

OUTSOURCING: OUTRAGEOUS OR OUTSTANDING?

I recently had an old college roommate ping me from out of the blue. After reminiscing about our professors and some of great times at our fraternity (the ones we could remember), he got to the main reason for the call. Turns out, he heads up a growing company and wanted to get my expertise regarding setting up his Stock Plan department and the possibility of outsourcing the function.

I summarized my experience about what we've seen evolve over many years within the industry. The management of stock programs has generally resided in Accounting/Finance, Human Resources, Legal, and occasionally in Treasury or Payroll. Based on this factor, my first bit of advice was to review the current organization structure of the functions listed above. Putting stock plans under Accounting and Finance assigns the focus to financial reporting (Roll-forwards, Valuation assumptions, compensation expense accruals, plan reconciliations, etc.). If stock plans is placed under Human Resources, the focus tends to shift to compensation, peer group analysis and participant communication. Under Legal, stock plans is generally responsible for overall maintenance of capitalization table (private companies), Section 16 filings, and maintenance of all plan documents. Under whichever department stock plans falls, one thing we've noted in common is they are all responsible for the daily transactions, employee inquiries, and coordination between various departments and vendors. As there is no industry standard in how a stock plan group is set-up, companies should look at their internal resources and organizational structure first before making the next decision.

The next step is to decide if you should outsource or which pieces you can outsource. One of the biggest issues we've seen is that some companies decide to outsource and believing that any and all issues are resolved by that decision. In most cases, if you haven't defined responsibilities and process flow internally, outsourcing won't work effectively. A company must get its own records and procedures in order before they consider outsourcing their stock plan management. If you're not there yet, ask your vendor or outsourcer if they can assist you in developing "best practices" or an analysis of your recordkeeping and processes. The process of evaluating your internal environment and concerns will bring to attention what's unique about your plans, culture, and company when discussing outsourcing with a vendor.

My last bit of advice to him was that continuous oversight of the program is required. Who internally is managing the outsourcer? Or is the outsourcer managing your company? In the majority of successful outsourcing relationships we've experienced, a common denominator has been that individual. This individual is the equivalent of a coach or an orchestrator of sorts. They know what needs to happen when special projects and requests materialize. Without someone in that capacity, each department will drift in their own direction in relations to stock plans.

There are many qualified service providers in our industry and just as many variations on setting up your stock plan department. The company should analyze their needs, environment, personnel, and expertise in order to know what works for them and what may not. Outsourcing

can be very effective if expectations are set correctly and the required expertise is present. I didn't give my former roommate one solution to his question, but I hope I provided him with some useful information on which he can base his big decision.

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About Stock & Option Solutions

Stock & Option Solutions is a leading provider of top-tier stock plan management and consulting services for companies offering equity compensation and benefit programs to its employees. Since 1999, hundreds of organizations, from private start-ups to Fortune 500 companies, have relied on Stock & Option Solutions' expertise for strategic planning, methodologies and skilled resources to build and support the most effective stock plan programs possible.