

RUTGERS

School of Management
and Labor Relations

NJ/NY Center for Employee Ownership

2nd Annual Conference

Employee Stock Ownership Plans & Equity Compensation

October 26, 2018



Bringing together the worlds of Research, Policy, and Practice

WELCOME

Dr. Bill Castellano

Chair and Professor HRM Department

Executive Director of Rutgers NJ/NY Center for Employee Ownership

Rutgers University School of Management and Labor Relations

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

Rutgers NJ/NY 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.

Thank You To Our Sponsors!



AGENDA

8:30 a.m. – 9:30 a.m.	Registration and Breakfast	
9:30 a.m. – 10:30 a.m.	<p>Conference Welcome General Session: Thinking Strategically about Your Equity Compensation Program</p> <p><i>William Castellano, Ph.D.</i> <i>Department Chair/Professor</i> <i>Executive Director, Rutgers NJ/NY Center for Employee Ownership</i> <i>Rutgers School of Management and Labor Relations</i></p>	
<p>Session 1 10:45 a.m. – 11:45 a.m.</p>	<p>ESOP Track Business Succession, the ESOP Value Proposition, and Alternatives</p> <p><i>John Vitucci, Principal,</i> <i>Employee Benefit Services,</i> <i>PKF O'Connor Davies</i></p>	<p>Equity Compensation Track Trends in Equity Compensation Programs</p> <p><i>Sharmon Priaulx, Managing Director,</i> <i>PricewaterhouseCoopers,</i> <i>People and Organization and</i> <i>Maria Robins, Vice President,</i> <i>Morgan Stanley</i></p>
11:45 a.m. – 12:45 p.m.	Lunch	

AGENDA

<p>Session 2 1:00 p.m. – 2:00 p.m.</p>	<p>ESOP Track Valuation and Financial Fairness Considerations in ESOP Transactions</p> <p><i>Aziz El-Tahch, Managing Director, Valuation Advisory, Stout Risius Ross, LLC</i></p>	<p>Equity Compensation Track Offering an Employee Stock Purchase Plan Your Participants Will Value</p> <p><i>Charles Russo, Vice President, Regional Manager, Computershare</i></p>
<p>Session 3 2:15 p.m. – 3:15 p.m.</p>	<p>ESOP Track Legal and Fiduciary Responsibilities</p> <p><i>James G. Steiker, Chairman and CEO, SES ESOP Strategies</i></p>	<p>Equity Compensation Track Financial Wellness and Equity Plan Value</p> <p><i>Nupur Bahal, Executive Director, Workplace Financial Wellness, UBS</i></p>
<p>Session 4 3:30 p.m. – 4:30 p.m.</p>	<p>Company Panel - ESOP</p> <p>Menke & Associates, Inc. <i>Phil DeDominicis, Managing Director</i></p> <p>Turtle & Hughes, Inc. <i>Chris Rausch, Chief Financial Officer</i></p> <p>Visual Graphic Systems Inc. <i>Paul Theodore, President and CEO</i></p>	<p>Company Panel – Equity Compensation</p> <p>Campbell Soup Company <i>Dan Ferretti, Manager, Compensation Operations</i></p> <p>Johnson & Johnson <i>Jane E. Poli, Finance Manager, Equity Compensation Resources</i></p> <p>Public Service Enterprise Group (PSEG) <i>James Mooney, Manager Compensation</i></p>
<p>4:30 p.m. – 5:30 p.m.</p>	<p>Closing Presentations</p> <p><i>Chris Davis, Chief Financial Officer, Managed by Q Inc.</i> <i>Hanna Mori, Deputy State Director, U.S. Senator Cory Booker</i></p>	
<p>5:30 p.m. – 6:30 p.m.</p>	<p>Networking Reception</p>	



Thinking Strategically About Your Equity Compensation Program

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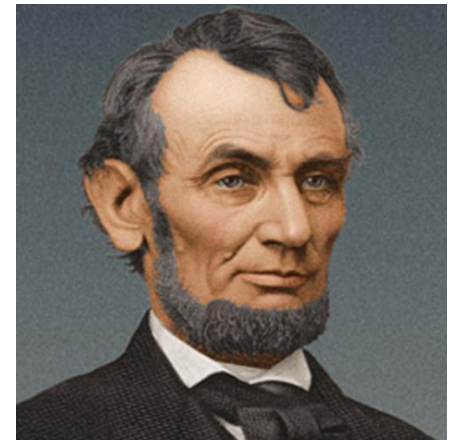
Rutgers University School of Management and Labor Relations

AGENDA

- Brief History
- Economic Drivers / Trends
- Who Owns Equity
- Why Equity: Strategic Benefits
- How to Improve the ROI on Equity Programs
- How Rutgers Can Help

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.



The 21st Century Economy

- Disruptive Technology
- Increasing Global Competition
- Slowing U.S. Labor Force Growth Rate
- ***Major Economic Challenges***
 - **Below average GDP growth rates**
 - **Greater reliance on Human and Intellectual Capital**
 - **Income and Wealth Inequality**
 - **Concentrated Equity Ownership**

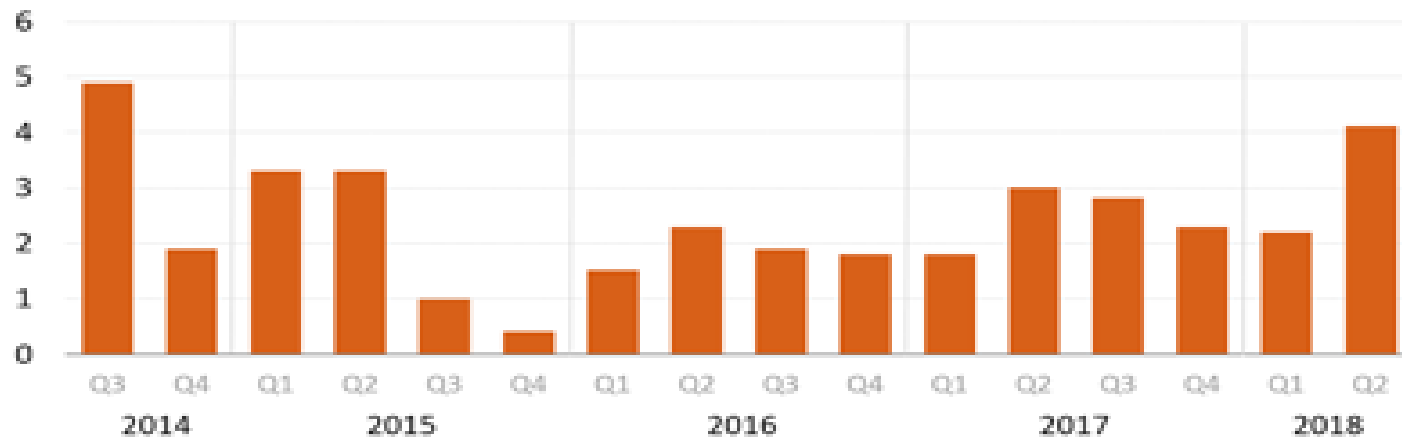
New Normal



Economic New Normal

- **Slower Economic Growth**
- Greater Reliance on **Intangible Assets**
- Need to **Attract and Retain Talent**

Real GDP: Percent change from preceding quarter



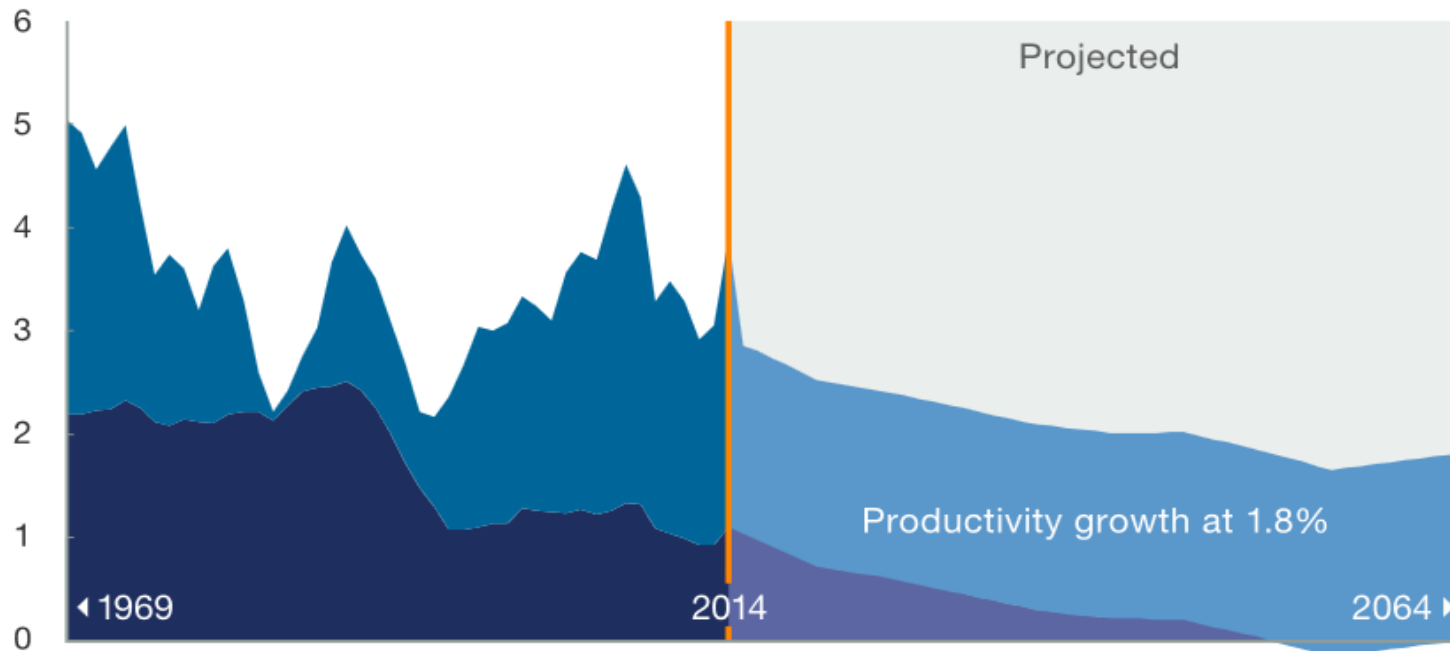
U.S. Bureau of Economic Analysis

Seasonally adjusted at annual rates

Labor's contribution to GDP growth is disappearing, so productivity must pick up the slack.

GDP growth, rolling 5-year periods, CAGR,¹ %

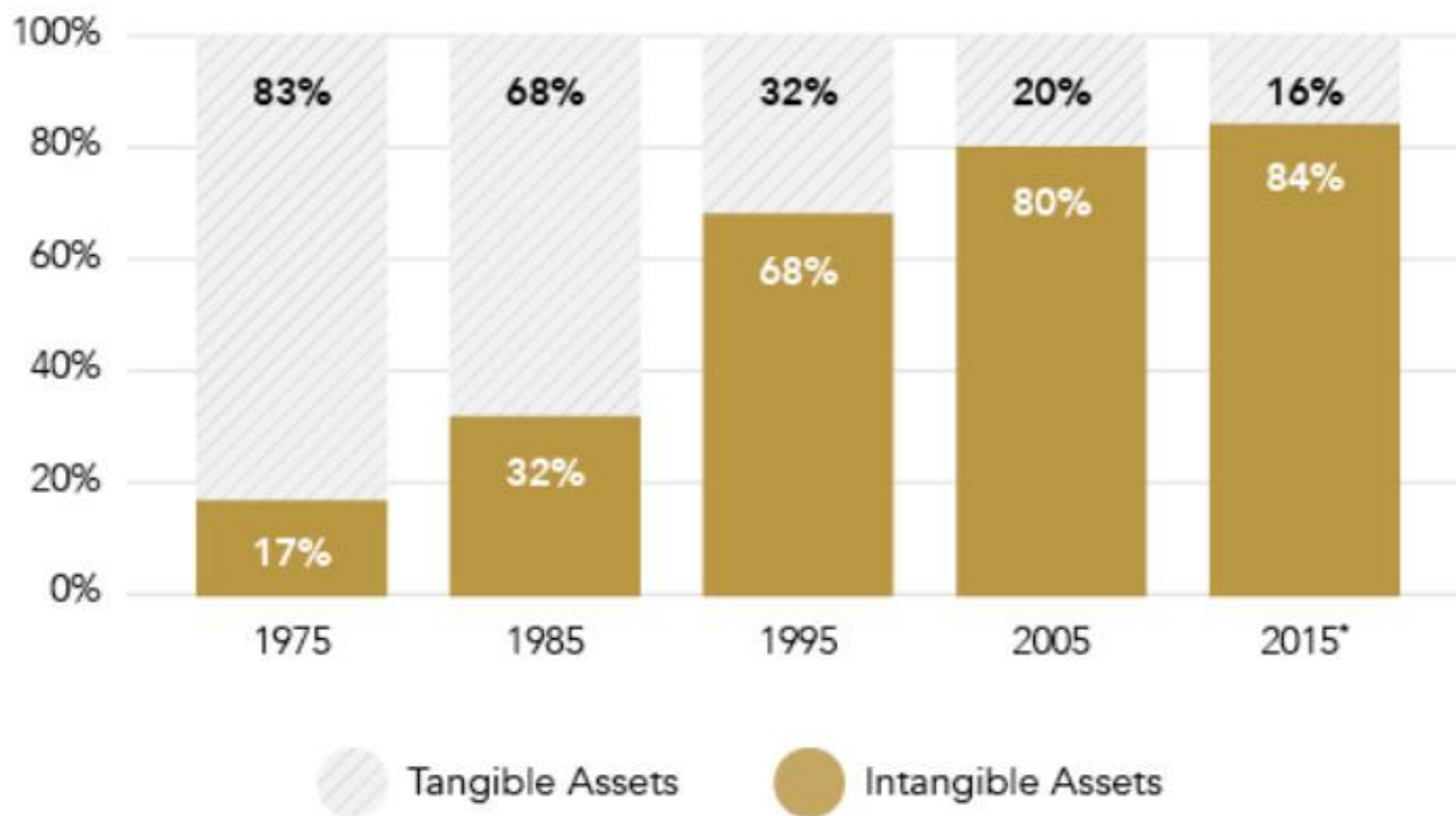
■ Employment ■ Productivity



¹Compound annual growth rate.

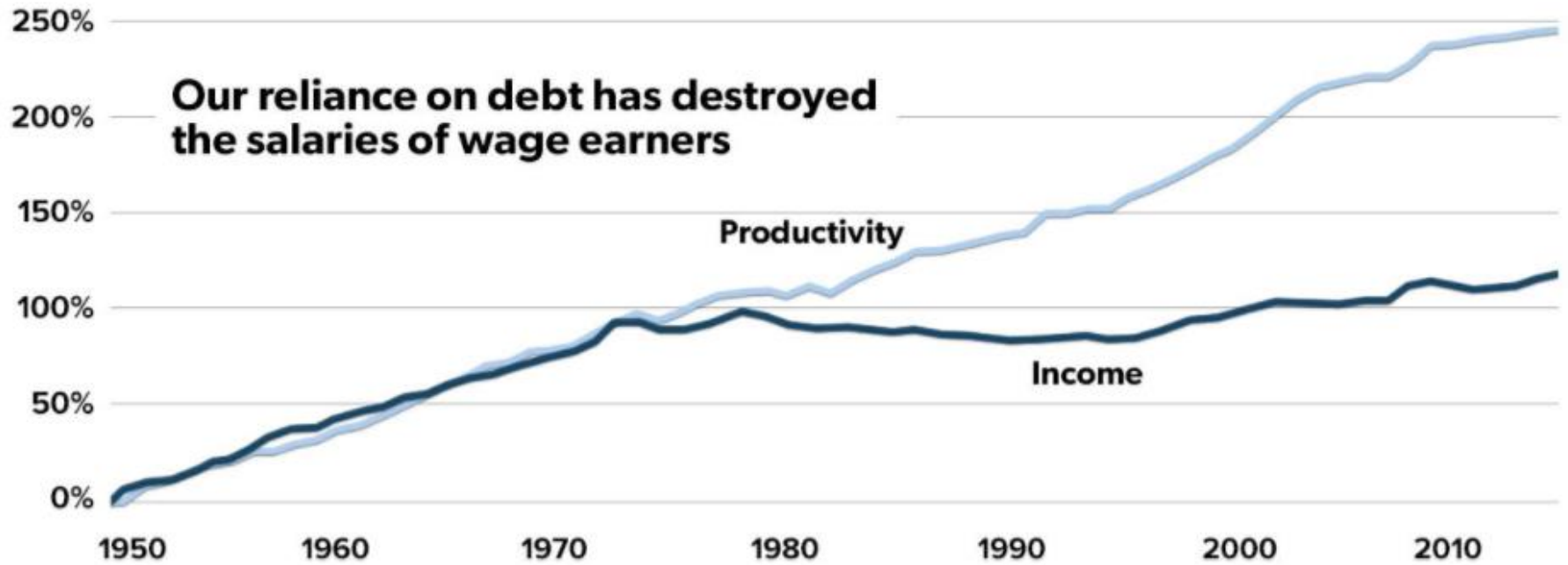
Source: The Conference Board Total Economy Database; International Labour Organization; United Nations Population Division; McKinsey Global Institute analysis

COMPONENTS *of* S&P 500 MARKET VALUE

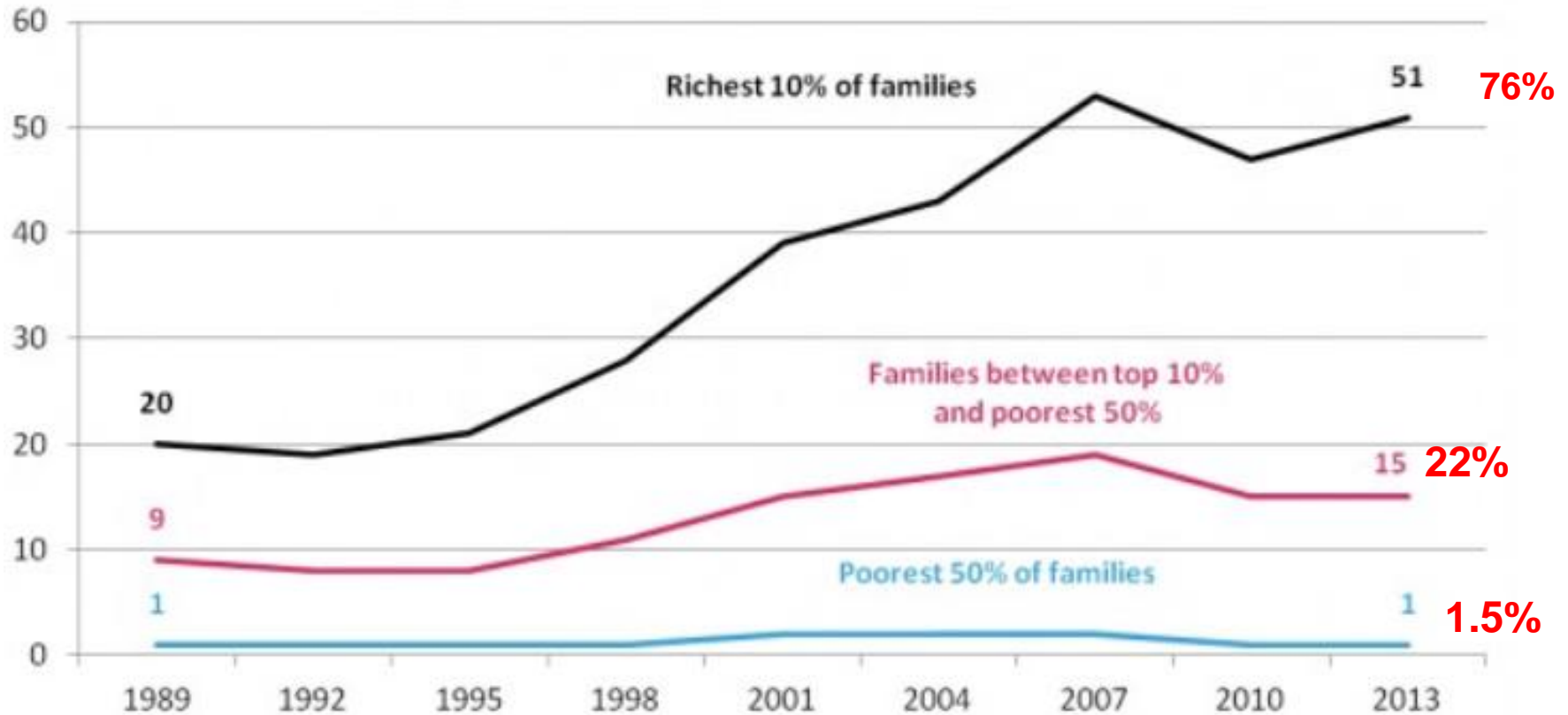


Decoupling of Productivity and Income Growth

Productivity Growth vs. Income Growth

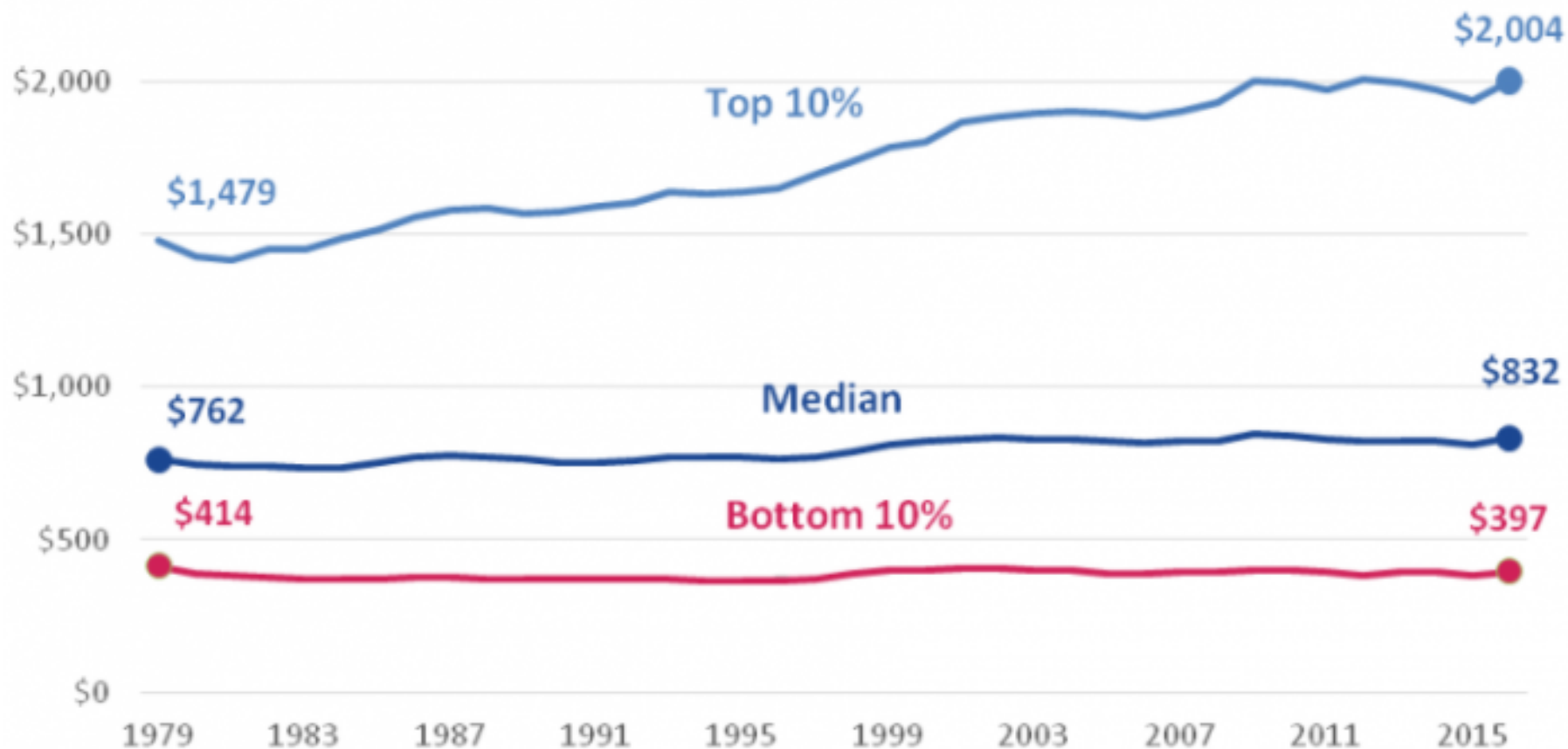


Holdings of U.S. Family Wealth, in Trillions of 2013 Dollars



Source: Congressional Budget Office, "Trends in Family Wealth, 1989-2013"

U.S. Real Weekly Wages, 1979-2016

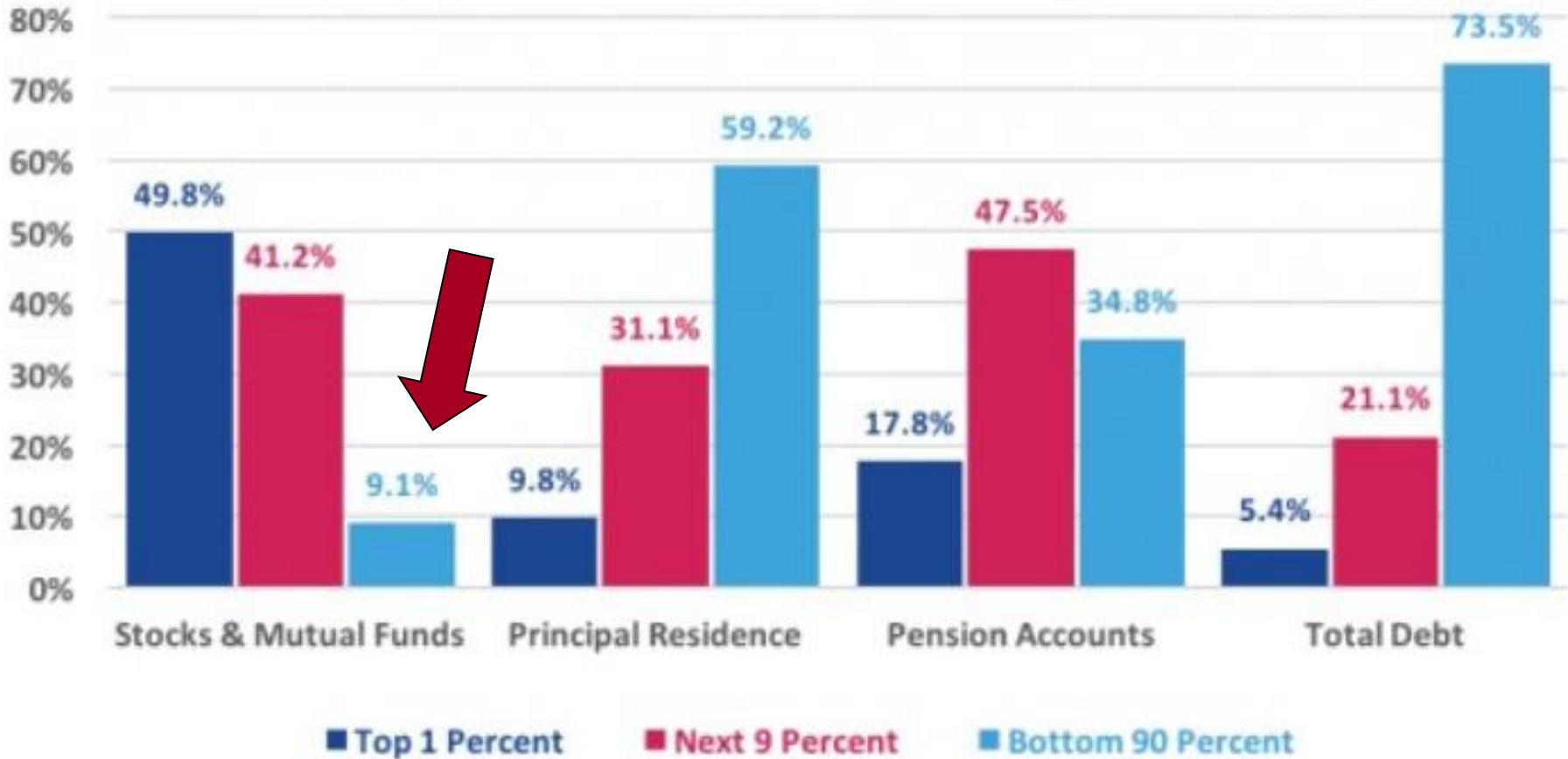


Source: Bureau of Labor Statistics.

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

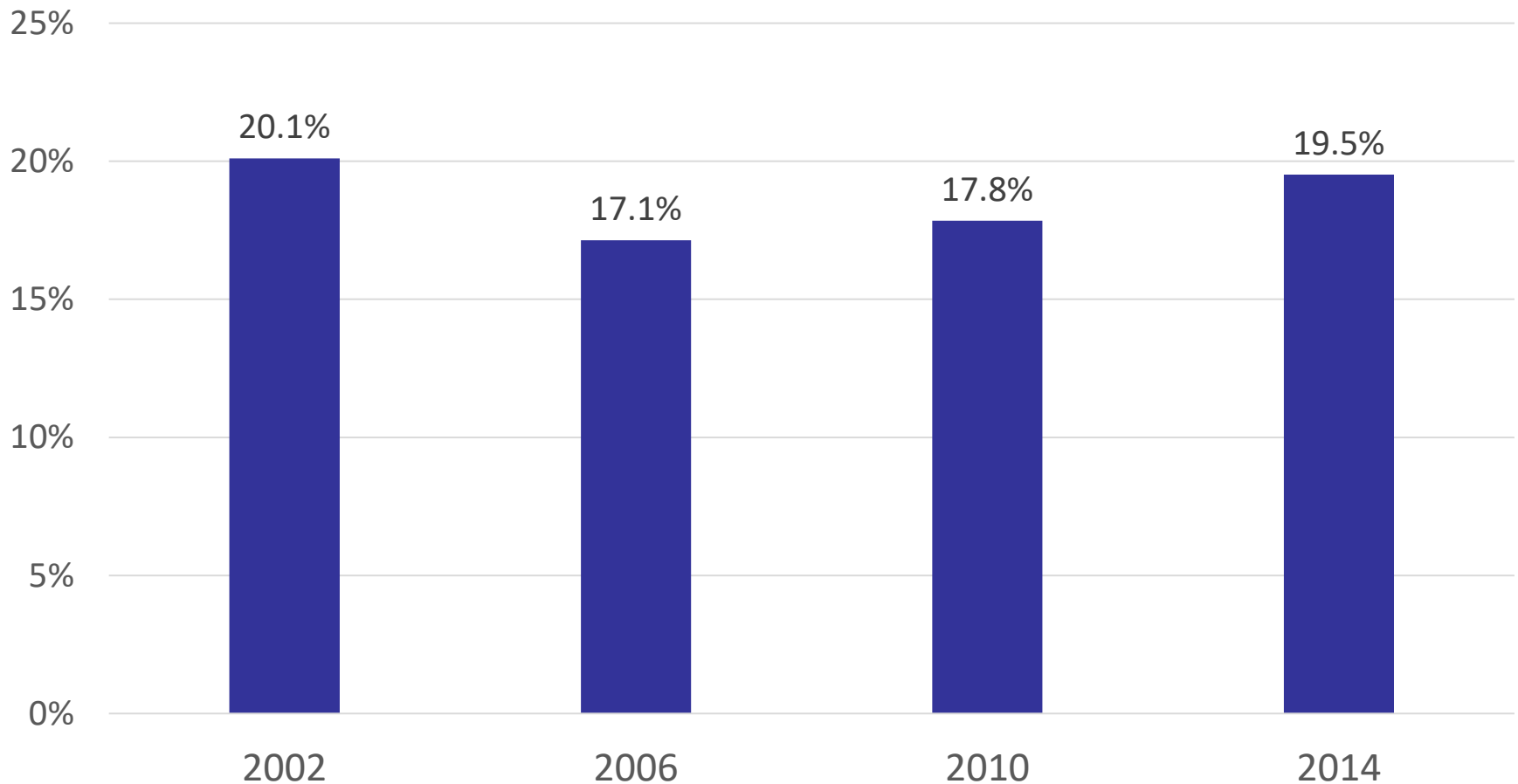


Share of Total Assets by Asset Category, United States, 2013



Source: [Household Wealth Trends in the United States, 1962–2013](#)

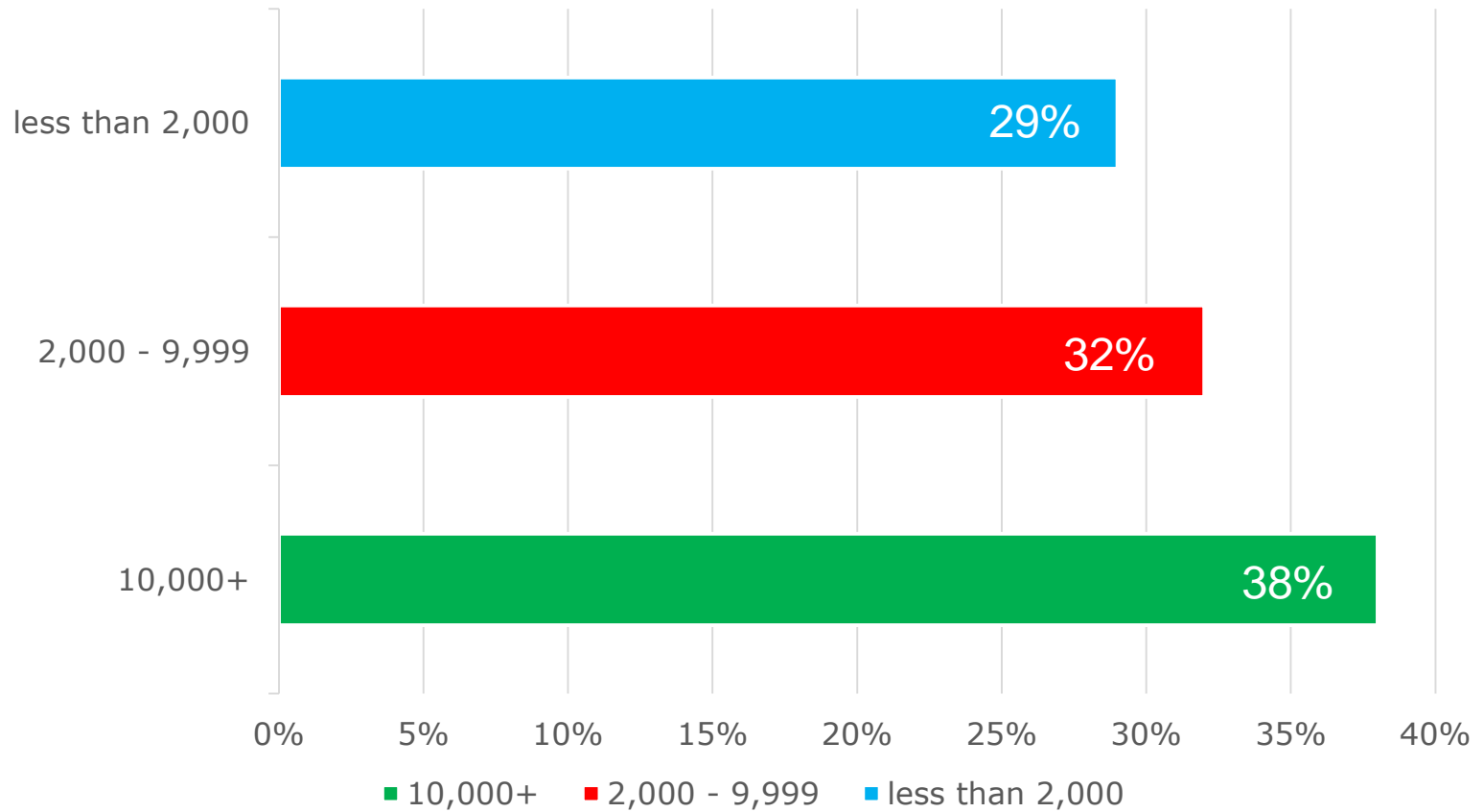
Employee owners among all private sector employees, 2014 (GSS data)



24.2 million employees in 11.7 million families

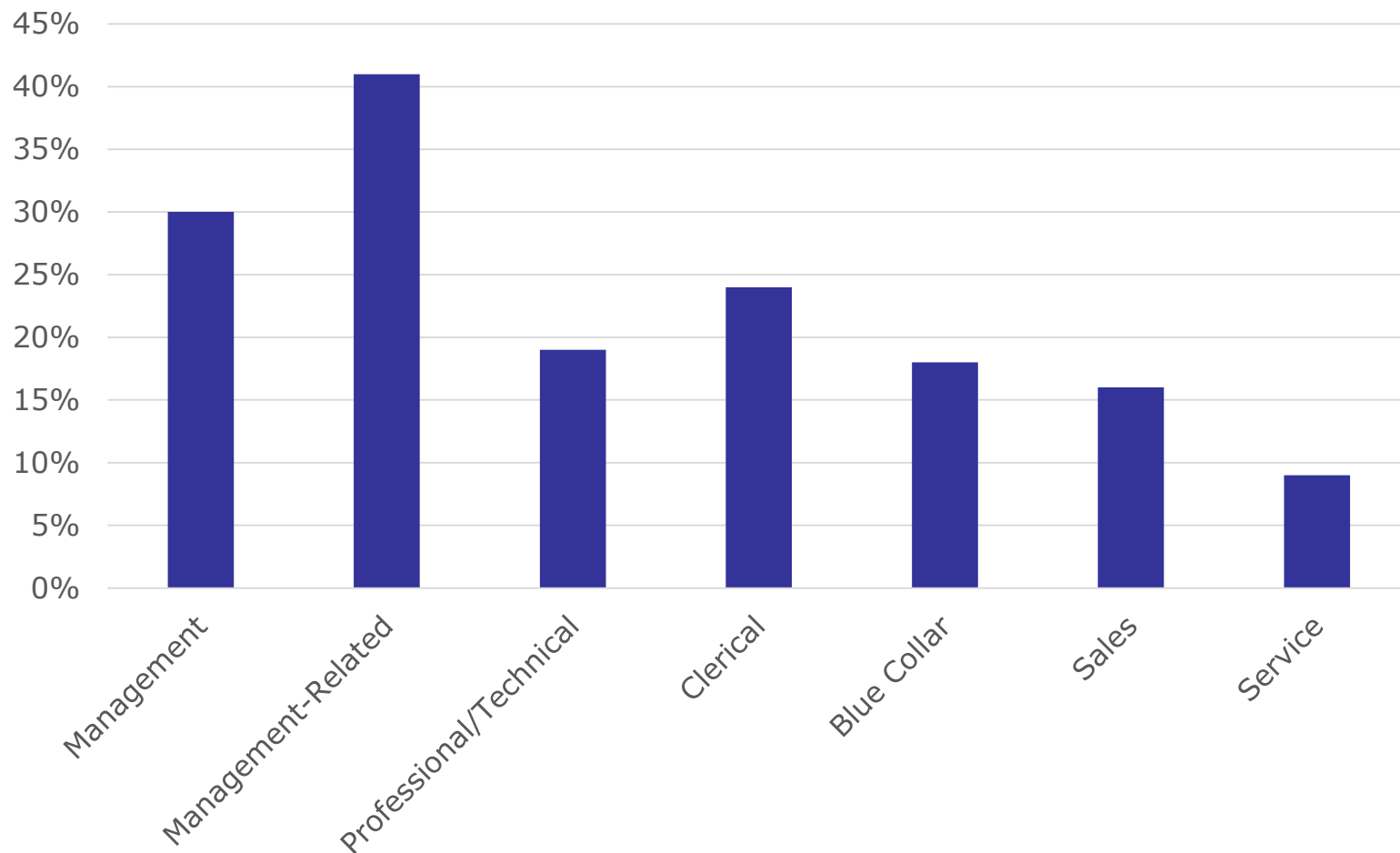
Who Owns Equity

Percent By Number of Employees



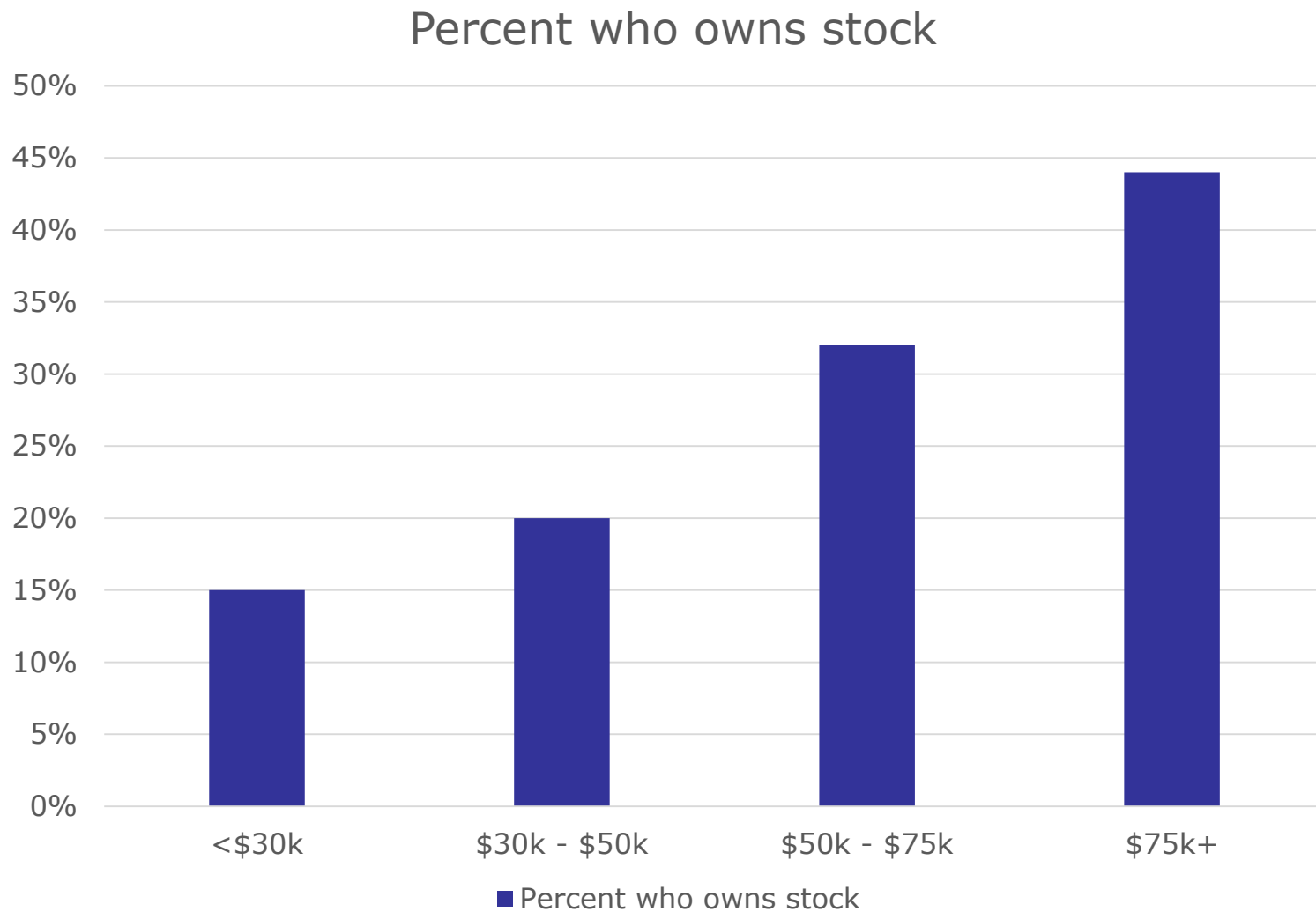
Source: GSS Data 2014

Who Owns Equity: Across Occupations

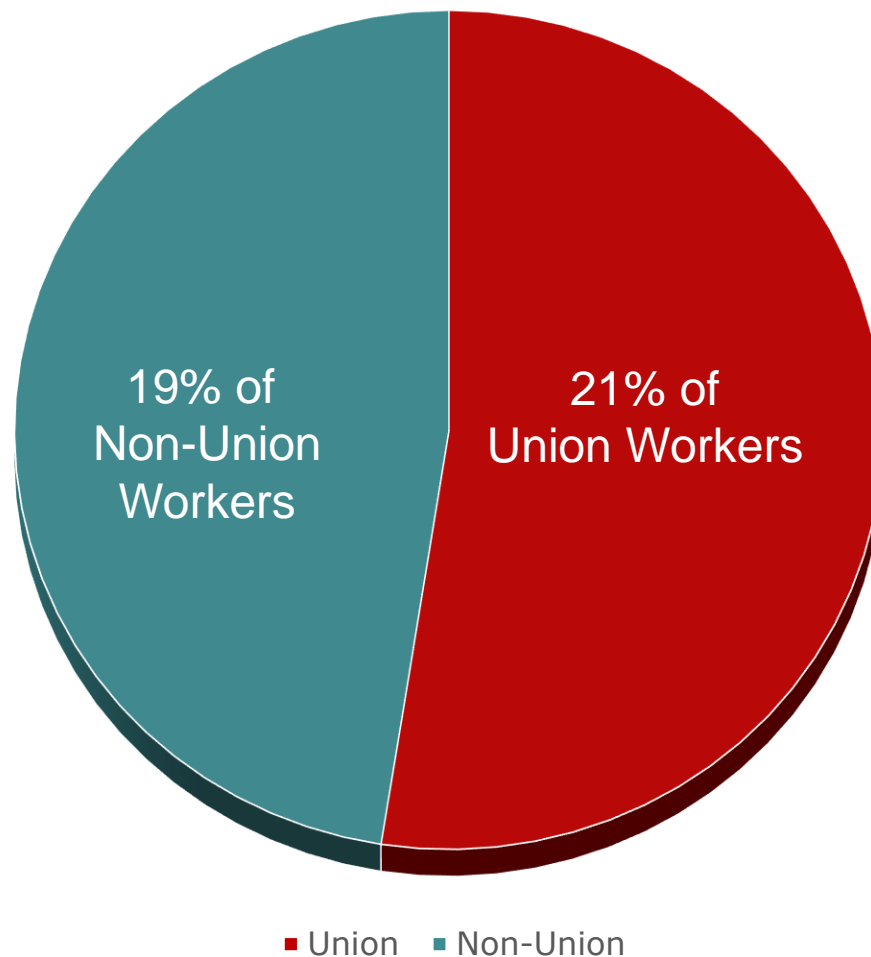


Source: GSS Data 2014

Who Owns Equity: Annual Wage Earners



Who Owns Equity



Source: GSS Data 2014

Equity: How Much?

- Average, the nation: \$45,000
 - Median, the nation: \$ 8,000
- } **Significantly Skewed**
- Mean/Median, 1st 25%: \$175,000/\$92,000
 - Mean/Median, 2nd 25%: \$26,000/\$26,000
- } **Significantly Concentrated**
- Average for ESOPs nationally: \$124,000

Equity: Why?

- Increased productivity
- Higher return on equity
- Lower turnover
- Greater co-monitoring of fellow workers needing help
- Greater loyalty
- More willing to work hard
- Make more suggestions and more innovative
- Higher Trust Index (Copyrighted by GPTW Institute)

Equity: Why

**Equity
Compensation**

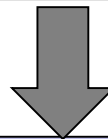


Return on Equity Contribution



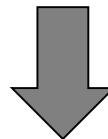
Employee Outcomes

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



Strategic Outcomes

- Productivity
- Innovation



Financial Outcomes

- ROE

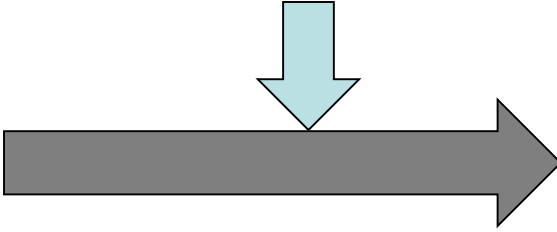
Creating an Ownership Culture to Enhance Returns

- Information Sharing
- Empowerment
- Employee Involvement
- Training & Development
- Job Security

Equity Compensation



Return on Equity Contribution



Greater Employee Outcomes

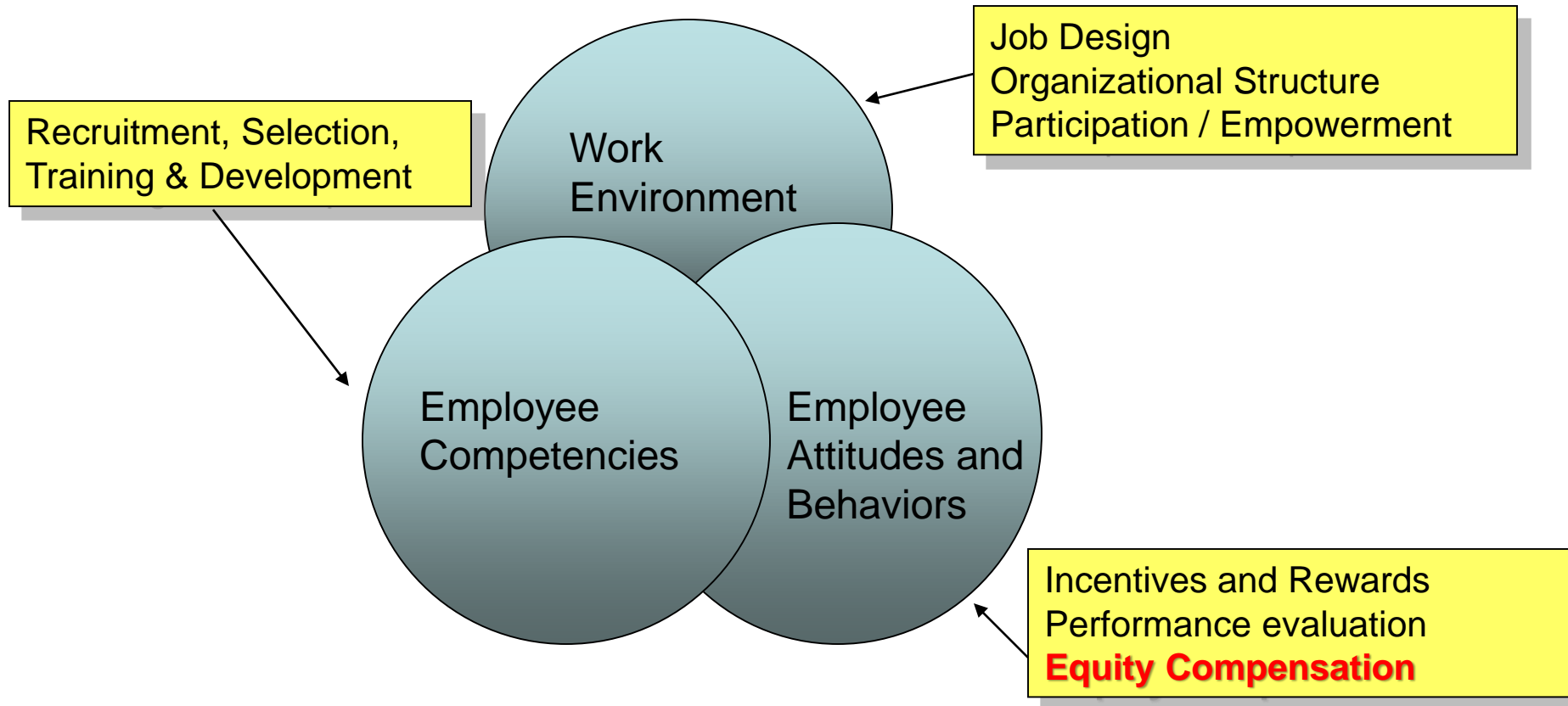
Greater Strategic Outcomes

Greater Financial Outcomes

Source: National Bureau of Economic Research study 2010, and Best Places to Work Study, 2016

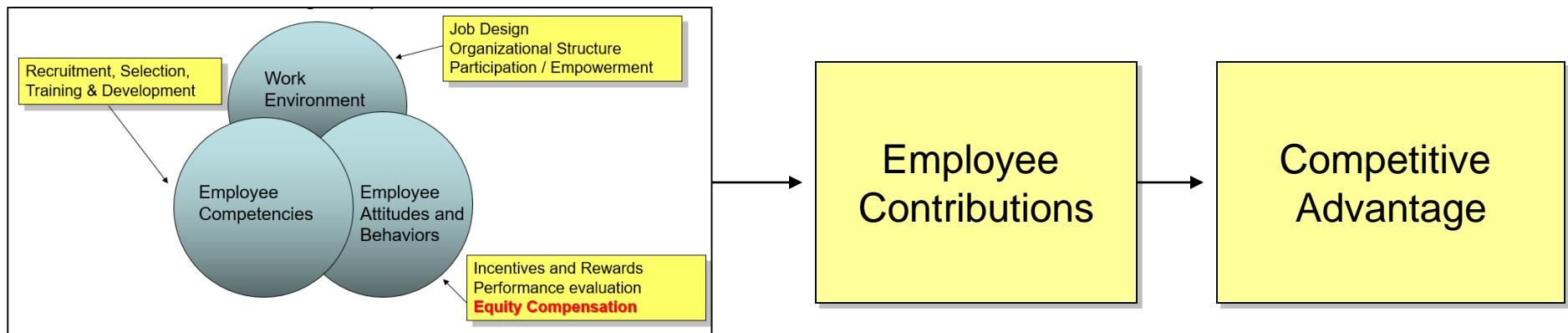
Equity Comp as Part of an HR System

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.



Equity: How? The Contingencies.

- Fixed pay at or above the market
- No wage substitution
- Supervision that is participative, not hierarchical
- Long-term equity + short term profit/gain sharing
- Separate diversified retirement plan.
- Lower risk equity that is granted or purchased under favorable circumstances

TWO RISKS

1. The risk of having no wealth

- Accumulating Equity is a key driver of employees' wealth creation.

2. The risk of not being diversified

- Harry Markowitz (Nobel Prize, 1990) found that no more than 15% of an diversified portfolio should be in company stock.

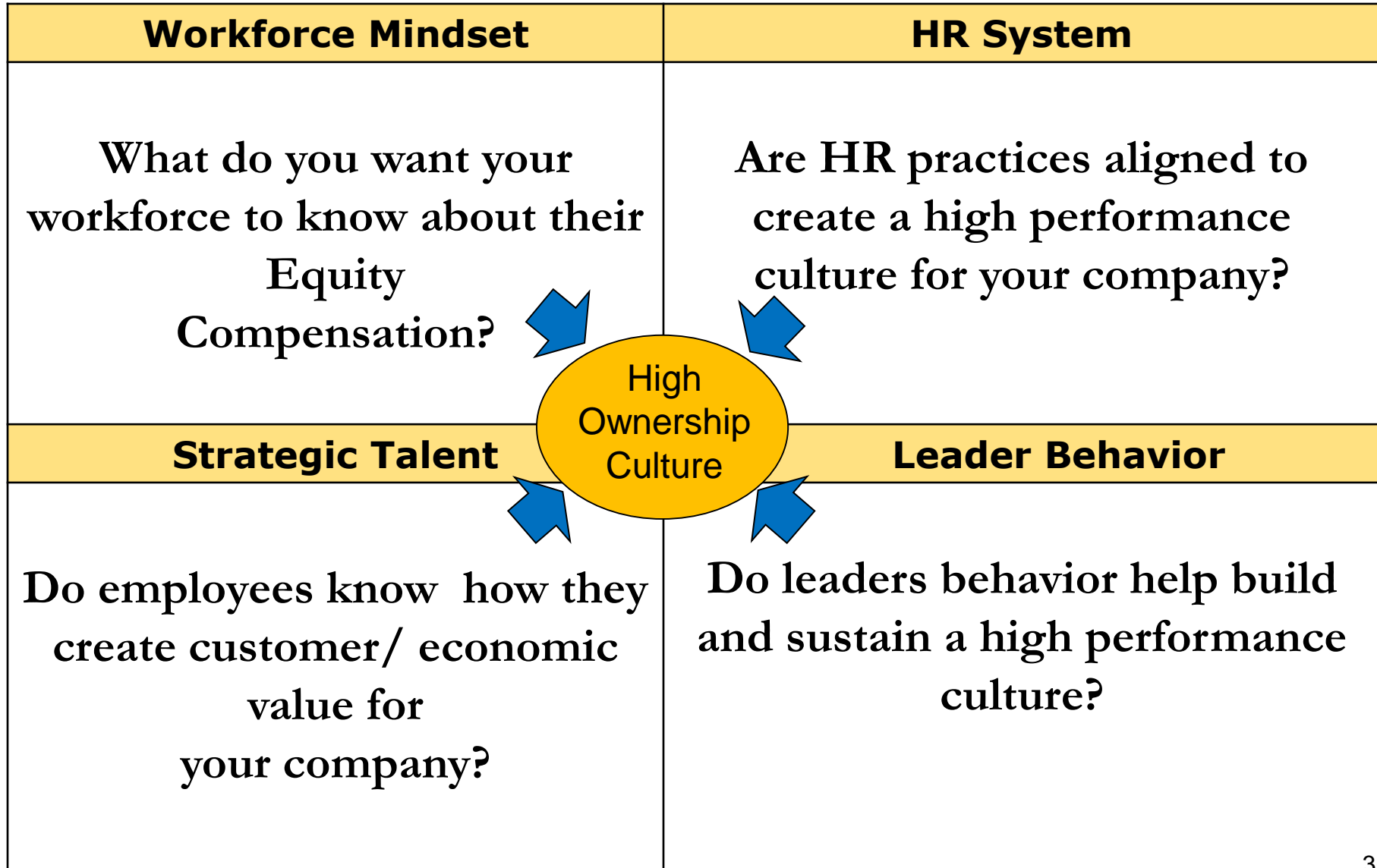


Delivery Method	Pro	Con
Live Presentation	Dynamic and Interactive	Limited Audience
Streaming Presentation	Dynamic and Interactive	Limited Interaction
E-mail	Fast and Large Audience	Static and Limited Interaction
Wiki	Real-time updated content & Employee Engagement	Constant Maintenance / Monitoring
Internal 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

Results Are Big Data Driven

- **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.

Measuring Success of Equity Compensation



Sample of Equity Comp Research Survey Questions

- Shared Capitalism Index (NBER)
- Profit Sharing as Percent of Pay (GSS and NBER)
- Individual Bonus as Percent of Pay (GSS and NBER)
- Employer Stock as a Percent of Pay (GSS)
- Stock Options as a Percent of Pay (NBER)
- 401(k) as a Percent of Pay (NBER)
- Fixed Pay at or above Market (NBER)
- Fringe Benefits (GSS)
- Grade of Company on Benefits (NBER)
- Total Compensation compared to Market (NBER)



Sample of Equity Comp Research Survey Questions

- High Performance Work Practices (NBER)
- Employee Participation in Decisions (GSS)
- Employee Training (GSS)
- Work as Part of a Team (GSS and NBER)
- Job Satisfaction (GSS)
- Co-Worker Relations (GSS and NBER)
- Job Security and Expectations (GSS and NBER)
- Responding to Shirking (GSS and NBER)
- Risk Aversion and Preferences Over Pay (NBER)



"America used to be based on broad access to wealth and property. If you want to know more about this tradition, and how to revive it, read this book."

THOMAS PIKETTY, author of *Capital in the Twenty-First Century*

JOSEPH R. BLASI
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**THE
CITIZEN'S
SHARE**

REDUCING
INEQUALITY IN THE
21ST CENTURY



National
Bureau of
Economic
Research

SHARED CAPITALISM AT WORK:

*Employee Ownership, Profit and Gain Sharing, and
Broad-Based Stock Options*

EDITED BY
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AND JOSEPH R. BLASI



Research on Your Company

- Volunteer Research Fellows available
- Can Design and Administer your employee surveys and Analyze your Results
- Help develop Solutions to improve your ROI
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