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Pay Transparency: Spotlight on Granting Equity

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PRINCIPAL

Not too long ago, one element of pay was rarely discussed among employees: equity compensation. Today, however, equity is a commonly known piece of the compensation pie, and everyone seems to want a bite of it—regardless of whether they work for a public or private company. With the topic now front and center, everywhere from LinkedIn to TikTok, companies need to be prepared to address how they use—or don't use—equity as part of the total compensation strategy.

Historically, equity has been treated as highly exclusive, granted only to those in the most senior ranks of an organization with the most influence on and accountability for driving financial results. Things have changed. As companies continue to manage through the Great Resignation and fight to attract and retain talent at all levels, the last 18 months have indicated that equity compensation has become a broader and more powerful tool for compensation committees and management teams. Based on our most recent Quick Poll Survey, in 2021 and through the first quarter of 2022, almost 30% of the companies surveyed went deeper into their organizations with equity grants than ever before, the assumption being that this change is mostly driven by a fierce competition for talent.

Additionally, some public companies changed (or are planning to change) their equity vehicle mix among different employee stakeholder groups to support their objectives, including using more time-based restricted stock for retention purposes. Private companies, while generally granting less equity as compared to public companies, are also granting equity on a broader basis too, including profit interests, phantom stock, and IPO awards, making commitments to share in the earnings and future growth of the company with participants.

What we don't know yet is whether changing equity practices is a one-time, reactionary event or if the trend will continue. It's possible that if the labor market starts to soften and the economy slows, equity practices could revert to prior practices. Regardless, the genie is out of the bottle to some degree. With equity being granted to more people across the workforce, combined with more generations in the workplace being fully open about how (and how much!) they get paid, equity awards may be emerging as a standard expectation, even though their use will never be as straightforward as cash compensation and other benefits. This perfect storm is making already-difficult conversations about pay ever more challenging and is forcing greater transparency.

So, what should companies be talking about with respect to equity compensation?

Staying silent or discussing equity on a case-by-case basis is not the answer. From a communication perspective, it's all about managing expectations across the current and potential workforce and providing education. Specifically, companies can do three key things:

- Clearly articulate how equity compensation fits into the overall compensation philosophy—not just the executive compensation philosophy.

- Provide education materials (e.g., "Equity 101") to HR teams, people managers, and new hires that explain the mix of equity being used, the purpose of the mix, and how each equity vehicle works (illustrative examples can be helpful, too).
- Reinforce with managers the key equity compensation messages they should be championing with all of their direct reports, including those who may not be eligible for equity awards.

About the Author

Sharon Podstupka is a principal at Pearl Meyer. She is a trusted advisor to boards and executive management teams in the areas of executive and broad-based employee compensation communication and change management. With over 25 years of consulting experience, she is one of the original pioneers of executive compensation disclosure best practices and has proven success in creating effective strategies and delivering content in challenging business environments and under intense scrutiny from investors and proxy advisory firms. Sharon has extensive experience in a broad range of industries, including financial services, manufacturing, oil and energy, retail, biopharma/biotech, and healthcare.

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