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Your **Turn** Google's Evolving Pay Strategy

In Chapter 2, we talked about how Microsoft had changed its pay strategy to rely less on stock options, more on stock grants, and then to rely less on stock grants and more on cash as its product cycle phase changed from growth to maintenance and its stock price growth slowed. Google went public in 1994 and its stock price, already at around $100/share at that point, then rose rapidly (a great big understatement), peaking at $747 in November 2007. However, as of May 2012, Google's stock price was right around $600 (with a 52-week high of $670.25). As a result, Google is now subjected to comments such as "Google isn't the hot place to work" and has "become the safe place to work" (per Robert Greene, who recruits engineers for start-ups such as Facebook).[47] Perhaps following in the footsteps of Microsoft, Google announced recently that it was giving a 10% across the board increase in salary. Not stock options. Not stock grants. Salary.[48] The cost of the salary increase was estimated by Barclay's to be $400 million.[49]

"Analysts say Google is facing what all Silicon Valley companies struggle with when they graduate from startup status and into the realm of Big Tech."[50] With or without the 10% increase, one report says that Google is "paying computer science majors just out of college $90,000 to $105,000, as much as $20,000 more than it was paying a few months ago" and that salary "is so far above the industry average of $80,000 that start-ups cannot match Google's salaries."[51] (Actually, one might ask how many non–start-ups are likely to match such salaries.)

It is also noteworthy that Google repriced 7.64 million stock options in 2009. Of 20,200 total employees, 15,642 took advantage of the opportunity to replace their existing options, which had an average exercise price of $522, with new options having an exercise price of $308.57.[52] By one estimate, Google will spent $2 billion on stock-related compensation in 2011.[53]

QUESTIONS:

1. What is Google's pay level? How do you define and measure its pay level?
2. Does your answer to the above question depend on what point in time it is answered? For example, what was Google's pay level the day before it repriced employee stock options? What was Google's pay level the day after it repriced employee stock options?
3. Why did Google reprice its stock options and also give a 10 percent salary increase (in an era when 2 to 3 percent annual salary increase budgets are the norm)? Is it because its business strategy and/or product life cycle changed? Is it because it was concerned that employees' perceived value of compensation did not match what Google was spending?
4. Do you think Google has made the right choices in changing its compensation strategy? How much do these changes cost? How do these costs compare to Google's total costs and operating income? Are these increased compensation costs likely to be a good investment? In other words, will they pay for themselves (and more)? Explain.