



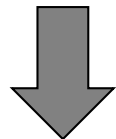
Employee Outcomes

- Higher Commitment
- Lower Turnover
- Discretionary Effort
- Co-Monitoring
- More Suggestions



Strategic Outcomes

- Productivity
- Innovation



Financial Outcomes

- ROE

Share Plan Strategies that Impact Strategic and Financial Outcomes

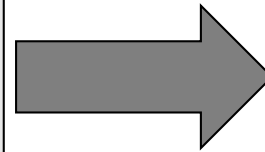
Strategies for **increasing** organizational strategic and financial outcomes:

- Helping Employees Accumulate Wealth and Manage Risks
- Implementing Complementary Practices and Programs that Create an Ownership Culture

Accumulating Wealth and Managing Financial Risks

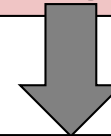
Equity Compensation Strategy:

- No Wage Substitution
- LT Equity + ST Profit Sharing
- Separate Diversified Retirement Program
- Equity Grants and Discounts

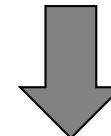


Greater Employee Outcomes

- Higher Commitment
- Lower Turnover
- Discretionary Effort
- Co-Monitoring
- More Suggestions



Greater Strategic Outcomes



Greater Financial Outcomes

No Wage Substitution

Ensure Fixed Pay Is At or Above the Market

- Wage substitution negates all the benefits of equity compensation by increasing employees' financial risks
- Wage substitution will diminish employee participation in equity plans
- Wage substitution violates the ideas of reciprocity
- Research shows that most organizations that offer equity programs, offer such plans on top of market levels of pay

Offer Both Long-term and Short-term Programs

Offer LT Equity and ST Profit/Gain Sharing Programs

- Viewing equity as part of compensation can lead to short-term thinking and underfunding of long-term retirement objectives and fewer “employee share owners.”
- Offering both ST and LT programs encourages employees to accumulate equity for their LT savings needs
- Research shows that LT vesting periods keep employees from putting too much focus on ST performance
- Studies have shown that vesting periods generally range from one to seven years, with four years as the most common

Have a Separate and Diversified Retirement Program

Equally important is not to substitute retirement benefits for equity awards

- Based on Portfolio Theory, having a separate and diversified retirement program mitigates the risks of equity ownership
- Separate retirement programs significantly increases employees' willingness to participate in employers share plans
- Research shows that employees should not have more than 15% of a diversified portfolio invested in one stock

Provide Equity as a Grant or Purchased Under Favorable Conditions

Provide Equity as a Grant, Discount Price, or Favorable Lookback Options

- Totally or partially reduces employees' risk equity and significantly increases share ownership
- Research shows that the less engaged employees tend to respond favorably to equity-grating programs; employees already engaged tend to participate more often in stock purchase programs

Implementing Complementary Practices and Programs

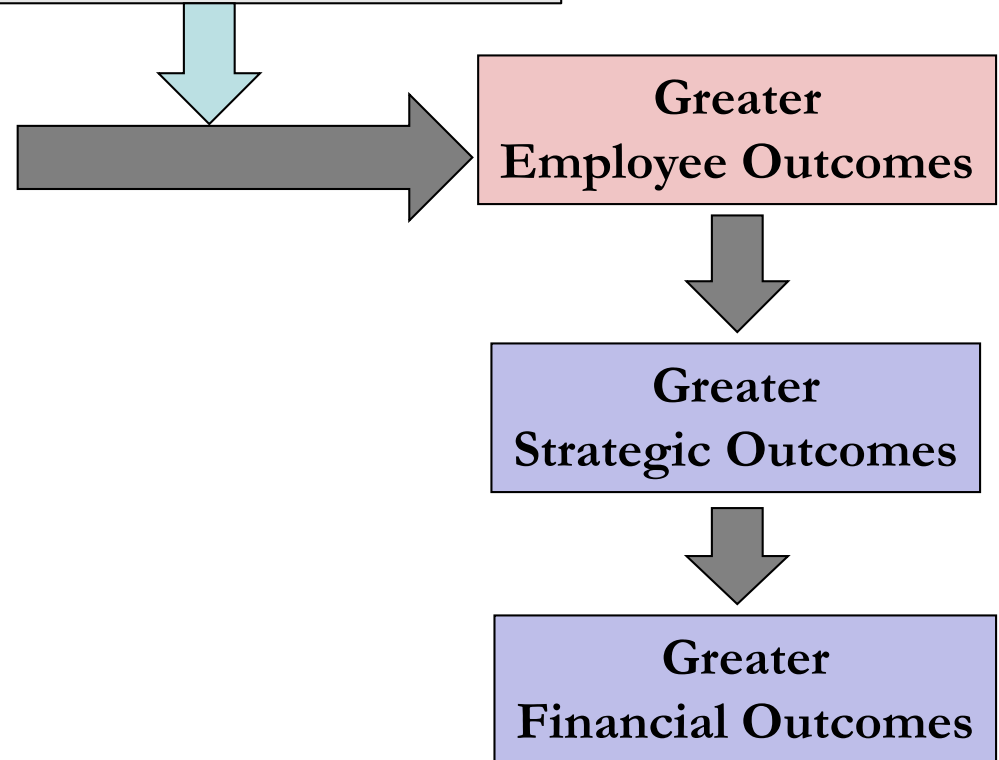
- Information Sharing
- Empowerment
- Employee Involvement
- Training & Development
- Participatory Management
- Financial Wellness

Ownership Culture

Equity Compensation

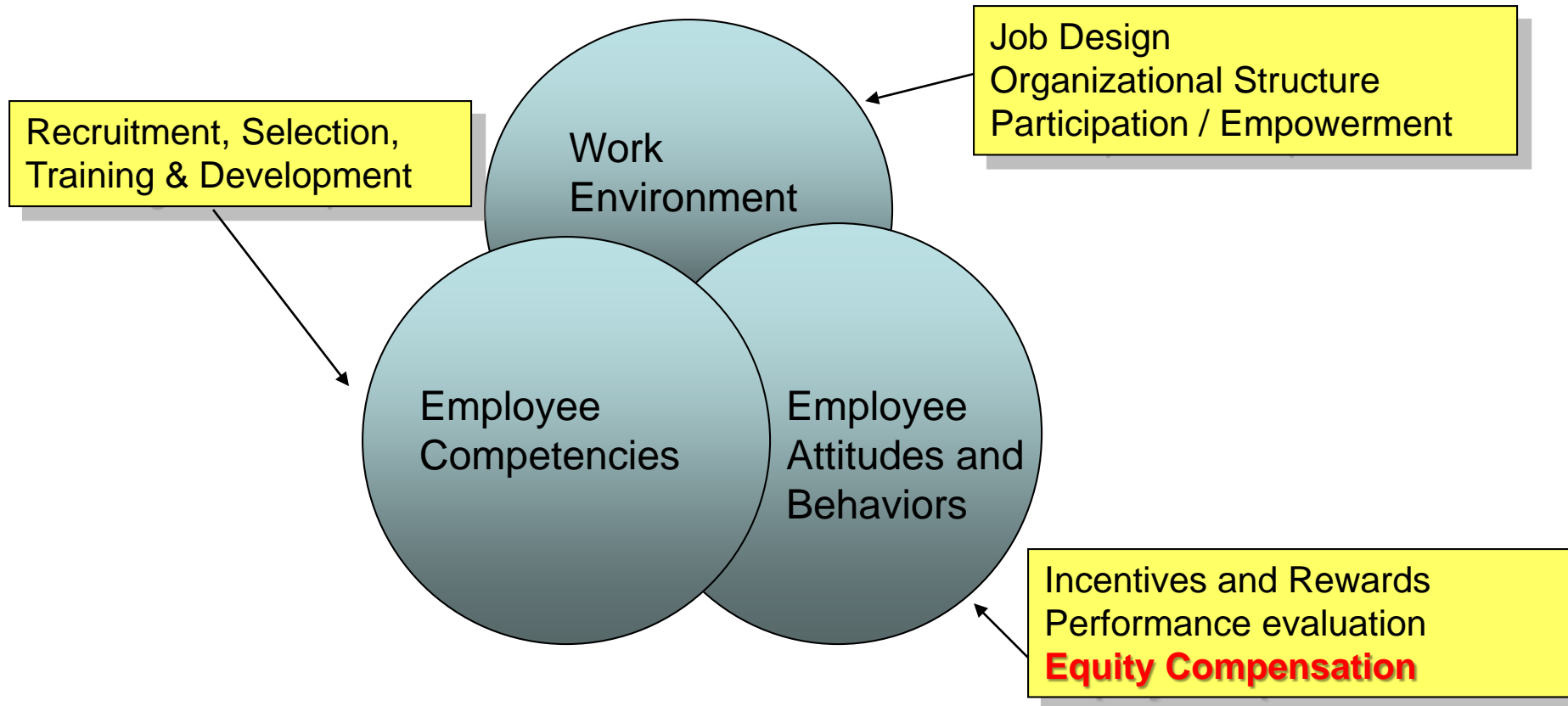
Strategy:

- No Wage Substitution
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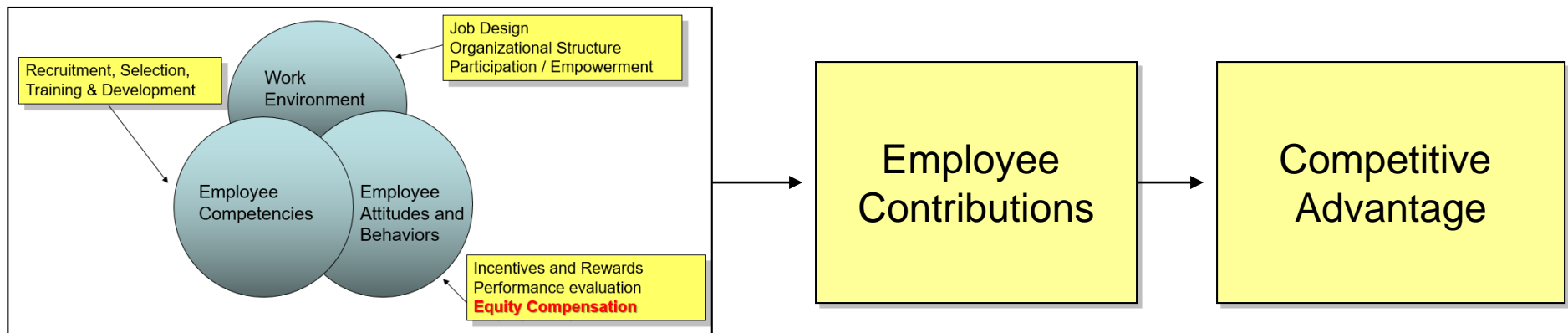
Equity Comp as Part of an HR System

An **HR system** refers to how different HR practices are used in combination to address three primary issues:



Strategic HR Management

Strategic HR Management refers to the use of different HR practices to encourage employee contributions that facilitate the achievement of competitive advantage.



Enhance Employee Information Sharing

Share information about the firm's strategic, financial, and day-to-day business decisions.

- Employees who know their companies' business are more likely to own equity.
- Research shows this is a signal that their employer both trusts them and is trustworthy, enhancing employees attachment to their company.
- And increase employees' perceptions of “psychological ownership”

Empower Employees To Be More Accountable

Empowering employees by giving them greater authority and responsibilities create a culture of ownership

- Research shows this further enhances employees' sense of psychological ownership, which aligns employees interests with the long-term interests of employers
- Employees who feel like owners are more likely to increase their equity stake and share in the success of their employers.

Involve Employees in Decision-Making

Employee share owners want to be involved in decision-making that impacts organizational outcomes

- Including employee-involvement teams, problem-solving work groups, self-directed work teams, and open-book management.
- Research shows that employee share ownership was directly linked to greater participation in decision-making and monitoring fellow employees.

Offer More Training and Development

It makes strategic sense to provide employee-owners with the means to improve performance

- Equity compensation and training are key components of a high-performance work system
- Investing in employee training increases employees' commitment to the organization and willingness to support organizational goals
- Research has shown that investments in employee-owners skills can enhance firm survival and employment stability

Create a Participatory Management Philosophy

Managers play a crucial role in the implementation of these high-performance practices

- Managers that embrace participatory management encourage employees to think and act like owners by sharing information, empowering employees, and involving them in decision-making
- They provide employees with the opportunity to develop skills
- They recognize employees' accomplishments
- Our research found that employees excel and trust in management when they are not closely supervised

Offer Financial Wellness Programs

Educating employees about the importance of accumulating wealth and managing risks are essential components of an ownership culture.

- An effective financial wellness program educate employees about the two biggest risks of equity ownership:
 - First, the risk of not participating in these programs
 - Second, the risk of not being properly diversified
- As noted, research shows that employees should not have more than 15% of a diversified portfolio invested in one stock

RUTGERS Provide Employees Information on Equity Holdings

Delivery Method	Pro	Con
Live Presentation	Dynamic and Interactive	Limited Audience
Streaming Presentation	Dynamic and Interactive	Limited Interaction
E-mail	Fast and Large Audience	Static and Limited Interaction
Wiki	Real-time updated content & Employee Engagement	Constant Maintenance / Monitoring
Internal Web Site	Large amount of information in centralized location	Access may be restricted or not available to all employees
Blog	Deliver timely and event driven information	Limited Scope / Quickly Outdated
Letter	Deliver information to participants that do not have access internally.	Participants may not read or incorrect address
Flyer or Handout	Deliver information when posting online is not an option	Limited Audience

Outcomes

A wide body of research shows these share-plan strategies and HR practices have:

- Increased employees' long-term wealth
- Increased employee engagement and commitment
- Increased productivity
- Decreased turnover rates
- Increased company survival rates
- Increased overall financial performance

Results Are Big Data Driven

Rutgers Institute for the Study of Employee Ownership and Profit Sharing / NJ/NY Center for Employee Ownership

- **National Bureau of Economic Research** with support from the Rockefeller Foundation and the Russell Sage Foundation
- **General Social Survey** of NORC/University of Chicago with support from the NSF and EOF and your taxes
- **Great Place to Work** Institute with support from the Alfred P. Sloan Foundation
- **US Department of Labor** Form 5500s with support from your taxes.

Rutgers Institute for the Study of Employee Ownership and Profit Sharing



- Largest research operation in the world
- More than 120 research fellows
- 10-20 competitive research fellowships per year
- A major presence in Federal and State policy
- Offer two major research conferences annually
- Home of NJ/NY Center for Employee Ownership
- www.Ownership.Rutgers.edu

Rutgers Center for Employee Ownership



- ***Raise awareness.*** Communicate our research and sponsor seminars and conferences on the benefits of employee ownership.
- ***Create more employee ownership.*** Provide technical advice through our faculty and advisory board to increase the number of new companies offering employee ownership.
- ***Improve New Jersey's and New York's economy.*** Offer training programs and advice to help companies strengthen New Jersey's and New York's economy by retaining, developing, and expanding the local workforce through employee ownership.

Contact Information

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