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

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• Moreover, the analysis or outcome of any individual situation depends on specific facts and circumstances, and on the interpretation of the relevant regulations, rules and literature in effect at the time.
Materials

• A copy of this presentation can be downloaded from our website:


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
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
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

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
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

Outsourcing models

<table>
<thead>
<tr>
<th>Partially Outsourced</th>
<th>Fully Outsourced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Record Keeping</td>
<td>Majority of tasks in Partial list</td>
</tr>
<tr>
<td>Maintaining / backing up database</td>
<td>Coordination between internal stakeholders</td>
</tr>
<tr>
<td>Process Transactions</td>
<td>Implementation of new plans</td>
</tr>
<tr>
<td>Respond to employee inquiries</td>
<td>Customized processes and reporting</td>
</tr>
<tr>
<td>Provide standard reports</td>
<td>Employee education and communication</td>
</tr>
<tr>
<td>Troubleshoot and research data issues</td>
<td>Period to Period reconciliations</td>
</tr>
<tr>
<td></td>
<td>- Equity activity</td>
</tr>
<tr>
<td></td>
<td>- Common stock outstanding</td>
</tr>
<tr>
<td></td>
<td>- Expense, etc.</td>
</tr>
<tr>
<td></td>
<td>Adapt Best Practices or alternatives to current process</td>
</tr>
</tbody>
</table>
WHY SHOULD I OUTSOURCE?

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
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
IN-HOUSE AFTER WE OUTSOURCE

Organization structure with Outsourcing Partner

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

| Vendor          | Payroll | HR/Comp | Finance | Legal |

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• More resources when addressing specific problems</td>
<td>• Difficulty identifying requirements and missed assignments</td>
</tr>
<tr>
<td>• Diverse group of specialized disciplines so many solutions to an issue</td>
<td>• No one has bird’s eye view of Equity Administration</td>
</tr>
</tbody>
</table>
Best Practice with your Outsourcing Partner

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

Vendor ➔ Stock Admin.

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>• More Oversight/Control of information flow</td>
<td>• Additional headcount or resources needed</td>
</tr>
<tr>
<td></td>
<td>• Difficult finding expertise for multiple job duties</td>
</tr>
</tbody>
</table>

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
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

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

#### Transaction Process

<table>
<thead>
<tr>
<th>Job Description</th>
<th>Issuer Company</th>
<th>O/S Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enter and maintain Fair Market Values on database</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Process Exercises and Releases</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Calculate Tax and share withholding for U.S. and Non U.S. participants</td>
<td></td>
<td>X, X</td>
</tr>
<tr>
<td>Issuance and cancellation of shares to the Transfer Agent</td>
<td></td>
<td>X, X</td>
</tr>
<tr>
<td>Respond to participants</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Determine FAS123R assumptions and process/audit expense</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

### 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
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

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*
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
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!

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
Questions?

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