A Report by WorldatWork,
In Partnership with
Vivient Consulting

2018

Incentive Pay Practices: Privately Held Companies

VIVIENT CONSULTING

WorldatWork
The Total Rewards Association
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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 70,000 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.

WorldatWork Society of Certified Professionals® is the certifying body for six prestigious designations: the Certified Compensation Professional® (CCP®), Certified Benefits Professional® (CBP), Global Remuneration Professional (GRP®), Work-Life Certified Professional® (WLCP®), Certified Sales Compensation Professional (CSCP)® and Certified Executive Compensation Professional (CECP)®.

The WorldatWork group of registered marks also includes: Alliance for Work-Life Progress or AWLP, *workspan* and *WorldatWork Journal*.

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.

For more information about this study, contact Bonnie Schindler at bschindler@vivient.com or (847) 636-8919.

METHODOLOGY

In December 2017, WorldatWork and Vivient Consulting invited a sample of WorldatWork members who work for nonpublicly traded companies to answer an online survey about their incentive pay practices.

Approximately 215 private, for-profit companies responded to the survey, as did more than 110 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 chemical manufacturing, including pharmaceuticals. A number of other industries also are represented, but with fewer respondents.

Approximately 40% of the responding private, for-profit companies are middle market, with $100 million to $999 million in revenue. Another 40%of the respondents is larger in size, with revenue between $1 billion and more than $20 billion. Approximately one-third of the respondents are family-owned companies. In addition, a quarter of the respondents reported private-equity ownership, according to a new demographic segment added 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.

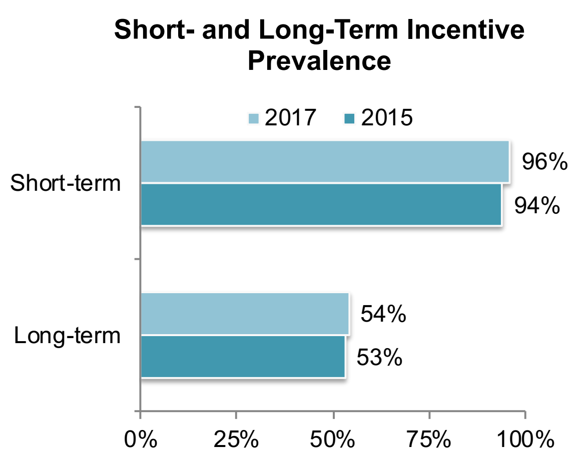
OVERVIEW

WorldatWork and Vivient Consulting's survey of private-company incentive compensation plans is unique in its focus on private companies. This survey is the fifth edition, with the last survey reporting data for 2015. For 2017, several new questions were added, including target incentive pay levels for short- and long-term plans.

Private, for-profit companies in the United States continue to emphasize short-term, cash-based incentives to motivate employees. In fact, these companies reported a moderate increase in spending on short-term incentives (STIs) in 2017 and expect to maintain this level of spending in 2018.

Between 2015 and 2017, short- and long-term incentive use remained steady at private companies. STI use increased slightly to 96% from 94%, while long-term incentive (LTI) use also increased slightly, to 54% from 53%.

Graph 1



Notable findings in the 2017 survey include:

- Spending on STIs increased to 6% of operating profit at median, from 5% in prior years. In addition, spending on STIs increased to 3% (from 2% in 2015) at the 25th percentile and to 14% (from 12% in 2015) at the 75th percentile. This indicates that private companies are spending more on STIs to motivate employees and compete for talent. In addition, family-owned companies spend 10% at median on STIs to help attract talent, while private equity-owned companies spend 5.5% at median.
- The prevalence of exempt, salaried employees and nonexempt (salaried or hourly) included in annual incentive plans increased in 2017. The biggest jump occurred for nonexempt employees. Approximately two-thirds of nonexempt employees are eligible for annual incentives, up from half in 2015.
- The majority of respondents consider their annual incentive plans to be only moderately effective, with plan communication, the level of discretion, goal-setting and the risk-reward trade-off noted as areas for improvement.
- Relative to 2015, more private companies have set threshold, target and maximum awards for participants in annual incentive plans, indicating increased formalization of plan design parameters.
- Private companies continue to focus on profitability rather than revenue

growth as performance measures in cash-based short- and long-term incentive plans.

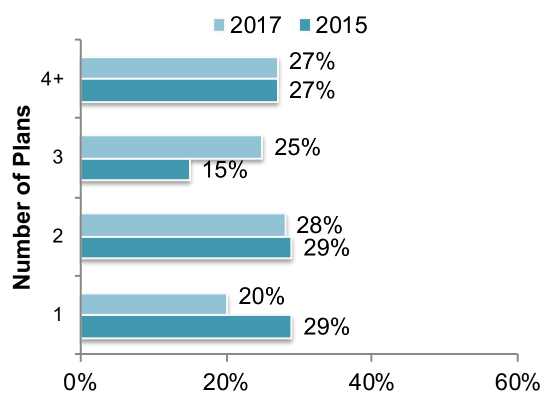
- Performance awards, which include long-term cash plans, and performance units and shares, continue to be the most prevalent LTI vehicles. The use of real equity declined in 2017, while the use of phantom equity increased.
- Nonqualified deferred compensation is offered to top executives at less than one-third of private companies.

SHORT-TERM INCENTIVES

The number of different STI plans increased in 2017, with 80% of respondents reporting two or more STI plans in place.

Graph 2

Number of Short-Term Incentive Plans at Private Companies



For 2017, participants were asked whether they had any of the following STI plans:

- **Annual incentive plan (AIP):** 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 are 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.

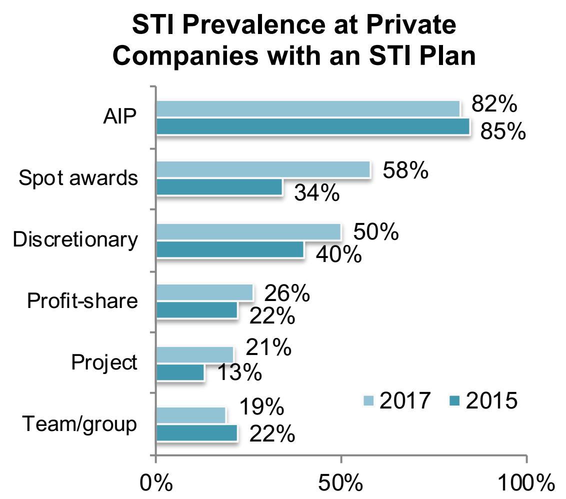
- **Profit-sharing plan:** A plan providing for employee participation in an organization's profits. The plan normally includes a predetermined and defined formula for allocating profit shares among participants, and for distributing funds accumulated under the plan. However, some plans are discretionary.

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

- **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.

The most common type of STI plan continues to be the annual incentive plan (AIP), with prevalence of 82%, down slightly from 85% in 2015. However, the use of all other types of STI plans, except for team/small-group incentives, increased in 2017, with the largest jump in spot awards and discretionary bonuses. This indicates that private companies have increased their emphasis on timely feedback and flexibility in rewarding employees.

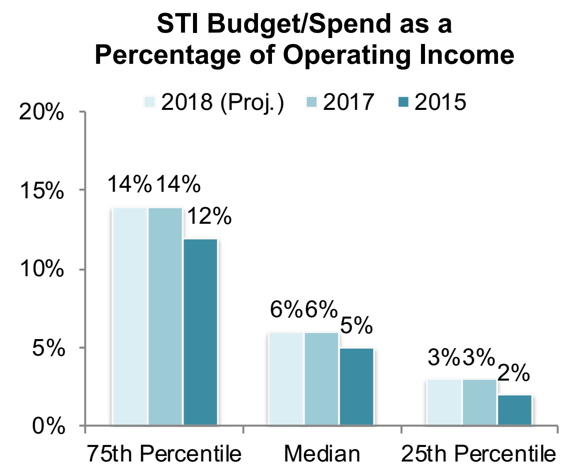
Graph 3



More than 40% of the respondents indicated that their companies plan to add or modify a short-term incentive plan in 2018. The most common reasons for an added or modified STI plan were to support a change in strategy or align with a strategic plan (58%), to conduct a regular annual review and plan update (46%), and to align programs with market practices (42%). The most typical modification reported was adding performance measures to the plan.

Respondents provided their companies' approximate budgets for STIs as a percentage of operating income for 2017 and projected budgets for 2018. In past surveys, STI budgets stayed very constant over time, with 5% of operating income being the typical level of spending. However, STI budgets increased across the board for 2017, with a median of 6%. This indicates that private companies are devoting more resources to incentive compensation to motivate executives and employees, and compete for talent in a tight labor market.

Graph 4

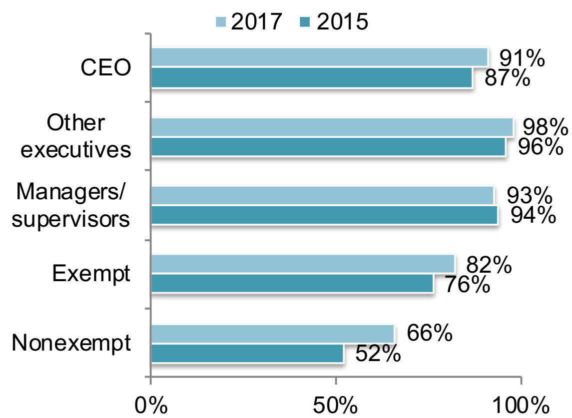


Annual Incentive Plans

The most prevalent STI plan at private companies, AIPs, are now offered to employees at all levels of the organization, including nonexempt employees. In fact, AIP eligibility increased across nearly all position levels. This survey finding corroborates a widening trend of extending incentive participation broadly to all employees.

Graph 5

AIP Eligibility



The 2017 survey asked respondents for target AIP award levels as a percentage of salary. The median target award level for CEOs is 80% of salary, with targets decreasing by about half for each lower position level in the organization.

Median Target AIP Award (Percent of salary)

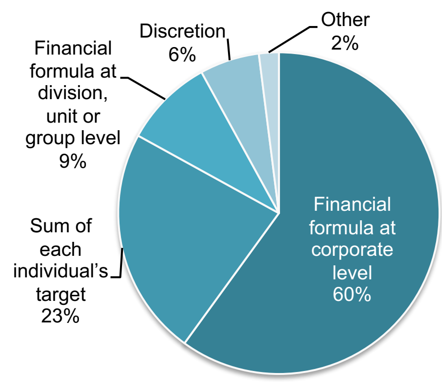
CEO	80%
Other executives/officers	40%
Managers/supervisors	15%
Exempt salaried	10%
Nonexempt salaried and hourly	5%

Most private companies specify threshold, target and maximum awards for participants. The prevalence of threshold, target and maximum awards increased across the board in 2017, indicating more structure in AIPs. As in 2015, the most typical threshold level was 50% of target, while the most typical maximum payout levels were 150% or 200% of target.

With respect to AIP funding, the majority of respondents use a pool established at the corporate level based on financial and/or strategic goals. Other funding methods are used to a lesser degree.

Graph 6

Method of Funding AIP Pool

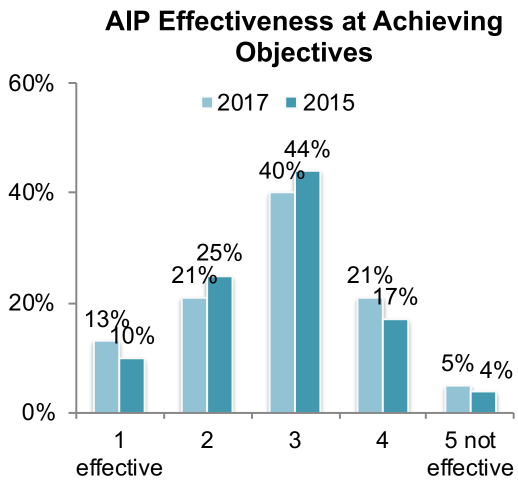


The top three objectives of AIPs are to:

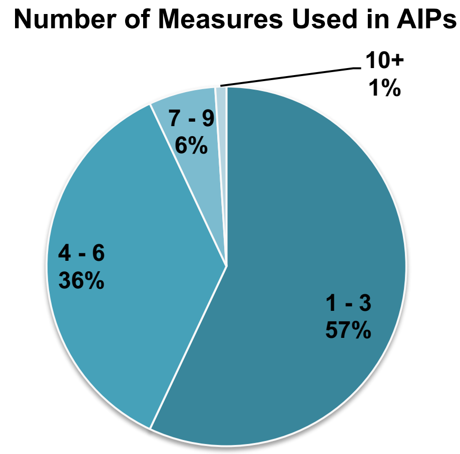
1. Reward employees (61%)
2. Align employees' incentives with short-term goals (56%)
3. Share the organization's financial success with employees (47%).

Participants were asked to rate the effectiveness of their AIPs. Again, in 2017 most respondents indicated that their AIPs are moderately effective, although the effectiveness has trended downward.

Graph 7



Graph 8



Plan elements cited most often as AIP strengths were:

AIP Strengths

Performance linkage (corporate, unit, individual)	73%
Level of award opportunity	68%
Type of performance measures	65%

Plan elements cited most often as AIP weaknesses were:

AIP Weaknesses

Risk-reward trade-off	66%
Goal setting	62%
Level of discretion	58%

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

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 multiplicative as the most common.

Combining Measures to Calculate AIP Awards

Method	Description	
Additive	Performance is calculated separately for each measure.	23%
Multiplicative	Certain measures are used as modifiers to increase or decrease the award.	20%
Balanced Scorecard	Financial and operational measures are balanced.	19%
Variation by Participant	Different measures are used for different plan participants.	17%
One Measure	Only one measure is used.	15%
Other		5%

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 70% 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) was not used at all by survey respondents in 2017.

Financial Measures	
A profitability or earnings measure	71%
Revenue/revenue growth	52%
A return measure (e.g., return on equity, assets or investment)	13%
Cash flow/cash-flow growth	12%
Economic profit	9%
Total shareholder return, or TSR (stock price appreciation plus dividends)	0%
Other financial objectives	14%

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	30%
Operational efficiency	24%
Service/quality	17%
Safety/occupational injury	11%
Customer retention	11%
Increased customers	11%
Employee satisfaction/ engagement scores	8%
Other operational objectives	8%

For individual measures, nearly half of the participants reported using the individual's performance, perhaps expressed as a performance rating, as a factor used to determine AIP awards. About one-third of respondents build specific individual goals into AIP award criteria.

AIP performance targets at private companies typically are based on budgets, management discretion and improvement over prior year. In 2017, 71% of private companies reported that their plans used some level of subjectivity in AIP award decisions, which is consistent with the 69% reported in 2015.

The survey asked about the effectiveness of discretion in AIP award decisions. Who applies the discretion (68%) and the amount subject to discretion (64%) were cited as strengths. The greatest weaknesses cited were:

Weaknesses in Use of Discretion	
Communication of rationale for discretion	71%
Perception of fairness of payouts	66%
Consistency of use across the organization	65%
Mechanism to incorporate qualitative performance	54%

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 continues to be room for improvement in this area of incentive plan design.

The survey asked about the methods used to communicate information about the AIP. Individual, verbal communications with human resource staff members or supervisors is the most prevalent communication method (63%). Periodic updates on progress by the company rose in prevalence to 56% in 2017 from 43% in 2015. This indicates that private companies are emphasizing timely communication of progress to participants, which is important, as such plans are a significant portion of organizations' budgets.

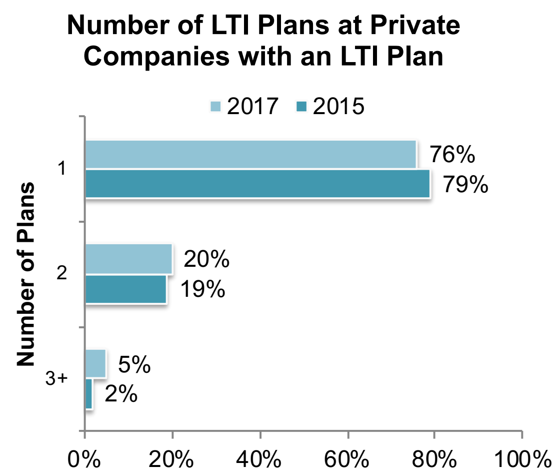
About half of respondents use a written plan document and annual communication of company goals and strategy as part of their AIP communications programs. Most private companies use many different communications methods, but communication is still considered a weakness in overall AIP effectiveness.

This indicates that AIP communication is a key improvement area for companies to achieve better return on investment for their rewards program.

LONG-TERM INCENTIVES

Of the 54% 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 2017, the number of companies offering more than one LTI plan increased only slightly.

Graph 9



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

1. Retain employees (62%)
2. Align employees' incentives with long-term goals (62%)
3. Be competitive with other employers (41%).

Respondents were asked to indicate whether their organizations used any of the following nine LTI 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.

- **Restricted stock unit (RSU):** Grant valued in terms of company stock, but company stock is not issued at the time of the grant. After the recipient of a unit satisfies the vesting requirement, the company distributes shares or the cash equivalent of the number of shares used to value the unit.

- **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 in which 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.

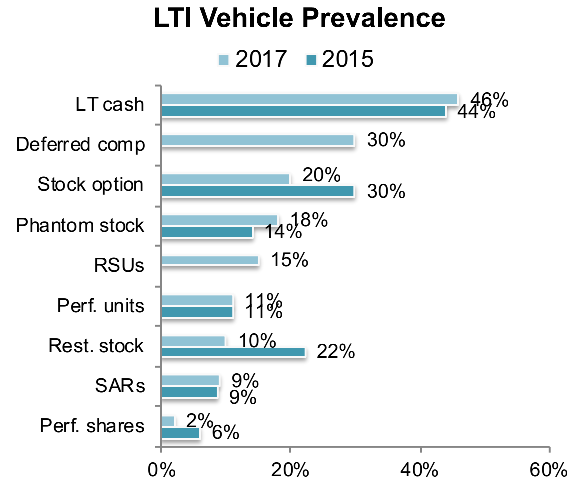
- **Nonqualified deferred compensation:** An elective or nonelective plan or agreement between an employer and an employee to pay the employee compensation in the future.

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 60% of private companies. These plans typically span three years and are tied to company financial performance measures, most commonly profitability and revenue.

LTI vehicles based on real equity — stock options, restricted stock and RSUs — decreased in prevalence to 34% of respondents in 2017, from 44% in 2015. (RSUs were broken out as a separate category from restricted stock in the 2017 survey.) Phantom equity — which includes phantom stock and SARs increased in prevalence in 2017 to 26% from 19% in 2015. Private companies appear to be less willing to share real equity with plan participants because of issues with complexity, liquidity and ownership dilution.

In 2017, the survey added nonqualified deferred compensation as an LTI vehicle. About one-third of respondents offer such plans to executives. More than half of the companies provide some type of employer contribution to the plan.

Graph 10



Note: RSUs were reported separately from restricted stock in the 2017 survey.

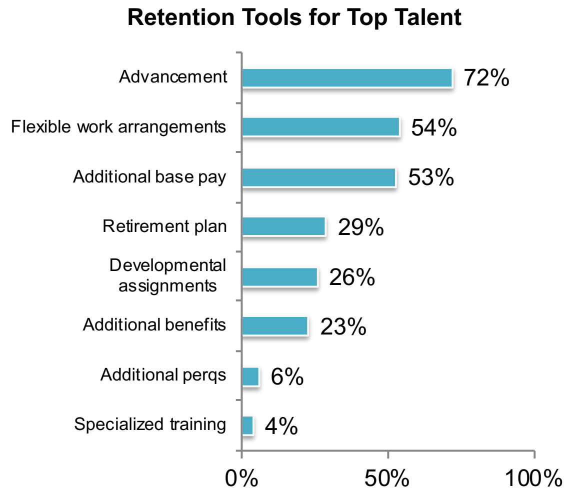
Private-company LTI awards continue to be granted to the CEO and top executives (typically Vice Presidents and above), with minimal use at lower position levels. This strategy concentrates LTI in the leadership positions that have the most control over a company's long-term financial results. The median target award level for CEOs is 80% of salary — which is equal to the AIP target award level.

Median Target LTI Award (Percent of salary)

CEO	80%
CEO's direct reports	50%
Vice presidents/officers	30%

A final survey question asked participants to select the top three tools effective in retaining top talent, besides incentive pay. The most prevalent response was job advancement and promotion. Flexible work arrangements are now emphasized by more than half of private companies, up from 44% in 2015. Additional base pay continues to be a prevalent retention tool and is used by more than half of the respondents.

Graph 11



Private companies are focusing on empowering top talent through the intangibles of job advancement and flexible work arrangements. This empowerment theme continues to gain traction as younger employees enter the workplace.

FAMILY COMPANIES

Respondents were asked about family ownership of the company. More than one-third of the sample — or 45 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 mirrored the broader private-company sample overall. A key distinction, however, was higher spending on short-term incentives as a percentage of operating profit. Family-owned companies spent 10% of operating profit at median in 2017, and project an 8% budget for 2018. In contrast, the broader sample of private companies spent a median of 6% of operating profit annually. The higher spending may be a strategy to attract external talent to help manage the business. Also, family-owned businesses typically provide a pay mix that is heavier on cash compensation, as they tend to be more selective in providing long-term incentives.

Long-Term Incentives

Family-owned companies are less likely than the broader sample to offer an LTI plan. Only 44% of family companies offer LTI plans, compared to 54% in the broader sample. Like the broader sample, family companies favor performance awards, such as long-term cash plans or performance units.

PRIVATE EQUITY-OWNED COMPANIES

For the first time this year, respondents were asked to report whether private-equity firms owned a stake in their companies. About a quarter of the respondents — or 35 companies — reported private equity investments in their companies.

Private equity-owned companies spend slightly less than the broader sample on short-term incentives. Private equity-owned companies spend 5.5% of operating profit at median on STIs, in contrast to 6% for the broader sample. Private equity owners have the strategy of aligning executives' economic interests with their own (i.e., creating a value realization event). As a result, executive compensation is focused more on LTIs than on short-term incentives.

This emphasis is corroborated by the survey; private-equity owned companies are likelier to provide LTIs. Almost two-thirds reported having an LTI plan. LTIs based on real equity (stocks options and RSUs) are favored by private equity investors, as these vehicles align the incentives of management with the shareholders and provide a retention mechanism. Also, private-equity owned companies tend to grant LTIs deeper in the organization versus the broader survey sample.

INCENTIVE PAY PRACTICES SURVEY
DETAILED SURVEY RESULTS - PRIVATE COMPANIES
(Data effective as of December 2017)

Your organization is:

Private sector, privately held	100%
N =	**217**

SHORT-TERM INCENTIVES

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

Yes	96%
No	4%
N =	**217**

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	20%
Two	28%
Three	25%
Four	11%
Five	4%
Six to 10	8%
11 or more	4%
N =	**194**

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

Annual incentive plan (AIP)	82%
Spot awards	58%
Discretionary bonus	50%
Profit-sharing plan	26%
Project bonus	21%
Team/small-group incentives	19%
N =	**195**

4. Is your organization planning to add a short-term incentive plan or modify a short-term incentive plan for 2018?

Yes	43%
No	57%
N =	**195**

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

Change in strategy or alignment with strategic plan	58%
Regular annual review and update of the plan(s)	46%
Alignment of programs with market practices	42%
New ownership/management	16%
Company growth	14%
Change in business results	12%
Reorganization	6%
Changes due to regulatory requirements	2%
Other	5%
N =	**83**

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

Adding one or more performance measures	56%
Raising performance goals	29%
Eliminating one or more performance measures	28%
Increasing target award levels	27%
Adding participants to the plan	24%
Increasing the use of discretion in incentive payouts	18%
Combining plans	13%
Widening the incentive payout zone	13%
Reducing the use of discretion in incentive payouts	13%
Removing participants from the plan	7%
Lowering performance goals	5%
Decreasing target award levels	4%
Narrowing the incentive payout zone	4%
Other • Increasing the portion of the target related to individual performance • Changing the weighting of performance measures • Retiring a plan • Adding a plan • Changing the payout timing • Setting target awards	17%
N =	**82**

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		
	75th	Median	25th
2017	14.0%	6.0%	3.0%
2018 (expected)	14.0%	6.0%	3.0%

N = 137

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 2017.

CEO	91%
Other executives/officers	98%
Managers/supervisors	93%
Exempt salaried	82%
Nonexempt, salaried or hourly	66%

N = 120

7. What criteria are used to determine participation in an AIP? (Select all that apply.)

Position level	69%
Job family (such as information technology jobs)	26%
Exempt/nonexempt status	24%
Salary level	20%
All nontemporary employees eligible	16%
Other (Please specify) • All nonsales employees • Country of employment • Market-driven • Nonunion employees • Performance rating	10%

N = 120

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

Reward employees	61%
Align employees' incentives with short-term goals	56%
Share the organization's financial success with employees	47%
Be competitive with other employers	43%
Retain employees	38%
Focus employees on specific goals	33%
Recruit qualified employees	11%
Provide special recognition	3%
N =	**120**

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

1 Effective	13%
2	21%
3	40%
4	21%
5 Ineffective	5%
N =	**119**

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

	Strength	Weakness	N =
Performance linkage (corporate, unit, individual)	73%	27%	111
Level of award opportunity	68%	32%	112
Type of performance measures	65%	35%	103
Plan communication	45%	55%	111
Level of discretion	42%	58%	101
Goal setting	38%	62%	100
Risk-reward trade-off	34%	66%	88

11. How often are incentives paid during the year?

Annually	86%
Twice a year	6%
Quarterly	2%
Other • A combination of ways • Twice in the most recent year (normally, annually)	7%
N =	**120**

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

	Yes	No	N =
Threshold	75%	25%	118
Target	95%	5%	120
Maximum	76%	24%	118

13. What is your target annual incentive pay level as a percentage of salary for the following positions?

	Percentile			
	75th	**Median**	**25th**	**N =**
CEO	100%	80%	50%	87
Other executives/officers	50%	40%	30%	104
Managers/supervisors	20%	15%	12%	98
Exempt salaried	12%	10%	7%	92
Nonexempt salaried or hourly	8%	5%	4%	66

14. What is your threshold payout level?

20% or less of target	14%
25% of target	8%
50% of target	36%
75% of target	14%
80% of target	5%
95% of target	3%
No threshold in the plan	3%
Other • Not communicated • Other amounts not listed above • Varies by measure • Varies by plan • Varies by position • Varies from year to year	16%
N =	**86**

15. What is your maximum payout level?

The target is the same as the maximum	6%
120% of target	1%
125% of target	11%
150% of target	37%
200% of target	32%
250% of target	3%
No maximum in the plan	2%
Other • Not communicated • Other amount not listed above • Varies by plan • Varies by position	7%
N =	**87**

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

One to three	57%
Four to six	36%
Seven to nine	6%
10 or more	1%
N =	**116**

17. Which of the following performance measures are used in your incentive plan? (Select all that apply.) **N = 116**

Financial Objectives

A profitability or earnings measure	71%
Revenue/revenue growth	52%
A return measure (return on equity, assets or investment)	13%
Cash flow/cash-flow growth	12%
Economic profit	9%
Total shareholder return (stock price appreciation plus dividends)	0%
Other financial objectives • Credit quality • Expense management • Loan and deposit growth • Operating expenses • Payroll-hours control • Return on sales • Working capital	14%

Operational Objectives

Customer satisfaction	30%
Operational efficiency	24%
Service/quality	17%
Safety/occupational injury	11%
Customer retention	11%
Increased customers/members	11%
Employee satisfaction/engagement scores	8%
Other operational objectives • Balanced scorecard • Company strategic goals • Cost containment • Industry ranking • Innovation • On-time delivery • Reduce delinquencies	8%

Individual Objectives

Achievement of specific individual goals	35%
Overall individual performance, perhaps as expressed in a performance rating	45%
Other individual objectives	4%

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

Awards are paid for performance in each measure	23%
A balanced scorecard approach is used	19%
Certain measures are used as modifiers to increase or decrease the award	20%
Different measures are used for different participants	17%
Only one measure is used	15%
Other • Management discretion • Varies by plan	5%
N =	**115**

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

Budget	62%
Management discretion	41%
Improvement over prior year	27%
Achievement of milestones	17%
Formula	10%
Fixed standard	10%
Relative position to peers	10%
Other	3%
N =	**115**

20. What is the linkage for your annual incentive program by position? Incentives for individuals in the employee category are based on:

	Corporate	**Division/ Unit**	**Individual**	**N =**
CEO	99%	11%	38%	108
Executive/officer	94%	45%	54%	116
Managers/supervisors	75%	54%	58%	111
Exempt salaried	74%	38%	63%	103
Nonexempt, salaried and hourly	75%	33%	59%	80

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

Significantly	17%
Somewhat	30%
To a lesser degree	24%
Not at all	29%
N =	**117**

22. 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 =**
Who applies the discretion	68%	32%	65
Amount subject to discretion	64%	36%	66
Mechanism to incorporate qualitative performance	46%	54%	63
Consistency of use across the organization	35%	65%	68
Perception of fairness for payouts	34%	66%	65
Communication of rationale for discretion	29%	71%	68

23. How is your incentive plan funded?

Financially based formula at the corporate level	60%
Sum of each individual’s target	23%
Financially based formula at the division, unit or group level	9%
Discretionary funding	6%
Other	2%
N =	**115**

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

Verbal description by HR or supervisor through individual communications	63%
Periodic updates on progress by company	56%
Written plan document via individual email or internal company website	53%
Annual communication by company of performance targets, links to strategy	52%
Company/team meetings (in person or virtual) to review incentive plan info	40%
No method of communication (not communicated)	3%
Other	3%
N =	**116**

LONG-TERM INCENTIVES

25. Does your organization have an LTI plan?

Yes	54%
No	46%
N =	**152**

Only participants answering "yes" in Question 25 received the following long-term incentive questions.

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

Performance awards		60%
Long-term cash plans	46%	
Performance units	11%	
Performance shares	2%	
Real equity/value tied to real equity		34%
Stock options	20%	
Restricted stock units (RSUs)	15%	
Restricted stock	10%	
Nonqualified deferred compensation		30%
Phantom equity		26%
Phantom stock	18%	
Stock appreciation rights (SARs)	9%	
	N =	**82**

Note: For real equity, the sum of the vehicles is greater than 34% because participants can choose more than one vehicle.

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

Retain employees	62%
Align employees' incentives with long-term goals	62%
Be competitive with other employers	41%
Focus employees on specific long-term goals	32%
Reward employees	26%
Share the organization's financial success with employees	22%
Recruit qualified employees	16%
Promote employee ownership	11%
Provide participants with a wealth-accumulation opportunity	10%
Other	2%
N =	**82**

28. How many LTI programs do you have?

One	76%
Two	20%
Three or more	5%
N =	**82**

29. How far down in your organization are LTIs granted?

CEO only	1%
CEO and his/her direct reports	6%
All vice presidents (or other corporate officers) and above	50%
All managers and above	2%
All key employees and above	18%
All employees receive LTIs	9%
Other • Based on base salary • Discretionary • Market driven • Partners only	13%
N =	**82**

30. What is your target long-term incentive pay level, as a percentage of salary, for the following positions? For position bands, use the most prevalent target percentage.

	Percentile			
	75th	**Median**	**25th**	**N =**
CEO	124%	80%	50%	54
CEO's Direct Reports	70%	50%	30%	55
Vice Presidents (Officers)	46%	30%	23%	47
Managers/supervisors	*Insufficient data*			
Exempt salaried	*Insufficient data*			
Nonexempt salaried or hourly	*Insufficient data*			

Warning: Low number of responses for Vice Presidents (Officers)

31. Is your organization planning to add an LTI plan or modify an LTI incentive plan in 2018?

Yes	22%
No	78%
N =	**82**

31a. If yes, what prompted the addition or modification? (Select all that apply.)

Insufficient data

31b. If you're modifying a plan, what changes are being implemented? (Select all that apply.)

Insufficient data

32. 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.)

Insufficient data

33. 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.

Insufficient data

34. 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.)

Insufficient data

Stock Options and Restricted Stock/RSUs

Only participants selecting stock options, restricted stock or RSUs in Question 26 received this section. Only 28 participants completed these questions, so data was insufficient to report for Questions 35 to 42.

Phantom Stock and Stock Appreciation Rights (SARs)

Only participants selecting phantom stock or stock appreciation rights in Question 26 received this section. Only 15 participants completed these questions so data was insufficient to report for Questions 43 to 49.

Performance Awards

Only participants selecting long-term cash plan, performance shares and performance units in Question 26 received this section.

50. 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	93%
Other executives/officers	98%
Managers/supervisors	22%
Exempt salaried	7%
Nonexempt salaried or hourly	0%
Warning: Low number of responses **N =**	**45**

51. 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	57%
Annual sales/revenue	43%
A return measure (return on equity, assets or investment)	26%
Economic profit or similar measure	13%
Cash flow	7%
Target stock price	7%
Market share	2%
Total shareholder return, or TSR	2%
Other • Balanced scorecard • Customer service • Debt • Discretionary • Membership	20%
Warning: Low number of responses **N =**	**46**

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

Budget	41%
Discretionary targets set by management or the board	35%
Performance relative to peers	26%
Improvement over the prior year	24%
Formula	22%
Achievement of milestones	15%
Fixed standard	7%
Other	2%
Warning: Low number of responses **N =**	**46**

53. What is the linkage for long-term performance awards by position? Long-term performance awards for individuals in the employee category are based on:

	Corporate	Division/ Unit	Individual	N =
CEO	100%	7%	16%	44
Executive/officer	100%	13%	16%	45

Warning: Low number of responses

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

54. What is the performance period for your organization's performance awards?

One year	11%
Two years	4%
Three years	80%
Four years	0%
Five or more years	2%
Other	2%
Warning: Low number of responses **N =**	**45**

Nonqualified Deferred Compensation

Only participants selecting nonqualified deferred compensation in Question 26 received this section. Only 25 participants completed these questions, so data was insufficient to report for Questions 55 to 59.

GENERAL

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

Job advancement/promotion	72%
Flexible work arrangements	54%
Additional base compensation	53%
Retirement plan	29%
Developmental job assignments	26%
Additional benefits	23%
Additional perquisites	6%
Specialized training	4%
Other	3%
N =	**146**

DEMOGRAPHICS

61. Under which industry does your organization fall?

All other manufacturing	19%
Finance & insurance	19%
Consulting, professional, scientific & technical services	13%
Information (includes publishing, IT technologies, etc.)	8%
Chemical manufacturing (includes pharmaceuticals)	6%
Health care & social assistance	4%
Transportation & warehousing	4%
Wholesale trade	4%
Retail trade	4%
Agriculture, forestry, fishing & hunting	3%
Utilities	2%
Construction	2%
Computer & electronic product manufacturing	1%
Other services (except public administration)	1%
Accommodation & food service	1%
Management of companies & enterprises	2%
Public administration (includes government)	1%
Real estate, & rental & leasing	1%
Mining, quarrying, oil & gas extraction	1%
Educational services	0%
Arts, entertainment & recreation	0%
Admin. & support & waste management & remediation services	0%
Other	2%
N =	**139**

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

100,000 or more	1%
40,000 to 99,999	1%
20,000 to 39,999	2%
10,000 to 19,999	3%
5,000 to 9,999	16%
2,500 to 4,999	18%
1,000 to 2,499	20%
500 to 999	11%
100 to 499	20%
Fewer than 100	8%
N =	**141**

63. What is your organization’s annual revenue/budget?

More than $20 billion	4%
$15 billion to $19.9 billion	2%
$10 billion to $14.9 billion	1%
$5 billion to $9.9 billion	6%
$2.5 billion to $4.9 billion	9%
$1 billion to $2.49 billion	22%
$500 million to $999 million	18%
$100 million to $499 million	21%
Less than $100 million	18%
N =	**125**

64. What is your organization’s corporate status?

C corporation	30%
LLC	28%
S corporation	14%
Mutual	12%
Subsidiary of a publicly traded company	8%
Cooperative	4%
Partnership	3%
Other	3%
N =	**118**

65. Is your organization’s CEO an owner?

Yes	29%
Yes, and a founding member of the organization	13%
No	59%
N =	**133**

66. Is your company family-owned?

Yes	34%
No	66%
N =	**133**

67. Do your company's owners include a private equity firm?

Yes	26%
No	71%
N =	**129**

Participating Organizations

Ace Hardware Corp.
Acelity L.P.
Agero Inc
AgFirst Farm Credit Bank
Alion Science and Technology
American Family Insurance
Amica Mutual Insurance Co.
Armstrong Group of Companies
BCBS EM
Beloit Consulting LLC
Blain Supply Inc.
California Casualty Management Company
CareerBuilder
Carlson Wagonlit Travel
Cengage
Certain Affinity Inc.
CEVA
Chen Med
Colonial Pipeline Co.
Community Coffee Co.
E & J Gallo Winery
Eastern Bank
ExtensionEngine LLC
Flagship Credit Acceptance LLC
Freeman
Gateway Mortgage Group
Geonerco Management LLC
GuideWell Source
Hussmann Corp.
InnovAge
Innovative Compensation and Benefits Concepts
J. R. Simplot Co.
Just Born Inc.
Kawasaki Motors Corp. U.S.A.
Keystone Partners
Land O'Lakes Inc.
Mars Electric
Medical Mutual of Ohio
Michael Baker International
Mitsui & Co. (U.S.A.) Inc.
Nautilus International Inc.
New York Life
Northwestern Mutual
NOVA Chemicals
Ocean Spray Cranberries Inc.
Orbit Irrigation Inc.
Perkins Coie
Petco
Pinterest
Prime Therapeutics LLC
Prometheus Real Estate Group
PurFoods, LLC
Republic Airline
Research Now
Saint-Gobain
Salary.com
Serta Simmons Bedding
Shure Inc.
Southco Inc.
SpecialtyCare
Springfield Clinic LLP
Sumitomo Corporation of Americas
Texas Mutual Insurance Co.
The Maschhoffs
The MathWorks
The NPD Group
The Vollrath Co LLC
The Warranty Group
Toyota Boshoku America
Trident Seafoods Corp.
True Value Co.
Trustmark Companies
Tucson Electric Power Co.
Unifrax I LLC
US Venture
USAA
Vermont Mutual Insurance Group
Vetsource
WE Communications
Wells Enterprises
Westfield Insurance
White Castle