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Is Google doing the right thing?

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Google last month announced that it would offer to exchange its employees' stock options for new ones at a lower strike price, recalling the wave of options repricing that took place after the dotcom crash in 2000. Many Silicon Valley companies argue that repricing or exchanging options that are heavily "underwater" is essential if they are to keep staff motivated and discourage poaching by rivals. For its critics, though, altering options makes a mockery of incentive systems by severing the link between employee performance and a rising share price. Are tech companies right to be adopting the practice?

THE EXECUTIVE
Ben W. Heineman, Jr
So much for alignment with shareholders. Google's announcement that it will exchange old stock options for new puts a stick in the eye of those investors who have seen the stock fall more than 50 per cent since 2007. They don't get a "do-over" for their huge losses – and have the added hit of new "expensed" option costs diluting earnings.

But exchanging options is also a bad idea because it does not align with today's world. Google's pitch is that the company has performed well in bad times, and it must reset all options to retain employees. But millions of people have suffered devastating losses through no fault of their own. Taking a risk on the economy and the market, not just the company, is the nature of business.

By unnecessarily pampering employees (who's leaving?) Google is sending a terrible message when public revulsion against pay practices is rising at an exponential rate. If it wants to retain and motivate staff, it should give smaller, forward-looking grants now, rather than become yet another symbol of business hubris and greed.
The writer is General Electric's former senior vice-president for law and public affairs, a senior fellow at Harvard's law and public policy schools and author of "High Performance with High Integrity"

THE HR EXPERT
David Sovie
Virtually every high-tech CEO is asking this question today, but apart from Google very few have pulled the trigger. The reason why goes far beyond concerns about how it will look to shareholders.

Recent legal and accounting rule changes make options less attractive. Most technology companies should and will use this recession to move their compensation systems away from options and towards performance-based equity programmes, such as restricted stock grants. These systems have the advantage of explicitly linking rewards to demonstrated financial results and mitigating the impact of uncontrollable stock market gyrations.

As for the repricing of current plans, as a general rule this is a bad idea, except in company-specific, extraordinary circumstances. While this recession qualifies as extraordinary, it is not company-specific, and most companies should avoid repricing. In those rare cases where

repricing is absolutely essential to retaining key employees, a shareholder vote of approval should be mandatory.
The writer is a partner at Oliver Wyman

THE ACADEMIC
Wei Jiang
How might Google justify its plan to exchange employee options?

First, it might say that, without this initiative, staff will stop putting in long hours or coming up with ideas, since rewards would not kick in until Google's stock price regained the $400-plus mark — a dim prospect in the foreseeable future. There is some truth to this.

But how can exchanging options provide much incentive if employees expect them to be exchanged again if things do not work out further down the road?

Second, it might say that without this measure staff will move. Yet there are few greener pastures out there. And why not give key staff restricted shares? Options are "cheaper" only when they are not properly expensed.

Another argument is that Google staff should not be punished by stock price falls that were mostly due to the global financial crisis. I agree. But then, should the same rule not apply when the company's stock price goes up in a bull market?
The writer is Sidney Taurel associate professor of business at Columbia Business School

THE CONSULTANT
Rupert Merson
For too many, an option is a deferred performance-related bonus masquerading as a mechanism for aligning managers with shareholders. As with most fudges it often achieves neither.

If managers' performance does not warrant a bonus, managers should be disappointed. To give out bonuses when performance is poor is "shameful", as President Obama has put it. That a company believes it needs to give bonuses despite poor performance suggests either base pay is wrong and bonuses (sorry, options) are being used as an excuse for not paying properly to start off with, or that remuneration is connected to the wrong measure of performance.

Option holders get far more upside than downside compared to shareholders. Repricing options only focuses attention on this difference, alienating managers from shareholders, not aligning them.

If you want managers to be motivated, pay them properly, give them a bonus they can lose, and fire them if they fail. If you want to align managers with shareholders, make them buy shares.
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