



Five Demographic Trends to Enhance and Evolve Your Equity Plan Now

Understanding what motivates employees is critical when developing compensation and benefit programs that enhance performance, improve retention and drive results.

However, what drives one employee may not necessarily motivate another, particularly when considering a multigenerational and diverse workforce. Detailed research that studies the differences among various employee groups is essential to business executives and human resource professionals who are charged with the development and implementation of effective management practices and benefit programs that include equity compensation plans.



Recognizing the different preferences among generational groups can enable you to advance important elements of your overall employee compensation and benefits program to attract, engage and retain talent while encouraging participation and overall satisfaction within your offering.



To identify the impact equity compensation has on employee engagement and motivation, Morgan Stanley commissioned a study independently conducted by Eight Acre Perspective and Rutgers University. The study, which surveyed 1,110 U.S. workers employed full time at publicly traded companies in June 2019, reveals five important findings that are highlighted in this paper.

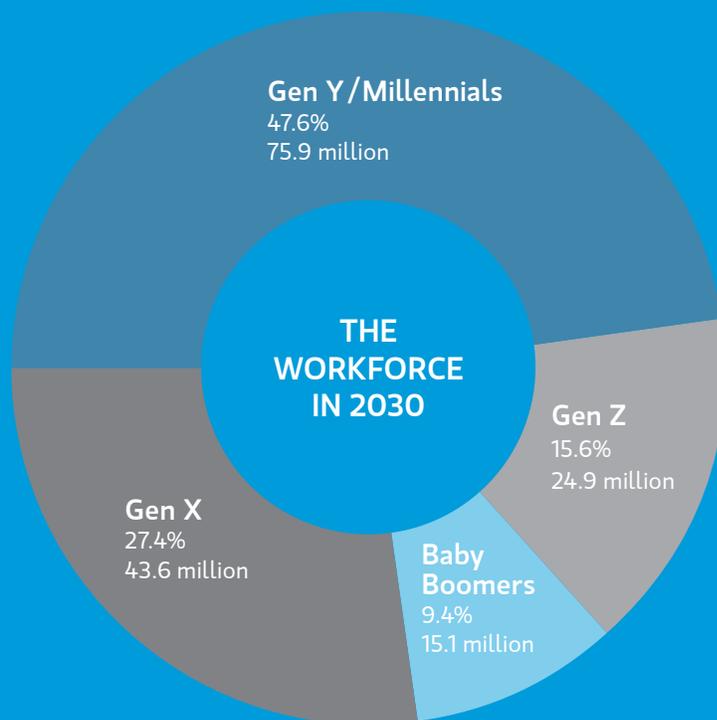




The Workforce in 2030

According to the Department of Labor, Generation Y employees (also known as “millennials”) will make up 47.6% of the U.S. workforce in 2030, followed by 27.4% for Generation X employees. It is imperative that businesses understand what is most important to these workers so they may attract and maintain a strong and formidable workforce in the years to come.

Source: Department of Labor; WSJ.com



Defining the Generations

Every generation has its own personality and priorities. Here are definitions and personal characteristics that have been collected on the various demographic groups surveyed in the research studies.

	BABY BOOMERS	GENERATION X	GENERATION Y / MILLENNIALS	GENERATION Z
Year Born	1946–1964	1965–1980	1981–1996	1997–2010
Population	76 Million	82 Million	95 Million	96 Million
Core Values	Optimism Involvement	Self-Reliance Skepticism	Community and Family Confidence and Independence	Pragmatism Mentorship
Family Life	Disintegrating; divorce	Latchkey kids; working parents	Nontraditional families; multiple family units	Nontraditional
View on Education	A birthright	A means to an end	An incredible expense	Multiple opportunities
View on Money	Buy now, pay later	Cautious	Earn to spend	Priority
View on Work and Life	Work to live	Work/family balance	Work/life balance	Work/life balance
“Work is . . .”	An adventure	A difficult challenge/contract	A means to an end; fulfillment	An opportunity

Demographic Trend #1

Participation in a company's equity plan is a significant driver of employee engagement across all generations and genders.



According to the research, employees who participate in a company's equity plan—compared to those employees who do not participate—experience higher engagement and psychological ownership. Equity plan participation is also associated with higher job satisfaction and pay satisfaction.

What is most noteworthy about these findings is that it's the employees' participation in the equity programs—rather than the amount of equity the employees own—that is the significant driver of employee engagement across all generations and genders.

Employees who participate in their firms' equity programs—compared to those who do not participate—were **significantly more positive** on each of the following employee engagement, psychological ownership, job satisfaction and pay satisfaction measures:

Engagement Measures	Psychological Ownership Measures	Job Satisfaction	Pay Satisfaction
<p>"I would be very happy to spend the rest of my career with my company"</p> <hr/> <p>"I really feel as if my company's problems are my own"</p> <hr/> <p>"I feel a strong sense of belonging to my company"</p>	<p>"This is MY organization"</p> <hr/> <p>"I have a very high degree of personal ownership"</p> <hr/> <p>"I feel as though I own the company"</p>	<p>"All in all, I am satisfied with my job"</p> <hr/> <p>"In general, I like my job"</p>	<p>"I feel I am being paid a fair amount for the work I do"</p> <hr/> <p>"I am appreciated by my company when I think about what they pay me"</p>

The Bottom Line

The analysis predicts that when employees participate in their company's equity compensation program, overall employee engagement will improve, on average, as follows:

Employee Engagement	Psychological Ownership	Job Satisfaction	Pay Satisfaction
+18%	+27%	+12%	+18%

Demographic Trend #2

Employee engagement is further enhanced when a company offers complementary programs that create an “ownership culture.”

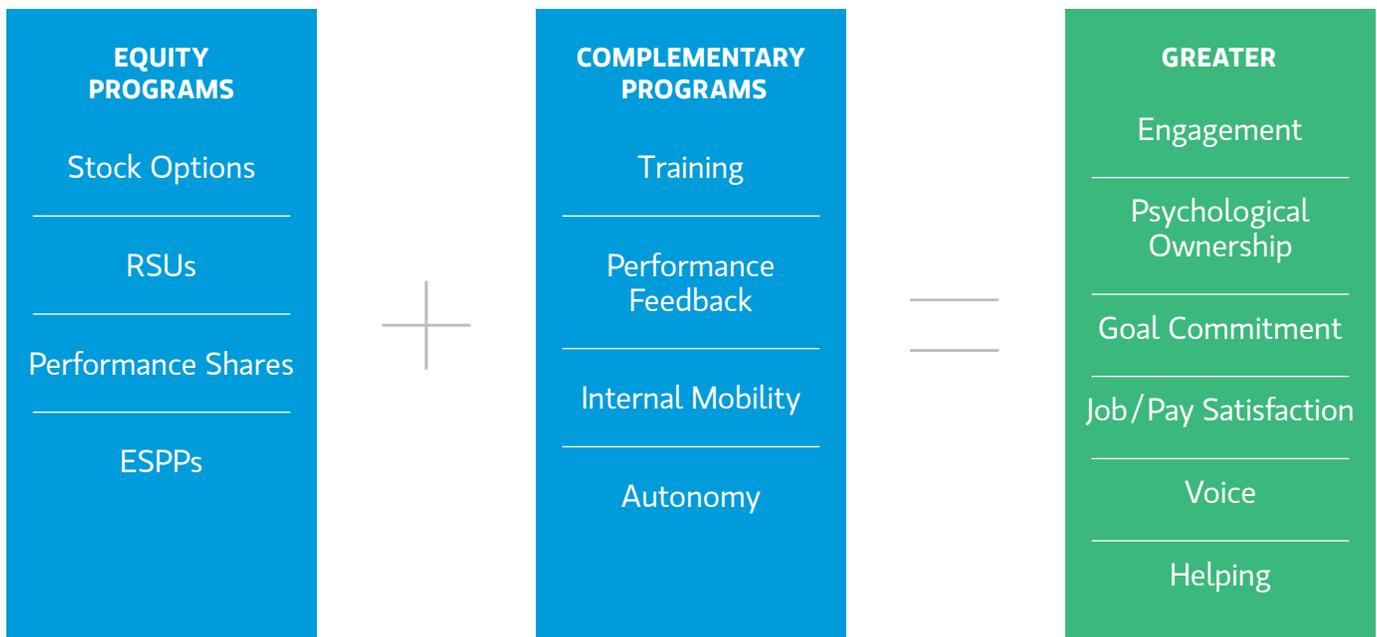


The study found that among those employers who offer equity compensation programs, some employers had even greater levels of overall employee engagement. These employers offer complementary programs that—along with providing equity programs—can create what is commonly called an “ownership culture.” These complementary programs include providing employees more training, performance feedback, internal mobility and autonomy.

Employees who participate in equity programs and whose employers also offer these additional programs had higher levels of employee engagement, psychological ownership and goal commitment. These employees also offered more suggestions

for the success of their company (“voice”) and were more likely to help co-workers in performing their jobs.

We found multiple interactive relationships among different equity programs, complementary programs and employee outcomes. The two equity programs that generated the most positive employee outcomes were stock option and Restricted Stock Unit (RSU) programs. In addition, different complementary practices had different degrees of positive effects on employee outcomes, e.g., engagement, voice and commitment, etc. Thus, the results of this study demonstrate that those employers who offer a variety of equity programs and a comprehensive offering of complementary programs have the greatest results.



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Demographic Trend #3

Millennials rank equity compensation higher in importance than Generation X and Baby Boomers.



Research found that millennials had a greater interest in and placed a higher importance on equity compensation than their older counterparts. The older the employee, the less important equity compensation is to them.

There was a **significant negative relationship between age and the importance of and preference for equity** in how employees responded to these questions:

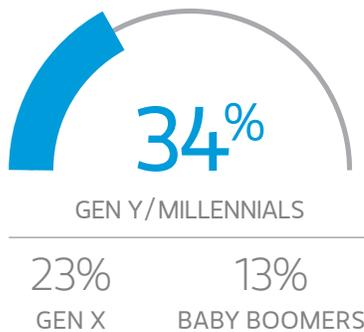
- “It is important for me to accumulate equity stakes in my company for my career success.”

- “If I can expect the same future value, I would like equity incentives rather than cash incentives.”
- “Other things being equal, I would prefer equity bonus to cash bonus.”

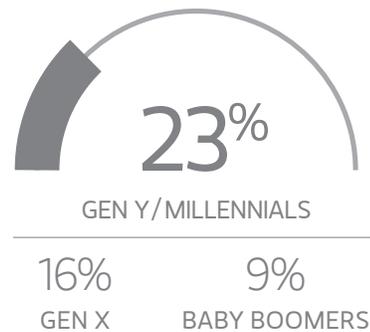
Regarding younger employees, research showed equity compensation awarded by an employer (e.g., stock options, RSUs, and performance shares) is linked to better outcomes than an Employee Stock Purchase Plan (ESPP), with stock options having the greatest positive impact, as seen in the charts below.

Average Predicted Increase in Outcome Associated With Stock Options¹

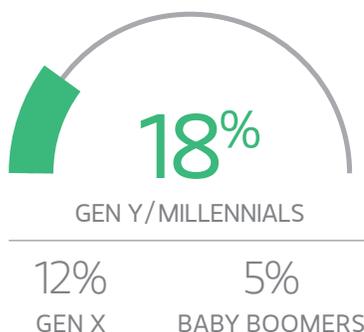
Psychological Ownership



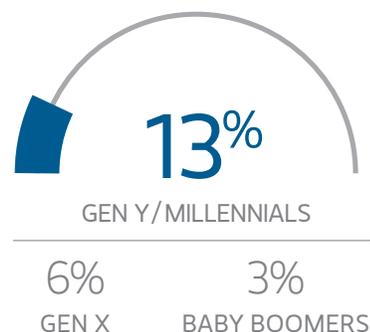
Engagement



“Voice” Behavior



Goal Commitment



¹Based on regression analysis; predicted increase from the overall population mean.

Demographic Trend #4

Generation Y employees are more likely to work at companies that offer equity plans, and value having an ownership stake in their companies.



Having a sense of ownership is important to millennials. Those who participate in a company's equity compensation program are significantly more likely to say:

"I feel as though I own the company."

"I feel a very high degree of personal ownership."

"This is MY organization."

This research also studied what millennials have in common with Baby Boomers and Generation X employees who participate in equity programs. These traits are highlighted here.

Shared Traits Across Generations

Job Satisfaction

"In general, I like my job."

Pay Satisfaction

"I feel I am being paid a fair amount for the work I do."

Commitment to Company Goals

"I take my company's performance goals seriously."

Teamwork

"I assist others with their work for the benefit of the company."

Shared Success

"My colleagues and I want one another to succeed."

Flight Risk Concerns

In addition to sharing these positive traits with older generations, this research also found some unique and challenging findings about millennial employees. These younger employees who participate in their employers' equity programs admit they are "only committed to the job duties that are specified in their job description." As a result, many of these employees should be considered a higher flight risk than older employees.

The findings indicate millennials are likely thinking about leaving their company or may be planning to look for a new job. Based on job type and income, these employees may be key talent, and they have skills that are in high demand. Thus, it's important for companies to implement programs that promote employee retention, such as job mobility and training. Equally important is the ability to promote a participatory management philosophy.

Managers play a key role in engaging and retaining employees. Managers who embrace a participatory management philosophy encourage employees to think and act like owners by sharing information, involving employees in decision-making, empowering employees and providing employees the opportunities to enhance their skills.

Higher Levels of Stress

Millennials participating in equity programs are more likely to experience higher levels of stress than nonparticipating employees. The study found millennials experience higher stress in their non-family relationships, life in general, work situation and health. They also experience financial stress, which was also a factor for nonparticipating employees.

Difference in stress is likely due to millennials holding jobs with higher levels of responsibility.

To help address stress and attrition among millennials, companies should consider adding innovative financial wellness benefits to their benefits offerings.

These findings were also highlighted in a recent survey conducted by Mind Share Partners, a nonprofit that works with companies to improve mental health resources. For the survey, 1,500 people ages 16 and older who are employed at a company with at least 11 employees answered questions online about their mental health. The survey questions included how often they experience mental health symptoms (for example, “sweating, rapid heartbeat, trembling, upset stomach, dizziness, or fainting”), how it impacts their work and whether they feel like they have adequate mental health support and resources in their workplace.

According to the findings, 60% of people have experienced symptoms of mental health issues in the past year. Further, half of millennial (defined in this survey as people 23–38 years old) and 75% of Gen-Z (18–22 years old) respondents left a job, both voluntarily and involuntarily, partially due to mental health reasons. To put that in perspective, less than 10% of baby boomers (defined as people 55–73 years old) reported they left a job for mental health-related reasons.*

Demographic Trend #5

More men tend to prefer equity in a company (versus cash) than women. Men also tend to link the offer of equity compensation to company recognition and appreciation more than women do.



The study was also interested in identifying any key differences between the way men and women perceive the value of their company's equity compensation program.

What we learned is that men generally have a greater preference for equity, a greater interest in accumulating equity and a greater perception that there was greater value in their company's equity compensation program than women.

The research also noted that the effects of RSU plans and ESPP participation were stronger for men than women, with no gender difference for stock option and performance-share programs.

These results highlight the importance of effectively educating employees about the importance of accumulating equity to help achieve their long-term savings goals. These gender differences may be the result of different levels of risk aversion. Thus, an effective financial wellness program should provide educational resources and advice to help employees manage risk.

One type of risk is the risk of not participating in equity programs. Evidence shows that successful retirement programs include significant investments in equity over the long term. A second type of risk is not having a diversified portfolio of investments for long-term savings needs. Thus, it's important for companies to provide additional diversified saving programs to complement their equity compensation programs.

* Source: <https://www.cnbc.com/2019/10/08/millennials-gen-z-have-quit-jobs-due-to-mental-health-issues-survey.html>

Conclusion

All in all, these research findings clearly demonstrate the importance for organizations to include equity share plans in their compensation and benefit programs. Results show participation in a company's equity plan is a significant driver of employee engagement across all generations and genders. There is a wide body of research linking employee engagement with organizational and financial success.

Another important research finding of this study demonstrates that employee engagement of employees who participate in equity programs is further enhanced when a company offers complementary programs that create an "ownership culture."

These findings are important for organizations interested in engaging and retaining talent in a hypercompetitive marketplace that is being transformed by disruptive technology and globalization.

This study also sheds light on how different generational groups and genders view and respond to equity compensation programs. An interesting finding was how younger employees respond to equity programs compared to older employees. The results demonstrate that millennial employees rank equity compensation higher in importance than Generation X and Baby Boomers. These younger employees are more likely to work at companies that offer equity plans, and value having an ownership stake in their companies. However, younger employees are more likely to leave their company and have higher levels of stress as compared to older employees. These findings are evidence that organizations need to supplement their equity plans with complementary programs designed to enhance engagement and retention, such as creating an ownership culture, promoting a participatory management philosophy and offering financial wellness programs.

Finally, this study sheds more light on gender interests and preferences for equity compensation programs. The results clearly show that men view equity programs more favorably than women. As noted, this may be due to differences in their comfort level of risk, which highlights the importance of creating effective financial wellness programs that provide educational resources and advice to help employees manage risk.



Millennial employees rank equity compensation higher in importance than Generation X and Baby Boomers.

About the Study

The key learnings identified in this paper are based on two recent research studies:

Rutgers University

Data comes from a survey of 1,100 U.S. workers employed full time at publicly traded companies; 730 of these employees participate in equity plans. The survey was conducted on behalf of Morgan Stanley at Work in June 2019, with strategic contributions from Morgan Stanley and Rutgers University.

All of the reported findings are based on the statistical analysis conducted by Rutgers University.

Key demographics of the study include:

Gender	45% male / 55% female
Age	Mean: 47 (22 to 73)
Generation	Baby Boomers: 36% Generation X: 35% Generation Y: 28%
Education	Some college but no degree: 22% Bachelor's degree: 46% Graduate degree: 25%
Organizational Tenure	Average: 11.75 years (1 to 46 years)

Morgan Stanley at Work

Data comes from a survey of 1,000 U.S. workers employed full time at companies with more than 500 employees. The survey was conducted on behalf of the Financial Health Network in November and December 2019 by Eight Acre Perspective and Rutgers University, with strategic contributions and financial support from Morgan Stanley.

About the Authors



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Sharing. Bill also serves as a board member of the Global Equity Organization. Bill is the former Chair of the HR Department, Associate Dean of External Engagement and Executive and Professional Education, and former Director of the Center for HR Strategy. His research, teaching and consulting activities are focused on understanding the impact of employee ownership and equity compensation strategies on individual and organizational outcomes, the strategic management of human capital, employee engagement, and the development of leaders for the challenges of the 21st century. Bill has over 40 years of experience working in corporate Fortune 50, entrepreneurial and research environments. Before joining Rutgers University, he held senior HR management positions at Merrill Lynch and Manufacturers Hanover Trust, where he was involved with human resource strategies and practices that supported both individual business groups and the global enterprise. Bill is an accomplished researcher, publishing his work in practitioner and academic journals, and is a frequent speaker at national HR and business conferences.



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human resource practices, business strategy and leadership, with a focus on their combined effects on employee and organizational outcomes. His current research areas include employee ownership and equity compensation, strategic human resource management, and workforce diversity. His work has appeared in several premier academic journals such as Academy of Management Journal, Journal of Applied Psychology, and Organization Science. He received the Emerging Scholar in Employee Participation and Ownership Award from the Academy of Management's Human Resource Division.

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