Incentive Pay Practices: Privately Held Companies

research

A Report by WorldatWork
and Vivient Consulting
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VIVIENT CONSULTING

WorldatWork
The Total Rewards Association

About WorldatWork® – The Total Rewards Association

WorldatWork (www.worldatwork.org) is a nonprofit human resources association for professionals and organizations focused on compensation, benefits, work-life effectiveness and total rewards – strategies to attract, motivate and retain an engaged and productive workforce. WorldatWork and its affiliates provide comprehensive education, certification, research, advocacy and community, enhancing careers of professionals and, ultimately, achieving better results for the organizations they serve. WorldatWork has more than 65,000 members and subscribers worldwide; 80 percent of Fortune 500 companies employ a WorldatWork member. Founded in 1955, WorldatWork is affiliated with more than 70 local human resources associations and has offices in Scottsdale, Ariz., and Washington, D.C.

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About Vivient Consulting

Since 2002, Vivient Consulting has provided independent compensation expertise to board compensation committees, chief executive officers and human resource professionals. Vivient works with public and private companies, and non-profit organizations. Clients represent many different industries, sizes and stages of growth. The firm's partners deliver high-quality solutions in the areas of compensation strategy, executive and board pay, incentive-compensation plan design and communications.

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METHODOLOGY

In November 2015, Vivient Consulting and WorldatWork invited a sample of WorldatWork's nonpublicly traded members to answer an online survey about their incentive pay practices.

Approximately 200 private for-profit companies responded to the survey, as did more than 125 nonprofit and government organizations. Because of the large response from nonprofits and government organizations, results for those organizations are reported separately.

Industries represented among private-company survey respondents vary widely. The industries with the largest number of respondents include manufacturing; consulting, professional, scientific and technical services; finance and insurance; information, including media, publishing and software; and retail trade. A number of other industries also are represented, but with fewer respondents.

Three-quarters of the responding private for-profit companies reported $100 million to nearly $5 billion in revenue, so the size range is large. Nearly a third of the respondents are family-owned companies, according to a new demographic question this year.

This report provides a high-level summary of the survey results. For detailed results, including the sample size by question, please see the Detailed Survey Results section beginning on page 12.

OVERVIEW

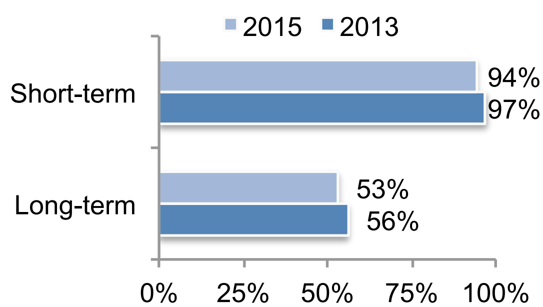
Cash continues to dominate the incentive pay landscape at private for-profit companies in the United States, according to the most recent release of the Vivient Consulting and WorldatWork survey of private-company incentive compensation plans.

The survey — which is unique in its focus on private companies — is now in its fourth iteration, with prior surveys conducted in 2007, 2011 and 2013. The 2015 results are very consistent with prior-year results, with some long-term trends emerging and some themes unique to this iteration.

Between 2013 and 2015, short- and long-term incentive usage remained steady at private companies. Short-term incentive (STI) usage decreased slightly to 94% from 97%, while long-term incentive (LTI) usage also decreased slightly, to 53% from 56%. (This continues a downward trend from a 2011 high of 61% prevalence of LTI plans at private companies.)

Graph 1

Short- and Long-Term Incentive Prevalence



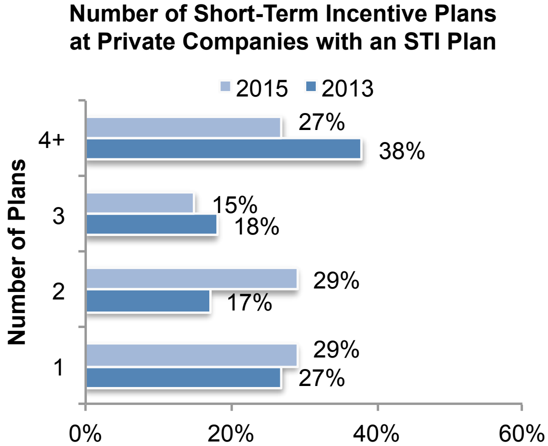
Several interesting themes emerged in the survey:

- The majority of respondents consider their annual incentive plans to be only moderately effective, with plan communication, the level of discretion and the risk-reward trade-off noted as areas for improvement.
- The spending on STIs has held constant at 5% of operating profit at median. However, the 75th percentile increased to 12% for 2015 and a planned 14% for 2016, up from 11%. This indicates that some companies are augmenting their STI budgets to compete for talent. In addition, family-owned companies spend 7% at median on STIs to help attract talent.
- Private companies continue to focus on profitability over revenue growth as performance measures in cash-based short- and long-term incentive plans.
- The prevalence of stock option usage increased at private companies in the past two years, indicating that the improved economy may have prompted companies to prepare for a value-realizing event, such as a sale or public offering, by providing real equity to their executives.

SHORT-TERM INCENTIVES

Private companies reported a drop in the number of different STI plans in place. In 2013, 38% of companies reported having four or more STI plans in place, a sharp increase over prior years. For 2015, the number of STI plans returned to prior levels, with nearly three-quarters of participants reporting three or fewer plans.

Graph 2



For 2015, the survey asked participants whether they had any of the following six types of STI plans:

- **Annual incentive plan:** A pay plan designed to reward the accomplishment of specific results. Rewards usually are tied to expected results identified at the beginning of the performance cycle. In contrast to bonuses, they are not primarily discretionary but may have a discretionary component.

- **Discretionary bonus plan:** A plan in which management determines the size of the bonus pool and the amounts to be allocated to specific individuals after a performance period. These plans have no predetermined formula or promises, and are not guaranteed.

- **Spot awards:** Awards that recognize special contributions, as they occur, for a specific project or task. The project or task is usually accomplished over a short time period.

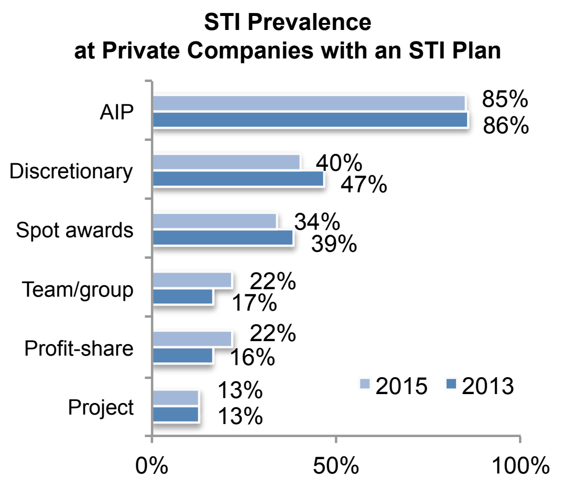
- **Profit-sharing plan:** A plan providing for employee participation in an organization's profits. The plan normally includes a predetermined and defined formula for allocating profit shares among participants, and for distributing funds accumulated under the plan. However, some plans are discretionary.

- **Team/small-group incentives:** Any incentive program that focuses on the performance of a small group, usually a work team. These incentive programs are often used when measurable output is the result of group effort and individual contributions are difficult to separate from group effort.

- **Project bonus:** A form of additional compensation paid to an employee or department as a reward for successfully completing a specific project within a certain timeframe.

By far, the most common type of STI plan is an annual incentive plan (AIP), and the prevalence has remained steady at 85% for 2015. The use of discretionary bonuses and spot awards decreased in 2015, while team/small-group incentives and profit-sharing plans increased. Project bonus usage has continued to be very limited.

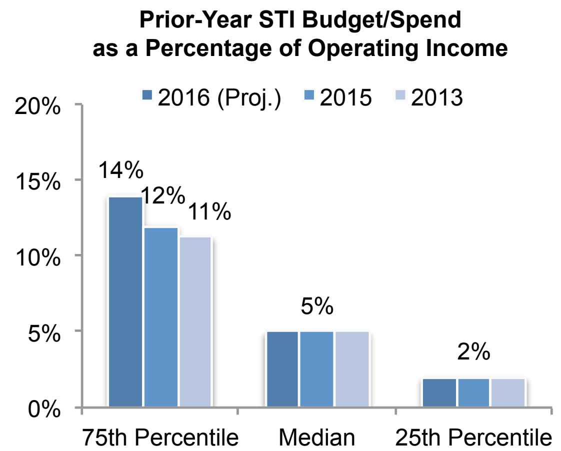
Graph 3



Nearly one-third of the respondents indicated that their companies plan to add or modify a short-term incentive plan in 2016 The most common reasons for an added or modified STI plan were to support a change in strategy or align with a strategic plan (45% of respondents), to conduct a regular annual review and plan update (43%) and to align programs with market practices (38%). The most typical modification reported was changing the performance measures used.

Respondents provided their companies' approximate budgets for STIs as a percentage of operating income for 2015 and projected budgets for 2016. STI budgets have stayed very constant over time, with 5% of operating income being the typical level of spending. At the 75th percentile, 2016 expected STI spending jumped from a norm of 11% or 12% to 14%. This indicates that some private companies are increasing incentive pay opportunities for executives and employees.

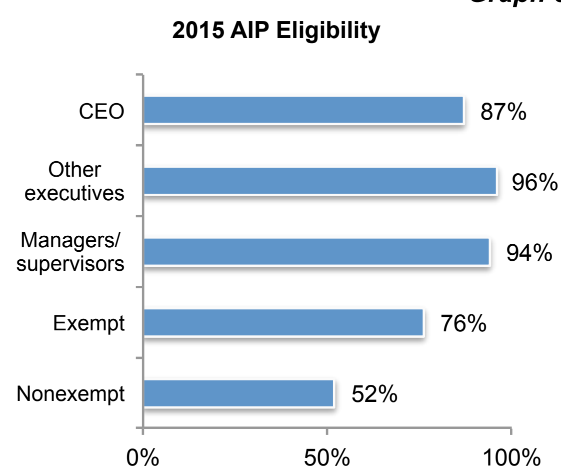
Graph 4



Annual Incentive Plans

The most prevalent STI plan at private companies, AIPs, were available to employees at the exempt salaried level and above at most organizations, and to nonexempt salaried and hourly employees at about half of organizations.

Graph 5

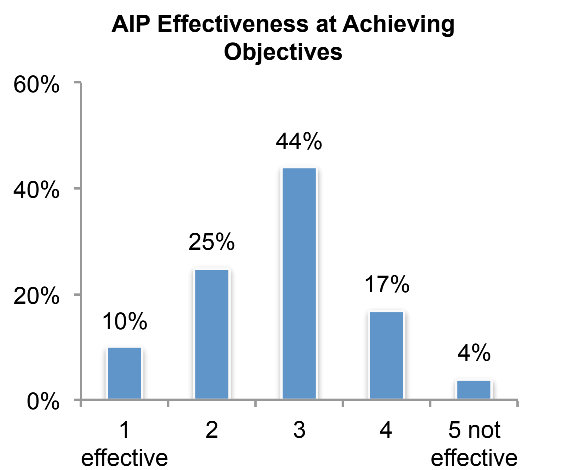


The respondents with AIPs in place reported on the primary objectives of their plans. The top three most common objectives were to:

1. Reward employees (60% of respondents).
2. Align employees' incentives with short-term goals (59% of respondents).
3. Focus employees on specific goals (45%)

Participants were asked to rate the effectiveness of their AIPs. Most respondents indicated that their AIPs were moderately effective, which indicates that opportunities exist to improve plan design.

Graph 6



Plan elements cited most often as AIP strengths were:

AIP Strengths	
Type of performance measures	73%
Performance linkage (corporate, unit, individual)	67%
Level of award opportunity	65%

Plan elements cited most often as AIP weaknesses were:

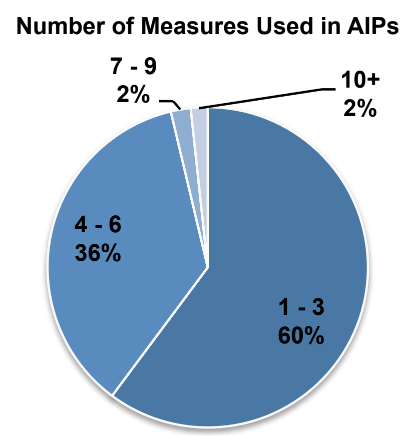
AIP Weaknesses	
Risk-reward trade-off	64%
Level of discretion	60%
Plan communication	57%

About half of respondents view goal setting as a strength, while the rest view it as a weakness. In 2013, goal setting was cited more frequently as a weakness, so private companies have made progress with that plan element.

Most private companies specify a maximum cash payment, or cap, in their AIPs. Similarly, most companies specify threshold, target and maximum awards for participants. As in 2013, the most typical threshold levels ranged from 50% to 80% of target in 2015, while the most typical maximum payout levels ranged from 150% to 200% of target.

Private companies employ a wide variety of performance measures in their AIP plan and use a number of different methods to combine the measures. The majority of companies continue to use one to three performance measures. Hardly any private companies use more than six measures.

Graph 7



Companies that use more than one performance measure must combine those measures in some way to generate an AIP award. The methods to combine measures vary, with additive and balanced scorecard the most common.

Combining Measures to Calculate AIP Awards		
Method	**Description**	
Additive	Performance is calculated separately for each measure.	33%
Balanced Scorecard	Financial and operational measures are balanced.	19%
Multiplicative	Certain measures are used as modifiers to increase or decrease the award.	17%
Variation by Participant	Different measures are used for different plan participants.	13%
One Measure	Only one measure is used.	11%
Other	Using measures as hurdles for payouts is one method.	7%

Survey participants were asked which bonus plan performance measures they use in three different categories: financial, operational and individual. For financial measures, profitability and earnings measures are used by more than 75% of private companies, while revenue measures are used by about half of companies. This implies that companies emphasize profitability, but growth is an important objective as well. In sharp contrast with public companies, total shareholder return (TSR) is hardly used due to lack of stock valuation in private companies.

Financial Measures	
A profitability or earnings measure	77%
Revenue/revenue growth	49%
Cash flow/cash-flow growth	10%
A return measure (return on equity, assets or investment)	10%
Total shareholder return, or TSR (stock price appreciation plus dividends)	1%
Other financial	15%

For operational measures, responses varied widely, with no measure standing out as being most consistently applied. The main operational areas of focus were customer satisfaction, operational efficiency and service/quality.

Operational Measures	
Customer satisfaction	20%
Operational efficiency	18%
Service/quality	17%
Safety/occupational injury	10%
Employee satisfaction/ engagement scores	6%
Other operational objectives	12%

For individual measures, nearly half of the respondents rely on achievement of specific individual goals. For those that rely on individual goals, the typical number of goals per individual is four. 43% of respondents rely on overall individual performance as a factor in incentive calculation. The overall performance is typically expressed as a performance rating.

AIP performance targets at private companies are typically based on budgets, management discretion and improvement over prior year. In 2015, 69% of private companies reported that their plans used subjectivity in AIP award decisions. In contrast, 84% of respondents used discretion in 2013. Since discretion has been cited as a weakness in AIP design, private companies have responded by somewhat reducing its use.

We hypothesize that as the U.S. economy has improved, this has enabled private companies to forecast better, leading to improved goal setting and the need for less discretion.

For the first time this year, the survey asked about the effectiveness of discretion in AIP award decisions. Only the amount subject to discretion was cited as a strength (60%), which may indicate that only a small portion of awards is subject to discretion. The greatest weaknesses cited were:

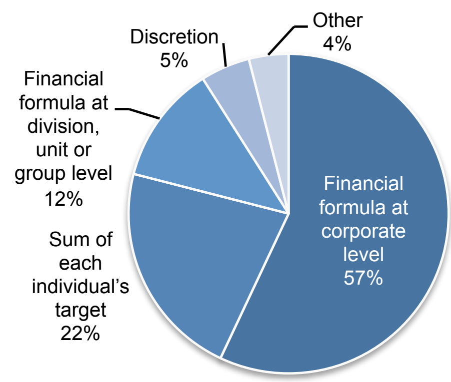
Weaknesses in Use of Discretion	
Communication of rationale for discretion	66%
Perception of fairness of payouts	63%
Consistency of use across the organization	59%

The use of discretion in AIP awards is viewed negatively because it is poorly communicated, and it undermines perceptions of the fairness and consistency of award payouts. While some use of discretion is necessary, there is room for improvement in this area of incentive plan design.

Over half of the respondents with AIPs fund their plans using a pool established at the corporate level based on financial and/or strategic goals. Other funding methods are used to a lesser degree.

Graph 8

Method of Funding AIP Pool

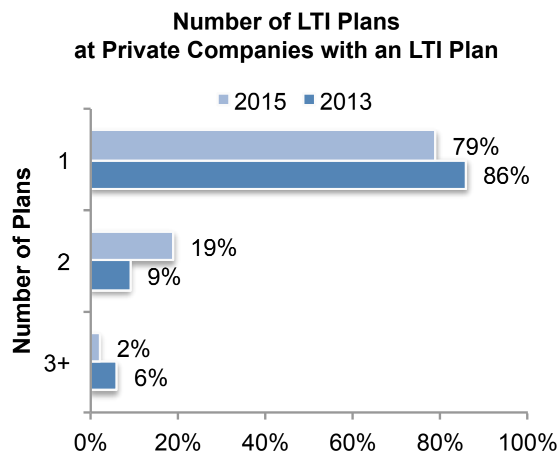


The survey asked about the methods used to communicate information about the AIP. More than 60% use a written plan document disseminated through individual email or a company's internal website. In addition, nearly 60% of companies have HR staff and organization supervisors communicate with individuals about the AIP and awards. Of the respondents, 47% provide annual company communication about AIP targets and links to strategy, and 43% provide periodic updates on company progress. Company and/or team meetings are held in person and virtually at 35% of organizations to review incentive plan information. Most private companies use many different communications methods, but communication is still considered a weakness. This indicates that AIP communication is a key improvement.

LONG-TERM INCENTIVES

Out of the 53% of private for-profit companies that offer an LTI plan, the vast majority offer only one LTI plan because of the complexity of setting up these plans. In 2015, the number of companies offering more than one LTI plan increased by about six percentage points overall.

Graph 9



The primary objectives of LTI plans at private companies were to:

1. Align employees' incentives with long-term goals (63% of respondents).
2. Retain employees (62%).
3. Be competitive with other employers (44%).

Respondents were asked to indicate whether their organizations used any of the following seven vehicles:

- **Stock option:** A contractual right granted by the company to purchase a specified number of shares of the company's stock at a specified price (the exercise price) for a specified period of time.

- **Restricted stock:** Grants of shares of the company's stock subject to restrictions on sale and risk of forfeiture until vested by continued employment.

- **Phantom stock:** A type of incentive grant in which the recipient is not issued actual shares of stock on the grant date but receives an account credited with certain number of hypothetical shares. The value of the account increases or decreases over time based on the appreciation or depreciation of the stock price and the crediting of phantom dividends. Payout may be settled in cash or stock.

- **Stock appreciation right (SAR):** A contractual right that allows an individual to receive cash or stock of a value equal to the appreciation of the stock from grant date to the date the SAR is exercised.

- **Long-term cash plan:** Cash awards where payment is contingent on performance as measured against predetermined financial or strategic objectives over a multiyear period of time.

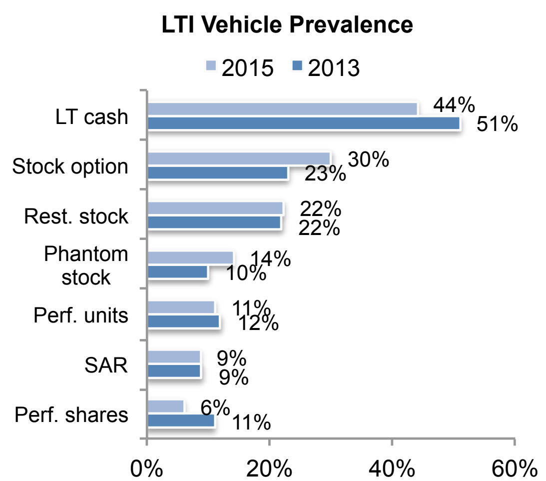
- **Performance shares:** Grants of actual shares of stock with payment that is contingent on performance as measured against predetermined objectives over a multiyear period of time. Shares are the same as performance units except the value paid fluctuates with stock price changes as well as performance against objectives. Payout may be settled in cash or stock.

- **Performance units**: Grants of dollar-dominated units with value that is contingent on performance against predetermined objectives over a multiyear period of time. Actual payouts may be in cash or stock.

Long-term cash plans continue to be the most prevalent LTI vehicle at private companies. Performance awards — which include long-term cash plans, performance units and performance shares — are used by 58% of private companies.

Stock options gained traction at private companies in the past two years. Now, four out of 10 private companies report using real equity — stock options and restricted stock. (The gain is from increased use of stock options.) Phantom equity, including full-value shares and stock appreciation rights, continue to be used on a limited basis due to the complexity of these plans. Graph 10 shows the prevalence by type of LTI plan.

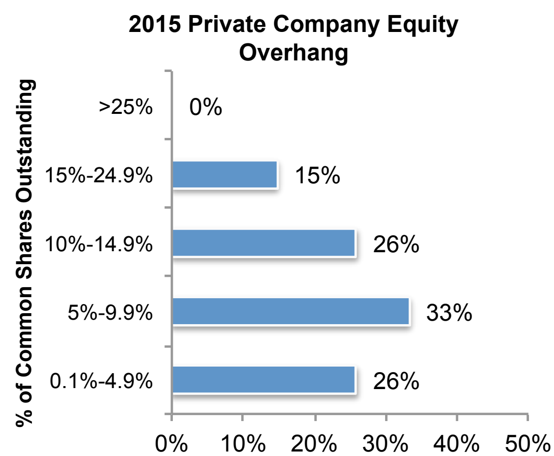
Graph 10



Private company LTI awards continue to be granted to the CEO and top executives, with minimal usage at lower position levels.

Private companies were asked to report on equity overhang, or pools for current and future employee grants. Of the private companies surveyed that use real equity, nearly 60% have overhang levels below 10%. The remaining companies have overhang levels that are between 10% and 25% of common shares outstanding.

Graph 11



Note: Overhang = (stock options + restricted stock + shares available for grant) / average common shares outstanding

At private companies, equity valuation is a key consideration for any LTI plan that relies on real equity. Despite its cost, outside appraisal of equity value is the preferred valuation mechanism for stock options and restricted stock in the current survey. More than half of the companies use outside appraisal to value real equity.

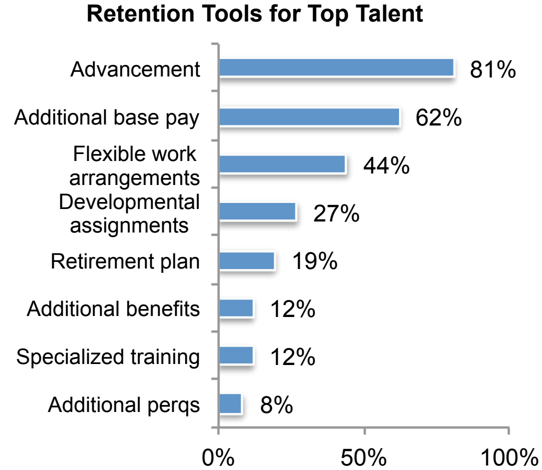
Another key issue for private companies is how liquidity is provided for stock option and restricted stock grants. According to survey respondents, liquidity is provided for stock options and restricted stock most commonly when an employee terminates employment *and* qualifying conditions in the stock plan are met. Of the respondents using real equity, 45% offer liquidity at a value-realizing event. Approximately one-third of respondents offer periodic trading sessions for employees to exercise options and/or sell the underlying equity. “Other” responses include payout after vesting or at the employee’s request. In prior years, liquidity at a value-realizing event was by far the most common response. Private companies are making it easier for those who hold real equity to cash out, as there is increased pressure to be competitive with public companies.

Stock Option and Restricted Stock Liquidity Mechanisms	
At employee termination	52%
At value-realizing event	45%
Periodic trading sessions	34%
Other	10%

Companies that reported using performance awards typically have three-year performance periods, and pay out awards in cash. Awards are most heavily based on overall corporate performance, with profitability the most prevalent performance measure.

A final question asked participants to select the top three tools that they found effective in retaining top talent, besides incentive pay. Interestingly, the most prevalent responses were job advancement and promotion, and additional base pay. The third most prevalent response was flexible work arrangements, used by 44% of companies compared with 32% in the prior survey.

Graph 12



Private companies are focusing on empowering top talent through the intangibles of job advancement and flexible work arrangements, rather than making it all about compensation. This empowerment theme is particularly motivational to the younger generations in the workforce.

FAMILY COMPANIES

For the first time this year, respondents were asked about family ownership of the company. Nearly one-third of the sample — or 46 companies — is family-owned. Given the size of the group, the responses for family-owned companies were analyzed separately, and some key differences were noted:

Short-Term Incentives

- Family-owned companies reported higher spending on short-term incentives as a percentage of operating profit. Family-owned companies spent 7.6% of operating profit at median in 2015, and project a 7% budget for 2016. In contrast, the broader sample of private companies spent a median of 5% of operating profit annually. The higher spending may be a strategy to attract external talent to help manage the business.

- One of the key goals of annual incentive plans for family-owned companies was sharing the company's financial success with employees. This goal was far less prevalent with the broader population.

Long-Term Incentives

- Family-owned companies were much less likely to use real equity than the broader sample, due to their reluctance to share real ownership in the company. Only 21% of the family-owned companies reported using stock options and restricted stock, while 44% of the total sample used these vehicles.

- Performance awards — long-term cash, performance units and performance shares — were more prevalent at family-owned companies, given the simplicity of these vehicles compared to others. These vehicles were used by 71% of family-owned companies, while they were used at 58% of the broader sample.

- Phantom stock and SARS were used more often at family-owned companies. These vehicles were used by 29% of family-owned companies but by only 19% of the broader sample. These vehicles were attractive because they provide the same economic value as using real equity, without giving away ownership control and voting.

INCENTIVE PAY PRACTICES SURVEY: PRIVATELY HELD COMPANIES
DETAILED SURVEY RESULTS
(Data effective as of December 2015)

Your organization is:

Private sector, privately held	100%

N= 201

SHORT-TERM INCENTIVES

1. Does your organization have a short-term incentive program?

Yes	94%
No	6%

N= 200

Only participants answering "yes" in Question 1 received the following short-term incentive program questions.

2. How many short-term incentive programs does your organization have?

One	29%
Two	29%
Three	15%
Four	9%
Five	7%
Six to 10	7%
11 or more	5%

N= 184

3. Which types of short-term incentive plans does your organization use? (Select all that apply.)

Annual incentive plan (AIP)	85%
Discretionary bonus	40%
Spot awards	34%
Team/small-group incentives	22%
Profit-sharing plan	22%
Project bonus	13%

N= 183

4. Is your organization planning to add a short-term incentive plan or modify a short-term incentive plan for 2016?

No	67%
Yes	33%

N= 183

4a. If yes, what prompted the addition or modification? (Select all that apply.)

Change in strategy or alignment with strategic plan	45%
Regular annual review and update of the plan(s)	43%
Alignment of programs with market practices	38%
Change in business results	18%
New ownership/management	17%
Company growth	15%
Reorganization	5%
Changes due to regulatory requirements	5%
Other • Decrease in number of plans • Need for global alignment	7%

N= 60

4b. If you're modifying a plan, what changes are being implemented? (Select all that apply.)

Adding one or more performance measures	48%
Eliminating one or more performance measures	33%
Increasing target award levels	26%
Adding participants to the plan	26%
Raising performance goals	24%
Widening the incentive payout zone	19%
Reducing the use of discretion in incentive payouts	16%
Removing participants from the plan	14%
Increasing the use of discretion in incentive payouts	14%
Decreasing target award levels	9%
Lowering performance goals	7%
Narrowing the incentive payout zone	5%
Other • Combining plans • Improving consistency across the organization • Including minimum funding for individual performance payout • Increasing deferrals • Strengthening performance measures	19%

N= 58

5. What is your organization's approximate total annual budget/spending for short-term incentives, expressed as a percentage of operating income? (Operating income is earnings before interest and taxes, or EBIT. Nonprofits should use net surplus, or revenue minus expenses.)

	Percentile		
	25th	**Median**	**75th**
2015	2.0%	5.0%	12.2%
2016 (expected)	2.0%	5.0%	14.2%

N= 148

Annual Incentive Plans

Only participants selecting "annual incentive plan" in Question 3 received the following section. Responses in this section are based on the annual incentive plan in which most of an organization's employees participate.

6. Please indicate which of the following positions are eligible for annual incentives in 2015.

CEO	87%
Other executives/officers	96%
Managers/supervisors	94%
Exempt salaried	76%
Nonexempt salaried and hourly	52%

N= 127

7. What are the top three primary objectives of your annual incentive plan? (Select up to three.)

Reward employees.	60%
Align employees' incentives with short-term goals.	59%
Focus employees on specific goals.	45%
Share the organization's financial success with employees.	44%
Retain employees.	33%
Be competitive with other employers.	32%
Recruit qualified employees.	10%
Provide special recognition.	6%
Other	2%

N= 127

8. On a scale of 1 to 5, how effective is your annual incentive plan at achieving its objectives?

1 Effective	10%
2	25%
3	44%
4	17%
5 Not effective	4%

N= 126

9. Please click and drag the following incentive-plan elements to the appropriate "Strength" or "Weakness" box.

	Strength	Weakness	N=
Type of performance measures	73%	27%	115
Performance linkage (corporate, unit, individual)	67%	33%	121
Level of award opportunity	65%	35%	117
Goal setting	53%	47%	116
Plan communication	43%	57%	119
Level of discretion	40%	60%	112
Risk-reward trade-off	36%	64%	106

10. How often are incentives paid during the year? (Select all that apply.)

Annually	87%
Quarterly	8%
Twice a year	5%
Other • A combination of ways • Ad hoc • Monthly • Twice a month	6%

N= 127

11. Does your incentive plan specify a maximum cash payment (i.e., a cap) for individuals in the plan?

Yes	72%
No	28%

N= 125

12. Does your organization's incentive program specify threshold, target and/or maximum awards for participants?

	Yes	**No**	**N=**
Threshold	62%	38%	123
Target	83%	17%	127
Maximum	72%	28%	123

13. What is your threshold payout level?

20% or less of target	7%
25% of target	9%
50% of target	32%
75% of target	5%
80% of target	12%
85% of target	4%
90% of target	8%
No threshold in the plan	7%
Other • Other amounts not listed above • Varies by metric • Varies by plan • Varies by position	16%

N= 75

14. What is your maximum payout level?

The target is the same as the maximum	7%
120% of target	7%
125% of target	11%
150% of target	27%
200% of target	36%
300% of target	0%
Other • Varies by plan • Varies by position	11%

N= 88

15. How many performance measures are used in your annual incentive plan?

One to three	60%
Four to six	36%
Seven to nine	2%
10 or more	2%

N= 124

16. Which of the following performance measures are used in your incentive plan? (Select all that apply.) **N= 125**

Financial Objectives

A profitability or earnings measure	77%
Revenue/revenue growth	49%
A return measure (return on equity, assets or investment)	10%
Cash flow/cash-flow growth	10%
Total shareholder return, or TSR (stock price appreciation plus dividends)	1%
Other financial objectives • Economic profit • Performance against budget • Volume • Working capital	15%

Operational Objectives

Customer satisfaction	20%
Operational efficiency	18%
Service/quality	17%
Safety/occupational injury	10%
Employee satisfaction/engagement scores	6%
Other operational objectives • Achievement of goals • Customer retention • Increased customers, members, etc.	12%

Individual Objectives

Achievement of specific individual goals	46%
Overall individual performance, perhaps as expressed in a performance rating	43%
Other individual objectives	5%

Typical number of individual goals reported:

Percentile		
25th	**Median**	**75th**
3	4	5

N= 41

17. How are different measures used together in your incentive plan?

Awards are paid for performance in each measure.	33%
A balanced scorecard approach is used.	19%
Certain measures are used as modifiers to increase or decrease the award.	17%
Different measures are used for different participants.	13%
Only one measure is used.	11%
Other • Management discretion • Measures are used as a hurdle for payouts.	7%

N= 124

18. What basis does your organization use to set performance targets? (Select all that apply.)

Budget	62%
Management discretion	38%
Improvement over prior year	25%
Formula	19%
Achievement of milestones	16%
Relative position to peers	8%
Fixed standard	7%
Other	1%

N= 125

19. What is the linkage for your annual incentive program by position? (Select all that apply.) Incentives for individuals in the employee category are based on:

	Corporate Perf.		Division/Unit Perf.		Individual Perf.		N=
CEO	97%		18%		41%		109
Executive/officer	93%		50%		58%		118
Managers/supervisors	79%		67%		70%		115
Exempt salaried	75%		51%		79%		99
Nonexempt salaried and hourly	67%		45%		70%		67

20. How much does supervisor discretion or subjectivity play a role in your incentive program?

Significantly	20%
Somewhat	33%
To a lesser degree	16%
Not at all	31%

N= 123

21. If discretion is used, please assess its effectiveness by clicking and dragging the following elements to the appropriate "Strength" or "Weakness" box.

	Strength	Weakness	N=
Amount subject to discretion	60%	40%	68
Who applies the discretion	49%	51%	65
Mechanism to incorporate qualitative performance	48%	52%	66
Consistency of use across the organization	41%	59%	73
Perception of fairness for payouts	37%	63%	68
Communication of rationale for discretion	34%	66%	71

22. How is your incentive plan funded?

Financially based formula at the corporate level	57%
Sum of each individual's target	22%
Financially based formula at the division, unit or group level	12%
Discretionary funding	5%
Other • A combination of methods	4%

N= 123

23. What methods do you use to communicate your incentive plan? (Select all that apply.)

Written plan document via individual email or internal company website	63%
Verbal description by human resources or supervisor through individual communications	59%
Annual communication by company of performance targets, links to strategy	47%
Periodic updates on progress by company	43%
Company/team meetings (in person or virtual) to review incentive plan info	35%
No method of communication (not communicated)	7%
Other	5%

N= 123

LONG-TERM INCENTIVES

24. Does your organization have an LTI plan?

Yes	53%
No	47%

N= 156

Only participants answering "yes" in Question 24 received the following long-term incentive questions.

25. Which types of long-term incentive programs does your organization offer? (Select all that apply.)

Performance awards		58%
Long-term cash plans	44%	
Performance units	11%	
Performance shares	6%	
Real equity		44%
Stock options	30%	
Restricted stock	22%	
Phantom equity		19%
Phantom stock	14%	
Stock appreciation rights (SARs)	9%	

N= 79

26. What are the primary objectives of your LTI plan(s)? (Select up to three.)

Align employees' incentives with long-term goals.	63%
Retain employees.	62%
Be competitive with other employers.	44%
Reward employees.	25%
Focus employees on specific long-term goals.	23%
Recruit qualified employees.	17%
Share the organization's financial success with employees.	16%
Promote employee ownership.	14%
Provide participants with a wealth-accumulation opportunity.	11%
Other	1%

N= 81

27. How many LTI programs do you have?

One	79%
Two	19%
Three or more	2%

N= 81

28. Is your organization planning to add an LTI plan or modify an LTI incentive plan in 2016?

No	88%
Yes	13%
N=	**80**

28a. If yes, what prompted the addition or modification? (Select all that apply.)

Only 10 participants responded to this question, so results can't be reported because of insufficient data.

28b. If you're modifying a plan, what changes are being implemented? (Select all that apply.)

Only 10 participants responded to this question, so results can't be reported because of insufficient data.

29. What is the size of the total equity pool allocated for current and future employee grants as a percentage of total shares outstanding? (Please include total equity grants outstanding and equity available for future grants. This metric is often called equity overhang.)

More than 25%	0%
20% to 24.99%	15%
15% to 19.99%	0%
10% to 14.99%	26%
5% to 9.99%	33%
0.1% to 4.99%	26%
N=	**27**

30. If your organization grants real equity, what percentage of the organization's real equity is owned by the following groups? Include stock options, restricted stock and shares held.

Only 19 participants responded to this question, so results can't be reported because of insufficient data.

31. If your organization grants real equity to the CEO, is the CEO a majority owner and/or founder?

Only 17 participants responded to this question, so results can't be reported because of insufficient data.

32. Based on the most recent annual real equity grant, what percentage of your organization's grant is allocated to each of the following employee groups? (Include stock options, restricted stock and shares held.)

Only 15 participants responded to this question, so results can't be reported because of insufficient data.

Stock Options and Restricted Stock

Only participants selecting stock options or restricted stock in Question 25 received this section.

33. Please indicate which positions were eligible to receive a stock option or restricted stock grant during your last grant cycle.

CEO	91%
Other executives/officers	97%
Managers/supervisors	34%
Exempt salaried	31%
Nonexempt salaried and hourly	19%

N= 32

34. What is the timeframe for vesting for your organization's stock options and/or restricted stock?

At grant/no vesting	6%
One year	3%
Two years	0%
Three years	48%
Four years	23%
Five or more years	19%

N= 31

35. What is the vesting schedule for your organization's stock options and/or restricted stock?

Installment vesting	76%
Cliff vesting	24%

N= 29

36. What is the typical frequency of stock option and/or restricted stock awards? (Select all that apply.)

Annually	62%
Every two years	3%
Every three years	3%
At hire/promotion	14%
Special one-time grants	10%
Other • Every five years • As needed for competitiveness • Periodically, depending on organizational goals	10%

N= 29

37. What valuation method do you use to determine the value of your restricted stock or the equity underlying stock option grants?

Outside appraisal	53%
Formulaic valuation	27%
Discretion of the board of directors	13%
Other	7%

N= 30

38. How does your organization provide liquidity for stock option and/or restricted stock grants? (Select all that apply.)

When an employee terminates employment and conditions in the stock option plan are met (e.g., termination is not for cause, the organization has positive cash flow)	52%
Upon a value-realizing event, such as a sale of the company or an initial public offering	45%
Periodic sessions when employees can exercise options and/or sell the underlying equity	34%
Other (please specify) • Payout after vesting • Upon vesting, exercise can occur at any time until expiration • Employee request	10%

N= 29

39. What is the term for your stock options?

More than 10 years	3%
10 years	34%
Nine years	0%
Eight years	3%
Seven years	7%
Six years	3%
Five years	17%
Fewer than five years	7%
Stock options not used	24%

N= 29

40. What is the exercise price at which your organization grants stock options?

Fair market value (FMV)	64%
Price based on a formula	7%
Lower than FMV	4%
Higher than FMV	0%
Stock options not used	18%
Other	7%

N= 28

Phantom Stock and Stock Appreciation Rights (SARs)

Only 14 participants reported using phantom stock and SARs, so results can't be reported for this section because of insufficient data.

Performance Awards

Only participants selecting long-term cash plan, performance shares and performance units in Question 25 received this section.

41. Please indicate which positions were eligible to receive performance awards (such as long-term cash plans, performance shares and performance units) during your last grant cycle.

CEO	78%
Other executives/officers	91%
Managers/supervisors	29%
Exempt salaried	9%
Nonexempt salaried and hourly	2%

N= 45

42. What are the performance measures used to determine the number of shares or units, or the amount of cash earned? (Select all that apply.)

A profitability or earnings measure	64%
Annual sales/revenue	36%
A return measure (return on equity, assets or investment)	24%
Economic profit or similar measure	9%
Total shareholder return, or TSR	9%
Market share	7%
Target stock price	4%
Other • Cash flow • Individual goals and/or performance • Strategic goals and objectives • Turnover • Client/customer satisfaction • Assets under management	24%

N= 45

43. What basis does your organization use to set performance targets for performance awards? (Select all that apply.)

Budget	38%
Discretionary targets set by management or the board	44%
Improvement over the prior year	24%
Achievement of milestones	16%
Formula	16%
Performance relative to peers	13%
Fixed standard	7%
Other	4%

N= 45

44. What is the linkage for long-term performance awards by position? (Select all that apply.) Long-term performance awards for individuals in the employee category are based on:

	Corporate Perf.		Division/Unit Perf.		Individual Perf.		N=
CEO	94%		14%		25%		36
Executive/officer	88%		29%		29%		41

Insufficient data for positions at the manager/supervisor level and below

45. What is the performance period for your organization's performance awards? (Select all that apply.)

One year	20%
Two years	7%
Three years	69%
Four years	2%
Five or more years	2%
Other	4%

N= 45

GENERAL

46. Beyond incentive pay, please select the top three rewards tools that your organization has found effective in retaining top talent.

Job advancement/promotion	81%
Additional base compensation	62%
Flexible work arrangements	44%
Developmental job assignments	27%
Retirement plan	19%
Additional benefits	12%
Specialized training	12%
Additional perquisites	8%
Other • Generous paid time off • Sales contests • Employee stock ownership plan • Holiday and appreciation bonuses	4%

N= 145

DEMOGRAPHICS

47. Under which industry does your organization fall?

All other manufacturing	24%
Consulting, professional, scientific & technical services	14%
Finance & insurance	11%
Information (includes publishing, IT technologies, etc.)	11%
Retail trade	8%
Health care & social assistance	6%
Educational services	3%
Construction	3%
Accommodations & food service	3%
Other services (except public administration)	2%
Utilities, oil & gas	1%
Agriculture, forestry, fishing & hunting	1%
Management of companies & enterprises	1%
Pharmaceuticals	1%
Computer & electronic manufacturing	1%
Arts, entertainment & recreation	1%
Warehousing & storage	1%
Transportation	1%
Real estate & rental & leasing	1%
Wholesale trade	1%
Public administration	0%
Mining	0%
Admin. & support & waste management & remediation services	0%
Other	3%

N= 150

48. How many full-time equivalent (FTE) employees does your organization have?

100,000 or more	0%
40,000 to 99,999	2%
20,000 to 39,999	3%
10,000 to 19,999	11%
5,000 to 9,999	13%
2,500 to 4,999	23%
1,000 to 2,499	25%
500 to 999	13%
100 to 499	6%
Fewer than 100	3%
Don't know	1%

N= 150

49. What is your organization's annual revenue/budget?

More than $20 billion	1%
$15 billion to $19.9 billion	1%
$10 billion to $14.9 billion	1%
$5 billion to $9.9 billion	6%
$2.5 billion to $4.9 billion	15%
$1 billion to $2.49 billion	22%
$500 million to $999 million	17%
$100 million to $499 million	23%
Less than $100 million	7%
Don't know	7%

N= 150

50. Is your organization's CEO an owner?

No	66%
Yes	24%
Yes, and also a founding member of the organization	10%

N= 147

51. Is your company family-owned?

No	69%
Yes	31%

N= 147

Participating Organizations

ABRH
Accentcare
Ace Hardware Corp.
Advance Central Services
Alion Science & Technology
Andersen Corp.
ASM Research
Automobile Club of Southern California
Banfield Pet Hospitals (as a segment of Mars Inc.)
BJ's Wholesale Club
Black & Veatch Corp.
Blue Cross and Blue Shield of Kansas
Bluegreen Corp.
BMC Software
California Casualty Management Co.
Cengage Learning
CIMA +
ClarkDietrich Building Systems
Coriant
Corix Group of Companies
Corizon Health
Cox Enterprises
Craftworks Restaurants and Breweries Inc.
CSAA Insurance Group
Daymon Worldwide
Deltek
Dow Corning Corp.
Engineered Controls International
Fellowes Inc.
Fike Corp.
Follett Corp.
Franklin International
Freedom Mortgage
Freeman
Fresenius Kabi USA LLC
Gildan
Glanbia Performance Nutrition
Glassdoor
Grant Thornton LLP
GROWMARK Inc.
Guild Mortgage Co.
HarbisonWalker International
HDR Inc.
Heraeus-Kulzer LLC
Hollard
Hot Topic Inc.
IKEA
IM Flash Technologies
IMI Precision Engineering
Ingram Industries Inc.
Intermedix
Invitation Homes
Jo-Ann Fabric and Craft Stores
Kelsey-Seybold Clinic
Kenco Group
Learning Care Group Inc.
LEO Pharma Inc.
Leprino Foods Co.
Lifetouch Inc.
LinQuest Corp.
Lloyd's Register
MAHLE
Mary Kay
Mattamy Homes
McCain Foods USA Inc.
Medxcel
Merkle Inc.
Mutual of Omaha
OneAmerica Financial Partners Inc.
Panduit
Paycor
Pelmorex Media Inc.
PeroxyChem LLC
Pioneer Investments
PSAV
Psomas
Rich Products Corp.
Santander Private Bank
SavaSeniorCare
Savers Inc.
Shure Inc.
SMSC Gaming Enterprise

Snapchat Inc.
Solar Turbines Inc.
Solvay USA and Solvay America
Sonora Quest Laboratories
Sports Authority
StandardAero
STIHL Inc.
Teknion Corp.
Terracon Consultants Inc.
The Friedkin Group
The Maschhoffs
The Washington Post
The Wonderful Company
Toyota Boshoku America
UFA
UIC Government Services
Vencore
Vitamix
Welch Foods Inc.
Wellmark Blue Cross Blue Shield
Westfield Group
Whataburger
Wilmer Cutler Pickering Hale and Dorr LLP
WMC