Interloop®

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KNOWLEDGE LETTER



TOTAL REWARDS SERIES: LONG TERM INCENTIVES

INSIGHTS

According to Aon's survey, 60% of the organizations have reported that they offer long-term incentives. It is a vehicle that generally accrues or gets dispersed in a greater than one-year time period. It is a strategic compensation vehicle that promotes long-term retention and alignment with company goals. The impact it has on different stakeholders all adds up to making it a win-win for the company and even the employees.

When companies extend LTI to those people who have achieved specific goals, they wish to get the support to achieve higher corporate performance in order to increase the shareholder's returns.

KNOWLEDGE LETTER

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RESOURCES POOL TO GET YOU STARTED!

1. LONG-TERM INCENTIVES, THE BASICS

Organizations go for the following common LRI vehicles:

- Stock Options: It entitles the grantee the right to purchase shares of a company at a fixed price
- Stock Appreciation Rights: Similar to stocks but do not require actual purchase
- Time-Based Restricted Stocks: Grant equity based on a predefined value
- Long-term cash units
- Non-equity-based long-term: Cash-based long-term grants that vest based on performance achievement grants that pay out in cash

2. COMPENSATION PACKAGES THAT ACTUALLY DRIVE PERFORMANCE

When designing packages, especially for executives, boards must make decisions about the proportion of fixed versus variable pay, short-term versus long-term incentives, cash versus equity, and group versus individual rewards. Adequate compensation plays a huge role in keeping the executives happy as they contribute a lot to the strategic business goals. Other companies' compensation plans set expectations for your people too. You should be leaning towards the higher side of the compensation.

3. LONG-TERM INCENTIVE AND EQUITY-BASED COMPENSATION

As the use of stock options continues to fall, the majority of other types of LTI plans are rising. The companies offering only stock option plans have reduced to 59% with only 17% of them offering equity plans exclusively. The major criteria used to determine LTI Eligibility is majorly the job level which constitutes 63%. The frequency of extending the same is majorly on an annual basis. The most common strategies for companies without LTI plans are to offer above-market benefits plans, non-cash awards/perks, and short-term cash bonuses/incentives).

LINKS FOR FURTHER READING

Link 1
Link 2
Link 3

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BUZZ AROUND THE MEDIA

Reminders in the HR Space for the month

ELON MUSK FIRES TOP TWITTER EXECUTIVES INCLUDING CEO PARAG AGRAWAL

Elon Musk has been criticized for firing top executives as soon as he got ownership of the company. This also seems to reflect badly on his major plans for Twitter. He wishes to continue firing employees which have resulted in a culture of fear and uncertainty in place.
Musk terminated Twitter's Chief Executive Parag Agarwal, Chief Financial Officer Ned Segal, and legal affairs and policy chief Vijaya Gadde, according to people familiar with the matter.
Read More Here

FMCG MOST SOUGHT AFTER SECTOR BY JOB-SEEKERS: STUDY

According to research released by the human resources management company CIEL HR Services, fast-moving consumer goods (FMCG) remain the industry in which job candidates are most interested. Mumbai topped the list with the highest job demand in the FMCG sector, and the most sought-after degree by employers was a master's in business administration.
Read More Here

PHILIPS TO LET GO 4,000 EMPLOYEES

Due to the company's performance not being able to meet the revenue goals, Philips is set to cut five percent of its workforce. This would mean that 4,000 will get affected by this. Since the recall of the faulty sleep respirators, which cost about $1.28 billion, the company bore heavy losses.
Read More Here

33% CEOS IN INDIA HAVE IMPOSED A HIRING FREEZE: REPORT

The focus on hiring freezes has grown as businesses all across the world struggle with recession-related anxiety. In actuality, 33% of CEOs in India and 39% of CEOs worldwide have already implemented a hiring freeze. Approximately 47% of CEOs in India, compared to 46% globally, are considering cutting back on staff during the next six months.
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SARAF FURNITURE STAFF TO GET 12-DAY REST & RECHARGE BRE

According to the company's Reset and Recharge Policy, Saraf Furniture staff will take a holiday from work from October 24 to November 6. All Company branches must observe the 12-day break. The goal is to build a close relationship between the company and its employees.
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Ideas that work !

Long-Term Incentive Categories

APPRECIATION BASED

Incentives are extended to the employees based on the value of the company reflected through share prices. The value between the underlying cost of the stock when the stocks' appreciation rights were received and the appreciated value in the units becomes the profit.

STOCK BASED

Values are given to the employees in the form of the company's stock. The achievement of the same is dependant on achieving some goals

CASH BASED

Value delivered is not in the form of stocks but cash payouts majorly on achievement of some long-term incentive or the services extended by them

LOOK OUT FOR DIFFERENT STRATEGIES BASED ON

	WHAT TO KEEP IN MIND	
	HEALTHY GAINS	**WORD OF CAUTION**
APPRECIATION BASED AWARDS	When the stock price appreciates in the future resulting in profits	The future share price could also be lower than the exercise price resulting in an underwater situation
TIME BASED AWARDS	The stock has value at vesting even if the underlying value decreases	They don't have pre-conditions that need to be met first ensuring fair work
PERFORMANCE BASED AWARDS	Corporate strategy can be achieved by tying the desired performance with awards	There is a high chance of not receiving the award if the goals are not met
CASH BASED AWARDS	Can be granted in cases where share valuation is difficult	Employees might not feel equally invested in the idea

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Long Term Incentive Vehicles

RESTRICTED STOCK UNITS

They vest based on a predetermined length of time. It will still have value even if the stock value decreases. Time-based restricted stocks will have a predefined value too.

STOCK OPTIONS

The right to purchase shares of the company you are working for at a price which is pre-determined (exercise price) in the future.

There is a term in which the grantee can opt for this option, the same is generally 10 years in majority of the companies.

There could be a profit or not depending on the price of the stock in the future and the exercise price.

STOCK APPRECIATION RIGHTS

Similar to stock options, the person holding the SARs will be receiving the difference of the value in terms of cash (although sometimes in stocks).

In this case, the actual purchase of stocks is not required, only the rights of the same are transferred when the stock's value is appreciated.

TIME VESTED FULL VALUE VEHICLES

APPRECIATION VEHICLES

PERFORMANCE SHARES

Shares that are based on achieving associated performance goals and meeting the requiste service period.

They focus a great deal on the performance goals of the employees and the alignment with shareholders.

LONG TERM CASH UNITS

Non-equity-based long-term grants that pay out in cash. The grantee will receive a cash payout after the vesting period in the form of cash and not stocks or rights.

PERFORMANCE CASH UNITS

Cash-based long-term grants that vest based on performance achievement. They pose a challenge when it comes to share valuation, that is the reason that they are more prevelant in the private companies.

PERFORMANCE VESTED VEHICLES

CASH BASED VEHICLES

Who are long-term incentives for?

1. More prevalent for employees in an elevated position i.e. those who occupy roles higher in a company's organizational structure

2. Higher ability to impact the change within the organization which has a significant impact on the value of the shares and henceforth the shareholders

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Brands that started their digital transformation journey with us this month

MBAtrek™
#hit the ground RUNNING

baffleSol TECHNOLOGIES
Delivering Intelligent Business Solutions

Adbuffs

Uttaranchal Dental & Medical Research Institute

TAG

Products:

Zoho People | Zoho People Plus | Zoho Payroll
Zoho CRM | Zoho Books | Zoho Recruit
Zoho Expense

STAY HERE
for social distancing.

TALK TO US

REACH OUT TO US:

+91 9555050985
resources@interloopconsulting.com

We'll be glad to assist you with any queries!

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