2019 Incentive Pay Practices: Nonprofit/Government Organizations

6th Edition

This survey, a joint research effort between WorldatWork and Compensation Advisory Partners (CAP), focuses on the prevalence of short- and long-term incentive programs exclusive to U.S. nonprofit and government organizations.
Executive Summary

• The survey saw an uptick in government respondents, to 24 percent in 2019 from 15 percent in 2017. This may indicate an increased interest in incentives by government organizations. Despite the uptick, the government sample was not large enough to report separately, and incentives at government organizations are modest. In instances where the government responses skewed the data, they were omitted.
  • Results are for the entire sample, unless noted.

• Short-term incentive (STI) plans remain a prevalent practice at nonprofit and government organizations, with a 68-percent prevalence in the overall survey sample. However, when nonprofits are broken out separately, the prevalence is 76 percent, which is in line with past survey iterations.

• STI spending at nonprofits as a percentage of operating budget is two percent at median for 2019, which is slightly less than the 2.3 percent reported in 2017.

• Median 2019 target award levels at nonprofits remained steady across position levels: 40 percent for the CEO, 25 percent for other executives/officers, and 10 percent for managers/supervisors.

• Long-term incentive (LTI) plans are used by a minority of respondents, with 22 percent reporting an LTI plan in 2019 (vs. 24% in 2017).
  • The most common type of LTI plan is a long-term, cash-based incentive plan.
Executive Summary (continued)

• STI plans were simplified in 2019.
  • Two or fewer STI plans are now prevalent versus three or fewer in 2017. The most
    common STI types are annual incentive plans (AIPs) and spot award programs.
  • The prevalence of organizations using 10 or more measures in their AIPs decreased in
    2019, and more organizations now report using four to six performance measures.

• Design parameters of AIP plans have remained fairly consistent over the past
  several years, but some changes have occurred recently as organizations are fine-
  tuning their plans.
  • **Award Leverage**: Threshold is 50% of target and maximum is 150% (or less) of target
  • **Number of performance measures**: 4 to 6, with a decrease in organizations reporting 10
    or more measures, as noted above
  • **Type of performance measures**: A continued focus on operational performance measures
    and a decreased focus on profitability and earnings measures
  • **Goal Setting**: Continues to be based on annual budget, but improvement over prior year
    grew in prevalence in 2019
  • **Use of Discretion**: This increased to two-thirds of organizations in 2019 vs. half in 2017.
    Organizations may be finding that performance is difficult to measure objectively without
    a profitability metric, and so, discretion is playing a greater role in incentive decisions.
The percentage of public sector/government survey respondents increased in 2019 from 2017

Prevalence of Nonprofits vs. Government Organizations

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonprofit, not-for-profit</td>
<td>76%</td>
<td>85%</td>
</tr>
<tr>
<td>Public sector, government</td>
<td>24%</td>
<td>15%</td>
</tr>
</tbody>
</table>

N = 115
The overall use of short-term incentive (STI) programs decreased in 2019. When government responses are omitted, approximately three out of four nonprofits use STIs.

Prevalence of STI Programs in Nonprofits and Government Organizations

<table>
<thead>
<tr>
<th>Year</th>
<th>Nonprofit &amp; Gov</th>
<th>Nonprofit Only</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>78%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>77%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>80%</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>68%</td>
<td>76%</td>
</tr>
</tbody>
</table>

N = 115
Short-term Incentive (STI) Plans

The following questions were answered only by nonprofit and government organizations that have STIs.
Two-thirds of nonprofit and government organizations reported one or two STI programs in 2019. In contrast, three or fewer STIs was the prevalent practice in 2017.

Number of Short-Term Incentive Programs

- One: 29% (2019), 34% (2017)
- Two: 25% (2019), 29% (2017)
- Four: 6% (2019)
- Five: 3% (2019), 2% (2017)
- Six to 10: 1% (2019), 6% (2017)
- 11 or more: 3% (2019), 4% (2017)

N = 76
Of the different types of STI programs, annual incentive plans (AIPs) and spot awards are most prevalent. The types of plans used remained mostly consistent from 2017 to 2019.

Types of Short-Term Incentive Programs

- **Annual Incentive Plan (AIP)**
  - 2019: 79%
  - 2017: 77%

- **Spot Awards**
  - 2019: 54%
  - 2017: 52%

- **Discretionary Bonus**
  - 2019: 46%
  - 2017: 43%

- **Project Bonus**
  - 2019: 16%
  - 2017: 17%

- **Team/Small-Group Incentives**
  - 2019: 16%
  - 2017: 13%

- **Profit-Sharing Plan**
  - 2019: 4%
  - 2017: 10%

Respondents could choose all that apply.

N = 76
Nonprofit STI spending is two percent of operating budget at median for 2019 and for 2020 (expected). These median amounts are down slightly from 2.3 percent in 2017.

Nonprofit STI Spending as a Percent of Operating Budget

<table>
<thead>
<tr>
<th>Year</th>
<th>25th</th>
<th>Median</th>
<th>75th</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1.0%</td>
<td>2.3%</td>
<td>9.0%</td>
</tr>
<tr>
<td>2019</td>
<td>1.0%</td>
<td>2.0%</td>
<td>6.6%</td>
</tr>
<tr>
<td>2020 Expected</td>
<td>1.0%</td>
<td>2.0%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

N = 49

Note: Six government data points excluded.
Annual Incentive Plans (AIPs)

The following questions were answered only by nonprofit and government organizations that have AIPs.
AIP eligibility extends across the workforce at nonprofit and government organizations

2019 AIP Eligibility

- CEO: 89%
- Other execs/officers: 94%
- Managers/supervisors: 85%
- Exempt: 65%
- Nonexempt: 50%

N = 54
The top three AIP objectives are to 1) align incentives with short-term goals, 2) reward employees, and 3) focus employees on specific goals.

2019 AIP Primary Objectives

- Align employees’ incentives with short-term goals: 70%
- Reward employees: 69%
- Focus employees on specific goals: 50%
- Share the organization’s financial success with employees: 31%
- Retain employees: 26%
- Be competitive with other employers: 22%
- Recruit qualified employees: 13%
- Provide special recognition: 7%

Respondents could choose three objectives.

N = 54
Nonprofit and government organizations view their AIPs as moderately effective at achieving objectives
The biggest AIP strengths are the performance measures used and the performance linkage, while the biggest weaknesses are the level of discretion and risk-reward trade-off.

### AIP Strengths and Weaknesses

<table>
<thead>
<tr>
<th>Factor</th>
<th>Strength</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of performance measures</td>
<td>72%</td>
<td>-28%</td>
</tr>
<tr>
<td>Performance linkage</td>
<td>71%</td>
<td>-29%</td>
</tr>
<tr>
<td>Level of award opportunity</td>
<td>64%</td>
<td>-36%</td>
</tr>
<tr>
<td>Goal setting</td>
<td>55%</td>
<td>-45%</td>
</tr>
<tr>
<td>Plan communication</td>
<td>49%</td>
<td>-51%</td>
</tr>
<tr>
<td>Level of discretion</td>
<td>39%</td>
<td>-61%</td>
</tr>
<tr>
<td>Risk-reward trade-off</td>
<td>26%</td>
<td>-74%</td>
</tr>
</tbody>
</table>

N = 52

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Most nonprofits and government organizations incorporate threshold, target and maximum award levels into their AIPs

Prevalence of Thresholds, Targets and Maximums in AIPs

<table>
<thead>
<tr>
<th></th>
<th>Threshold</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevalence</td>
<td>65%</td>
<td>92%</td>
<td>92%</td>
</tr>
</tbody>
</table>

(50% of Target) (150% Target or Less)

N = 53
Median AIP award opportunities for nonprofit chief executive officers (CEOs), other executives/officers and managers/supervisors remained steady in 2019.

AIP Target Award Opportunities as a Percent of Salary – Nonprofit Only

<table>
<thead>
<tr>
<th>Position</th>
<th>25th</th>
<th>Median</th>
<th>75th</th>
<th>2017 Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>25%</td>
<td>40%</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>Other executives/officers</td>
<td>14%</td>
<td>25%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Managers/supervisors</td>
<td>7%</td>
<td>10%</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

N = 33  N = 37  N = 32

Notes: Insufficient data for exempt and nonexempt employees. Four government responses excluded.
Four to six performance measures are now prevalent, reflecting a move toward holistic but manageable incentive measurement frameworks.
Operational measures are the most commonly used in nonprofit and government AIPs

Prevalence of Operational Performance Measures in AIPs

- Customer measures (satisfaction rating, retention, new customers): 56%
- Service/quality: 54%
- Operational efficiency: 35%
- Employee satisfaction/engagement scores: 33%
- Safety/occupational injury: 23%
- Other operational objectives: 8%

Respondents could choose all that apply.

N = 48
Financial measures are also used, with profitability/earnings and revenue as the most prevalent measures.

Prevalence of Financial Performance Measures in AIPs

- Profitability/earnings: 50%
- Revenue/revenue growth: 44%
- Cash flow/cash-flow growth: 13%
- Return measure (ROA, ROE, ROI, etc.): 10%
- Total shareholder return: 2%
- Economic profit: 2%
- Other financial: 17%

N = 48
Individual objectives are also used in AIPs, with the prevalence shared between achievement of specific goals (44%) and overall individual performance (33%).

![Bar chart showing the prevalence of individual objectives in AIPs.]

- Achievement of specific individual goals: 44%
- Overall individual performance, perhaps as expressed in a performance rating: 33%
- Other individual objectives: 4%

*N = 48

Respondents could choose all that apply.
Performance measures are combined in a variety of ways, with the most common being that awards are paid for performance in each measure.

**How Different AIP Performance Measures are Used Together**

- Awards are paid for performance in each measure: 37%
- A balanced scorecard approach is used: 24%
- Certain measures are used as modifiers to increase or decrease the award: 16%
- Management discretion: 8%
- Different measures are used for different participants: 8%
- Only one measure is used: 4%
- Other: 4%

*N = 49*
Nonprofit and government organizations rely most heavily on budgets and improvement over prior year for setting performance targets

Basis Used to Set AIP Performance Targets

- Budget: 57%
- Improvement over prior year: 53%
- Management discretion: 45%
- Achievement of milestones: 35%
- Relative to peers: 24%
- Formula: 20%
- Fixed standard: 6%
- Other: 8%

N = 49

Respondents could choose all that apply.
AIP linkage varies based on position level, with executive positions having greater corporate linkage and other positions having a greater individual focus.

### AIP Performance Linkage

<table>
<thead>
<tr>
<th></th>
<th>Corporate</th>
<th>Division/Unit</th>
<th>Individual</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>100%</td>
<td>17%</td>
<td>40%</td>
<td>47</td>
</tr>
<tr>
<td>Executive/officer</td>
<td>81%</td>
<td>46%</td>
<td>52%</td>
<td>48</td>
</tr>
<tr>
<td>Managers/supervisors</td>
<td>60%</td>
<td>48%</td>
<td>62%</td>
<td>42</td>
</tr>
<tr>
<td>Exempt salaried</td>
<td>58%</td>
<td>32%</td>
<td>71%</td>
<td>31</td>
</tr>
<tr>
<td>Nonexempt, salaried and hourly</td>
<td>Insufficient Data</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note:** The data is not additive across rows because organizations can choose more than one linkage parameter by position.
Supervisor discretion plays a role in two-thirds of AIP plans in 2019, up from 50 percent in 2017. This may indicate that nonprofits and government organizations find discretion useful when objective performance is difficult to measure.

The Role Supervisor Discretion Plays in AIPs

<table>
<thead>
<tr>
<th>Level of Discretion</th>
<th>2019</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Somewhat</td>
<td>36%</td>
<td>27%</td>
</tr>
<tr>
<td>To a lesser degree</td>
<td>16%</td>
<td>10%</td>
</tr>
<tr>
<td>Not at all</td>
<td>36%</td>
<td>50%</td>
</tr>
</tbody>
</table>

N = 50
The most common AIP funding mechanisms are 1) the sum of each individual’s target or 2) a financially based formula at the organizational level.

### Prevalence of AIP Funding Mechanisms

- **Sum of each individual’s target**: 33%
- **Financially based formula at the organization level**: 33%
- **Discretionary funding**: 18%
- **Financially based formula at the division, unit or group level**: 6%
- **Other**: 10%

*N = 49*
Nonprofits and government organizations most often communicate their AIPs through individual meetings and/or through a written plan document.

**Prevalence of AIP Communication Methods**

- Verbal description by HR or supervisor through individual communications: 60%
- Written plan document via individual email or internal website: 60%
- Annual communication by company/organization of performance targets, links to strategy: 46%
- Periodic updates on progress by organization: 42%
- Company/team meetings (in person or virtual) to review incentive plan info: 30%
- No method of communication (not communicated): 8%
- Other: 4%

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*Respondents could choose all that apply.*

*N = 50*
Long-Term Incentives (LTIs)

The following questions were answered only by organizations that have LTIs.
Consistent with the 2017 survey, 22 percent of nonprofits and government organizations report LTI plans. While the 2019 sample is too small for in-depth reporting, some observations can be made:

• With regard to vehicles, nonprofits and government organizations report using cash-based performance awards and nonqualified deferred compensation.

• The most common LTI objectives are retention and aligning management's incentives with long-term organizational goals.

• LTI awards are made only to the CEO, direct reports and/or top executives, officers and directors.

• LTI awards generally cover three-year performance periods.
Beyond Incentive Pay

The following question was given to all survey respondents.
Nonprofit and government organizations’ most prevalent rewards tool to retain talent is having a retirement plan.

Top Rewards Tools for Retaining Talent

- Retirement plan: 60%
- Job advancement/promotion: 47%
- Flexible work arrangements: 43%
- Culture/community: 35%
- Additional base compensation: 33%
- Tuition assistance/additional education: 25%
- Additional benefits: 20%
- Developmental job assignments: 13%
- Specialized training: 6%
- Additional perquisites: 1%
- Student loan repayment: 0%
- Other: 3%

Respondents could choose three objectives.

N = 95
Survey Demographics

The following questions were provided to all survey respondents.
Survey Demographics: Industry

Prevalence of Industries

- Health care & social assistance: 33%
- Educational services: 13%
- Public administration (includes government): 12%
- Consulting, professional, scientific & technical services: 12%
- Utilities: 8%
- Finance & insurance: 7%
- Other services (except public administration): 6%
- Transportation & warehousing: 4%
- Real estate, & rental & leasing: 1%
- Arts, entertainment & recreation: 1%
- Wholesale trade: 1%
- Information (includes publishing, IT technologies, etc.): 1%
- Other: 1%

N = 95
Survey Demographics: Full-Time Equivalent Employees (FTEs)

Number of FTE Employees

- Fewer than 100: 4%
- 100 to 499: 7%
- 500 to 999: 12%
- 1,000 to 2,499: 22%
- 2,500 to 4,999: 16%
- 5,000 to 9,999: 15%
- 10,000 to 19,999: 9%
- 20,000 to 39,999: 5%
- 40,000 to 99,999: 7%
- 100,000 or more: 2%

N = 95
Survey Demographics: Annual Operating Budget

Annual Operating Budget

<table>
<thead>
<tr>
<th>Budget区间</th>
<th>N = 88</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $100 million</td>
<td>9%</td>
</tr>
<tr>
<td>$100 million to $499 million</td>
<td>24%</td>
</tr>
<tr>
<td>$500 million to $999 million</td>
<td>17%</td>
</tr>
<tr>
<td>$1 billion to $2.49 billion</td>
<td>17%</td>
</tr>
<tr>
<td>$2.5 billion to $4.9 billion</td>
<td>15%</td>
</tr>
<tr>
<td>$5 billion to $9.9 billion</td>
<td>10%</td>
</tr>
<tr>
<td>$10 billion to $14.9 billion</td>
<td>5%</td>
</tr>
<tr>
<td>$15 billion to $19.9 billion</td>
<td>0%</td>
</tr>
<tr>
<td>More than $20 billion</td>
<td>3%</td>
</tr>
</tbody>
</table>
Appendix

Methodology and Contact Information
Methodology

This report summarizes the results of a June/July 2019 survey of WorldatWork members that gathered information on incentive pay practices at nonprofit (tax-exempt) and government organizations. The survey also collected information on privately held, for-profit organizations; the survey results for for-profit organizations are detailed in a separate report.

In June 2019, survey invitations were sent electronically to 7,164 WorldatWork members. The survey closed in July 2019. The dataset was cleaned, resulting in a final dataset of about 300 responses: 116 nonprofit and government organizations covered in this report, and 182 private, for-profit companies covered in the sister report.

Due to rounding, frequencies of data responses provided in this survey may not total 100 percent. In addition, some questions allow the respondent to choose more than one response, which results in totals that exceed 100 percent. For questions where respondents were asked to provide a number such as a position’s incentive target, zeros were excluded.

The number of responses listed for each question (N=) is for 2019 data only. Questions with fewer than 30 responses were omitted from the survey.

The full text of the questionnaire and definitions of terms used in the survey can be found here. A list of participating organizations can be found here.
Contact Us:

**WorldatWork**

**Global Headquarters**
14040 N. Northsight Blvd.
Scottsdale, AZ 85260 USA

**Washington, D.C. Office**
1100 13th St. NW, Suite 800
Washington, DC 20005 USA

**Telephone**
- 877-951-9191 (United States and Canada)
- +1 480-922-2020 (other countries)

**Email**
- customerrelations@worldatwork.org

**Website**
- worldatwork.org

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**Compensation Advisory Partners**

**Chicago Office**
Bonnie Schindler, Principal
200 South Wacker Drive, Suite 3100
Chicago, IL 60606
Phone: 847-636-8919
Email: Bonnie.Schindler@capartners.com

**Los Angeles Office**
Susan Schroeder, Partner
400 Continental Blvd., 6th Floor
El Segundo, CA 90245
Phone: 310-426-2340
Email: Susan.Schroeder@capartners.com

**Website**
- capartners.com