
STEPS FOR SELECTING A STOCK PLAN ADMINISTRATOR

A key concern for many companies establishing equity participation plans for their employees is selecting a stock plan administrator. Often companies find that having the right administrator can be an important factor in a stock plan's success or failure. When selecting an administrator, companies should consider several different providers and consult with each one to see which company provides the best services for their plan.

In order to establish uniformity and common ground for evaluating various providers, companies should issue a request for proposals (RFP), clearly stating the intended guidelines for the plan and the services needed from a plan administrator. Listed below are some considerations companies may want to include in the selection process in order to maximize the responsiveness and secure the stock plan administrator, which will best meet their needs.

The process of developing a solicitation document really starts from within the company, but when possible, managers should obtain RFP's from other peer companies to get a general idea for the correct format and suggested issues for the document. (The Foundation can also help by consulting with companies to develop a structure for an RFP and providing a list of relevant questions.)

First and foremost, the RFP must clearly describe the company and its stock plan in detail, including information on participants, vesting schedules, award criteria, valuation issues, forecasted future stock grants, etc. It is important to outline the company history and future goals, including any forecasted IPO, divestitures, successions, or significant change in controlling ownership. The more informative a company can be in the RFP, the more responsive and accurate bidders can be in describing specific service benefits.

In the RFP, potential bidders should be asked to provide their corporate history and experience in providing stock plan administration, including how much of their resources are dedicated to these services. Each service provider should also be asked to clearly describe their system for plan administration in terms of logistics, accuracy, efficiency, flexibility, timeliness, and problem resolution. The RFP should require companies to provide information on the range of investment availability, such as whether they can facilitate cash-less transactions, derivative investments, diversification, real time trading, and private stock transfers. From a communications perspective, each potential administrator should be asked about what steps they take to educate employees on issues related to their current stock plan, employee ownership in general, financial planning, taxes, and retirement planning. All potential bidders should be required to list several client references that can be contacted during the evaluation stage. Finally, the RFP must require that all bidders clearly outline all costs associated with the plan from both the employee and company perspective, including billing schedules and a clear listing of any out-of-pocket expenses.

Once the company has finished developing a comprehensive RFP, key managers should select potential administrators to solicit responses. Traditionally, large investment banking and brokerage houses have dominated the stock plan administration service sector, for larger companies recently several other new administration providers have entered this market. Many on-line brokerage firms, benefits consulting firms, and small, independent, stock plan administrators should all be considered as potential candidates. That being said, companies should not overlook the benefits of the experience and reliability of established firms with extensive experience in the field. Companies may also want to consult peer organizations about various recommendations for potential administrators. Before sending out an RFP, be sure to contact each service provider to establish an internal point of contact for correspondence. Most stock plan administrators, small or large, can easily be found through the Internet,

the Foundation can also provide interested companies with a list of qualified stock plan administrators.

Before reviewing any of the solicitation responses, the company's management should carefully determine criteria for evaluating and narrowing bids. This is an excellent opportunity to include employees from all levels in the plan administrator selection process. A company may want to solicit its employees' comments on what they think are the most important issues concerning administration of their stock plan. The ultimate goal here is to lay out some objective evaluation criteria prior to reviewing any bid so that clear contenders can be easily separated from administrators who do not fit the company's needs.

Once the company has set objective criteria for evaluating bids, the solicitation responses should be compared to each of the key areas to determine how they measure up. The company should determine the number of candidates it plans to have as finalists, then place some score on each section of the proposals and tally the results to see which bids qualify for additional consideration. A company should try to limit the number of finalists to a maximum of three. That way appropriate attention can be dedicated to following up and reviewing the qualifications of each administrator in careful detail.

It is almost certain that a company will discover wide variances among proposals and have additional questions for finalists. Key managers should develop a list of these questions, forward them to the finalists, then plan to meet with each potential administrator in person to determine plan variances and dynamics. A very important step in the final stages of evaluation is to check the references of the final potential plan administrators. The company should ask each bidder to provide a list of references, including any firms of similar size and stock plans. Companies should ask the various references about difficulties as well as successes they have experienced with the administrator, including questions concerning responsiveness, efficiency, cost, communications, and resources. Based on this final round of evaluations, the company should be in a good position to then select a stock plan administrator.

Spending the time to select the right stock plan administrator is an essential step in assuring the success of an employee equity participation plan. Some companies underestimate the value of having a qualified and experienced stock plan administrator on board to help the employee ownership plan run smoothly. Often, good stock plan administrators can take over all aspects of the equity sharing plan and help companies maximize the cultural benefits of employee ownership through communications programs, education, and financial planning. Most importantly, once the selection process is complete, companies should develop a strong relationship with their stock plan administrator and take advantage of the full range of services provided.

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7911 Herschel Ave. Suite 402, La Jolla, CA 92037
Fed@fed.org
[Http://www.fed.org](http://www.fed.org)
