



MINI CASE STUDY

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Incentives, Stock Options, or Holiday Club?

Once used to provide income to employees by struggling start-up technology companies, incentive stock options have gained popularity and been embraced by large and well-established companies. Stock options are viewed as tools to 1) create an employee ownership culture and 2) improve employee productivity, thereby increasing profitability and value. But there is little research to suggest that these lofty goals are met with broad based stock options.

In the course of an assignment to assist a large technology company develop a total reward strategy for executives we discovered that all employees in the organization were awarded stock options. We were curious to see what the average gain was on exercise for the broad population, compared to executives.

The analysis showed that the average gain on exercise for the broad population was approximately \$1,000. This meant that on average, each employee received a \$1,000 benefit almost every year. Furthermore, in most cases, the shares were exercised soon after they vested. The analysis for the executives was not dramatically different. The average holding period after vesting was less than two years and the average amount gained upon exercise was under \$10,000. Few executives held options for more than five years. These relatively small amounts of \$1,000 to \$10,000 would do little to provide incentives to either employees or executives.