

3rd Annual CEP Symposium 

Certified Equity Professional Institute

Hope for the Best; Plan for the Worst!
What to Do When Disaster Strikes

Carine Schneider



Dis-a-ster [di-zas-ter, -zah-ster]
-noun

1. a calamitous event, esp. one occurring suddenly and causing great loss of life, damage, or hardship, as a flood, airplane crash, or business failure.
2. *Obsolete.* an unfavorable aspect of a star or planet.


[Origin: 1585-95; < MF *desastre* < It *disastro*, equiv. to *dis-* *dis-* + *astro* star < L. *astrum* < Gk. *ástron*]
—*Synonyms:* 1. mischance, misfortune, misadventure, mishap, accident, blow, reverse, adversity, affliction. *Disaster, calamity, catastrophe, cataclysm* refer to adverse happenings often occurring suddenly and unexpectedly. *A disaster* may be caused by carelessness, negligence, bad judgment, or the like, or by natural forces, as a hurricane or flood: *a railroad disaster*. *Calamity* suggests great affliction, either personal or general; the emphasis is on the grief or sorrow caused: *the calamity of losing a child*. *Catastrophe* refers esp. to the tragic outcome of a personal or public situation; the emphasis is on the destruction or irreplaceable loss: *the catastrophe of a defeat in battle*. *Cataclysm*, physically an earth-shaking change, refers to a personal or public upheaval of unparalleled violence: *a cataclysm that turned his life in a new direction*.

Based on the Random House Unabridged Dictionary, © Random House, Inc. 2006.

3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -2- 

Natural Disasters

Airplane Accidents	Landslides
Avalanches	Nuclear Disasters
Blizzards	Oil Spills
Drought	Public Health
Earthquakes	Structural Failures
Fires	Tornadoes
Floods	Tsunamis
Hurricanes, Typhoons, and Tropical Cyclones	Volcanoes

3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -3- 

Business (Human Made) Disasters

- Security Breaches
- Reputational damage
- Fraud
- Lack of planning for natural disasters
- Product liability
- Financial and accounting irregularities
- Key employee/executive retention
- Asset protection, including equity

3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu>

What the experts say

- Prepare
- Plan
- Stay informed
- Be prepared to make decisions and communicate them

• www.ready.gov

3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu>

Prepare


- Review (or create) your business process flow chart
- Identify operations critical to survival and recovery – how will you duplicate those systems?
- Include emergency payroll, expedited financial decision-making and accounting systems to track and document costs in the event of a disaster.
- Establish procedures for succession of management – what if you can't be in contact with your company. Include at least one person who is not located at your corporate site.
- Encourage your employees to prepare home preparedness kits (and maybe office kits as well!)

3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu>

Plan

- Identify and document the key contacts and access points at your current providers
- Plan what to do if your current building is inaccessible or you cannot travel to the office
- Define individual responsibilities and decision making trees
- Review your providers emergency management plans annually
- Develop a call tree and test frequently


3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu>



Stay informed

- How will you receive updated information?
- How will you inform your staff?
- Select at least 2 means of communication
- Create wallet cards with key information
- Consider a special procedure for those employees who travel


3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu>



Understanding Risk

“Risk comes from not knowing what you’re doing”
Warren Buffett

3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu>




Understanding Risk

Good risk management

- is essential for reducing the probability that corporate objectives are not met
- has the potential to re-orient the whole organization around performance improvement
- does not only yield the benefit of reducing costs arising from exposures but can lead to increased competitiveness, flexibility and new opportunities
- should not replace the mechanisms that are already working well

3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -10-




Understanding Risk

Examples of some typical risk-related issues in the area of equity plans:

- Payroll errors when calculating pay, bonus and other rewards
- Miscalculating or incorrect reporting of top management pay in the proxy or financial reports
- Non-compliance with tax, legal & regulatory regulations (penalties, damaged relationships, etc.)
- Missing or miscalculating corporate income tax deductions
- Severance pay issues upon termination
- Errors in stating share usage, share balances and options outstanding
- Incomplete and/or inconsistent records available in cross-border situations
- Missing required 'insider trading' notifications

3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -11-



3rd Annual CEP Symposium

Santa Clara University

Certified Equity Professional Institute

Types and Impact of Risk



Areas and Impact of Risk

Areas of risk:	Impact of risk:
<ul style="list-style-type: none">● Plan Design● Internal structures & processes● Communications● Company culture & behaviour● External changes● Fraud	<ul style="list-style-type: none">● Financial damage● Reputational damage● Negative impact on employees● Operational disruption


3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -13-



Plan Design

- No clear assessment of desired and expected outcomes for plan participants (financial modeling)
- Mistakes in plan rules or plan rules are open to interpretation
- Insufficient attention to financial fundamentals including funding/ hedging, P&L expensing, recharges and corporate taxes
- No account taken of local country cost/benefit optimization possibilities
- Plan does not reflect company objectives and performance drivers


3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -14-



Internal Structure & Processes

- Unreliable personnel information from IT systems
- Inconsistent data records between various departments and providers
- Insufficient interaction between various departments
- Weak governance (i.e. approval) processes at Board/shareholder level
- Inconsistent procedures followed for annual pay/bonus review
- No group level responsibility taken for local compliance
- No process for cascading questions, clarifications, etc.
- Poor service to employees (slow, low quality, many mistakes, etc.)


3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -15-



Communications

- Little or no 'standard' information available to employees
- Lack of external transparency about the company's reward schemes
- Insufficient disclosure of remuneration in company accounts
- Lack of shareholders' approval of proposed share schemes
- Delays caused by Work Councils
- Lack of understanding by employees and line management of the company's performance drivers and its actual performance


3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -16-



Company culture & behavior

- Required procedures not always followed, lack of discipline
- Attempts to find loopholes and shortcuts
- Little attention for risk management
- Company culture hinders effective risk control
- No clear guidelines on the company's desired risk profile


3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -17-



External changes

- Tax & Legal changes that affect the operation of plans in certain territories
- Increased audits and scrutiny by governments agencies of local compliance
- New disclosure requirements
- Demands by stakeholders for stronger corporate governance
- Increased attention of the media, politics, etc. for top executive pay


3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -18-



3rd Annual CEP Symposium Santa Clara University

Certified Equity Professional Institute


Risk Management & Best Practice



What is your risk control system profile?

- **Unreliable**
Unpredictable environment where a risk control system is not in place
- **Informal**
Controls are in place but they are (i) not adequately documented, (ii) dependent on people, and (iii) without formal training
- **Standardized**
A risk control system has been established and communicated, but management does not actively track its functioning and may not be aware of deviations
- **Monitored**
Periodic checks, audits and other control processes are actively carried out to ensure that the risk control system is used
- **Optimized**
Management continuously monitors and improves the risk management framework and is able to respond rapidly if necessary

3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -20-



Improving the company's equity plan risk management

- **Treat risk management as an on-going, quality improvement process**
- **Review the current management & administration structures and processes (e.g. roles, responsibilities, consultations, etc.)**
- **Establish a formal risk identification process**
- **Perform internal audits**
- **Undertake regular spot checks, obtain confirmations from relevant parties**
- **Escalation procedures for dealing with questions and issues**
- **Initiate modeling of future outcomes (desired vs. expected)**


3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -21-



Improving the company's equity plan risk management (2)

- Appoint coordinators (e.g. financial, regional HR, tax, legal)
- Implement a risk management "Code of Conduct" and enforce desired behavior (top-down)
- Initiate internal consultation between departments, Business Units, management layers, etc.
- Monitor employee perceptions and appreciation
- Regularly check the need for consultation with external stakeholders (tax/legal & regulatory authority, shareholders)
- Obtain specialist input
- Share experiences (good and bad)

3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -22-



Are you ready for the next disaster?

3rd Annual CEP Symposium, September 13, 2006
Certified Equity Professional Institute, <http://cepi.scu.edu> -23-