Private Company Incentive Pay Practices Survey

research

A report by WorldatWork
and Vivient Consulting
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WorldatWork
The Total Rewards Association

About WorldatWork® — The Total Rewards Association

WorldatWork (www.worldatwork.org) is a not-for-profit organization providing education, conferences and research focused on global human resources issues including compensation, benefits, work-life and integrated total rewards to attract, motivate and retain a talented workforce. Founded in 1955, WorldatWork has nearly 30,000 members in more than 100 countries. Its affiliate organization, WorldatWork Society of Certified Professionals®, is the certifying body for the prestigious 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™). WorldatWork has offices in Scottsdale, Arizona, and Washington, D.C.

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About Vivient Consulting

Vivient Consulting LLC is an independent provider of compensation consulting services. Based in El Segundo, CA, Vivient serves public and private companies across a broad range of industries, including financial services, high technology, real estate, manufacturing, energy and transportation.

Vivient's primary service areas are:

- Compensation strategy development and benchmarking
- Incentive plan design (e.g., bonus plans, real and phantom equity plans, and long-term cash plans)
- Performance measurement selection
- Goal-setting
- Board of director advisory services.

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Introduction & Methodology

What do short- and long-term incentive programs look like at U.S. private firms? How have competitive practices changed because of the difficult economic climate? WorldatWork and Vivient Consulting first surveyed private companies to learn about their short- and long-term incentive practices in 2007. The survey was popular and filled a gap in competitive data for private companies relative to their public counterparts. For 2011, WorldatWork and Vivient updated this survey to assess how practices have changed over the past several years at private companies.

Private companies face unique incentive compensation challenges. Private companies lack publicly traded equity, so providing competitive long-term incentives can be challenging in terms of valuation, liquidity and ownership structure. Because private companies often do not share the same level of financial information, benchmarking incentives and performance against peers is difficult. However, private companies do have an advantage over their public peers in that they seldom/rarely are subject to the same level of scrutiny, so they have more freedom in incentive pay program design.

In September 2011, WorldatWork and Vivient Consulting invited a sample of WorldatWork's members to answer an online survey. More than 230 private, for-profit companies responded to the survey, as did almost 90 nonprofit and government organizations. The 2007 survey excluded nonprofit and government organizations. Responses for nonprofit and government organizations are reported separately.

Industries represented among survey respondents include manufacturing; financial services and insurance; business and professional services; retail and wholesale trade; utilities, oil and gas; computers and electronics; health care and social assistance; and information services.

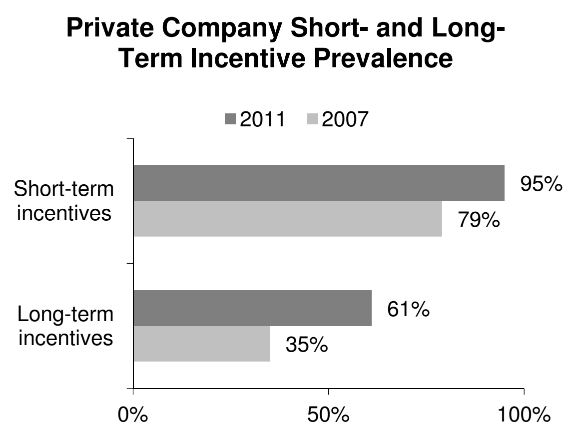
The size of responding for-profit organizations ranges from more than $5 billion in revenue to less than $100 million in revenue. The corporate status of responding for-profit organizations was primarily C corp., L.L.C. and subsidiaries, with a small number of S corps. and partnerships also participating. Nonprofit and government respondents have operating budgets ranging from more than $5 billion to less than $100 million.

FOR-PROFIT COMPANIES

Overview

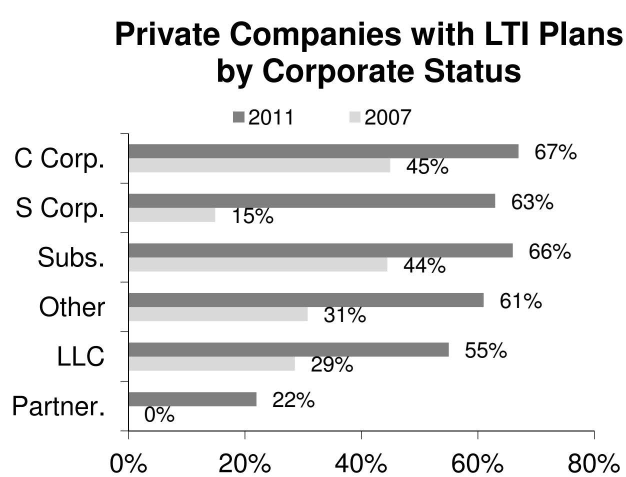
Respondents report increased usage of both short- and long-term incentive programs since 2007. Short-term incentive (STI) usage has increased to 95% from 79%, while long-term incentive (LTI) usage has increased to 61% from 35%. (See graph 1.)

Graph 1: Private Company Short- and Long-Term Incentive Prevalence



The 2007 survey found that LTI usage depended heavily on the corporate organization structure. Interestingly, in 2011 LTI usage has increased across all for-profit private company types. Having a long-term incentive plan is now the prevalent practice across all private for-profit corporate organizational types, except partnerships. (See graph 2.)

Graph 2: Private Companies with LTI Plans by Corporate Status



Short-Term Incentives

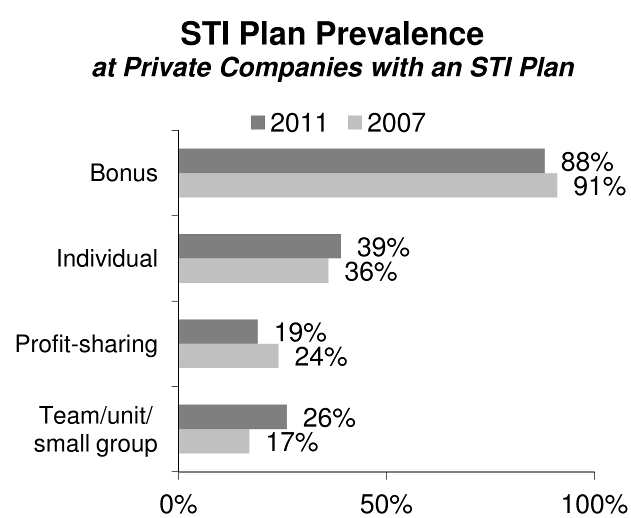
Of the respondents indicating that their private companies have an STI plan, nearly four out of 10 have one plan, while the rest have two or more STI plans in place. Nearly one-third of the respondents indicate that their companies are planning to add or modify a short-term incentive plan in 2011. The most common reasons for an added or modified STI plan are a change in strategy (50%), improving business results (36%) and a new management team (23%).

Survey participants were asked what impact the recent economic challenges had on their bonus plans. More than half of the respondents said they did not make any changes to their STI programs because of the economy. Those that did make changes reported varied approaches.

The respondents provided their companies' approximate budgets for STIs as a percentage of operating income for last year. As in the prior survey, 2010 STI budgets ranged from 2% of operating income at the 25th percentile to 12% at the 75th percentile, with 6% being the median. The budgets were fairly consistent across companies of different revenue sizes. This year, we also asked respondents for their projected 2011 bonus budgets as a percentage of operating income. The 25th percentile moved up to 3%, but the median and 75th percentile stayed at 6% and 12%, respectively.

Bonuses are the most popular type of STI plan. About nine out of 10 respondents with an STI plan have a bonus plan. The prevalence of bonus plans and individual incentive plans stayed fairly constant from 2007 to 2011. The prevalence of profit-sharing plans decreased, while more respondents reported using team/unit/small group incentives in 2011 than in 2007. (See graph 3.)

Graph 3: STI Plan Prevalence



Survey participants were asked what percentage of different employee groups received each type of STI award in 2010. Respondents reported that bonuses and individual incentives were awarded most frequently to executives and management. Profit-sharing was used evenly across different employee groups. Team/unit/small group incentives were awarded on a limited basis evenly across different employee groups.

The data in these sections is reported by position at the mean and median. Mean data provides prevalence for the overall survey population, while median data shows practices at a typical private company. For instance, on Question 8 – “If your organization offers bonuses, please indicate which of the following positions received bonuses for 2010” – a mean of 67% of companies provide bonuses to their managers and supervisors. In contrast, the median statistic for Question 8 indicates that, at a typical company, 90% of managers and supervisors receive bonuses.

Bonus Plans

The respondents indicating that their companies have bonus plans in place reported on the primary objectives of their bonus plans. The most common objectives are to:

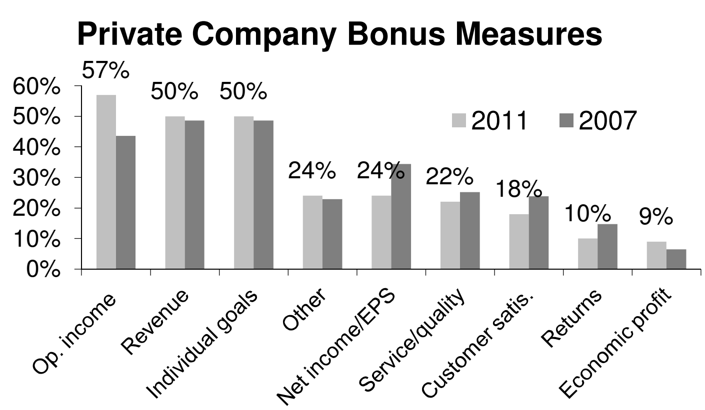
1. Reward employees (74% of respondents)
2. Focus employees on specific goals (67%)
3. Share the organization's financial success with employees (55%)

The top three objectives cited in 2011 were the same as in 2007.

The vast majority of respondents pay bonuses to employees on an annual basis.

Survey participants were asked which bonus plan performance measures they use. In 2007, revenue was the most commonly used measure. In 2011, operating income moved into first place, indicating an emphasis on profitability over growth because of the recession. (See graph 4.)

Graph 4: Private Company Bonus Measures



Bonus plan performance targets at private companies are typically based on budgets and improvement over prior year. In 2011, two out of three private companies report that their bonus plans use subjectivity in bonus decisions.

About half of the respondents with bonus plans fund their plans using a pool that is established at the corporate level based on financial and/or strategic goals. Bonus plan caps have become more prevalent since 2007. Nearly 70% of survey respondents report using a cap, up from about 50% in 2007.

Long-Term Incentives

As in 2007, nearly three out of four respondents said that their companies had only one LTI plan in place, reflecting the cost and complexity of designing such a plan for a private company.

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

- Align employees' incentives with long-term goals (63%)
- Retain employees (60%)
- Be competitive with other employers (45%)

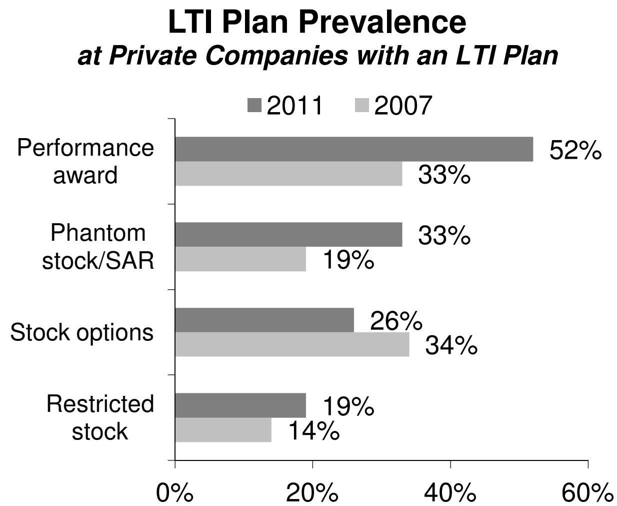
The top three objectives are the same as in 2011. However, aligning employees' incentives with long-term goals has replaced retaining employees as the top objective in 2011.

One in 10 respondents said that their companies would add or modify an LTI plan in 2012. The most common reason for the addition of modification of an LTI plan is a change in strategy.

Respondents were asked whether the recent recession prompted any changes to LTI programs. Only one in four companies reported changes to an LTI plan because of the difficult economy.

Of the respondents reporting that their private companies offer LTI plans, half now use performance awards, also called long-term cash plans. The prevalence of performance awards is up from a third in 2007. Phantom stock and stock appreciations rights (SARs) are used by about a third of private companies with LTI plans, also up from 2007. The usage of stock options has dropped to one quarter of private companies with LTI plans, while restricted stock remains used to a lesser degree. (See graph 5.)

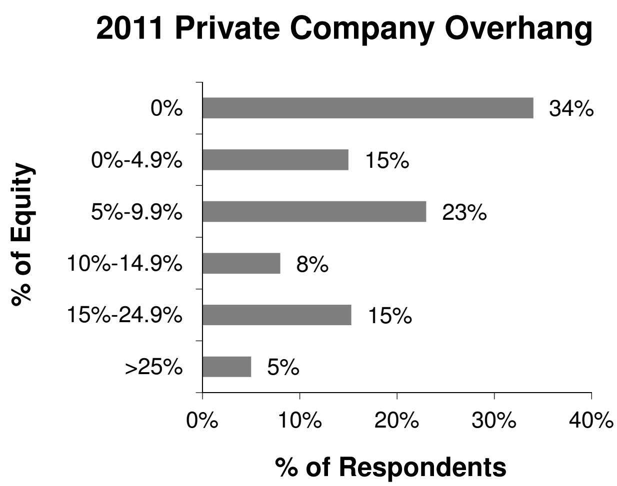
Graph 5: LTI Plan Prevalence



Not surprisingly, private company LTI awards continue to be granted to the CEO and top executives, with minimal usage at the management and exempt professional levels.

The private companies surveyed report modest equity overhang or pools for current and future grants. Seven out of 10 of the respondents with LTI plans in place report equity pools of about 10% or less. This reflects the fact that most private companies do not use real equity for LTI grants. (See graph 6.)

Graph 6: Private Company Overhang



For private companies in the survey that use real equity, median employee ownership is 11.5% in 2011, up slightly from 10% in 2007.

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 and restricted stock. In contrast, phantom stock and stock appreciation rights are more likely to rely on a formula-based valuation. (See table 1.)

Table 1: Private Company LTI Valuation Mechanisms

	Stock Option	Restricted Stock	Phantom/ SARs
Outside Appraisal	65%	56%	35%
Formula	22%	38%	52%
Board Discretion	4%	0%	10%
Other	9%	6%	3%

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 most commonly at a value-realizing event, such as a sale of the company or an initial public offering. More than half of the respondents provide liquidity for restricted stock grants at employee termination (if certain criteria are met), while this is less common for stock options. For stock options, a minority of respondents report that their companies offer periodic trading sessions where employees can exercise options and/or sell the underlying equity. This practice is used more commonly for restricted stock. (See table 2.)

Table 2: Private Company Stock Option and Restricted Stock Liquidity Mechanisms

	Stock Option	Restricted Stock
At value-realizing event	65%	38%
At employee termination	44%	63%
Periodic trading sessions	22%	50%
Other	9%	6%

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 operating income being the most prevalent performance measure.

Deferred Compensation

Of the survey respondents, 35% report that their companies offer deferred compensation plans for highly compensated individuals, generally the CEO and executives. This is down from 43% in 2007.

At private companies offering deferred compensation plans, contributions are typically made by either the employee only or by both the employer and employee. Most firms do not provide an employer match for participants.

NONPROFIT AND GOVERNMENT ORGANIZATIONS

Surprisingly, eight out of 10 nonprofit and government organizations offer some sort of STI program. Not surprisingly, only two out of 10 offer an LTI program.

The most common STI programs offered are bonuses and individual incentives. Bonuses are most commonly used to focus employees on specific goals (78%) and reward employees (65%), and the performance measures used tend to be more qualitative measures than financial measures.

A minority of nonprofits offers an LTI plan. Deferred compensation is most common, while a long-term cash plan is used by about half of the organizations with an LTI plan.

Incentive Pay Practices for Privately-Held Companies
2011 Survey Results (Excluding Non-Profit and Government)

Section 1 - Short-Term Incentives

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

Yes	95.3%	N = 232
No	4.7%	

Responses to questions in the remainder of this section apply only to companies with a short-term incentive program in place.

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

1	39.2%	N = 209
2	16.3%	
3	21.5%	
4+	23.0%	

3. Is your organization planning to add or modify a short-term incentive plan for 2012?

Yes	32.4%	N = 213
No	67.6%	

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

Change in strategy	50.0%	N = 66
Improving business results	36.4%	
New management team	22.7%	
Reorganization	10.6%	
Deteriorating business results	6.1%	
New ownership	6.1%	
Other	18.2%	

Note: The most common "Other" response is to align programs with market practices.

4. Given the difficult economic climate in the recent past, what changes did you make to your short-term incentive programs? (Check all that apply.)

No changes	56.7%	N = 210
Increased the use of discretion in determining payouts	15.7%	
Reduced payouts	12.9%	
Adjusted goals in the middle of a bonus cycle	9.0%	
Lowered target payouts	8.1%	
Suspended the program/eliminated payouts	6.2%	
Deferred bonus payments	1.0%	
Reduced the use of discretion in determining payouts	0.5%	
Other	7.1%	

Note: Common "Other" responses are adjusting participation, changing performance measures and redesigning the plan.

Incentive Pay Practices for Privately-Held Companies
2011 Survey Results (Excluding Non-Profit and Government)

5. If the economy improves going forward, what changes are you making to your short-term incentive programs? (Check all that apply.)

No changes	60.1%	N = 198
Increasing employee target payouts	16.2%	
Increasing performance goals	13.6%	
Increasing the use of discretion in determining payouts	6.1%	
Reducing the use of discretion in determining payouts	5.1%	
Reinstating the program	4.0%	
Other	7.1%	

Note: The most common response to "Other" is adding participants to the plan.

6. What is your organization's approximate total budget for short-term incentives (assuming target payouts), expressed as a percentage of operating income?

Percent of operating income for 2010:

Revenue	25th	Median	75th	N
All	2.3%	6.0%	11.4%	104
> $5B	1.0%	3.0%	8.2%	15
$2.5B - $4.9B	1.9%	6.0%	11.9%	30
$1B - $2.49B	3.2%	5.5%	10.0%	17
$500M - $999M	2.2%	5.5%	9.3%	12
$100M - $499M	*insufficient data*			6
< $100M	*insufficient data*			6

Percent of operating income for 2011 (expected):

Revenue	25th	Median	75th	N
All	3.4%	6.0%	11.9%	95
> $5B	1.5%	3.9%	10.0%	17
$2.5B - $4.9B	3.2%	8.0%	15.0%	25
$1B - $2.49B	5.5%	7.0%	10.0%	15
$500M - $999M	3.9%	6.7%	18.3%	12
$100M - $499M	*insufficient data*			6
< $100M	*insufficient data*			4

7. What type(s) of short-term incentive programs does your organization offer? (Check all that apply.)

Bonuses	88.2%	N = 195
Individual incentives	39.0%	
Profit sharing	19.0%	
Team/unit/small group incentives	25.6%	

Incentive Pay Practices for Privately-Held Companies
2011 Survey Results (Excluding Non-Profit and Government)

Section 2 - Bonus Plans

Responses in this section apply only to companies with a bonus plan in place.

8. If your organization offers bonuses, please indicate which of the following positions received bonuses for 2010.

	Mean	Median	N
CEO	83.9%	100.0%	143
Other Executives/Officers	79.0%	100.0%	153
Managers/Supervisors	67.3%	90.0%	153
Exempt Salaried	58.2%	80.0%	139
Non-exempt Salaried	49.1%	50.0%	85
on-exempt Hourly Nonunion	49.9%	50.0%	110

Note: Mean statistics highlight overall prevalence in the survey population, while median statistics show practices at a typical private company.

9. What are the three primary objectives of your bonus plan? (Please check up to three.)

Reward employees	73.8%	N = 160
Focus employees on specific goals	66.9%	
Share the organization’s financial success with employee	55.0%	
Be competitive with other employers	41.9%	
Retain employees	33.8%	
Recruit qualified employees	6.3%	
Provide special recognition	3.8%	
Other	0.6%	

10. How often are bonuses paid?

Annually	76.7%	N = 159
Twice a Year	6.3%	
Quarterly	4.4%	
Other	12.6%	

Note: The most common response to "Other" is that the organization has multiple plans with different bonus-payout timings.

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

Yes	69.2%	N = 156
No	30.8%	

Incentive Pay Practices for Privately-Held Companies
2011 Survey Results (Excluding Non-Profit and Government)

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

	Yes	No	N
Threshold	64.6%	35.4%	158
Target	84.2%	15.8%	158
Maximum	68.4%	31.6%	158

13. What are the average threshold, target and maximum awards participants are eligible to receive under the bonus program as a percent of salary?

	Threshold % of Salary		Target % of Salary		Maximum % of Salary	
	Mean	**Median**	**Mean**	**Median**	**Mean**	**Median**
CEO	43.3%	48.8%	87.5%	100.0%	164.5%	150.0%
N	*64*		*92*		*71*	
Other Executives/Officers	26.8%	21.6%	52.7%	48.5%	93.9%	80.0%
N	*71*		*100*		*79*	
Managers/Supervisors	17.8%	8.5%	28.9%	20.0%	54.0%	30.0%
N	*69*		*98*		*78*	
Exempt Salaried	14.1%	5.0%	21.6%	10.0%	43.6%	16.0%
N	*54*		*83*		*65*	
Non-exempt Salaried	9.1%	2.5%	19.6%	5.0%	33.3%	10.0%
N	*30*		*47*		*37*	
on-exempt Hourly Nonunion	8.0%	2.5%	14.7%	5.0%	30.9%	9.6%
N	*36*		*58*		*41*	

14. Which performance measures are used in your bonus program? (Check all that apply.)

Operating income/EBITDA	57.2%	N = 145
Annual sales/revenue	50.3%	
Individual goals	49.7%	
Net income and earnings per share	24.1%	
Service/quality measures	22.1%	
Customer satisfaction	17.9%	
A return measure	10.3%	
Economic profit or similar (e.g., EVA)	9.0%	
Other	24.1%	

Note: Common "Other" responses include cash flow, market share, safety and working capital.

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

N = 139

Budget	65.5%
Improvement over prior yeaı	31.7%
Formula	23.0%
Relative to peers	12.2%
Fixed standard	7.9%
Other	9.4%

16. What is the linkage for your bonus program by position?

Bonuses for individuals in the employee category are based on (check all that apply):

N = 146	Corporate Performance	Division/Team Performance	Individual Performance
CEO	87.7%	9.6%	33.6%
Other Executives/Officers	89.0%	51.4%	47.9%
Managers/Supervisors	75.3%	56.8%	58.9%
Exempt Salaried	63.7%	42.5%	55.5%
Non-exempt Salaried	35.6%	19.9%	27.4%
on-exempt Hourly Nonunion	41.8%	24.0%	32.2%

17. How much does supervisor discretion or subjectivity play a role in your bonus program?

N = 144

Significantly	19.4%
Somewhat	28.5%
To a Lesser Degre	20.8%
Not At All	31.3%

18. How is your bonus plan funded? N = 146

A bonus pool is established at the corporate level, with the funding and size of the pool dependent on the achievement of financial and/or strategic	51.4%
Funding is based on the sum of each individual's target or expected bonus.	32.2%
Bonus pools are established at the division, unit and/or group level, with the funding and size of the pools based on the achievement of financial and/or strategic goals.	11.0%
Other	5.5%

Section 3 - Non-Bonus Short-Term Incentive Plans

Responses in this section apply only to companies with a non-bonus short-term incentive plan in place. Mean statistics highlight overall prevalence in the survey population, while median statistics show practices at a typical private company.

19. Please indicate which of the following positions received individual incentives for 2010.

	Mean	Median	N
CEO	59.0%	100.0%	47
Other Executives/Officers	56.2%	82.5%	50
Managers/Supervisors	46.9%	30.0%	53
Exempt Salaried	40.3%	19.0%	52
Non-exempt Salaried	33.8%	1.0%	36
Non-exempt Hourly Nonunion	34.3%	2.0%	41

20. Please indicate which of the following positions received profit sharing for 2010.

	Mean	Median	N
CEO	61.8%	100.0%	25
Other Executives/Officers	58.4%	100.0%	26
Managers/Supervisors	54.6%	77.5%	26
Exempt Salaried	54.2%	80.0%	27
Non-exempt Salaried	62.3%	95.0%	19
Non-exempt Hourly Nonunion	55.6%	75.0%	27

21. Please indicate which of the following positions received team/unit/small group incentives for 2010.

	Mean	Median	N
CEO	21.3%	0.0%	27
Other Executives/Officers	21.1%	0.0%	28
Managers/Supervisors	22.9%	0.0%	29
Exempt Salaried	19.7%	1.0%	29
Non-exempt Salaried	16.9%	0.0%	21
Non-exempt Hourly Nonunion	26.0%	4.5%	26

Incentive Pay Practices for Privately-Held Companies
2011 Survey Results (Excluding Non-Profit and Government)

Section 4 -Long-Term Incentives

22. Does your organization have an LTI plan?

	Yes	No	N *
All	61.4%	38.6%	176
C Corp.	66.7%	33.3%	39
L.L.C.	54.5%	45.5%	33
Subsidiary	65.5%	34.5%	29
S Corp.	62.5%	37.5%	16
Partnership	22.2%	77.8%	9
Other	60.7%	39.3%	28

** Data cut responses do not sum to 173 because some respondents did not report a company type*

Responses to questions in the remainder of this section apply only to organizations with a long-term incentive program in place.

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

Align employees with long-term goals	62.6%	N = 107
Retain employees	59.8%	
To be competitive with other employers	44.9%	
Reward employees	31.8%	
Focus employees on specific long-term goals	30.8%	
Share the organization’s financial success with employees	19.6%	
Recruit qualified employees	11.2%	
Promote employee ownership	11.2%	
Provide participants with a wealth-accumulation opportunity	7.5%	
Provide special recognition	2.8%	

24. How many LTI programs do you have?

1	70.8%	N = 106
2	17.0%	
3	7.5%	
4+	4.7%	

25. Is your organization planning to add an LTI plan or modify an LTI incentive plan in 2012?

No	88.9%	N = 108
Yes	11.1%	

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

Change in strategy	41.7%	N = 12
Improving business results	16.7%	
New ownership	8.3%	
New management team	8.3%	
Reorganization	8.3%	
Other	33.3%	

Note: No participants selected "Deteriorating business results."

26. Given the difficult economic climate in the recent past, what changes did you make to your long-term incentive programs? (Check all that apply.)

No changes	76.9%	N = 108
Suspended the program/eliminated grants	8.3%	
Provided smaller grants	6.5%	
Added new performance measures to LTI grants	4.6%	
Adjusted goals in the middle of an LTI cycle	4.6%	
Increased the use of discretion in determining grants	3.7%	
Other	3.7%	

Note: No participants selected "Deferred LTI payments over a longer period of time" or "Reduced the use of discretion in determinging grants."

27. If the economy improves going forward, what changes are you making to your long-term incentive programs? (Check all that apply.)

No changes	81.6%	N = 103
Reinstating the program	4.9%	
Increasing employee target grants	4.9%	
Increasing performance goals	3.9%	
Increasing the use of discretion in determining grants	1.9%	
Adding new performance goals	1.0%	
Reducing the use of discretion in determining grants	1.0%	
Other	3.9%	

Note: No participants selected "Providing a make-up payment/mega-grant."

28. What is the size of the total equity pool for current and future employee grants as a % 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%	4.6%	N = 65
20% to 24.99%	1.5%	
15% to 19.99%	13.8%	
10% to 14.99%	7.7%	
5% to 9.99%	23.1%	
Less than 5% (but greater than 0%)	15.4%	
0%	33.8%	

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

	Mean	Median	N*
CEO:	26.3%	8.5%	35
Other executives/officers:	19.1%	9.8%	33
All employees (including CEO and other execs/officers):	37.5%	11.5%	28

Note: The data excludes respondents that report 0% ownership.

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

Of companies in each category that provide LTIs, the percentage offering each vehicle is:

	Stock Options	Resticted Stock	Phantom Stock / SARs	Perform. Awards	Deferred Comp.	N
All	26.1%	18.5%	32.6%	52.2%	34.8%	92
C Corp.	34.8%	34.8%	26.1%	56.5%	39.1%	23
L.L.C.	23.5%	5.9%	35.3%	41.2%	17.6%	17
Subsidiary	29.4%	29.4%	29.4%	41.2%	35.3%	17
S Corp.	30.0%	0.0%	40.0%	60.0%	60.0%	10
Partnership			*insufficient data*			2
Other	20.0%	13.3%	40.0%	53.3%	26.7%	15

Section 5 - Stock Options

Responses to questions in the remainder of this section apply only to companies with a stock option plan in place.

31. Please indicate the percentage of employees who received a stock option grant during the last regular grant cycle (use 2011 grants unless the last regular grant was awarded in 2010).

	Mean	Median	N
CEO	59.1%	100.0%	22
Other Executives/Officers	52.1%	90.0%	21
Managers/Supervisors	6.1%	0.0%	18
Exempt Salaried	3.3%	0.0%	15
Non-exempt Salaried	*insufficient data*		9
Non-exempt Hourly Nonunion	*insufficient data*		11

Note: Mean statistics highlight overall prevalence in the survey population, while median statistics show practices at a typical private company.

32. What is the term of your stock options?

More than 10 years	4.3%	N = 23
10 years	60.9%	
8 years	4.3%	
7 years	8.7%	
5 years	17.4%	
Fewer than 5 years	4.3%	

Note: No respondents selected 6- or 9-year terms.

33. What is the timeframe for vesting for your organization's stock options?

3 years	30.4%	N = 23
4 years	30.4%	
5 or more years	39.1%	

Note: No respondents selected at grant/no vesting, 1-year vesting or 2-year vesting.

34. What is the vesting schedule for your organization's stock options?

Installment vesting	91.3%	N = 23
Cliff vesting	8.7%	

35. Has your organization granted stock options with a performance feature?

Yes	30.4%	N = 23
No	69.6%	

If yes, please indicate what type of performance feature(s). (Check all that apply.)

Insufficient data

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

Fair Market Value (FMV)	96%	N =	23
Other	4%		

Note: No respondents selected "Higher than FMV", "Lower than FMV" or "Formula."

37. What is the frequency of stock option awards most commonly used for each of the following positions?

	Every Year	Every 3 Years	At Hire/ Promo.	1X Grant	Other	N
CEO	30.4%	4.3%	21.7%	30.4%	13.0%	23
Other Executives/Officers	27.3%	4.5%	22.7%	31.8%	13.6%	22
Managers/Supervisors	26.7%	6.7%	20.0%	26.7%	20.0%	15
Exempt Salaried	*Insufficient data*					9
Non-exempt Salaried	*Insufficient data*					2
on-exempt Hourly Nonunion	*Insufficient data*					3

Note: No respondents reported awards every two years.

38. What valuation method do you use to determine the value of the equity underlying stock option grants?

Outside appraisal	65.2%	N = 23
Formula	21.7%	
Discretion of the board of directors	4.3%	
Other	8.7%	

39. How does your organization provide liquidity for stock option grants? (Check all that apply.)

N = 23

Periodic sessions when employees can exercise options and/or sell the underlying equity	21.7%
Upon a value-realizing event, such as a sale of the company or an initial public offering	65.2%
If an employee terminates employment and conditions in the stock option plan are met	43.5%
Other	8.7%

Section 6 - Restricted Stock

Responses in this section apply only to companies with a restricted stock plan in place.

40. Please indicate the percentage of employees who received restricted stock during the last regular grant cycle (use 2011 grants unless the last regular grant was awarded in 2010).

	Mean	Median	N
CEO	84.6%	100.0%	12
Other Executives/Officers	74.2%	97.5%	12
Managers/Supervisors	14.1%	0.0%	11
Exempt Salaried	0.5%	0.0%	10
Non-exempt Salaried	*Insufficient data*		5
on-exempt Hourly Nonunion	*Insufficient data*		7

Note: Mean statistics highlight overall prevalence in the survey population, while median statistics show practices at a typical private company.

41. What is the timeframe for vesting for your organization’s restricted stock grants?

3 years	81.3%	N = 16
4 years	12.5%	
5 or more years	6.3%	

Note: No respondents reported vesting at grant/no vesting, 1-year or 2-year vesting.

42. What is the vesting schedule for your organization’s restricted stock grants?

Installment vesting	50.0%	N = 16
Cliff vesting	50.0%	

43. Has your organization granted restricted stock with a performance feature?

Yes	31.3%	N = 16
No	68.8%	

If yes, please indicate what type of performance feature(s).

Insufficient data

44. What is the frequency of restricted stock awards most commonly used for each of the following positions?

	Every Year	Every 3 Years	At Hire/ Promo.	Special 1X Grant	Other	N
CEO	50.0%	0.0%	25.0%	18.8%	6.3%	16
Other Executives/Officers	50.0%	0.0%	14.3%	28.6%	7.1%	14
Managers/Supervisors	*insufficient data*					8
Exempt Salaried	*insufficient data*					2
Non-exempt Salaried	*insufficient data*					0
on-exempt Hourly Nonunion	*insufficient data*					1

Note: No respondents reported awards every two years

45. What valuation methodology do you use to determine the value of the real equity underlying restricted stock grants?

Outside appraisal	56.3%	N = 16
Formula	37.5%	
Other	6.3%	

Note: None of the respondents selected "Discretion of the board of directors"

46. How does your organization provide liquidity for restricted stock grants? (Check all that apply.)

Periodic sessions when employees can sell their equity	50.0%	N = 16
Upon a value-realizing event, such as a sale of the company or an initial public offering	37.5%	
If an employee terminates employment and conditions in the restricted stock plan are met	62.5%	
Other	6.3%	

Section 7 - Phantom Stock/Stock Appreciation Right (SAR)

Responses in this section apply only to companies with a phantom stock/SAR plan in place.

47. Please indicate the percentage of employees who received a phantom stock/SAR grant during the last regular grant cycle (use 2011 grants unless the last regular grant was awarded in 2010).

	Mean	Median	N
CEO	76.0%	100.0%	25
Other Executives/Officers	58.1%	70.0%	28
Managers/Supervisors	16.1%	4.0%	19
Exempt Salaried	14.4%	0.0%	16
Non-exempt Salaried	0.0%	0.0%	12
on-exempt Hourly Nonunion	0.0%	0.0%	12

Note: Mean statistics highlight overall prevalence in the survey population, while median statistics show practices at a typical private company.

48. What type of phantom stock is granted under your plan?

Stock appreciation rights	57.1%	N = 28
Full-value phantom stock	35.7%	
Both types awarded	7.1%	

49. What is the time frame for vesting for your organization’s phantom stock/SARs?

At grant/no vesting	10.3%	N = 29
1 year	3.4%	
2 years	3.4%	
3 years	51.7%	
4 years	13.8%	
5 or more years	17.2%	

50. What is the vesting schedule for your organization’s phantom stock/SARs?

Cliff vesting	57.7%	N = 26
Installment vesting	42.3%	

51. If you issue SARs, what is the base price at which your organization grants the SARs?

Fair Market Value (FMV)	64.3%	N = 28
Formula	28.6%	
Other	7.1%	

Note: No respondents selected "Higher than FMV" or "Lower than FMV."

52. What is the frequency of phantom stock/SAR awards most commonly used for each of the following positions?

	Every Year	Every 2 Years	At Hire/ Promo.	Special 1X Grant	Other	N
CEO	72.7%	0.0%	4.5%	13.6%	9.1%	22
Other Executives/Officers	73.1%	0.0%	3.8%	15.4%	7.7%	26
Managers/Supervisors	58.3%	8.3%	0.0%	8.3%	25.0%	12
Exempt Salaried	*insufficient data*					5
Non-exempt Salaried	*insufficient data*					2
on-exempt Hourly Nonunion	*insufficient data*					2

Note: No respondents reported awards every three years.

53. What valuation methodology do you use to determine the value of the phantom stock and SAR grants?

Formula	51.7%	N = 29
Outside appraisal to determine real equity valu	34.5%	
Discretion of the board of directors	10.3%	
Other	3.4%	

54. How does your organization pay out the value of phantom stock and/or SARs?

Cash	72.4%	N = 29
Cash and/or shares paid into a deferral accoun	20.7%	
Shares of equity	3.4%	
Combination of cash and equity	3.4%	

Section 8 - Performance Award

Responses in this section apply only to companies with a performance plan in place.

55. Please indicate the percentage of employees who received performance awards during the last regular grant cycle (use 2011 grants unless the last regular grant was awarded in 2010).

	Mean	Median	N
CEO	90.8%	100.0%	40
Other Executives/Officers	76.7%	100.0%	43
Managers/Supervisors	24.7%	7.5%	26
Exempt Salaried	10.6%	0.0%	18
Non-exempt Salaried	3.3%	0.0%	15
on-exempt Hourly Nonunion	3.1%	0.0%	16

56. What types of performance awards are granted? (Check one or both.)

Performance cash	65.2%	N = 46
Performance shares/units	37.0%	

57. What are the performance measures used to determine the number of shares or units, or the

amount of cash earned? (Check all that apply.)

Operating income	46.5%	N = 43
Net income and earnings per share	32.6%	
A return measure	27.9%	
Annual sales/revenue	25.6%	
Economic profit or similar (e.g., EVA)	9.3%	
Stock price	2.3%	
Other	32.6%	

Note: Common responses to "Other" include market share and cash flow.

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

Budget	62.2%	N = 45
Formula	24.4%	
Improvement over the prior year	20.0%	
Fixed standard	15.6%	
Relative to peers	17.8%	
Other	4.4%	

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

N = 46	Corporate	Division/Team	Individual
CEO	87.0%	8.7%	19.6%
Other Executives/Officers	87.0%	23.9%	19.6%
Managers/Supervisors	23.9%	13.0%	10.9%
Exempt Salaried		*insufficient data*	
Non-exempt Salaried		*insufficient data*	
on-exempt Hourly Nonunion		*insufficient data*	

60. What is the performance period for your organization’s performance awards?

1 year	10.9%	N = 46
2 years	2.2%	
3 years	73.9%	
4 years	4.3%	
5 or more years	8.7%	

Section 9 - Deferred Compensation

Responses in this section apply only to companies with a deferred compensation plan in place.

61. Please indicate the percentage of employees who received deferred compensation during the last regular cycle (use 2011 grants unless the last regular grant was awarded in 2010).

	Mean	Median	N
CEO	88.5%	100.0%	26
Other Executives/Officers	70.4%	100.0%	27
Managers/Supervisors	32.6%	2.0%	13
Exempt Salaried	18.5%	0.0%	11
Non-exempt Salaried	*insufficient data*		7
on-exempt Hourly Nonunion	*insufficient data*		7

Note: Mean statistics highlight overall prevalence in the survey population, while median statistics show practices at a typical private company.

62. Who contributes funds to the deferred compensation plan for the benefit of individuals in the plan?

Employee only	44.8%	N = 29
Employer only	20.7%	
Both	34.5%	

63. Does your deferred compensation program offer an employer match for participants?

No	75.9%	N = 29
Yes	24.1%	

If yes, what is the deferred compensation match?

Insufficient data

64. What are the investment vehicles available under your deferred compensation plan? (Check all that apply.)

Mutual fund	48.1%	N = 27
Interest rate	48.1%	
Stock market index	22.2%	
Company stock value	22.2%	
Other	14.8%	

Incentive Pay Practices for Privately-Held Companies
2011 Survey Results (Excluding Non-Profit and Government)

Section 10 - Demographics

65. Your organization is:

Private sector - privately held	100.0%	N = 232

66. Please select the industry that best describes your firm’s primary business.

Manufacturing	20.9%	N = 163
Finance & Insurance	19.6%	
Consulting, Professional, Scientific & Technical Services	10.4%	
Retail Trade	7.4%	
Other Services (except Public Administration)	4.9%	
Utilities, Oil & Gas	4.9%	
Computer and Electronic	4.3%	
Information (includes Publishing, IT Technologies, etc.)	4.3%	
Health Care & Social Assistance	3.1%	
Accommodations & Food Services	3.1%	
Wholesale Trade	2.5%	
Real Estate & Rental & Leasing	1.8%	
Transportation	1.8%	
Pharmaceuticals	1.2%	
Agriculture, Forestry, Fishing & Hunting	1.2%	
Mining	0.6%	
Construction	0.6%	
Warehousing and Storage	0.6%	
Other	6.7%	

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

More than 5,000	44.4%	N = 162
2,500 to 4,999	17.3%	
1,000 to 2,499	17.3%	
500 to 999	9.9%	
100 to 499	6.8%	
Less than 100	4.3%	

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

More than $5 billion	15.4%	N = 162
$2.5 billion to $4.9 billion	27.2%	
$1 billion to $2.49 billion	21.0%	
$500 million to $999 million	17.3%	
$100 million to $499 million	10.5%	
Less than $100 million	8.6%	

69. What is your organization’s corporate status?

C Corp.	30.2%	N = 129
L.L.C.	27.9%	
Subsidiary	22.5%	

S Corp.	12.4%
Partnership	7.0%
Other	21.7%

70. Is your organization's CEO an owner?

No	72.0%	N = 157
Yes	19.1%	
Yes, and also a founder	8.9%	

Survey Participants

AAA Auto Club South
AAA Mid-Atlantic
AAA Southern New England
ACH Food Companies
Actavis Inc
American Chemical Society Washington Operations
American Family Insurance
American National Property and Casualty Company
Amtrak
Anonymous
Aramco Services Company
Asurion
Atria Senior Living
Aurora Health Care
Availity LLC
B&H Photo
Bausch & Lomb
Becoblohm
Berkshire Associates Inc.
Bingham LLC
Black & Veatch
Blue Cross & Blue Shield of Rhode Island
Blue Cross Blue Shield of Michigan
BlueCross BlueShield of South Carolina
BMO Harris Bank NA
Bose Corporation
Brewer Science, Inc.
Bryan Cave LLP
California Casualty Management Company
Cargill
Carl Zeiss Vision Inc.
Carle Foundation Hospital & Clinic
Carlson Wagonlit Travel
CARQUEST
Centura Health
Champion Technologies
Chelan County PUD
Chevron Phillips
Children's Hospitals and Clinics of Minnesota
Children's Medical Center - Dallas
Cincinnati Children's Hospital Medical Center
Citizens Property Insurance Corporation
City of Greensboro
Cleveland Clinic
CoBank, ACB
CompuCom Systems
Consumer Reports
CraftWorks Restaurants & Breweries, Inc.

Dakota COunty
Datacard Group
DCP Midstream
Dean Health System
Del Monte Foods
Denso International America, Inc.
Diversey, Inc.
Dow Corning
Eastern Maine Healthcare Systems
Eddie Bauer
EHResearch
EmblemHealth Services LLC
Equity Office Properties
esurance
Evonik Industries
Experian
FCCI Services
Federal Reserve Bank of Atlanta
Fender Musical Instrument Corporation
FM Global
Freeman
Gates Corporation
General Atomics
Getty Images
Golden Corral
Goodman Manufacturing Company L.P.
Great River Energy
Gulf Coast Regional Blood Center
Hallmark Cards, Inc.
Harlan Laboratories, Inc
Hartford Hospital
Harvard University
HCA, Inc.
HDR Inc.
Hilcorp Energy Company
Hitachi Data Systems
Hitachi Global Storage Technologies
Hostess Brands
IMS Health
INC Research LLC
Indiana State University
Ingersoll Rand
International Data Group
J. Jill
Jackson Family Enterprises
JM Family Enterprises, Inc
Just Born, Inc.
Kaiser Permanente Northern California Region
Kaiser Permanente NW
Kamehameha Schools

Kettering University
Kinetico Incorporated
Kohler Co.
Kronos Inc.
KU
Land O'Lakes
Learning Care Group, Inc
LG&E and KU Services
LifeWay Christian Resources
loanDepot
Louisiana Medical Mutual Insurance Companhy
LRC
Malt-O-Meal
Maritz
Marquette Financial
Matthews, Young - Management Consulting
McKeever International
McLaren Health Care Corporation
Meijer
Merck Millipore
Michaels Stores, Inc
MillerCoors
Mitchell International
Mitsui & Co. (USA), Inc.
Mondial Assistance
MWH
NACCO Materials Handling Group
Navy Federal Credit Union
NBTY, Inc.
NEC Corporation of America
New Mexico Gas Company
New York Life Insurance Company
Northwestern Mutual
Northwestern University
NOVA Chemicals
Ocean Spray Cranberries, Inc.
OHL
Old Dominion Electric Cooperative
Oncor Electric Delivery
OneAmerica Financial Partners, Inc.
Oneida Tribe of Indians of Wisconsin
Pacific Life Insurance Company
Palmetto Health
Pamida Stores Operating Co.,LLC
Panduit Corp.
PEMCO Insurance
Penske Truck Leasing
Poudre Valley Health System
Printpack, Inc
Private non-profit

ProBuild Holdings, LLC
Provena Health
Public Company Accounting Oversight Board (PCAOB)
Reader's Digest Association
Regions Hospital
Rich Products Corporation
Robert Bosch LLC
Roundy's Supermarkets, Inc.
Safety-Kleen Systems, Inc
Salem Health
Savers, Inc.
Schneider National, Inc.
Schreiber Foods Inc
Schwan's
Securian Financial Group
ServiceMaster
Shaw Industries Group, Inc.
Shopko Stores
Sibley Memorial Hospital
SLAC National Accelerator Laboratory
SM&A
Solae, LLC
Stanford University
State Farm Insurance
State Farm Mutual Insurance Company
Subaru of America, Inc.
Sunovion Pharmaceuticals
Susan G. Komen for the Cure
Sutter Health
Suttter Health, East Bay Region
The Bilco Company
The Cygnal Group
The National Academies
The NORDAM Group
The Port Authority of NY & NJ
The Scripps Research Institute
The University of Arizona Health Network
T-Mobile USA
U.S. Deloitte LLP
University of Michigan Health System
UW Health Partners Watertown Regional Medical Center
Vermeer Corporation
VWR International
VWR International LLC
Wellmark BlueCross BlueShield
Wells Enterprises, Inc.
White Castle System, Inc.
Williams Scotsman, Inc.
Zachry
ZF Group NAO