

Food For Thought

March 2007

## Should Stock Options be Viewed as Pay Increases?

Dear *LogiStyle* Colleague:

Food for Thought is our way of sharing interesting concepts on corporate leadership and management with others who might find it useful. The thoughts offered are intended to be controversial and thought provoking. They always follow our motto of helping develop logical leadership.

The thought for the month is a new way of looking at stock options: as an increase in the targeted variable pay for the recipient. This is not about expensing options, or even about how they should be expensed. Rather, this is about how management should view the award of options and correspondingly expect performance from the recipient. Should management view an employee with a large number of vested, in-the-money options as more expensive to the shareholder, and thus expect a greater level of contributions to the company than the contribution they expect from another employee without such options? Should they take the outstanding options into account in performance evaluation, akin to the natural differences in expectations of performance from employees at different pay levels? More poignantly, if the company decides to reduce its workforce should an employee with a greater number of options be viewed as being more expensive and allow that to factor into their decisions of layoff?

We, at LogiStyle, have been developing these thoughts and I have personally spoken on this subject several times. We are planning on documenting this in the form of a written article, sometime in the future. Meanwhile, if you find this intriguing, or even disagree with it, please do write or call and share your thoughts with me.

We hope your business is doing well. If we can be of any assistance please feel free to call – even, if just to chat.

Best Regards,

Balaji