

# 2019 Incentive Pay Practices: Privately Held Companies

6<sup>th</sup> Edition

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

# Executive Summary

## Short-term Incentives – Insights from 2019

- Short-term incentives (STIs) have become universal at private companies to align pay with short-term performance. STI prevalence reached 99 percent in 2019, up from 96 percent in 2017 and 94 percent in 2015.
- Spending on STIs increased to 6.5 percent of operating profit at median in 2019, up from 6 percent in 2017 and 5 percent in prior years. This increase indicates that private companies are spending more to compete for talent in this tight labor market.
- The prevalence of Annual Incentive Plans (AIPs) increased to 86 percent in 2019, up from 82 percent in 2017. The prevalence of all other types of STIs (i.e., spot awards, discretionary bonuses, team/small group incentives, project bonuses and profit sharing) fell in 2019. This indicates that firms are consolidating their STI spending on structured AIPs that incorporate companywide financial metrics and other objectives.
- AIP plans continue to be offered across the organization, with two-thirds of organizations providing eligibility to all employees.

# Executive Summary (*continued*)

## Short-term Incentives – Trends Over Time

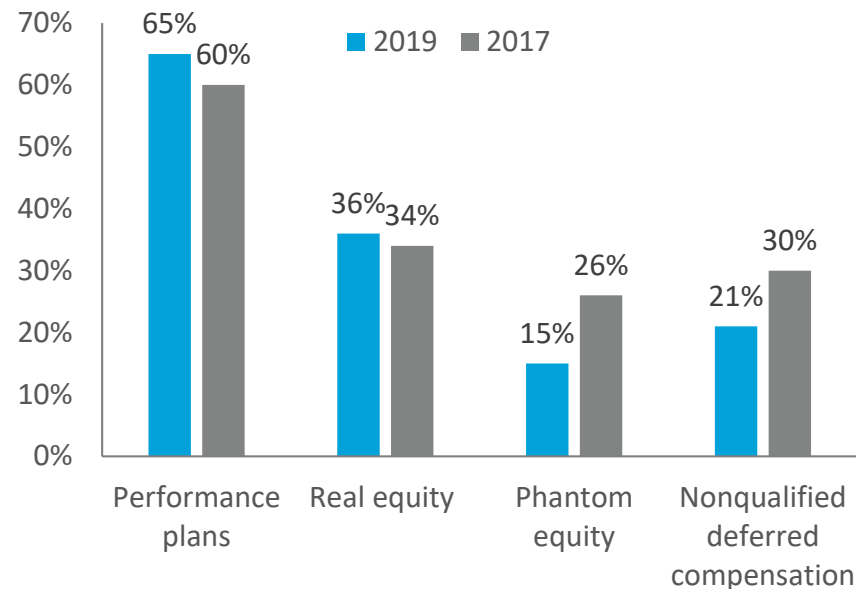
- Design parameters of AIP plans have remained consistent over the past several years reflecting the standardization of the plan design across companies
  - Award Leverage: Threshold is 50% of target and Maximum is either 150% or 200% of target
  - Award levels: Median target award levels have remained at 80% of salary for the CEO, with targets decreasing by about half for each lower position level in the organization
  - Number of performance measures: 1 to 3
  - Type of performance measures: Focus on profitability as the most important performance measure
  - Goal Setting: Based on annual budget
- Spending for STI plans continues to increase for various reasons that may include:
  - Participation has broadened to include more employees
  - Economic performance has been relatively stable and strong
  - Labor markets have tightened, and there is increased competition for talent

# Executive Summary (continued)

## Long-term Incentives – Insights from 2019

- Long-term incentive (LTI) prevalence increased in 2019 to 62 percent. This is up from 54 percent in 2017 and 53 percent in 2015. The increased prevalence reflects that private firms are competing for top talent with publicly traded peers in a tight labor market.
- At firms that offer LTI plans, the choice of vehicles shifted in 2019, as shown in the chart to the right. Performance plans gained traction likely because they are less complex than other LTI vehicles.
- LTIs continue to be awarded to top management only

Prevalence of Vehicles at Firms Offering LTIs



# Executive Summary (*continued*)

## Long-term Incentives – Trends Over Time

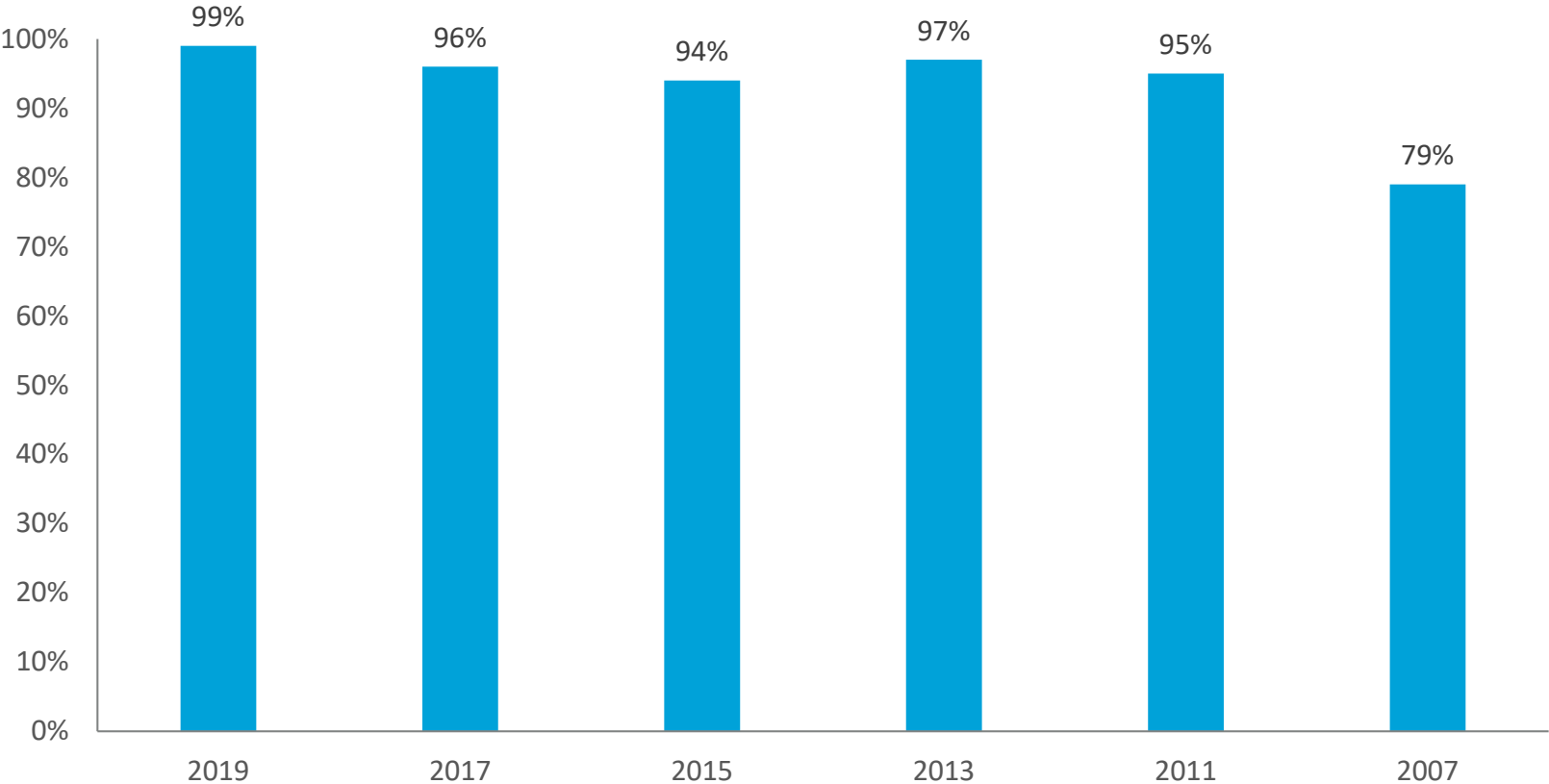
- **Prevalence**: When this survey was first conducted in 2007, LTI plans were prevalent in 35% of private companies. Between 2007 and 2011, LTI use increased dramatically to over 60% as private companies adopted LTI plans for the first time. After having some experience with these plans, prevalence dipped down to the low to mid fifties and remained at that level until 2019. LTI prevalence has increased again as private companies realize that they need this pay component to compete for talent with their public company counterparts.
- **Participation**: Still limited to a small group of executives who can really drive the business results.
- **Vehicle**: Performance Awards, such as long-term cash plans, are favored as companies can be creative in program design and customize it to their business strategy. Private companies have more leeway than their public counterparts to design what they want as long as the owners agree.
- **Number of Programs**: Only one program, or plan, given the cost and complexity of design for a private company. (However, many private companies have more than one type of LTI vehicle included in the plan.)
- **Design Elements**: Three-year performance period and cash pay-outs based on company financial performance are still the most prevalent design elements.

# Short-term Incentive (STI) Plans

The following questions were answered only by private companies that have STIs.

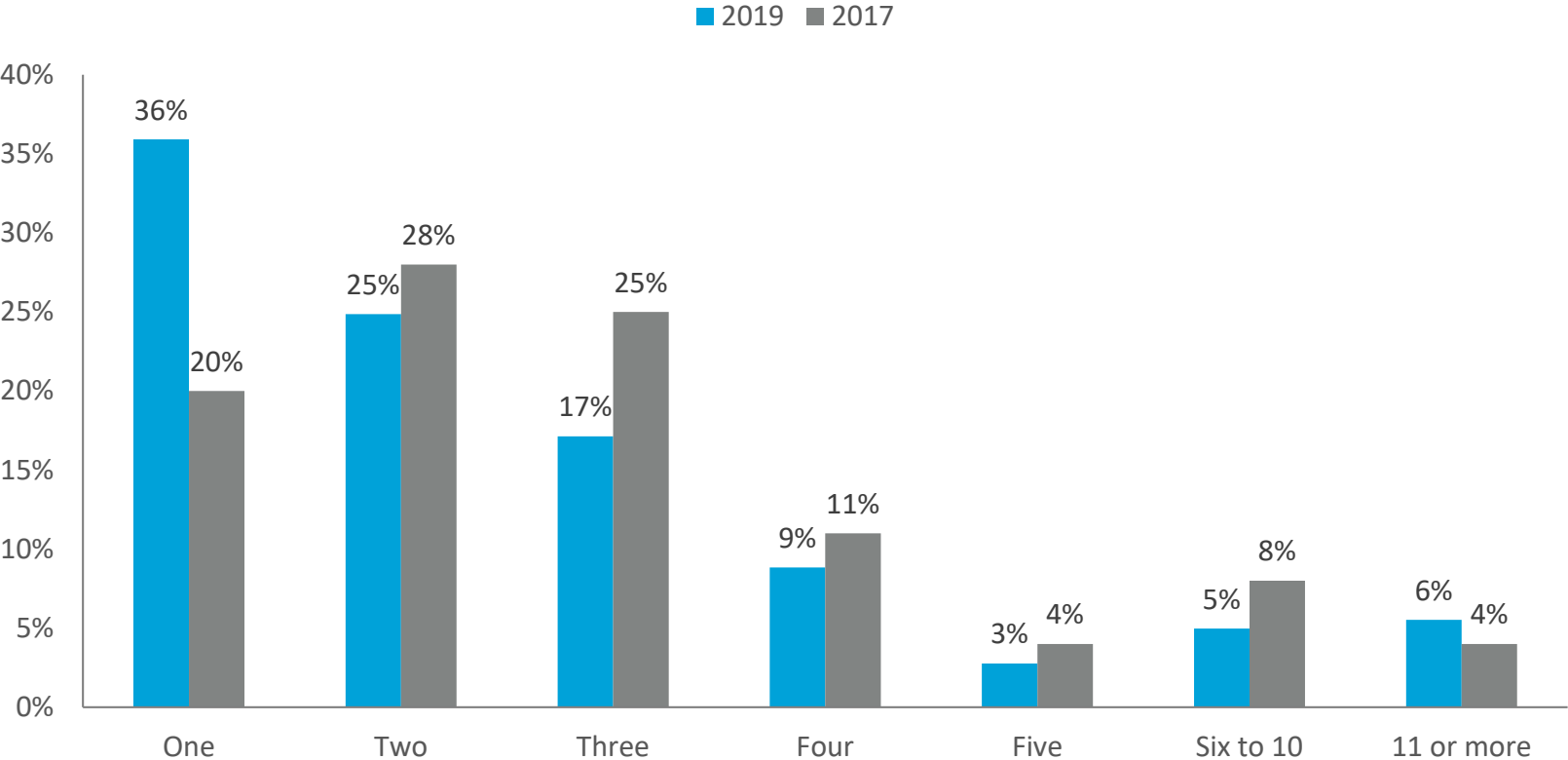
# For the first time in the history of the survey, nearly all private companies offer short-term incentive (STI) programs

Prevalence of Short-Term Incentive Programs



# Approximately eight out of 10 of private firms have three or fewer STI programs. The number of firms reporting only one program grew in 2019

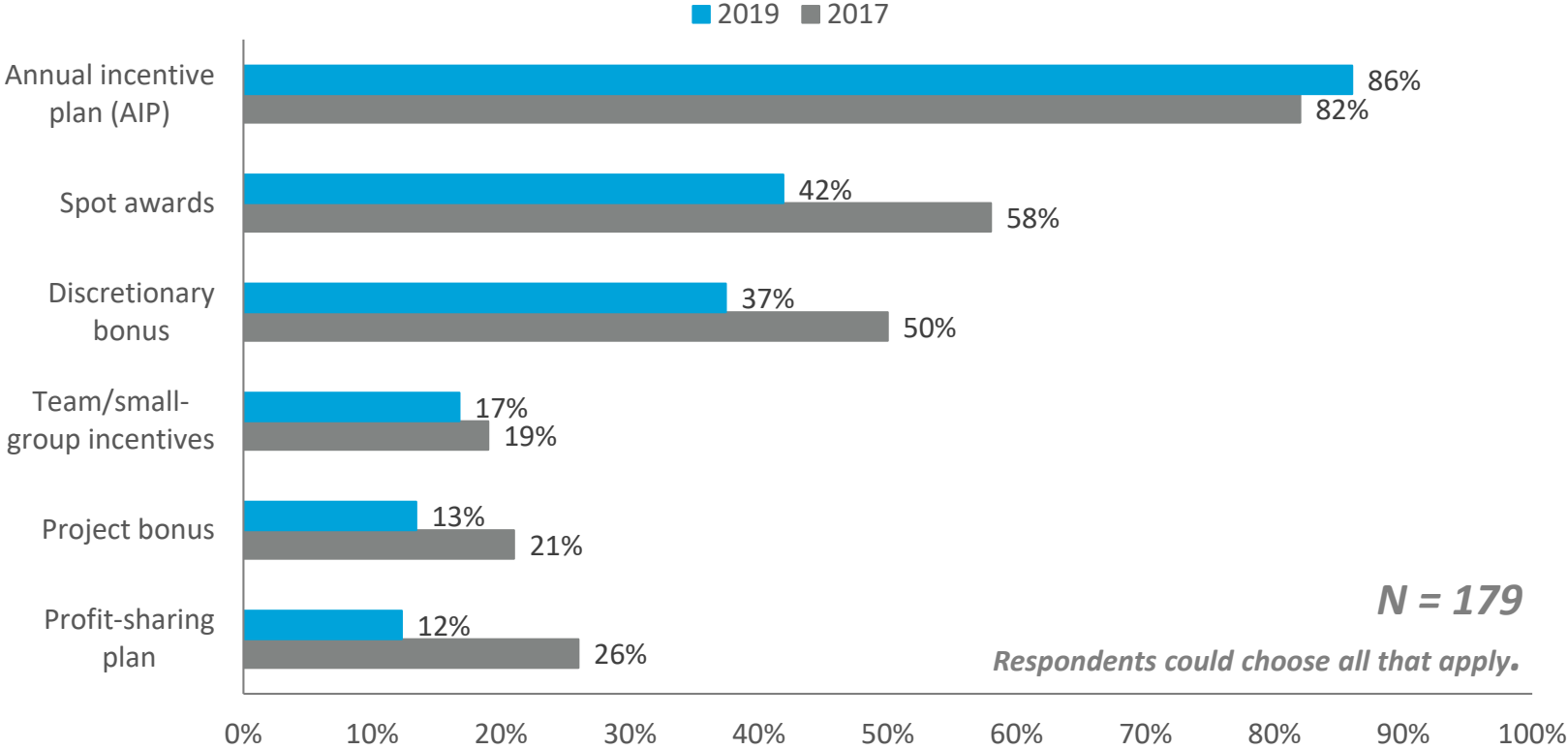
Number of Short-Term Incentive Programs





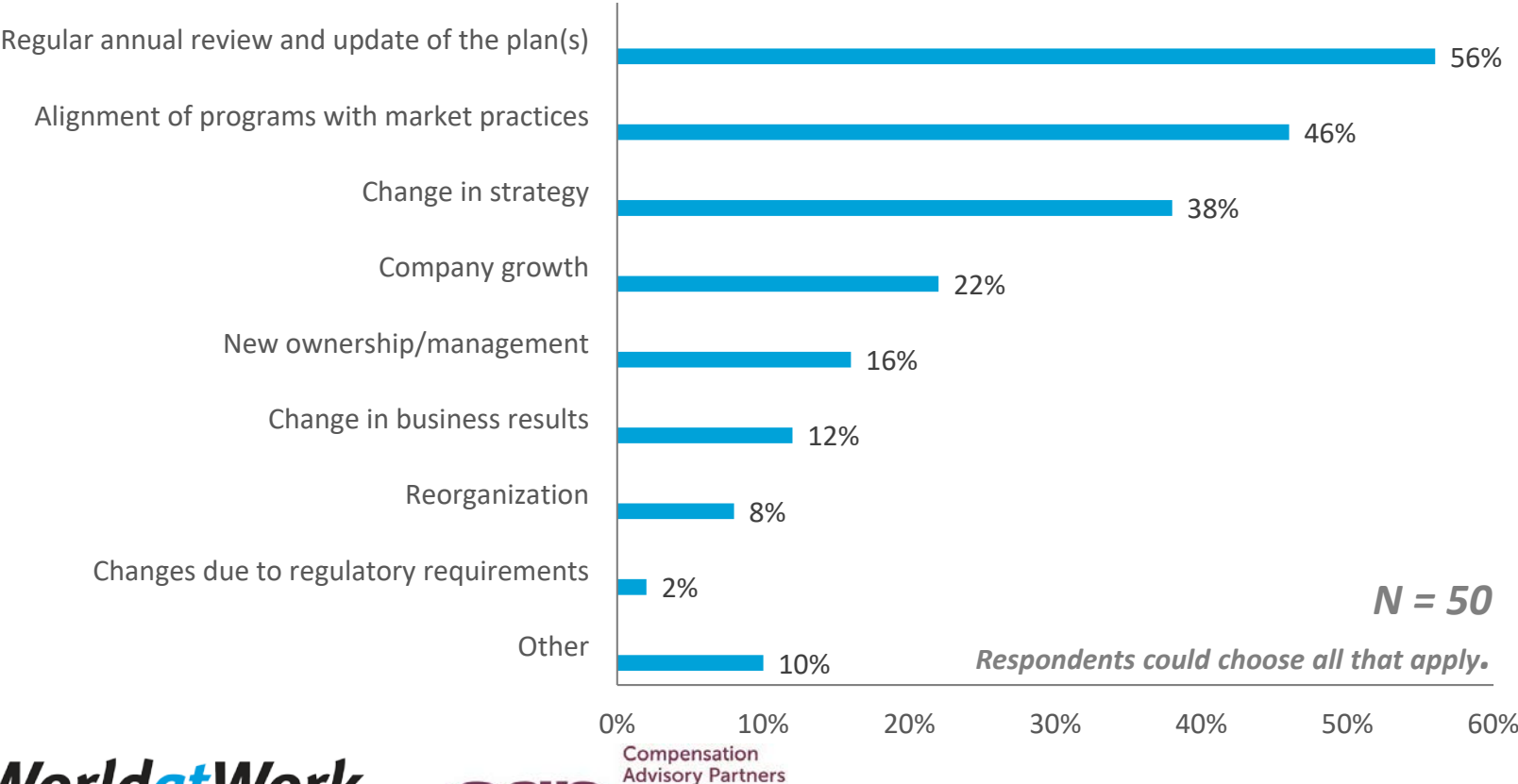
# Of the different types of STIs, annual incentive plans (AIPs) are by far the most prevalent in private firms. The use of other types of STIs dropped in 2019

Types of Short-Term Incentive Programs



# About one in four private firms plans to add or modify an STI plan for 2020 for the following reasons:

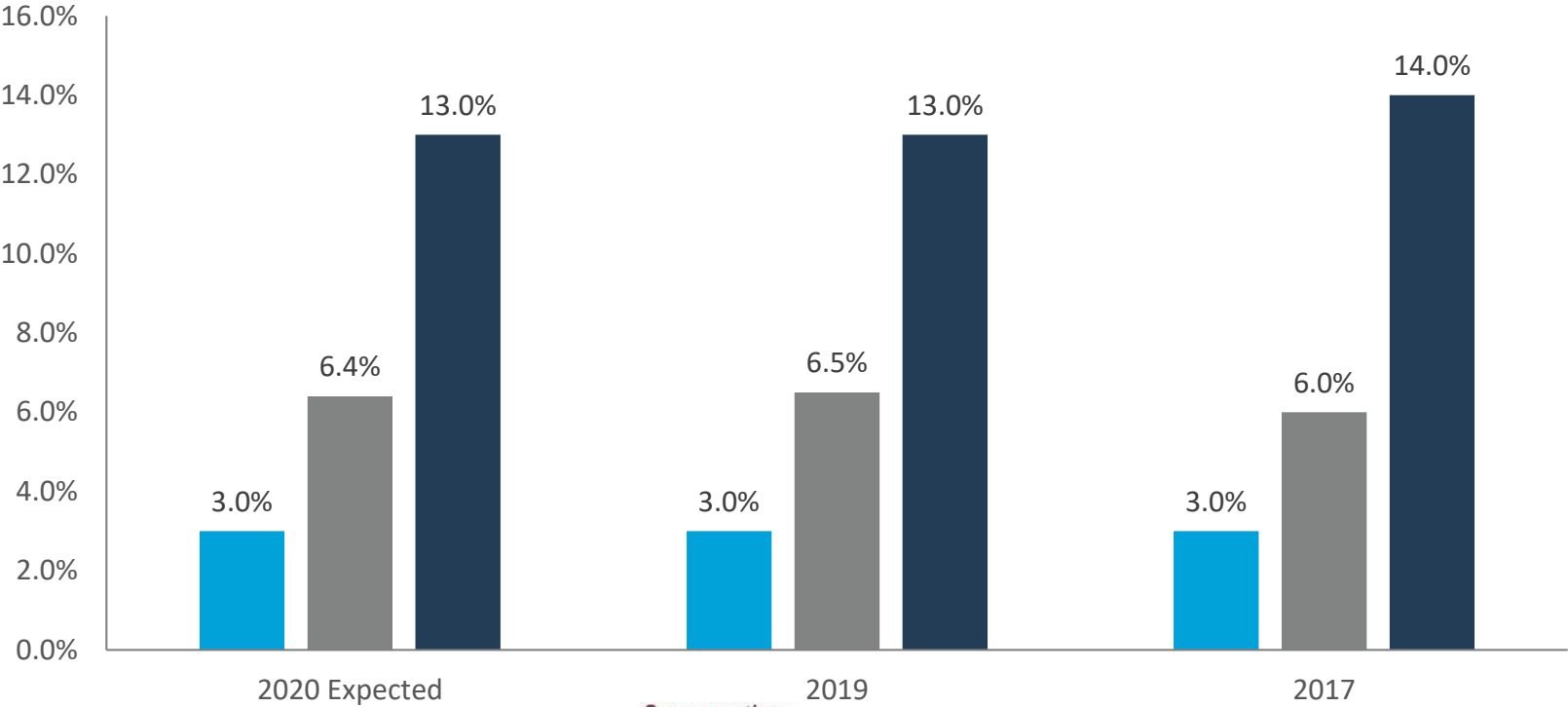
### Reasons for Short-Term Incentive Additions or Modifications



# Private company STI spending reached 6.5 percent of operating income at median, up slightly from 6 percent in 2017

STI Spending as a % of Operating Income

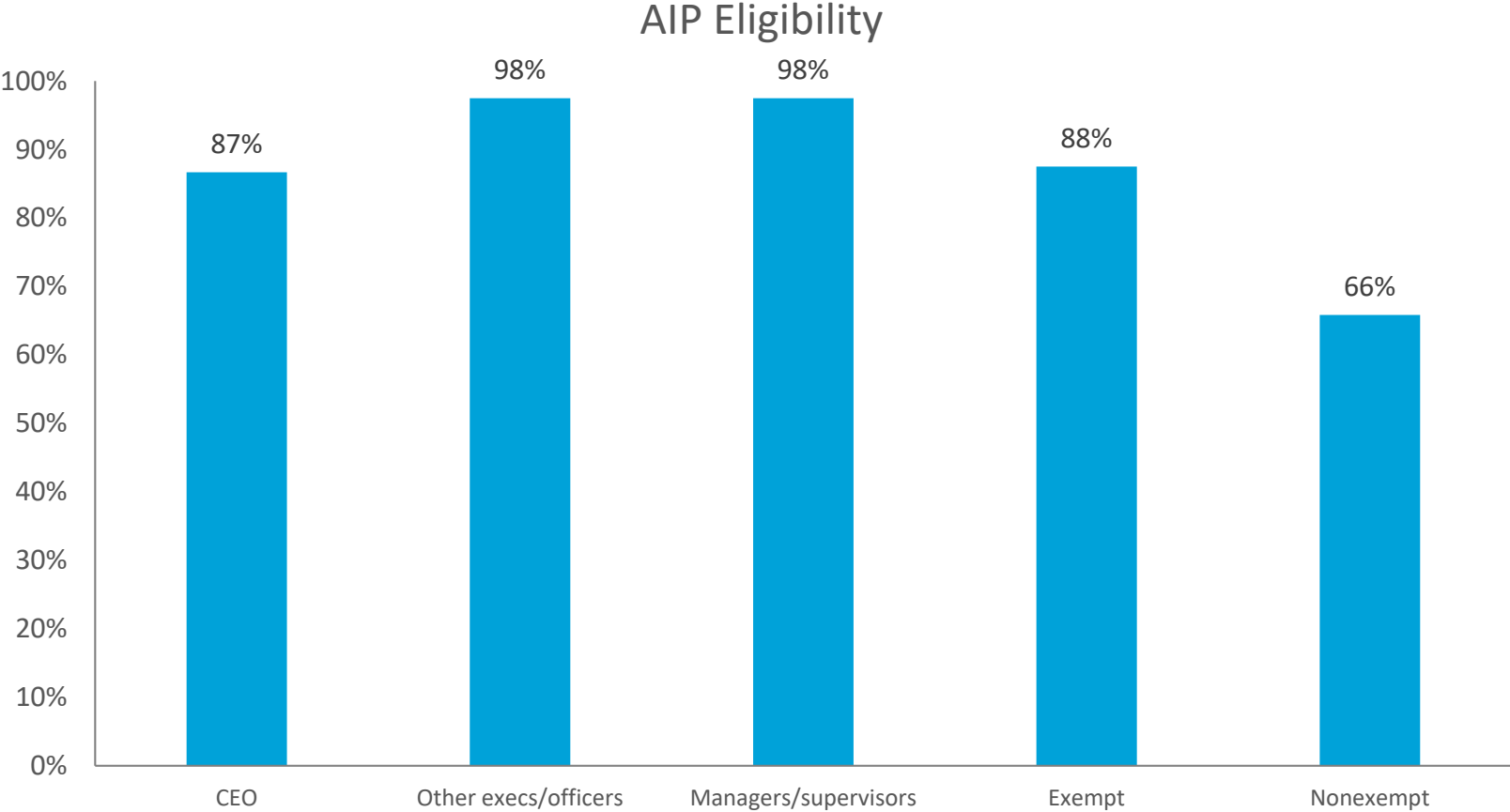
■ 25th ■ Median ■ 75th



# Annual Incentive Plans (AIPs)

The following questions were answered only by private companies that have AIPs.

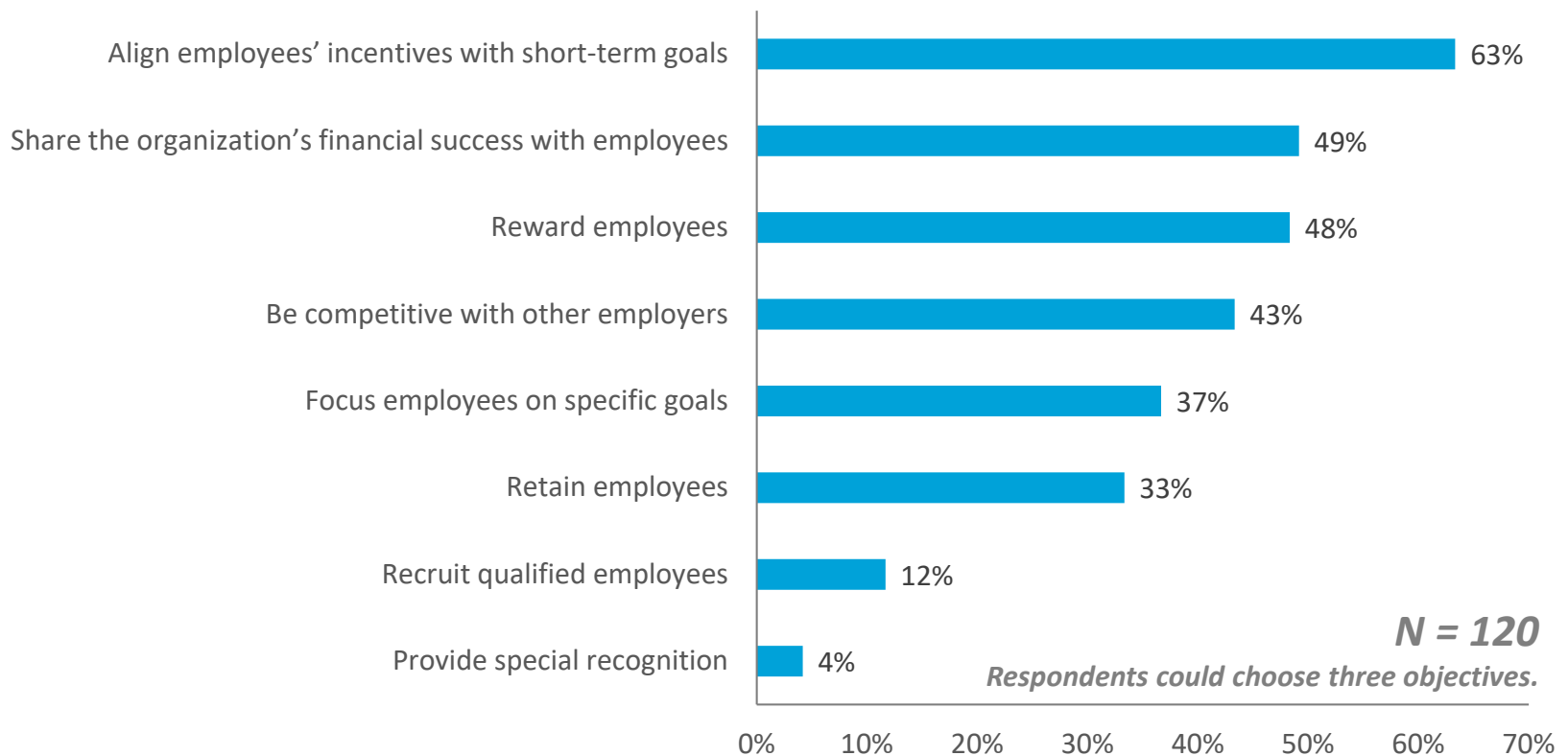
# AIP eligibility extends across the entire workforce at private companies



N = 120

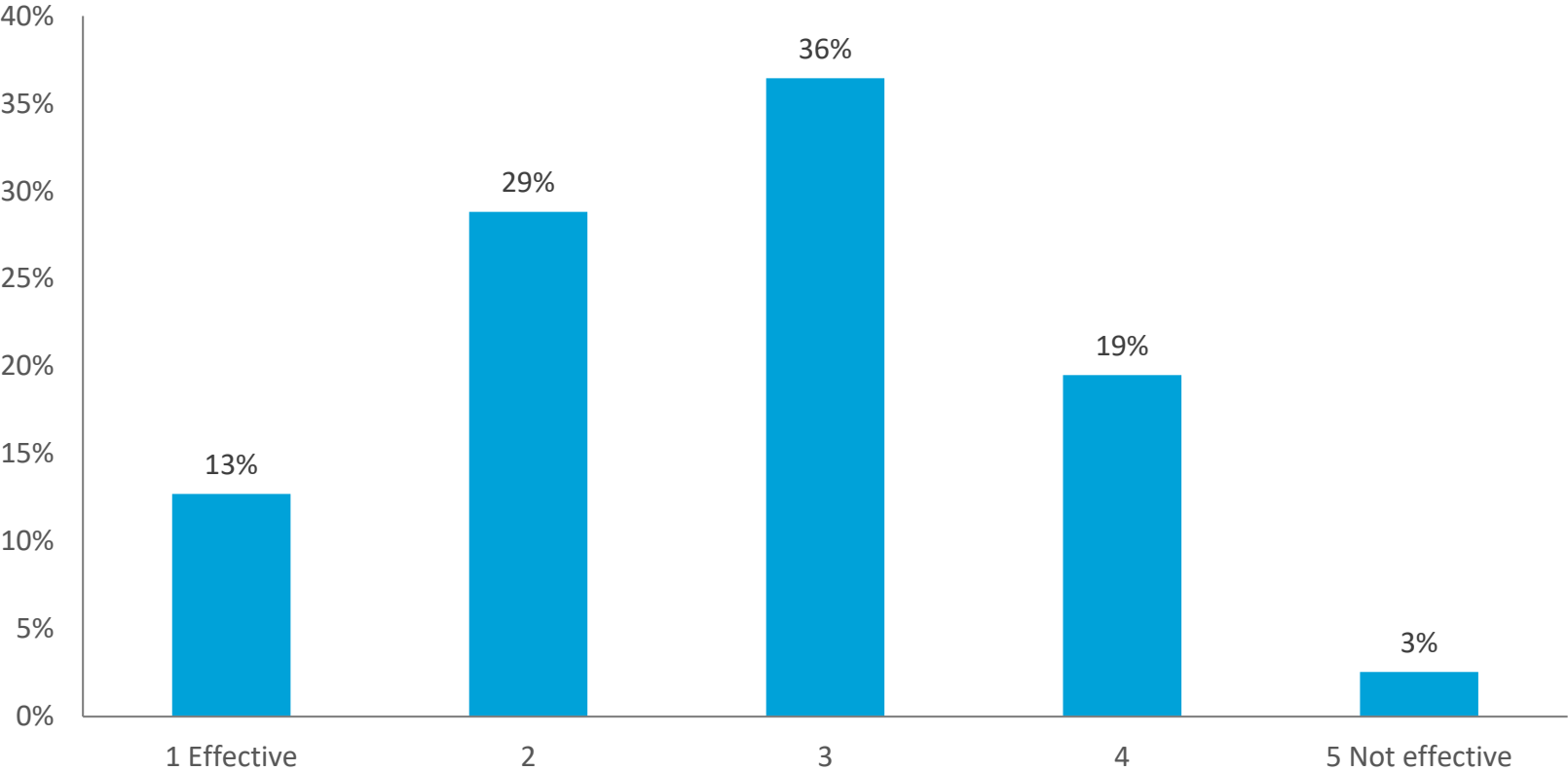
# The top three AIP objectives are to 1) align incentives with short-term goals, 2) share financial success with employees and 3) reward employees

AIP Primary Objectives



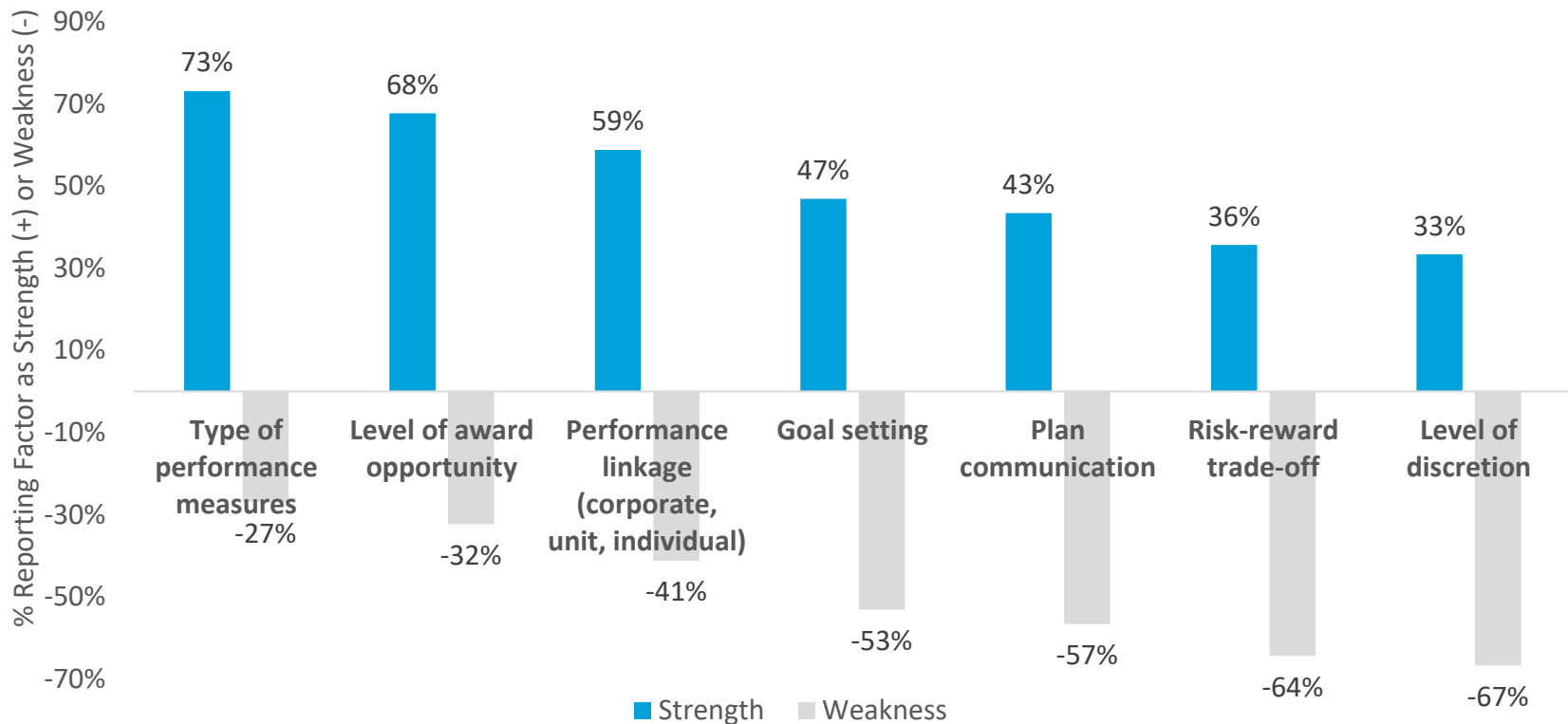
# Private companies tend to view the effectiveness of their AIPs favorably

Effectiveness of AIPs at Achieving Objectives



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

AIP Strengths and Weaknesses

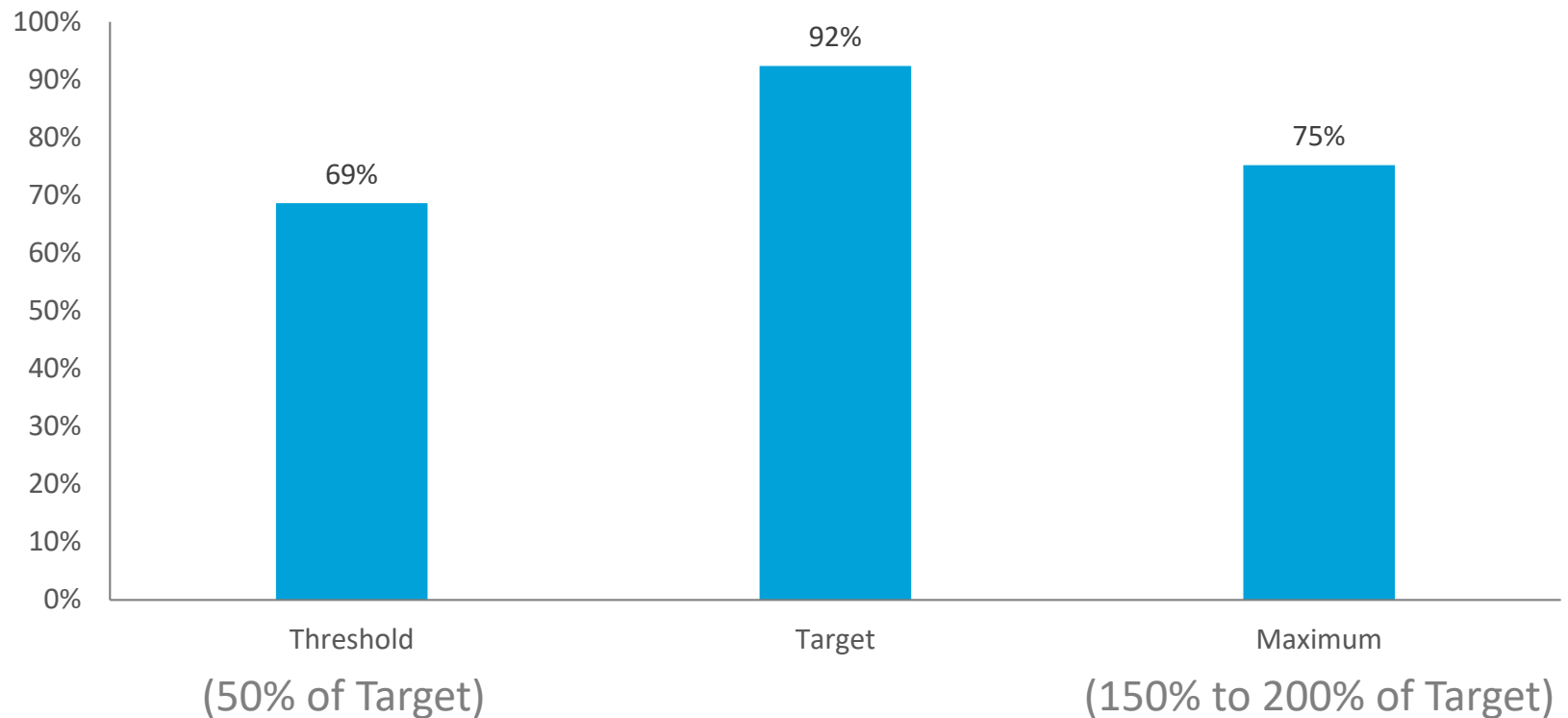


N = 100



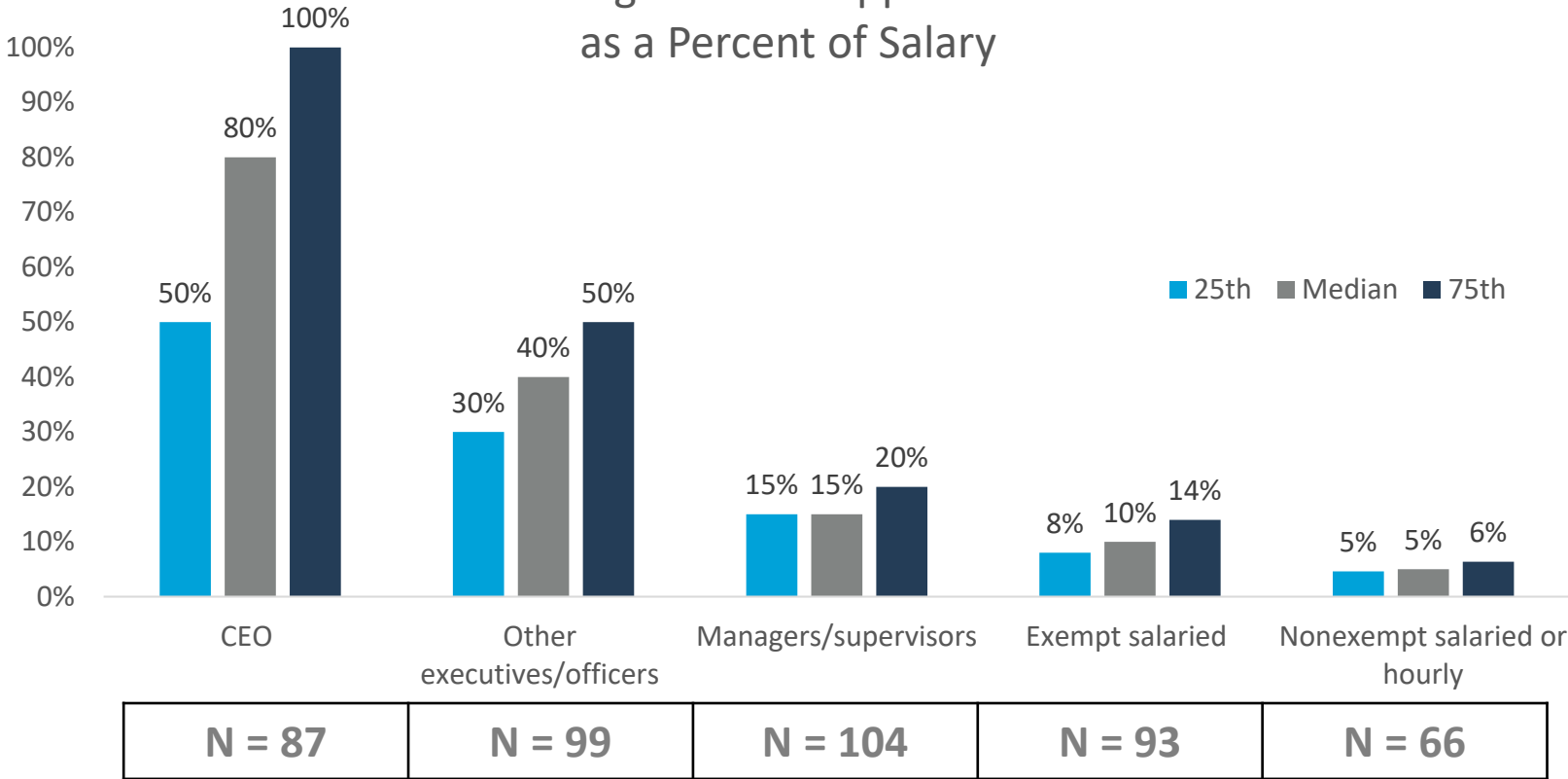
# Most private firms incorporate threshold, target and maximum award levels into their AIPs

Prevalence of Thresholds, Targets and Maximums in AIPs



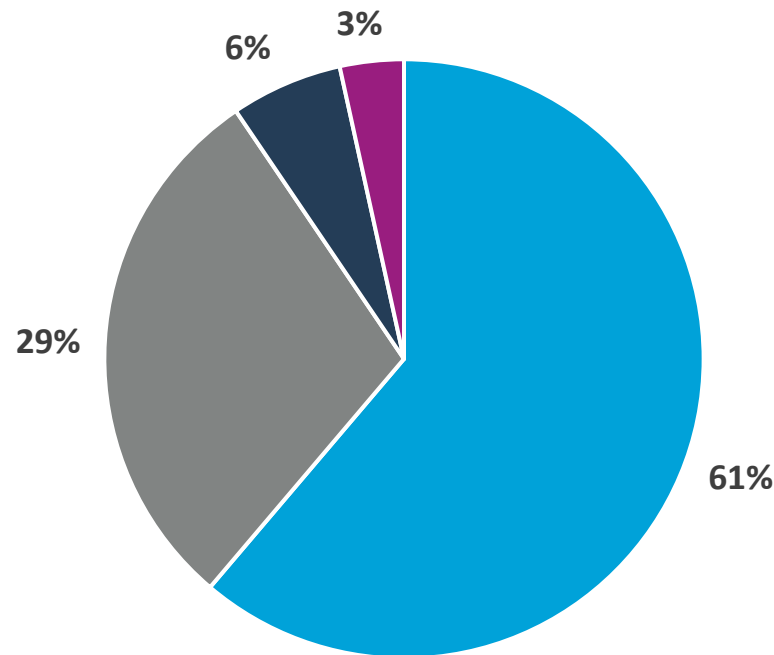
# Median target award opportunities range from 80 percent of salary for the chief executive officer (CEO) to five percent of salary for nonexempt employees

AIP Target Award Opportunities as a Percent of Salary



# Most private companies use one to three performance measures in their AIPs

Number of Performance Measures Used in AIPs

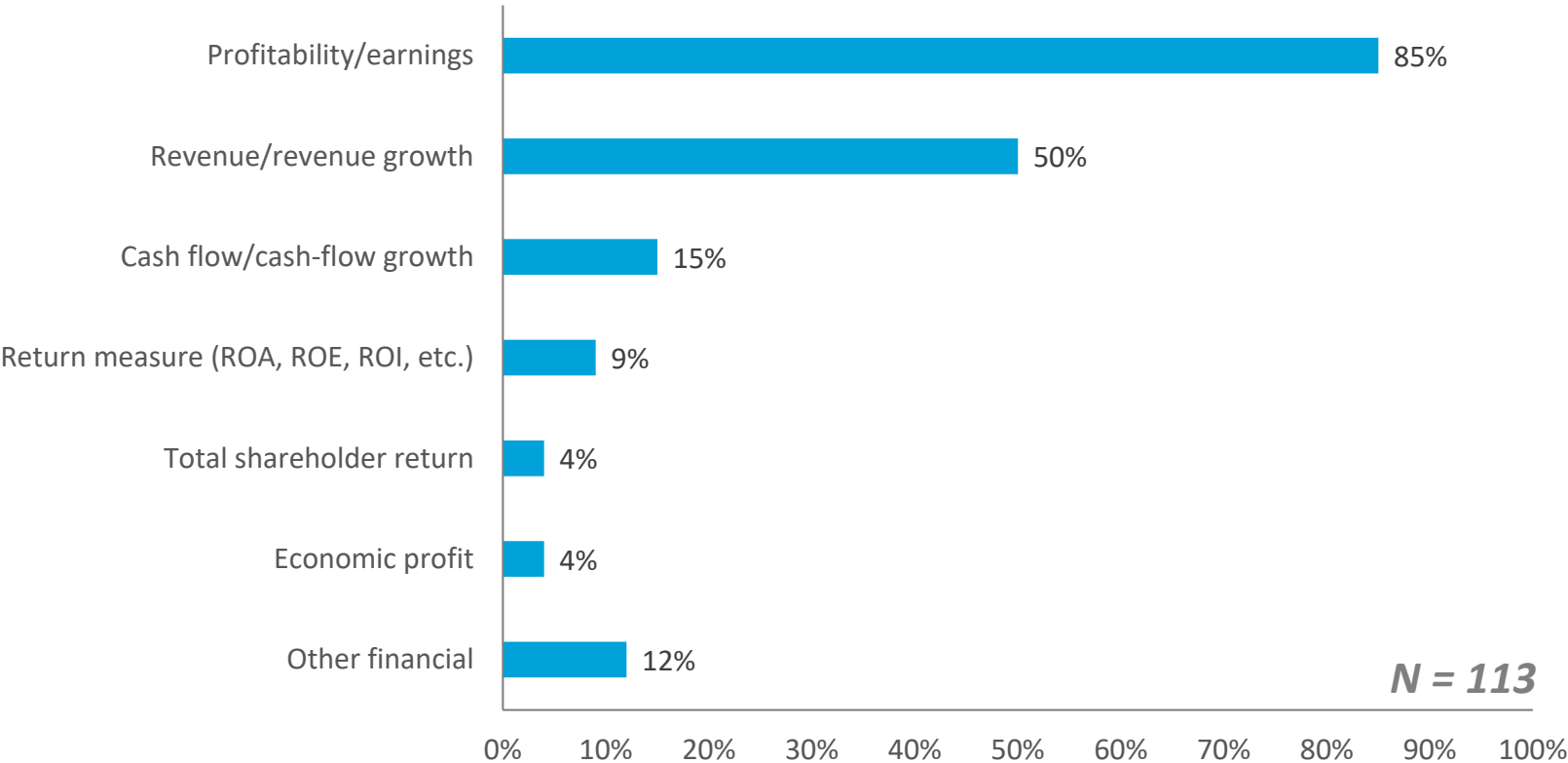


*N = 116*

■ One to three   ■ Four to six   ■ Seven to nine   ■ 10 or more

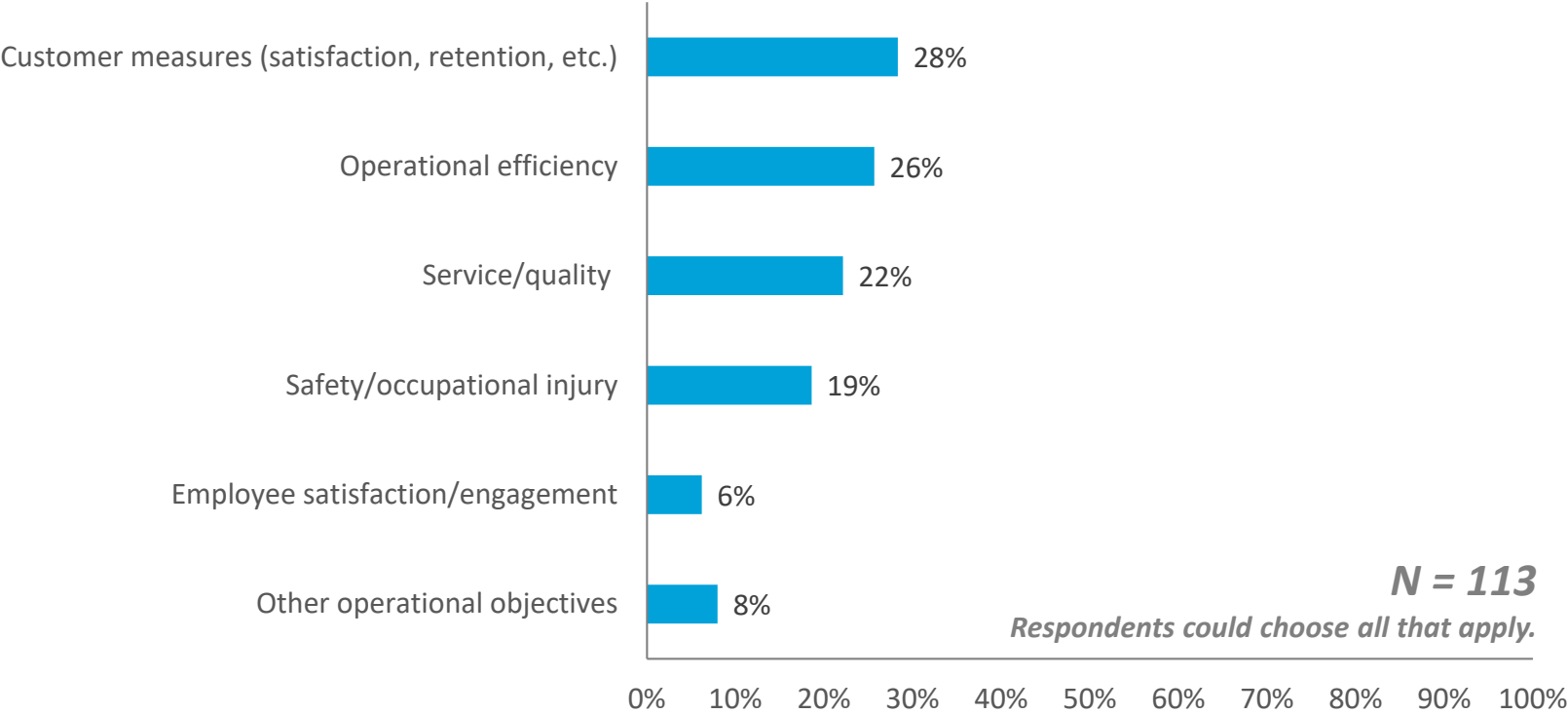
# Financial measures are the most common type of metric used in private company AIPs, with profitability and revenue being most prevalent

Prevalence of Financial Performance Measures in AIPs



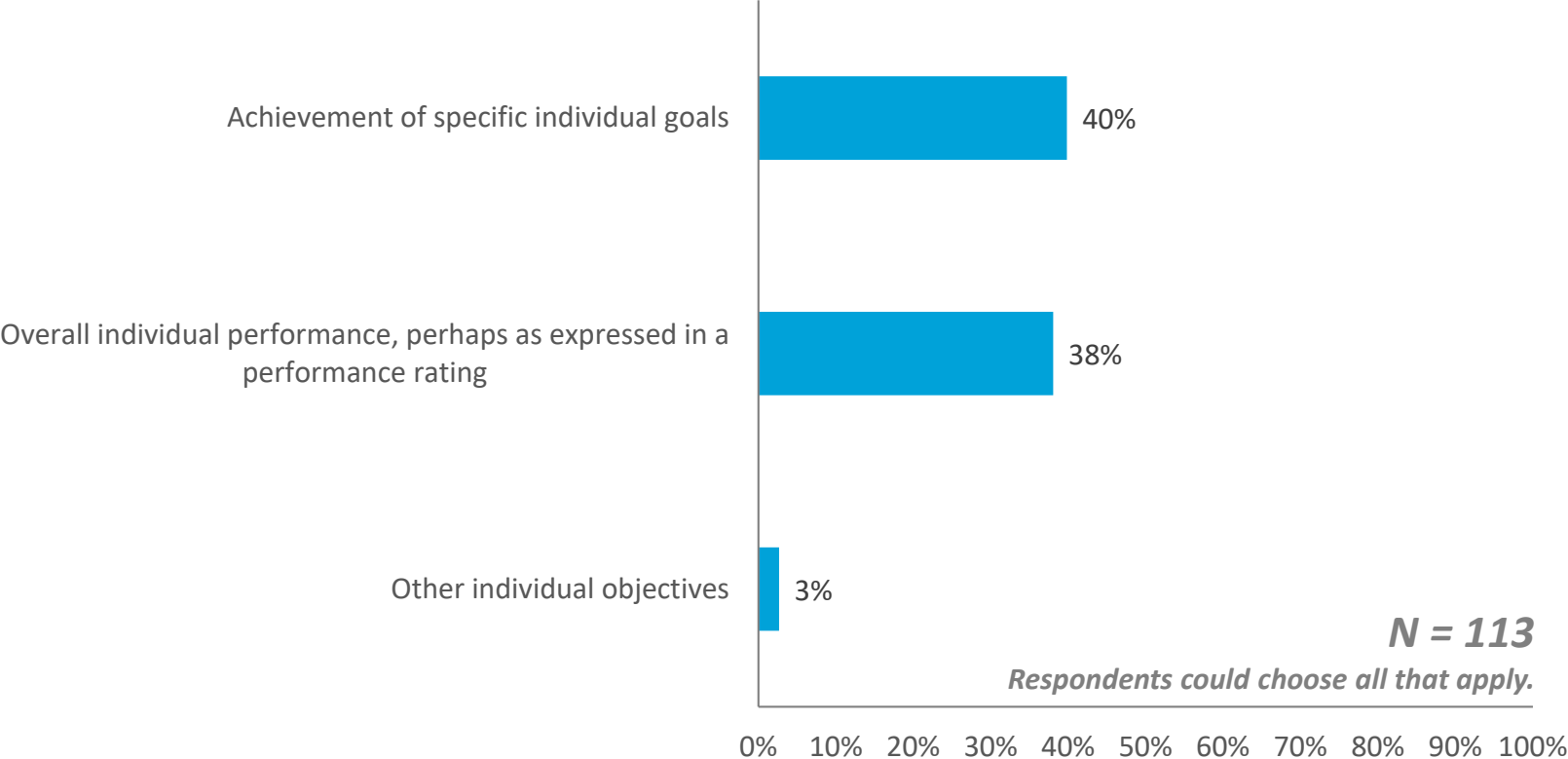
# Operational measures are also used in private company AIPs, but the type of measure varies

Prevalence of Operational Performance Measures in AIPs



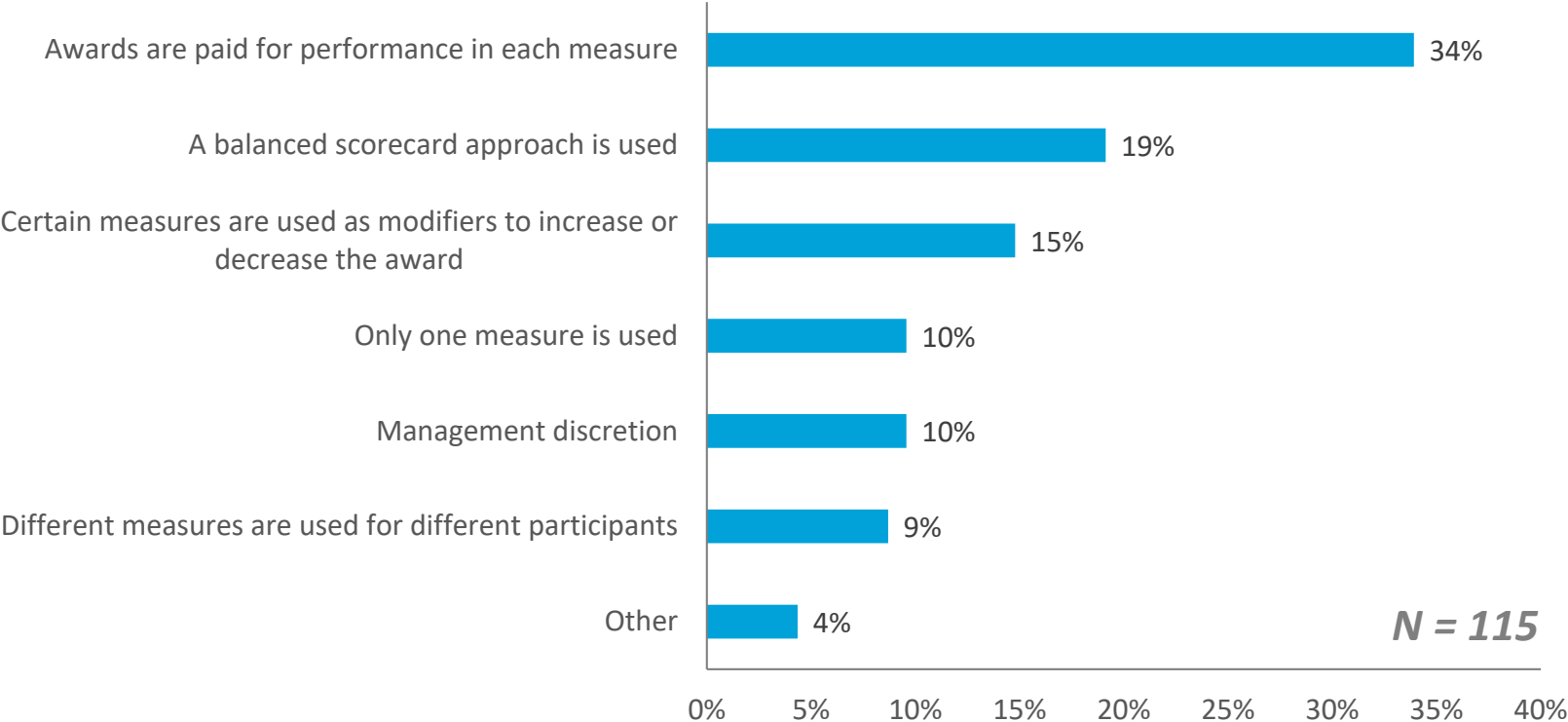
# Individual objectives are also used in AIPs, with the prevalence split between achievement of specific goals (40%) and overall performance (38%) (38%)

Prevalence of Individual Objectives in AIPs



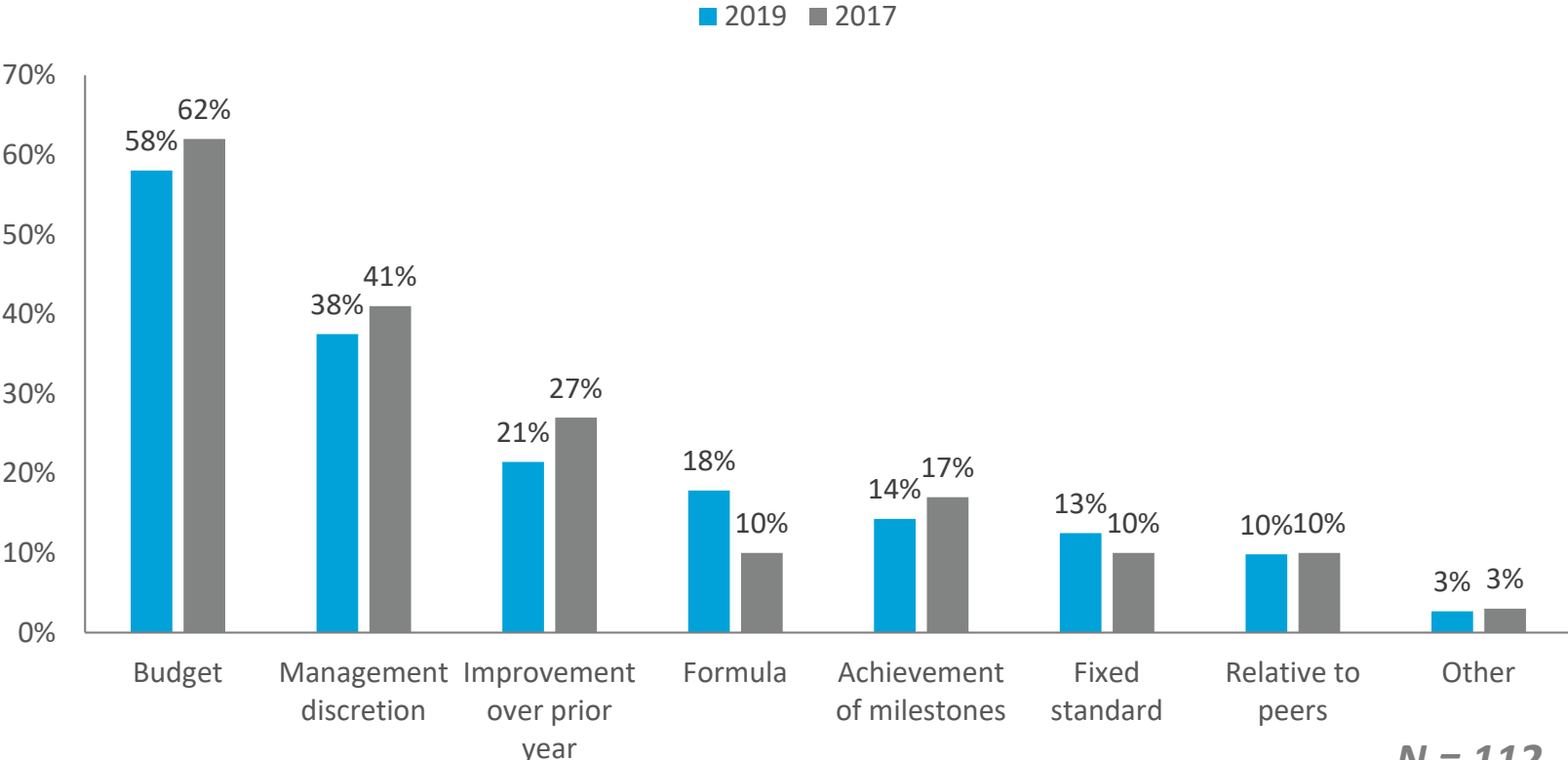
# Private companies combine performance measures in a variety of ways, with the most common being that awards are paid for performance in each measure

How Different AIP Performance Measures are Used Together



# Company budgets continue to be the most prevalent basis for setting AIP performance targets at private firms

Basis Used to Set AIP Performance Targets



**N = 112**

*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

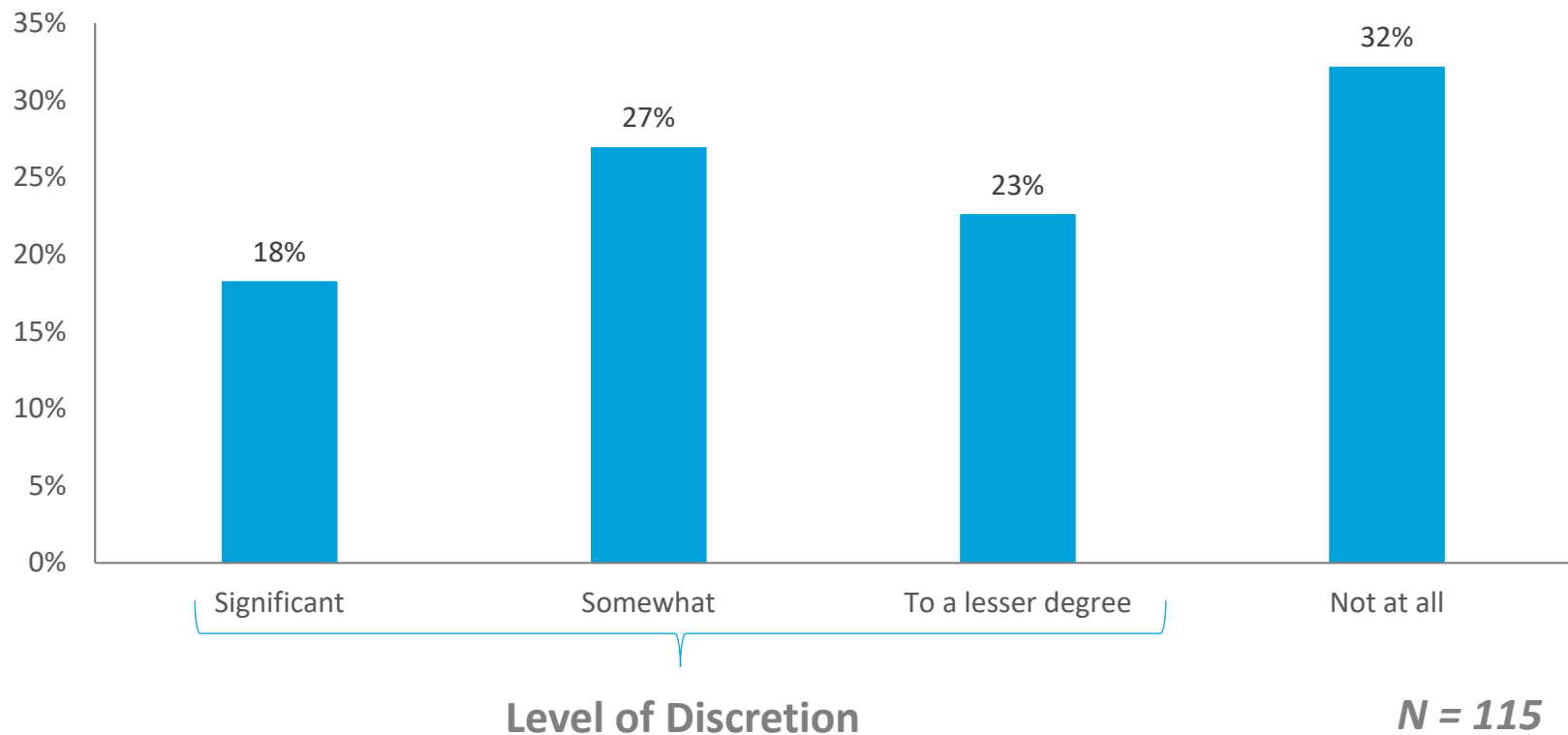
AIP Performance Linkage by Position

	Corporate	Division/ Unit	Individual	N =
CEO	100%	11%	37%	102
Executive/officer	96%	46%	52%	113
Managers/supervisors	84%	55%	59%	112
Exempt salaried	82%	42%	61%	100
Nonexempt, salaried and hourly	76%	41%	53%	76

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

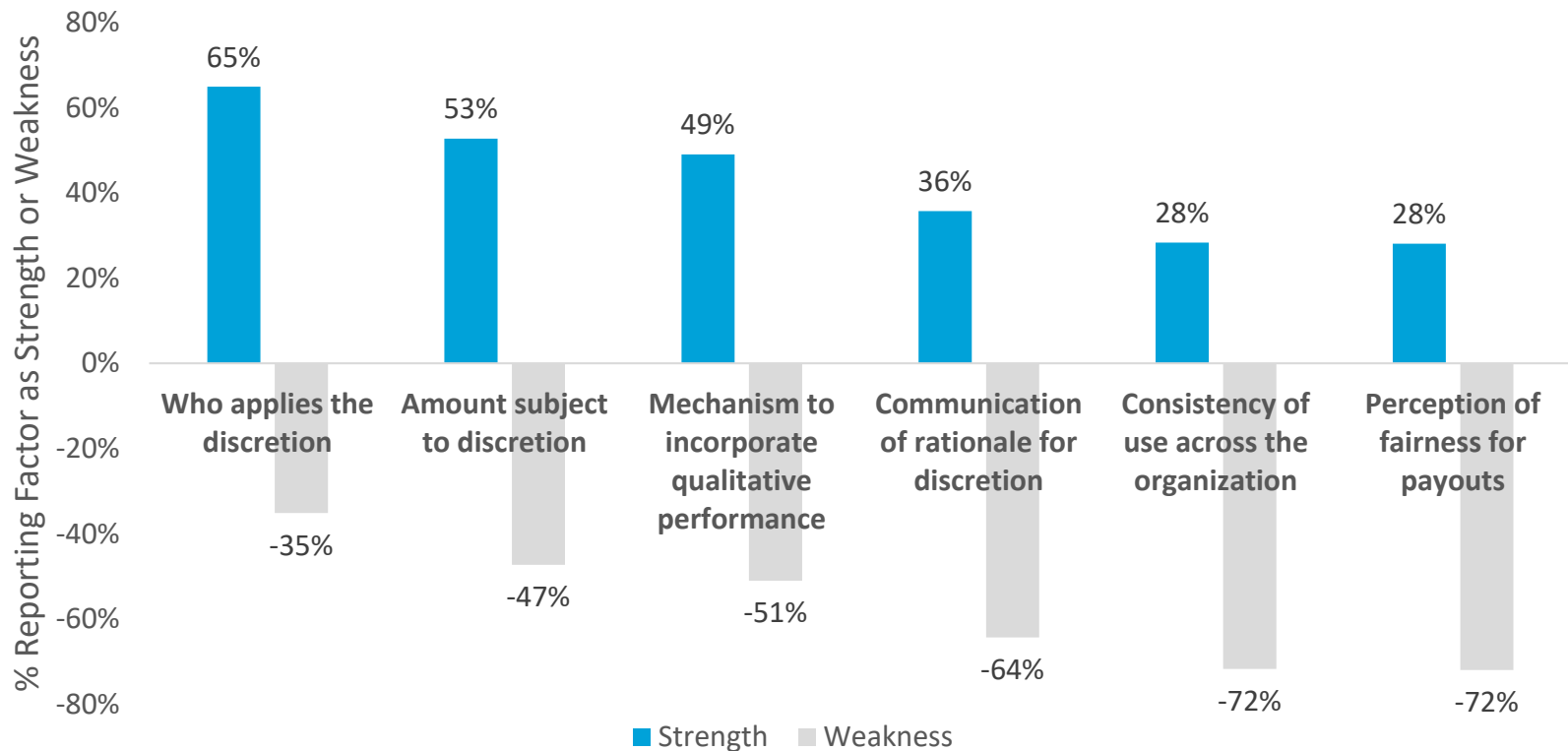
# Supervisor discretion plays a role in two-thirds of AIP plans

The Role Supervisor Discretion Plays in AIPs



# Discretion is viewed unfavorably, with consistency of use and the perception of fairness being the largest weaknesses

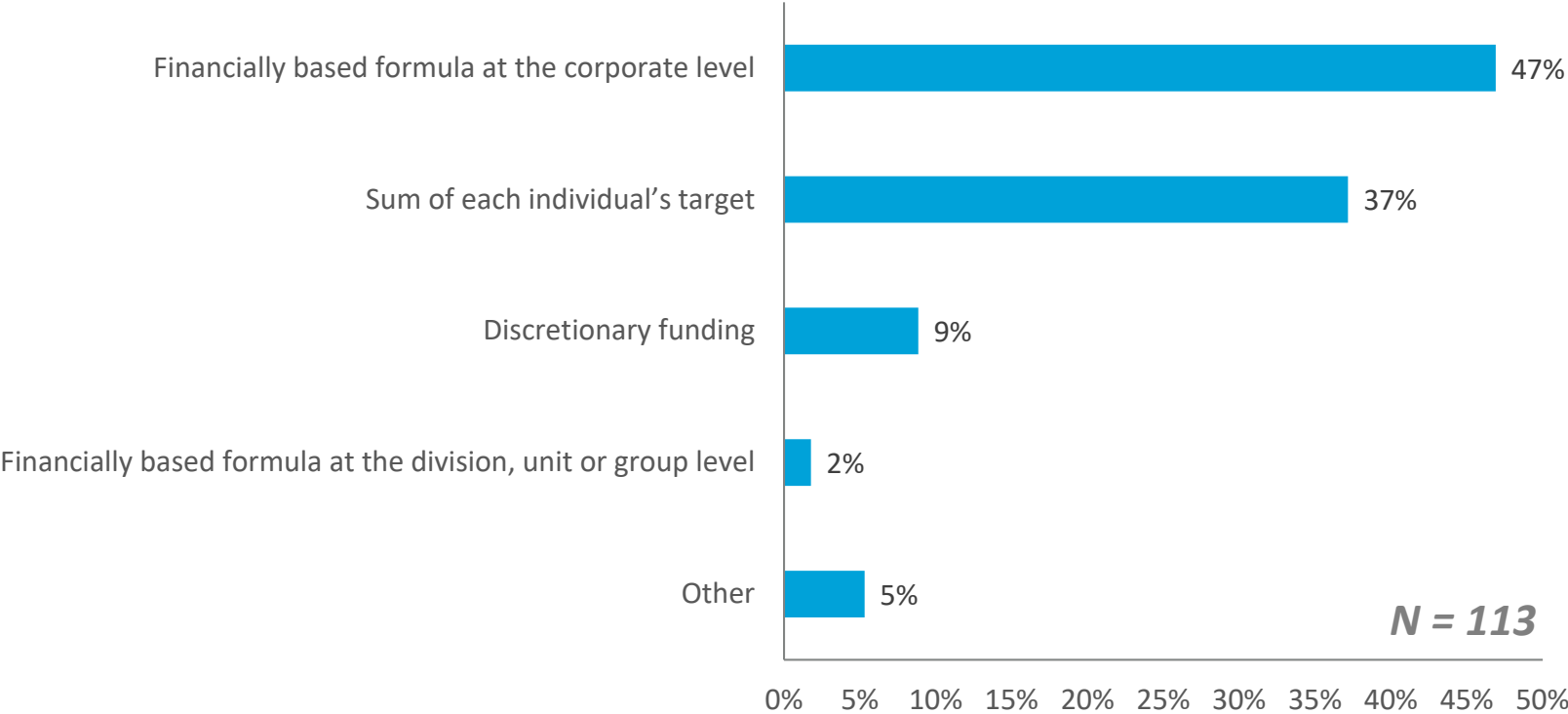
The Effectiveness of Discretion in AIPs



N = 60

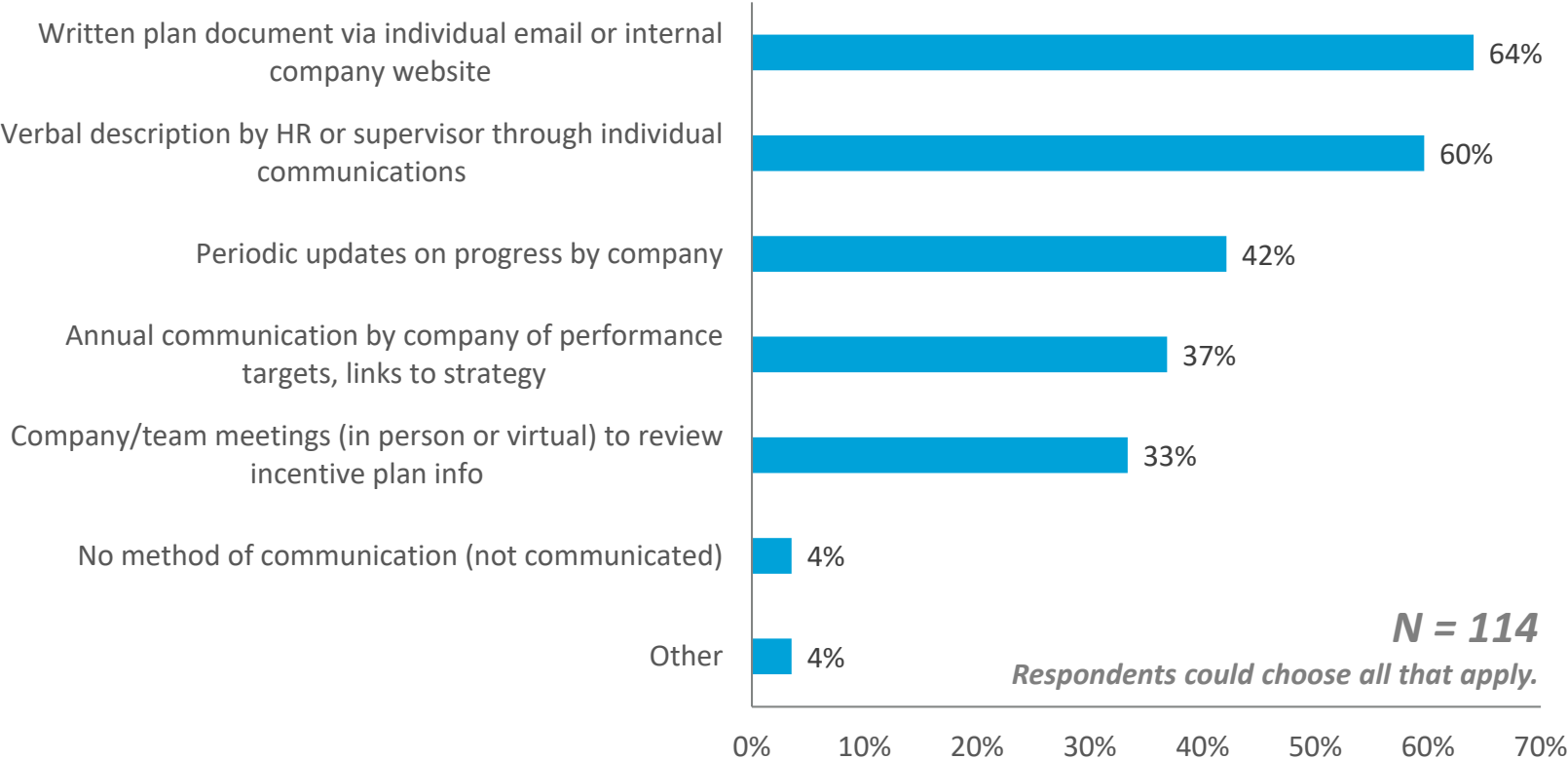
# Most AIPs are funded using 1) a financially based formula at the corporate level or 2) the sum of each individual's target

Prevalence of AIP Funding Mechanisms



# Most private companies communicate their AIPs through a written plan document and/or through individual meetings

Prevalence of AIP Communication Methods

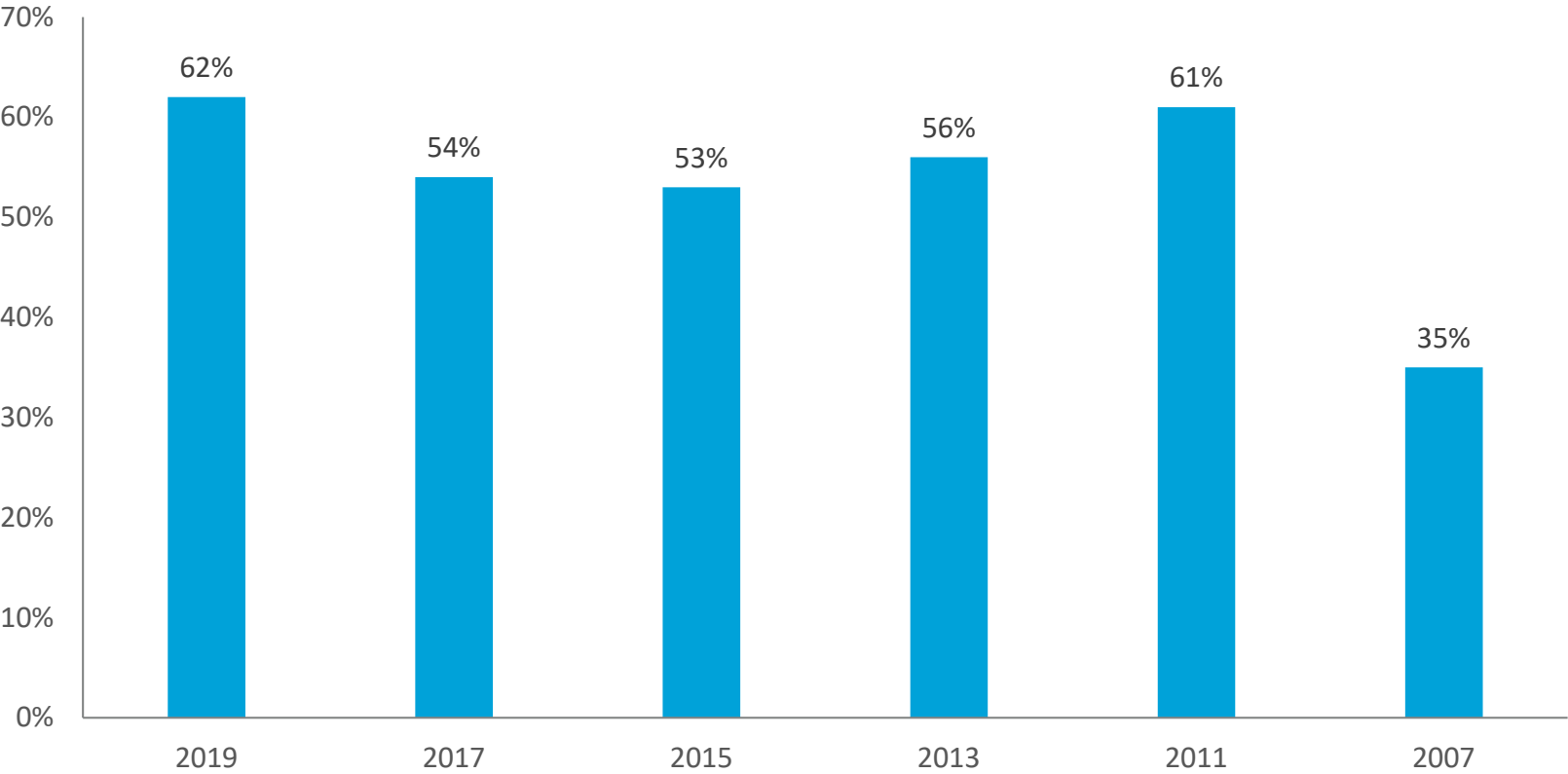


# Long-Term Incentives (LTIs)

The following questions were answered only by private companies that have LTIs.

# About six out of 10 private companies have an LTI plan in place, up substantially from 2007 when we first conducted the survey

Prevalence of Long-Term Incentive Programs



# Private companies that offer LTIs favor cash-based performance awards

Long-Term Incentive Vehicle Prevalence		
Performance awards		65%
Long-term cash plans	47%	
Performance units	17%	
Performance shares	7%	
Real equity/value tied to real equity		36%
Stock options	19%	
Restricted stock units (RSUs)	22%	
Restricted stock	6%	
Nonqualified deferred compensation		21%
Phantom equity		15%
Phantom stock	9%	
Stock appreciation rights (SARs)	8%	

*Note: Companies could choose all that apply so the amounts do not sum; companies often use more than one vehicle.*

**N = 86**



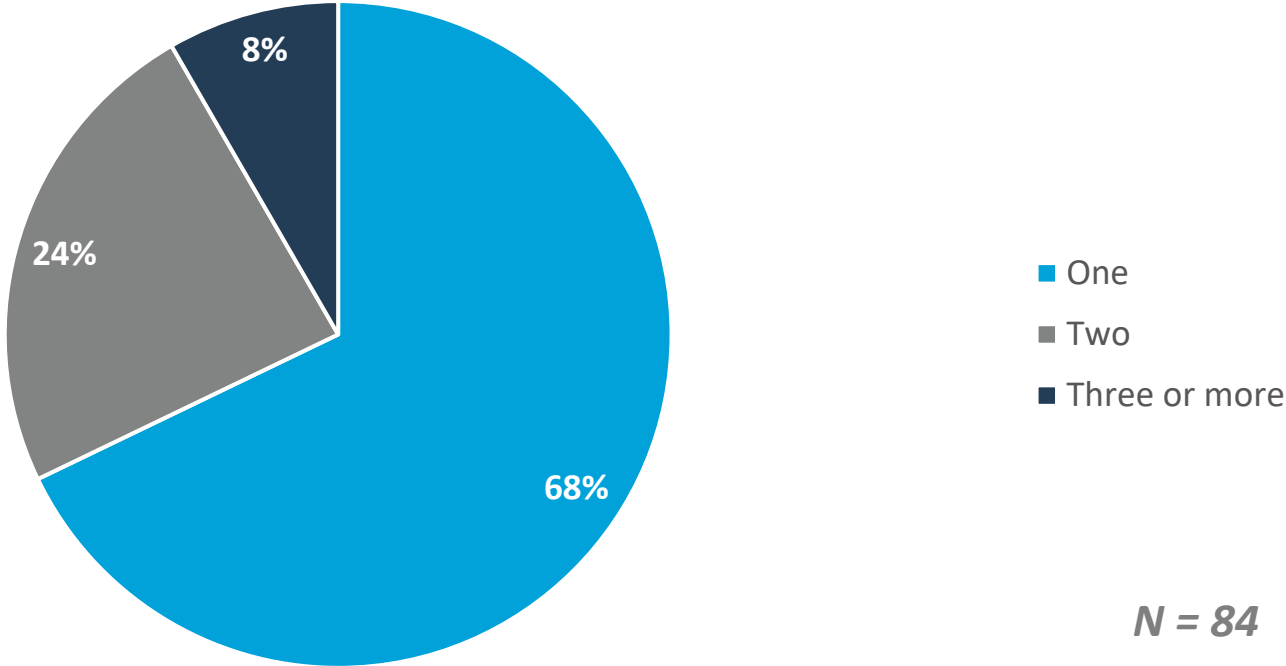
# Respondents indicate that their top three LTI objectives are to 1) retain employees, 2) align incentives with long-term goals, and 3) be competitive with other employers

LTI Primary Objectives

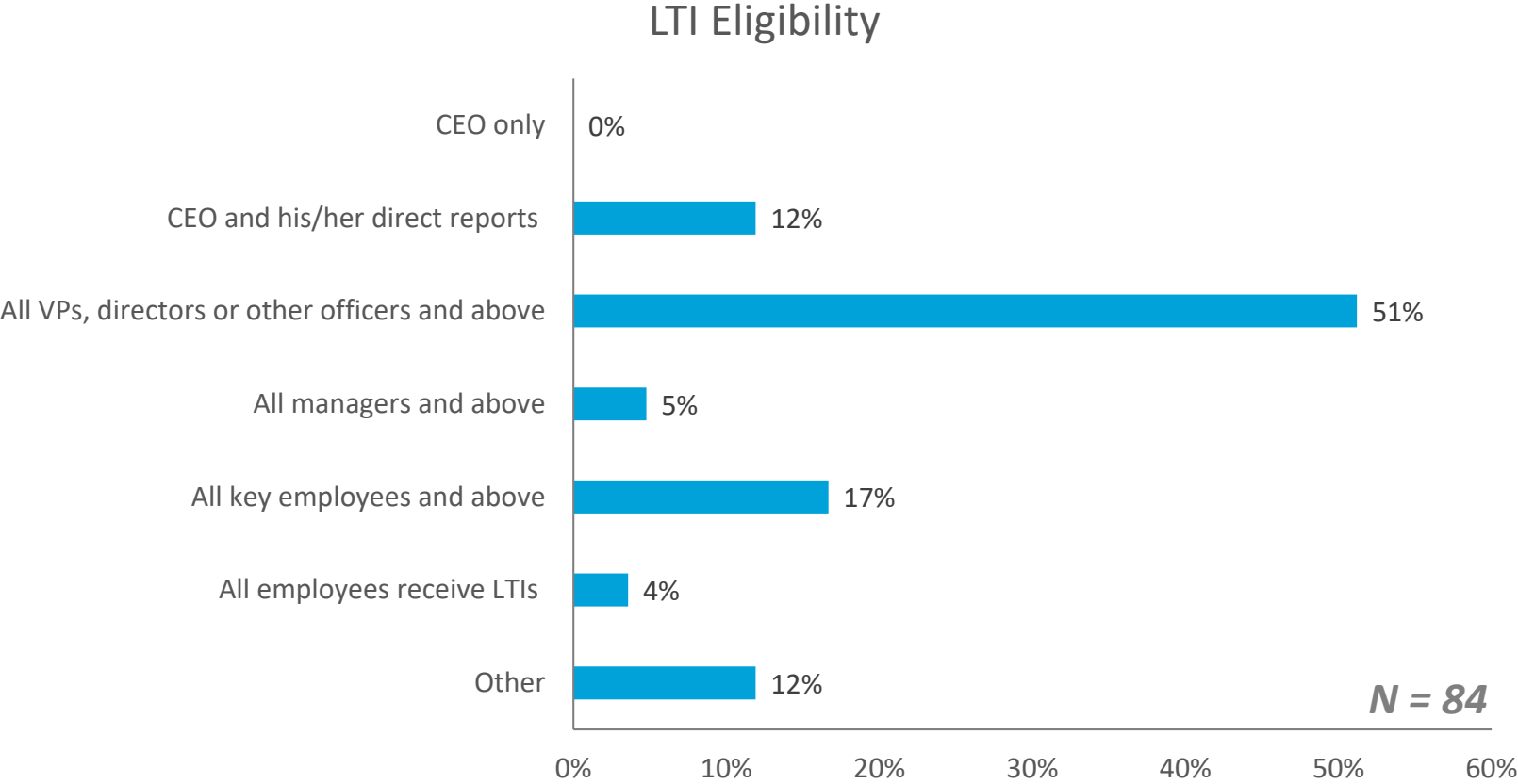


# About seven in 10 private companies have only one LTI program in place, likely because of the complexity of setting up such plans

Number of LTI Programs

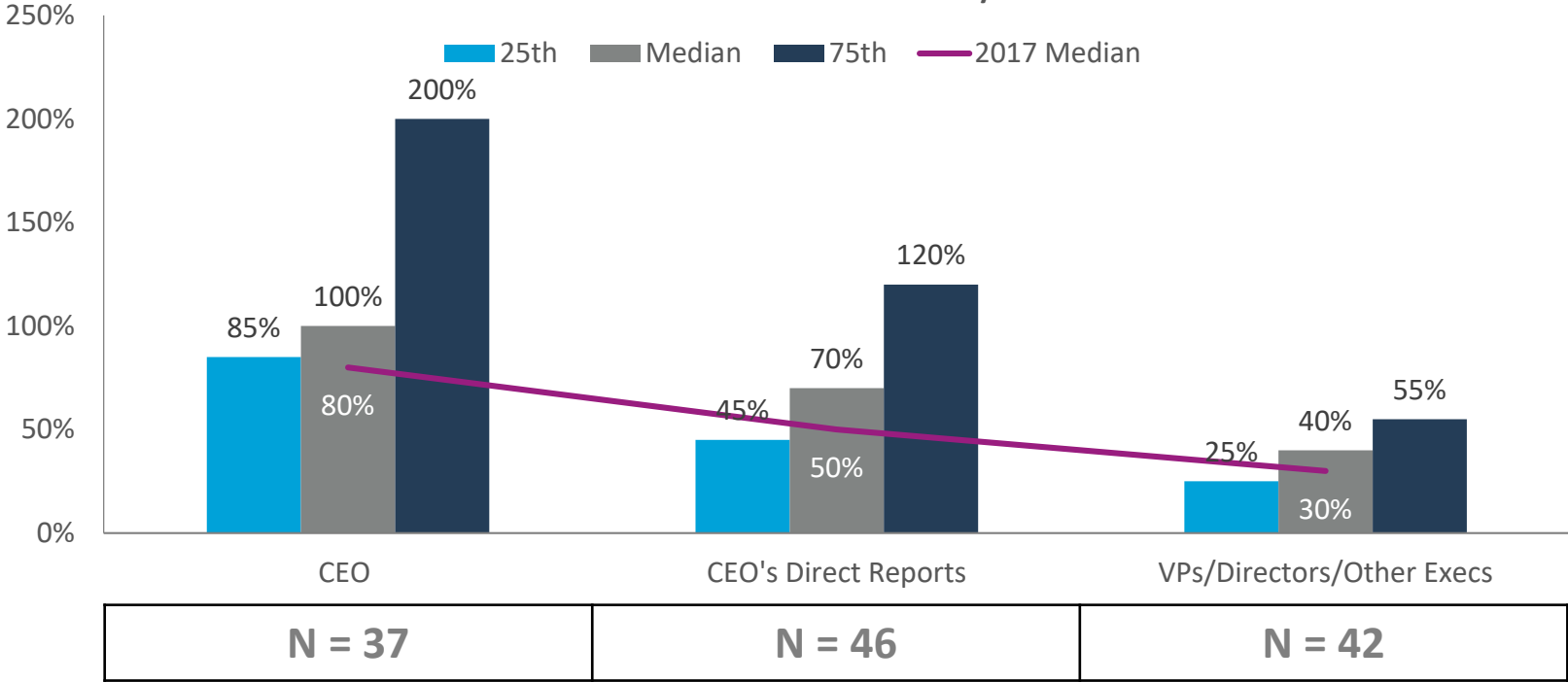


# LTI eligibility is typically reserved for those at the VP/director/officer level and above



# Median LTI award opportunities rose across all executive levels from 2017 to 2019

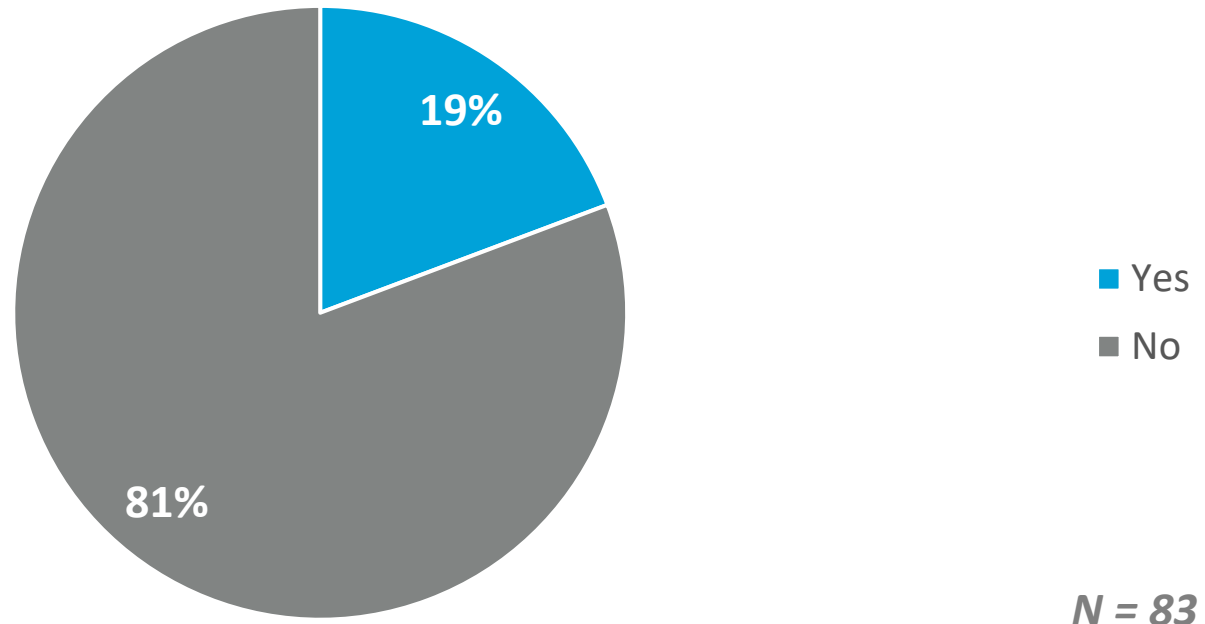
LTI Target Award Opportunities as a Percent of Salary



Note: Insufficient data was reported for managers and below.

# About one in five private firms plans to add or modify an LTI plan for 2020

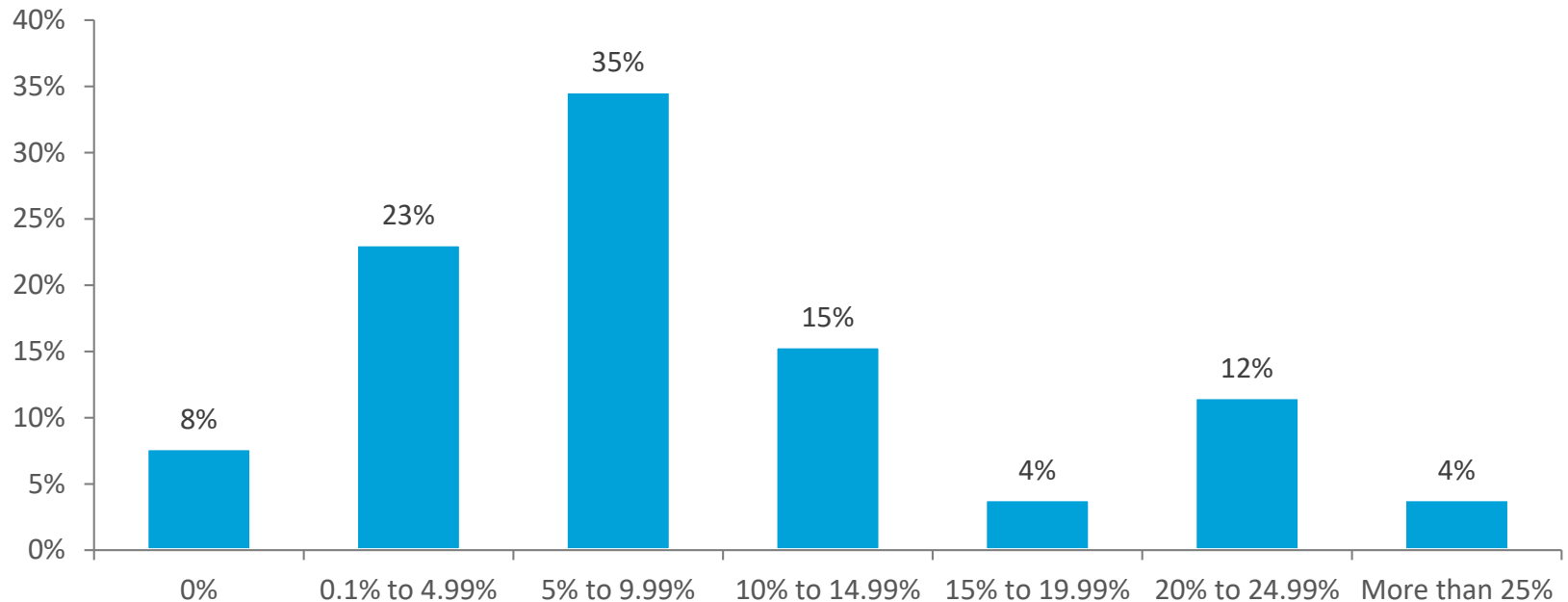
Private Companies Planning to Add or Modify Long-Term Incentives for 2020



*Note: Since only 16 firms are adding or modifying a plan, insufficient data was reported for questions about what prompted the changes, and what type of changes are being made.*

# For private companies that use real equity, total overhang of less than 10 percent is most prevalent

Total Overhang for Private Companies using Real Equity  
(Overhang is the total pool allocated for current and future employee grants divided by common shares outstanding)



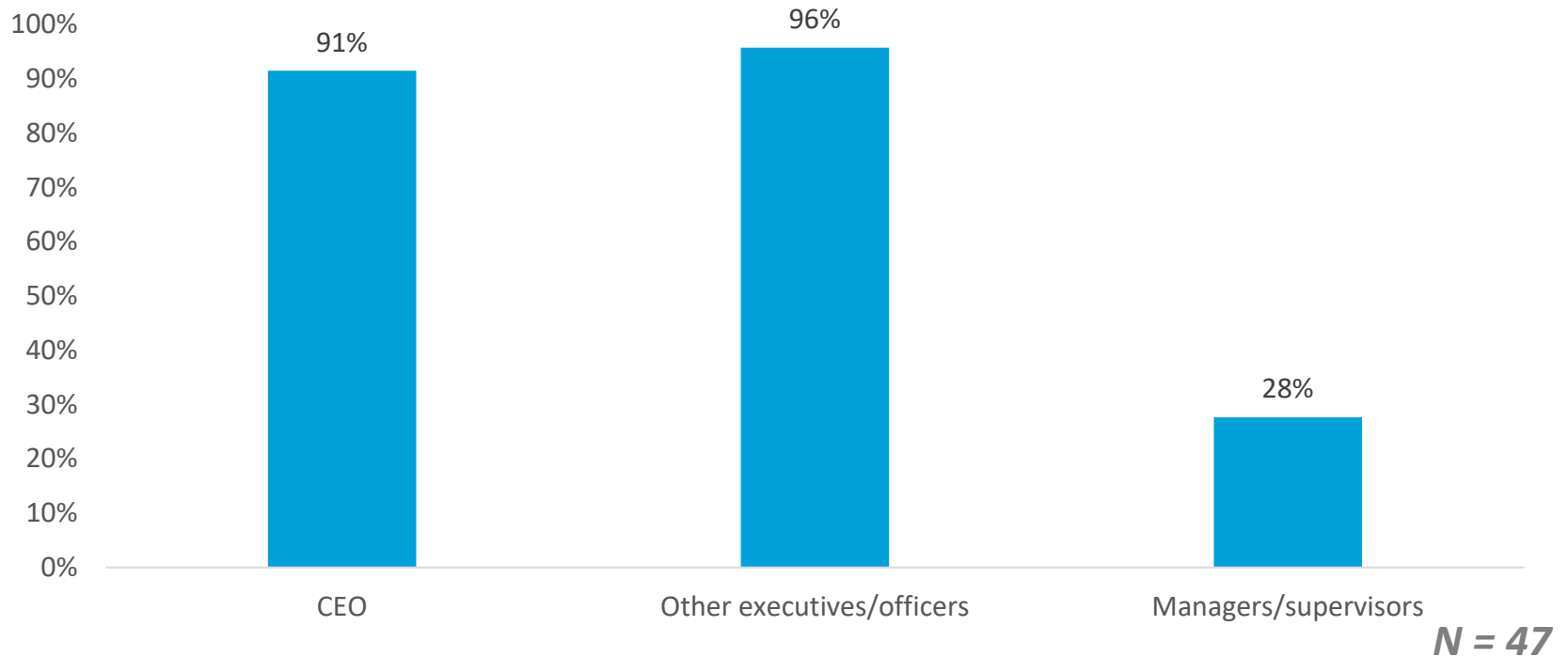
*N = 78 (52 "no real equity used" responses were excluded)*

# LTIs: Performance Awards

The following questions were answered only by private companies that offer performance awards, such as long-term cash plans, performance units and performance shares.

# Performance awards are mainly reserved for top executives

Performance Award Eligibility

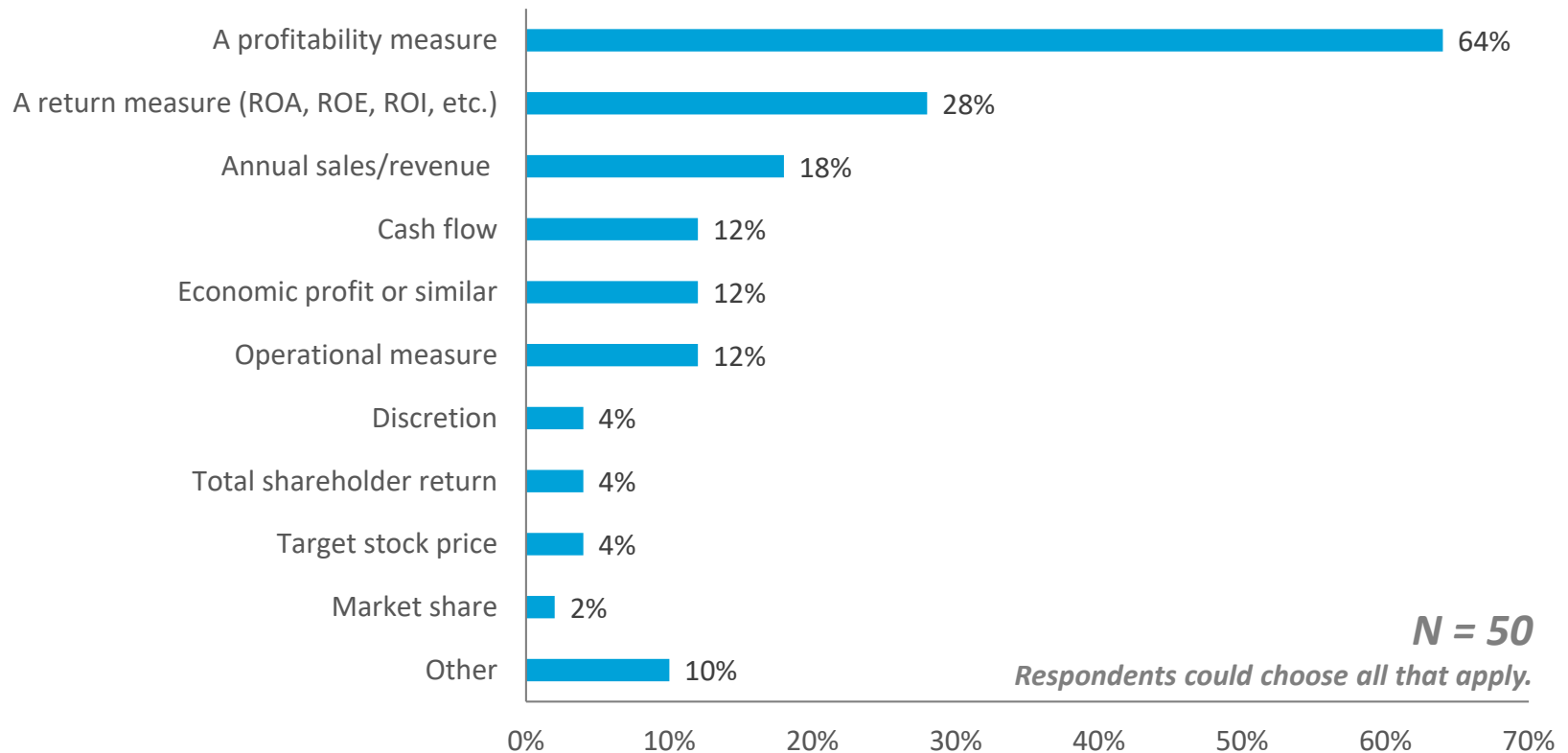


*(Note: Performance awards were not reported below the manager/supervisor level.)*



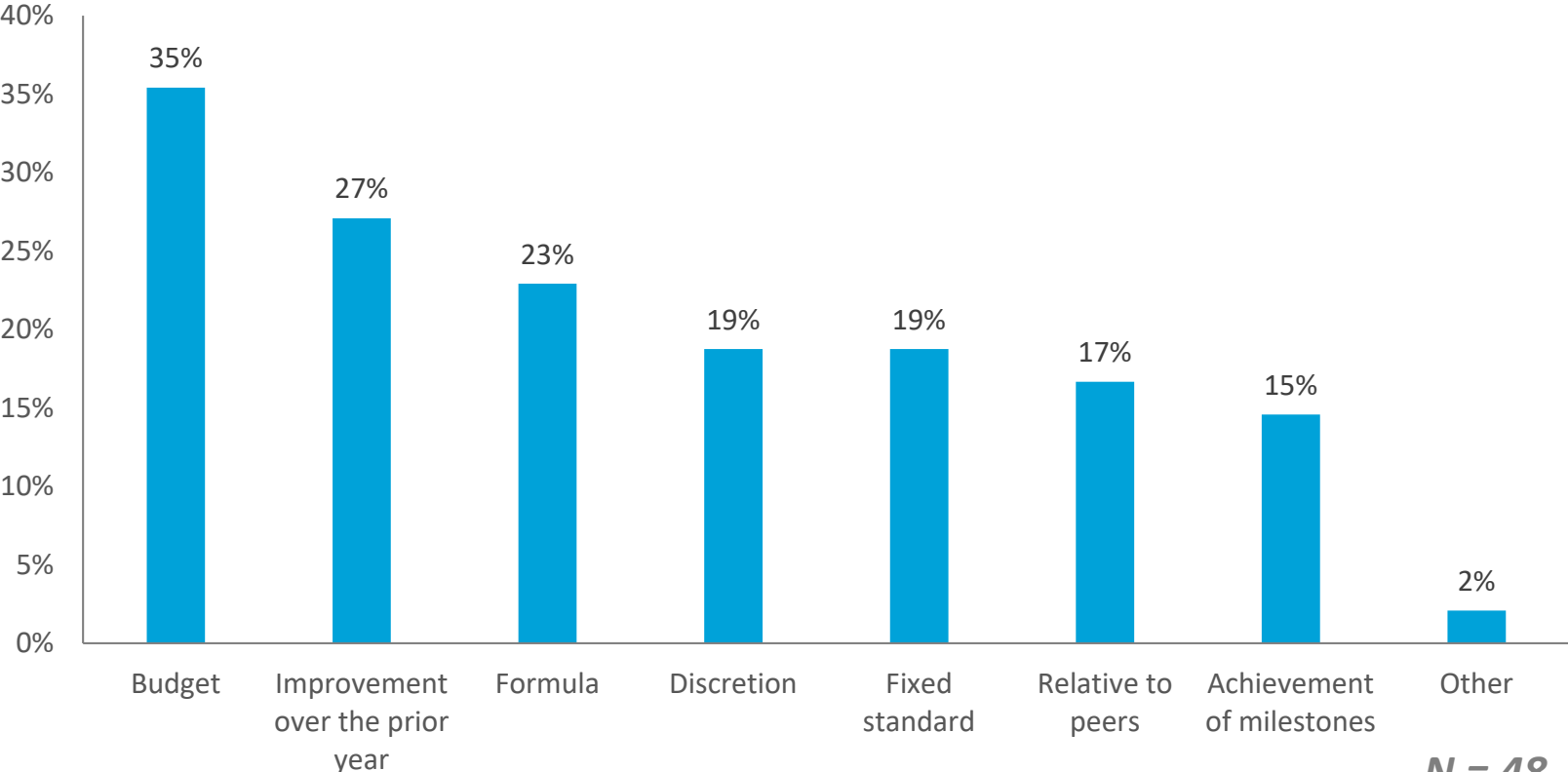
# Profitability measures are by far the most prevalent in performance plans

Prevalence of Metrics in Performance Plans



# Private firms set performance plan targets using a variety of approaches, including budget and improvement over the prior year

Basis Used to Set Performance Targets in Performance Plans



**N = 48**

*Respondents could choose all that apply.*

# Performance plan payouts are primarily linked to results at the corporate level

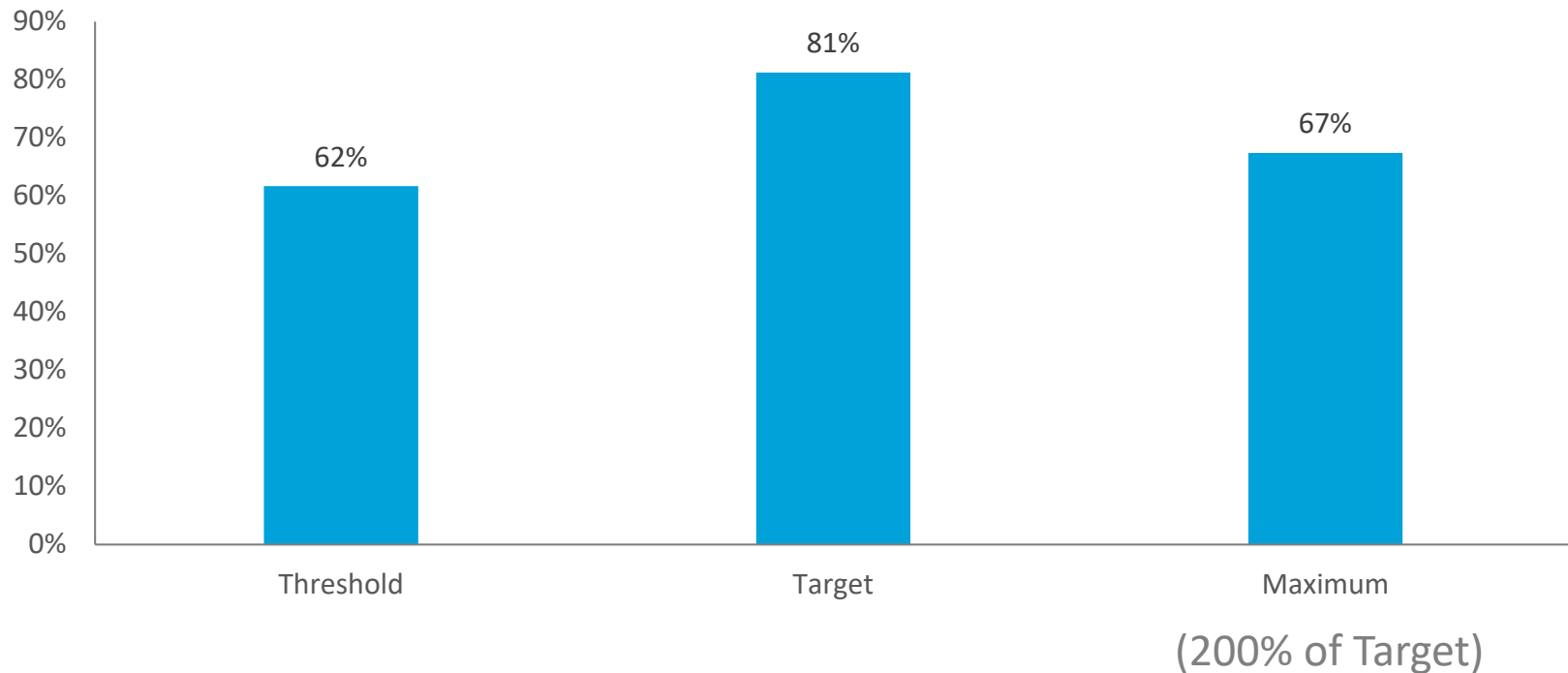
Performance Award Linkage by Position

	Corporate	Division/ Unit	Individual	N =
CEO	100%	5%	14%	43
Executive/officer	96%	20%	14%	49

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

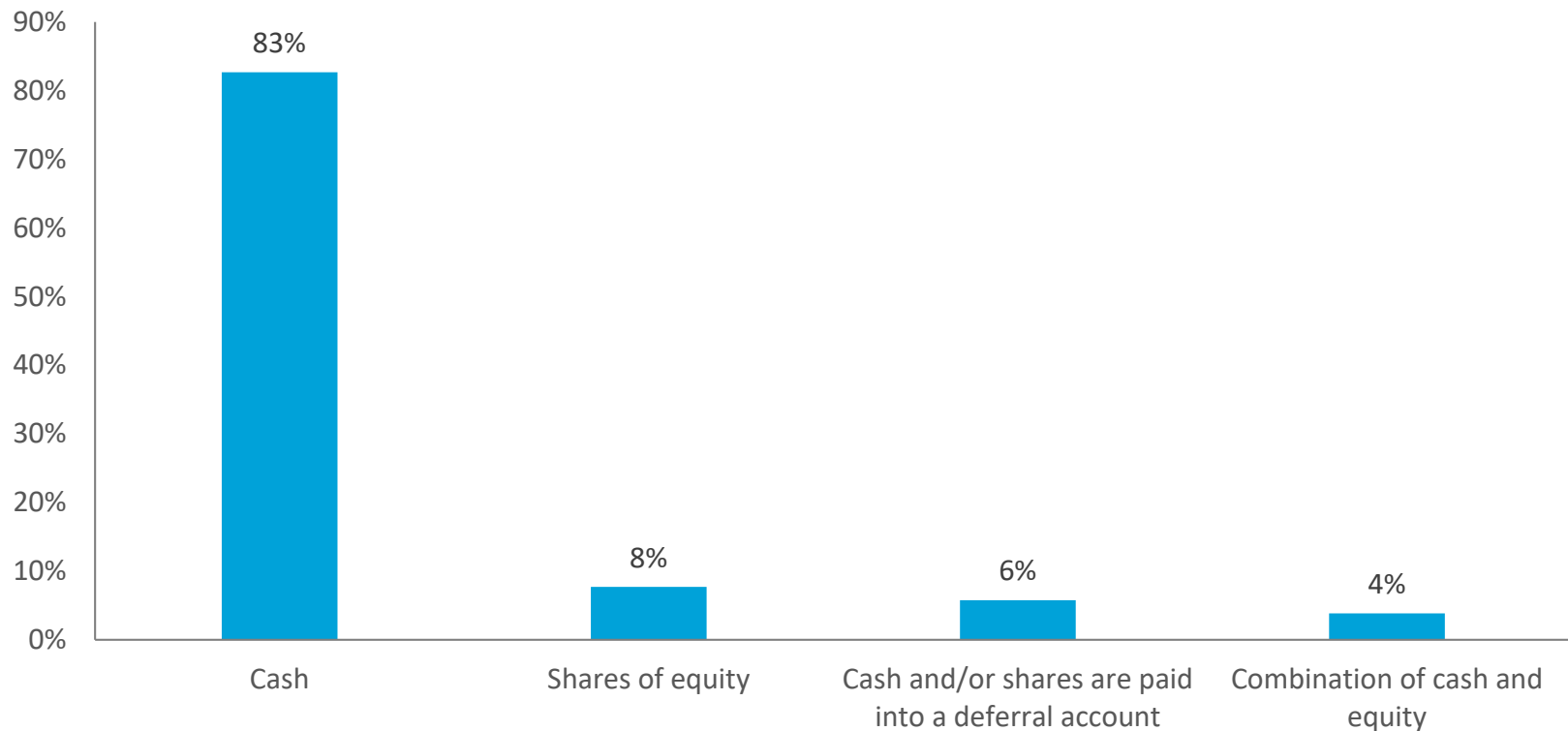
# Most private companies set performance thresholds, targets and maximum in their performance plans

Prevalence of Thresholds, Targets and Maximums in Performance Plans



# The majority of private companies pay out performance awards in cash

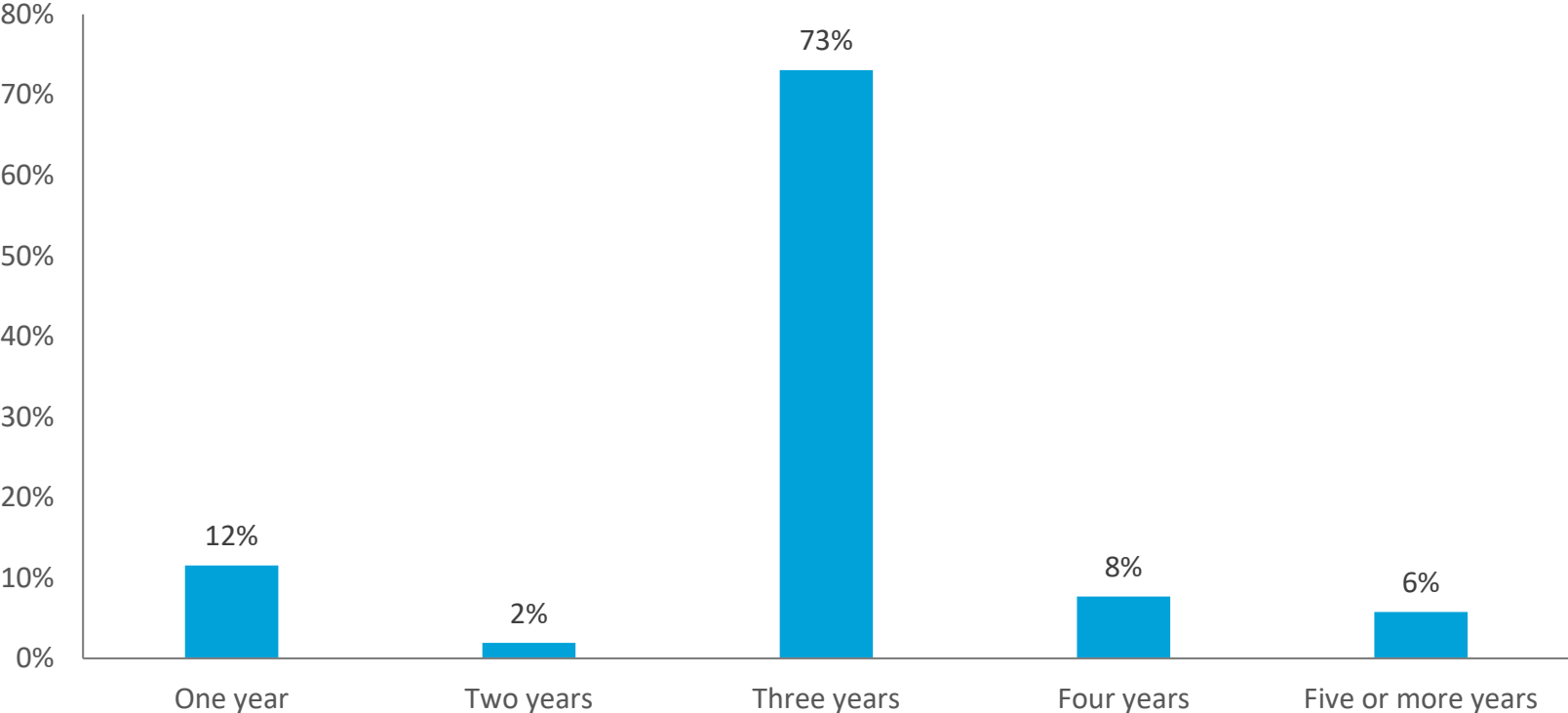
Performance Award Payout Vehicles



*N* = 52

# Three years is the most common performance period for performance award plans

Performance Period for Performance Award Plans



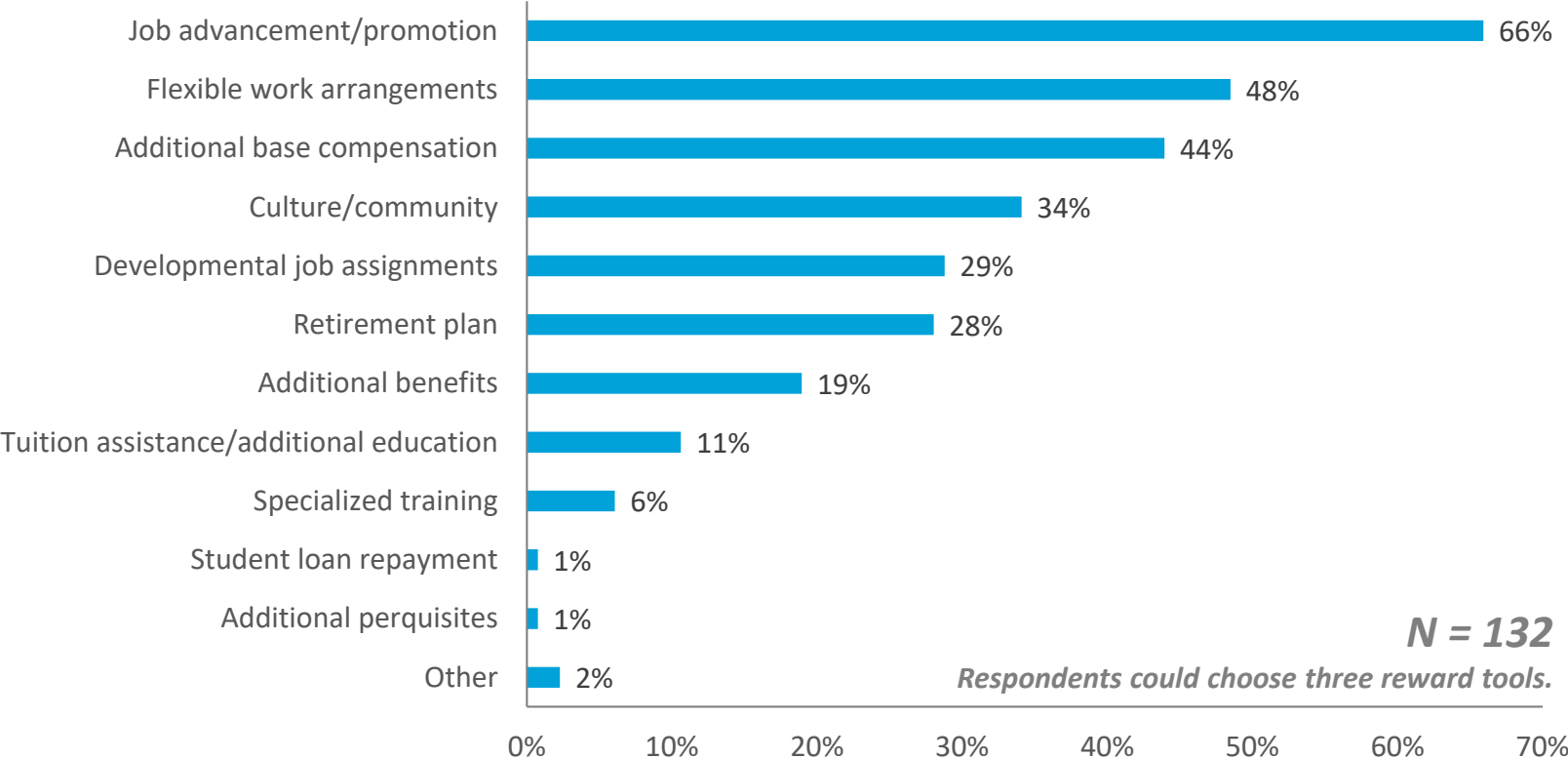
N = 52

# Beyond Incentive Pay

The following question was given to all survey respondents.

# Besides incentive pay, private companies are retaining talent with intangibles such as job advancement and flexible work arrangements

Top Three Rewards Tools for Retaining Talent



**N = 132**

*Respondents could choose three reward tools.*

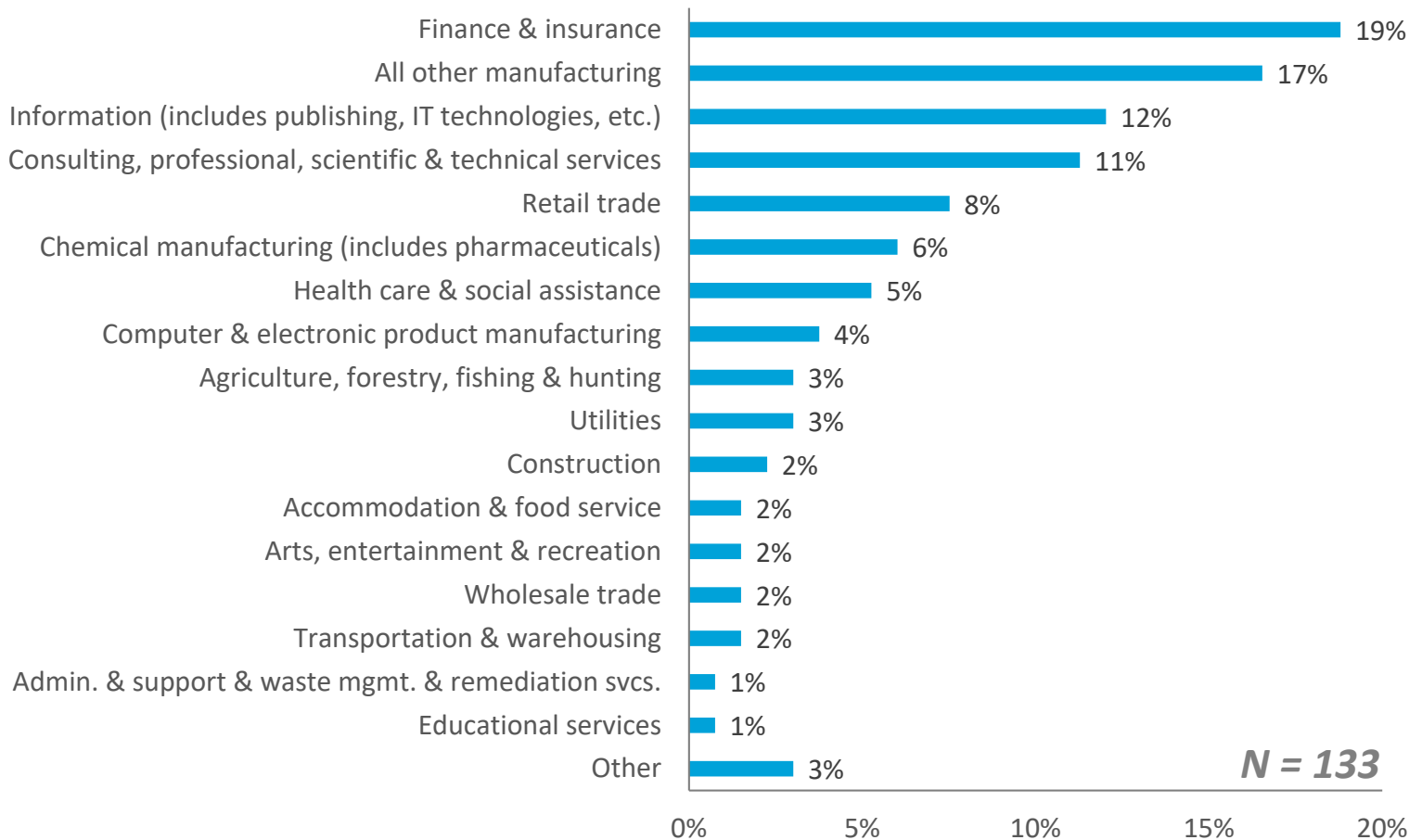


# Survey Demographics

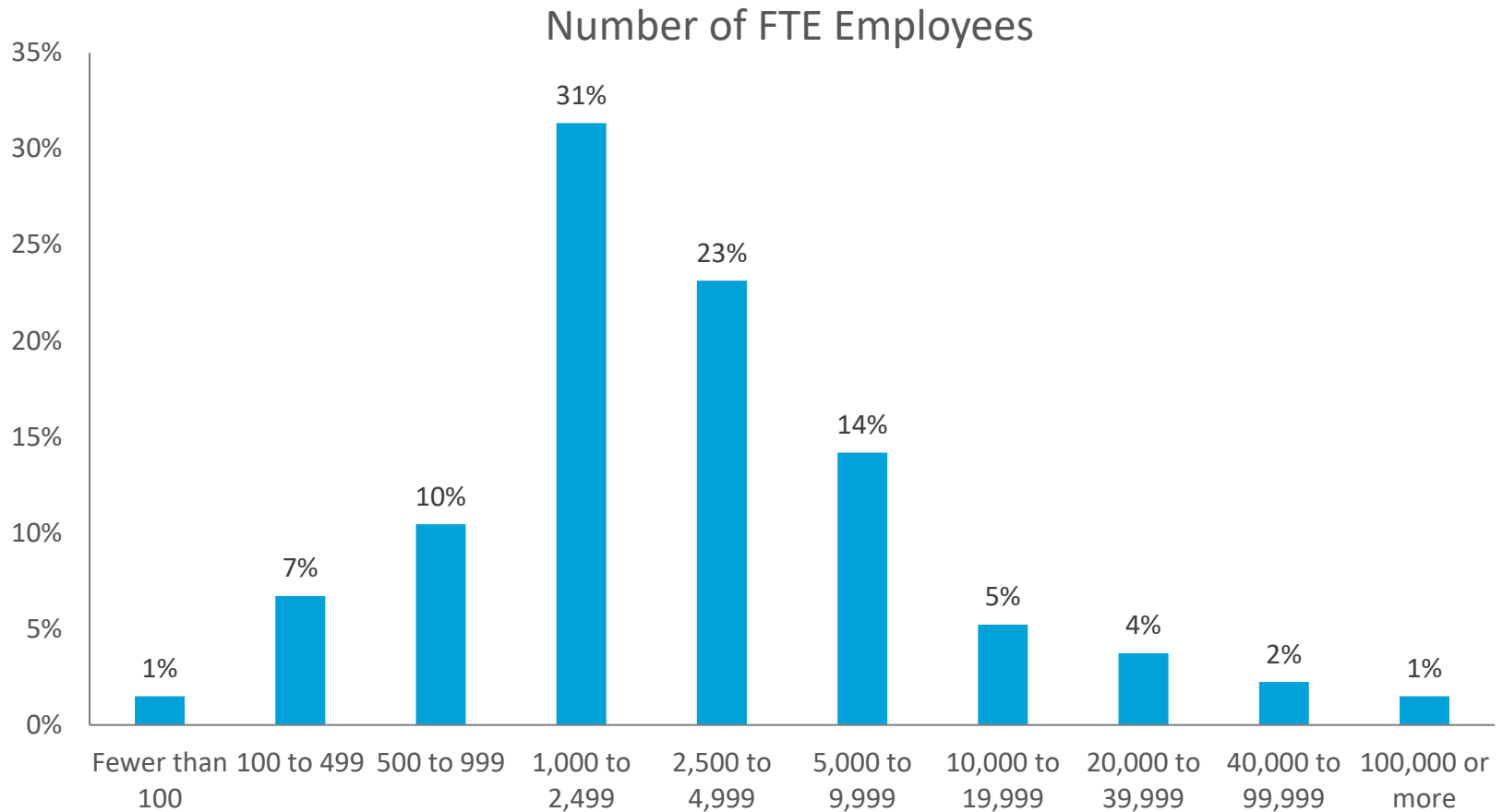
The following questions were provided to all survey respondents.

# Survey Demographics: Industry

## Prevalence of Industries



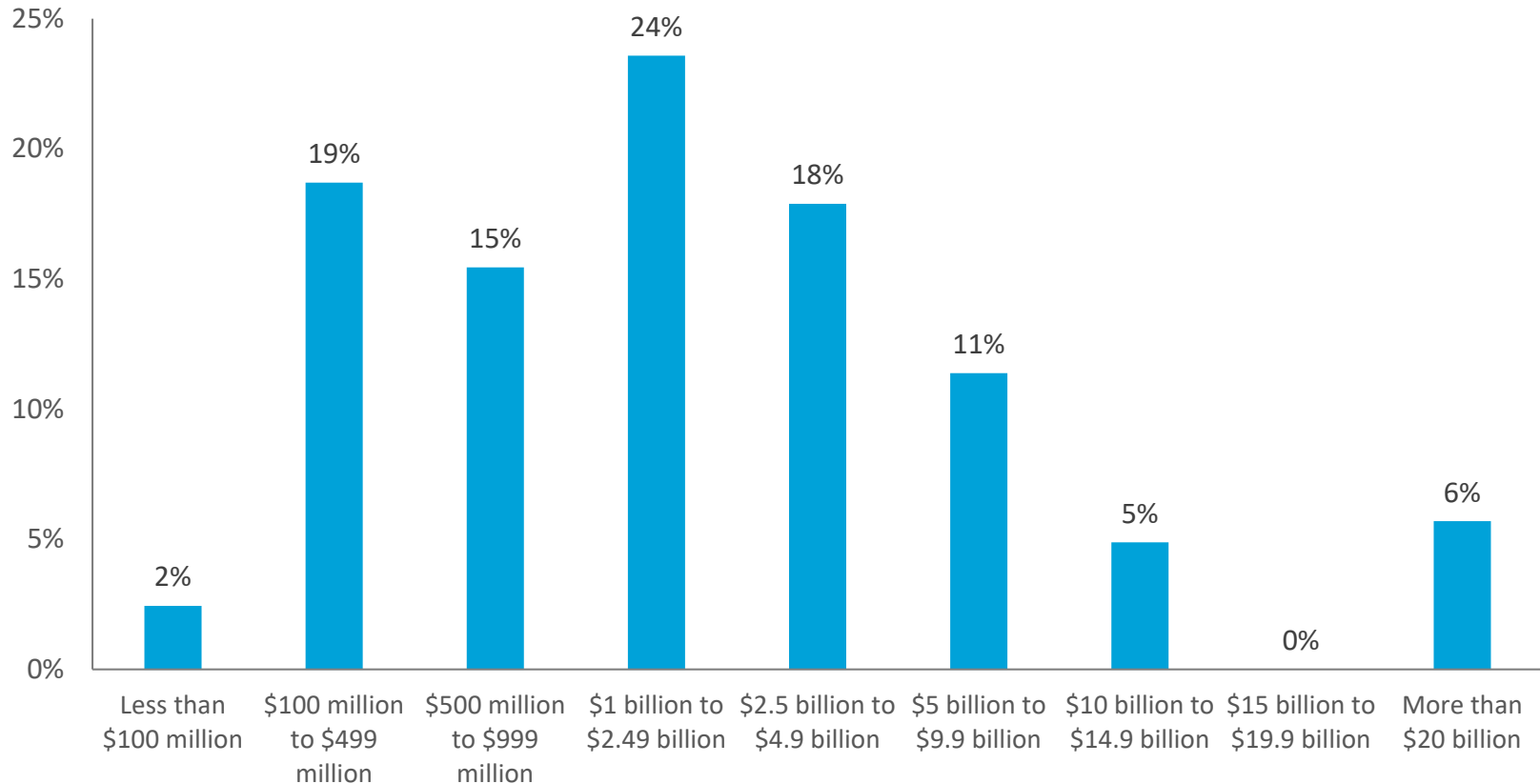
# Survey Demographics: Full-time Equivalent Employees (FTEs)



**N = 134**

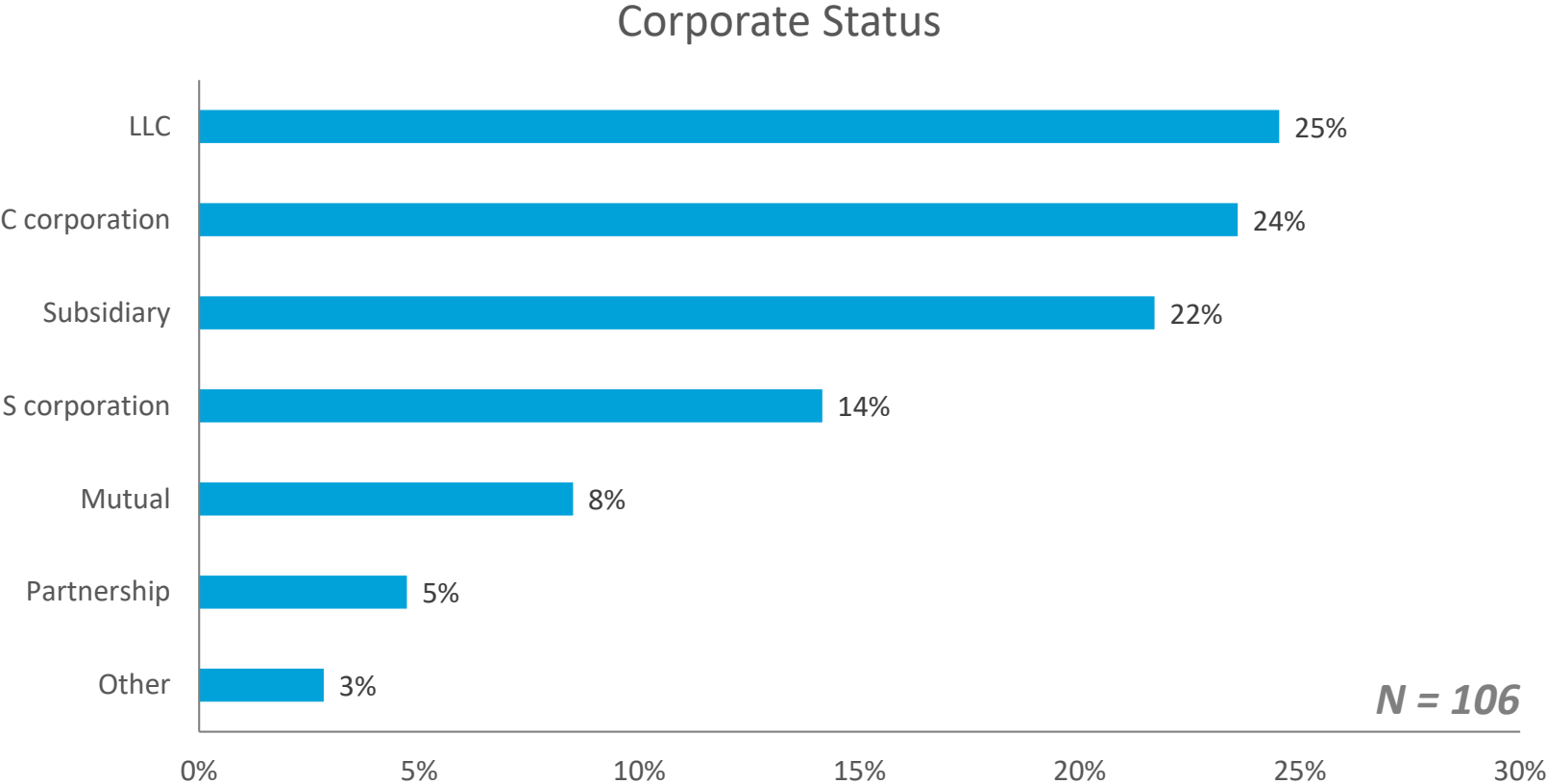
# Survey Demographics: Annual Revenue

Annual Revenue



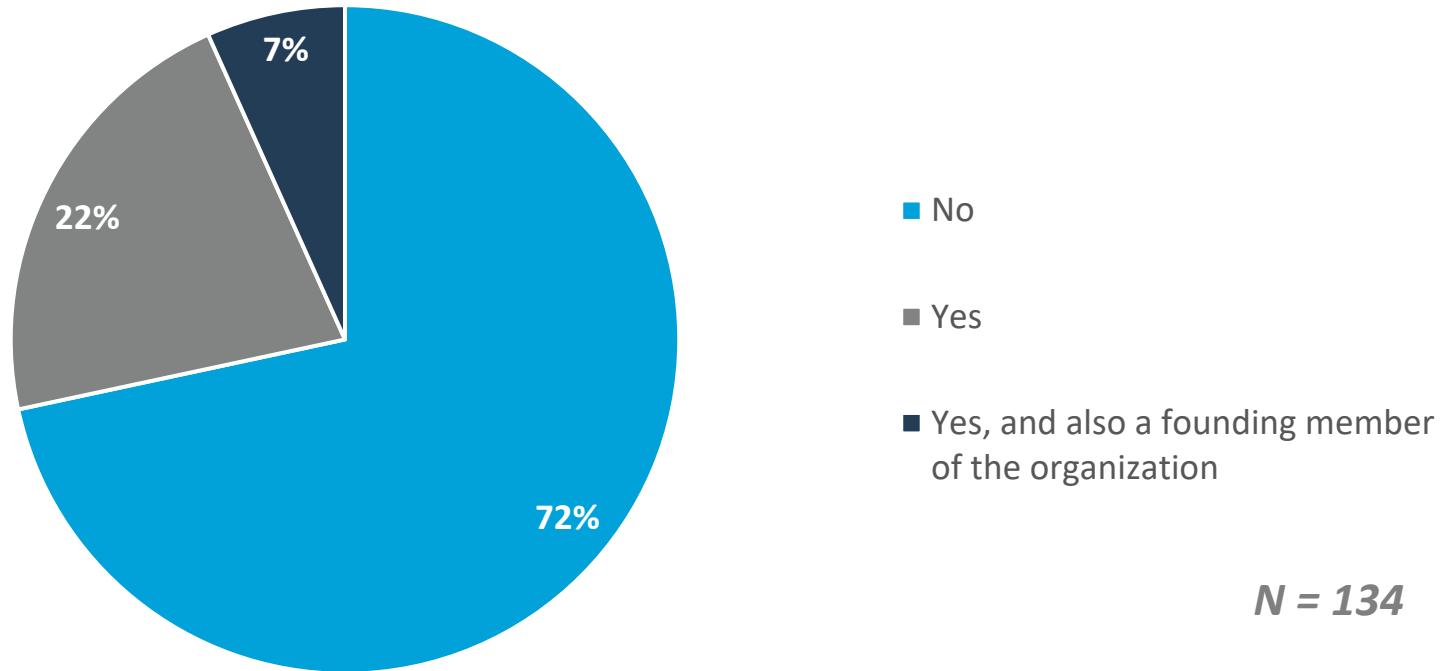
**N = 123**

# Survey Demographics: Corporate Status



# Survey Demographics: CEO Ownership

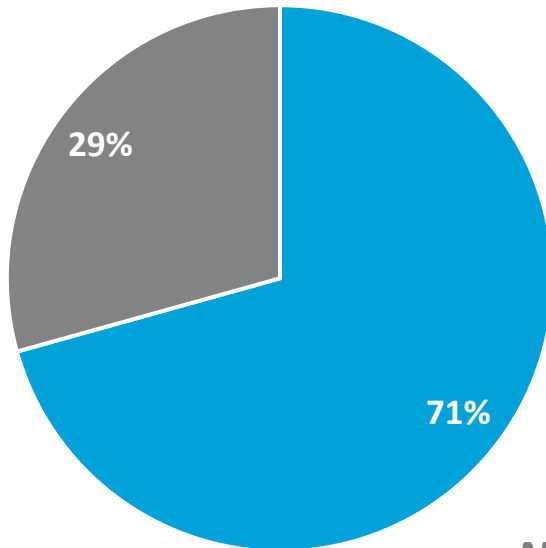
Is the company's CEO an owner?



# Survey Demographics: Company Ownership

Is your company family-owned?

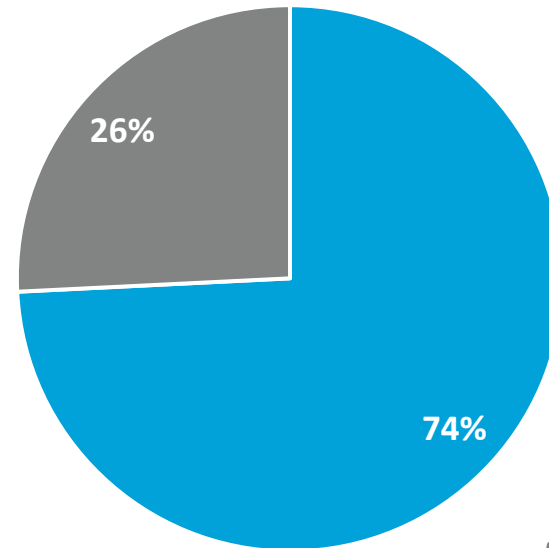
■ No ■ Yes



N = 133

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

■ No ■ Yes



N = 128

# 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 privately held, for-profit companies. The survey also collected information on tax-exempt and government organizations; the survey results for those 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: 182 private, for-profit companies covered in this report, and 116 tax-exempt and government organizations 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.

When trend data is shown, the “N” or number of responses for each question is for the 2019 data. Questions with fewer than 30 responses were omitted from the survey. (This includes LTI sections focusing on stock options, restricted stock, phantom stock and deferred compensation.)

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 13<sup>th</sup> 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](mailto:customerrelations@worldatwork.org)

### Website

- [worldatwork.org](http://worldatwork.org)

## 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](mailto:Bonnie.Schindler@capartners.com)

### Los Angeles Office

Susan Schroeder, Partner  
400 Continental Blvd., 6<sup>th</sup> Floor  
El Segundo, CA 90245  
Phone: 310-426-2340  
Email: [Susan.Schroeder@capartners.com](mailto:Susan.Schroeder@capartners.com)

### Website

- [capartners.com](http://capartners.com)