

Tips for Developing an Equity Usage Strategy That Will Win Over Investors and Engage Employees

Companies have the opportunity to improve on implementing human capital practices into their organizational structure and processes. One place to start is by creating a thoughtful equity plan usage strategy.

Human capital management (HCM) practices within organizations, including workforce planning, performance management and compliance management, is increasingly widespread since the coronavirus (COVID-19) pandemic. This movement indicates serious effort and interest to improve the alignment of employee values with those of shareholders and other stakeholders. One particular HCM practice — equity compensation — is a top priority for companies due to not only the impact of economic uncertainty and stock market volatility on equity use, but also the oversight by proxy advisory firms and institutional investors regarding equity plans and usage. These influential factors should alert employers to routinely evaluate share pool usage and future forecasts in order to avoid the perils of a depleted equity plan reserve. Companies need a clear and assessable equity usage strategy that investors can easily evaluate and aligns employee interests with all stakeholders.

Despite great scrutiny from investors and advisors on share request metrics, shareholder support for equity plan proposals remains high at 89.5 percent in 2021 with less than 1 percent of proposals failing to achieve majority support, [according to ISS](#). ISS and Glass Lewis issued adverse recommendations for these proposals at 29 percent and 24 percent of companies, respectively, and some equity-driven industries received even larger negative vote recommendations from both proxy advisory firms. Nevertheless investors are known to look beyond the default share request metrics if companies can demonstrate clear mitigating circumstances and strategies for how they use equity.

Developing a Comprehensive Equity Usage Strategy

Increased external scrutiny of equity compensation will likely continue to complicate the share authorization process. Companies who seek shareholder approval of new or amended stock plans face the challenge of balancing business and HCM needs against the governance demands of proxy advisory firms, institutional investors, activist investors and other stakeholders.

Here are some tips to maximize voting outcomes while preserving company and board flexibility in delivering equity compensation as part of a broader HCM philosophy:

- **Look Inward Before Looking Outward:** Take stock of what you need as a company and how equity can be used as an effective lever in your broader HCM strategy. Understand what you truly need to fully

maximize equity usage for your talent attraction, retention and development needs regardless of proxy advisory firm policies since most share plans are approved by shareholders. Think about critical factors such as having a market competitive equity usage profile and understanding how to use flexible alternatives like the listing exchange inducement plan exceptions before analyzing proxy advisor models.

- **Understand Proxy Advisor & Investor Policy Impact:** Model out ISS and Glass Lewis compliant share request sizes and designs and then determine the influence of both proxy advisory firms across your investor base. It is far more important to understand the implications of ISS and Glass Lewis policies as it relates to your specific situation than the need to obtain support from one or both proxy advisory firms. The capacity to understand proxy advisor influence and specific top investor policy application prior to an annual shareholder meeting will make the preparation of engagement efforts and proxy disclosure valuable to an equity compensation plan proposal.
- **Execute a Thoughtful Strategy:** Don't simply check the box with your share request proposal. Instead carefully draft the share request plan proposal to potentially serve as talking points for discussions with investors and other stakeholders. Present a compelling need for the shares and don't use a generic template without incorporating company context into the disclosure. Clear disclosure of the company's broader HCM and employee compensation approach and any specific mitigating context on equity usage or best practices will help shareholders visualize the plan and compensation philosophy from a company or industry perspective.

To learn more about how we can help manage omnibus equity plan pool increases and determine go-forward strategies for advancing HCM practices within an organization, please reach out to humancapital@aon.com.

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