

# BUSINESS ACTION GUIDE

Leading at the Intersection of People & Profits

## RECOGNIZE AND REWARD

### Employee Ownership Through Stock Options and SARs: Wikoff Color

There are many ways for companies to share ownership with employees. An Employee Stock Ownership Plan (ESOP), an employee benefit plan in which the company allocates stock to individual employee accounts via

a trust, is one way. Another way is through some form of individual equity, including, but not limited to, stock options or stock appreciation rights (SARs). Stock options give employees the ability to buy company stock in the future at the current price, with the hope that the value will increase over time. Stock

appreciation rights (SARs) give employees the right to receive a cash or stock award equal to the increase in the value of the company's stock over a given period of time. To learn more about employee ownership through stock options and SARs, we spoke with Chuck Forbes, Director of HR and Buck Rorie, former VP of Finance at Wikoff Color, a maker of printing inks, varnishes, and coatings based in Fort Mill, SC. Wikoff Color has more than 450 employees in its 28 facilities in the U.S., Canada, U.K. and China.



CHUCK FORBES,  
DIRECTOR OF HR



#### WIKOFF COLOR'S FORMULA FOR EMPLOYEE OWNERSHIP

1. Educate and lead by example
2. Match awards with employees' life circumstances
3. Support stock awards with gainsharing
4. Choose the right plan for your company's needs

Our founder, Fred Wikoff, had a firm belief that the employees, who help make the company successful, should share in its success. He established a profit sharing retirement plan in 1961, which we still have today. The company contributes 10 percent of pre-tax profits to this plan, which covers all employees who worked at least 1,000 hours during the year. In 1981

we added an incentive bonus plan for all employees based on the profitability of their individual facility. Additional employee ownership vehicles evolved from there, and employees have owned the controlling share of the company's stock since 1985. About two-thirds of our employees are owners either directly or by selecting Wikoff stock as an investment in the profit sharing plan (limited to 34 percent of account balance). Salaried employees receive stock options and hourly employees receive stock appreciation rights (SARs). Each employee gets a chance for an award every one to four years, with larger and more frequent rewards related to performance and/or level of responsibility. The company creates a market for the stock by making an annual offer to anyone who wants to redeem shares at the current price. These are some key lessons we learned in the process:

#### 1. Educate and lead by example

The company spends a lot of time educating the workers about our employee ownership program – defining what stock options and SARs mean, posting updates on stock growth around the facilities and in the newsletter, and discussing stock ownership at the quarterly team meetings. For example, at one team meeting we showed employees what a \$1,000 stock award could be worth in 25 years. We also place extra emphasis on stock ownership during October's Employee Ownership Month.

When hourly employees receive a SAR, we explain that they will receive a stock certificate in five years for the number of shares that equal the growth in the stock

value. When a SAR matures, we give the employees information about how to exercise it. Likewise, we educate salaried employees about their incentive stock options, which vest immediately, but can be exercised at any time before the five-year expiration date. Managers receive annual statements showing the number of stock options outstanding, the total stock they own, and the value of their options and stock.

Managers who buy in and hold onto their stock provide leadership for their direct reports who tend to follow their example. So it's important to get the leadership to buy into this philosophy. Wikoff encourages employees to save money to buy company

stock and we provide several vehicles to help them save for, or finance, the exercise of their options.

**2. Match awards with employees’ life circumstances**

Before 2009, all Wikoff employees received incentive stock options. Many of our hourly employees were cashing in as soon as they exercised their options, or weren’t exercising their options at all because they didn’t have the cash to buy stock. The company decided to award stock appreciation rights, which do not require the outlay of cash, to hourly employees, while maintaining stock options for salaried employees. It was a good decision because more hourly employees tend to hold onto stock acquired through SARs, and they appreciate not having to spend their own cash to buy options. Normally, SARs can be paid out of either cash or stock, but in our program they can only be paid in stock. Employees can immediately sell the stock the next day, but more people tend to hold onto the stock when it is awarded this way.

**3. Support stock awards with gainsharing**

In addition to incentive stock options and SARs, we also have annual incentive bonuses based on the performance of each individual location. The sites vary in size from five to 15 people, with the exception of three large bulk

plants that employ more than 15 people. Each operates as an autonomous, self-contained unit. The corporate office supports them, provides the basic structure, maintains financial control and holds them accountable. But each regional manager and their team makes the decisions for their own facility. They pull together to cut costs when needed; they know that running efficiently affects their stock prices and bonuses. This structure allows each employee to really have an impact on the local plant and to think and act like an owner.

**4. Choose the right plan for your company’s needs**

We are sometimes asked why we did not go with the more common Employee Stock Ownership Plan (ESOP) as our vehicle for employee ownership. ESOPs weren’t around when we started our program, and by the time they were introduced, we had momentum. This made it difficult to transition, even though there are some nice tax benefits for ESOPs. Our system has other advantages, such as the fact that all stock awarded is discretionary and is tied to performance reviews. Also, in an ESOP, you have to wait for separation or retirement to cash in, whereas we have an internal stock market so you can buy and sell stock before retirement in order to do something like buy a house, go to Hawaii, or send a kid to college.

**FINAL WORDS OF WISDOM**

We’ve seen a lot of positive effects from employee ownership, including employee satisfaction and retention, dedication to customer service, and a long term approach to decision-making because our employee shareholders understand the business. But education is still the key. If you think you’ve educated employees enough, you haven’t – you can always do more. Every month there is some opportunity to educate employees about the benefits of ownership.

**HOW DO WE LEARN MORE?**

[National Center for Employee Ownership: Employee Stock Option Fact Sheet](#)

[National Center for Employee Ownership: Stock Options, Restricted Stock, Phantom Stock, Stock Appreciation Rights \(SARs\), and Employee Stock Purchase Plans \(ESPPs\)](#)

[National Center for Employee Ownership: Phantom Stock and Stock Appreciation Rights \(SARs\)](#)

[CNN Money: How to Handle Employee Stock Options](#)

[Harvard Business Review: Every Employee An Owner. Really.](#)

*Other companies that excel at employee ownership through stock options and SARs include BetterWorldBooks and Southwest Airlines.*

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