



Outsourcing's Great Expectations: What to Expect When You're Expecting Others to Do It (Right)

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Materials

- A copy of this presentation can be downloaded from our website:
- http://www.sos-team.com/pdfs/outsourcing_great_expectations.pdf

3

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Agenda

- What is Outsourcing?
- Why should I Outsource?
- What type of Outsourcing is right for us?
- How to select a vendor
- In-house after we Outsource
- Building a true partnership

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WHAT IS OUTSOURCING?



What is Outsourcing?

- **Outsourcing** is the contracting out of a business process, which an organization may have previously performed internally or has a new need for, to an independent organization from which the process is purchased back as a service.*

*Wikipedia

6



Define Outsourcing & Who Provides

- Full: External maintenance of all equity plans
 - Plan design, strategic implementation
 - Systems selection, data ownership & maintenance
 - Transaction processing
 - Employee assistance
 - Accounting and plan reconciliation
 - Internal coordination of efforts
- Partial: Maintenance assistance of equity plans
 - Implementation assistance
 - Systems implementation, data input & partial maintenance
 - Transaction processing
 - Employee assistance
 - Report generation, partial plan reconciliation
 - Generally single point of contact

7

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Define Outsourcing & Who Provides

- Periodic: Contracted consulting assistance
 - Familiarity with your plan and processes
 - Assistance through special projects, certain times
 - Recurring
 - One-time
 - Onsite or Remote
 - Employee assistance
 - Report generation, partial plan reconciliation

8

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Define Outsourcing & Who Provides

- Who provides outsourcing services?
 - Broker organizations
 - Proprietary systems
 - Full or co-sourced solutions
 - Equity vendors (e.g. Stock & Option Solutions)
 - Some proprietary systems; some “shared”
 - Costs of software
 - Full or co-sourced solutions
 - Temporary assistance
 - Independent consultants
 - Shared system use
 - Full, co-sourced, temporary solutions

9

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Outsourcing models

Partially Outsourced vs. Fully Outsourced

Partially Outsourced

- Record Keeping
- Maintaining / backing up database
- Process Transactions
- Respond to employee inquiries
- Provide standard reports
- Troubleshoot and research data issues

Fully Outsourced

- Majority of tasks in Partial list
- Coordination between internal stakeholders
- Implementation of new plans
- Customized processes and reporting
- Employee education and communication
- Period to Period reconciliations
 - Equity activity
 - Common stock outstanding
 - Expense, etc.
- Adapt Best Practices or alternatives to current process

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WHY SHOULD I OUTSOURCE?

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Why Outsource?

- No (or insufficient) internal expertise to handle administration
- Lack technology to effectively administer programs
 - Systems, IT expertise
- Not a full-time job but recognize risks and need for oversight
- Struggle to balance multiple responsibilities with existing headcount
- Struggle to balance transactional requirements with strategic planning
- Struggle to balance cost of efficient administration v. company budget
 - Slow or reduce growth of department
 - Balance expense vs. headcount and expertise vs. long-term needs
- Hope the mess will just go away
 - Not entirely realistic
- All of the above

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Why are YOU outsourcing?

- Internal Comprehensive Needs Assessment
 - Understand your company's requirements
 - Be honest about your current environment
 - What works
 - What doesn't work
 - How much of a "control freak" are you?
 - Rank needs by importance
 - Come up with a "wish list" of things you want
 - Streamlining data entry
 - Automating processes



Why are YOU outsourcing?

- Determine if YOUR needs can be met by outsourcing at all
 - Or at which level
- Based on your answers, what type of service do you think you are looking for:
 - In-house administration with assistance
 - Full outsource administration
 - Partial or co-sourcing administration



HOW TO SELECT A VENDOR



Picking the “right” Model/Vendor

- Explore different vendors
 - Even if you are already locked into one
- Define and understand proposed services
 - Ask lots of questions
- Define and understand limitations
 - All vendors/systems have them
- Never *assume* you understand!
- Check references, network
- RFI/RFP/Internal “RFP”



Internal RFI/RFP

- Method
 - Treat as if it were “real”
 - Fair, impartial, complete, thorough, accurate
 - Can always convert to formal, external later
 - Define key objectives
 - Gather accurate / complete info on current processes / needs
 - Including manual steps
 - Chance to reassess internal processes
 - Define personnel and expertise
 - Include all areas covered by external RFP
 - Administration, Tax, Payroll, Accounting, International
 - Communications
 - Education
- Benefits
 - Define and specify current processes and current/future needs
 - Find internal resources
 - Prove case for outsourcing/co-sourcing



What type of Outsourcing is right for us?

- Now, what type of service do you think you are looking for:
 - In-house administration with assistance
 - Fully outsourced administration
 - Partially outsourced or “co-sourced” administration





Organization structure with Outsourcing Partner

- Decentralized Equity Administration-Each department is responsible for specific function; vendor coordinates efforts.

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graph TD
    Vendor[Vendor]
    Payroll((Payroll))
    HRComp((HR/Comp))
    Finance((Finance))
    Legal((Legal))
    Vendor --- Payroll
    Vendor --- HRComp
    Vendor --- Finance
    Vendor --- Legal
    
```

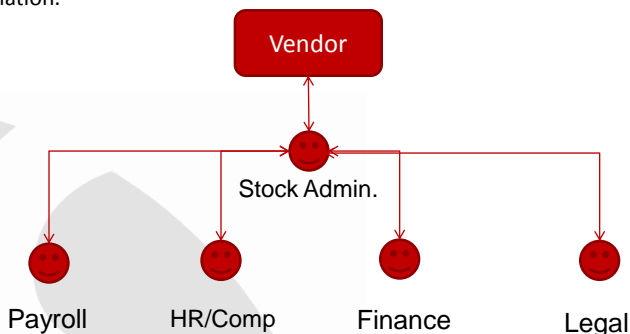
Advantages	Disadvantages
<ul style="list-style-type: none"> • More resources when addressing specific problems • Diverse group of specialized disciplines so many solutions to an issue 	<ul style="list-style-type: none"> • Difficulty identifying requirements and missed assignments • No one has bird's eye view of Equity Administration

20

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Best Practice with your Outsourcing Partner

- Centralized – Internal Stock Plan resource as single point of contact; provides internal coordination.



Advantages	Disadvantages
<ul style="list-style-type: none"> • More Oversight/Control of information flow 	<ul style="list-style-type: none"> • Additional headcount or resources needed • Difficult finding expertise for multiple job duties

21

Stock Admin in an Outsourced World

- The more you outsource, the greater in-house expertise you need
 - Instant promotion to “manager”
 - Team you “manage” is remote
 - No longer “Stock Plan Administrator”
 - Think bigger picture and how to audit/review as opposed to how to do

22

BUILDING A TRUE PARTNERSHIP



Outsourcing Success

- Define expectations of outsourcing for **both** parties
- Identify point of contact for both parties and define/document roles and responsibilities
- Identify escalation points on both sides and distribute contact information – get internal buy-in
- Incorporate outsourced vendor as part of internal team; develop communication links
- Establish checks and balances (metrics/goals) between both parties
- Share: information, education, best practices, process improvements, decisions



Sample Jobs and Responsibilities

Grant Approval Process	Issuer Company	O/S Provider
Receive authorization (UWC) from the Plan administrator such as the Board, Comp Committee, or Executive Officer.	X	
Communicate equity instruments with all detailed information to vendor/outsourcer	X	
Load data into systems		X
Distribution of Grant packages and Plan Docs or Online Agreements		X
Follow-up with Acceptances		X

Transaction Process	Issuer Company	O/S Provider
Enter and maintain Fair Market Values on database		X
Process Exercises and Releases		X
Calculate Tax and share withholding for U.S. and Non U.S. participants	X	X
Issuance and cancellation of shares to the Transfer Agent	X	X
Respond to participants		X
Determine FAS123R assumptions and process/audit expense	X	

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What should the Client expect?

- **Expertise** – Educated, relevant experience, broad level of support
- **Commitment** – Proven adherence to rules & regulations, sound process and best practices, technical proficiency; good references
- **Communication** – Clear, proactive, regular, complete communication with company and participants
- **Technical excellence** - Minimal errors or omissions in transaction processing; understanding of relevant accounting requirements
- **Accessibility** – timely processing and reporting, availability to Company and participants
- **Reliability** – Accurate, on-time reporting, problem resolution; regular communication processes

26

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What should the Vendor Expect?

- **Full Disclosure** – Plans, programs, internal policies and processes; expectations and changes
- **Communication** - Clear, proactive, regular, complete communication with vendor
- **Accessibility** – Timely flow of information and decision making; secure access to systems/data/tools
- **Responsiveness** - Decisions, problem resolution, regular sign-offs
- **Responsibility** - Program compliance, accounting, final decisions

27

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Leading Causes of Outsourcing Failures

- Client or Vendors unclear expectation up front as to its objectives
- Parties do not consider each other's interest to ensure their relationship is mutually beneficial
- Poor performance by Vendor
- Poor infrastructure or governance for managing ongoing relationship
- Poor communication
- Cultural fit not compatible

*Research from Outsourcing-Center.com

28

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Some Common Errors We've Seen

- Poor communication between departments and outsourcer
 - Assuming it's someone else responsibility
 - Lack of agreement on responsibilities
- Lack of audit and control processes
- Assuming the current processes will work with your outsourcer
- Lack of expertise/resources
 - Need to identify risk areas



Outsourcing Best Practices

- Solid Technical Support
 - Connectivity
 - Security
 - Verification and audit
 - On both sides
- Start early and expect it will take longer
 - Just like home remodels
- Timelines and Deliverables
 - Establish appropriate expectations
 - Document
 - Mutual sign off.....avoid assumptions, misunderstanding

30



Outsourcing Best Practices

- Establish communication processes
 - Mutual, full disclosure, openness, honesty
- Incorporate partner into internal team(s); foster mutual respect and reliance
- Create and report measurable goals for ongoing performance
 - Transactions, audits, reporting, error resolution
- Regular check-in and feedback – **COMMUNICATE!**

31

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Strive for Continuous Improvement

- Not “One and Done”
 - “Continuous” Implementation
- Consult with your industry Peers and Provider
 - What are other companies doing/ how can it benefit us?
 - What can be supported, or automated?
 - What can external resources provide?
- Review Programs and Policies
 - Equity Plans / Instruments
 - Options, RSA, RSU, time-based, performance, etc.
 - Understand your population and Plan objectives
 - Internal expectations and requirements
 - Accounting, Legal, HR expectations
- Be Open to Change & “Best Practice”
 - Absolutely critical whether introducing resource or program
 - Need for continued education – tax, accounting, legal changes
 - Question status quo; embrace evolution

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Questions?

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