

How digital systems can relieve the financial impact of managing employee incentive plans

By [Michael Ketz](#)

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Administering employee incentive plans can be challenging, but the financial implications and rigorous reporting requirements from awarding these plans to selected staff, can be even more of a minefield to navigate. Issuing a share incentive plan to employees represents the cost that the company and its shareholders are willing to spend to retain their key employees, but it also indicates the value that the participants of the plan have received.



Michael Ketz, CEO at ShareForce

Companies with incentive plans are responsible for determining this cost, but quantifying the value of an incentive plan is not as straightforward as looking at the most recent share price or determining the company's equity value. Valuing the incentive largely comes down to the complexity of the underlying terms of the plan, and like all financial instruments related to equity or shares, this calculation can be quite complicated, and more than likely requires the expertise of a valuation specialist.

Using mathematical pricing techniques, the valuation specialist calculates the fair value of the incentive by assessing various market factors, including historical share price movements, expected interest rates and dividends, as well as the likelihood of meeting share price conditions. Yes, it's as complicated as it sounds.

Assessing the alternatives is an important part of share plan design

Although this may seem like an issue for the accounting team, it is crucial that compensation experts have a firm grasp of this value when designing and testing an equity incentive plan. Considering the effects of rising inflation, recent share price moves, or even the company's share price performance against its peers, can be of great value in creating a suitable plan for the business.



It is vital to perform these calculations whenever needed, but the reality is that most businesses don't have the internal resources or expertise to undertake such analyses in-house, necessitating the help of an external valuation specialist or a specialist technology that's flexible enough to cater for a scheme's nuances. An automated solution or technology is always preferable when testing is needed - it's more cost-effective and helps make smarter decisions by providing real-time access to dynamic valuation results.

It doesn't end after awards are issued

Once the optimal plan is formulated and awarded to participants, it must be expensed and accounted for according to International Financial Reporting Standards. The terms of the share plan and the conditions that an employee needs to fulfil for the shares to vest (referred to as vesting conditions) are just some of the factors that directly impact the accounting treatment.



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Some additional accounting considerations include whether awards are settled in cash or equity, the extent to which employees meet their performance targets, and whether or not employees exit the company before achieving these.

Considering that large companies tend to grant awards regularly to a sizeable participant base and then need to track, administer, and account for them, it's evident that manual spreadsheets won't suffice. Financial technology (fintech) is typically the solution to manual workplace processes by gamifying and streamlining otherwise tedious and complex tasks and freeing up the time of internal staff to focus on higher-level, more strategic responsibilities.

Compensation and finance departments require instant access to accurate and timely data on the company's share plans to enable them to effectively manage their finances. A centralised digital solution that houses the necessary skills and provides bespoke access to stakeholders, will go a long way in simplifying the complexities of this very critical process.

ABOUT THE AUTHOR

Michael Ketz, CEO at ShareForce

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