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Stock-based compensation for an increasingly diverse workforce

Driving better engagement and outcomes for today's employees

June 2024

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Stock-based compensation for an increasingly diverse workforce:

DRIVING BETTER ENGAGEMENT AND OUTCOMES FOR TODAY'S EMPLOYEES

Is stock-based compensation deployed in an effective way to meet talent leader goals for an increasingly diverse workforce?

The median annual spend on stock-based compensation ("SBC" or "equity") among the S&P 500 was approximately 100 million USD in 2023.[1] Organizations that utilize SBC to attract, retain, and motivate employees deploy a variety of SBC award types. They make further investments to determine who will receive SBC awards, and manage the communications and administration around SBC programs. Considering the sizeable investment in SBC vehicles and their role as a primary tool to attract and retain talent, coupled with the increased emphasis on achieving a diverse talent workforce, organizations face several key considerations:

01 **Are today's SBC programs effective at attracting and engaging a diverse and early-career[2] workforce?** Do you know why your early-career and diverse workforce value SBC? To what end? Why does this population want to participate in an equity-based compensation program? Is ownership still of value?

02 **How can organizations reshape their SBC programs and strategies to more effectively meet talent objectives as they relate to early–career and diverse employee recruiting and retention?**

03 **Are your SBC programs well-deployed to address the talent objectives within your unique employee population?** Are your SBC programs supported by the necessary communications and education that allow your organization's utilization of SBC plans to realize talent objectives and long-term business goals? How well do organizations manage their SBC program messaging overall?

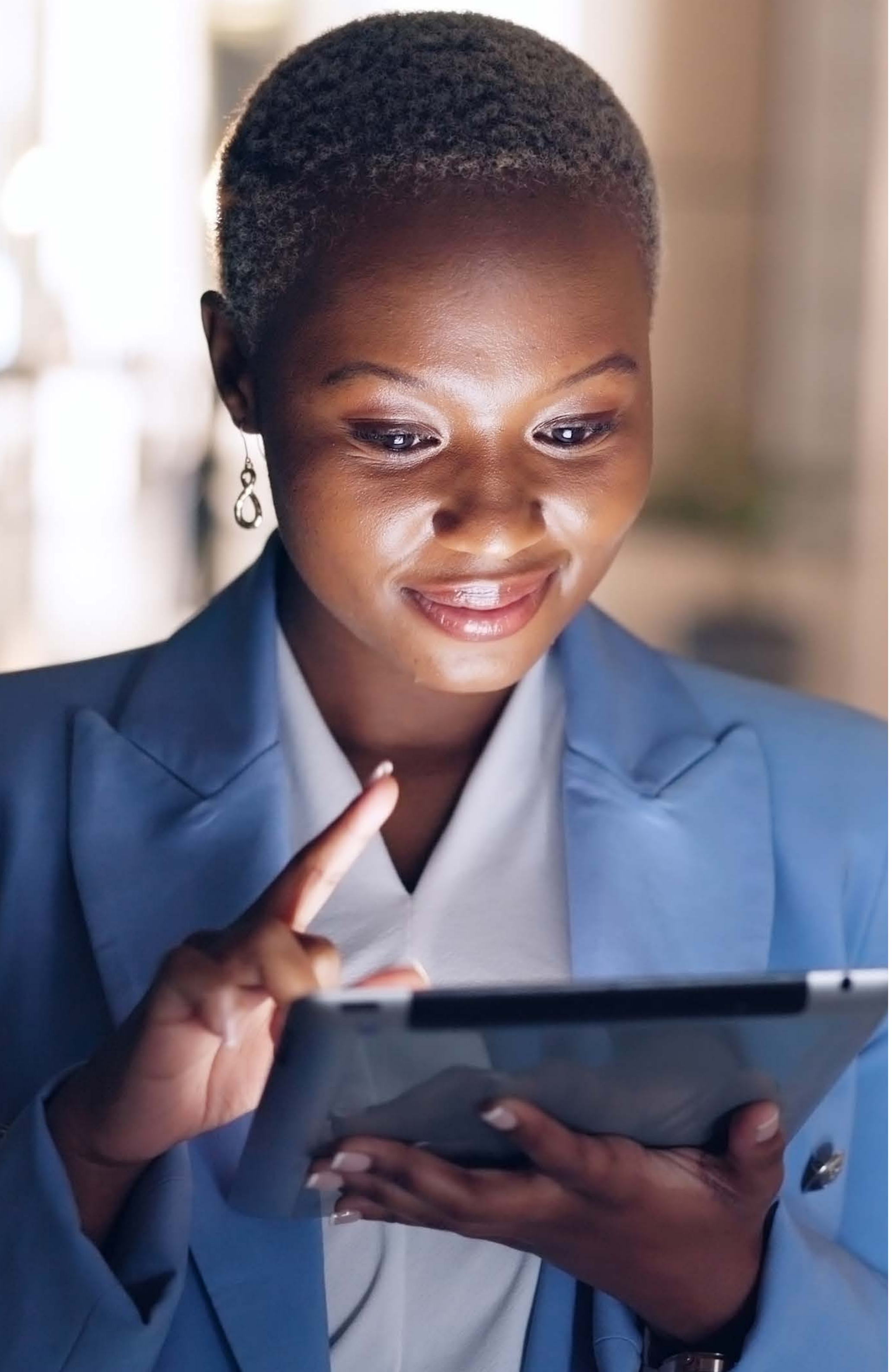
Addressing these questions requires that employees weigh in; hearing directly from SBC plan participants about the value they see in those programs, and how it potentially influences their decision to join and/or stay with an organization.

Deloitte defines diversity as the representation in a group of various facets of identity, both seen and unseen, including those with which we are born, and those we gain from our experience, such as race, ethnicity, nationality, gender identity, LGBTQIA+ status, socioeconomic status, ability, religion, and age. Diversity also encompasses variety in people's lived experiences, perspectives, and values.

Notes:

1. Represents 496 organizations from within the S&P 500 in the S&P Global Market Intelligence database as of April 4, 2024.

2. In this report, "early–career" is defined as US employees who have been in the workforces for less than 10 years, with at least a four-year college degree and a current annual income of 50,000 USD or above.



Our research

Deloitte Tax surveyed a diverse group of 1,750 early-career employees that are eligible to receive or purchase company stock to understand (1) the importance of SBC in evaluating their total pay package, (2) whether and, if so, how SBC fits into their personal financial goals, (3) the potential impact of SBC on their decision to accept a job offer from and remain with the organization, (4) how well plan participants understand the award economics, and (5) the effectiveness of the training provided to them, including how and where plan participants seek additional guidance.

The research highlights notable differences among different cohorts across these key areas, and emphasizes the need for organizations to consider customized strategies to support a diverse workforce of early–career employees in order to meet talent objectives and enhance the return on an organization's SBC investment.

What does our research tell us?

This diverse group of early-career respondents confirm that SBC is a key consideration when evaluating a job opportunity. They want to participate in SBC plans, and choose employers based on their ability to do so; however, these same survey respondents have varying personal objectives for participating in SBC plans and demonstrate different methods of obtaining advice in relation to the operations and benefits associated with SBC.

Understanding how socioeconomic status (SES), race, age, gender, income, financial literacy, and other identities influence an employee's demand for SBC can dramatically change an organization's utilization of its SBC plans and to help realize its talent objectives, business goals, and respond to societal challenges.

The demand for SBC plans remains strong

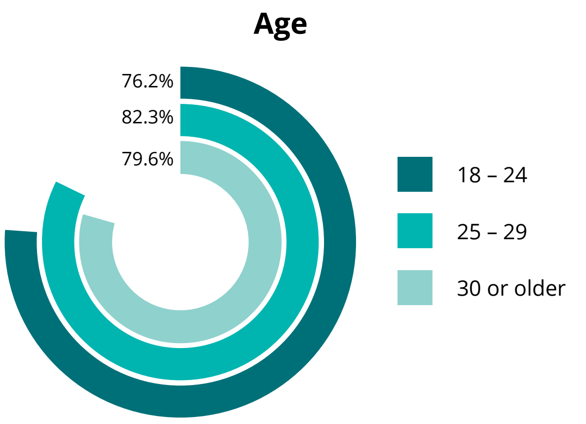
For 88% of those surveyed, SBC in the compensation package informs their decision to work for their current employer. This finding was apparent across respondents of all ages, racially and ethnically diverse backgrounds, genders, and sexual orientations (Figure 1).

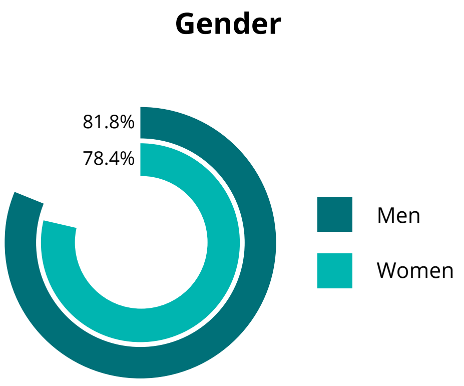
Figure 1: Response rate of “Yes” to “Did equity in the compensation package inform your decision to work for your current employer?” by identities. The aggregate response rate for “Yes” is 88%.

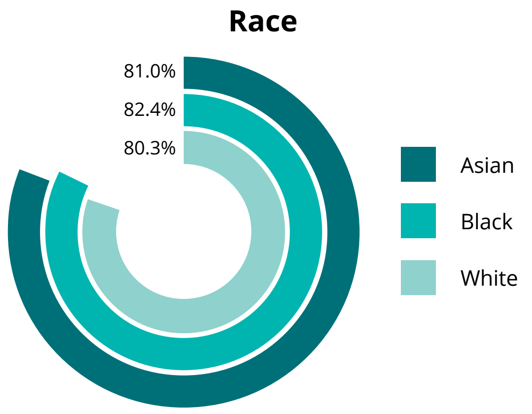
The demand for SBC plans remains strong (continued)

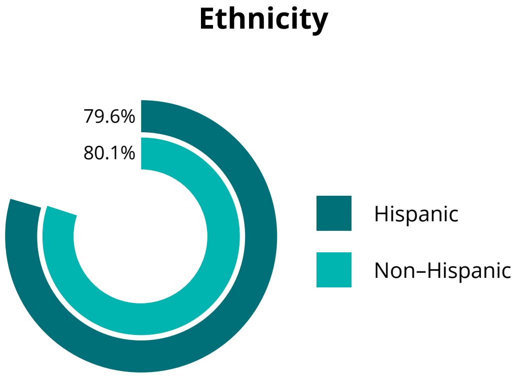
For 80% of the respondents, even if SBC was unavailable as a new hire, their decision to stay with their employer was impacted by whether equity would be available after a few years with their employer. Similar to the decision to join, SBC compensation impacted the decision to stay across respondents of all demographic identities (Figure 2).

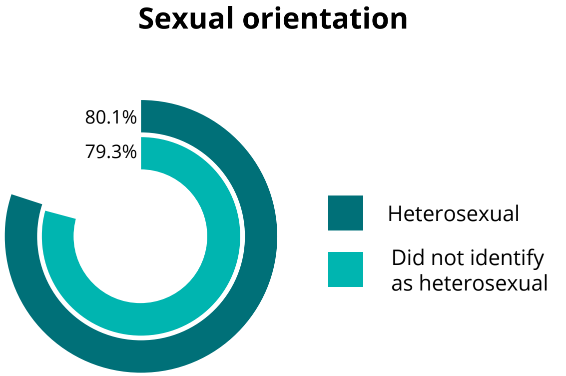
Figure 2: Response rate of "Yes" to "If equity was unavailable to you as a new hire but would be after a few years with your employer, would that impact your decision to stay with your employer?" by identities. The aggregate response rate for "Yes" is 80%.











A diverse workforce matters

Whether your organization may be looking for specialized expertise, new ideas, effective collaboration, enhanced productivity, or a welcoming work culture, considering the diversity among your workforce may be the secret ingredient.[3] Moreover, organizations with greater diversity are 2.4 times more likely to financially outperform competitors.[4]

As talent leaders understand the importance of the diverse workforce and proactively work to attract diverse talent, it is also pivotal to consider employee needs and provide them with resources to thrive within the workforce. In doing so, an organization may not only retain its current talent, but also continue to attract more top talent. Our survey findings, in some cases, indicate that respondents of marginalized identities endorse responses substantially differently than their counterparts. We encourage talent leaders to use these insights to identify potential gaps and consider how addressing the needs of the different cohorts can benefit the entire workforce.

Deloitte defines marginalized as those relegated to an unimportant or powerless position within a society or group.

Notes:

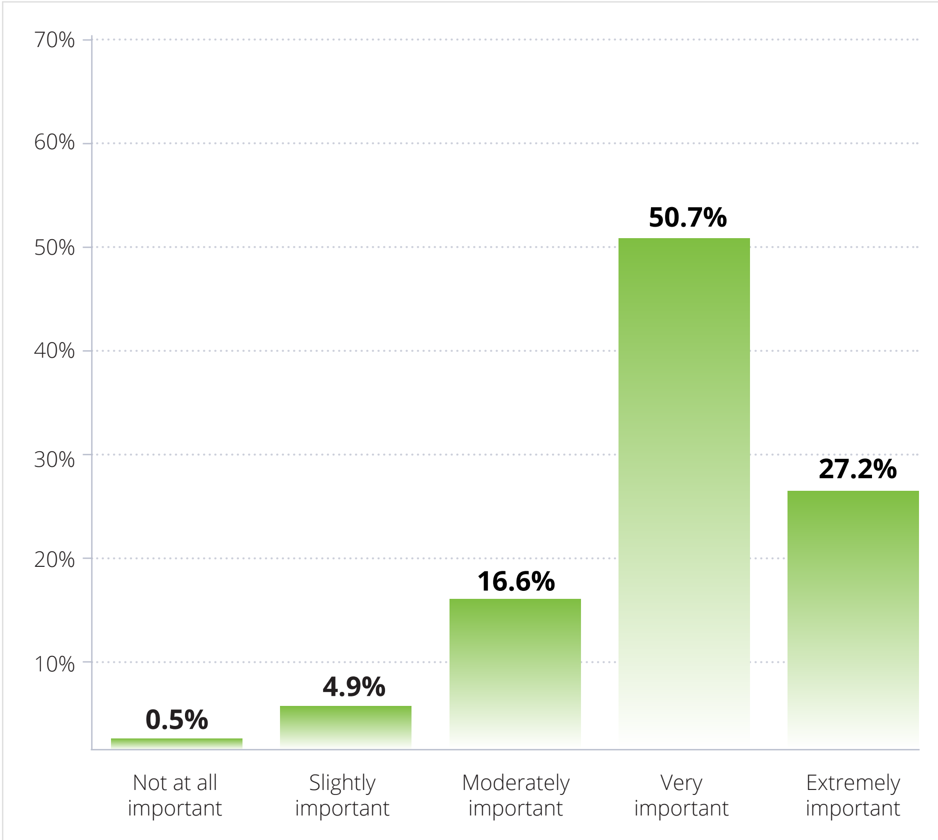
3. The diversity and inclusion revolution: Eight powerful truths; Driving an Inclusive Culture: Internal Audit's Role in Recruiting, Retaining, and Developing Diverse Talent
4. 2024 Global Human Capital Trends; Driving an Inclusive Culture: Internal Audit's Role in Recruiting, Retaining, and Developing Diverse Talent

Do employees value SBC and why?

The overwhelming majority of survey respondents believe SBC is important in assessing their compensation package.

- Three out of four respondents (almost 78%) indicate that equity compensation is very/extremely important in assessing their compensation package (Figure 3).

Figure 3: Respondent agreement with importance of SBC in compensation package.



However, there are key demographic considerations that are influencing which cohorts embrace SBC, and at which point(s) in their career journey (Figure 4).

01 The importance of SBC plans differs by age

The importance of SBC plans differs by age. Employees age 25-30+ indicate a 20% stronger preference for SBC in their compensation packages than 18-24 year old respondents. While the 25-30+ age group acknowledges the value of SBC, the opportunity to improve awareness and interest in SBC among younger employees likely exists.

02 SBC is important across racial and ethnic cohorts

At least two-thirds of the primary racial and ethnic cohorts surveyed rate SBC as very/extremely important. This importance was most endorsed by White respondents, possibly indicating that cohorts of racially and ethnically diverse identities have opportunities to further endorse SBC opportunities. Any interventions that may address these potential gaps will satisfy the notably high demand for SBC by all racial/ethnic identities to join and stay within an organization (Figures 1 and 2).

03 SES matters

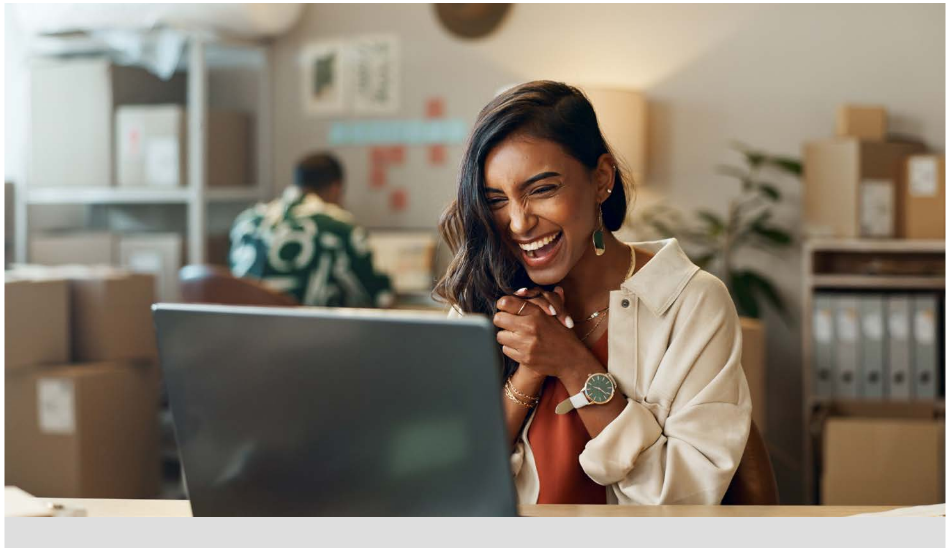
Childhood SES and the SES status of current extended family influence the perceived importance of equity compensation in an employee's pay package. Respondents with childhood high and middle SES rate the importance of equity compensation almost 20-25% higher than respondents with lower childhood SES. The gap widens if the current extended family is of a low SES. These findings may imply that although plan participants coming from lower SES value equity compensation, a higher premium is placed on other components of their pay package.

04 Respondents with multiple disabilities (3 or more) want SBC[5]

This group almost universally rates SBC as being extremely important, substantively higher than respondents with fewer disabilities. Please see the methodology for a detailed description on how "disability" is defined in the survey.

05 Organizational size is important

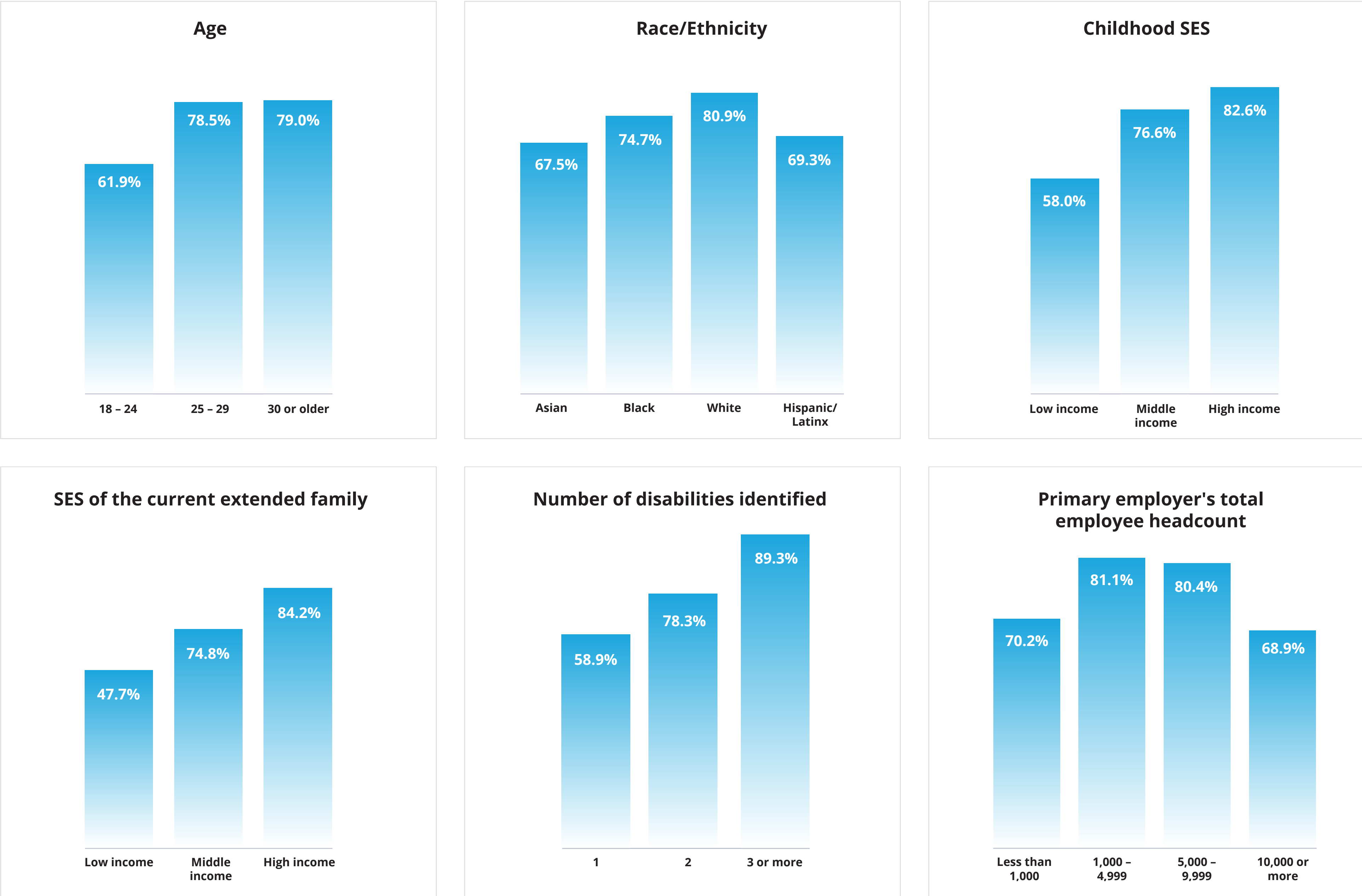
Respondents from mid-sized employers with headcounts ranging from 1,000 – 10,000 placed greater emphasis on SBC than from smaller and larger employers (< 1,000 and > 10,000 employees).



Notes:

5. Includes physical, mental/emotional, cognitive, and neuroatypical disabilities.

Figure 4: Respondent agreement with importance of equity-based compensation in compensation package (very/extremely important) by demographics and firmographics.



Respondent SBC objectives

Wealth accumulation is the primary objective for SBC plans

Creating long-term wealth accumulation is the most common reason cited by respondents that participate in their organization's SBC program (Figure 5). Close to 40% of all respondents rated wealth accumulation as their primary reason for their interest in SBC, followed by using SBC to support current cash flow. **Fewer than one in seven respondents indicate that being an owner is an objective, challenging the objective of many SBC compensation plan philosophies.**[6]

Figure 5: Respondent endorsement to why equity-based compensation is important to their assessment of the compensation package across the four objectives indicated below.

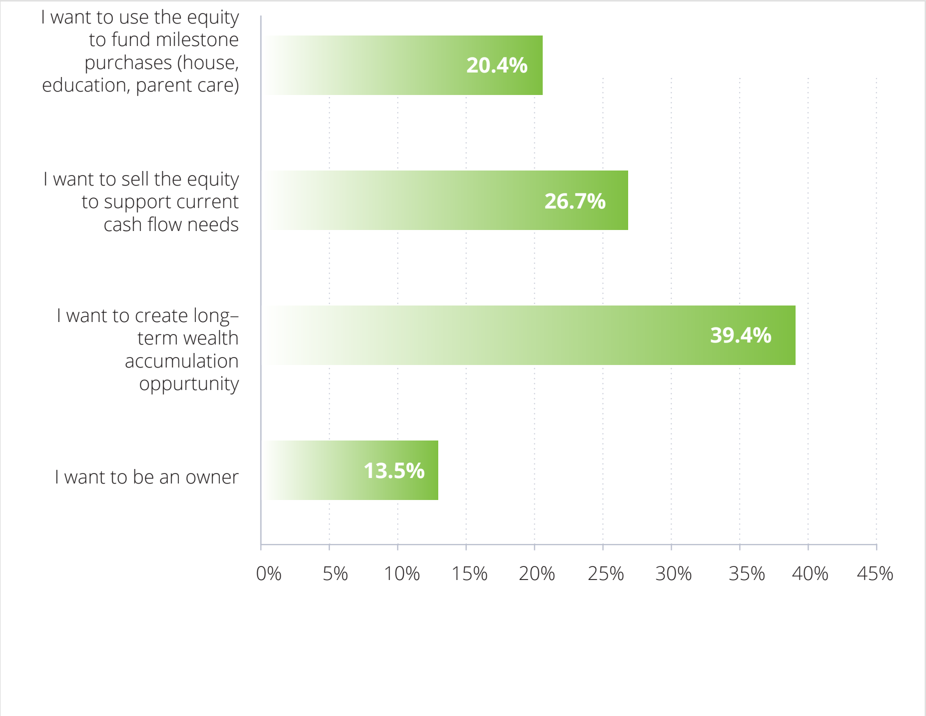


Table 1: Respondent endorsement of long-term wealth accumulation as important to their assessment of the compensation package by selected identities. Data in Table 1 considers the respondent endorsement to the objective of long-term wealth accumulation separately and not in conjunction with the other objectives (shown in Figure 5).

Identity	Category	% Endorsed
Age	18-24	64.5%
	25-29	70.2%
	30 or older	77.6%
Racial group most closely identify with	Asian	78.7%
	Black	59.1%
	White	77.4%
Number of ways acting as a caregiver	0	77.7%
	1	69.7%
	2	83.1%
Number of disabilities, ordinal	0	78.0%
	1	63.7%
	2	64.6%
	3 or more	68.4%

Notes:

6. The 2023 Deloitte Tax LLP and National Association of Stock Plan Professionals Employee Stock Purchase Plan Survey.

Respondent SBC objectives

Considering the SBC objectives endorsed by the respondents separately, the following trends are observed:

01 Long-term wealth accumulation is the most common goal (39.4% among the four presented objectives, Figure 5), with:

- 70% or more across age, race, and ethnicity, except for Black respondents and younger respondents (18-24) reporting this as a priority.
- Caregivers caring for both adults and children also report long-term wealth accumulation as more important relative to peers within their demographic (no caregiving responsibility and caring for only children or only adults).
- For respondents who identified as having a disability the objective of using SBC for long-term wealth accumulation increases with number of disabilities.

02 Monetizing SBC to support current cash flow needs is a consistently reported objective, with one-third to one-half of employees across diversity cohorts reporting this as a goal.

- Endorsement of this priority was more pronounced for White respondents, caregivers for both adults and children, and respondents with 3 or more disabilities.
- Notably, the more respondents had access to financial advice as a child, the more they endorsed the objective of SBC to support current cash flow.

03 Similarly, funding milestone purchases is selected by approximately one-third to one-half of employees across diversity classifications.

- This objective is rated more highly by respondents with lower childhood and lower current extended family SES compared to respondent counterparts with mid and high SES.
- Interestingly, respondents with more sources of childhood financial advice place increased importance on the objective of using SBC to fund milestone purchases.

04 Becoming an owner has the most variation among the cohorts, but employees of some cohorts reported this goal with elevated frequency.

Becoming an owner was reported as a goal by only ~20-30% of respondents. However, a higher percentage of respondents indicated ownership as a goal among the following cohorts:

- Men
- Younger respondents (age 18-24)
- Respondents who did not identify as being heterosexual
- Respondents with higher SES status as a child
- Respondents with substantial access to financial advice as a child (5 or more sources)
- Black respondents
- Caregivers for both adults and children
- Respondents with 3 or more disabilities

Why should organizations focus on these findings?

Employee experience, plan effectiveness, and return on investment can be positively impacted by understanding employees' preferences and learning strategies ranging from employer-provided communications to leveraging outside networks and personal relationships.

Now or later? When should organizations offer SBC plans?

As noted at the beginning of this report, receiving SBC as a new employee impacts the job acceptance decision for an overwhelming majority (88%) of respondents, and even if not immediately available, the opportunity to receive SBC in the future continues to be an important factor in assessing the job opportunity across all identities held by respondents.

Additionally, respondents with no access to financial advice as a child are almost 25% less likely to consider immediate and future awards of equity compensation as impactful when evaluating a job opportunity (Figures 6 and 7).

Organizations that offer SBC to early–career employees may benefit; findings demonstrate both the positive impacts of SBC plans on employee attraction and retention and the importance of adapting plan presentation to employee needs, particularly for respondents with no access to financial advice as a child.

Figure 6: Response rate of "Yes" to "Did equity in the compensation package inform your decision to work for your current employer?" by access to number of sources of financial advice as a child.

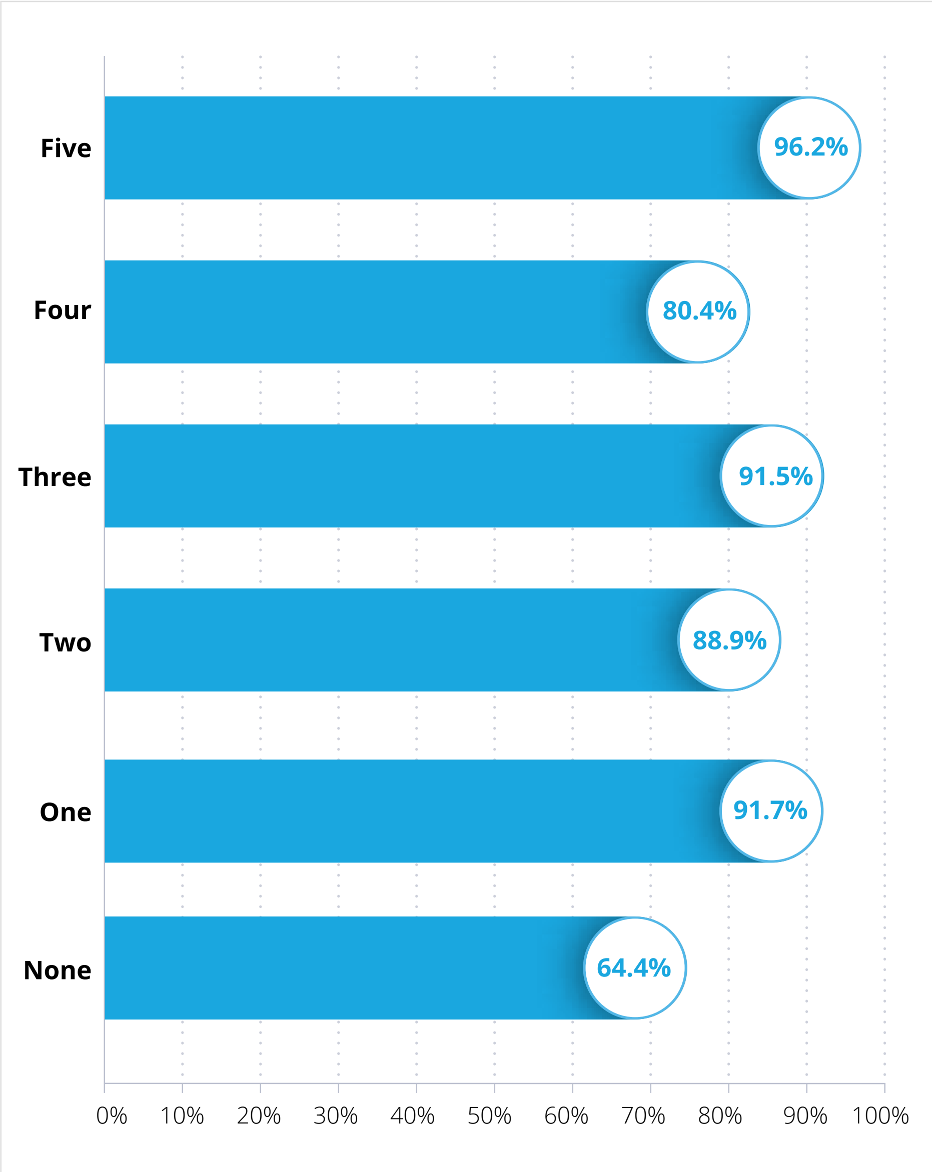
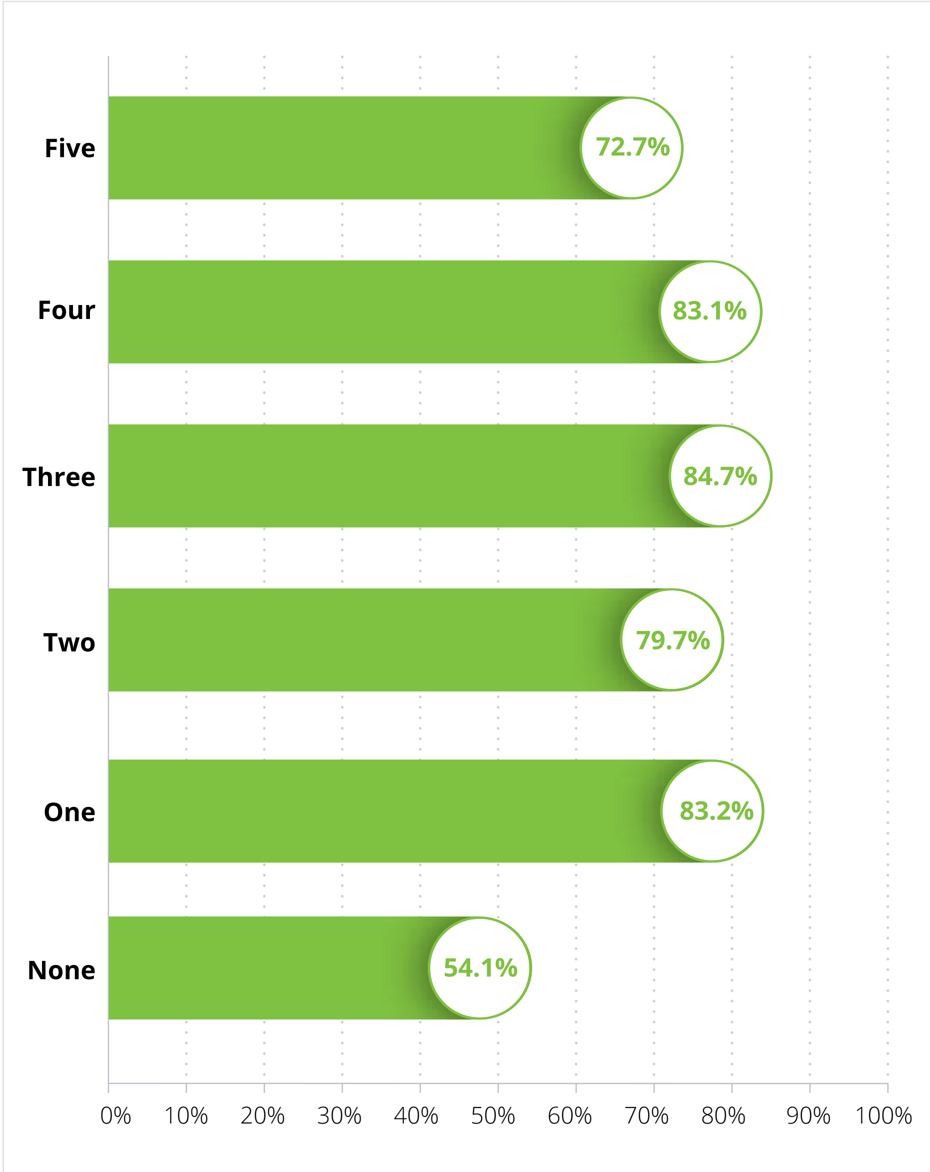


Figure 7: Response rate of "Yes" to "If equity was unavailable to you as a new hire but would be after a few years with your employer, would that impact your decision to stay with your employer?" by access to the number of childhood sources of financial advice.



What is the ideal balance between cash and equity compensation?

While SBC is important in the hiring decision, cash compensation constitutes 50–100% of the total compensation package for over 60% of the respondents. When asked about their preferences, over half of the respondents preferred to adjust weighting of SBC to 50–100% of the pay package.

Respondents with higher childhood, current extended family, and current SES indicate a desire for higher relative SBC weighting compared to respondent cohorts with mid and low SES. This trend is also observed among respondents with substantial access to financial advice as a child, caregivers (for both adult and children), and employees with disabilities (2 or more).

Respondents with lower childhood and extended family SES are more likely to prefer heavier weighting of cash compensation (75 –100%) in their overall pay packages. This is consistent with the "importance of SBC" question in which employees with lower childhood SES and lower current extended family SES reported materially lower "very/extremely important" responses relative to their comparison cohorts within the demographic (Figure 4).

Do employees understand the economics behind SBC plans?

Understanding the economics of SBC awards is critical to the employee experience, the plan's effectiveness in supporting employee attraction and retention, and the realization of return on their SBC investment.

The value of the award, when and how to monetize, the associated taxes, as well as what happens if the employee resigns are understood by about **3 of 4** respondents (71-81% based on understanding of award value, ability to monetize, tax treatment, vesting requirements, and termination provisions separately), but there is a lower level of understanding for certain employee cohorts perhaps adversely impacting the achievement of employee goals, plan effectiveness, and organizational investments.

The following cohorts reported lower levels (50% - 65%) of understanding of the key award economics compared to their counterparts:

- Younger respondents (compared to 25-29, 30 and older)
- Asian respondents (compared to White, Black respondents)
- Hispanic/Latinx respondents (compared to non-Hispanic/Latinx respondents)
- Low childhood and current extended family SES (compared to respective respondent cohorts of mid and high SES)

Looking at this relationship inversely, about **1 of 4 respondents** (19-29%; reason for variability similar to reason indicated in paragraph above) don't understand the value of their SBC awards, possibly resulting in inefficiencies and missed opportunities to reinforce culture, attraction, retention, and the potential for financial equity and wellness. From an investment perspective, if about 25% of an organization's population does not understand the value of their SBC, the company spend might be inefficient and may not effectively drive the anticipated employee and organizational expectations.

What can organizations do?

From experience, organizations employ a range of strategies and methods to inform and educate employees about their SBC programs, but respondents tell us that traditional communication methods alone may not be sufficient. Employees are looking outside of employer-provided resources to understand their SBC, through their personal networks and confidants. The result is that organizations are losing the ability to manage the messaging about their SBC plans, programs in which they have invested millions of dollars (tens or hundreds of millions in some cases) to achieve business and talent objectives.

More than 88% of respondents indicate moderate to significant knowledge was gained through employer programs, but only **31% of that was considered significant**, highlighting the need for alternative sources of guidance.

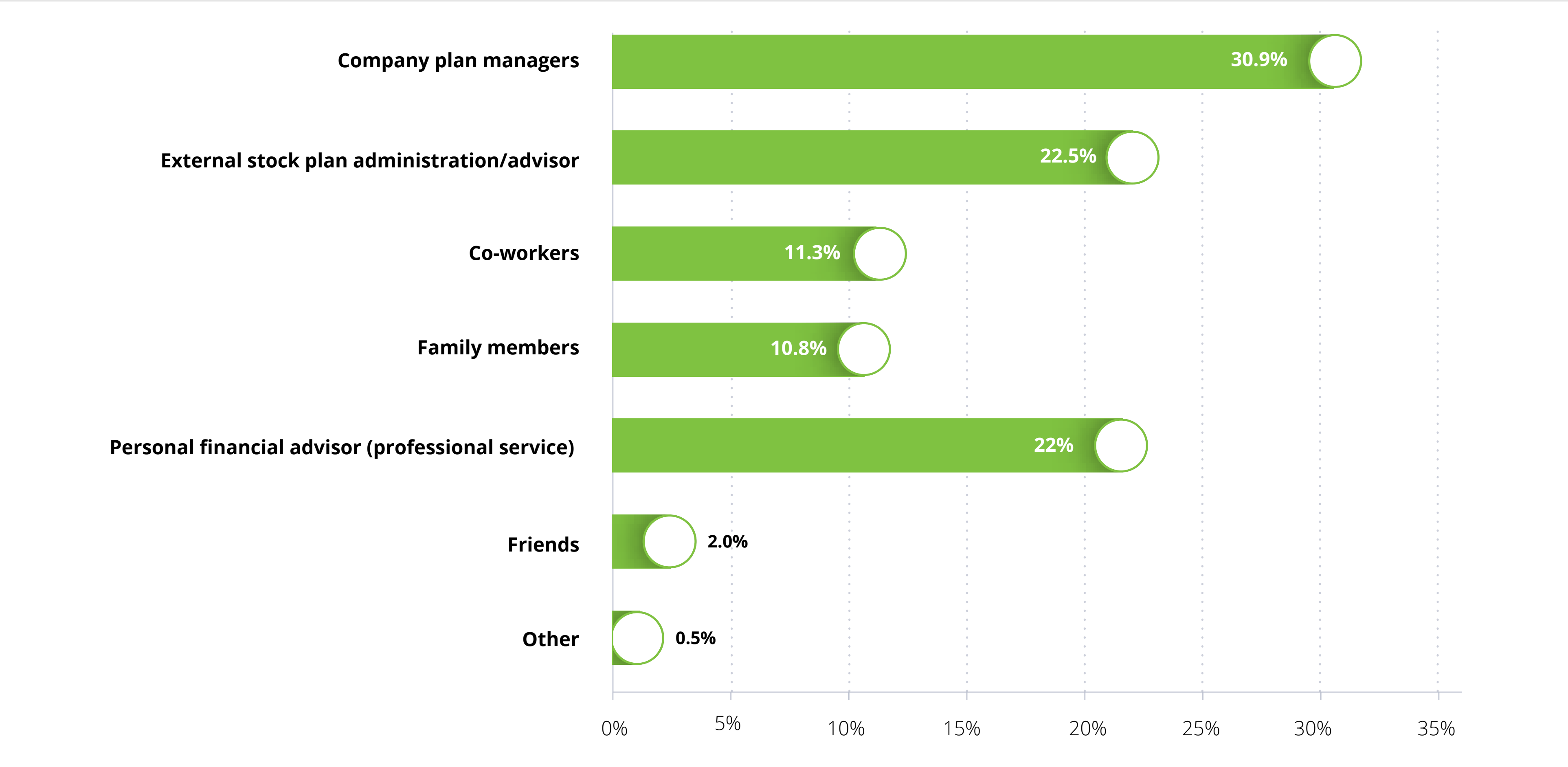
Respondents rely more heavily on their personal network of relationships to evaluate their pay package (slightly/more reliance, 48%) as compared to company-provided information (slightly/more reliance, 33%)

This tendency appears to be universal. For example, White respondents and respondents with none or only one financial adviser as a child rely slightly more heavily on their personal networks compared to their counterparts. So do respondents with childhood mid and high SES, and respondents with no **caregiver responsibilities** or **disabilities**. In fact, respondents with **low current extended family SES place more/much more reliance** on their personal networks relative to the respective higher SES cohorts.

The findings from responses to the prior two questions on knowledge from employer and reliance on personal network regarding decisions around the compensation package may indicate lackluster support for company-provided communications, perhaps an apparent lack of support or knowledge gained from the organization and a reliance on personal networks. **Despite these findings, when forced to select one primary source of advice, almost 50% of respondents continue to select company-provided resources as the primary source of financial guidance (Figure 8).**

- 31% of employees choose the company plan manager and 23% select the external stock plan provider as their primary advisor.
- Almost 35% of respondents prefer to rely on their personal network (family members, personal financial advisors, or friends) for the primary advisors.

Figure 8: Response rate of "whom is or would be your primary advisor in making equity-based compensation decisions?".



Build organizational awareness and actions

Let's use the survey respondents as an example. What if they were 1,750 employees of your organization? They represent diverse backgrounds, experiences, and access to SBC with the only constant among them being their early-career status.

What's next?

Get more information

Implement employee preference surveys to quantify SBC preferences, inform potential design solutions, and cost/benefit analyses. Determine what your organization can offer and what employees want.

Conduct more detailed fact finding via focus groups and workshop sessions. Ensure you can align the survey results with the direct employee feedback. Give employees voice in the process.

Evaluate your design opportunities

- Think beyond one-size-fits-all SBC designs. Our survey data shows that SBC plans inform the decision of respondents from all identities to join and stay within an organization (Figures 1 and 2). Data also show that in nuanced yet clear ways, respondents of different identities differ in their valuation of SBC (Figure 4), objectives in pursuing SBC, and their understanding of the economics of SBCs plans.
- Utilize organizational data to understand these nuances. Consider how these nuances can be used to fill in gaps and optimize your SBC plan offerings, holistically.

For example, if employee preferences are as varied as our respondents' consider employee choice programs whereby employees have a degree of agency over how they get paid. Start with SBC, and consider extending to cash compensation over time. Many respondents indicate unique SBC preferences and frequently want to rebalance the entire pay package. Don't select for them - it could create a powerful employer differentiator.

Reshape your employee education program – starting at the recruiting process

- Create a Rewards Education Office – solely responsible for advancing deeper learning and understanding of compensation and benefits programs. Get the value out of your employee investment.
- Provide targeted finance education series. Fill the gaps. To be clear, this does not imply that specific cohorts get "othered" into specific trainings. It implies that the training itself should target the gaps identified by cohorts and be delivered to all employees. Remember, the overall demand for SBC plans is high across all demographic identities (Figures 1 and 2). Thus, all identities will benefit from these trainings.
- Develop a "+1-training series" where an employee can invite their confidante to the training session. Influence the messaging, build trust.
  - Respondents from the survey continued to show substantial reliance (almost 35%) on the personal network for advice (Figure 8). Given that this external guidance may lack clarity, the need for improved training may extend beyond informing employees and should include someone from their personal network.

Communications

- Assess the efficacy of existing programs, utilize improved learning strategies, content development, and training delivery. Utilize combination of personal and technology enabled trainings.

Survey methodology

A third-party vendor (SAGO) surveyed 1,750 full-time, US employees from for profit organizations (with publicly traded stock) who have been in the workforces for less than 10 years, with at least a four-year college degree and a current annual income of 50,000 USD or above. Eligibility criteria also included that the respondent be eligible to receive company stock as a form of compensation from their primary employer or purchase their primary employer's stock in a company-sponsored employee stock purchase plan. Finally, the approximate revenues of the primary employer had to be more than 100M USD or above and the respondent had to be aware of the organizational headcount.

The survey was live from Oct 9, 2023 to Nov 7, 2023. Upon completion of the base sample of 1000 respondents on Oct 26, 2023, the survey remained open for an additional 12 days for the oversampling of the Black, Asian, and Hispanic cohorts to be able to eventually have sample counts large enough to make statistical inferences about these specific cohorts. The final sample of 1,750 respondents was weighted to represent the residential adult population of the United States. The margin of sampling error for the complete set of weighted data is ±5 percentage points. Weighting and further data analysis were accomplished using the SPSS package.

A status of disability is defined in the survey as follows: A physical disability (e.g., deaf-blindness; deafness; hearing impairment; orthopaedic impairment; visual impairment including blindness; speech or language impairment; other (physical) health impairment), a mental/emotional disability (e.g., anxiety disorder; schizophrenia; bipolar disorder; obsessive-compulsive disorder (OCD); depression), a cognitive disability (e.g., intellectual disability; traumatic brain injury), a neuroatypical disability or trait (e.g., autism spectrum disorder, attention deficit/hyperactivity disorder (ADHD); specific learning disability; dyslexia; dyscalculia, epilepsy, hyperlexia, dyspraxia, Tourette syndrome (TS), and other neurodivergent disorders), or another disability or trait as identified by the respondents.

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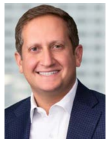

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