

The State of Employee Stock Options - 2003

Conducted by WorldatWork in Conjunction with Sibson Consulting, The Segal Company

Survey Brief

Introduction and Methodology

This report summarizes the results of a WorldatWork member survey, conducted jointly by WorldatWork and Sibson Consulting/The Segal Company in September and October 2003. The purpose of the survey was to update a survey data set initially gathered in early 2002 regarding common practices and trends related to the administration of stock option compensation programs within publicly held companies.

A representative random sample of 5,751 WorldatWork members was sent an e-mail invitation Sept. 25, 2003, containing a link to the online survey. When the survey closed Oct. 2, a total of 642 responses had been received (a 10 percent response rate). The results in the report, however, relate to the 336 respondents who were from publicly traded companies.

Survey Results

Figure 1: Stock option eligibility by employee level

% Eligible	2002	2003
Top executives	98%	99%
Non-executive managers	86-97% ²	88%
Professionals	63-65% ³	64%
Sales staff	67%	50%
Nonexempt employees	37%	27%

Figure 2: Criteria for determining stock option awards

Determining Criteria	2002	2003
Salary grade or level	76%	74%
Employee category	67%	65%
Individual performance	67%	62%
Group, unit or company performance	17%	28%
Individual value in labor market	23%	25%

Figure 3: Distribution of decreases in stock option values, 3/2002 – 9/2003

% Decrease in value	Decrease of 20%+	Decrease of 5-19%	About the same	Increase of 5-19%	Increase of 20%+
Top executives	14%	15%	47%	14%	4%
Non-executive managers	19	17	39	16	4
Professionals	19	19	37	15	4
Sales staff	23	14	38	14	3
Nonexempt employees	29	11	27	15	5

Figure 4: Average portion of total annual compensation represented by stock options, all employees

	2002	2003
	16%	20%

Figure 5: Importance of goals and effectiveness of options

Goals of Employee Stock Option Plan	Importance			Effectiveness of Options		
	Not a goal	Minor goal	Major goal	Not effective	Somewhat effective	Very effective
Aligning employee and shareholder interests	9%	29%	63%	16%	62%	22%
Attracting and retaining talent	5	39	56	10	72	19
Focusing employee attention on corporate performance	7	41	52	12	63	25
Creating a culture of ownership	9	41	50	20	62	19
Motivating employee performance	7	46	47	19	70	11
Gaining tax and accounting advantages	40	40	19	31	51	19
Educating employees about the business	40	46	15	42	51	7
Conserving cash	48	40	13	31	52	17

Figure 6: Underwater options held by employees

% Underwater	Zero	Less than 10%	10-24%	25-49%	50-74%	75% or more
Top executives	8%	31%	15%	12%	19%	15%
Non-executive managers	9%	28%	14%	15%	16%	18%
Professionals	8%	27%	16%	15%	17%	17%
Sales staff	9%	23%	13%	19%	18%	18%
Nonexempt employees	11%	19%	14%	19%	19%	18%

Figure 7: Factors leading to changes in stock option practices in the past 18 months⁶

	2002		2003	
	Minor Factor	Major Factor	Minor Factor	Major Factor
External Factors				
Concerns about the effects of the option program on shareholders (dilution, overhang, etc.)	35%	32%	25%	56%
Anticipated accounting changes (e.g., FASB options earnings charge)	not asked in 2002 survey		25%	52%
Effects of public accounting scandals	15%	2%	38%	7%
Internal Factors				
Value of options in attracting and retaining employees	31%	41%	52%	30%
Value of options in motivating employees	30%	42%	50%	31%

Figure 8: Long-term incentives other than stock options granted regularly or planned

	Already established as part of compensation plan	New vehicle to be awarded in the next 12 months in addition to options	New vehicle to be awarded in the next 12 months instead of options
Restricted stock	43%	11%	5%
Performance shares	20%	6%	5%
Long-term cash	19%	2%	<1%
Performance units	9%	3%	2%
Phantom stock	4%	0%	<1%
Stock appreciation rights	6%	1%	2%

WorldatWork is the world's leading nonprofit professional association dedicated to knowledge leadership in compensation, benefits and total rewards. Founded in 1955, WorldatWork focuses on disciplines associated with attracting, retaining and motivating employees. In addition to providing professional affiliation, WorldatWork offers highly acclaimed certifications (CCP®, CBP™ and GRP®) and education programs, *workspan*® magazine, online information resources, surveys, publications, conferences, research and networking opportunities.



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Sibson Consulting, a subsidiary of The Segal Company, is a leading human capital consulting firm specializing in the development and implementation of custom solutions that maximize clients' return on their human capital investments. With over 40 years of industry experience, Sibson has three different practice areas: Leadership, Performance and Rewards, which specializes in executive compensation, governance and performance management; Employee Effectiveness, which focuses on organizational alignment, talent management and compensation and broad-based incentives; and Sales and Marketing Effectiveness, which targets sales organization structure, process design and goal and quota setting. With more than 40 years of experience providing service to more than half of the *Fortune* 500 companies and many mid-sized companies, Sibson is fluent in the issues of a broad range of industries.

The Segal Company is a leading international benefits, compensation and human resources consulting firm comprised of consultants and actuaries with offices in the United States and Canada. Its capabilities include the planning, design, qualification, implementation, operation, financial management and communication of innovative human capital strategies.

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