Unlocking Growth: How Equity Incentive Plans Drive Success in Growing Corporations

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Equity incentive plans have grown in popularity in recent years as they provide a fantastic mechanism for motivating employees, retaining talent and aligning the interests of the workforce and Shareholders. While these plans are particularly beneficial for global corporations with a dispersed workforce, they are equally effective for larger companies seeking to incentivise employees and drive long-term success.

This guide provides an overview of equity incentive planning, exploring how such plans can be structured and managed to meet the needs of large businesses, regardless of their geographical scope.

Understanding Equity Incentive Plans

Equity incentive plans are designed to offer employees shares or share options as part of their compensation package. Early plans were used by publicly listed companies to reward executives through Long-Term Incentive Plans (LTIPs).

In more recent times, the data shows that the scope of such incentive schemes has expanded not only to unlisted companies but are also increasingly established for the benefit of the wider workforce. Equity incentive plans are now widely adopted by private companies across various industries.

The core objective of equity incentive plans is to attract and retain talent while incentivising behaviours that contribute to the sustainable growth of the business. By granting employees a stake in the company, these plans foster a sense of ownership,

aligning employee actions with the long-term goals of the organisation.

Key Benefits of Equity Incentive Plans

Alignment of Interests

Offering equity ensures that employees' interests are closely aligned with those of shareholders, encouraging decisions and actions that enhance the company's value and long-term profitability.

Talent Acquisition & Retention

Equity-based compensation is a compelling component of a competitive remuneration package, helping companies to attract high-calibre professionals. Conversely, not providing equity incentives can make securing the best team more difficult and place a premium on other elements of the remuneration package. Employees with a vested interest in the company's success are also more likely to stay, supporting succession planning and business continuity. Therefore, equity incentives can form an important part of the businesses long-term strategy.

Culture & Values

Equity incentives can be strategically used to shape corporate culture by promoting behaviours that align with the company's values and long-term objectives, such as innovation, collaboration, sustainability and risk tolerances. In this way, the business can ensure that only behaviour and actions aligned with the agreed strategy are rewarded accordingly.

Structuring Equity Incentive Plans

To facilitate equity incentives, companies can choose from a variety of structures. Two common structures utilised to manage the transference and administration of equity are Employee Benefit Trusts (EBTs) or Employee Ownership Trusts (EOTs).

EOTs are a unique type of EBT and a method of transferring more than 50% of the company's ownership to all eligible employees. This vehicle has a more niche appeal and as such, we will not cover EOTs here – although we have produced a

comprehensive article on EOTs for your review if you would like to learn more.

Other types of EBT can also have complex rules but allow for more flexibility than EOTs. For example, in terms of the amount and types of shares made available. Therefore, EBTs have a more universal appeal when it comes to establishing an equity incentive plan.

The Role of Employee Benefit Trusts (EBTs)

An Employee Benefit Trust (EBT) is established by a company to manage and provide various benefits to its employees. These benefits can include share options or awards, but also bonuses, pensions, and other incentives aimed at improving employee welfare and aligning their interests with those of the company. For our purposes, we will purely focus on EBTs used for equity incentive arrangements.

EBTs are particularly advantageous for companies that want to offer equity incentives across various employee levels, from executives to the wider workforce.

EBTs are typically structured through Discretionary Trusts, which allow companies to customise the allocation of benefits, ensuring they align with the broader strategic goals of the business. The Trustees hold the shares on behalf of the Beneficiaries, managing the joiners and leavers buying and selling their interests. The rules governing the equity incentive plan are typically outlined in a combination of the Trust Deed and various agreements and/or policies, e.g. employment contracts, share agreements, or specific equity incentive plan rules.

EBTs can also hold and manage (or 'warehouse') unallocated shares, which can be used to support future vesting events, such as restructuring efforts, or preparations for a public listing.

Choosing the Right Trustee for Your EBT

When setting up an EBT, companies must decide whether to appoint Lay Trustees—who are typically internal stakeholders such as directors or employees—or Professional Trustees, who are external Trust management experts.

Lay Trustees

Internal Trustees can bring valuable insights into the company's operations but may face challenges such as conflicts of interest and a lack of Trust governance expertise. Balancing their primary responsibilities with their Trustee duties can also lead to inefficiencies.

Professional Trustees

Professional Trustees offer independence, objectivity, and specialised knowledge in Trust governance and regulatory compliance. By focusing exclusively on Trust management, they eliminate potential conflicts of interest and ensure that the EBT is administered in the best interest of the Beneficiaries.

Why Choose an Isle of Man Professional Trustee?

The Isle of Man is a globally recognised financial centre, known for its robust regulatory environment and stability. This makes it an ideal jurisdiction for managing complex Trust arrangements like EBTs. Trustees must be licensed under the Isle of Man Financial Services Authority and adhere to high standards, ensuring that your EBT is managed with the utmost professionalism and compliance.

How Dixcart Can Support Your Equity Incentive Plan

With over 35 years of experience in managing complex Trust arrangements and employee share ownership structures, Dixcart is well-positioned to assist growing companies in implementing effective equity incentive plans. Our team in the Isle of Man offers tailored Trustee services that align with your business's long-term objectives, enhancing your incentive strategies and supporting their success.

Get in Touch

For more information on how Dixcart's Professional Trustee services can enhance your equity incentive planning, please contact Paul Harvey at Dixcart: advice.iom@dixcart.com.

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