

Stop before You Swap: Revisiting Solutions to Underwater Equity

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BACKGROUND

For most companies, the last several months have been a period of tremendous share price volatility and unprecedented decline in market value. The drop in the stock market has made underwater stock options a major topic of concern and conversation. It is a troubling problem for management and the board of directors when equity compensation vehicles initially granted to provide incentive and address retention and engagement issues among employees have lost their value. The problem is more acute as many companies over the past few years, often to mitigate the prospect of underwater options, have supplemented or replaced stock options with other forms of equity-based compensation which have lost most or all of their value and taken on the “underwater” label as well. (See *More Than Stock Options Are Underwater* below.)

While some advisers have been quick to suggest an option exchange — sometimes referred to as a repricing or option swap — as a solution, many complexities are worth considering before pursuing the development of an exchange program. Recent changes to regulatory requirements, coupled with the current backlash against executive pay practices, make option exchanges more difficult to effect than in the past. The current market situation can provide an opportunity to examine the strategic, financial, behavioral, and governance issues related to option exchange programs as well as the opportunity to consider a broader array of tactical and programmatic alternatives for equity compensation.

MORE THAN STOCK OPTIONS ARE UNDERWATER

The term “underwater” is most commonly used to describe a stock option that has a strike price above the current fair market value of the underlying stock. The increased use of full-value awards — restricted stock, restricted stock units (RSUs), and performance shares — over the past few years has done little to mitigate the effect of declining stock prices. All of these vehicles can be deemed to be “underwater” in situations like the following:

- Stock options were granted in 2007 with a strike price of \$35 per share, the fair market value of the stock at the time. The current stock price is \$20, creating a stock option that is underwater by \$15, requiring a 75-percent increase before the option begins to accrue value.
- RSUs were granted at the beginning of 2007, and the stock price on the date of grant was \$35. The restricted shares become fully vested in 2010. The current value of a share of stock is \$20, meaning that the stock must rise by 75 percent to achieve a value consistent with what was awarded on the date of grant. The company had emphasized in its communication of the grants the “real value” that RSUs offer compared to stock options.
- A company contingently awarded shares of stock to executives (performance shares) that are earned upon attainment of a stock price target of \$50. The value of the stock on the date of award was \$35 but the price of the stock today is \$20. The likelihood of achieving the price target and earning the shares has dropped precipitously.

In these cases the value of underlying equity awards has dropped or disappeared and the likelihood of achieving compensation levels consistent with expectations is perceived to have fallen to almost nil. But there can be other subtle negative effects of a steep price decline. In the example below, while the plan design has insulated participants from price fluctuations, it is disadvantageous for the company:

- A company granted performance shares three years ago with a performance contingency based on attaining revenue growth targets. The award values are defined in dollar terms but payments are made in shares. This company has a very different problem (assuming the revenue growth targets will be met), with the quantity of shares required to make payments rising by 250 percent as the price dropped from \$50 to \$20, significantly increasing the use of shares from the plan and inflating the company’s run rate. Shareholders may react negatively to large blocks of stock being paid for revenue performance when the share price has declined significantly.

When a company’s stock price decline is perceived to be fundamental and sustained, concern grows that the loss of value in awards will have an adverse impact on the employees holding such awards and that the company may need to take action to ensure compensation opportunity levels are consistent with its intended market position. Moreover, when a substantial price drop is partly a function of a broad market decline companies often feel compelled to fix the situation, and often the first alternative considered is an exchange program.

WHY OPTION EXCHANGES WILL BE MORE COMPLICATED THIS TIME THAN IN 2001

In the early years of this decade, when companies experienced substantial drops in equity values due to the bursting of the so-called dot-com bubble, there was a wave of option exchange activity. Many of these programs offered one-to-one exchanges in which employees (including officers and directors) had the opportunity to trade their underwater options for the same number of new at-the-money options. Since that time, the regulatory and governance environment has changed significantly, forcing companies to overcome multiple hurdles in effecting an option exchange program. Some of these hurdles may compromise the effectiveness of the program.

Accounting Rules. Under FAS 123R, an option exchange is viewed as a modification to an existing award and may result in additional accounting expense for the company. The fair value of the options being cancelled is calculated as of the cancellation date, using an acceptable valuation technique, and compared to the fair value of the replacement options. If additional fair value is being delivered through the replacement award, that value is recognized as an expense over the vesting period of the new options.

This prompts many companies to engineer an exchange program that offers a replacement award of equivalent economic value (“value-for-value” or “expense-neutral” exchange). Deeply underwater options are problematic as the calculated value may be miniscule, resulting in an exchange ratio that is perceived as unattractive or unfair. This perception discourages participation and defeats the purpose of the exchange.

It is not unusual for a company with deeply underwater options to have an exchange ratio for some tranches of options that offers only one at-the-money option for every 10 underwater options. Despite the unlikely prospect of the original option ever having any true value, employees often balk at giving up 10 of something to get one in return. Classic research in the field of behavioral economics tells us we should fully expect this behavior.¹

Shareholder Approval Requirements. U.S. companies² listed on the NYSE or NASDAQ are required to obtain shareholder approval for any material change to their equity compensation programs, including an

option exchange, unless the company’s equity compensation plan, which was previously approved by the shareholders, stipulates that the company may reprice or exchange options.³ While this rule may not apply to a program in which the company repurchases the underwater options for cash,⁴ an option-for-cash exchange will likely still be subject to scrutiny from institutional shareholders and proxy advisory firms, as discussed in the next section.

Institutional Investors and Proxy Advisory Firms. Proxy advisory firms and many institutional shareholders have taken strong positions on option exchange programs. ISS Governance Services (ISS), a division of RiskMetrics, states in its 2008 *Proxy Voting Guidelines* that it will recommend shareholders vote against equity compensation plans that allow the company to reprice or exchange options without shareholder approval. In the event that a company proceeds with an exchange without seeking shareholder approval, ISS’s guidelines state that it will recommend that shareholders vote against or withhold their vote from compensation committee members since ISS considers an option exchange without shareholder approval to be a “poor pay practice.”⁵

When a company is seeking shareholder approval on an option exchange program, ISS’s guidelines for issuing a favorable voting recommendation include consideration of the rationale for the repricing, the terms of the exchange, and the exclusion of officers and directors from the exchange program.⁶

A company considering an option exchange program must understand the proxy advisor and shareholder policies that drive its shareholder base’s voting behavior and realize that a well-designed program may not meet one or more of their stated criteria yet attract positive support from shareholders.

Tender Offer Rules. Since most option exchanges are structured as voluntary programs, they require that participants make an investment decision that triggers U.S. tender offer rules when the exchange is offered to U.S. employees. The tender offer rules require that, among other things, companies:

- Keep the offer open for at least 20 business days
- Issue a formal Offer to Exchange, including a Summary Term Sheet and information regarding the risk factors, purpose, background, material terms and conditions, eligibility, duration, interest of

¹ Daniel Kahneman and Amos Tversky, “Prospect Theory: An Analysis of Decision Under Risk,” *Econometrica* Vol. 47 No. 2

² Both the NYSE and NASDAQ rules allow foreign issuers to follow the applicable requirements of their home country.

³ NYSE, Inc. Listed Company Manual, Section 303A(8); Nasdaq Rule 4350(i)

⁴ See NASDAQ, Interpretive Manual IM-4350-5

⁵ See RiskMetrics Group_2008 US Proxy\Proxy Voting Guidelines Summary, ISS Governance Services, Dec. 12, 2007, available at http://www.riskmetrics.com/sites/default/files/2008_Policy_US_Summary_Guidelines.pdf.

⁶ ISS, US Corporate Governance Policy 2007 Updates, Nov. 5, 2006, available at http://www.riskmetrics.com/sites/default/files/2007_US_Policy_Update.pdf

directors and officers with respect to the units of transaction, tax and legal consequences, fees, and any other information necessary for the option holder to make an informed decision

- Issue a letter of transmittal, which option holders will use to tender their options

The documents listed above must be included as attachments to the Schedule TO filed with the Securities and Exchange Commission (SEC) before the offer is launched to employees. Any materials used to communicate with employees regarding the exchange must be filed as well. The SEC staff will review the submission and may provide comments, usually within one week of filing, but may require that the company submit an amended filing. After the exchange is completed and the window for participation is closed, the company will have to file an amendment to the Schedule TO that discloses the number of options that were exchanged in the tender offer.

These requirements are not difficult to satisfy but the cumulative time necessary to do so means that an option exchange program is a solution that requires several months of design and implementation during which time market conditions may change significantly. Also, when an exchange program is extended to employees outside the United States, because many countries have different securities and tax rules and sometimes lack of regulatory guidance, this can make a global option exchange program an extremely challenging and expensive undertaking.

WHY AN OPTION EXCHANGE MIGHT NOT BE THE ANSWER: STOP BEFORE YOU SWAP

While the accounting, regulatory, and governance issues are not insurmountable, option exchange programs often fail to achieve the objectives of value restoration, overhang reduction, and shareholder alignment. It's not unusual to see participation rates — the number of options offered by employees for cancellation as a percentage of options eligible for the program — of only 50 to 70 percent. This response rate leaves the company with a substantial ongoing underwater option problem for a large proportion of employees.

The unprecedented volatility in the capital markets makes this an extremely risky time to pursue such a program. Before concluding that an option exchange program is the solution to the equity compensation problem, a number of factors should be considered.

Strategy

- The broad market decline may presage a clearing out of companies with flawed business models, excessive risk, and/or flawed strategy. If management is deemed largely responsible for recent losses, perhaps they should be excluded from any option

exchange program that is considered. Additionally, some major management changes may be part of the rationale for the action that is taken in response to the underwater options.

- If the broad market decline exposes a fundamental shift in the valuation of a company's prospects rather than a shift because of a sector or economic cycle that will right itself, there may be a need to re-evaluate equity compensation strategy. Option exchange programs essentially refresh and extend an equity compensation strategy that may no longer fit the company's characteristics.
- If the company has evolved into a stage in its lifecycle — say a shift from a growth company to a mature, low-growth firm — it may not be focused on increasing the share price beyond organic increases. A shift from investing retained earnings into growing the company to paying regular dividends to shareholders may indicate that options don't properly align employee interests with shareholders and may have a demotivating effect on the option holders since the options will consistently deliver little or no value. This requires a fundamental redirection of the value-creation incentives in the compensation structure.

Finance

- High levels of volatility, if sustained, will influence the valuation of options. This will result in less favorable exchange ratios, potentially reduced compensation value relative to accounting expense, and diminished effectiveness from both employer and employee perspectives.
- An effective exchange program may be one that delivers incremental value resulting in additional accounting expense. Positioning the exchange program as an accelerated portion of the following year's annual equity grant may actually be, in aggregate, expense-neutral and improve the effectiveness of the program. Alternatively, if a company has cash, it might consider using an option-for-cash exchange (possibly with vesting conditions) since cash may deliver more psychological value in a down market than equity. This analysis should weigh the cost of cash against the cost of equity capital and the effect of dilution on shareholders.
- As many companies learned when shifting from options to full-value awards, such as RSUs, the financial implications extend beyond FAS 123R expense. Cash flow considerations may be more important than accounting expense.
- Companies vary widely in the cost and value of equity and cash. The relative cost and availability of these forms of capital constitute an important constraint and the variation, even among companies in narrowly-defined peer groups, is significant.

Behavior

- Because option exchanges must be voluntary to comply with tender-offer rules, they require employees to make a choice: should they hold their underwater options until expiration in the hope that the stock price will rebound or should they trade them in for fewer options in the hope that over time the new options will be worth more than the underwater ones might have been worth. Giving employees this choice may empower them in the moment, but, in the long run, there will be winners and losers because not everyone will make the right choice.
- While the company can exclude certain employees from the program, the same choice must be offered to all eligible U.S. participants, which limits the company's ability to use its underwater option problem as an opportunity to correct past individual allocation decisions. This no-differentiation approach exposes the company to the risk of losing its valuable performers to competitors offering new-hire grants that exceed any option-exchange value. During a time of economic instability, a company may instead choose to use targeted individual awards to compensate the key contributors for their option losses and to retain them through the downturn. This will also provide "writing on the wall" for employees who don't receive individual awards.

Governance

- The timing of an option exchange program or other action to restore value to equity compensation is a difficult decision given the continuing market volatility. If the offer period closes during a temporary run-up in share price, the new exercise price may be substantially higher than can be supported in that environment, effectively creating yet another underwater problem. If the underlying share price goes into another freefall after the exchange occurs, the company will have done a high-profile restructuring of its equity compensation to little or no avail. On the flip side, if the program closes when the stock is at or near rock bottom, the company needs to consider representations it may have previously made to shareholders through disclosures and other communications regarding the company's position on "market-timed" awards.
- Merely complying with SEC rules and proxy advisory firms' guidelines does not ensure good governance. In fact, emerging research indicates that proxy advisory firms' guidelines do not necessarily correlate with shareholder value creation.⁷ The goal should be a strategy-based action that has the support of

shareholders. Even in situations where a shareholder vote is not expressly required, it is recommended for several reasons. Shareholders took a heavy loss when the company's stock dropped, and they likely hold management and the individuals holding the underwater options to be at least partially responsible for the drop off in their equity value. In addition, conducting an option exchange can send the message to the market that management and the board have little or no confidence that the stock price will rebound to the level it was when the options were granted. This could potentially drive the stock price even lower or keep it low for longer than it would have stayed otherwise. Considering who the major shareholders and their advisors are, as well as the company's governance track record, will guide whether a proposed action will be viewed favorably.

IF AN OPTION EXCHANGE IS RIGHT FOR YOUR COMPANY

In light of the considerations discussed thus far, a company may, nevertheless, conclude that a traditional option exchange is still the best way to address its underwater options. If that is the case, the details need to be assessed relatively quickly if a shareholder vote will be required so that it can be included in the 2009 proxy statement. Some companies may need to call a special shareholders meeting to secure their approval of the option exchange. This will increase the cost of the program.

The key considerations in constructing an exchange include the following:

- **What is the rationale for the exchange?** What objective is the company trying to address through an exchange and what problems are being resolved? What are the principles that the company should adhere to in constructing a solution for this "broken" program? Companies need to consider short- and long-term interests of employees and shareholders: if employees continue to be disengaged and retention continues to be an issue in the near term, then shareholders will suffer in the long term as the company's performance continues to tumble. Offering an option exchange structured to motivate and retain employees may come at a cost to shareholders in the near term, but will presumably improve the company's performance in the longer term.
- **Who should participate in the exchange?** Should all employees holding underwater options be eligible to participate in the exchange? As discussed earlier, shareholder rights organizations

⁷ Robert Daines, Ian Gow, David Larcker, "Rating the Ratings: How Good Are Commercial Governance Ratings?" Arthur and Toni Rembe Rock Center for Corporate Governance working paper. June 30, 2008

and some institutional investors may insist that they will only vote for an option exchange that excludes the senior management. There are situations, however, where considering the inclusion of senior management may make some sense. For example, if the company has restructured its management team, eliminating prior leadership and elevating new leadership from the ranks, it may make sense to consider them for an option exchange particularly if there are additional reasons for the exchange, such as the reduction of overhang.

▪ **Which options should be considered for an exchange?**

A company could consider including all underwater options in the program, irrespective of how deeply out of the money they are, as an across-the-board attempt to wipe the underwater equity off the balance sheet, and improve overhang. Alternatively, a company could impose a cut-off and restrict the program to only deeply underwater grants, or only to grants that are close to expiration and are, thus, least likely to come back and deliver value to employees.

▪ **What should be the provisions of the replacement options?**

Exchange ratio, vesting period, term to expiration, strike price, blackout periods, and other details will have a significant impact on both the cost and the success of the program. Should the time to expiration and vesting period mirror the original option grant or should they be modified? Adjustments to term and vesting can be used to offset the exchange ratio if the company is striving for an expense-neutral program.

▪ **How should the exchange be administered?** The administration of the exchange must be carefully planned. Steps such as educating employees on the choices they have, defining the offer period for tendering options, implementing tracking systems, and communicating throughout the offer period will ensure that the exchange occurs flawlessly.

Of course, timing can be everything. One company completed an exchange program in September, only to see its stock price drop another 10 points in October. The company is now in the unenviable situation of having “fixed” its underwater option plan with new options that are underwater by nearly 50 percent of the new strike price.

THREE OPTION EXCHANGE APPROACHES TO CONSIDER

Three exchange methods are possible and the variation in available program features and provisions provide for even greater flexibility to address a company’s unique situation.

Option-for-Option Exchanges

An option-for-option exchange is the most commonly used option exchange approach. If offering a one-for-one exchange, this may be referred to as an “option repricing.” The objective of this type of exchange is to replace deeply out-of-the-money options with options that are at or near-the-money; i.e., stock options with strike prices near the current fair market value of underlying stock.

The company determines the underwater options for which an exchange is appropriate then selects the strategy that it wants to use for the replacement offer. The offer must balance shareholder interests and be sufficiently attractive to employees. The most common type of option-to-option exchange is a value-for-value exchange, where the underwater options are exchanged for options with the same aggregate fair value as the underwater options surrendered. This almost always results in fewer outstanding options but with a greater chance of seeing a price of the underlying stock greater than the strike price of the new stock option.

This approach is likely to be the first choice when the problem is an uncomplicated one of underwater options. Companies do consider alternatives where additional expense is incurred as a result of an exchange. If a company is targeting an accounting-neutral exchange, the exchange ratio may not be a sufficiently attractive offer for employees. An unattractive offer could lead to low participation that would leave the company with the same engagement and retention problems it had before it offered the exchange program.

Options-for-Stock Exchanges

Use of stock or, more commonly, stock units, typically with a time-based vesting restriction, is becoming a more prevalent type of option exchange. This exchange of stock options for restricted stock units (RSUs) may be, on the surface, less palatable to shareholders than an option-for-option exchange because the recipients will be getting *potential* value even if there is no change or a drop in the price of the stock. Shareholders looking to recover their losses, while employees are receiving realizable value without any price improvement, may not be supported. Nevertheless, there are circumstances when this approach may be appropriate. For example, if it is apparent that the massively diminished reward opportunities are causing a severe retention problem, or if lack of employee

engagement is causing a material further weakness in performance, the interests of shareholders may be further damaged by this situation than they would be by an option-for-stock exchange.

An important tax consequence of using RSUs to replace options is that options leave the employee in control of when he/she will trigger the taxable event since stock options trigger a tax event when the employee exercises the options (for nonqualified options) and/or when the shares are sold (with Incentive Stock Options). Because restricted stock or RSU awards are taxable when they vest and the shares are issued, the employee loses control of the timing of a taxable event.

Options-for-Cash Exchanges

An exchange of stock options for cash is the least common exchange approach. While it has been done many times, the market implications of this approach need to be carefully considered. Fundamentally, this could be interpreted as a lack of confidence in the stock and a fundamental shift in the alignment of employee compensation with shareholder interests. Furthermore, if it is a true option-for-cash exchange, the recipients are benefiting immediately while shareholders must wait to recoup some of their losses. An advantage for the company is that under NASDAQ and NYSE rules, this type of exchange may not require shareholder approval. That advantage is eroded, however, by proxy advisory services typically recommending that shareholders withhold their votes from compensation committee members if shareholder approval is not sought. An option-for-cash exchange will have the greatest positive impact on the company's overhang since it does not require issuance of new options or shares to replace the underwater awards assuming the exchanged options are not returned to the plan.

IF AN OPTION EXCHANGE IS NOT RIGHT FOR YOUR COMPANY, EXPANDING THE SOLUTION SET FOR REPAIRING BROKEN EQUITY PARTICIPATION PLANS MIGHT BE

If a traditional option exchange is not the right program for addressing a company's particular strategic, financial, governance, and behavioral needs, there are numerous alternative solutions to underwater options that can be considered. Any discussion of creative approaches to underwater options inevitably references some of the high-profile innovative alternatives, especially since these occurred in companies where equity compensation plays a central role in the pay program. (See the discussion of the Microsoft and Google programs on page seven for two examples.)

Some alternatives are variations on the standard option swap while others are actions that can meet the objectives of shareholders, the company, and employees without the cost and complexity of an option exchange. These include:

- **Premium-priced exchanges.** Granting replacement options at a price above the current share price — essentially granting new underwater options in exchange for old underwater options — may seem senseless. But, in light of the extreme losses experienced by shareholders, an offer to “split the difference” may enhance shareholder acceptance. When the previous \$35 shares are at \$10, there may be the perception of a market-timed giveaway to employees and an assumption that some recovery of price is built in. Allowing employees to trade \$30 options for \$15 options when the stock is trading at \$10 may appease shareholders and provide for more attractive exchange ratios due to the lower calculated fair value of a premium-priced option.
- **Partial exchanges.** Most option exchange programs differentiate eligibility of options and exchange rates based only on strike price and often require an all-or-nothing exchange for eligible options. These provisions are neither required nor are they necessarily desirable. Unless overhang reduction is the paramount objective, it may make more sense to pick and choose option tranches that will deliver the best solution with the least complexity and lessen the cost and communication challenges.
- **Extending the term of existing options.** For companies with one or more compensation programs that provide retention power and/or are most concerned with restoring the potential for total compensation in the longer term, a modification to extend option terms is a simple solution. Particularly after many companies shortened option terms to reduce the calculated cost of options, a return to a longer-term focus may be appropriate.
- **Converting the next annual focal grant into an earlier retention grant.** Though many companies have locked themselves into an annual option grant date or window through such a disclosure in their proxy statement, some will make an earlier “retention grant” to take advantage of the current low share price. This poses the risk of being accused of market timing and brings back memories of terms like “spring-loading” in the option backdating discussion. But we can expect some companies to do so and grant lower-expense options with a higher upside that ultimately does have a benefit to shareholders. A balanced approach would ensure these grants have more restrictive vesting schedules to avoid the potential for short-term windfalls.

THE MICROSOFT AND GOOGLE PROGRAMS

In 2003, Microsoft stopped granting stock options and began using restricted stock units as its primary form of equity compensation. In conjunction with this shift, Microsoft offered employees a one-time opportunity to tender all of their outstanding underwater options for cash. The cash payments were made in installments and were contingent on continued employment. The involvement of a third-party purchaser of options addressed shareholder and market perceptions that there is no confidence in the company stock and allowed employees to liquidate their options with no cash outlay by the company. This exchange took place before the effective date of Code Sec. 409A; offering a similar program in today's regulatory environment would be significantly more complicated because of the new deferred compensation rules.

In 2007, Google extended this concept by initiating an ongoing program that allows employees to sell vested options through a competitive bidding process administered through a third party. This auction process provides a secondary market for Google's employee stock options based on what certain investors are willing to pay for those options. The value that investors are willing to pay is a combination of the intrinsic value of the option (the spread) and the value associated with the time remaining before the option expires. If the option is underwater,

there still is value attributable to the time remaining until expiration, and an employee may sell the option based on that value.

A program like Google's requires that the equity incentive plan allow for transferable options, which few plans do, and amending a plan to allow for transferable options would likely require shareholder approval. Additionally, it should be noted that Incentive Stock Options (ISOs) become nonqualified stock options when they are transferred, so tax-favorable ISO status would be forfeited for options sold through the bidding process. Obviously, this approach will not do anything to fix existing underwater options, but it will provide protection for future option grants.

These details highlight the extreme technical complexity of these programs. Companies interested in exploring the applicability of these programs typically find that the solutions were specifically tailored to the situations of Microsoft and Google and have limited or no application to their situation. Scale, cash position, market opportunity, appetite for complexity, and company culture often dictate the solution more than accounting and regulatory constraints.

- **Integrating the annual focal grant and option exchange.** Rather than constraining the effectiveness of an exchange program with an expense-neutral model and then later making an annual focal grant, a company may combine the cost of the two, position the exchange as the single action for the next year, increase participation rates, and be expense-neutral over the course of the year. The disadvantage of this approach is the inability to differentiate on performance, potential, and/or retention factors.
- **Making stub grants.** If a company's share price tumble is considered a short-term problem, why not use a short-term solution? A grant of new options (or RSUs) with, for example, a two-year cliff vesting date and a three-year term (for the options) — sometimes called a "stub grant" — may provide just the necessary retention solution to buy some time until the share price recovers and existing options begin to come back in the money. These options will have a much lower accounting expense, a self-limiting upside, and built-in windfall protection.

These alternatives are just some of the numerous creative solutions that a company should consider before embarking on a costly and complex option exchange program that may yield suboptimal results and constrain later actions because of shareholder reaction. A solution needs to balance the regulatory, tax and accounting rules with strategic and behavioral considerations, all with attention to the current corporate governance environment.

CONCLUSION

The events of late 2008 have forced many companies to search for solutions for their underwater options. In conjunction with solving underwater options problems, companies can take the current market turmoil as an opportunity to return to fundamentals around all aspects of their compensation strategy — including financial, strategic, governance, and behavioral aspects — to ensure that compensation structures serve as effective implementations of corporate strategy that can help lift companies out of the downturn they are currently experiencing.