

Topics in Corporate Governance: Techniques in Equity Compensation

Class 5: Shareholder Concerns; Ownership Culture; Discussion and Summary; Prep for Final Exam

August 27, 2018
6:30 to 9:30 PM

Shareholders Concerns Regarding Equity

- Dilution of Current Equity
 - The Real Current Cost of Dilution
 - \$100K in cash = $X * \$100K$ in value
 - \$100K of stock = \$100K of dilution
 - Cash is short term – participation is long term
 - Legal and Tax Considerations
- The Concept of Equity
 - Internal Equity (standard of fairness)
 - External Equity (market measures)
 - Effective Equity(results oriented)

Keys to Successful Use of the Currency of Equity

- Commit to a portion of earnings as funding resource and stick to it
- Make critical design decisions as transparently as you can
- Relate rewards to specific achievements
- Don't pay profit sharing without profit
- Communicate the basis for programs and report on it timely and frequently
- Sometimes the fairest way is unfair

Equity and Fairness are not the Same Thing!

Internal Equity

- Range of Compensation
 - Spread between Highest and Lowest
 - Comparable Value for Comparable Contributions
 - “Perceived Fairness”
- The Relativity of Fairness

External Equity

- Market Proofing
 - Economic Research Institute
 - Other Industry Data Resources
- The Relativity of Incentive

EXECUTIVE COMPENSATION ASSESSOR

Individual Position Profile

COO			
Estimated Survey Mean Annual Base Salaries			
Revenue	10th Percentile	Survey Mean	90th Percentile
1,000,000,000	187,733	395,378	655,500
100,000,000	119,672	252,153	417,856
10,000,000	86,637	182,634	302,507

Specifications		Annual Base Salaries Graph																	
Prepared For:		<table><caption>Estimated Data Points from Annual Base Salaries Graph</caption><thead><tr><th>Revenue (millions)</th><th>All Industries (Green)</th><th>eSIC: 0000, NAICS: 0000000, usSEC: 0000 (Red)</th><th>Organization Size: 100,000,000 (Blue)</th></tr></thead><tbody><tr><td>10</td><td>306,000</td><td>173,000</td><td>108,000</td></tr><tr><td>100</td><td>499,000</td><td>280,000</td><td>145,000</td></tr><tr><td>1,000</td><td>662,000</td><td>390,000</td><td>173,000</td></tr></tbody></table>		Revenue (millions)	All Industries (Green)	eSIC: 0000, NAICS: 0000000, usSEC: 0000 (Red)	Organization Size: 100,000,000 (Blue)	10	306,000	173,000	108,000	100	499,000	280,000	145,000	1,000	662,000	390,000	173,000
Revenue (millions)	All Industries (Green)			eSIC: 0000, NAICS: 0000000, usSEC: 0000 (Red)	Organization Size: 100,000,000 (Blue)														
10	306,000			173,000	108,000														
100	499,000			280,000	145,000														
1,000	662,000			390,000	173,000														
Area:	United States Average																		
Industry:	All Industries																		
Industry Codes:	eSIC: 0000, NAICS: 0000000, usSEC: 0000																		
Organization Size:	100,000,000 (Revenue)																		
Planning Date:	December 2, 2007																		
Database as of:	October 1, 2007																		
Annualized Salary Trend: (unavailable)																			
eDOT:	189 117-006																		
O*Net/SOC:	111011																		
Printout Date:	December 2, 2007																		
ERIXA File:																			
(items in bold affect salary estimates)																			

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EXECUTIVE COMPENSATION ASSESSOR

Position Description

COO

COO

Alternate Titles

Chief Operating Officer; President & Chief Operating Officer; Top Operations Officer; Vice President Operations

Overview

Directs, plans, controls, and coordinates the operating activities of an organization toward the achievement of established objectives.

Typical Functions

Responsible for the design, operation, and improvement of the system that creates and delivers the organization's products or services.

Oversees and adjusts organization's processes and operations as necessary to ensure efficient and effective execution of policies and procedures.

This position is typically the second highest executive in the organization.

Title practices differ among organizations

For organizations that use the title of Chief Executive Officer for the highest executive, the second highest executive may have the title of President, President and Chief Operating Officer, or other variations.

For organizations who use the title of President for the highest executive position, the title of the second highest position is often Chief Operating Officer.

While titles may vary, this position is distinguished as the second highest executive whose responsibilities include operations.

This position is nearly always the second highest paid position in the organization and is responsible for the entire operations of an organization related to policies, practices, and attainment of operating goals, while reporting directly to a CEO or Board of Directors.

Provides operational guidance in analyzing and appraising the effectiveness of organizational operations.

Participates in the planning, development, implementation, and evaluation of strategic business and performance goals, short- and long-term objectives, plans, budgets, programs, and policies.

Evaluates operating results throughout the organization to ensure that organization growth and objectives are being met.

Guides and leads other members of management.

Monitors the capital expenditure and asset redeployment activities.

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Effectiveness

- Start with Clear Objectives
 - Unambiguous Goals Improve Design
- Perform Constant Monitoring
- Insist on Accountability
 - Fairness is not the Board's Charge
- Review and Update as Factors Change

Building a Culture of Ownership

A Reminder of the Most Important Point!

An Ownership Culture Implies a Community of Stakeholders

How Can I Create a Community of Stakeholders?



What we can learn from the “100 Best”:

- The “100 best” culture is non-threatening
- They have supportive, participative environments
- They encourage learning and training
- They have a clear, shared vision
- They give passionate customer service, but not at the expense of employee dignity and respect
- Employees trust the people they work for and have a real stake in success.

» Levering, The Great Places to Work Institute

The “100 Best Companies to Work For” also understand the role of a broad base of Stakeholders in Success

- 84 of the top 100 offer equity incentives to employees
- 45 of the 84 offer broad-based stock plans
- And, according to the Russell Investment Group, the “100 Best” produced more than 3 times the gains of the broad stock market over the last seven years!

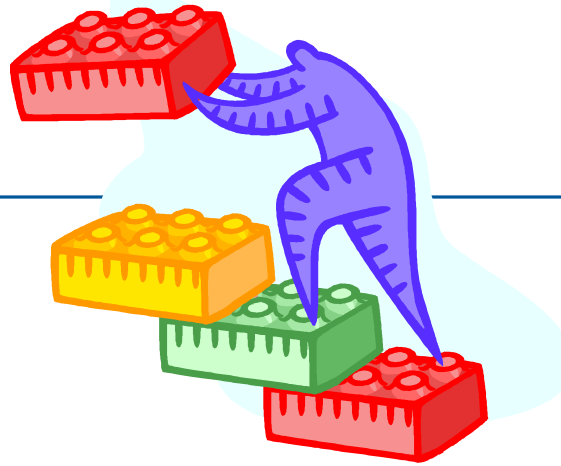
Sources: NCEO, Great Place to Work Institute

Moving from Great Employees to a Community of Stakeholders: 5 Factors

- Information
 - “What do I need to know to have an effect on the success of the enterprise?”
- Autonomy
 - “Do I have the ability to have an effect on the success of the enterprise?”
- Opportunity
 - “Will I benefit from the success of the enterprise?”
- Respect
 - “Are my contributions to success acknowledged and valued?”
- A Stake in the Outcome
 - “Will my family and I be able to benefit directly from the success I am helping to generate?”

Don't Ever Forget:

- **Start From the Objectives**
 - Don't homogenize multiple goals
- **Carefully Plan Strategies**
 - Strategies are not Tactics
- **Select Tactics That Fit**
 - Beware of Hammer Salesmen
- **Monitor Results**
 - If it isn't measured, it doesn't exist



The Culture of Ownership Doesn't Develop Just Because Management Wants or Allows it to...

The Culture of Ownership is built by all our stakeholders working together to build it!

Our Major Strength as well as Our Major Vulnerability is our own Leadership

Effective Leadership in an Engaged Company

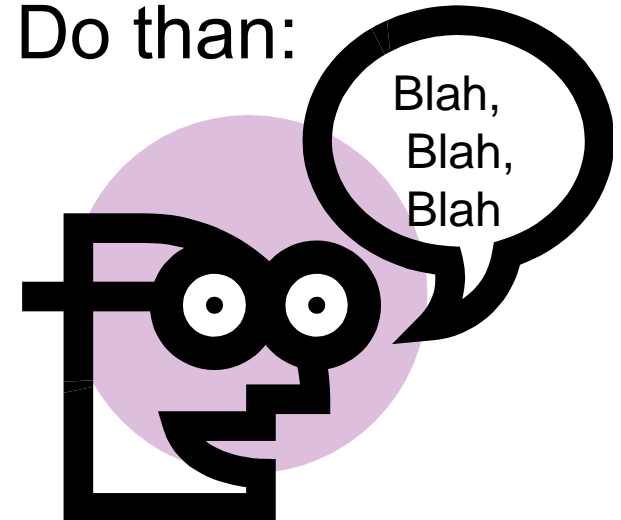
Leadership Basics in an Ownership Culture...

- Ownership Culture acknowledges that the success of the organization is never the result of the effort of a single person. Our Leaders' are at rest. They see the contributions that are made at all levels of the company and they value and are grateful for them all.
- Ownership Culture is transparent (at least not obsessed with secrecy).
- Ownership Culture acknowledges that the realities of the company are shared experiences, employee owners can only contribute to success if they know what's going on.
- Our Leaders know that talking about ownership or a community of owners without making that a reality is worse than saying nothing at all.

What Employees Expect From Leaders...

- It's really More About What You Do than:

- What you say
- What you think or plan
- What title they carry



Leadership Goes Beyond the Boardroom



The Best Way to Communicate is...

Just Say What's True.

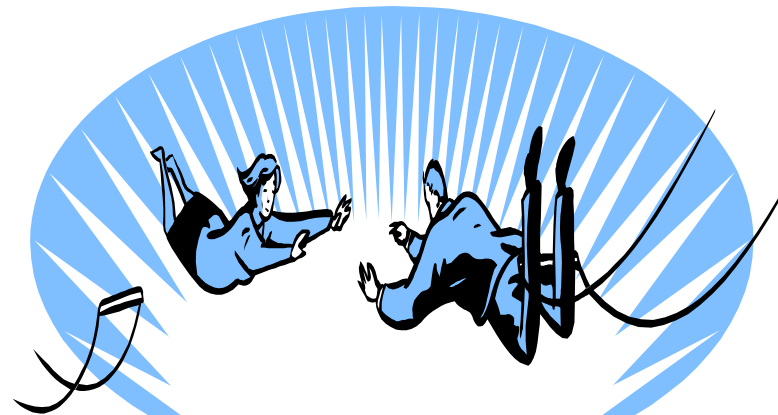
Spinning and slanting and obfuscation and euphemism have no place in the EO Stakeholder's toolbox.



“I gave up Lying Altogether and it Cut What I need to Remember by 90%.”
~Mark Twain

Respect Is a Hard Thing to Fake...

- An Ownership Culture requires an atmosphere of respect and that has to be created.
- Respect cuts both ways – it is to be both given and required and it includes a willingness to communicate both good and not so good without agendas
- Trust is the Result



Humility...

Our Leaders Know Where They Fit in the Plan...



“It’s hard to lead a cavalry charge
if you think you look funny on a horse.”

~Adlai Stevenson

Crisis Management...

Our Leaders Don't Magnify Stress...



“The real man smiles in trouble, gathers strength from distress, and grows brave by reflection.”

~Thomas Paine

Honesty...

“The Best Argument, Always, is to Just Say What’s True.”

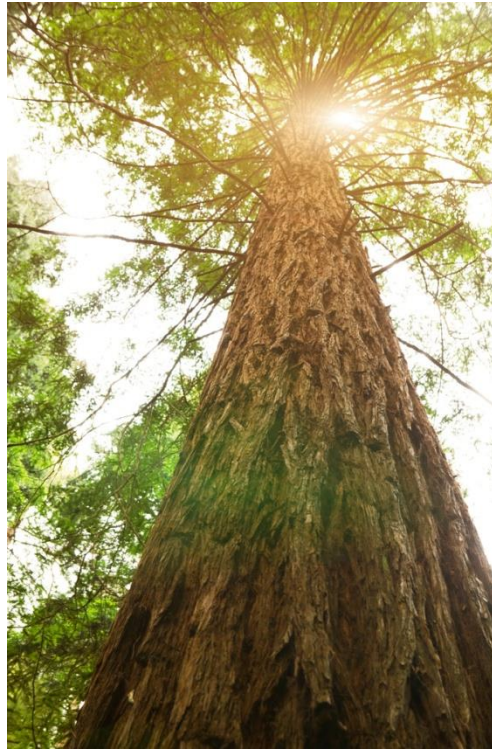


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Perspective ...

Our Leaders Are Open to Others' Ideas



“Leaders shouldn’t attach moral significance to their ideas: do that and you cannot compromise”

~Peter Drucker

Flexibility...

Our Leaders Can See Both Sides



“I am a man of fixed and unbending principles,
the first of which is to be flexible at all times”
~Everet Dirksen

People Sense ...

Our Leaders Surround Themselves with Leaders



“Pity the leader caught between unloving critics
and uncritical lovers.”

~John Gardner

Our Leaders Understand that:



A Sense of Ownership is like a Sense of Lunch!

Example is the Great Leader's Resource...

Leaders Walk the Talk...



Setting an example is not the main means
of influencing others, it is the only means.”

~Albert Einstein



...Being a cheerleader Is Part of the Job...

Final Exam

Self Administered

My Contact Information

Alumni of this class are entitled to a free hour (or two) of consulting on related topics: Forever!

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