GEO Global Equity Insights 2014

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Success goes hand-in-hand with equity-based compensation

Equity is a worldwide accepted compensation element—both for executives as well as for a company's entire workforce Particularly successful companies make intensive use of equity as a compensation element and apply it to more staff levels than just their senior leadership.

The survey at hand highlights the potential for companies to intensify usage of equity as a compensation element, e.g. by applying it in a broader fashion, including middle managers and employees.

Plan design and administration offer great opportunities to increase plan efficiency; e.g. broader communication increases employee participation and satisfaction.

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Dear Reader,

Companies from North America, Europe and other economic regions beneficially complement one another in the development of an equity culture. As North American companies pioneered the use of equity for compensation purposes, a targeted equity culture has traditionally been more sophisticated there as compared to Europe and other regions. Still, companies whose roots lie outside North America are making strong efforts to catch up with the equity culture of their North American peers. With regards to market practice, HR professionals in North America have handled large changes in their long-term incentive plans over the last decades—with the rising popularity of stock options in the 90's, and more recently, the shift towards restricted stock. In contrast, European companies have relied predominantly on performance shares. Compared to stock options and restricted stock, performance shares have two interesting features: Firstly, performance shares offer a more balanced risk profile compared to options. Secondly, they simultaneously better reflect the complexity of performance measurement by adding other performance measures to the share price alone. Arguably for these features, performance shares are gaining significant ground in market practice of North American companies. Companies whose roots lie outside North America and Europe rely heavily on both performance shares and restricted stock. These developments are just two of the key findings of our GEO Global Equity Insights 2014 survey.

Second edition of Global Equity Insights in 2014– The foremost global report on equity-based compensation practices and their impact on company performance

In 2013, the Global Equity Organization (GEO) came together with global blue-chip company Siemens and international consulting firm hkp/// group to jointly launch the first Global Equity Insights survey. Building upon the great success of last year's survey, we are delighted to present this year's Global Equity Insights 2014 survey report.

We are very proud of the significant increase in both participation and country coverage. Most new participants have come from South Africa, but new participants also come from Asia, Australia and Latin America. This success we owe to a large part to our new sponsors: SAP—the high-caliber professional software provider; Computershare—a leading global plan administrator; and the University of Goettingen Chair of Management and Control—renowned for their academic research in corporate governance and management incentives.

In the survey at hand, we identify international market practice and trends in equity-based compensation. We also shed light on links between design practices, company performance and satisfaction—from both the employee's as well as the employer's perspective.

Joint survey by leading experts of equity-based compensation

The following report is available to participants of GEO's 15th Annual International Conference in Miami, May 2014, as well as to GEO members worldwide. The report summarizes the survey's most important findings. In this regard, we would like to thank all survey participants. In appreciation to all the participants for their efforts, each will receive the comprehensive Participation Report along with up to 30 additional analyses of current market practice.* We welcome you to contact us with your questions or comments.

We would also like to thank Mr. Marc Muntermann (Siemens) for his excellent guidance and passion to drive this research project, Mr. Sebastian Firk (University of Goettingen) for his amazing analytical skills and tremendous engagement. Furthermore, our thanks go out to Mrs. Jessica Vinsand (SAP), and to Mr. Bernd Albrecht, Mr. Dirk Filbert, Mr. Sebastian Hees (all hkp/// group) for bringing this challenging project to life, as well as hkp/// RemuNet for data gathering. Special thanks belong to our supporting partners at the Certified Equity Professional Institute (CEPI), the National Center for Employee Ownership (NCEO), the South African Reward Association (SARA), and WorldatWork—by inviting all their members and relevant contacts to participate, they have helped us greatly in expanding the survey's reach even further and gaining new international ground.

We trust you find this survey an informative and an enlightening read.

Sincerely,

Danyle Anderson (GEO)
Jay Foley (Computershare)
Bettina Gohm (Siemens)
Michael H. Kramarsch (hkp/// group)
Heike Neumann (SAP)
Prof. Dr. Michael Wolff (University of Goettingen)

* Please find further details about the Participation Report on page 26.

Equity—a tried and tested compensation instrument that never goes out of fashion

The global financial crisis has put good corporate governance practices on the radar screen of investors, politicians, and the general public. In order to comply with corporate governance, executive compensation in general—and long-term incentive plans (LTIP) in particular—have become increasingly important for companies. Beyond that, calls for more sustainable company performance have emerged all around the world, and politicians have put numerous reforms on the agenda. Some of these reforms specifically emphasize the role of long-term incentives for sustainable business development. By doing so, an effective tool to foster a company's long-term growth practices can be implemented. The idea that LTIP—especially if they are equity-based—support long-term company growth is not novel. Therefore, many leading global companies implemented LTIP in order to maximize shareholder value years ago. This development is supported by numerous academic studies on LTIP which confirm a positive impact of equity-based compensation on company performance and shareholder value*.

Implementing equity-based compensation globally—challenges to consider

In practice however, companies and compensation experts face many unresolved issues. Practitioners must navigate through a complex landscape of regulatory and tax regimes, infinite design alternatives and varying experiences with equity-based compensation globally. The inherently complex nature of these plans challenge employers to increase their attractiveness for their employees. In particular, plan communication and satisfaction with the plan are crucial determinants for successful implementation. Only if participants have a clear understanding of the plan, equity-based compensation is able to foster company success. Our study addresses these issues regarding company equity culture—both for LTIP and employee share purchase plans (ESPP). There is a significant difference in what successful companies and other companies do: design features, as well as how these features are perceived from an employee and employer perspective, differ considerably. Therefore, good plan communication is identified as a crucial tool to develop and increase the equity culture within the company.

* E.g. Chang/Mayers (1992): Managerial vote ownership and shareholder wealth: Evidence from employee stock ownership plans, Journal of Financial Economics, 32, 101-103.
Rapp/Schaller/Wolff (2012): Fördern aktienbasierte Vergütungsinstrumente langfristig orientierte Unternehmensentscheidungen? Lehren aus der Kreditkrise, Zeitschrift für Betriebswirtschaft, 82 (10), 1057-1087.

Participants at a Glance

A broad sample representing a selection of the world's largest companies in 20 countries

- 169 companies including the largest global corporations: 89% of the companies surveyed have a market capitalization above USD 1 billion, with the top 10% exceeding USD 100 billion in market capitalization at year-end 2013.
- Two-thirds of the companies generated revenues above USD 5 billion in 2013.
- National leading companies from 20 countries around the world, with special focus on North America and Europe
- Representative sample across 10 industries

Participants by market capitalization

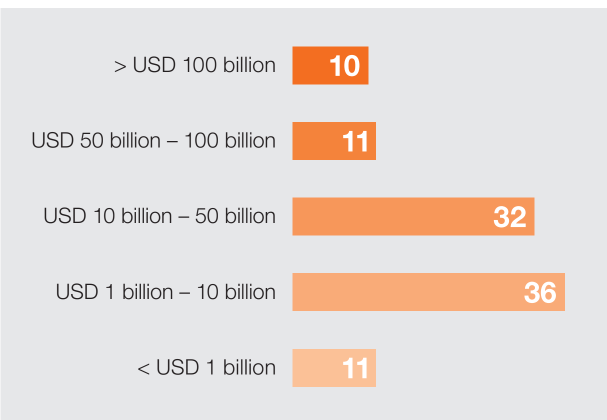


Fig. 1: Participants by market capitalization at year-end 2013 in % of companies

Participants by revenue

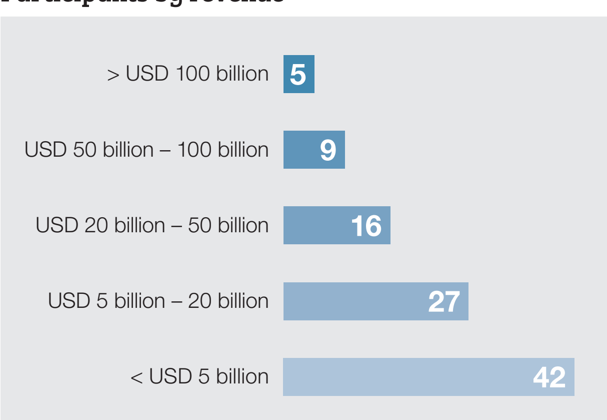


Fig. 2: Participants by revenue in fiscal year 2013 in % of companies

Country Distribution

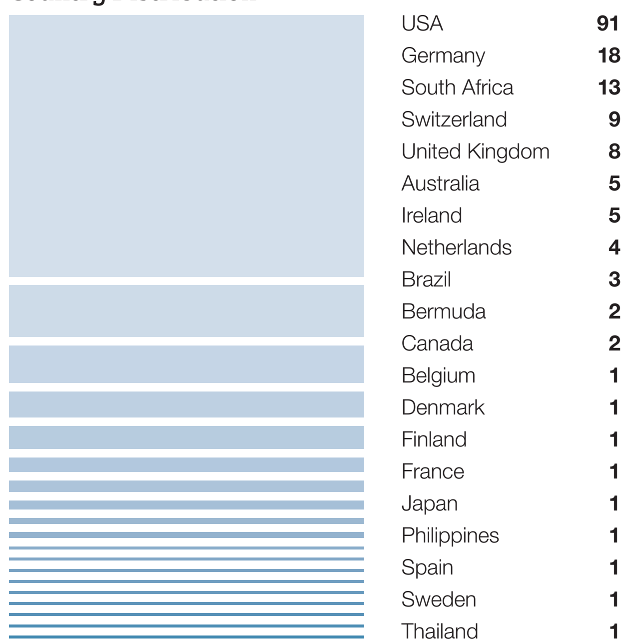


Fig. 3: Participants by country

Industry clusters

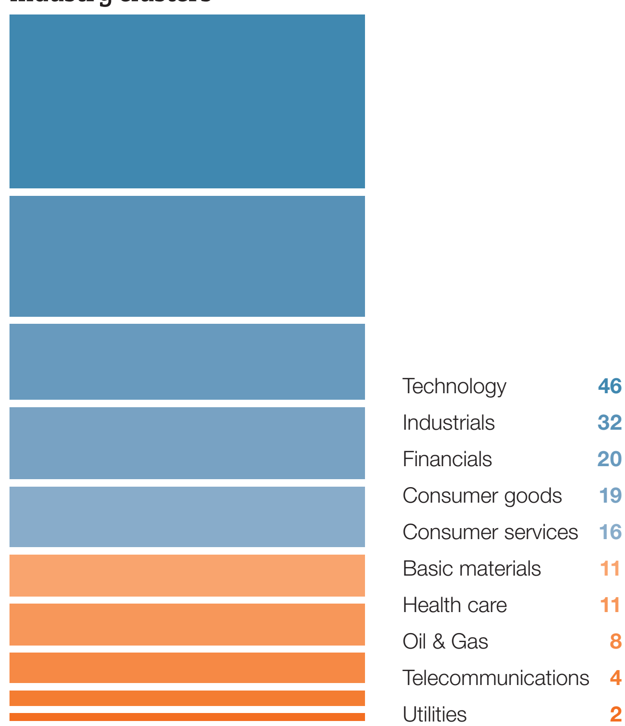


Fig. 4: Participants by industry

▸▸▸ Please find the full list of participants on page 27.

A detailed questionnaire about equity culture in companies

- Invited parties: All GEO members, selected non-member companies in geographies of interest as well as members and relevant contacts of CEPI, NCEO, SARA, and WorldatWork
- Questionnaire with four major topics related to equity-based compensation: Long-Term Incentive Plans, Employee Share Purchase Plans, Share Ownership Guidelines, and Administration of equity-based compensation
- Data collected within a period of six weeks starting mid-January 2014

TOPIC SECTIONS		
	1	Company Information
	2	Long-Term Incentive Plans ▪ General information ▪ Plan details ▪ Communication measures ▪ Employee and employer satisfaction
	3	Employee Share Purchase Plans ▪ General information ▪ Plan details ▪ Communication measures ▪ Employee and employer satisfaction
	4	Share Ownership Guidelines
	5	Administration

Fig. 5: Questionnaire structure

An analysis of the relation between equity culture and performance

The analysis reveals differences between equity cultures of high and low performing companies. We used different industry-adjusted operating performance measures (e.g. Return on Assets, Return on Equity) based on a three-year average to assess company performance. High (low) performers are those with an operating performance in the upper (lower) third of the distribution.

Comprehensive and in-depth analysis

For the whole sample

The analysis provides hands-on information about the market practice of equity-based compensation across the world's leading companies.

By economic regions

The analysis reveals differences in the implementation of equity-based compensation between Europe, North America and the rest of the world*.

Regional distribution

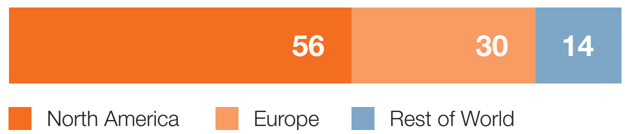


Fig. 6: Participants by region in % of companies

By employee satisfaction

The analysis provides insights into plan features which employees are highly satisfied with. High satisfaction is reflected by the answer "very high" for overall employee plan satisfaction.

By communication efforts

The analysis demonstrates the role of a broad set of communication tools for a successful equity culture. A broad set of communication tools is assumed if a company uses three or more different communication methods.

By payout

The analysis demonstrates how high and low payouts influence employee satisfaction. Companies with high (low) payout are defined as the third of all companies with the highest (lowest) ratio of actual LTIP payout compared to its target level.

* "Rest of world" refers to all companies that have their headquarters outside Europe and North America. The headquarters of these companies are in Australia, Brazil, Japan, Philippines, South Africa, or Thailand.

Successful companies give more priority to Long-Term Incentive Plans

- Long-term incentive plans have become an essential part of compensation packages across all organizational levels around the world
- Successful companies use long-term incentive plans more intensively and give more weight to long-term incentives across all organizational levels
- Employee participation in LTIP shows a positive relation to company performance

The perception that LTIP grants foster sustainable and long-term value creation has become established around the world. The compensation structure of sample companies reflects this perception in two dimensions. First, across executive levels, the portion of LTIP is increasing along the corporate hierarchy ranging from 14% for middle management to 42% for the management board/executive committee on average. Second, at each executive level, high performing companies grant a larger portion of LTIP than low performing companies.

Participation rates in LTIP also underscore the importance of LTIP for company success: In high performing companies employees participate remarkably more in LTIP. Hence, the extension of LTIP to a broader scale of employees provides great potential for performance improvements. Such an extension is a main lever to enhance long-term orientation over the entire company and, thus, creates sustainable value in the long-term.

Link between pay mix and performance

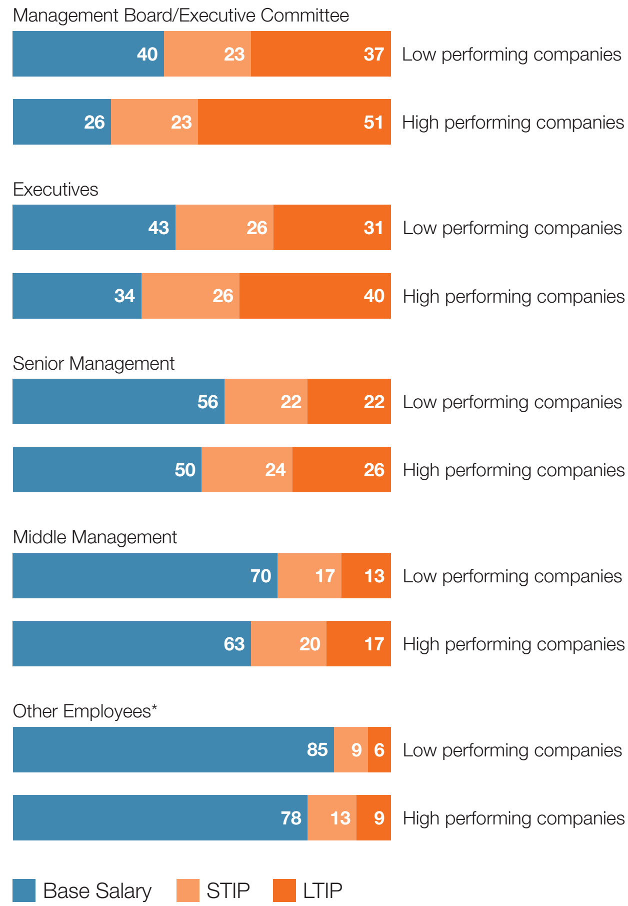


Fig. 7: Pay structure in % of total direct compensation

* The term "Other Employees" refers to employees at lower staff levels in general: Some companies offer LTIP only to selected staff such as high potentials, while other companies offer LTIP to all employees.

Implementation of Long-Term Incentive Plans and their participants

- Companies draw on long-standing experience in LTIP
- Low portions of LTIP at lower staff levels leave considerable room for a better incentive alignment with the interests of shareholders
- Broad-based equity culture across staff levels fosters company performance

Looking at the implementation dates of LTIP, companies around the world can draw on long-standing experience. In particular, North American companies can be seen as the pioneers of LTIP. In addition to executives, other employees have also been part of the target group for LTIP for many years.

Long-term experience with LTIP

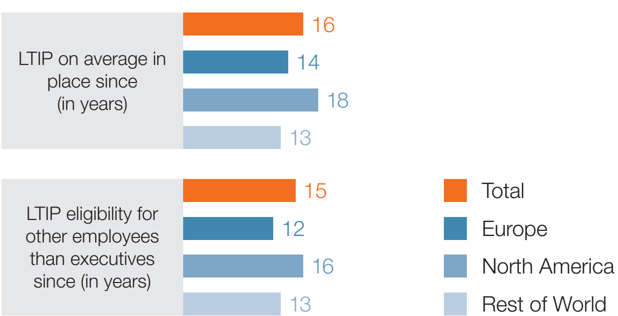


Fig. 8: Experience with LTIP in years

LTIP are less important on lower levels of the corporate hierarchy. In particular the low portions of LTIP for middle and senior management leave considerable room for a better incentive alignment with the interests of shareholders. In this context, European companies are lagging behind North American companies. On all executive levels, executives in European companies are granted lower portions of LTIP as compared to their counterparts from North American companies.

Pay mix by level

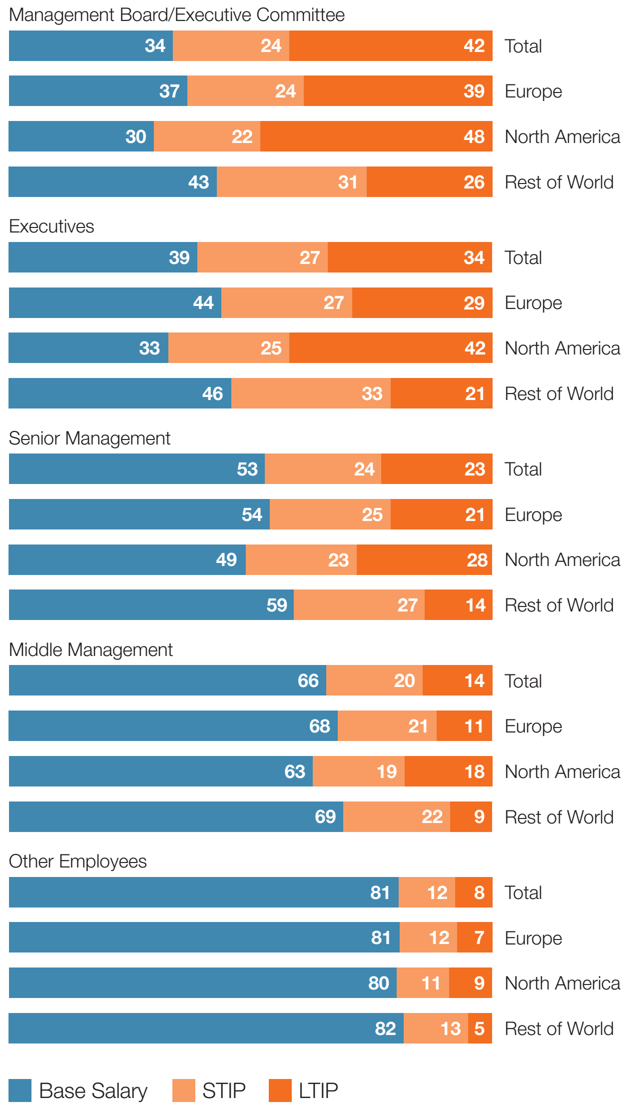


Fig. 9: Compensation structure per level and region in % of total direct compensation

Regarding eligibility, LTIP are no longer an exclusive compensation instrument for the company's management board/executive committee. Significantly more than half of all companies surveyed offer LTIP down to middle management, and 45% of companies also to staff at lower levels ("Other Employees"). However, there are tremendous differences by economic regions. Eligibility is consistently lower for companies with headquarters outside Europe and North America. Moreover, eligibility differs greatly for the middle management in European companies compared with their North American counterparts.

Long-Term Incentive Plans (LTIP)

LTIP-eligible staff

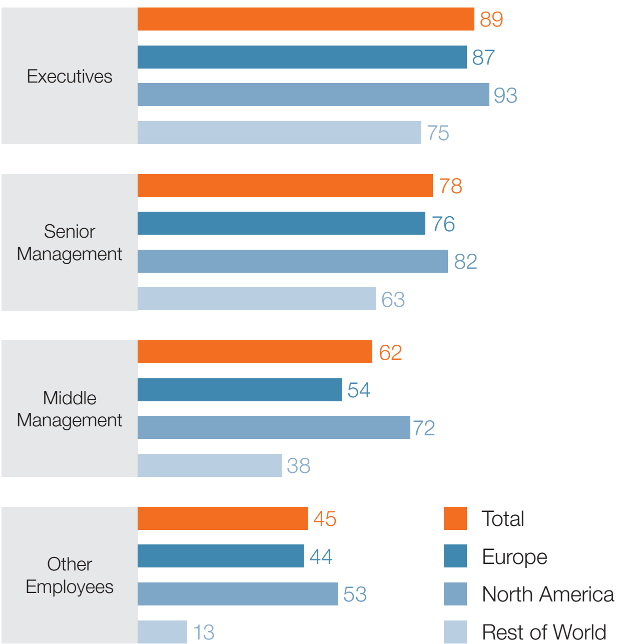


Fig. 10: LTIP eligibility per level in % of companies*

LTIP eligibility down the corporate hierarchy is a driver of company performance. High performing companies offer LTIP much more frequently also to other employees than executives. That is, a broad-based equity culture across the corporate hierarchy seems to foster company performance.

Link between LTIP penetration and performance

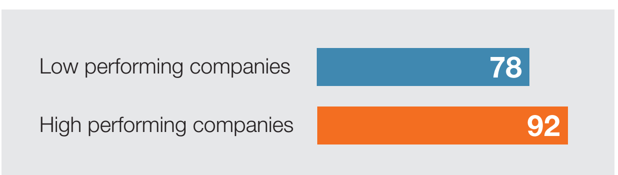


Fig. 11: LTIP eligibility for other employees than executives in % of companies

* The figure shows LTIP eligibility for staff levels below the management board/ executive committee. Across all companies, members of the management board/ executive committee are eligible for participation in LTIP.

Plan design of Long-Term Incentive Plans

- **Distribution of plan types shows considerable differences between Europe and North America**
- **The trend of 2013's survey is further affirmed, as stock options are on a sharp and steady decline**
- **LTIP in high performing companies are more comprehensive, as plans are more deeply integrated and rolled out in more countries**

The results of this year's survey confirm the declining trend of the use of stock options in the compensation mix. Compared to the results from GEO Global Equity Insights 2013, the use of stock options is dropping further among the companies surveyed. Whereas only a decade ago, stock options were the predominant plan type, they now rank only third amongst companies from Europe and North America.

Apart from this trend, the distribution of plan types is remarkably different between companies from Europe and North America. European companies prefer performance shares as a long-term incentive. In contrast, North American companies prefer restricted stock: 43% of the companies from North America grant restricted stock.

The preference for performance shares and restricted stock reflects the common perception that an award of full-value stock provides a more balanced risk profile compared to stock options. During the financial crisis the public debate mainly focused on stock options when criticizing large pay-outs for executives and excessive risk-taking. Public and investors' pressure, as well as changes in regulation, have contributed to the popularity of performance shares and restricted stock.

Further plan types, namely performance cash, equity and cash deferrals, and share matching are of minor importance in both Europe and North America. Companies from other regions, however, have some preference for equity deferrals and share matching.

Long-Term Incentive Plans (LTIP)

Remarkably, about 10% of companies use other plan types which are mostly a combination of two different types, such as a combination of restricted stock and stock options.

LTIP types

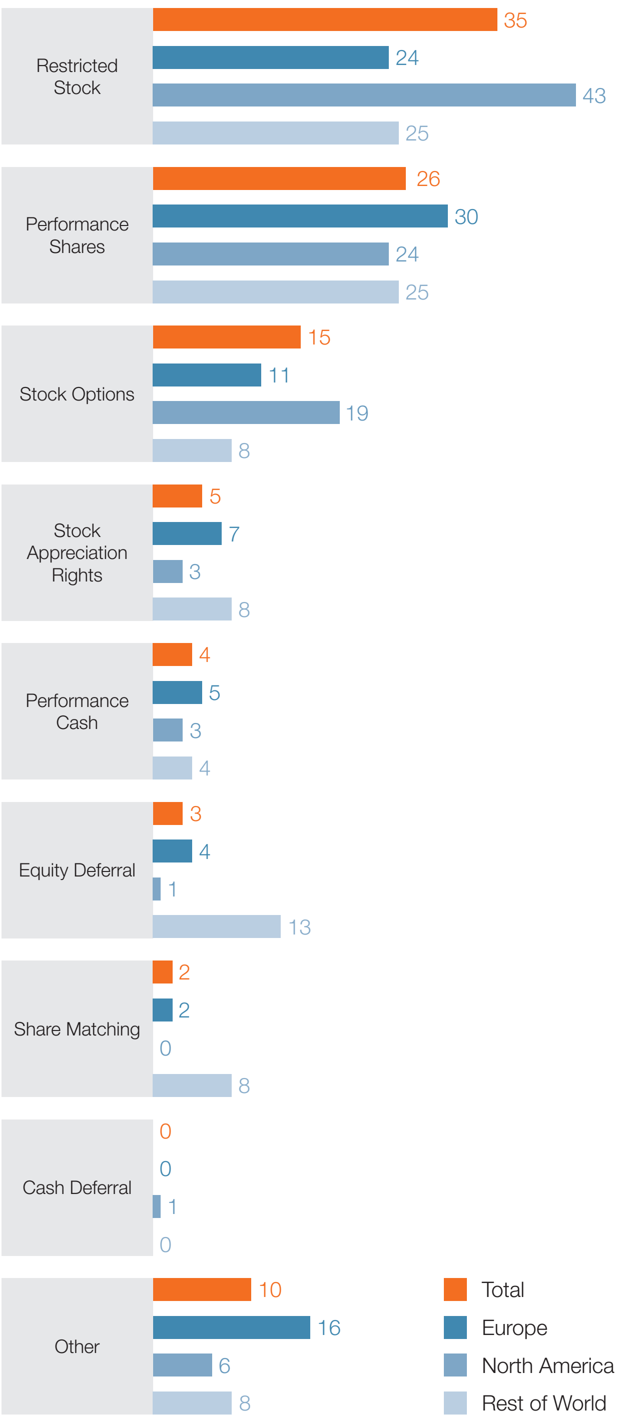


Fig. 12: LTIP types (ranked by prevalence) in % of companies

The country coverage for LTIP differs considerably across companies. While 40% of companies roll out LTIP extensively in almost all operating countries, 25% of companies implement LTIP only for selected countries. This surprising divergence begs the question of whether a comprehensive rollout could enhance company success.

LTIP country coverage

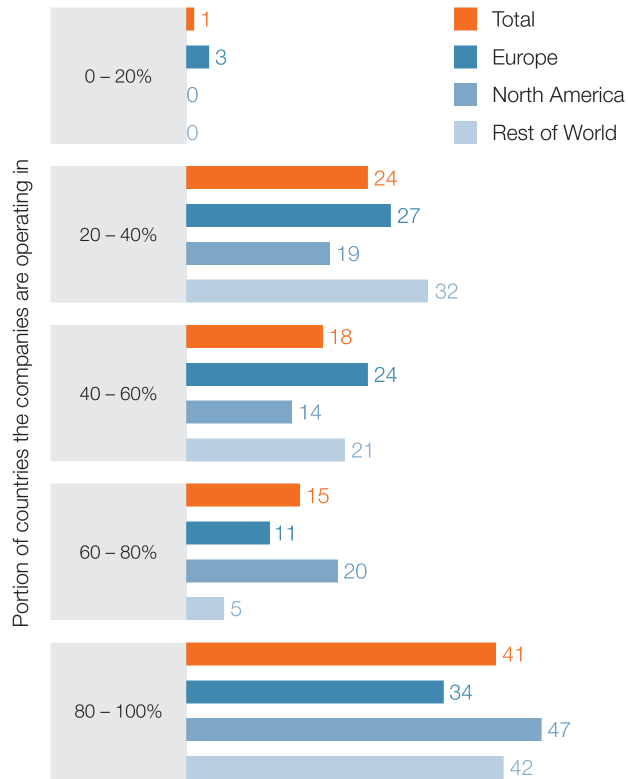


Fig. 13: Countries with LTIP out of all operating countries in %

Indeed, high performing companies roll out LTIP in more countries in which they operate compared to low performing companies.

Link between LTIP country coverage and performance

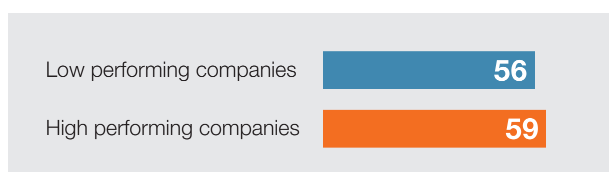


Fig. 14: Countries with LTIP out of all operating countries in %

Long-Term Incentive Plans (LTIP)

The role of payout

- Companies pay for performance
- Higher payout results in more satisfied employees
- Companies with high LTIP payouts have twice as many satisfied employees

The analysis shows that companies do in fact pay for performance: High performers have consistently higher payouts relative to target payouts than low performers.

Link between performance and LTIP payout level

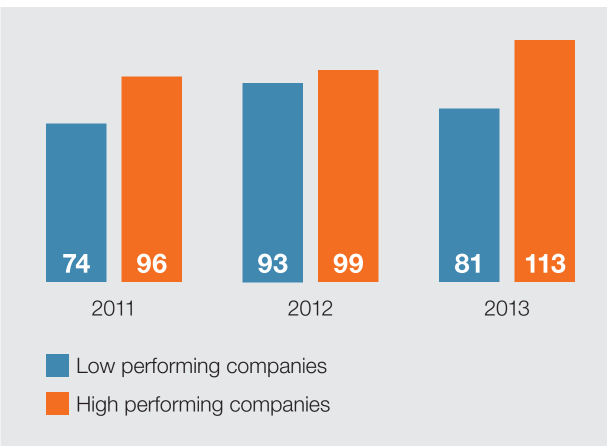


Fig. 15: Actual LTIP payout in % of target level

Clearly, employees highly appreciate payouts that exceed the expected target. In line with that, employees in companies that surpass target payouts are remarkably more satisfied with their LTIP than employees in companies with low payouts. However, it comes as a surprise that higher payouts from previous years lead to more satisfied employees in the current year. Hence, unexpected high payouts seem to have a positive long-term effect on employee satisfaction.

Concurrently, this strong relation between payouts and employee satisfaction provides a challenge for low performing companies. The portion of highly satisfied employees in companies with high payouts is almost twice as high as the portion in companies with low payouts. Accordingly, low performing companies need to find alternatives for increasing employee satisfaction. In this context, communication can play a crucial role, e.g. in order to clarify future opportunities of long-term pay for employees.

Link between LTIP payout level and satisfaction

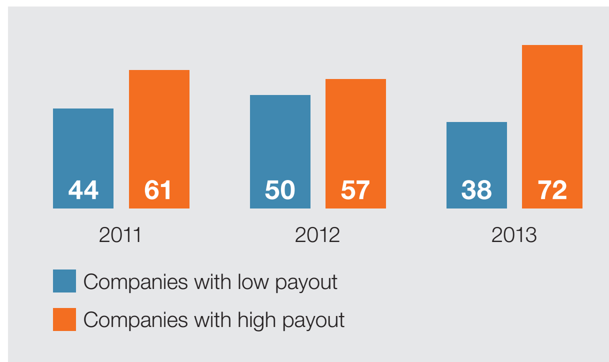


Fig. 16: Companies with highly satisfied employees with LTIP in % of companies

Evaluation of Long-Term Incentive Plans

- **In total, employees and employers are mostly satisfied with LTIP**
- **Comparing the gap between the relevance of LTIP objectives and their achievement reveals opportunities for improvement**
- **Improvements in communication and plan designs are therefore highly advisable**

Employee satisfaction with LTIP is remarkably high. With the exception of two topics, namely risk profile and tax treatment, nearly half of the companies rank employee satisfaction with LTIP as high.

LTIP employee satisfaction

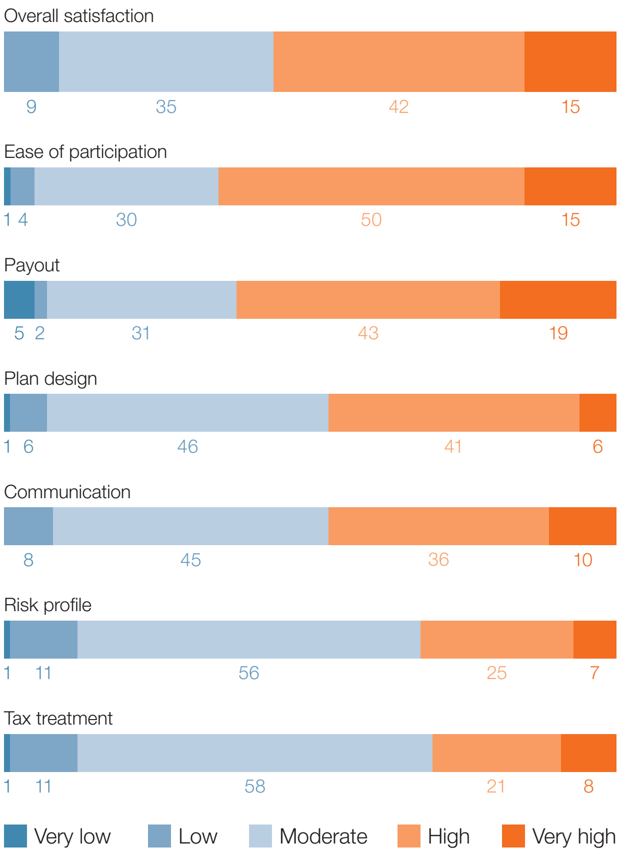


Fig. 17: Employee satisfaction with LTIP in % of companies

Regarding employer satisfaction, a similar picture emerges. Most companies rank employer satisfaction with LTIP as high. With two exceptions, however, employers are only moderately satisfied with both the regulatory framework and tax treatment. Hence, the reduction of legal complexity could greatly foster the equity culture within corporations.

LTIP employer satisfaction

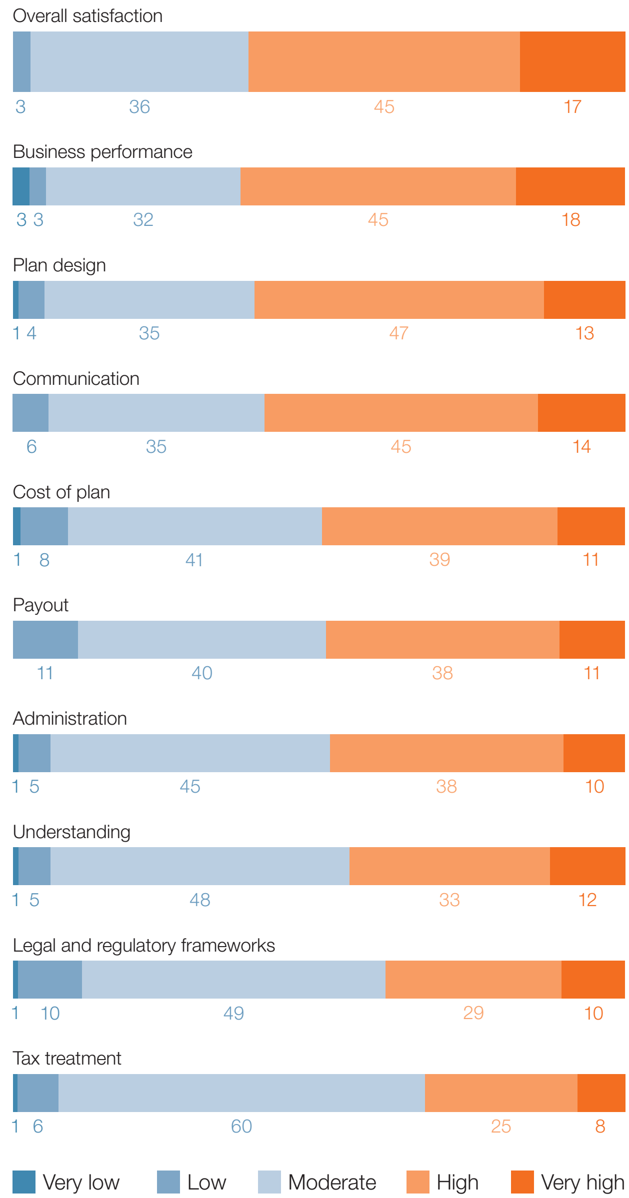


Fig. 18: Employer satisfaction with LTIP in % of companies

Long-Term Incentive Plans (LTIP)

Comparing the importance of LTIP objectives and their actual achievement reveals a considerable gap. On average, this gap amounts to 9 percentage points. In particular, companies can improve the success rate of classic LTIP objectives like retention, strategy alignment, engagement, or identification. This LTIP objectives/ achievement gap may be a result of misalignment between objectives and the plan communication. A systematic comparison of implementation objectives and actual communication practices might reveal potential for improvement, and could be crucial to a company's success.

Achievement of LTIP objectives

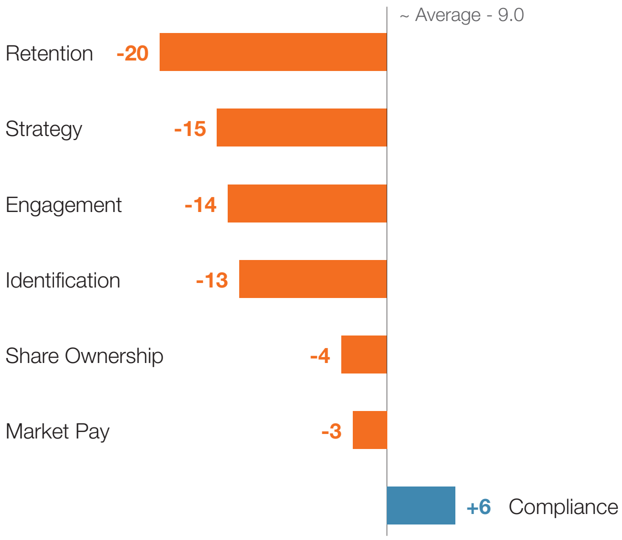


Fig. 19: Deviation of highly achieved from highly relevant LTIP objectives in %

Employee Share Purchase Plans (ESPP)

Implementation and success of Employee Share Purchase Plans

- **High performing companies have higher participation rates in ESPP**
- **ESPP have gained popularity across global companies, although European companies need to catch up with their American peers**
- **Contrary to LTIP, more than 90% of companies offer ESPP for all employees**

Employee participation in ESPP shows a positive relation with company performance. High performing companies have participation rates commonly nearing 50% in ESPP. In contrast, participation rate in low performing companies drops to 40%. Hence, ESPP are not only a crucial factor of success in a competitive labor market, but are also a more general value lever when it comes to participation. ESPP turn a company's general employee population into equity investors of the company and, thus, orient employees to act in the best interest of shareholders.

Link between ESPP participation rate and performance

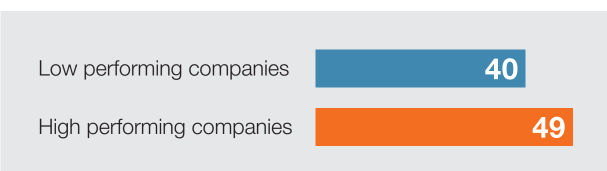


Fig. 20: ESPP participants in % of eligible employees

Companies seem to be aware of the beneficial impact of ESPP since almost half of all companies surveyed have implemented such plans. However, there are great regional differences. European companies show a comparably low implementation rate (39%) and, thus, need to catch up with their American peers (56%).

ESPP implementation

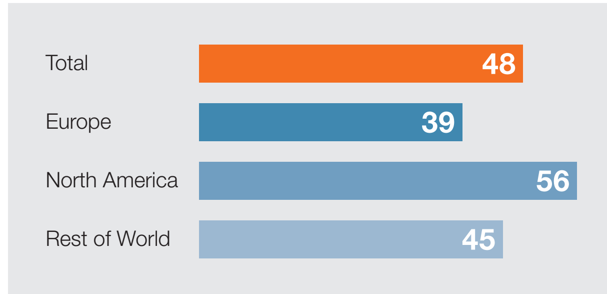


Fig. 21: Implementation of ESPP in % of companies

Companies use ESPP to establish a comprehensive equity culture within the organization. Almost all companies around the world offer ESPP to all of their employees of a country the plan is implemented.

ESPP-eligible employees

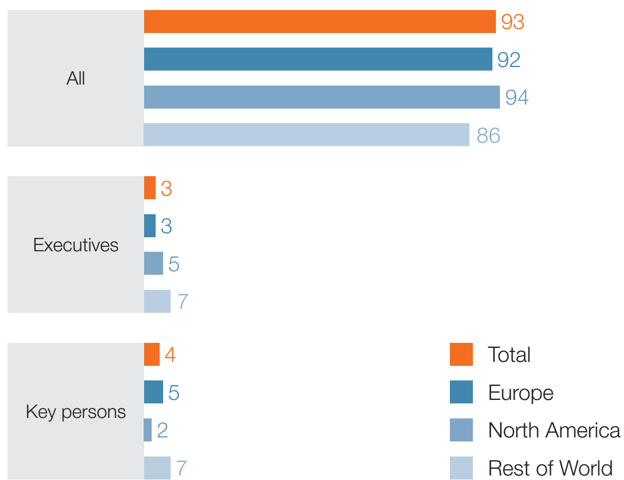


Fig. 22: Employees eligible for ESPP in % of companies

However, when it comes to participation, companies seem to face some challenges. In more than 50% of the companies, participation rates are below 40%. Companies from outside North America and Europe are an exception.

Employee Share Purchase Plans (ESPP)

Their high participation rates mainly result from the use of free share plans. The generally low number of actual participants relative to eligible participants may offer great opportunities to integrate ESPP in the corporate culture on a much broader scale in order to take advantage of the beneficial impact of such plans.

ESPP participation rate

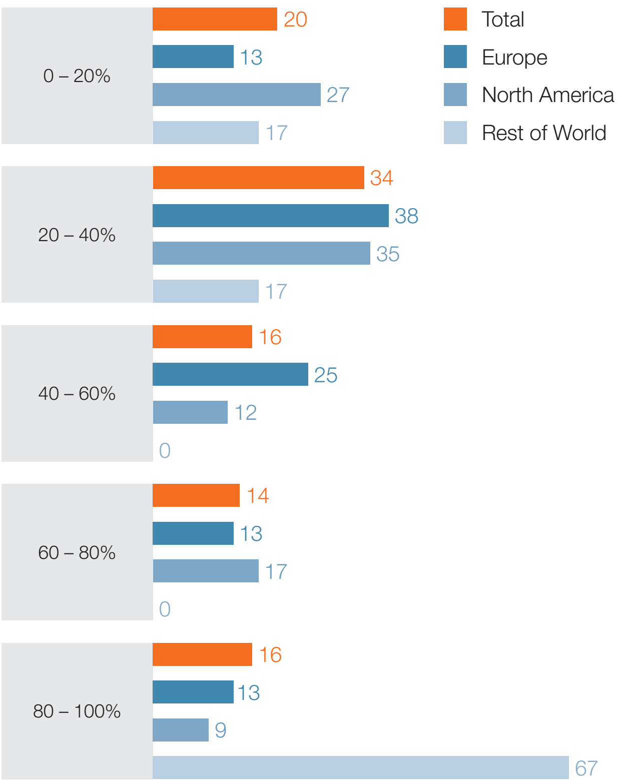


Fig. 23: ESPP participation rate in % of companies

Plan design of Employee Share Purchase Plans

- **Share discount plans as most prevalent ESPP**
- **Similar to LTIP, the distribution of ESPP displays significant differences between Europe and North America**
- **Country coverage offers huge potential for a broader rollout of ESPP**

Share discount plans are the dominating ESPP type around the world. However, there are considerable differences in the regional distribution of these plans. North American companies almost exclusively use share discount plans, whereas one-third of European companies prefer share matching plans. Nevertheless, in both regions share discount plans are more prevalent.

ESPP types

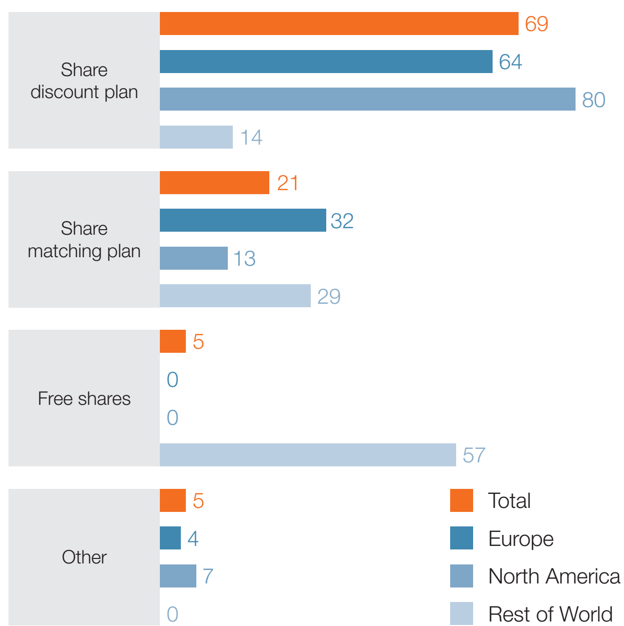


Fig. 24: ESPP types (ranked by prevalence) in % of companies

Free shares only play a role in companies from outside North America and Europe. In contrast to participation in share discount and share matching plans, participants in free share plans do not have to make any personal investment in company shares. Cultural differences in investment behavior more generally could explain the different use of ESPP.

The global rollout of ESPP is on the rise and displays a notable increase compared to the results from the GEO Global Equity Insights 2013 survey. This development is particularly driven by European companies. Less than 50% of European companies surveyed in 2013 rolled out an ESPP in more than 20% of the countries in which they were operating. One year later that number has risen to over two-thirds. Still, in comparison to the high country coverage for LTIP, there is great potential for broader rollouts. The main restriction seems to be regulation: Companies have to meet the requirements of country-specific legal and tax regimes.

ESPP country coverage

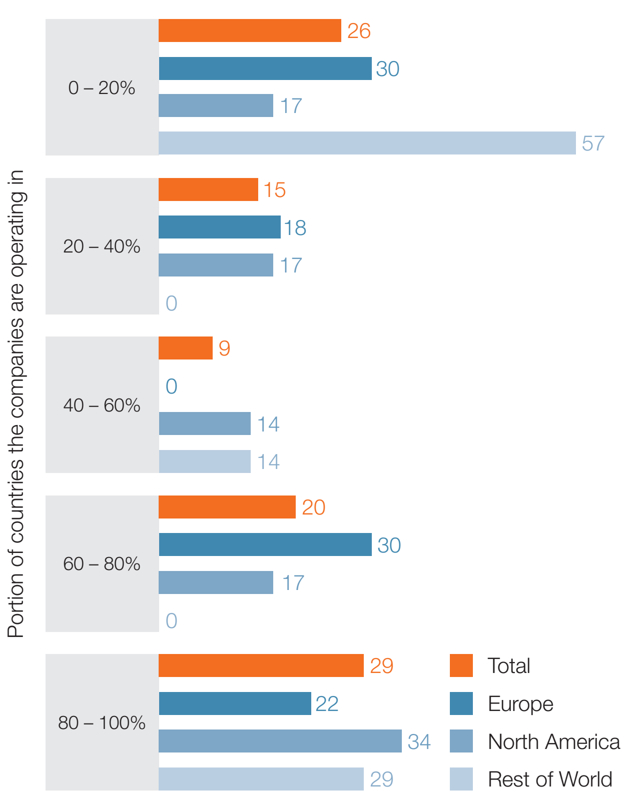


Fig. 25: Countries with ESPP out of all operating countries in %

Evaluation of Employee Share Purchase Plans

- Employer satisfaction is already at a high level, although communication and legal challenges need to be tackled
- High employee satisfaction in general, but discontent exists in terms of tax issues and risk profile
- High satisfaction translates into long voluntary holding periods of shares

Regarding employee satisfaction, the survey results display mostly high levels of satisfaction. Employees are mainly concerned about the tax treatment of ESPP. Looking at last year's data, improvements can be observed with regards to plan communication.

ESPP employee satisfaction

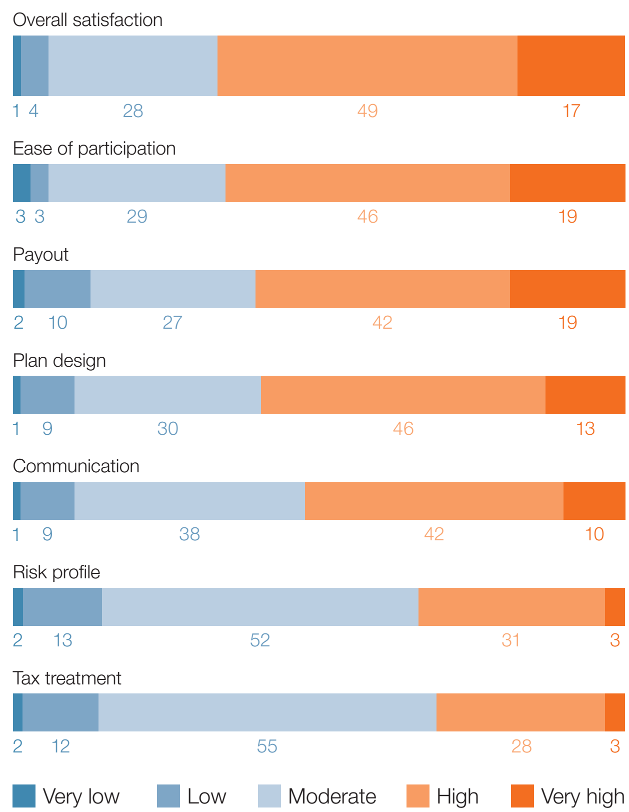


Fig. 26: Employee satisfaction with ESPP in % of companies

Employee Share Purchase Plans (ESPP)

The high level of employee satisfaction in general translates into long voluntary holding periods. A remarkable 82% of employees hold their shares voluntarily for more than one year after vesting. Whereas North American employees sell their shares typically after one or two years after vesting, most European employees hold their shares between three to five years.

Voluntary holding periods post restrictions

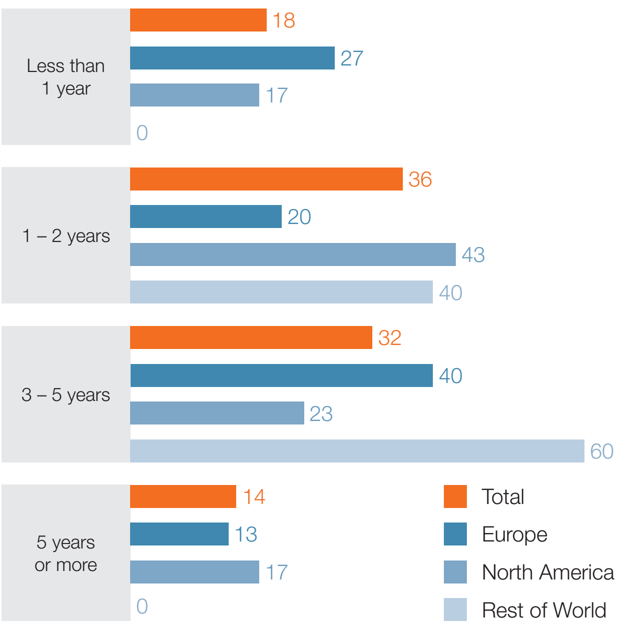


Fig. 27: Years of average voluntary holding period after ESPP vesting in % of companies

While employers are satisfied with their ESPP in general, they are concerned about specific plan aspects. The main concerns come from plan costs. Employer satisfaction is only moderate in terms of legal frameworks and tax treatment. Moreover, communication efforts which are crucial for plan understanding still leave room for improvement.

Despite the positive employee feedback, the comparison of implementation objectives with their achievement levels reveals a considerable gap. Companies hardly achieve two main objectives of ESPP, namely engagement and identification. Companies should systematically align communication efforts with plan objectives to increase plan satisfaction, and in turn, the degree of objective achievement. Strategic and comprehensive communication efforts may tackle the challenge of global usage of ESPP.

ESPP employer satisfaction

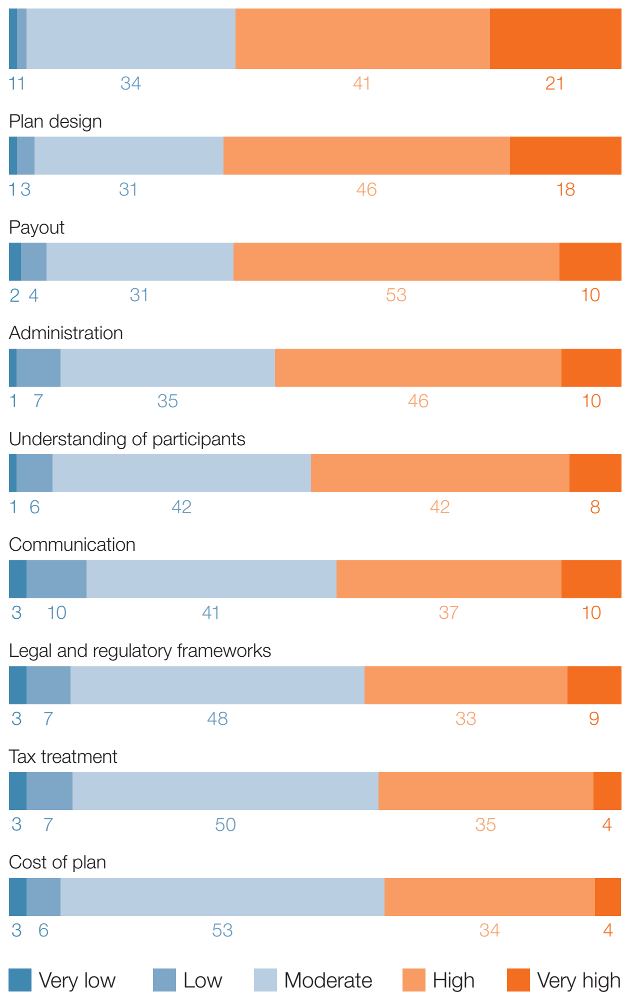


Fig. 28: Employer satisfaction with ESPP in % of companies

Achievement of ESPP objectives

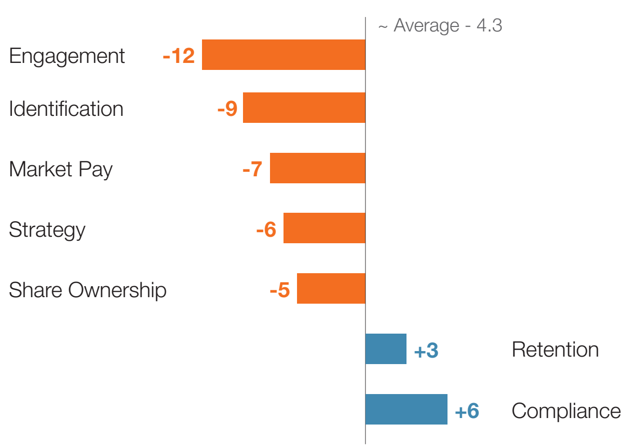


Fig. 29: Deviation of highly achieved from highly relevant ESPP objectives in %

Share Ownership Guidelines as an essential feature of equity compensation

- Share Ownership Guidelines have become an essential feature of equity-based compensation
- 62% of companies have implemented Share Ownership Guidelines
- Companies outside North America lag behind

Besides investment requirements for participation in LTIP, companies establish general share ownership guidelines as part of their compensation policy to align the interests of executives with those of shareholders. Share ownership guidelines make executives equity investors over several years and, thus minimize the risk of short-term oriented decision making. These guidelines are an essential part of the equity culture within companies, as 62% of all companies require their executives to hold shares. There are, however, significant regional differences. In North America, share ownership guidelines are very popular, where 71% of the companies surveyed require share ownership from their executives. In Europe, where ownership guidelines are on the rise, current application is still considerably lower with 58% of the companies having such guidelines in place. Therefore, companies from outside North America have great opportunities to better align the interests of executives with those of shareholders by establishing share ownership guidelines.

SOG implementation

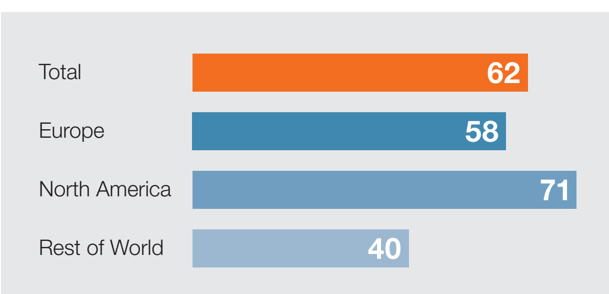


Fig. 30: Implementation of SOG in % of companies

Most companies relate the requirements for share ownership to the level of base salary. Ownership requirements based on the number of shares are also quite common, whereas requirements based on total cash or on total direct compensation are very rare. However, preferences for the reference value differ by economic region. Ownership requirements based on the number of shares are more common in Europe, where almost 25% of the companies with guidelines use shares as the reference value. In North America, ownership requirements based on the number of shares are remarkably lower at 17%.

Reference basis of SOG

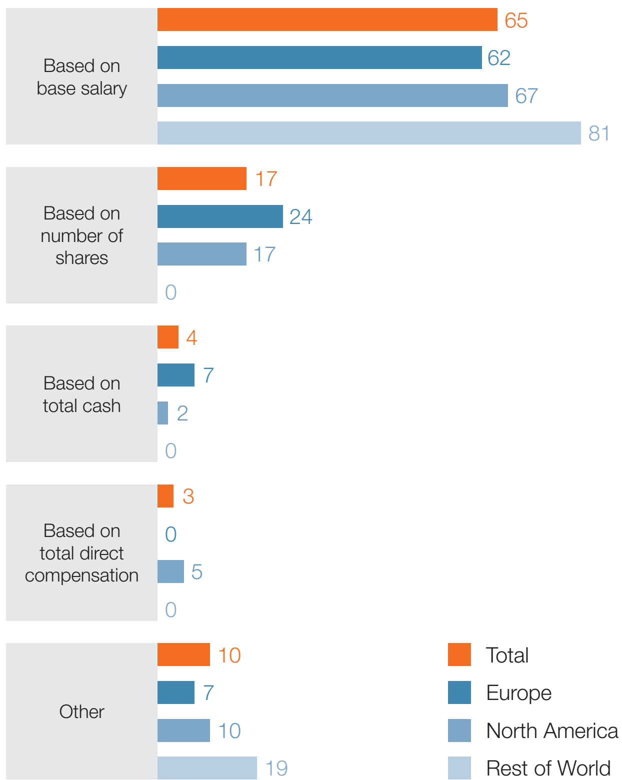


Fig. 31: Determination of SOG level (ranked by prevalence) in % of companies

Budget allocation

- Technology matters are crucial topics of actual and desired additional budgets
- Many companies are aware of the need to improve communication
- However, importance of communication is currently not reflected in budget allocation

Budget allocation of the companies surveyed highlights the importance of technology for equity-based compensation. Technology ranks first in both the actual budget allocation and the additional budget desired. There is an interesting gap for the communication budget. Most companies seem to be aware of the need for additional communication efforts, particularly as the actual budget allocation neglects the crucial role of communication. The desired budget for communication is quite high, while the actual budget allocated is quite low. By extending communication efforts companies could greatly improve their equity culture. In contrast to technology and communication, other administrative functions are of minor importance for additional budget allocations.

Allocation

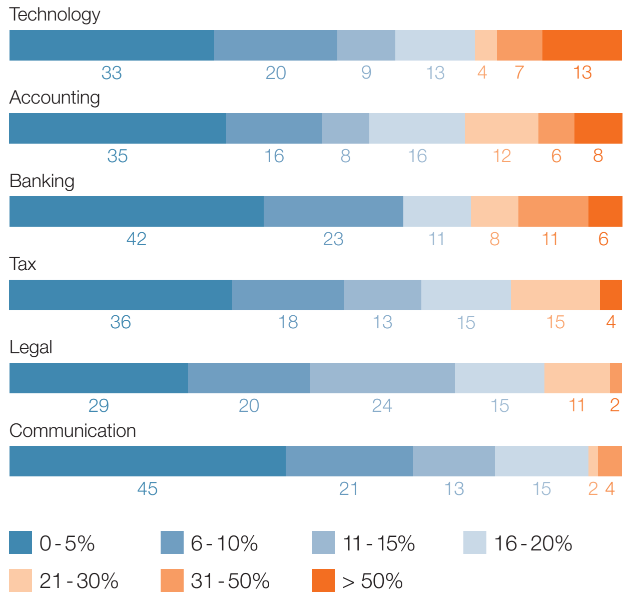


Fig. 32: Allocation of administration budget in %

Desired additional budget

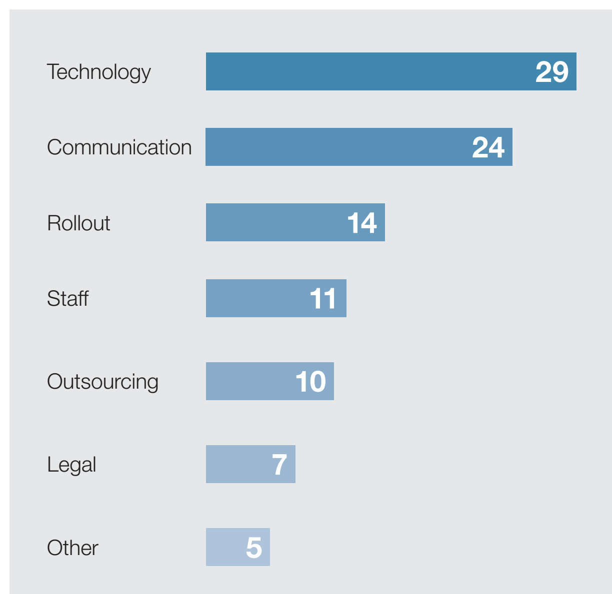


Fig. 33: Desired allocation of additional administration budget (ranked by prevalence) in %

Communication as a key success factor

- Communication is a main lever to achieve higher employee satisfaction
- The usage of multi-channel communication is a key to success
- Compared to ESPP, communication of LTIP offer huge potential for improvement

A key finding of GEO Global Equity Insights 2013 was that satisfaction with accompanying communication generally drives employee perception of the equity plans. The analysis of this year provides a more thorough picture. Companies with a broad set of communication tools are better connected with their employees. This connection results in higher employee satisfaction: Companies that use a broad set of communication tools have employees who are much more satisfied with their equity plans.

This association has important practical implications, in particular since companies face challenges achieving crucial objectives of equity-based compensation like engagement, identification and retention. Companies may tackle this challenge by implementing a multi-channel communication system.

Link between communication and satisfaction

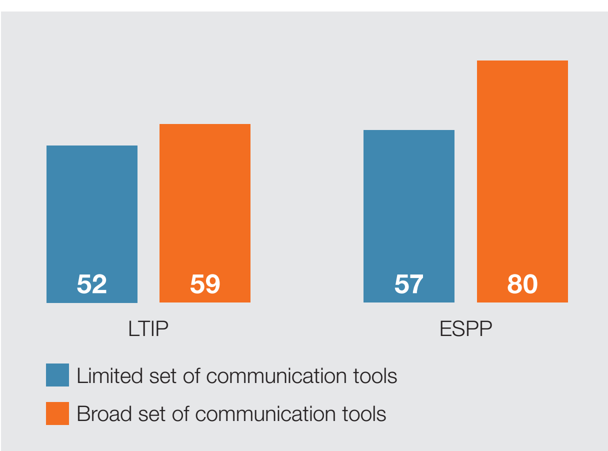


Fig. 34: Companies with highly satisfied employees in % of companies

The range of communication tools used for ESPP in comparison to LTIP displays a notable gap. While 72% of all companies use a broad set of communication tools for the communication of ESPP, less than 50% communicate LTIP on such a broad scale. Hence, a substantial number of companies focus on a broad communication system for ESPP at the expense of a broad communication system for LTIP. Companies might devote more attention to the communication of LTIP in order to gain more from the beneficial impact of LTIP.

ESPP vs. LTIP communication effort

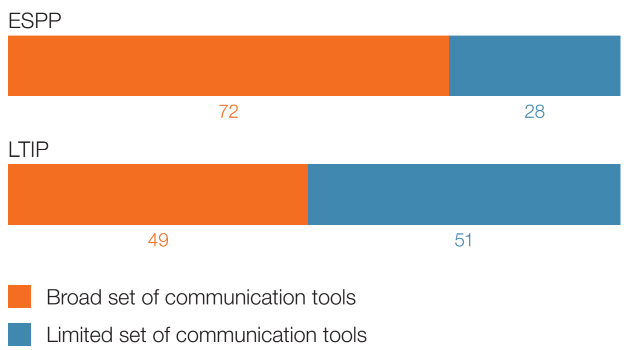


Fig. 35: Set of communication tools for ESPP vs. LTIP in % of companies

In-house or outsourcing?

- The degree of outsourcing displays marked differences among administration topics
- Seven out of eight administration topics are mainly in-houseadministered
- Banking is a typical example for outsourcing, whereas treasury is almost always administered in-house

Companies deal with most administrative activities in-house. The focus on in-house administration underscores the crucial role equity-based compensation plays for the companies surveyed. Two main exceptions are banking and tax. Note, that banking and tax are also those activities to which companies allocate a comparably high budget. Accordingly, the process of allocating budget to different administrative activities is strongly constrained by the degree of outsourced activities.

In-house vs. outsourced administration

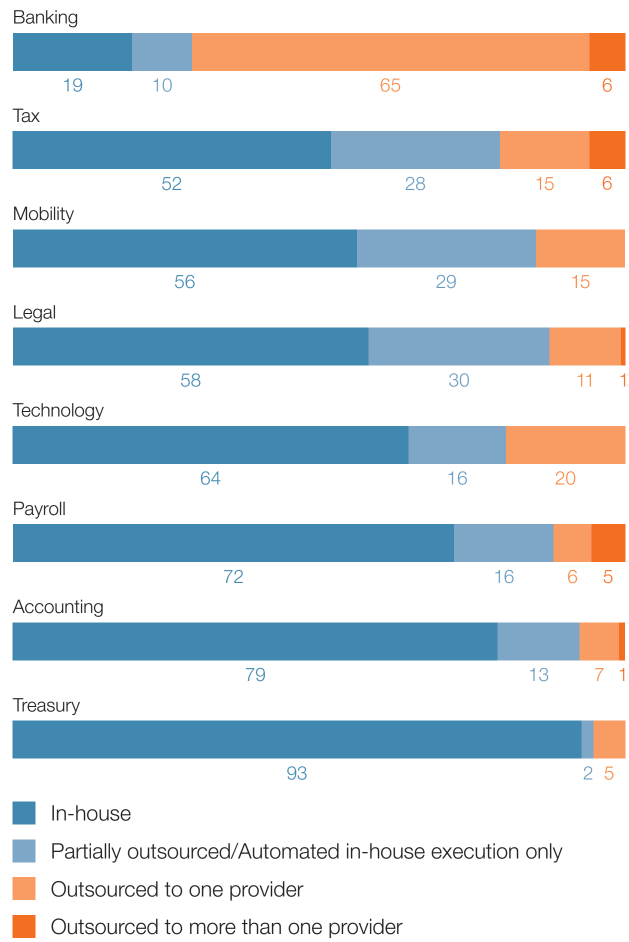


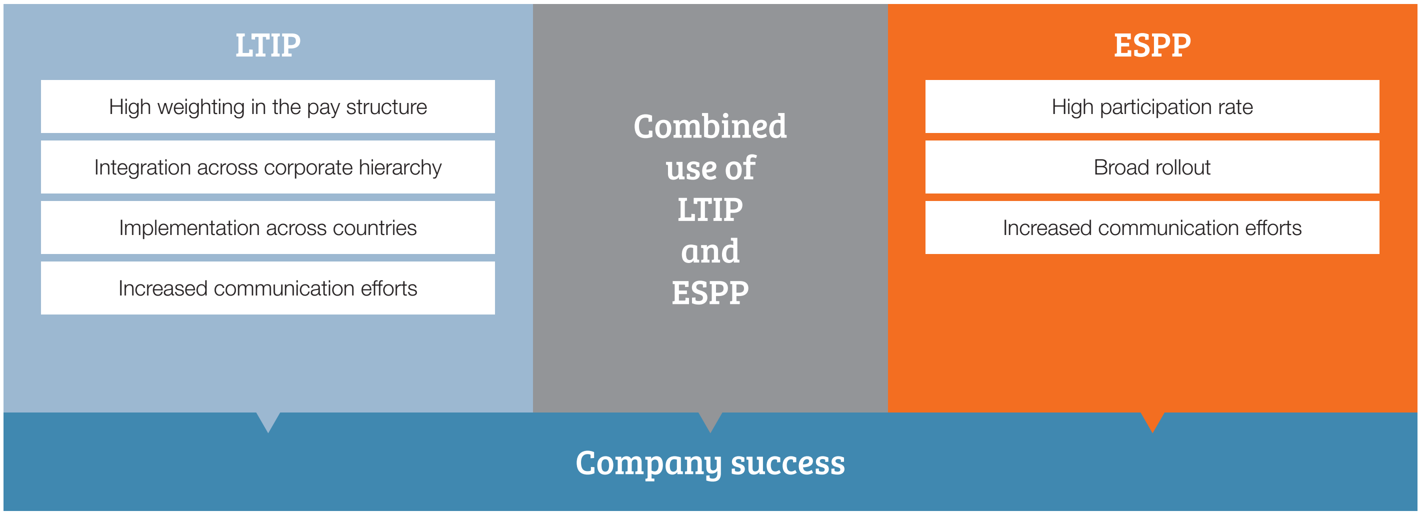
Fig. 36: In-house and outsourced administration in % of companies

Special Focus – Market Practice in South Africa

The generic term "Rest of World" relates to 24 companies from six countries outside Europe and North America. In this group companies from South Africa are strongly overrepresented with a fraction of more than 50% (13 companies). We analyze this subsample separately, and summarize our main findings in the following statements:

- **Long-term oriented pay is substantially lower in South African companies than in European and North American companies on all staff levels, e.g. long-term oriented pay amounts to 26% for executives and to 10% for middle management.**
- **LTIP are mostly restricted to higher staff levels as only 10% of companies offer LTIP to other employees.**
- **Almost 50% of the companies use performance shares as LTIP.**
- **In the most successful South African companies more employees participate in LTIP.**
- **Employees are highly satisfied with their LTIP (77% of the companies).**
- **Employers also display a high satisfaction with their LTIP (70% of the companies).**
- **ESPP are of minor relevance: Only 10% of the companies have an ESPP in place.**
- **Only 20% of South African companies use share ownership guidelines.**
- **Similar to companies from other countries, technology is a crucial topic for actual and desired budgets.**
- **South African companies are also aware of the need for additional communication efforts. Contrary to European and North American companies, South African companies allocate a higher portion of actual budget to communication.**
- **Nevertheless, communication in South African companies offers opportunities for improvement as only 20% of the companies use a broad set of communication tools.**

Summary



This report sheds light on current market practice of equity-based compensation and reveals the link between plan integration, communication practices, employee satisfaction, and company success. In general, companies in the survey have already established a sophisticated level of equity culture as indicated by the high implementation rates of equity-based compensation. While companies from North America traditionally have a strong equity culture, the equity culture in companies from other countries is steadily on the rise. This development will further strengthen the intensity of global competition.

A sophisticated equity culture greatly shapes the performance culture within organizations: Companies with the highest implementation rates are also those with the highest performance. These companies pursue a compensation strategy that aims at both a vertical and a horizontal integration of equity culture. In a vertical dimension, high performing companies implement equity-based compensation much more across all staff levels.

In a horizontal dimension, high performers roll out equity plans in a wider range of countries in which they are operating. This two-dimensional approach results in a comprehensive compensation policy with a focus on both LTIP and ESPP. Hence, equity-based compensation in broad-based use is a crucial factor to successfully compete at a global level.

Although effective communication of equity plans to employees appears to be a main lever of employee satisfaction, current communication practice of the companies surveyed leaves room for further improvement, e.g. by a diversified usage of communication methods. As complexity in plan design and legal treatment increases, understanding of the underlying plan mechanisms becomes more difficult for plan participants which, in turn, can create discontent among employees. Such discontent is more likely for employees further down the corporate ladder, where participants are arguably less familiar with equity-based instruments compared to top-executives. This problem gets severe once companies grant complex LTIP to employees at lower levels of the corporate hierarchy. The survey reveals considerable differences between communication efforts for ESPP and LTIP. Compared to ESPP, companies do not devote enough attention to the communication of LTIP. The root for this difference in attention lies in a general funding trade-off with other administrative activities. The analysis shows more generally that actual budget allocation for communication falls short of the crucial role communication plays for employee satisfaction. However, most companies are aware of the need for additional budget to be allocated to communication efforts.

Conclusion

We identify three main drivers companies should focus on in their pursuit of sustainable value creation:

- First, companies need to increase both the fraction of LTIP in the pay mix and the integration of LTIP across all staff levels and countries.
- Second, companies should actively promote their equity culture by introducing ESPP on a broad scale. Both LTIP and ESPP are a key factor to compete successfully in a globalized economy.
- Third, companies need to allocate more time and budget to create a more diversified communication platform. Diversified communication methods are a main lever for employee satisfaction and carry the potential to invigorate LTIP and ESPP. Employee satisfaction with these plans is crucial to achieve important objectives of equity plans such as identification, engagement and retention. There is still a huge gap between the relevance of these objectives and their actual achievement.

Finally, we claim that governments need to encourage broad-based equity culture and entrepreneurship by reducing legal complexity which, in turn, will ease the implementation of LTIP and ESPP on a global scale.

Participation Report

Up to 30 in depth-analyses of current market practice in the Participation Report of GEO Global Equity Insights 2014

The Participation Report of GEO Global Equity Insights 2014 (forthcoming) covers in detail the market practice of equity-based compensation worldwide. On the spot are plan types, performance measures, and communication efforts—and how they impact employee satisfaction as well as company performance. As a special add-on, the report also presents a benchmark for current administration budgets. The following list shows selected topics to be covered in the Participation Report of GEO Global Equity Insights 2014:

Long-Term Incentive Plans (LTIP)

- Plan types
- Performance measures
- Communication methods

Employee Share Purchase Plans (ESPP)

- Discount rates
- Self-financed investment
- Communication methods

Share Ownership Guidelines (SOG)

- Reference values for base salary
- Accountable shares
- Share tracking

Administration

- Budget levels
- Interactive communication outcomes
- Outsourcing of LTIP, ESPP and SOG

Participants of the GEO Global Equity Insights 2014 survey will receive the extended report free of charge. Non-participants that are interested in detailed insights into the market practice of equity-based compensation can order the Participant Report at an attractive rate (USD 250 for GEO members, USD 450 for non-GEO members). Please contact the GEO team with the request at GEIS2014Order@globalequity.org.

Survey participants

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African Rainbow Minerals
AkzoNobel
Alliance Data
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Altana
Amadeus
Amazon.com
Ambarella
ANSYS
ARIAD Pharmaceuticals
ARM
AT&T
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Bank of America
BASF
Bendigo and Adelaide Bank
BG Group
BKW Energie
BMW Group
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BT Group
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Carlsberg
Carnival
Cascade Microtech
Caterpillar
Celanese
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Citrix Systems
Commerzbank
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Hollard
Hewlett-Packard
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Infineon Technologies
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Intersil
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Klabin
Lanxess
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Deutsche Lufthansa
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Editors

Danyle Anderson – GEO

Danyle Anderson serves as the Executive Director of the Global Equity Organization (GEO), a member-founded and member-driven not-for-profit organization dedicated to advancing knowledge and understanding of equity compensation worldwide through a global community of well-informed professionals.

Prior to joining GEO, Danyle was the Programs Director for the National Association of Stock Plan Professionals (NASPP). Danyle also served as head of Investor Relations and Shareholder Services for Tech Data Corporation, where she had responsibility for all aspects of the company's equity plans providing benefits in more than 38 countries. Prior to Tech Data, Danyle was a member of the audit division of Deloitte & Touche LLP.

Danyle holds a Bachelor of Science degree in Accounting from the University of South Florida, is a Certified Public Accountant, a Chartered Global Management Accountant, a Certified Equity Professional and a member of the Advisory Board of the Certified Equity Professional Institute.

Contact: danyle.anderson@globalequity.org

Jay Foley – Computershare

Jay Foley is the Managing Director for Computershare Plan Managers Europe, supporting global companies in managing their equity compensation plans. Jay has worked in the employee share plans environment for nearly 20 years, working with both Citigroup and Morgan Stanley, and has worked in the New York, Barcelona and London offices, where he is based now. Jay has been involved in all aspects of share plan services, including plan administration, employee communications, customer service and operations. Jay's primary focus has been with companies which trade on multiple markets and has supported clients throughout the world, covering more than 13 global markets.

Jay is an active member of the global share plan community and has been a member of the Global Equity Organization (GEO) since its inception and is currently a Board Member and Treasurer of the Board. Jay is also a member of the GEO London Chapter.

Contact: jay.foley@computershare.co.uk

Bettina Gohm – Siemens AG

Bettina Gohm has been with Siemens AG since 1980 and holds an MBA. Following Siemens in-house training, and various international business assignments in finance, IT and Audit staff and management positions, she was appointed in 2005 to head the organization that is responsible for Compensation & Benefits for Executive and Senior Management of Siemens AG.

In this position she is responsible for the globally applicable STIP for approx. 4,500 senior managers, all LTIP/ equity programs for executive and senior management, market surveys and position evaluations. A big part of her responsibilities encompass all aspects of the global share matching plan that was introduced in 2009 and has been rolled out to 67 countries with 140,000 employees already participating in the plan.

Contact: bettina.gohm@siemens.com

Michael H. Kramarsch – hkp///group

In his more than 20 years as a consultant, Michael H. Kramarsch has established himself as one of the most highly regarded experts in corporate governance, performance management and top-executive compensation in German-speaking countries. In 1998, he joined an international HR management consulting firm as Head of Executive Compensation. He successfully built up the consulting firm and led it through a merger, ultimately gaining responsibility for all of the newly formed company's business in German-speaking countries. In 2010, together with Dr. Stephan Hostettler, he founded hkp/// group, a consulting firm with focus on performance management, talent management and compensation. His books and other publications on issues of management compensation and corporate governance and his public commentary on current developments have underpinned his status as an expert.

Contact: michael.kramarsch@hkp.com

Heike Neumann – SAP

Heike Neumann has been with SAP since 2009. She joined the company as Global HR Business Partner and later became the Global HR BP Lead for an organization with 6,000 employees, driving the implementation of SAP's People and Organization Strategy and acting as HR Business Partner for one of SAP's co-CEOs. Beginning of 2014 she was appointed to the role of Global Head of Executive Rewards and Equity at SAP.

Prior to joining SAP, Heike held multiple HR lead roles at Hewlett-Packard and Celesio. For 5 years she ran her own HR consulting organization, offering talent acquisition services in the technology and pharmaceutical sectors. Heike has over 17 years of experience in various HR functions and holds a master degree in business administration.

Contact: heike.neumann@sap.com

Michael Wolff – University of Goettingen

Prof. Dr. Michael Wolff is full professor and holds the Chair of Management and Control at the Georg-August-Universitaet Goettingen (Germany). Before joining the University of Goettingen he was Professor for Corporate Governance at the University of Mainz and management consultant at McKinsey & Company, Inc. He studied at the University of Frankfurt and holds a doctoral degree from the HHL – Leipzig Graduate School of Management.

Besides aspects of corporate strategy and governance his main research areas are the design and implementation of incentive systems for executives and employees and their impact on firm behavior and performance. He published several articles in national and international journals with theoretical and practical references to these topics. Moreover he taught courses on corporate strategy, value-based management and corporate governance in several graduate, MBA and PhD programs.

Contact: michael.wolff@wiwi.uni-goettingen.de

Global Equity Organization (GEO)

The Global Equity Organization (GEO) is a member-founded and member-driven not-for-profit organization dedicated to advancing knowledge and understanding of equity compensation worldwide through a global community of well-informed professionals.

GEO provides its members—regardless of location, position or affiliation—opportunities to share and learn about the strategic, governance, financial, cultural, legal, tax, communication and administrative issues affecting equity-based employee compensation around the world, from the fundamentals to the latest market intelligence.

GEO was founded in 1999 to support corporate executives and equity compensation professionals dealing with the challenges of creating, managing and administering employee share plans large and small, national and global.

GEO represents a community of more than 5,000 individual members representing over 1,500 companies and professional firms in more than 60 countries around the world.

Computershare

Computershare is one of the largest registrar and employee share plan service providers in the world, with more than 16,000 clients and 14,000 employees globally. Computershare was founded in 1978 and is listed on the Australian Stock Exchange. We provide leading solutions for Employee Share Plan services, Share Registration, Communications, Trustee Services and other services.

With over 25 years of experience, Computershare is an industry leader in the administration of Global Employee Share Plan services. Some highlights of our business include: plans, for executive and broad-based employee programs.

Computershare is committed to investing in our people and technology—our innovative approach and commitment means we can provide clients with robust, yet flexible solutions and has led to many market innovation ‚firsts' such as our mobile, multilingual web platform. Computershare provides a consultative approach, from design to implementation, communication, analysis and ongoing management. We partner with our clients to provide solutions aimed at making participation and transactions easier and more convenient so that the barriers to employee ownership are minimized.

We are proud to support GEO with its mission to advance knowledge and understanding of equity compensation worldwide.

hkp/// group

The hkp/// group is an independent and partner-led international consulting firm specializing in performance management, talent management and compensation.

The hkp/// approach to performance management integrates the requirements of financial and HR strategies with management concepts. At the same time it aligns the performance management criteria and processes at the corporate level with those at individual level. Based consistently on a value- and values-oriented implementation, this approach helps our clients achieve sustainable long-term success.

The hkp/// partners possess many years of international consulting experience. They are recognized experts in the market for compensation, talent, financial and risk management. In these focus areas; our clients —supervisory boards, top managers and management boards, as well as specialists—rely on us as a competent partner for value-enhancing, innovative, results-oriented solutions.

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SAP is the world leader in enterprise applications in terms of software and software-related service revenue and thereby helps companies of all sizes and industries run better.

From back office to boardroom, warehouse to storefront, desktop to mobile device—SAP empowers people and organizations to work together more efficiently and use business insight more effectively to stay ahead of the competition.

SAP applications and services enable more than 251,000 customers to operate profitably, adapt continuously, and grow sustainably. Today, SAP employs 66,000 employees generating an annual revenue of EUR 16.22 billion.

Siemens

For over 165 years Siemens acts as a leading technology company, standing for outstanding achievements, innovation, reliability and internationality. Together with its 362,000 employees in more than 200 countries the Siemens AG works on forward-looking products and solutions that address the most urgent questions of our time.

Thinking for an organization like Siemens means thinking bigger. It also means thinking ahead. That's exactly what Siemens has done, while focusing on its most important asset: Siemens employees.

To establish a Siemens Culture of Ownership in the whole organization, Siemens implemented a range of share programs which target every employee at every level—from top manager to shop floor co-worker. In this way it cultivates a sense of ownership, responsibility and greater commitment, helping strengthen Siemens' business and long-term competitive position.

University of Goettingen

Founded in 1737, Georg-August-Universitaet Goettingen is a research university of international renown with strong focuses in research-led teaching in Germany. The University is distinguished by the rich diversity of its subject spectrum particularly in the humanities, its excellent facilities for the pursuit of scientific research, and the outstanding quality of the areas that define its profile.

From 2007 to 2012 Georg-August-Universitaet Goettingen was rewarded funding from the Initiative of Excellence of the German Federal and State Governments with its institutional strategy for the future entitled „Goettingen. Tradition – Innovation – Autonomy".

Global Equity Organization
1442 E. Lincoln Ave. #487
Orange, CA 92865 US
United States of America

Computershare Investor Services PLC
2nd floor, Vintners Place, 68 Upper Thames Street
London EC4V3BJ
United Kingdom

hkp/// group
Grüneburgweg 16-18
60322 Frankfurt am Main
Germany

SAP AG
Dietmar-Hopp-Allee 16
69190 Walldorf
Germany

Siemens Aktiengesellschaft
Wittelsbacherplatz 2
80333 München
Germany

Georg-August-Universität Göttingen
Platz der Göttinger Sieben 3
37072 Göttingen
Germany

design: maks.at