

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

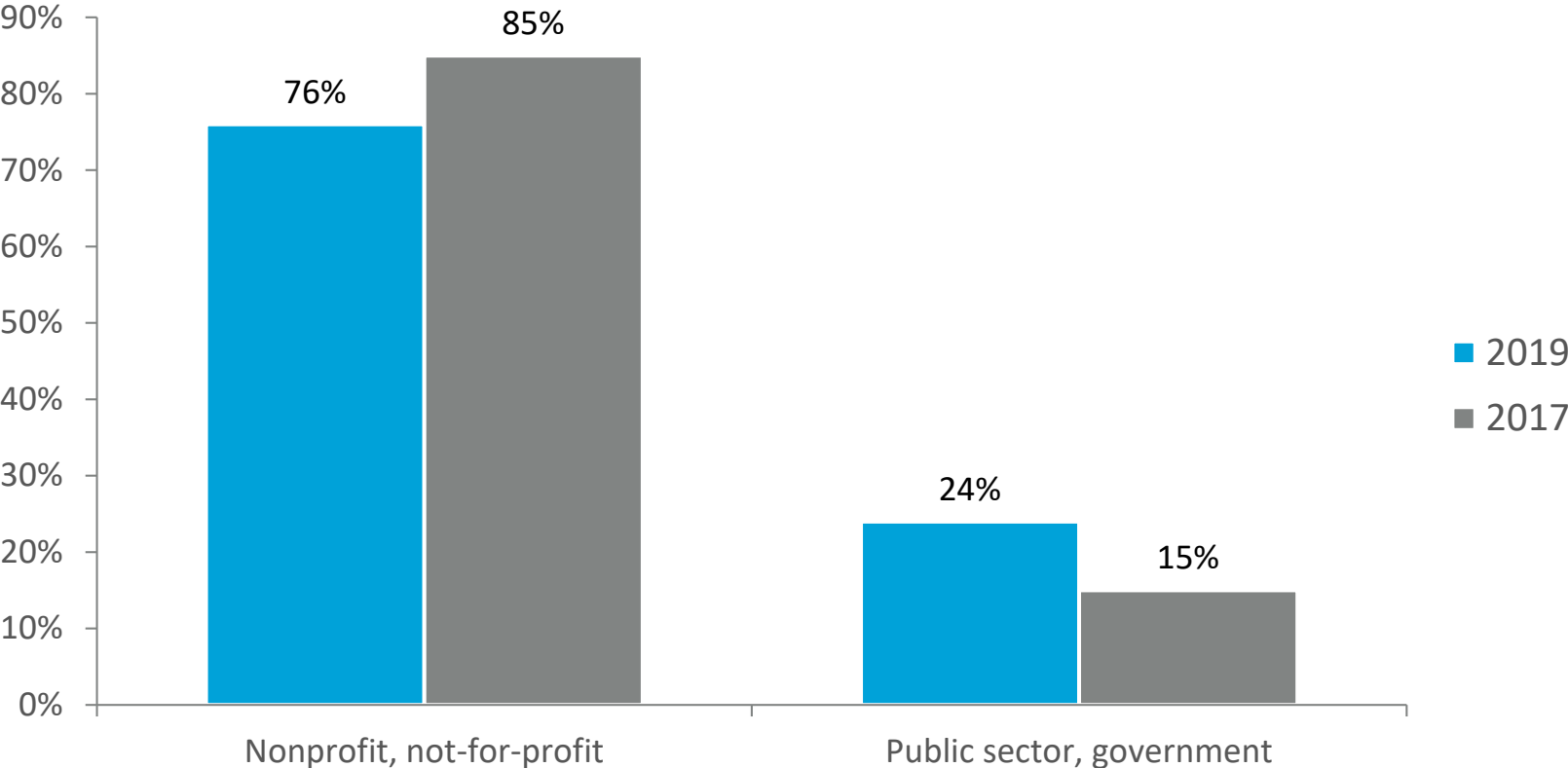
- The survey saw an uptick in government respondents, to 24 percent in 2019 from 15 percent in 2017. This may indicate an increased interest in incentives by government organizations. Despite the uptick, the government sample was not large enough to report separately, and incentives at government organizations 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.

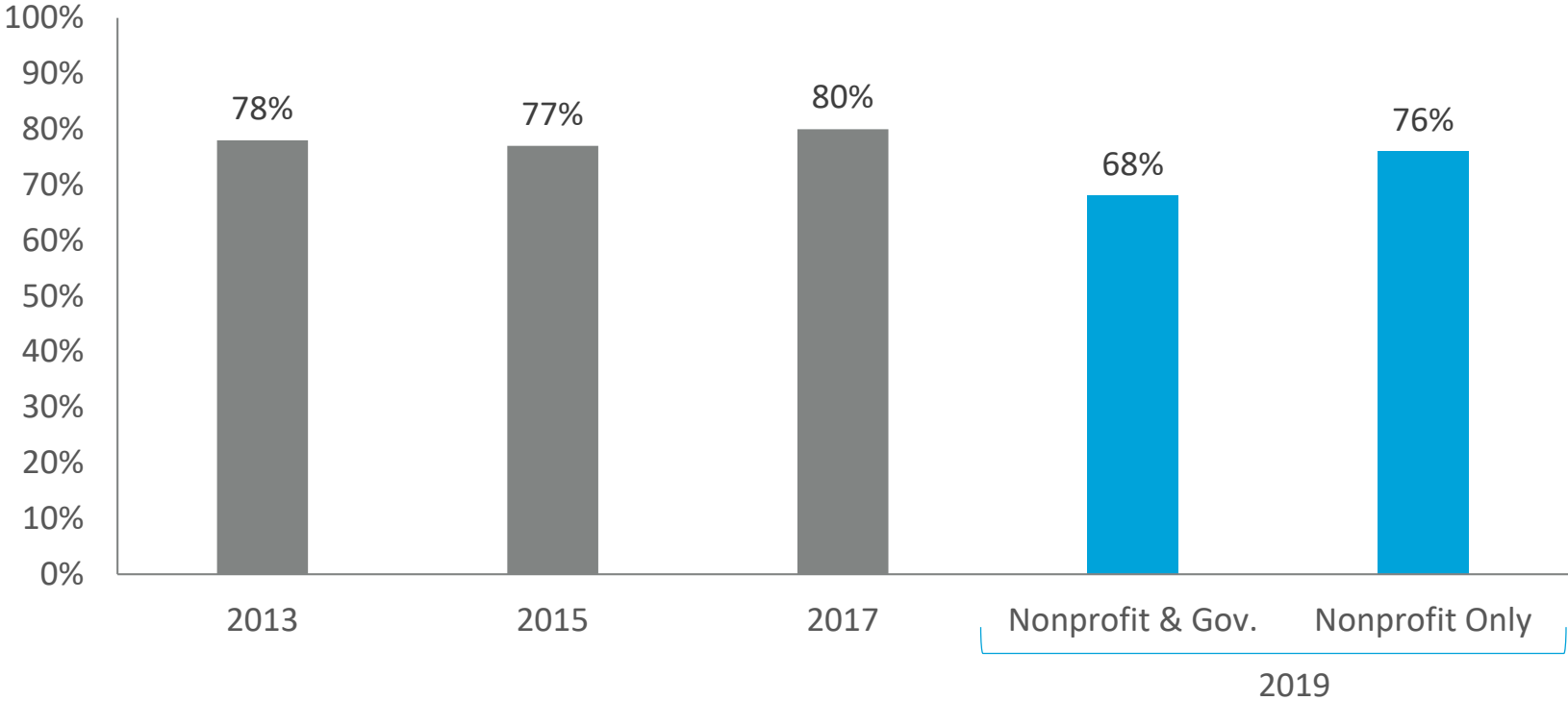
The percentage of public sector/government survey respondents increased in 2019 from 2017

Prevalence of Nonprofits vs. Government Organizations



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

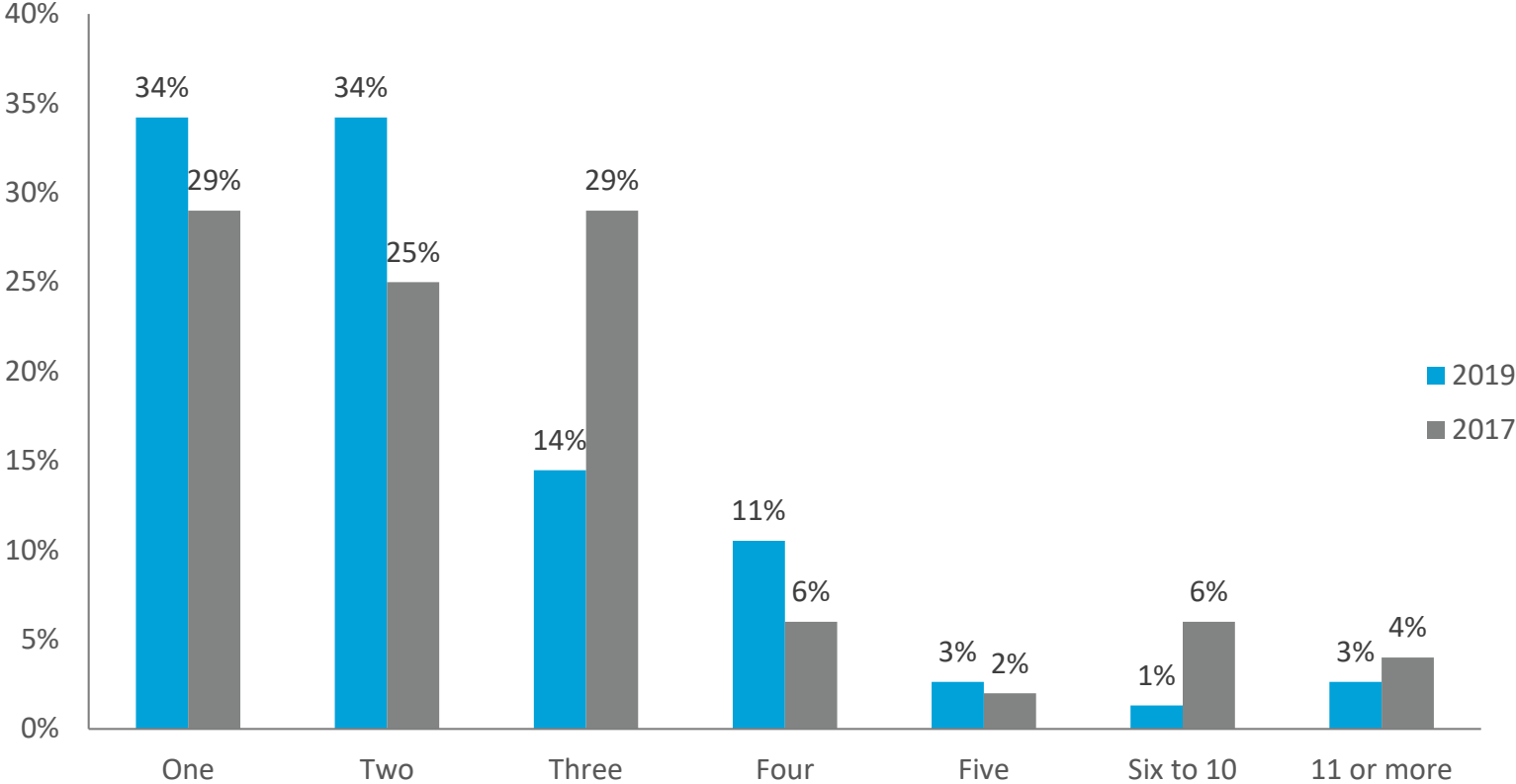


Short-term Incentive (STI) Plans

The following questions were answered only by nonprofit and government organizations that have STIs.

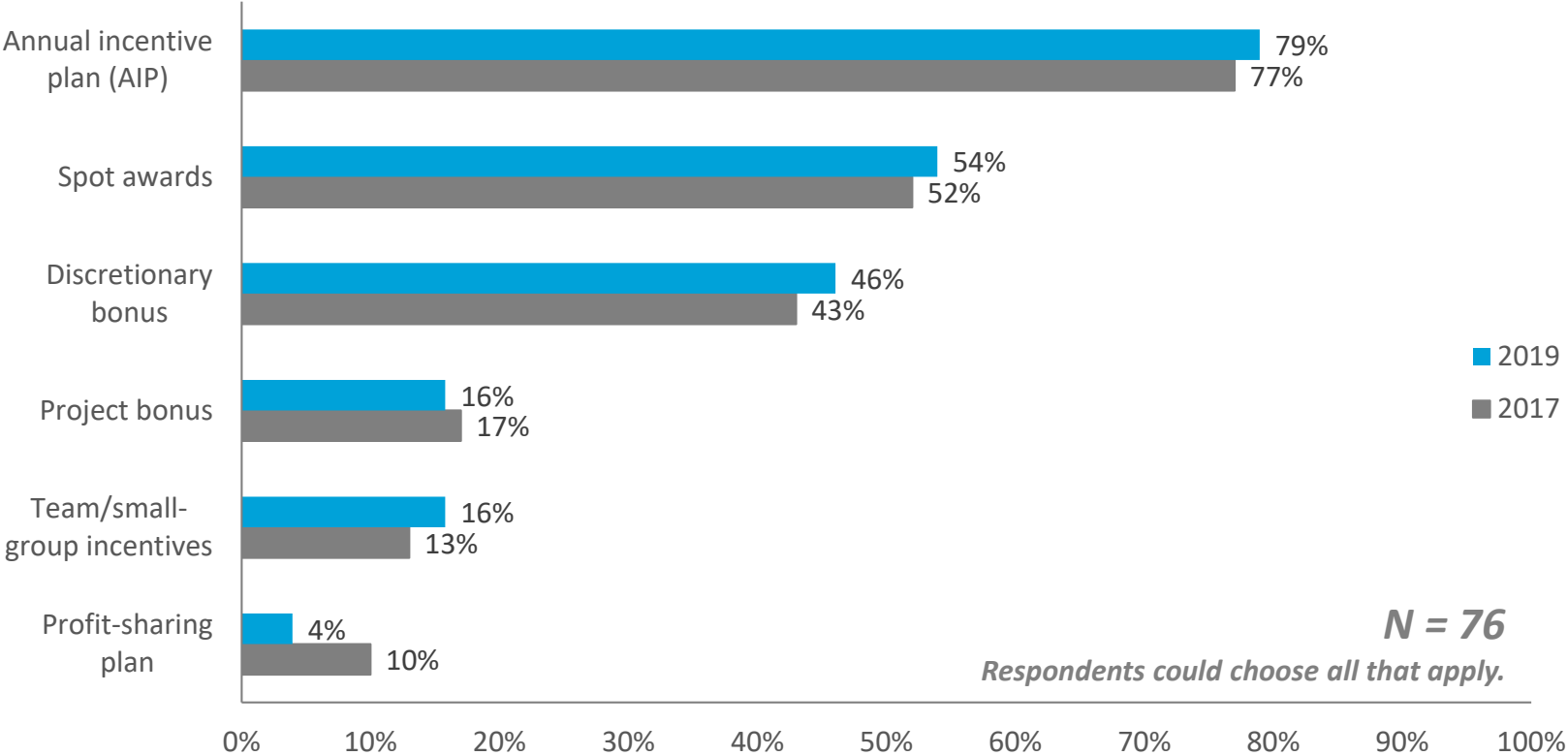
Two-thirds of nonprofit and government organizations reported one or two STI programs in 2019. In contrast, three or fewer STIs was the prevalent practice in 2017

Number of Short-Term Incentive Programs



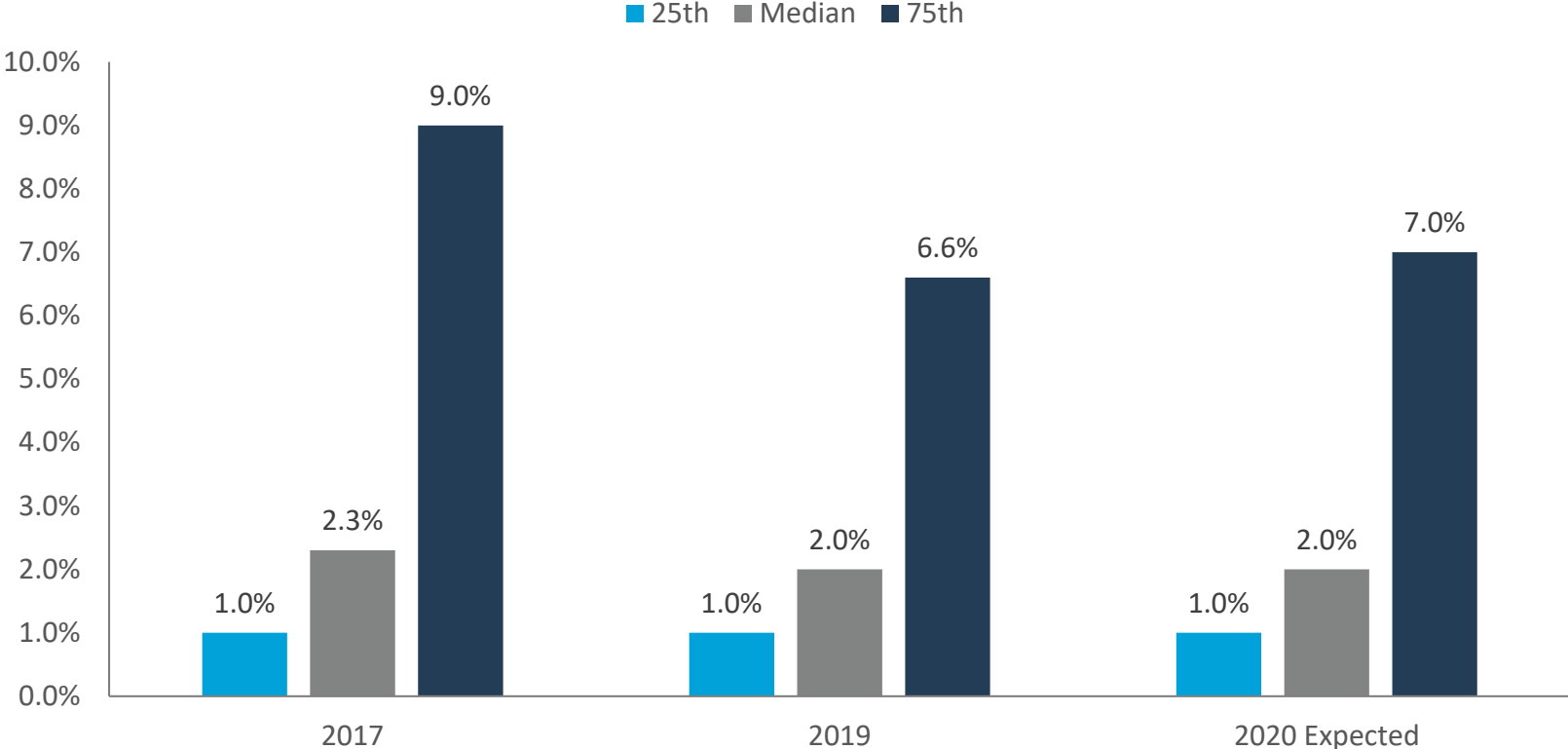
Of the different types of STI programs, annual incentive plans (AIPs) and spot awards are most prevalent. The types of plans used remained mostly consistent from 2017 to 2019

Types of Short-Term Incentive Programs



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

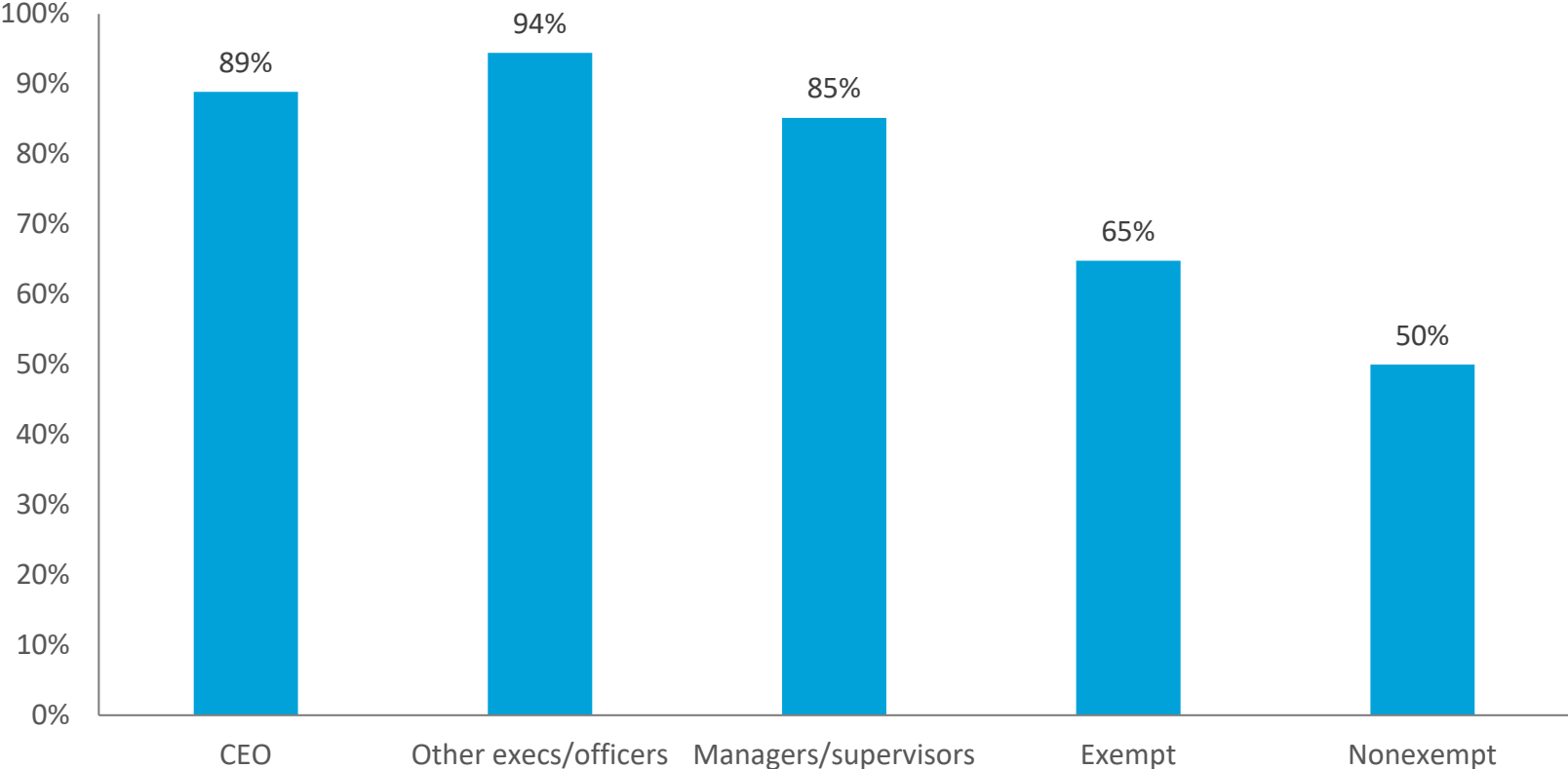


Annual Incentive Plans (AIPs)

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



N = 54

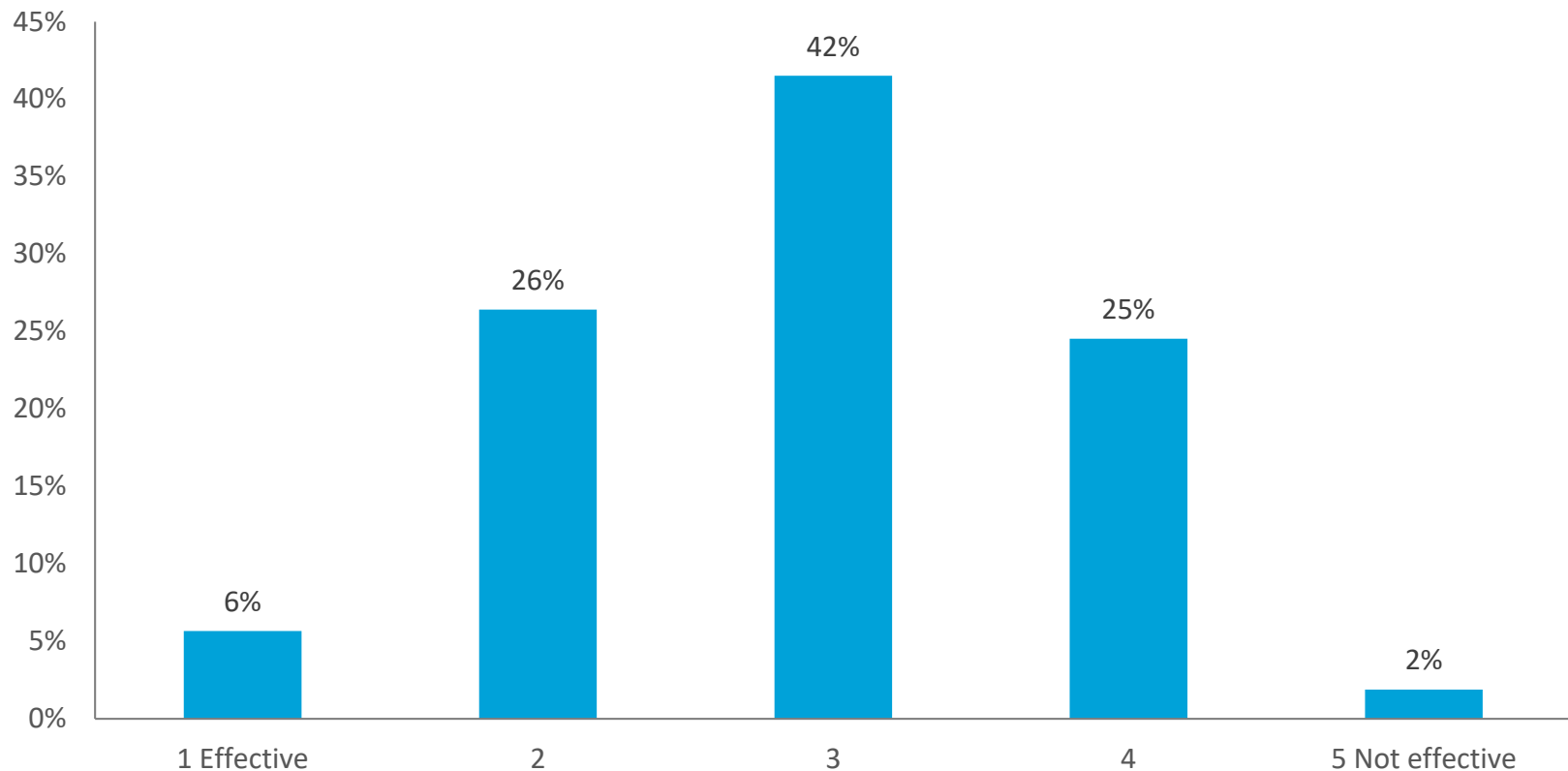
The top three AIP objectives are to 1) align incentives with short-term goals, 2) reward employees, and 3) focus employees on specific goals

2019 AIP Primary Objectives



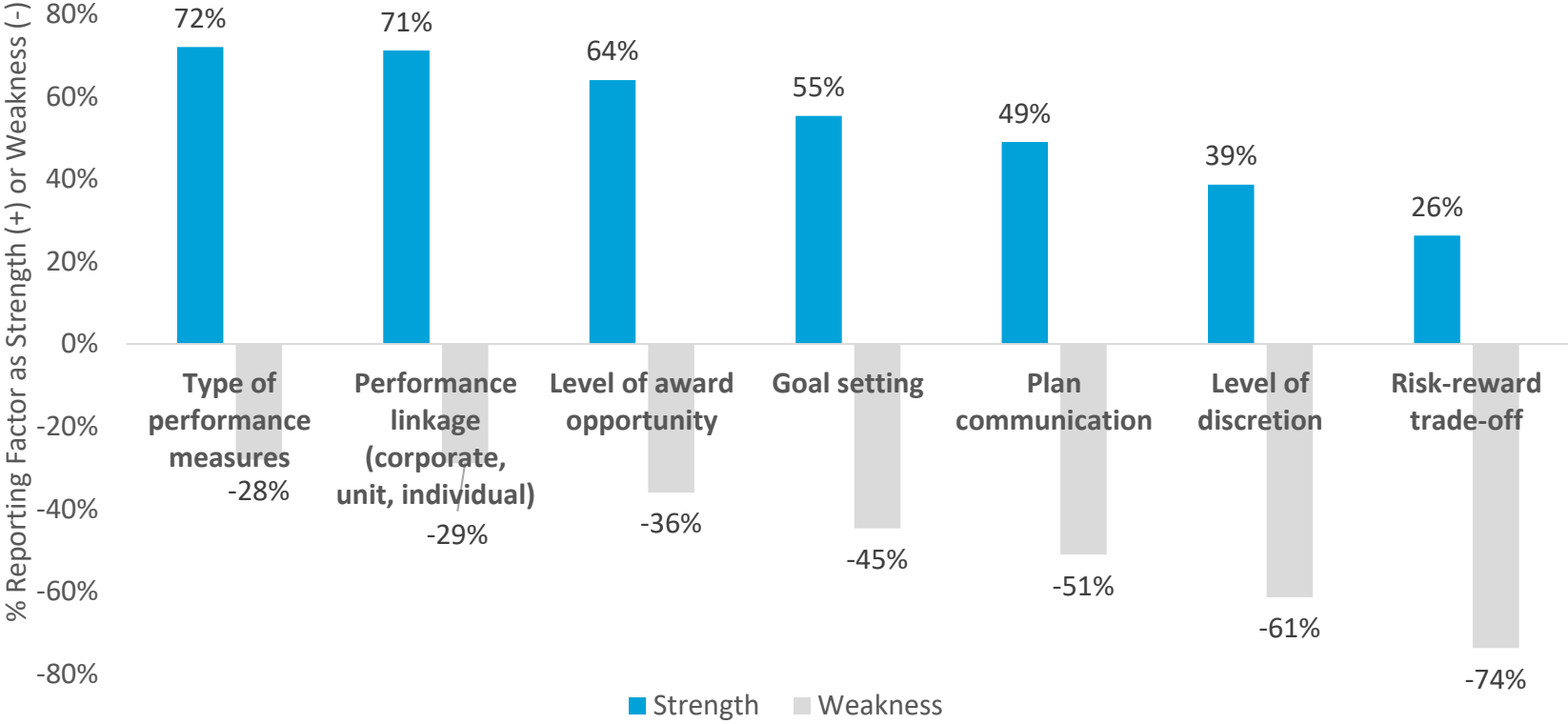
Nonprofit and government organizations view their AIPs as moderately effective at achieving objectives

Effectiveness of AIPs at Achieving Objectives



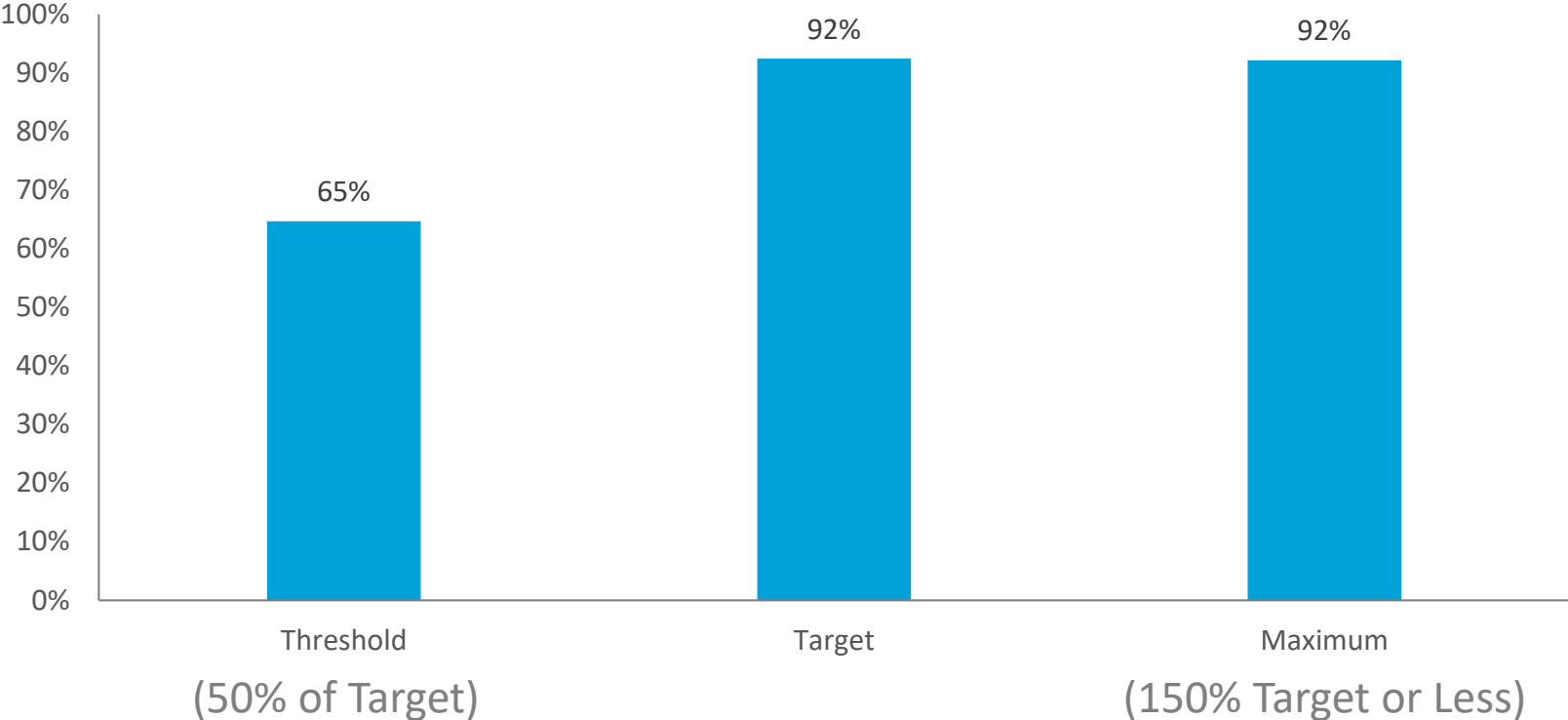
The biggest AIP strengths are the performance measures used and the performance linkage, while the biggest weaknesses are the level of discretion and risk-reward trade-off

AIP Strengths and Weaknesses

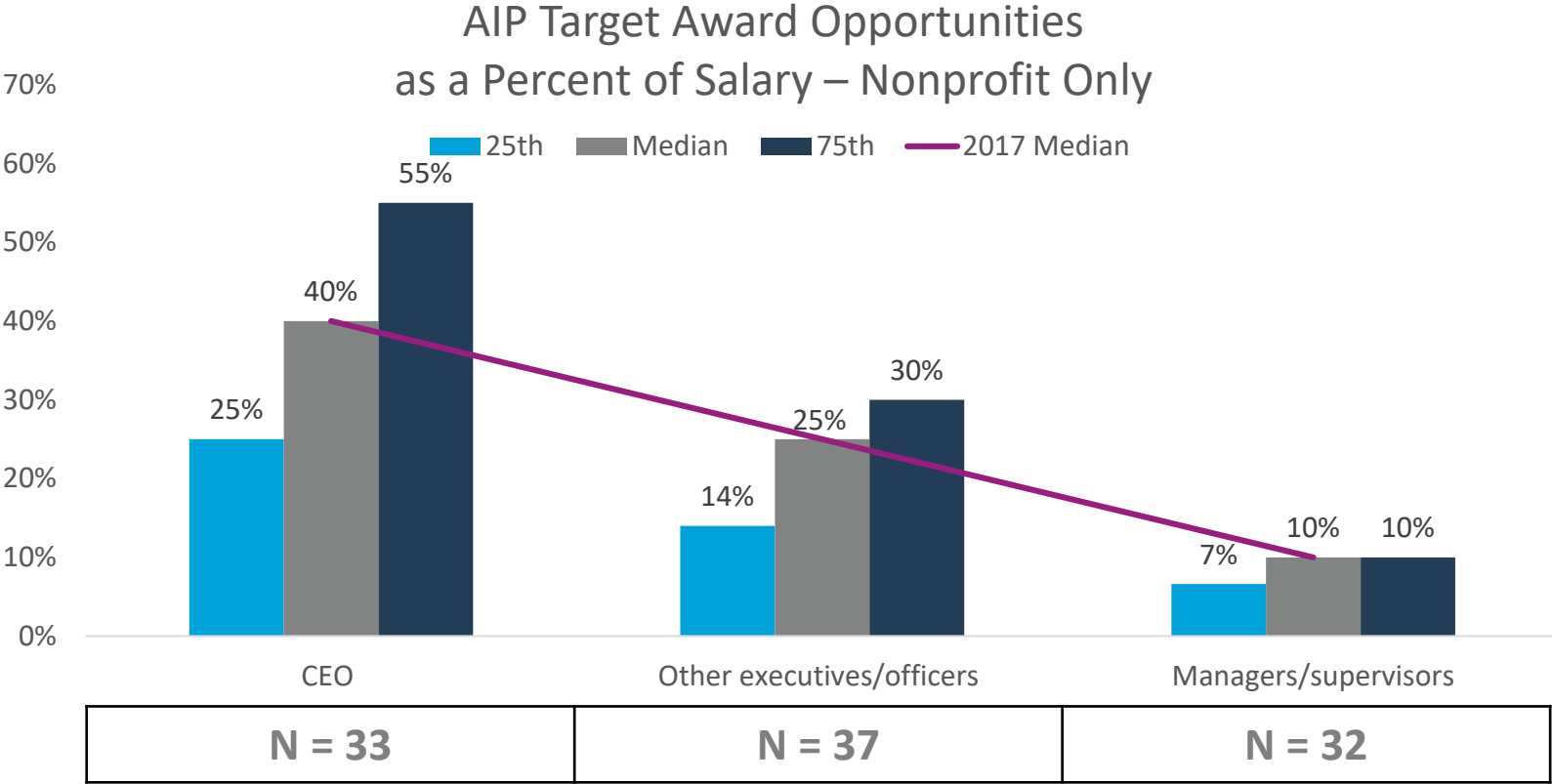


Most nonprofits and government organizations incorporate threshold, target and maximum award levels into their AIPs

Prevalence of Thresholds, Targets and Maximums in AIPs



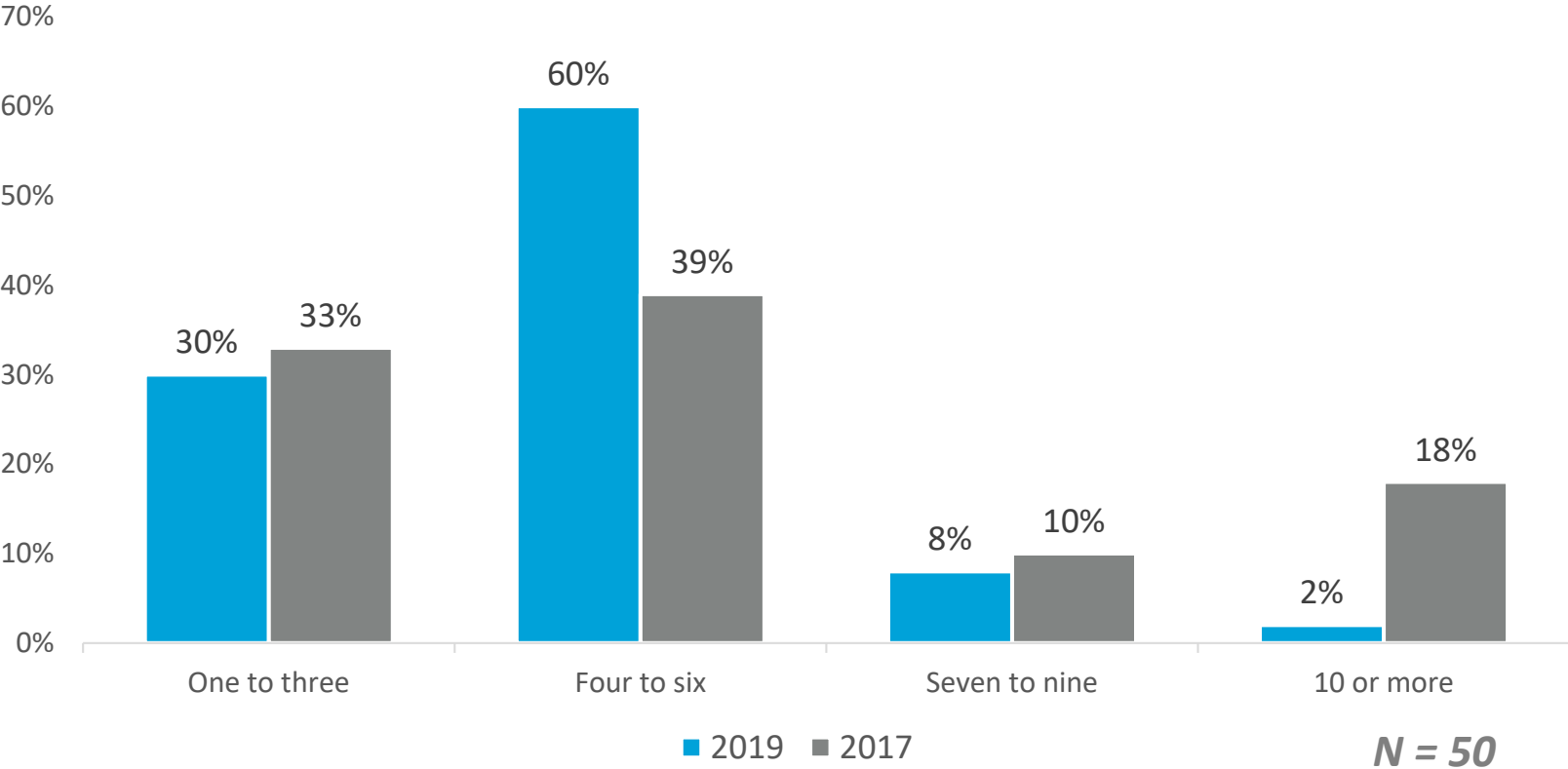
Median AIP award opportunities for nonprofit chief executive officers (CEOs), other executives/ officers and managers/supervisors remained steady in 2019



Notes: Insufficient data for exempt and nonexempt employees
Four government responses excluded

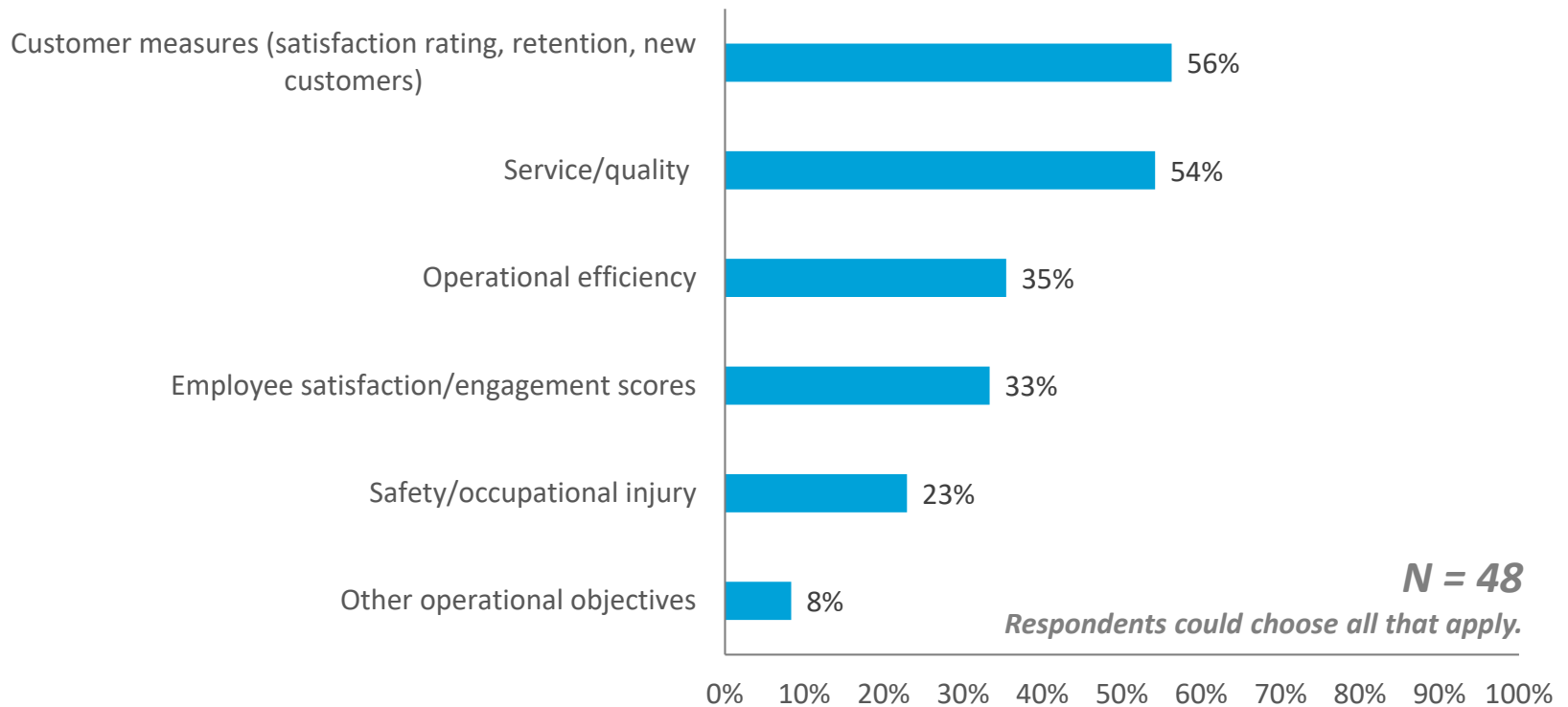
Four to six performance measures are now prevalent, reflecting a move toward holistic but manageable incentive measurement frameworks

Number of Performance Measures Used in AIPs



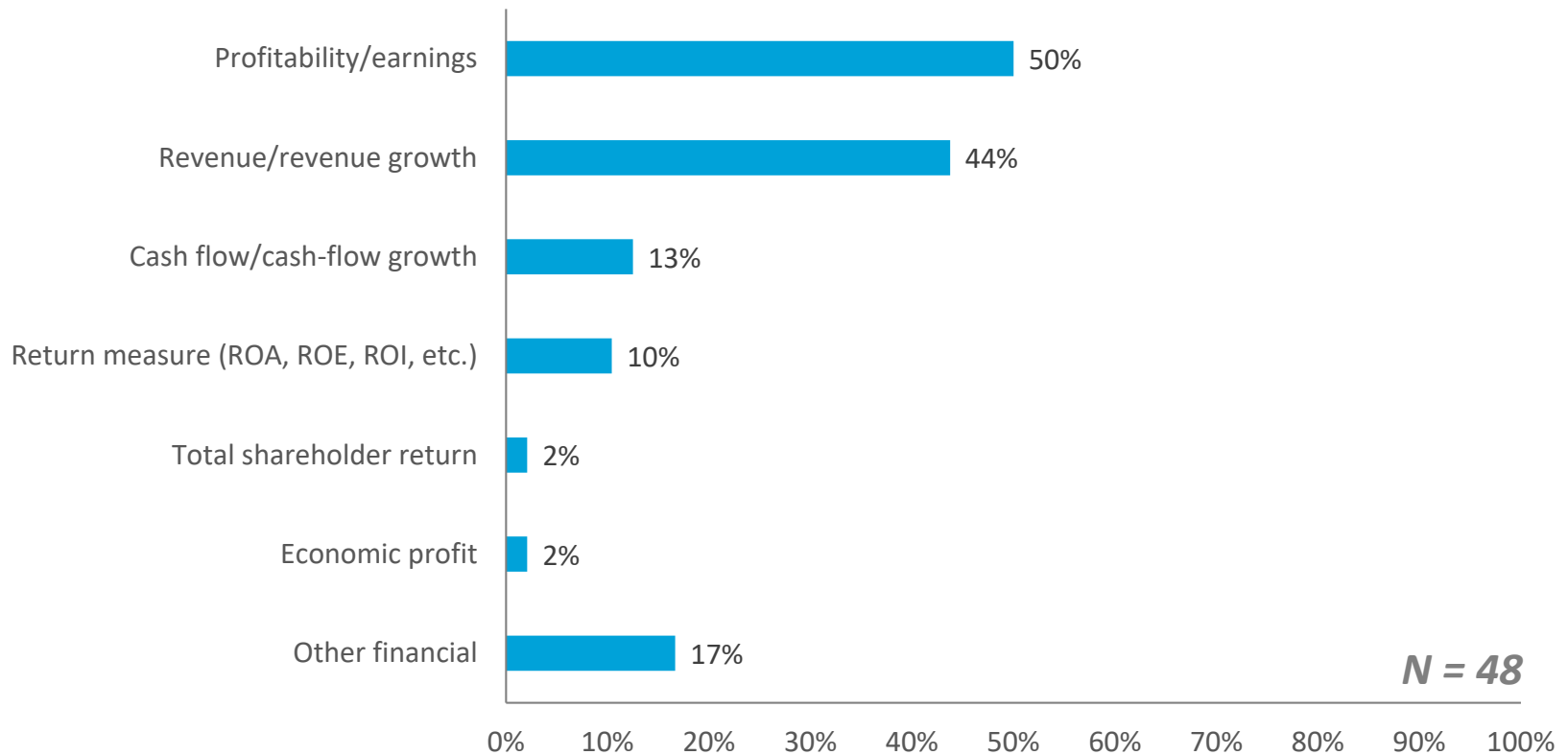
Operational measures are the most commonly used in nonprofit and government AIPs

Prevalence of Operational Performance Measures in AIPs



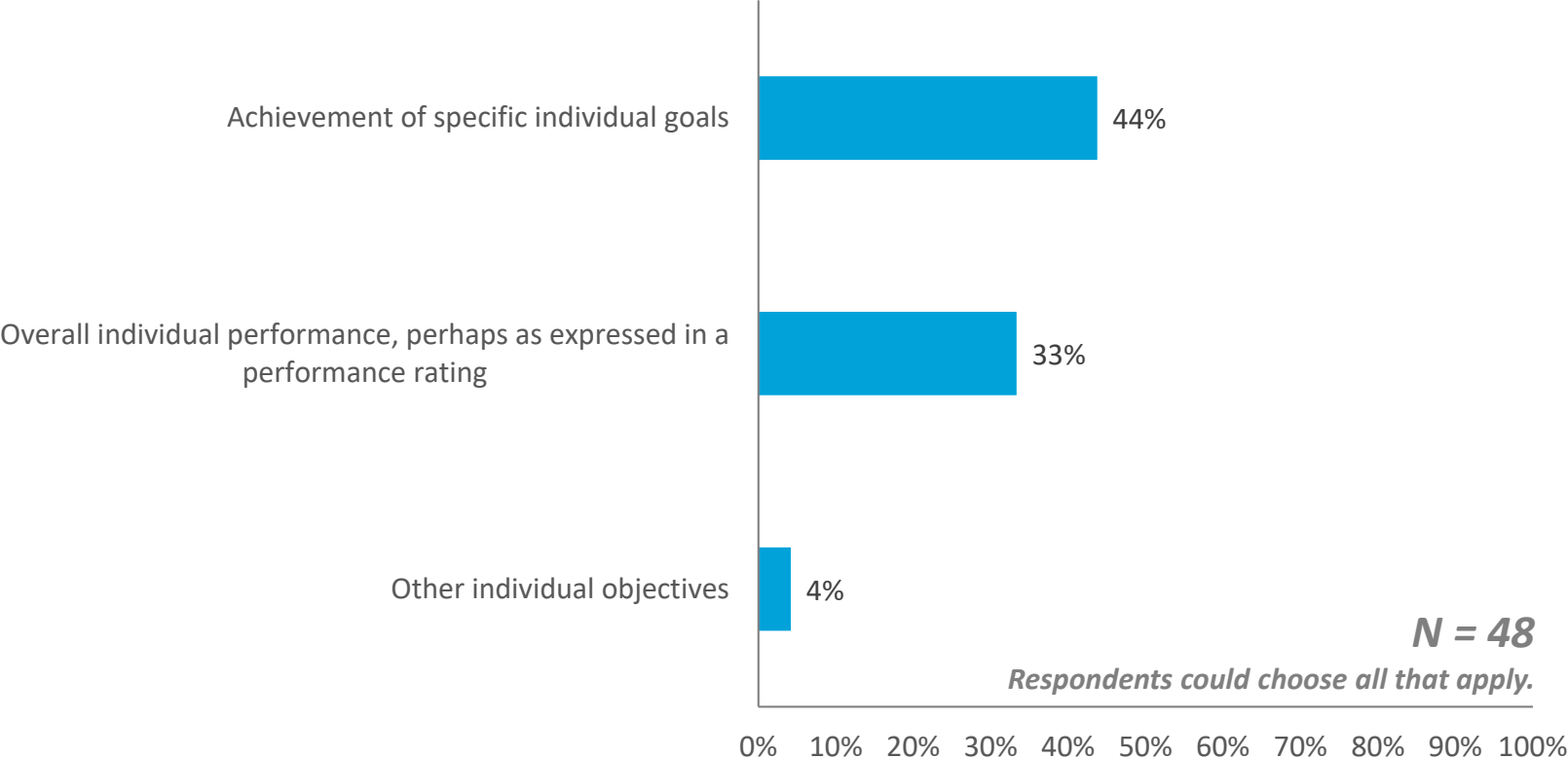
Financial measures are also used, with profitability/earnings and revenue as the most prevalent measures

Prevalence of Financial Performance Measures in AIPs



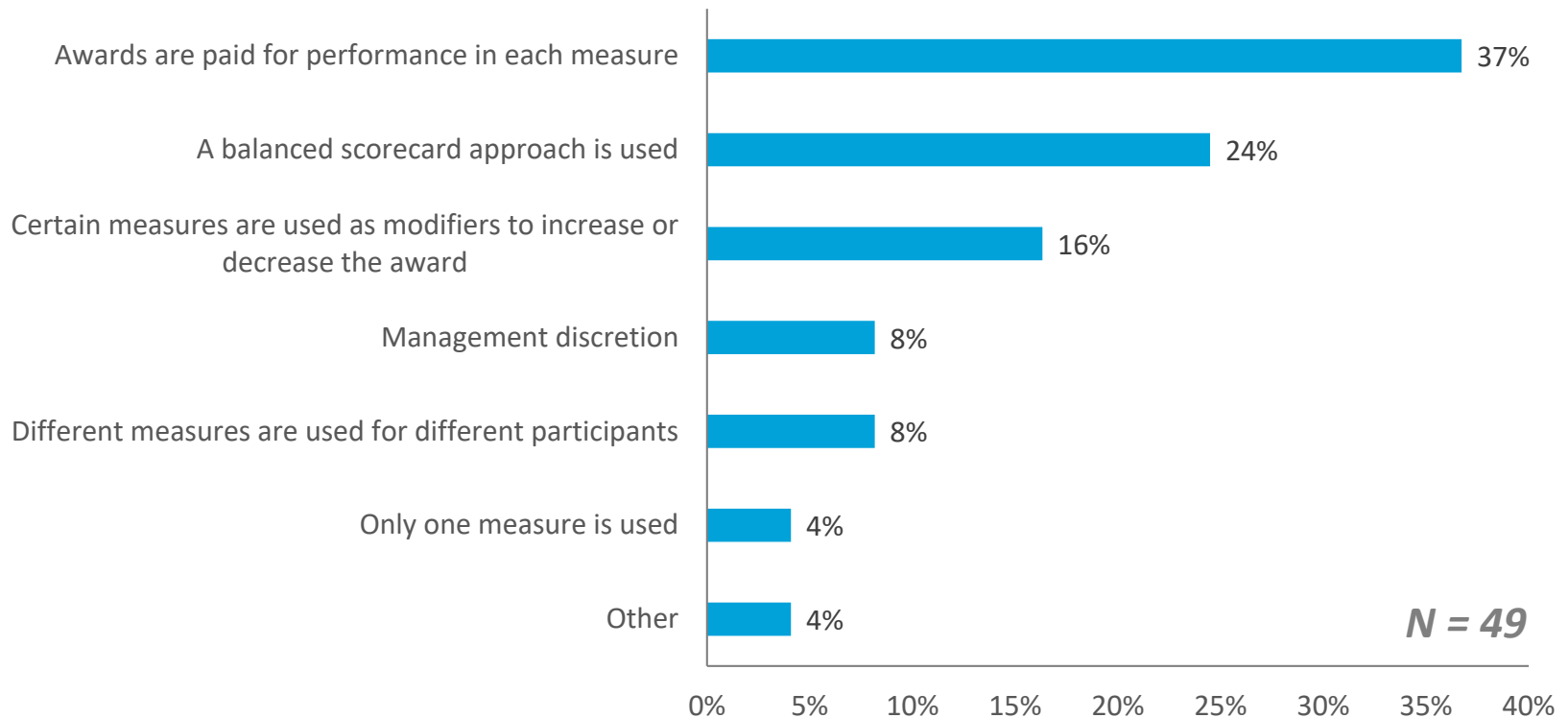
Individual objectives are also used in AIPs, with the prevalence shared between achievement of specific goals (44%) and overall individual performance (33%)

Prevalence of Individual Objectives in AIPs



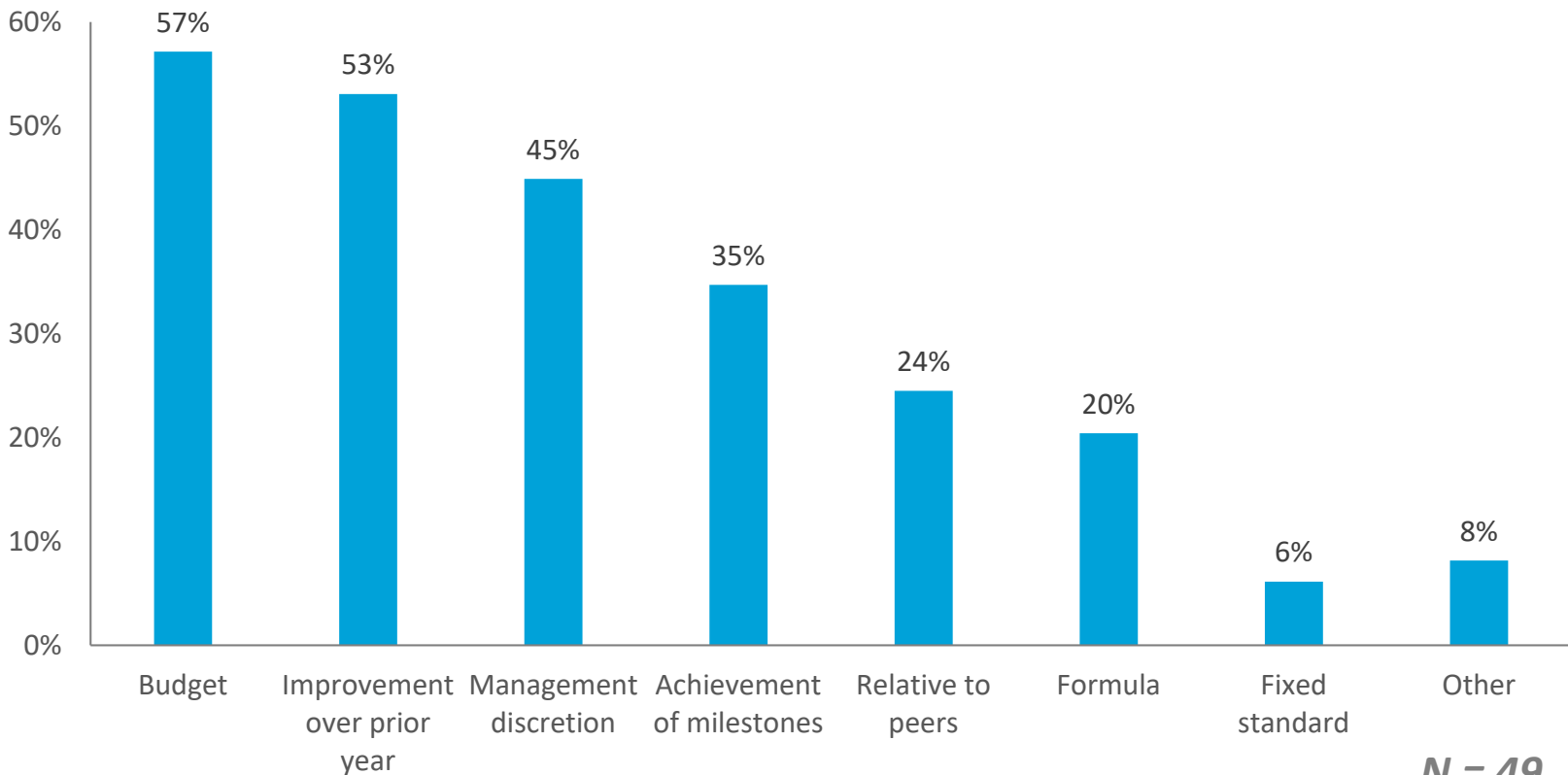
Performance measures are combined in a variety of ways, with the most common being that awards are paid for performance in each measure

How Different AIP Performance Measures are Used Together



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



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

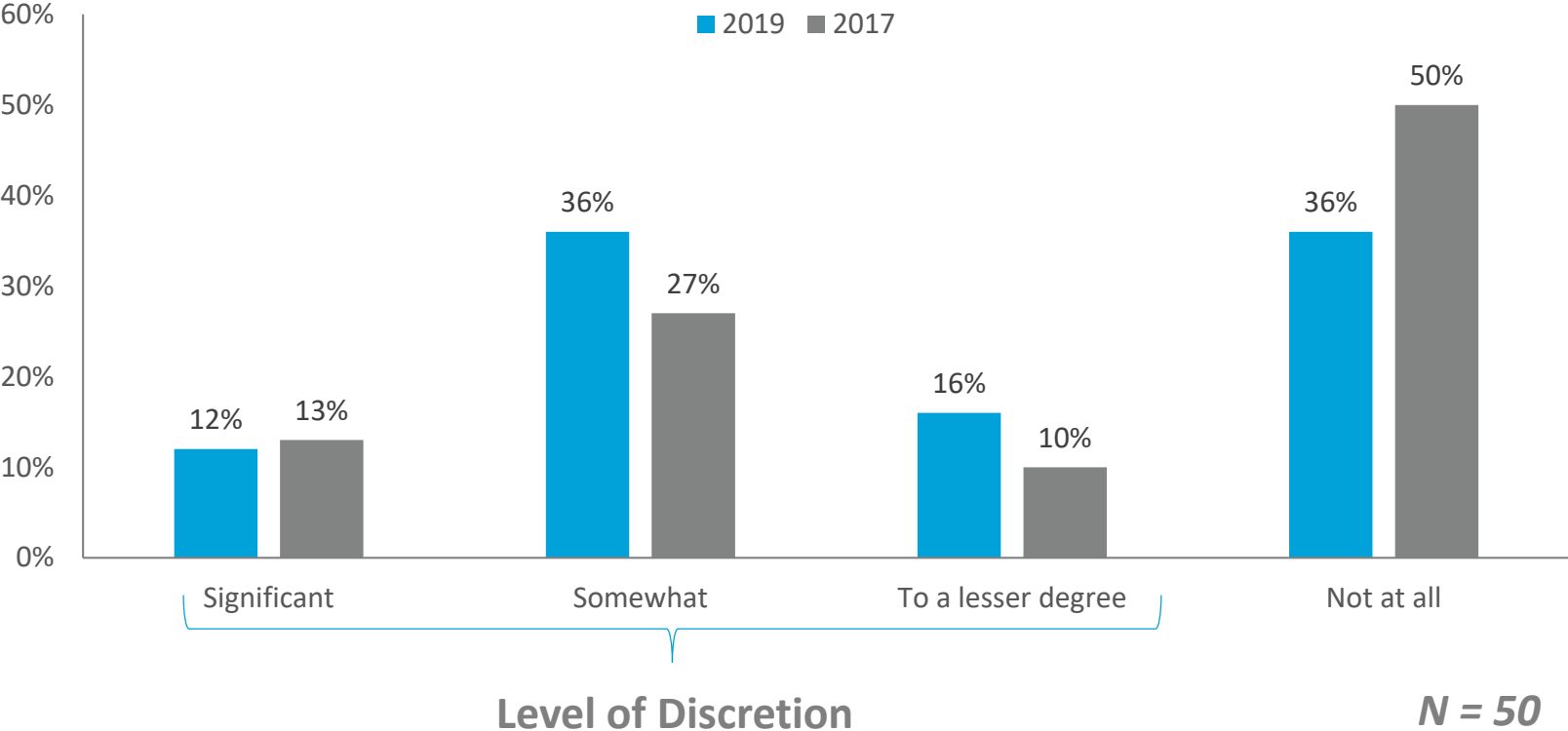
AIP Performance Linkage

| | Corporate | Division/ Unit | Individual | N = |
|--------------------------------|--------------------------|-------------------|------------|-----|
| CEO | 100% | 17% | 40% | 47 |
| Executive/officer | 81% | 46% | 52% | 48 |
| Managers/supervisors | 60% | 48% | 62% | 42 |
| Exempt salaried | 58% | 32% | 71% | 31 |
| Nonexempt, salaried and hourly | <i>Insufficient Data</i> | | | |

Note: The data is not additive across rows because organizations can choose more than one linkage parameter by position.

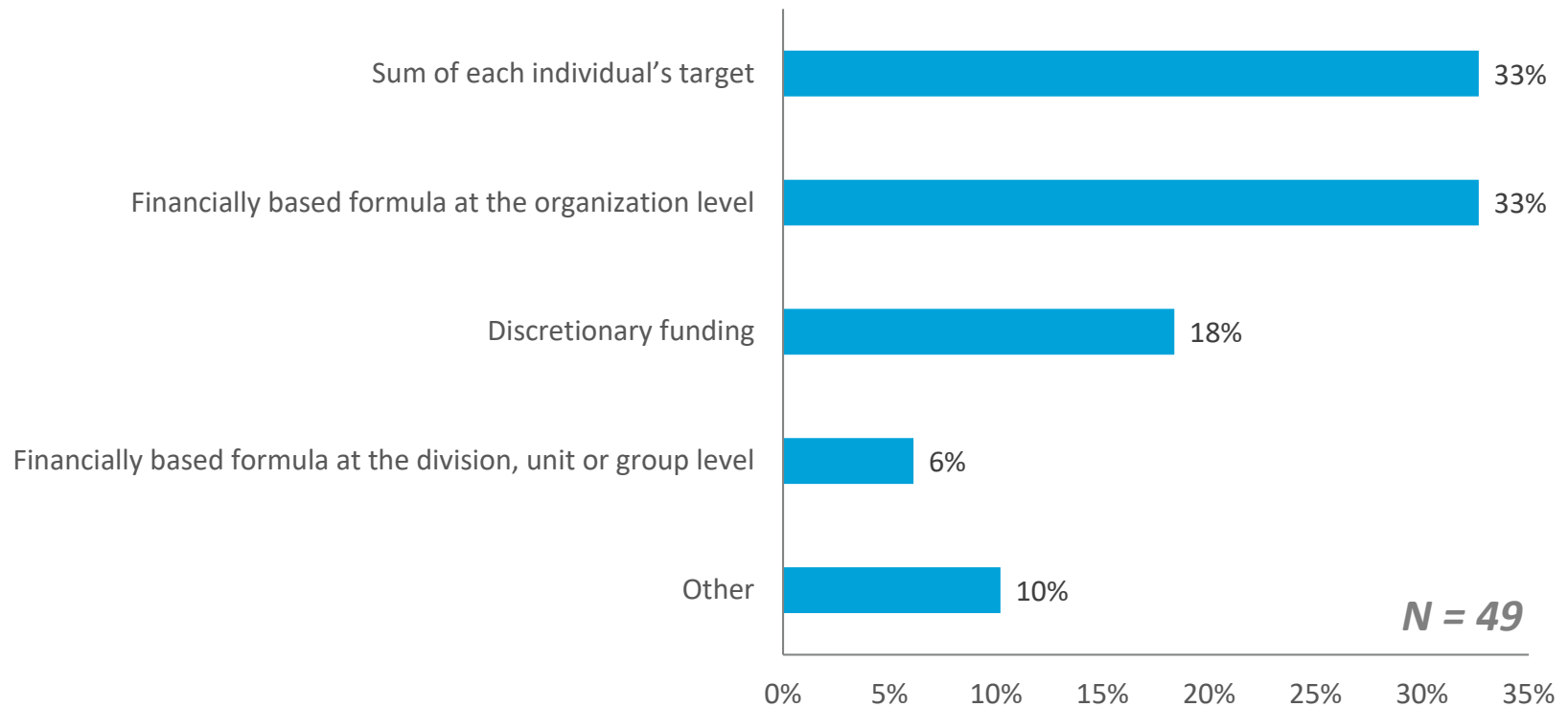
Supervisor discretion plays a role in two-thirds of AIP plans in 2019, up from 50 percent in 2017. This may indicate that nonprofits and government organizations find discretion useful when objective performance is difficult to measure

The Role Supervisor Discretion Plays in AIPs



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



Nonprofits and government organizations most often communicate their AIPs through individual meetings and/or through a written plan document

Prevalence of AIP Communication Methods



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:

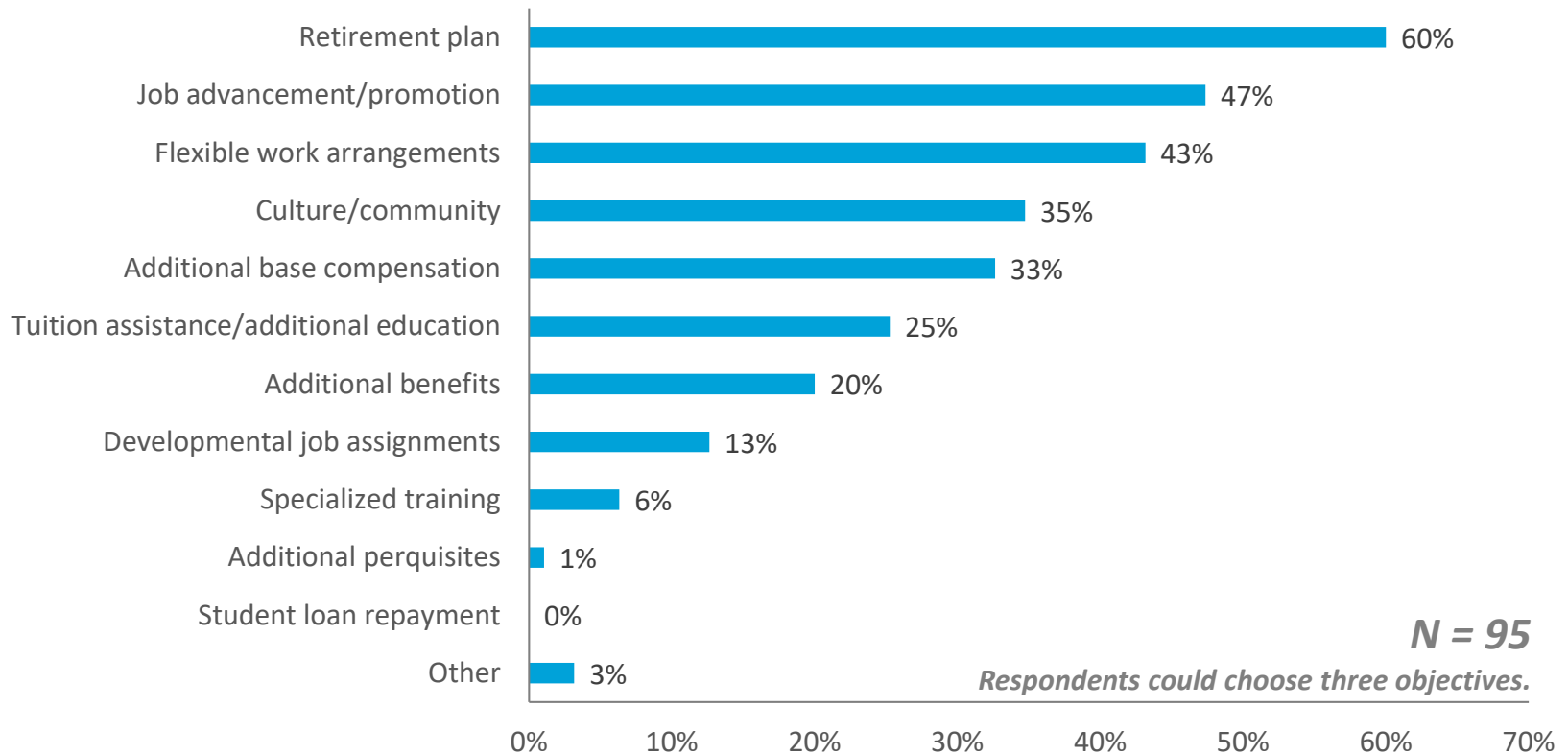
- With regard to vehicles, nonprofits and government organizations report using cash-based performance awards and nonqualified deferred compensation.
- The most common LTI objectives are retention and aligning management's incentives with long-term organizational goals.
- LTI awards are made only to 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

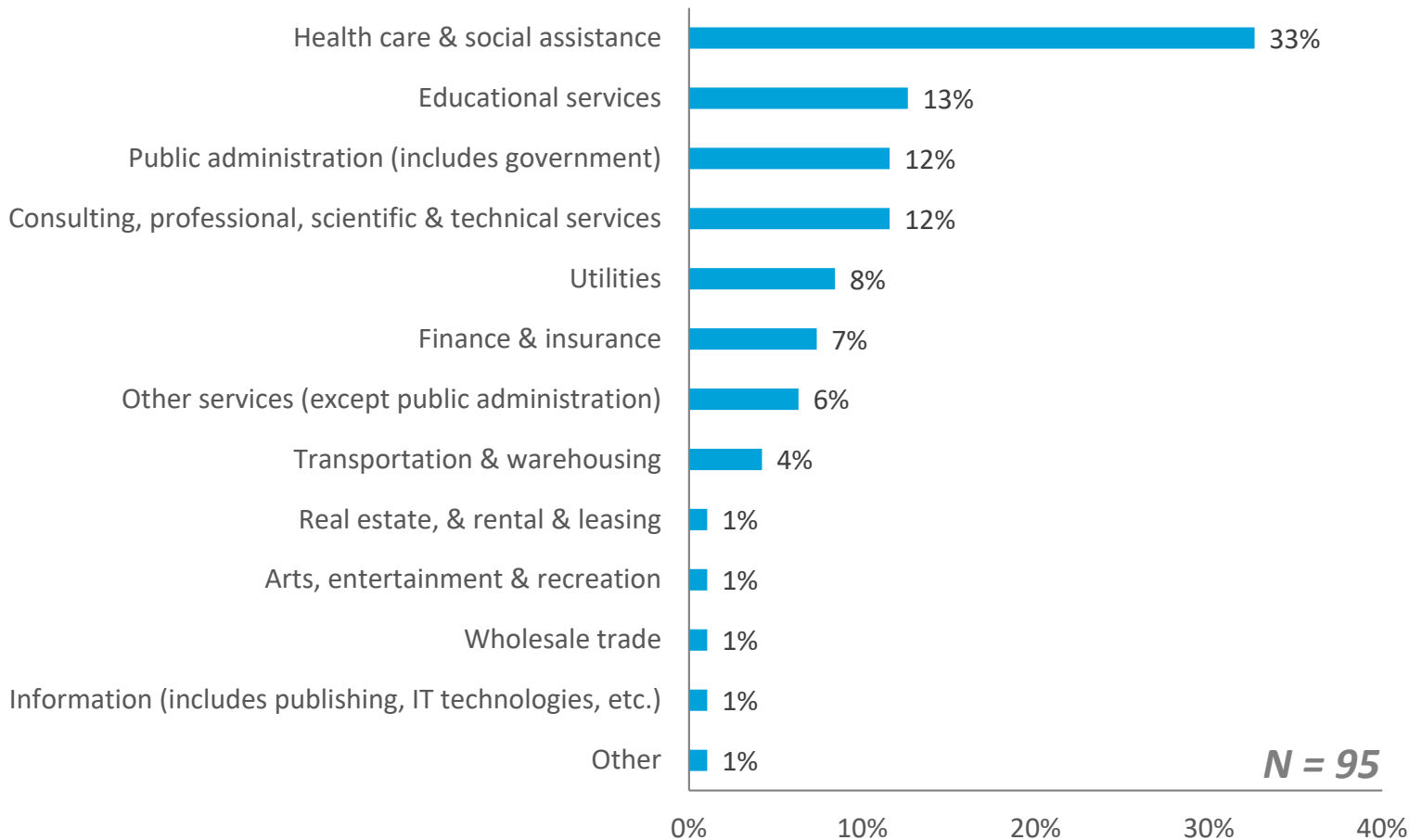


Survey Demographics

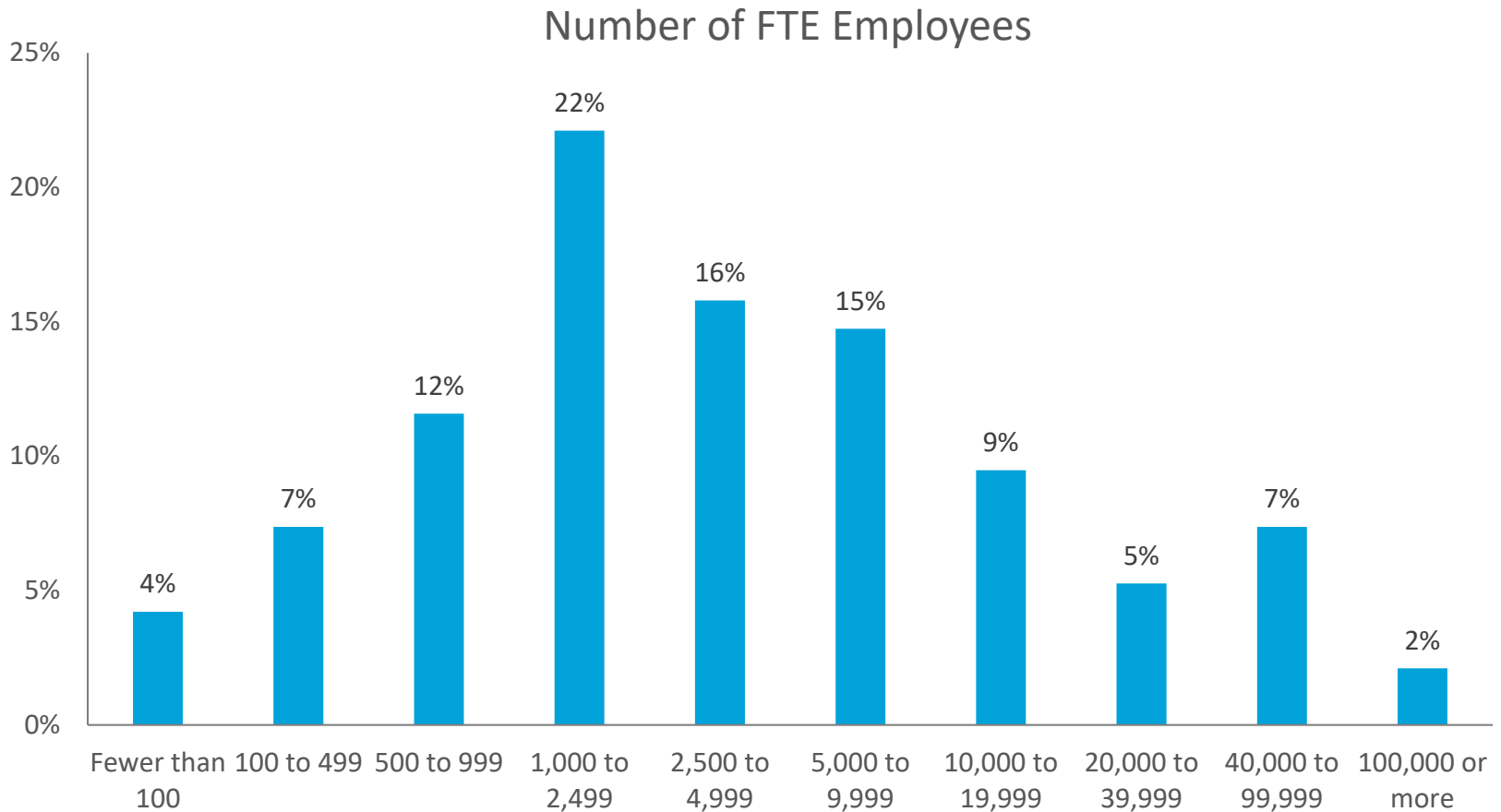
The following questions were provided to all survey respondents.

Survey Demographics: Industry

Prevalence of Industries



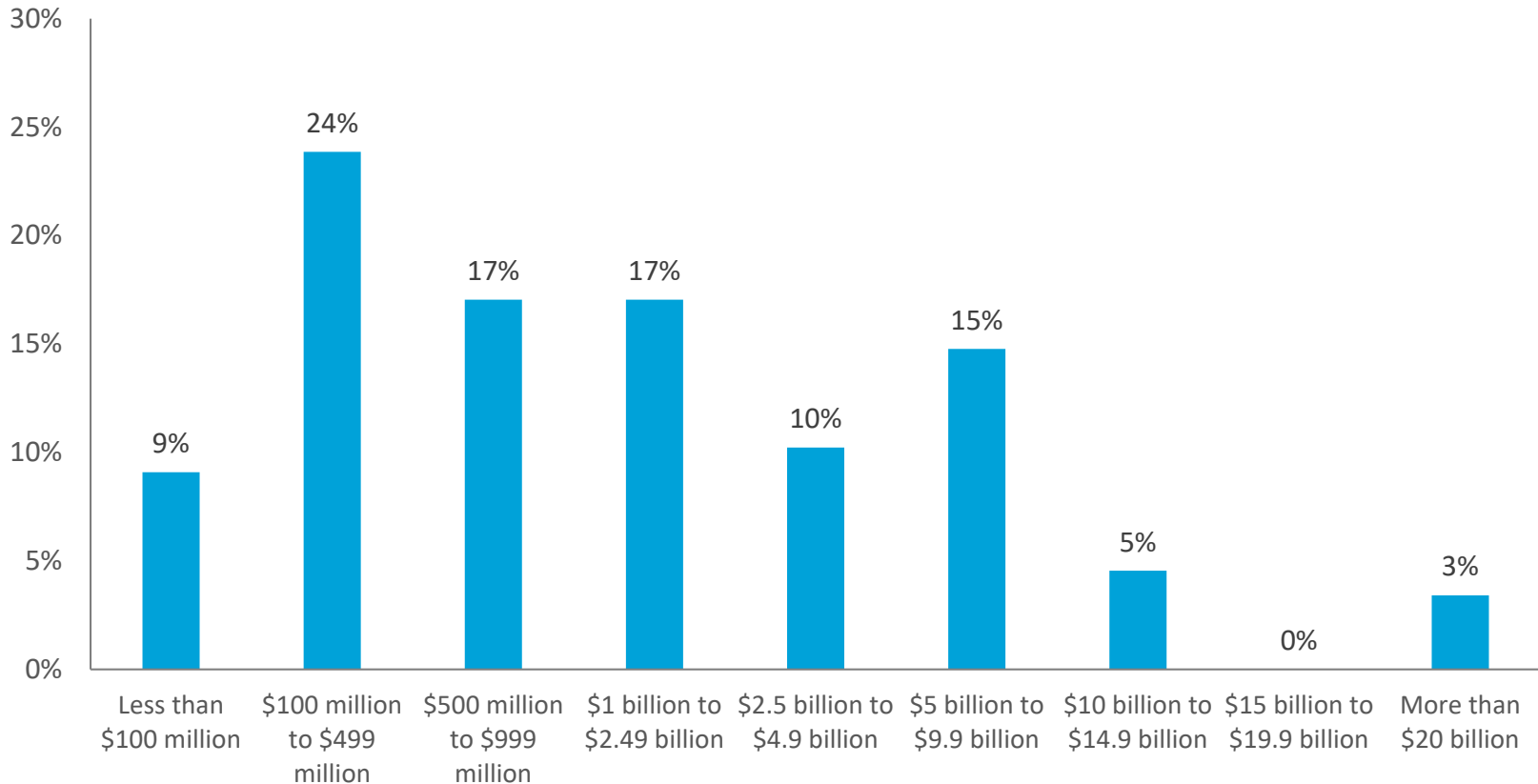
Survey Demographics: Full-Time Equivalent Employees (FTEs)



N = 95

Survey Demographics: Annual Operating Budget

Annual Operating Budget



N = 88

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](#).

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