The domino effect

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Without an ‘On this day ten years ago’ prompt on my Facebook timeline (being a classic Gen-X sceptic late adopter I still wasn’t using it back then), I was reminded of where I was and what I was doing by an article in the Guardian last week.

In August 2007, at the very start of what would become the global financial crisis I was working at Pearson, then owner of the Financial Times. The then-CEO Marjorie Scardino has been quoted more times than anyone cares to remember that the FT would be sold out of the Group ‘over her dead body’. Still, one of the perks of working at the company then was that a free copy of the FT would appear on your desk every morning, almost as if by magic. So, I watched the credit crunch and subsequent events unfold across the pages of the pink ’un from the fortunate comfort of my desk. I considered myself one of the lucky ones – I didn’t lose my job, my house or my savings. On the latter point, some of my acquaintances with savings in Icelandic banks sadly weren’t so lucky.

Three years on, I had joined Barclays. There was a gathering wave of legislation about to break over the heads of everyone involved in bank remuneration, including those engaged in the noble practice of running share plans. My attraction to working for a global bank in the wake of the crisis was that I couldn’t think of a more challenging or interesting environment in which to manage share plans – I was definitely right about that. One of the biggest challenges facing us as a team at that time was to implement newly increased bonus share deferral requirements on managers’ awards, at short notice, given that the FSA only finalised their requirements and guidance in the late autumn of 2010. Preparation for the New Year’s payround was already underway not just at group centre but in the comp & bens teams across the global businesses. A combination of measures got us to the right place in time for pre-existing commitments, and new plans were subsequently approved and implemented going forward.

The next challenge was to continue the roll-out of our global share purchase plan. A sensible and pragmatic phased implementation process been decided upon and the next group of countries to roll out the plan to included the USA. The US employee population comprised a significant cohort from the 2008 acquisition of Lehman Brothers' banking and capital markets business, and in 2010 we flew to New York to work directly with the HR and reward team there. I'll never forget seeing items of Lehman Brothers' branded paraphernalia still on people's desks, two years after the acquisition – mugs, used daily; stress toys and other bits and pieces.

In the waves of redundancies following the crash, the people we were working with had seen many of their colleagues leave the firm with the contents of their desks in cardboard boxes, and I can appreciate that it must have been hard for those remaining to assimilate the many changes that inevitably followed. It would be easy to dismiss the acceptance of a shiny, brand-new share plan in Barclays' stock, denominated in GBP, as the least of those changes but as we all know from both our personal and professional experiences, pay is an important and (sometimes) emotive topic. With the global share purchase being a contributory plan, we needed positive acceptance and good local take-up in order to justify the expense and time involved in implementation, as well as to achieve the wider unifying objectives of the global plan. Part of the argument in favour was our analysis that the design of the GSP (with a decent matching element and even without local tax advantages) would actually be more beneficial to US participants than a native US-style s431 stock purchase plan, and definitely better than relying on a secondary ADR-listing to support any adoption of an alternative plan at scale. It was to the great credit of all involved that the global share purchase plan was successfully implemented in the US.

In the intervening period many other changes, such as malus and clawback, have been embedded into Financial Services share plan practice and adopted more widely across all sectors. I wonder where the next wave of change will emanate from, albeit it will be unlikely to have the same regulatory impetus. My best bet would be from the tech industry: although many of their equity compensation practices look to the outsider to be very sector-specific, they have an industry-transcending appeal from the participant viewpoint. The fulcrum is moving towards the participant end of the lever, rather than the employer end. Shorter holding periods, staggered mini-vestings and all but neutralised leaver provisions for the masses not just the executives, are all designed to appeal to the tastes of the tech industry's prevalent Millennial demographic. According to Business Insider UK, at Facebook the median employee age is 28 years, whereas at Hewlett-Packard, it's a more elderly 39. All the other top tech companies – Google, Amazon, Apple, Tesla Motors, eBay et al - line up between those two 'extremes' over just a ten year span. http://uk.businessinsider.com/facebook-linkedin-salesforce-workers-2015-11

With the advent of degree-level apprenticeships in the UK, we will see an accelerating number of younger Millennials - the Generation Zs - entering the workplace across all industries where previously they might have pursued a standard degree or other full-time education, deferring their entry to the world of full-time employment for a few years more. Share plans practitioners and the companies they work for would be wise to prepare for this.

Our ongoing piece of research 'Attitudes to Employee Share Ownership' seeks to give voice to the wants, needs and opinions of all employees, including the Millennial generation. Their viewpoint should matter to us all, not least because by 2020 Millennials will make up 57% of the UK workforce - they currently form 27% of it (source: the Kings Fund). The preliminary findings from our research are fascinating and the research participation rate from this employee cohort completely busts the myth that Millennials are disengaged with share plans. Far from it – they may not participate in plans themselves in the same numbers as their older colleagues, but they have strong and valid opinions on the reasons why, and we should listen to what they have to say.

All-employee share plans must live up to their name, in spirit as well as legislation. We and share plans risk irrelevance and a not-so-slow, painful decline if we don't listen and adapt, and persistently encourage our policymakers and regulators to do the same. Our research will give us hard evidence to present in support of proposed changes to share plans-related legislation. Given the pre-occupation of Parliamentary time with 'Brexit' over the next 18 months at the very least and the grindingly slow pace of legislatory change in normal times too, there is no time to be wasted – we must start now.

More broadly, where are we now, ten years on from the start of the global financial crisis? The Governor of the Bank of England, Mark Carney, believes that the root causes of this have finally been addressed. Globally, banks are now on average holding 50% more capital on their balance sheets than in pre-crisis 2007 – which in theory should help absorb shocks from future crises, and indirectly may reduce their likelihood. But the UK base rate still remains abnormally low (see the historic rates since 1970 here: http://www.bankofengland.co.uk/boeapps/iadb/repo.asp), having stood at 0.5% since March 2009 and now resting at 0.25%, and this prolonged near-zero interest rate environment continues to have implications for many.

- Savers have endured years of pitiful returns, and the operation of SAYE has challenged the assumptions underpinning this product offering for many plan administrators (see some of my previous articles, in particular 'Saving Sharesave').
- Debt is cheap and the cost of living is rising inexorably so consumer borrowing has leapt up to record levels while the savings ratio plummets in the opposite direction.
- A generation of university students has started their working lives living with a normalisation of debt, an overheated property market and a bewildering array of saving and investment vehicles open to them (if only they can find the money to contribute).

All-employee share plans can also help the Millennial generation achieve their financial ambitions, but only if we succeed in demonstrating their relevance and credibility anew.

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