



We Report. You Decide.



FNC SHOWS ■ TOP STORIES ■ POLITICS ■ BUSINESS ■ FOXLIFE ■ VIEWS ■ FOX POLLS ■ WEATHER ■ VIDEO/AUDIO ■

SEARCH GO Today's Features [JOB SEARCH](#) [REAL ESTATE](#) [O'REILLY FACTOR](#) [CREDIT REPORTS](#) [FOX Fans Log on Here](#) or Register Now.

MARKETS DJIA 9621.57 ▲ 133.77 NASDAQ 1881.55 ▲ 45.33 S & P 500 1035.29 ▲ 15.05 10-03-03 12:07 PM ET Data Delayed 20 Mins [QUOTE](#)

Kramer's Corner

New Options for Motivating Employees

[EMAIL THIS ARTICLE](#) [PRINTER FRIENDLY](#) [BECOME A FOX FAN](#)

Wednesday, July 30, 2003
By Hilary Kramer

FOX NEWS

DISCLAIMER : THE FOLLOWING "New Options for Motivating Employees" CONTAINS STRONG OPINIONS WHICH ARE NOT A REFLECTION OF THE OPINIONS OF FOX NEWS AND SHOULD NOT BE RELIED UPON AS INVESTMENT ADVICE WHEN MAKING PERSONAL INVESTMENT DECISIONS. IT IS FOX NEWS' POLICY THAT CONTRIBUTORS DISCLOSE POSITIONS THEY HOLD IN STOCKS THEY DISCUSS, THOUGH POSITIONS MAY CHANGE. READERS OF "New Options for Motivating Employees" MUST TAKE RESPONSIBILITY FOR THEIR OWN INVESTMENT DECISIONS.

ADVERTISEMENT I miss the good times. Back in the late nineties when the stock markets were flying high, life was really good, wasn't it? The Internet was changing everything, companies were worth billions (profitability? Who cares!) and employees could always be found at work. People must have been motivated, all right. After all, we'd be at our desks until all hours, glued to our computer screens. But rather than working on a spreadsheet or coding some program, we'd instead be transfixed on our company's stock price, quietly recalculating the value of our unvested stock options and dreaming of all the fancy toys we could buy with our paper millions.

Ah, how quickly things change. On July 8, Microsoft (**MSFT**), perhaps the icon of **stock options** ([search](#)) and instant employee millionaires, announced that it would stop issuing employee stock options in favor of restricted stock grants. Though Microsoft wasn't the first to return to restricted stock plans, its decision to do so is significant -- as was its decision to begin paying dividends -- in marking its final transition from a high-tech startup to a mature, stable company that delivers consistent cash flow.

Other leading firms have already recognized the pitfalls of issuing stock options to employees. Last year, ExxonMobil (**XOM**) decided to grant restricted stock for its employee long-term incentive program instead of stock options. Amazon (**AMZN**), the once high-flying Internet retailer, also switched to restricted stock from stock options last year. And in April, Progressive (**PGR**), an Ohio-based auto insurer, opted to use restricted shares instead of stock options -- even though remarkably, none of their options were worthless at the time.

In ExxonMobil's case, its primary reason for the change was to align employee interests "more closely with those of the shareholders, for the overall benefit of the corporation and its shareholders." That's really one of the main benefits that institutional investors see with restricted stock programs versus stock option plans.

Here's why: employees are granted a certain number of restricted shares -- generally a fraction of the number of stock options they would receive to achieve the same compensation level -- which vest over a three to five year period. So instead of an option guaranteeing the right to purchase stock at a specified price on the exercise date, restricted stocks are actual company shares that are no different than the ones purchased by investors. And unlike stock options, where the inclination is for employees to exercise options in step with short-term rises in stock price, the use of restricted stock is intended to convert employees into long-term shareholders.

SPONSORED LINKS

Although restricted stock grants generally have less upside potential than stock options did in the past, employees may prefer the certainty of equity value that comes from owning actual shares. Shareholders like restricted stock because it generally discourages

ADVERTISING LINKS

Cheap RX: Trusted&Fast
Bill O'Reilly FREE!
Free Coupon Codes
Debt free in minutes
Golf school Giveaway

PHOTOS



[Click image to enlarge](#)

RELATED INFORMATION

Kramer's Corner Archive

Show Navigation

- This Week's Show
- Last Week's Show
- Terry Keenan's Bio
- <mailto:cash@foxnews.com>

Cashin' In Home

COMING UP ON FNC

Be a Part of Our Audience!

Click over for information on how to get free tickets to FNC's new show, *DaySide with Linda Vester*.

FNC Schedule

[Want to Volunteer?](#)

We can help you make a difference in your community. Start today!
www.VolunteerMatch.org

[Support UCP today](#)

and make a difference in the lives of people with disabilities.
www.ucp.org

[Grow wild](#)

Discover how to turn your backyard into a wildlife haven.
www.nwf.org

companies from outfitting their senior executives with lavish stock awards, since restricted stock grants hit a company's financials immediately. But if everyone likes them, why haven't more companies been using restricted stock programs?

Actually, some companies have always used restricted shares. Sealed Air (**SEE**), for instance, a New Jersey-based containers and packing materials maker, has issued restricted stock to its employees for years. In fact, the company has never offering

stock options, except for the options it inherited during a 1998 acquisition. It's worth noting that Sealed Air never intended its use of restricted stock as an incentive plan, but rather as a means of compensation. (The company believes in a total compensation plan that combines cash salary, benefits, nonperformance-based restricted stock, profit-sharing, and an objectives-based incentive program.)

Restricted stock plans have been around for decades, but fell out of favor in the seventies and again in the eighties because companies depended on them too much as the exclusive long-term incentive vehicle for executives -- just like they did with stock options in the nineties. Stock options themselves also fell out of favor in the seventies when the market experienced similar bear conditions that we're experiencing today. Stock options were no longer delivering money to executives, so they were abandoned in favor of restricted stock. In essence, these plans were more means of delivering pay rather than incentives for performance.

So the real issue isn't so much restricted stock versus stock options -- though there are certainly some pros and cons of each -- as it is employee compensation versus employee incentive. Both can serve as effective means of compensation, but neither restricted stock nor stock options alone can incentivize employees effectively if they're not tied to real performance objectives. This actually makes the restricted stock/stock options debate something of a corporate governance issue.

The advantage to investors when companies offer their employees restricted stock instead of stock options is its transparency -- restricted share grants immediately dilutes earnings per share by the total number of shares granted. Conversely, stock options were often the means by which cozy corporate boards enriched senior management during the bull market nineties, demonstrating their indifference toward corporate governance and to the company's investing shareholders.

Will the use of restricted stock grants eliminate all of that? Probably not. After all, it still doesn't replace good old-fashioned corporate governance. But at least the transparency and long-term approach of restricted stock grants may be steps in the right direction. It's funny, though, how stock options were all the rage as employee incentive tools during the nineties, purportedly changing the motivations of employees toward building shareholder value. And what employee incentive tool did they replace? Restricted stock grants.

*Hilary Kramer serves as a business news contributor at FOX News Channel. She joined the network as a regular guest on **Cashin' In** in May 2001.*

 [EMAIL THIS ARTICLE](#)

 [PRINTER FRIENDLY](#)

 [BECOME A FOX FAN](#)

 [BACK TO HOME](#)

 [BACK TO TOP](#)

ADVERTISING LINKS

Free HealthCareQuote
USS Reagan Cap Free!
[BUY THIS LINK](#)

Cheap RX: Trusted&Fast
Dental Plans \$99/year
Diamonds for \$1.00

Best Mortgage Rates
DSL Speed \$8.95/mo
Meet Military Singles

SEARCH

GO

[FNC Alerts](#) | [News Ticker](#) | [Schedule](#) | [Bios](#) | [E-mail Shows](#) | [Upgrade Central](#)

[FOX News Shop](#) | [Find FNC in Your Area](#) | [Find FNC Abroad](#) | [FAQs](#)

For Sports News and Scores, Go to FOXSports.com

Advertise on FOXNews.com

Jobs at FOX News Channel. Internships at FOX News Channel.
Terms of use. Privacy Statement. For FOXNews.com comments write to
foxnewsoline@foxnews.com; For FOX News Channel comments write to
comments@foxnews.com

© Associated Press. All rights reserved.

Copyright © 2003 ComStock, Inc.

This material may not be published, broadcast, rewritten, or redistributed.

Copyright 2003 FOX News Network, LLC. All rights reserved.

All market data delayed 20 minutes.