



Alternatives to Stock Options

Stock options have come to be the most widely used vehicle for long-term incentives due to their favorable accounting treatment. They are intended to serve (as any long-term incentive) to motivate key employees, align their goals with those of shareholders, and promote the long-term vision of the company. An obvious problem of recent weeks has been the abuse of options, and the consequences of “motivation” to drive up the stock price at all cost.

Whether or not to expense options is a different debate (see “Expensing Stock Options”); however, assuming stock options move away from their “no charge” accounting treatment, it is important to consider alternatives to stock options. These alternatives to stock options exist and should also be implemented to diversify the long-term incentive program portfolio for both the company, as well as the employees.

Restricted stock, performance units, performance shares, and stock appreciation rights have varying characteristics of risk, cost-effectiveness, and the level of investment by the employees. Two of these plans (restricted stock and performance units) have a budgeted fixed charge to earnings—a favorable alternative to an open-ended type accounting charge. For a complete description of the characteristics of these programs see Long-term Incentive Plan Alternatives. These can all be used in tandem to maximize the effectiveness of the long-term incentive program to attract, retain, and motivate key talent.

Longnecker & Associates has been commissioned to author a book on stock option alternatives. This will be released by WorldatWork in spring 2003.