



TenStep Supplemental Paper

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ESOP or EOGS?

Employee Ownership Goal Share (EOGS) programs are a creative alternative to ESOPs. They typically deal with setting and measuring goals for individual business units and suitably rewarding employees. The nature of the goals could vary from improvements in financial performance, quality, customer satisfaction or processes.

Goals should be fair and aim to stretch performance beyond previous targets. Akin to an ESOP program, goal sharing also involves direct employee participation in the decision-making process for determining the outcome and the level of rewards.

The initial design process is common to both ESOP and EOGS programs, addressing certain strategic issues relevant to both programs:

- Defining short and long-term results to be achieved
- Identifying employee efforts and behaviors that facilitate the process of achieving defined results
- Identifying eligible participants
- Aligning the program with the existing compensation strategy

Unlike an ESOP, where the focus is to provide employee benefits in terms of stock value, traditional goal sharing aims at improving a specific business unit's performance. The EOGS objectives combine both. Under an EOGS plan, the eligible employee benefits from the organization's overall financial success. Improving unit-based and organizational outcomes is the focus of goal sharing. The main difference between traditional goal sharing and EOGS is that in EOGS, cash rewards are equivalent to stock.

Apex International, a consumer durables giant, has developed an EOGS program in which it issues "Performance Award" certifications every year. The awards are based on exceeding specific predetermined targets. Three levels of achievement are defined:

- Minimum acceptable level of accomplishment
- Expected level of accomplishment
- Optimal level of accomplishment

A percentage of the employee's base pay determines the award value. For example, 10% of base pay equates to the minimum level of achievement, 20% equates to the expected level and 30% to the optimal level of achievement.

The concept of employee ownership goal sharing breeds an ownership culture in the organization. It links employee actions to organizational strategic outcomes, resulting in employee empowerment through active participation.