Incentive Pay Practices Survey: Privately Held Companies

research

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; 95 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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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 pay, incentive-compensation plan design and employment contract negotiations.

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METHODOLOGY

In October 2013, Vivient and WorldatWork invited a sample of WorldatWork members working in non-publicly-traded organizations to answer an online survey about their companies' incentive-pay practices.

Nearly 190 participants from private, for-profit companies[1] responded to the survey, as did a similar number of participants from non-profit and government organizations. Because of the large response from the sectors surveyed, 2 separate reports have been published: this report, "Incentive Pay Practices Survey: Privately Held Companies," and "Incentive Pay Practices Survey: Non-Profit/Government Organizations." A similar survey also was conducted by Deloitte Consulting and WorldatWork to examine the incentive pay practices at publicly-traded companies, resulting in a third report, "Incentive Pay Practices Survey: Publicly Traded Companies." All 3 reports are available on the WorldatWork website.

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 11.

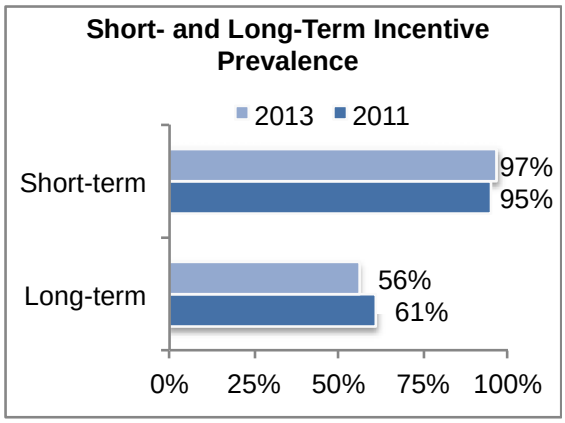
[1] For purposes of this survey report, use of the phrase "private, for-profit companies" implies that they are privately held. Private-sector companies that are publicly-traded are being reported separately.

OVERVIEW

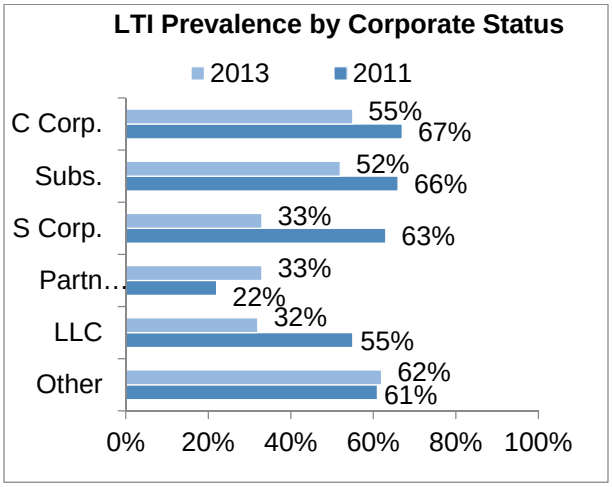
Private, for-profit companies in the United States rely heavily on cash incentives to motivate and retain executives and employees, according to the Vivient Consulting and WorldatWork survey, "Incentive Pay Practices Survey: Privately Held Companies."

This survey was conducted previously in 2007 and then again in 2011. Because the survey fills a gap in incentive-pay data for private companies, Vivient and WorldatWork decided to update the survey for 2013.

Between 2011 and 2013, short- and long-term incentive usage has remained generally steady at private companies. Short-term incentive (STI) use has increased slightly to 97% from 95%, while long-term incentive (LTI) use has decreased to 56% from 61%. (See questions 1 on page 11 and 24 on page 18).



LTI prevalence continues to depend heavily on the corporate organization structure. While LTI use was prevalent across all but one organization type in 2011, prevalence has dropped this year across all organization types except "other" and "partnership." ("Other" corporate structures include mutual insurance companies.) (See question 24a on page 18.)



Between 2007 and 2011, LTI use increased dramatically as private companies adopted LTI plans for the first time. Now having some experience with these plans, the 2013 dip could indicate that companies are scaling back due to the complexity of these plans. Private companies seem to be focusing compensation efforts on cash components, such as base pay and short-term incentives. Future surveys will indicate whether the 2013 dip in LTI plans is a trend or statistical anomaly.

Industries represented among private-company survey respondents vary widely. The industries with the largest number of respondents include finance and insurance; manufacturing; and consulting, professional, scientific and technical services. Other industries represented include retail trade; health care and social assistance; information; accommodations and food services; and transportation.

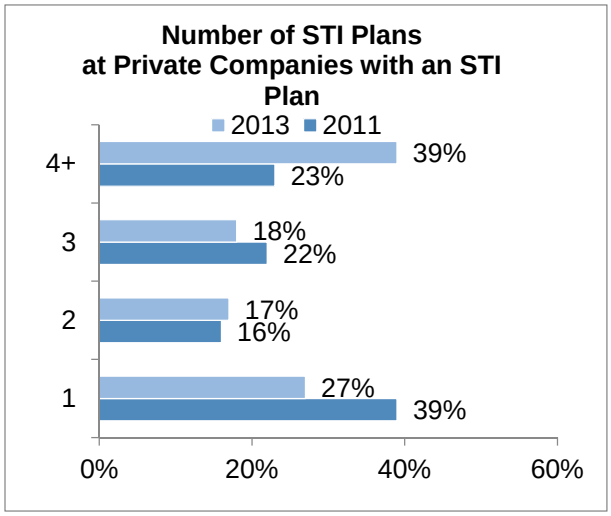
The size of responding private, for-profit organizations ranges from less than $100 million to more than $5 billion in revenue. More than half of the respondents report revenues of more than $1 billion. The corporate status of responding private, for-profit organizations is either subsidiary,

C corp., L.L.C. or S corp. A small number of partnerships also participated.

For the first time this year, private-company incentive-pay practices can be compared directly to public-company counterparts. WorldatWork and Deloitte Consulting launched an incentive-pay practices survey for publicly traded companies at the same time as the private-company survey. Vivient and Deloitte used several identical questions in the public and private versions of the surveys so that results can be compared across the surveys.

SHORT-TERM INCENTIVES

Private companies report a dramatic increase in the number of different STI plans in place. In 2013, 39% of respondents reported that their companies have four or more STI plans in place, while this figure was 23% in 2011. In contrast, in 2011, 39% of companies reported having only one STI plan, while this figure has dropped to 27% for 2013. (See question 2 on page 11.)



For 2013, survey participants were asked whether they had any of the following 8 types of STI plans:

Annual Incentive Plan: A pay plan that is 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 have no predetermined formula or promises, and are not guaranteed.

Spot Awards: Spot awards recognize special contributions as they occur for a specific project or task. The project or task generally is accomplished in a short time period.

Profit-Sharing Plan: A plan providing for employee participation in the profits of an organization. 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.

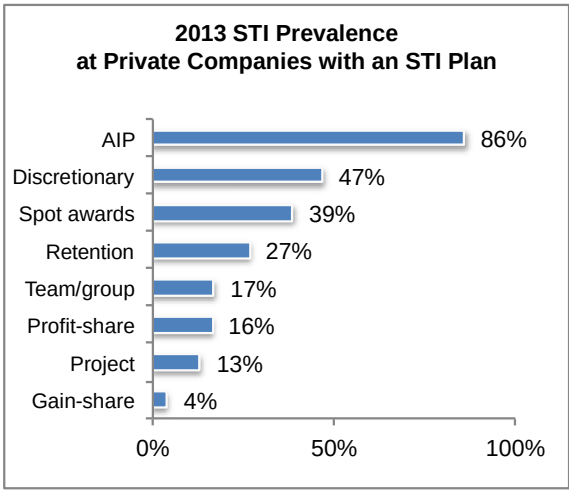
Gain-Sharing Plans: Any one of a number of incentive programs designed to share the results of productivity gains with employees as a group.

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 separate from group effort.

Retention Bonus: A payment or reward outside of an employee's regular salary that is offered as an incentive to keep a key employee on the job during a particularly crucial business cycle.

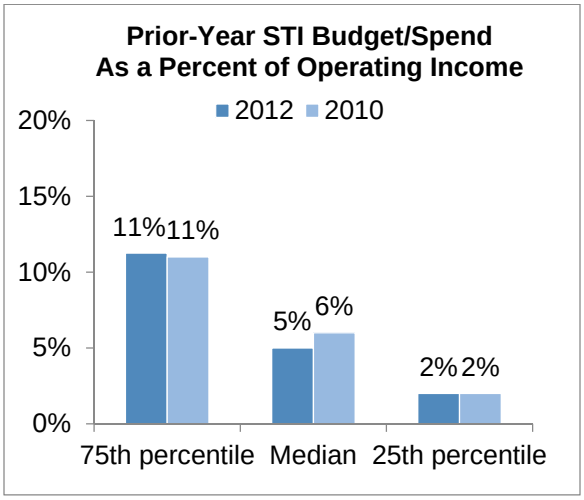
Project Bonus: A form of additional compensation paid to an employee or department as a reward for successfully completing a specific project within a certain timeframe.

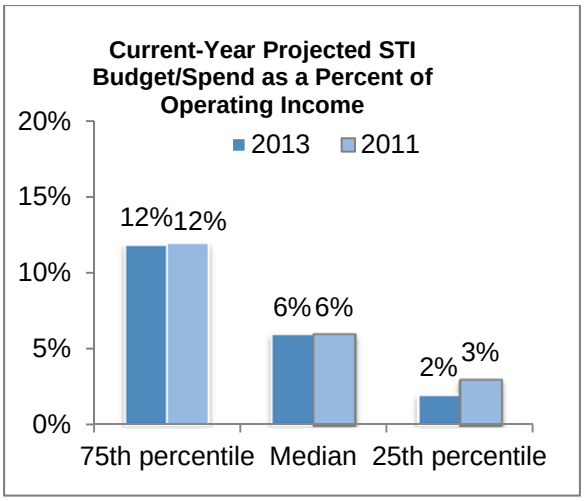
By far, the most common type of STI plan is an annual incentive plan (AIP). (See question 3 on page 11).



Nearly one-third of the respondents indicated that their companies are planning to add or modify a short-term incentive plan in 2013. The most common reasons for an added or modified STI plan are to align programs with market practices (48%) and to support a change in strategy (42%).

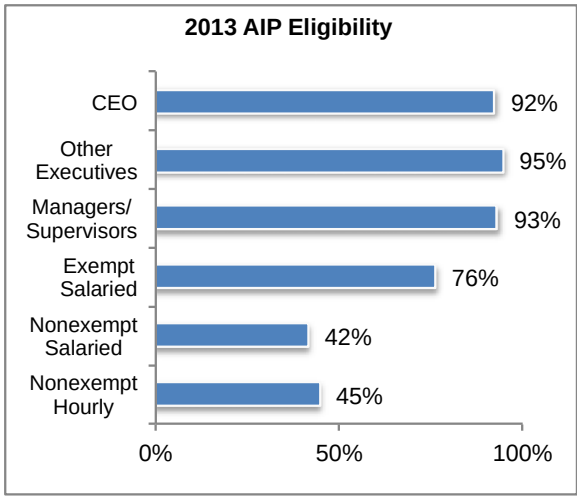
Respondents provided their companies' approximate budgets for STIs as a percentage of operating income for 2011 and projected budgets for 2013. The 2012 and 2013 budgets stayed relatively constant over time. (See question 5 on page 12.)

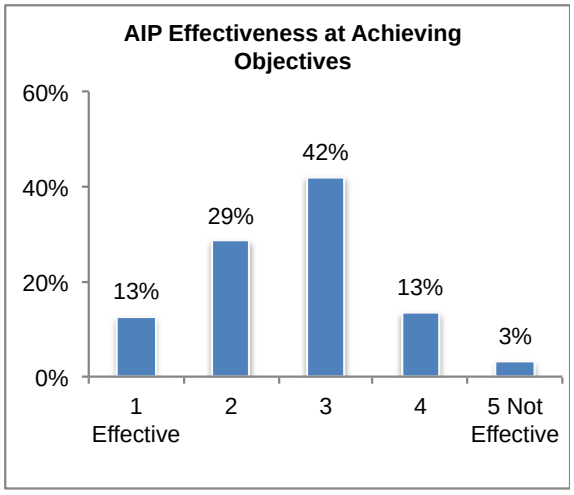




Annual Incentive Plans

The most prevalent STI plan at private companies, AIPs are available to employees at the exempt salaried level and above at most organizations. (See question 7 on page 13.)





The respondents with AIPs in place reported on the primary objectives of their plans (participants could select up to 3 options). The most common objectives are to:

1. Align employees' incentives with short-term goals (68% of respondents)
2. Focus employees on specific goals (51%)
3. Share the organization's financial success with employees (51%)

For the first time this year, participants were asked to rate the effectiveness of their AIPs. More than 80% said their AIPs were moderately effective to effective. (See question 9 on page 14.)

Plan elements cited most often as AIP strengths are:

AIP Strengths	
Performance linkage (corporate, unit, individual)	78%
Type of performance measures	71%
Level of award opportunity	72%

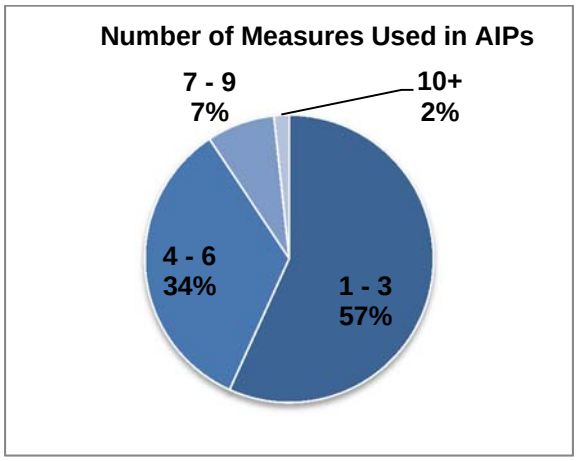
Plan elements cited most often as AIP weaknesses are:

AIP Weaknesses	
Risk-reward tradeoff	62%
Level of discretion	59%
Goal setting	52%

The results indicate that private companies largely view their AIPs as successful, particularly with regard to the performance measured and the award opportunities available to participants. (See question 9 on page 13.) AIP improvement opportunities exist for payouts relative to results, use of discretion, and goal setting.

Most private companies specify a maximum cash payment, or cap, in their AIPs. Similarly, most companies specify threshold, target and maximum awards for participants. The most typical threshold levels range from 50% to 80% of target, while the most typical maximum payout levels range 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 rely on one to three performance measures. (See question 16 on page 15.)



Companies that use more than one performance measure must combine them in some way to generate an AIP award. (See question 18 on page 17.)

Combining Measures to Calculate AIP Awards

Method	Description	
Additive	Performance is calculated separately for each measure	34%
Balanced Scorecard	Balances financial and operational measures	19%
Multiplicative	Certain measures are used as modifiers to increase or decrease the award	14%
One Measure	Only one measure is used in AIP	10%
Other	Includes using different measures for different participants	22%

Survey participants were asked which bonus plan performance measures they use in three different categories: financial, operational and individual. For financial measures, profit and income measures are used by nearly 80% of private companies, while revenue measures are used by more than half of companies. This implies that companies emphasize profitability, but most companies also use more than one measure as stated previously. Growth is an important objective as well. (See question 17 on page 16.)

Financial Measures	
Profit/income (includes EBIT, EBITDA, operating income, net income, EPS)	79%
Revenue/revenue growth	56%
Cash flow/cash-flow growth	15%
Capital efficiency	3%
Total shareholder return (stock price appreciation + dividends)	1%
Other financial	16%

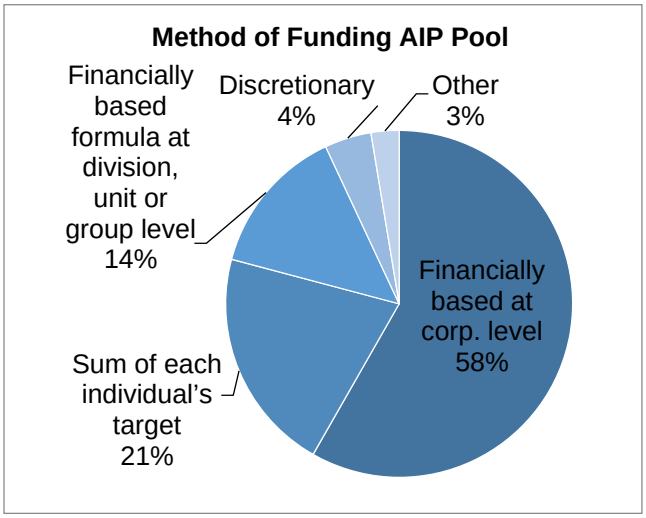
For operational measures, responses varied widely, with no objectives prevalent across private organizations. The main operational areas of focus were customers, service/quality and operational efficiency. These themes also appeared in the text responses provided for the "other" category. (See question 17 on page 16.)

Operational Measures	
Customer satisfaction	26%
Service/quality	21%
Operational efficiency	19%
Safety/occupational injury	10%
Employee satisfaction/ engagement scores	3%
Other operational objectives	9%

For individual objectives, about half of the respondents rely on performance ratings, while nearly a third use achievement of individual goals.

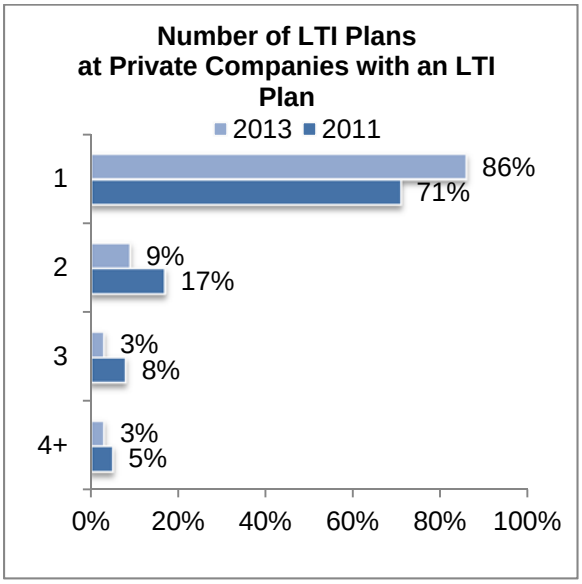
AIP performance targets at private companies typically are based on budgets, management discretion and improvement over prior year. In 2013, all but 16% of private companies report that their plans use subjectivity in AIP award decisions. (See question 21 on page 16.)

More than half of the respondents with AIPs fund their plans using a pool that is established at the corporate level based on financial and/or strategic goals. (See question 22 on page 17.)



LONG-TERM INCENTIVES

While private, for-profit companies reported an increase in the number of STI plans offered, they reported a consolidation in the number of LTI plans to focus on just one plan. (See question 27 on page 19.)



This may indicate that companies are adjusting their incentives programs to favor less complicated cash plans rather than using real equity.

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

1. Retain employees (64%)
2. Align employees' incentives with long-term goals (59%)
3. Be competitive with other employers (41%)

These top three objectives are the same as in 2011. However, "retaining employees" has replaced "aligning employees' incentives with long-term goals" as the top objective in 2013.

The 2013 survey asked about the prevalence of long-term incentive vehicles on a more granular level than in 2011. Respondents were asked to indicate whether their organizations used any number 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.

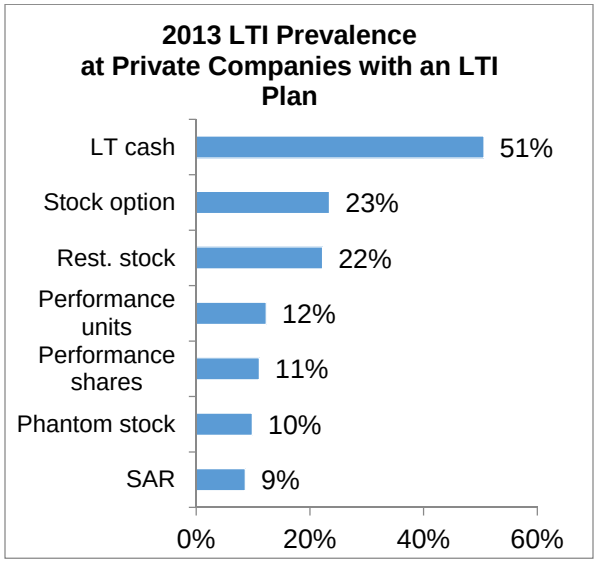
Stock Appreciation Right (SAR): A contractual right that allows an individual to receive cash or stock of a value equal to the appreciation of the stock from grant date to the date the SAR is exercised.

Long-Term Cash Plan: Cash awards where payment is contingent on performance as measured against predetermined financial or strategic objectives over a multi-year period of time (typically 3 years).

Performance Shares: Grants of actual shares of stock with payment that is contingent on performance as measured against predetermined objectives over a multi-year period of time; same as performance units except that the value paid fluctuates with stock price changes as well as performance against objectives.

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

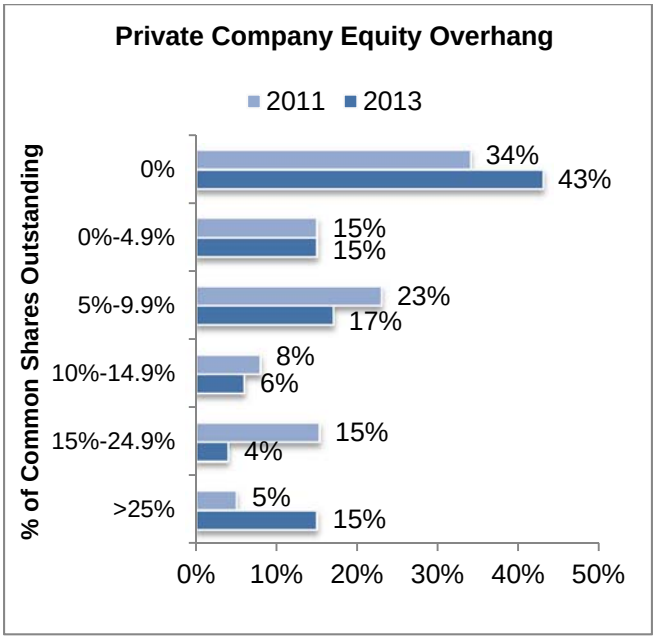
Long-term cash plans continue to be the most prevalent LTI vehicle at private companies, as was the case in 2011 (52% of companies reported long-term cash plans at that time). Real equity continues to be used by a minority of private companies, and much overlap occurs between firms offering stock options and restricted stock. This indicates that private companies that tackle the complexity associated with issuing real equity may then be willing to offer both equity vehicles. (See question 25 on page 18.)



Private company LTI awards continue to be granted to the CEO and top executives, with minimal usage at lower position levels. (See question 31 on page 21.)

The private companies were asked to report on equity overhang, or pools for current and future employee grants. (Overhang is defined as stock options and restricted stock outstanding, plus shares available for grant as a percentage of average common shares outstanding.)

An increased number of companies reported no overhang at one end of the spectrum. In addition, an increased number of companies reported equity overhang more than 25% of common shares outstanding. This appears to indicate that some companies are phasing out plans that use real equity, while others have added grants or share authorizations because they have already used their previously existing pool. Overhang tends to increase over time for private companies due to lack of liquidity. (See question 29 on page 19.)



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

For survey respondents that use real equity, median employee ownership is 18.5% in 2013, up significantly from 11.5% in 2011.

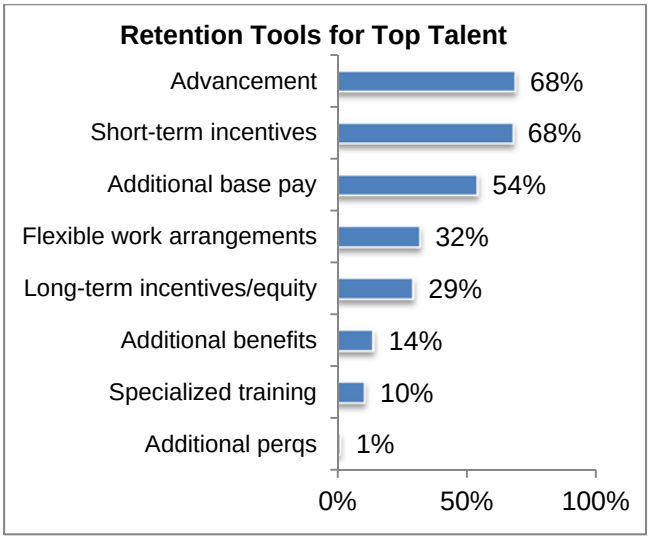
At private companies, equity valuation is a key consideration for any LTI plan that relies on the value of real equity. Despite its cost, outside appraisal of equity value is the preferred valuation mechanism for stock options, restricted stock, phantom stock and SARs in the current survey. Four out of 10 companies reported using outside appraisal to value these four vehicles. In the 2011 survey, phantom stock and stock appreciation rights were more likely to rely on a formula-based valuation. (Note: The sample size for companies reporting valuation mechanisms dropped in the 2013 survey.)

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 at a value-realizing event, such as a sale of the company or an initial public offering. More than one-third companies offer liquidity at termination and almost another third offer liquidity during specified company trading sessions[2]. (See question 39 on page 22.)

Stock Option and Restricted Stock Liquidity Mechanisms	
At value-realizing event	71%
At employee termination	36%
Periodic trading sessions	29%
Other	14%

Companies that report 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 being the most prevalent performance measure.

A final question in the survey asks participants to select the top three tools that private companies have found effective in retaining top talent. The most prevalent responses are job advancement and promotion, and short-term incentives. The third most prevalent response is additional base pay. One in three companies cites LTIs and equity as an important retention tool. (See question 52 on page 25.)



For private companies, cash is king, particularly when coupled with solid advancement opportunities.

[2] Fewer than 30 responses to this question were received; data corresponding to larger sample sizes will have stronger statistical power and validity.

DETAILED SURVEY RESULTS
(Data effective as of October 2013)

SHORT-TERM INCENTIVES

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

Yes	97%
No	3%
N =	**189**

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?

1	27%
2	17%
3	18%
4	10%
5	9%
6 to 10	10%
11 to 15	2%
16 or more	8%
N =	**184**

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

Annual incentive plan (AIP)	86%
Discretionary bonus plan	47%
Spot awards	39%
Retention bonus	27%
Team/small-group incentives	17%
Profit-sharing plan	16%
Project bonus	13%
Gain-sharing plans	4%
N =	**184**

4. Is your organization planning to add a short-term incentive plan or modify a short-term incentive plan for 2014?

No	68%
Yes	32%
N =	**183**

4a. If yes, what prompted the addition or modification? (Select all that apply.)
(Only participants answering "Yes" in question 4 received this question.)

Align programs with market practices	48%
Change in strategy	42%
Company growth	18%
New management team	13%
Reorganization	12%
New ownership	8%
Other *Improve motivational impact* *Improve line of sight* *Update goals/objectives each year* *Simplify/add clarity and transparency* *Recognize teams*	18%
N =	**60**

5. What is your organization's approximate total annual budget/spending for short-term incentives (STIs), expressed as a percentage of operating income?

STI budget/spending as a percent of operating income for:

2012

75th percentile	11%
Median	5%
25 percentile	2%
N =	**60**

2013 (Expected)

75th percentile	12%
Median	6%
25 percentile	2%
N =	**59**

6. **If your organization uses retention bonuses, what are the circumstances under which they are used? (Select all that apply.)**
(Only participants selecting "retention bonus" in question 3 received this question.)

To ensure business continuity for a critical project	68%
For difficult-to-recruit positions	61%
To counter a competing offer	59%
In preparation for or following a mergers-and-acquisitions transaction	32%
Other *Retention during reduction in force* *Retention during organizational uncertainty* *For high-turnover positions*	10%
N =	**41**

Annual Incentive Plans

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

7. **Please indicate which of the following positions are eligible for annual incentives in 2013. (Select all that apply.)**

CEO	92%
Other executives/officers	95%
Managers/supervisors	93%
Exempt salaried	76%
Nonexempt hourly nonunion	45%
Nonexempt salaried	42%
N =	**130**

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

Align employees' incentives with short-term goals	68%
Focus employees on specific goals	51%
Share organization's financial success with employees	51%
Reward employees	48%
To be competitive with other employers	46%
Retain employees	15%
Recruit qualified employees	5%
Provide special recognition	3%
Other	2%
N =	**130**

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

1 Effective	13%
2	29%
3	42%
4	13%
5 Not effective	3%
N =	**126**

10. Please click and drag the following incentive-plan elements to the appropriate "Strength" or "Weakness" box with the strongest strength or weakness showing at the top of the list.

	Strength	Weakness	N
Performance linkage (corporate, unit, individual)	78%	23%	120
Level of award opportunity	72%	28%	115
Type of performance measures	71%	29%	111
Goal setting	48%	52%	113
Level of discretion	41%	59%	112
Risk-reward tradeoff	38%	62%	106

11. How often are incentives paid during the year?

Annually	78%
Twice a year	4%
Quarterly	3%
Other *A combination of timeframes* *Monthly* *Ad hoc*	14%
N =	**125**

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

Yes	72%
No	28%
N =	**124**

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

Threshold (N =120)

Yes	68%
No	32%

Target (N =124)

Yes	94%
No	6%

Maximum (N =124)

Yes	77%
No	23%

14. What is your threshold payout level?
(Only participants selecting "threshold" in question 13 received this question.)

25% of target	6%
50% of target	32%
75% of target	13%
80% of target	10%
No threshold in the plan	3%
Other	37%
N =	**79**

**Other responses varied widely. Some reported that the threshold varied by plan.*

15. What is your maximum payout level?
(Only participants selecting "maximum" in question 13 received this question.)

150% of target	33%
200% of target	41%
300% of target	1%
No maximum in the plan	1%
Other	23%
N =	**94**

Other responses varied widely. Some reported that the max varied by plan, employee level or country.

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

1 - 3	57%
4 - 6	34%
7 - 9	7%
10 or more	2%
N =	**118**

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

Financial Objectives

Profit/income (includes EBIT, EBITDA, operating income, net income, EPS)	79%
Revenue/revenue growth	56%
Cash flow/cash-flow growth	15%
Capital efficiency	3%
Total shareholder return (stock price appreciation + dividends)	1%
Other financial *Ratings share* *Gross margin* *Job cost* *Net sales* *Same-store sales* *Occupancy* *Incremental value creation* *Cost savings* *Order intake* *Ratios of financial measures*	16%

Operational Objectives

Customer satisfaction	26%
Service/quality	21%
Operational efficiency	19%
Safety/occupational injury	10%
Employee satisfaction/engagement scores	3%
Other operational *Market share* *Board discretion* *Customer growth* *Unique customers* *Customer retention* *Attrition* *Group project goals* *Variable labor* *Shrink* *Productivity* *Supplier goals*	9%

Individual Objectives

Overall individual performance, perhaps as expressed in a performance rating	51%
Achievement of specific individual goals (please indicate the typical number of individual goals)	32%
Other individual objectives	3%
N =	**115**
Median number of individual goals (n = 14)[3]	**4**

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

Awards are paid for performance in each measure	34%
A balanced scorecard approach is used	19%
Different measures are used for different participants	19%
Certain measures are used as modifiers to increase or decrease the incentive amount	14%
Only one measure is used	10%
Other	3%
N =	**118**

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

Budget	53%
Management discretion	44%
Improvement over prior year	28%
Achievement of milestones	21%
Formula	17%
Relative to peers	12%
Fixed standard	9%
Other	0%
N =	**116**

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

	Corporate	**Div./ Unit**	**Individual**
CEO (n =109)	98%	18%	47%
Other executives/officers (n = 110)	85%	54%	64%
Managers/supervisors (n = 109)	72%	64%	69%
Exempt salaried (n = 89)	66%	44%	73%
Nonexempt salaried (n = 51)	61%	35%	75%
Nonexempt hourly nonunion (n = 56)	61%	41%	66%

[3] Fewer than 30 responses to this question were received; data corresponding to larger sample sizes will have stronger statistical power and validity.

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

Significantly	14%
Somewhat	41%
To a lesser degree	30%
Not at all	16%
N =	**118**

22. How is your incentive plan funded?

Financially based formula at the corporate level	58%
Sum of each individual's target	21%
Financially based formula at the division, unit or group level	14%
Discretionary	4%
Other	3%
N =	**115**

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

Participant receives written plan document	58%
Verbal description by human resources or supervisor	56%
Company provides annual communication of performance targets and links to strategy	52%
Not communicated	3%
Other *Quarterly updates and communications* *Orientation* *Online system* *Scorecards* *Letter with payout* *Posters* *Meetings with management*	8%
N =	**119**

LONG-TERM INCENTIVES

24. Does your organization have an LTI plan?

Yes	56%
No	44%
N =	**147**

Only participants answering "Yes" in question 24 received the following long-term incentives section.

24a. LTI prevalence by corporate status:[4]

		N
C Corp.	55%	20
Subsidiary	52%	21
S Corp.	33%	15
Partnership	33%	6
L.L.C.	32%	19
Other	62%	29

25. What type(s) of long-term incentive programs does your organization offer? (Select all that apply.)

Long-term cash plan	51%
Stock options	23%
Restricted stock	22%
Performance units	12%
Performance shares	11%
Phantom stock	10%
Stock appreciation rights (SAR)	9%
N =	**81**

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

Retain employees	64%
Align employees' incentives with long-term goals	59%
To be competitive with other employers	41%
Reward employees	26%
Focus employees on specific long-term goals	25%
Promote employee ownership	16%
Share the organization's financial success with employees	16%
Provide participants with a wealth-accumulation opportunity	12%
Recruit qualified employees	10%
Other	4%
N =	**81**

[4] Fewer than 30 responses to this question were received; data corresponding to larger sample sizes will have stronger statistical power and validity.

27. How many LTI programs do you have?

1	86%
2	9%
3	3%
4	0%
5 or more	3%
N =	**81**

28. Is your organization planning to add an LTI plan or modify an LTI incentive plan in 2014?

Yes	9%
No	91%
N =	**81**

28a. If yes, what prompted the addition or modification?
(Only participants answering "Yes" to question 28 received this question.)

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%	15%
20% to 24.99%	4%
15% to 19.99%	0%
10% to 14.99%	6%
5% to 9.99%	17%
4.99% to 0%	15%
0%	43%
N =	**47**

30. What percentage of the organization's real equity is owned (include stock options, restricted stock and shares held) by the following groups:[5]

	75th	Median	25th
CEO (n = 22)	12%	5%	1%
Other executives/officers (n = 21)	33%	5%	3%
All employees including CEO & other executives/officers (n = 22)	78%	19%	5%

Zeros were omitted, so this only includes individuals who hold real equity. The high 75th percentile figure for employee ownership reflects employee-owned and CEO-controlled companies.

31. 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 and restricted stock.)

	75th	Median	25th
CEO (n = 58)	33%	19%	6%
Other executives/officers (n = 58)	80%	63%	15%
Managers/supervisors (n = 57)	13%	0%	0%

Below the manager/supervisor level, allocations were rarely reported.

Stock Options and Restricted Stock

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

32. Please indicate which positions were eligible to receive a stock option (SO) and/or a restricted stock (RS) grant during your last grant cycle.[5]

CEO	93%
Other executives/officers	100%
Managers/supervisors	33%
Exempt salaried	13%
Nonexempt salaried	7%
Nonexempt hourly nonunion	7%
N =	**15**

[5] Fewer than 30 responses to this question were received; data corresponding to larger sample sizes will have stronger statistical power and validity.

33. If you issue stock options, what is their term?[6]

10 years	31%
6 years to 9 years	8%
5 years	31%
Fewer than 5 years	23%
N =	**13**

No respondents selected more than 10 years.

34. What is the timeframe for vesting for your organization's equity grants?[6]

	SO	RS
2 years	8%	10%
3 years	17%	50%
4 years	33%	20%
5 or more years	42%	20%
N =	**12**	**10**

No respondents selected "at grant/no vesting" or "1 year".

35. What is the vesting schedule for your organization's stock options and restricted stock? [6]

	SO	RS
Installment vesting	100%	70%
Cliff vesting	0%	30%
N =	**12**	**10**

36. If your organization grants stock options, what is the exercise price at which grants are made?[6]

Fair market value (FMV)	75%
Lower than FMV	17%
Other	8%
N =	**12**

No respondents selected "higher than FMV" or "formula".

[6] Fewer than 30 responses to this question were received; data corresponding to larger sample sizes will have stronger statistical power and validity.

37. What is the typical frequency of stock option and restricted stock awards?[7]

	SO	RS
Annually	50%	30%
Every 2 years	8%	0%
Every 3 years	0%	20%
At hire/promotion	17%	10%
Special one-time grants	8%	30%
Other	17%	10%
N =	**12**	**10**

38. What valuation method do you use to determine the value of the equity underlying stock option and restricted stock grants?[7]

Outside appraisal	40%
Formula	20%
Discretion of the board of directors	20%
Other *A combination of approaches* *Uncertain*	20%
N =	**15**

39. How does your organization provide liquidity for stock option and restricted stock grants? (Select all that apply.)[7]

Upon a value-realizing event, such as a sale of the company or an initial public offering	71%
If an employee terminates employment and conditions in the equity plan are met (i.e., termination is not for cause, the organization has positive cash flow)	36%
Periodic sessions when employees can exercise options and/or sell the equity	29%
Other *Upon vesting, can exercise at any time until expiration*	14%
N =	**14**

[7] Fewer than 30 responses to this question were received; data corresponding to larger sample sizes will have stronger statistical power and validity.

Phantom Stock/Stock Appreciation Rights (SARs)

Only participants selecting "phantom stock" or "stock appreciation rights" in question 25 received this section.

40. Please indicate which positions were eligible to receive a phantom stock/SARs grant during your last grant cycle.[8]

CEO	60%
Other executives/officers	100%
Managers/supervisors	40%
Exempt salaried	20%
Nonexempt hourly nonunion	10%
N =	**10**

41. What is the timeframe for vesting for your organization's phantom stock/SARs?[8]

3 years	40%
4 years	20%
5 or more years	40%
N =	**10**

No respondents selected at grant/no vesting, 1 year or 2 years.

42. What is the vesting schedule for your organization's phantom stock/SARs?[8]

Installment vesting	70%
Cliff vesting	30%
N =	**10**

43. If you issue SARs, what is the base price at which your organization grants the SARs?[8]

Fair market value (FMV)	50%
Higher than FMV	0%
Lower than FMV	10%
Formula	20%
Other	20%
N =	**10**

44. What is the typical frequency of phantom stock/SAR awards?[8]

Annually	80%
Special one-time grants	10%
Other	10%
N =	**10**

No respondents selected every 2 years, every 3 years or at hire/promotion.

[8] Fewer than 30 responses to this question were received; data corresponding to larger sample sizes will have stronger statistical power and validity.

45. What valuation methodology do you use to determine the value of the phantom stock and SAR grants?[9]

Outside appraisal to determine real equity value	40%
Formula	20%
Discretion of the board of directors	20%
Other	20%
N =	**10**

46. How does your organization pay out the value of phantom stock and/or SARs?[9]

Cash	80%
Combination of cash and equity	10%
Cash and/or shares are paid into a deferral account	10%
N =	**10**

No respondents selected shares of equity.

Performance Awards

Only participants selecting “performance shares,” “performance units” or “long-term cash plan” in question 25 received this section.

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

CEO	95%
Other executives/officers	93%
Managers/supervisors	25%
Exempt salaried	11%
Nonexempt salaried	2%
Nonexempt hourly nonunion	5%
N =	**44**

[9] Fewer than 30 responses to this question were received; data corresponding to larger sample sizes will have stronger statistical power and validity.

48. 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 measure including net income, operating income, EBIT and EBITDA	53%
Annual sales/revenue	42%
A return measure (return on equity, assets or investment)	14%
Economic profit or similar measure (e.g., economic value added, or EVA) (a measure of value created for shareholders that adjusts accounting performance for investors' required return on investment)	14%
Earnings per share (EPS)	5%
Market share	2%
Other *Surplus and dividend growth* *Growth in surplus (assets minus liability)* *Total clients* *Revenue per client* *Unit cost* *Product mix* *Customer satisfaction* *Discretionary*	23%
N =	**43**

No respondents selected total shareholder return or target stock price.

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

Budget	42%
Improvement over the prior year	33%
Discretion	35%
Formula	28%
Achievement of milestones	19%
Relative to peers	12%
Fixed standard	7%
Other	0%
N =	**43**

50. 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	Div./ Team	Individual
CEO (n = 40)	98%	18%	28%
Other executives/officers (n = 39)	87%	26%	28%
Managers/supervisors (n = 14)[10]	79%	21%	43%

Insufficient data below managers/supervisors

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

1 year	18%
2 years	0%
3 years	72%
4 years	3%
5 or more years	8%
N =	**39**

GENERAL

52. Please select the top three reward tools that your organization has found effective in retaining top talent: (Select all that apply.)

Job advancement/promotion	68%
Short-term incentives or bonuses	68%
Additional base compensation	54%
Flexible work arrangements	32%
Long-term incentive/equity awards	29%
Additional benefits	14%
Specialized training	10%
Additional perquisites	1%
Other	3%
N =	**117**

[10] Fewer than 30 responses to this question were received; data corresponding to larger sample sizes will have stronger statistical power and validity.

DEMOGRAPHICS

53. What is your organization type?

Private sector - privately held	100%
N=	**189**

54. Please select the industry that best describes your firm's primary business.

Finance and insurance	22%
Manufacturing	19%
Consulting, professional, scientific and technical services	17%
Retail trade	8%
Health care and social assistance	5%
Information (includes publishing, IT technologies, etc.)	4%
Accommodations and food services	4%
Transportation	2%
Other services (except public administration)	2%
Management of companies and enterprises	2%
Computer and electronics	2%
Arts, entertainment and recreation	1%
Mining	1%
Construction	1%
Pharmaceuticals	1%
Wholesale trade	1%
Educational services	0%
Public administration	0%
Utilities, oil and gas	0%
Real estate, and rental and leasing	0%
Warehousing and storage	0%
Other *Defense* *Biotech/pharmaceuticals* *Medical devices* *Industrial distribution*	9%
N =	**117**

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

More than 5,000	40%
2,500 to 4,999	17%
1,000 to 2,499	23%
500 to 999	9%
100 to 499	5%
Less than 100	5%
N =	**116**

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

More than $5 billion	16%
$2.5 billion to $4.9 billion	22%
$1 billion to $2.49 billion	22%
$500 million to $999 million	14%
$100 million to $499 million	16%
Less than $100 million	9%
N =	**116**

57. What is your organization's corporate status?

Subsidiary	19%
C Corp.	18%
L.L.C.	17%
S Corp.	14%
Partnership	5%
Other *Mutual* *Employee owned* *Uncertain*	26%
N =	**110**

58. Is your organization's CEO an owner?

No	73%
Yes	24%
Yes, and also a founding member of the organization	4%
N =	**110**

Participating Organizations

A10 Networks
AccentCare
American Family Insurance
Ameritas
Andersen Corporation
Arby's Restaurant Group, Inc.
Arizona chemical
Banfield Pet Hospitals
Bimbo Bakeries USA
BlueCross BlueShield of South Carolina
Blue Cross and Blue Shield of Kansas
California Casualty Management Company
Carestream Health, Inc.
Carlson Rezidor Hotel Group
Carlson, Inc
CSAA Insurance Exchange
De Lage Landen
Del Monte Foods
Denso Manufacturing of Michigan
Dewberry
Doosan Infracore
Dow Corning
Erickson Living
Evonik Corporation
Freeman
Gardner Denver, Inc.
General Atomics
Glazer's
Golden Living
Goodwin Procter
Guardian Life Insurance
Hitachi Data Systems
Hollister Incorporated
Hyundai Capital America
INC Research
Ingram Industries Inc.
IRI
J. J. Keller & Associates, Inc.
JT3
Kelsey-Seybold Clinic
Leupold & Stevens, Inc.
Liberty Mutual Insurance
Luck Companies
MathWorks
McGladrey LLP
McGraw-Hill Education
Meijer Inc.
Michael Baker Corporation
MillerCoors
Mutual of Omaha
Nationwide Insurance
NEC Corporation of America
New York Life Insurance Company
NOVA Chemicals
PPD
Prime Therapeutics
Safelite AutoGlass
Samsung Electronics America, Inc
Securian Financial Group
SRA International
Steward HealthCare Systems LLC
STIHL Inc.
Sunrise Senior Living
TransUnion
Tribune Company
Vi-Jon, Inc.
Wells Enterprises
Western & Southern Financial Group
White Castle Management Co.
WHITE CASTLE SYSTEM INC
Wilmer Cutler Pickering Hale and Dorr, LLP
Zachry
ZF North America, Inc.