



# The Signature Group

The Signature Group, Inc. (TSG) is an employee-owned network systems firm established in 1997. TSG has distinguished itself as a leader in delivering high-quality local, enterprise, and global network infrastructure design, project management, and implementation services. It has grown to over 50 employees with a headquarters office in Vienna, Va., and satellite offices in Baltimore; Charlotte, N.C.; Boston; Ft. Lauderdale, Fla.; and Mississippi. CEO Michael Perdue attributes the company's success to its innovative employee ownership structure.

## Plan Background

Employees at TSG receive a generous benefits package of health, dental, vision, long-term disability, life insurance, vacation time, sick time, a 401(k) plan, continuing education/training programs, and a cafeteria plan. The one benefit, however, that TSG has found to be the most successful at recruiting, retaining, and motivating employees is its employee ownership plan. This plan is designed to encourage employees to act, think, and feel like owners. For these contributions, employees receive stock options. The largest stockholders in TSG are the organization's best contributors with some 6%–7% of the company's shares being earned by its employees every year through option grants.

TSG offers three types of option grants to its employees. The first and most common type is performance-based grants that tie individual performance to business development and project execution. Grants are distributed each quarter to employees based on their contributions toward achieving business plan objectives. Second, the company gives employment grants to new employees not only as a tool of recruitment, but also to provide incentive for employees to feel like owners of the company from the outset. The third type is discretionary grants for employees who don't traditionally participate in consulting or business development, such as administrative professionals and human resources employees. These employees are also eligible for performance-based grants, but because their job duties do not necessarily allow them to maximize equity distribution on business development or project execution initiatives, discretionary grants further recognize their contribution to the success of the company. Discretionary grants are also used for times when an employee goes over and above what is expected of them, and their achievements are recognized with equity awards.

## Internal Market

TSG is among the extremely small set of companies with a self-funded stock market that operates solely inside the company. A stock price is set quarterly by the board of directors and announced to all employees. The internal stock market is then open for 30 days for employees to exercise options or sell their shares. In some cases, employees are even allowed to buy shares.

When the company was first started, it was not only started as an employee owned company, but the founders purposely structured it so that no one person would have a controlling interest. When TSG's plan was originally put into place, CEO Perdue was a 39% shareholder. Today he is a 24% shareholder. As his ownership level goes down, the employees' ownership level goes up. In addition TSG has tied dilution to the achievement of the goals in its annual business plan and therefore to an increase in overall company valuation.

## Owners working toward success

According to Perdue, TSG's employee ownership culture has increased efficiency and output. TSG's senior leaders have promoted its equity program and built its culture far beyond the level they expected when they first started the company. Perdue describes the TSG work force as "a work force of owners working towards common goals and overall success. The employee ownership program has helped to align the objectives of the individual employee to that of the organization." At TSG, employees display their pride of ownership in a variety of ways, be it the employee who straightens a picture while walking down the hall, or the employees who volunteer to come in on the weekend to help their co-workers prepare proposals.

Perdue is also a strong believer in ongoing education as a way to strengthen TSG's employee ownership plan. All new employees go through an orientation that includes training on the plan. Additionally, every quarter, new employees are required to attend training sessions led by Perdue about the value of the equity plan. Existing employees may also attend but are not required to. These sessions are held to help employees fully understand the value of the plan.

Of course there are challenges, many of which relate to the younger work force or workers from overseas who are not accustomed to the stock market or equity plans. This leads some people to not take advantage of the plan. The company attacks this through its ongoing education efforts.

"Once they understand the value," says Perdue, "you see a change in certain behaviors; it's almost as if a light bulb has turned on and they focus in and drive the game for the organization." ■

The NCEO book, *The Decision-Maker's Guide to Equity Compensation* (\$35) looks at a variety of ways to create performance-based models for sharing ownership with employees.