

Incentive Pay Practices: Nonprofit Organizations

July 2021

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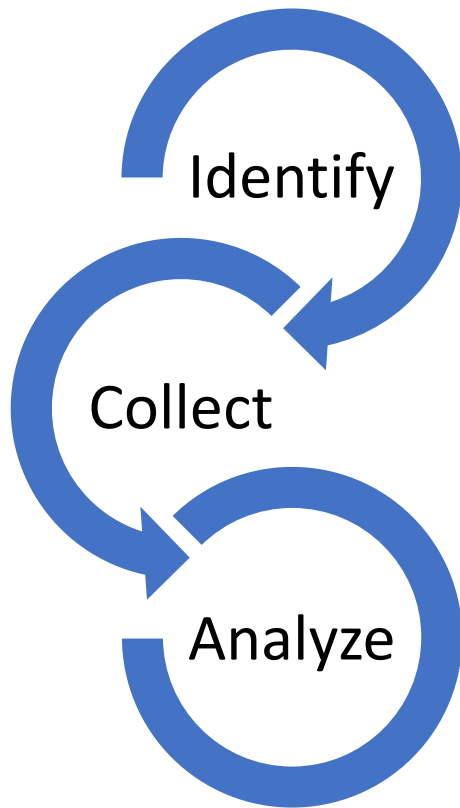
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Methodology



WorldatWork, in partnership with Compensation Advisory Partners (CAP), invited its broader membership base to participate in an electronic survey on incentive pay practices. This report is part of a larger report with 1,226 completed responses.

A total of 180 complete responses were received, representing nonprofit organizations of different sizes and across multiple industries. The majority of organizations (90%) were headquartered in the United States, with the remainder in Canada and other countries.

Email invitations were sent directly to participants on 03/24/2021 and results were collected over an 18-day period. Sample sizes vary by question.

Any questions with fewer than 30 responses were omitted from the survey results because of small sample size.

Key Findings

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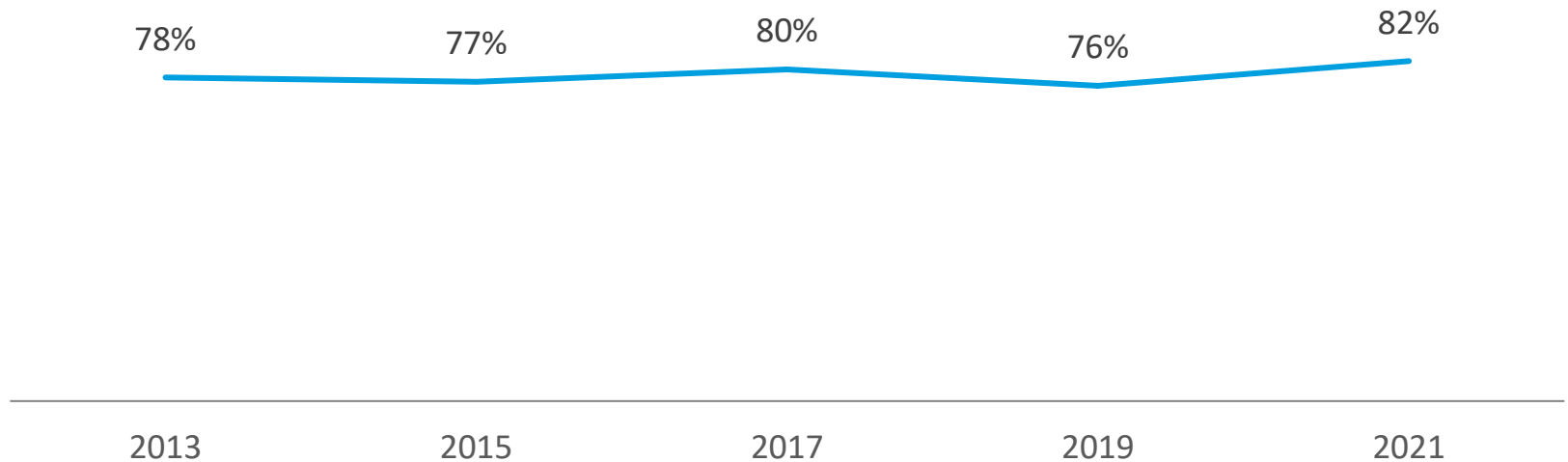
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Overview

- Short-term incentive prevalence at nonprofits increased in 2021 to 82% – the highest level reported in the history of this survey
- Median nonprofit spending on short-term incentives jumped to an estimated 4% of operating budget for 2021
- Annual incentive plans continue to be the most prevalent short-term incentives at nonprofits, but spot awards and discretionary bonuses are also in the mix
- Nonprofit organizations have a more holistic performance measurement framework than for-profit companies, with most using four to six measures over all categories of financial, operational, ESG, and individual goals
- Long-term incentive plans are used by a minority of respondents, with 18% reporting an LTI plan in 2021 (vs. 22% in 2019)

The overall use of short-term incentive (STI) programs increased in 2021

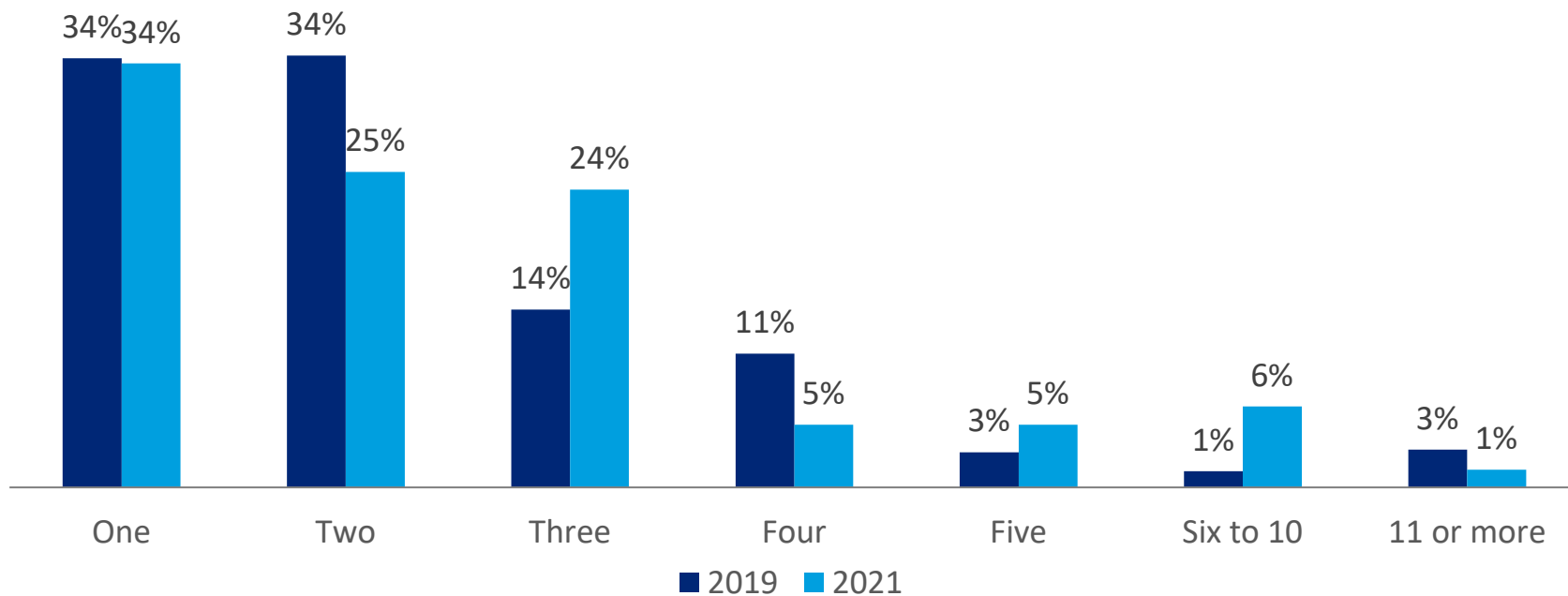
Does your organization have a short-term incentive program?



n = 180

Offering up to three STI programs is the prevalent practice in 2021

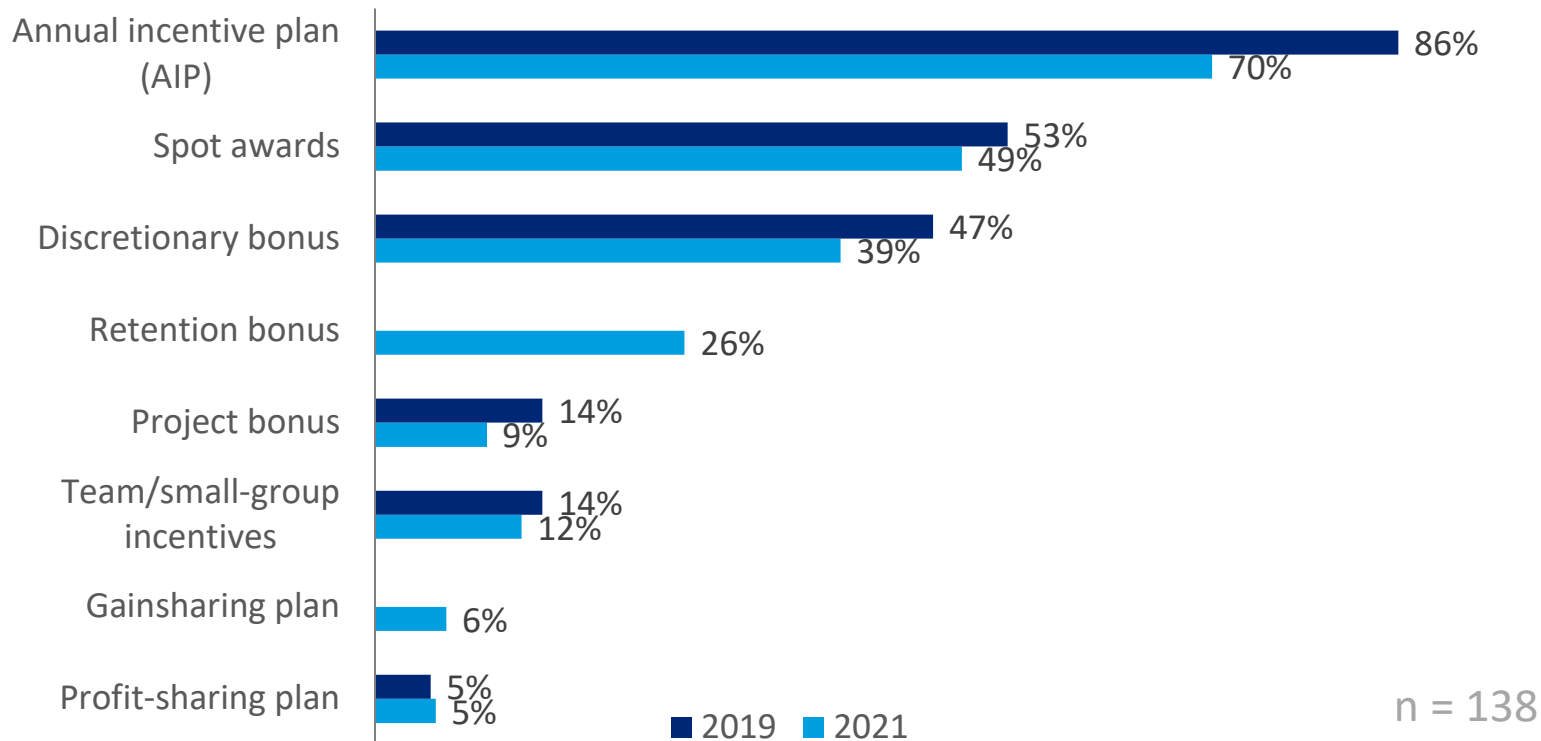
How many short-term incentive programs does your organization have?



n = 140

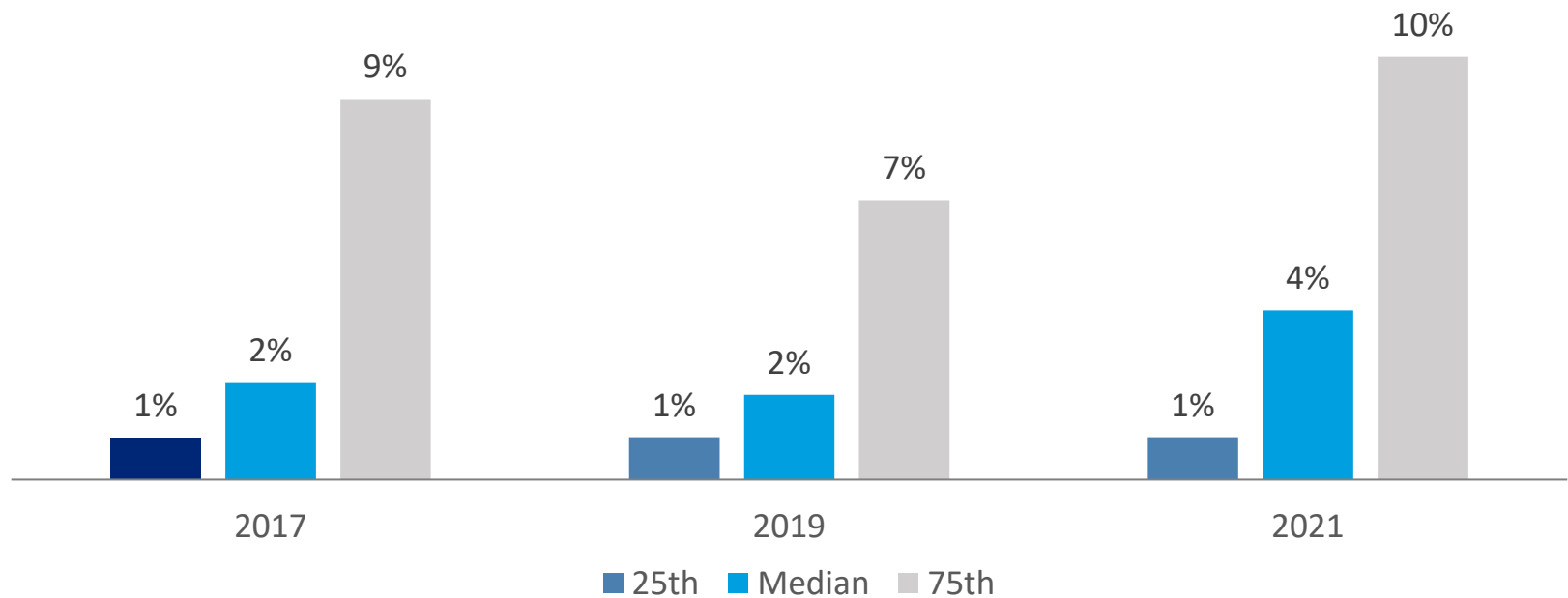
Of the different types of STI programs, AIPs and spot awards are most prevalent

Which types of short-term incentive plans does your organization use? Please select all that apply.



Expected nonprofit STI spending jumped to 4.0% at median in 2021, reflecting the tight labor market and competition for talent

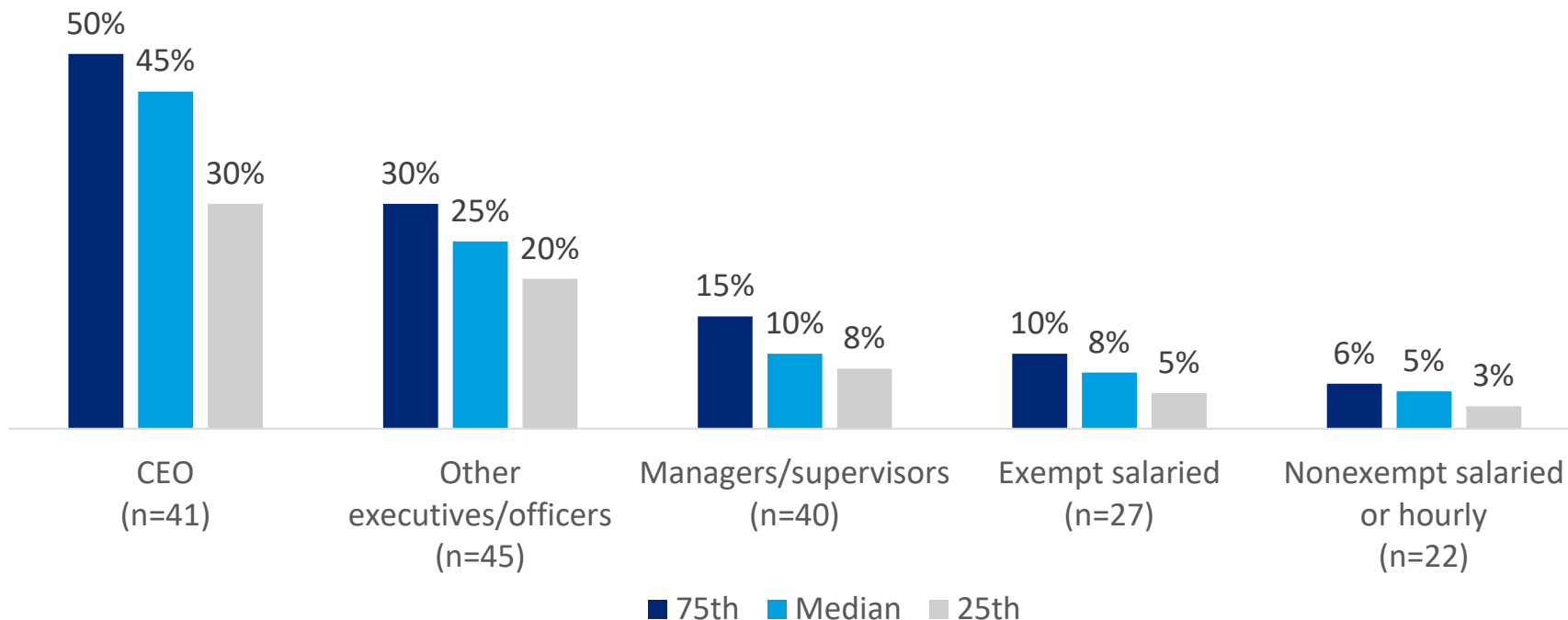
What is your organization's approximate total annual budget/spending for short-term incentives, expressed as a percentage of operating income?



n = 79

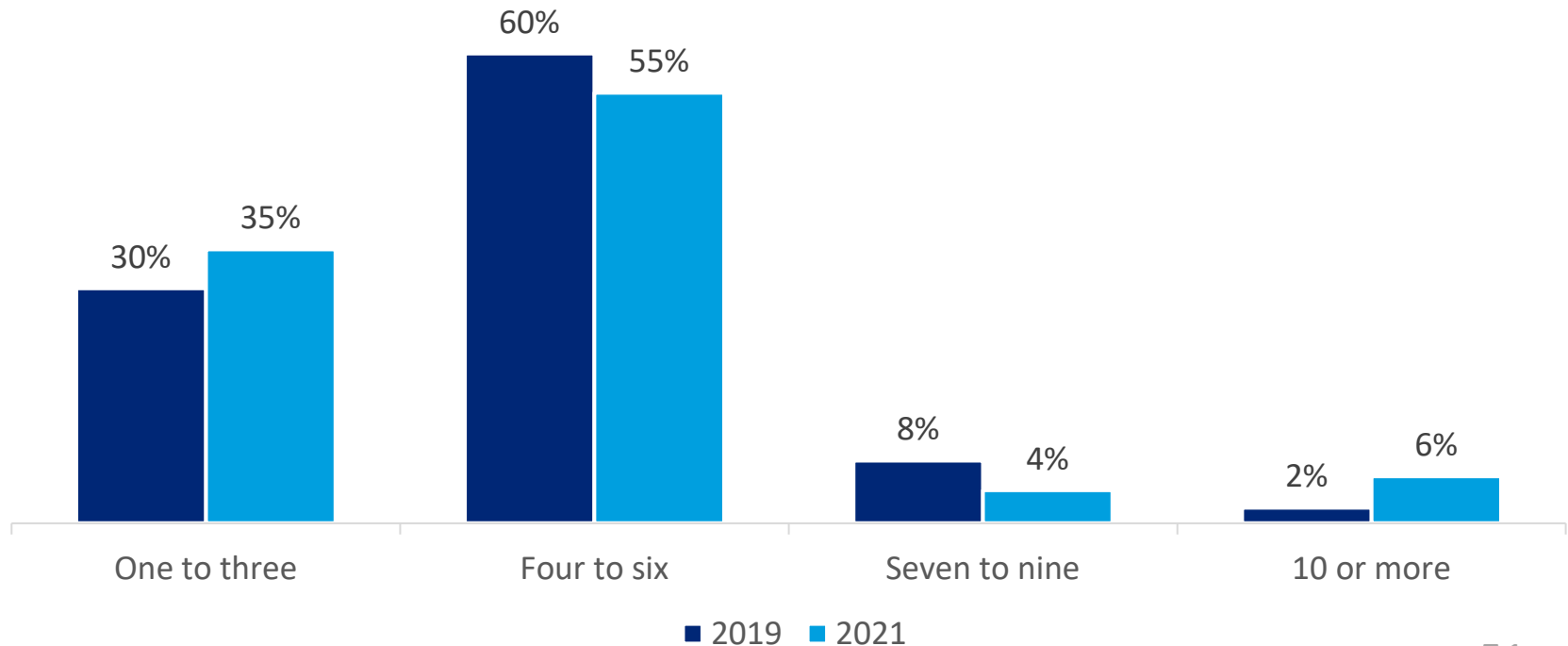
Median AIP award opportunities at nonprofits have remained steady over 2017, 2019, and 2021

What is your target annual incentive pay level, as a percentage of salary, for the following positions?



Four to six performance measures are prevalent, reflecting a holistic (yet manageable) incentive measurement framework

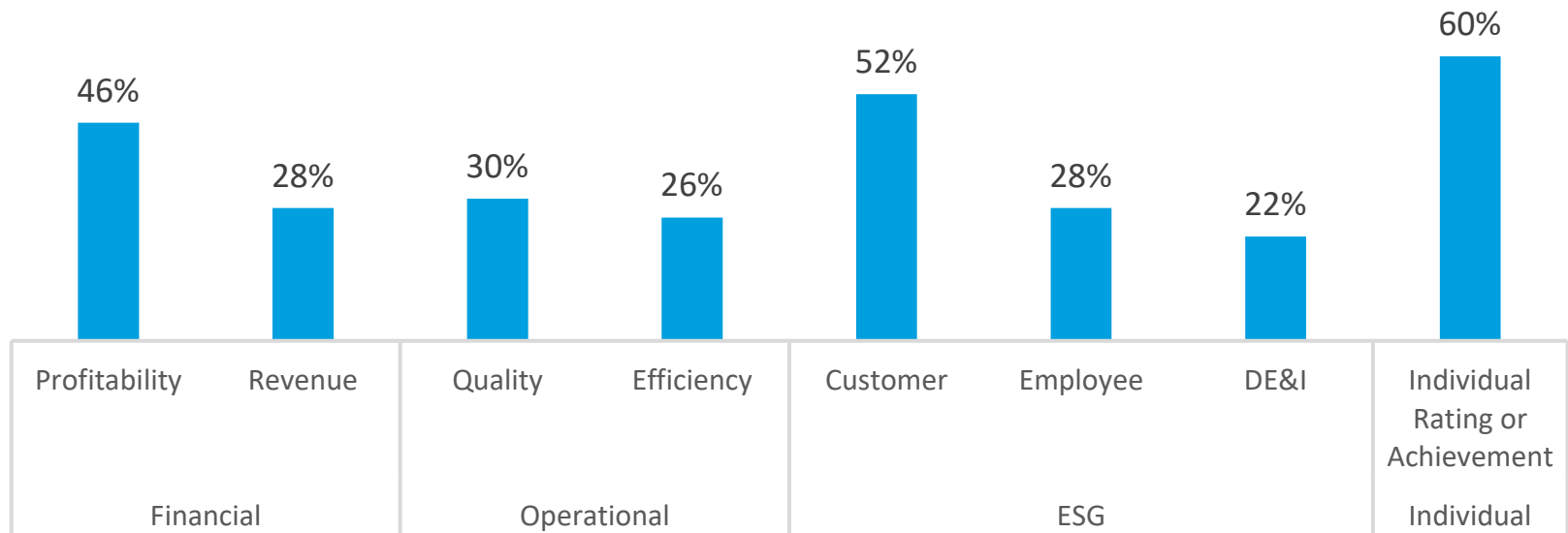
How many performance measures are used in your annual incentive plan?



n = 51

Nonprofits place less emphasis on profitability than for-profit companies

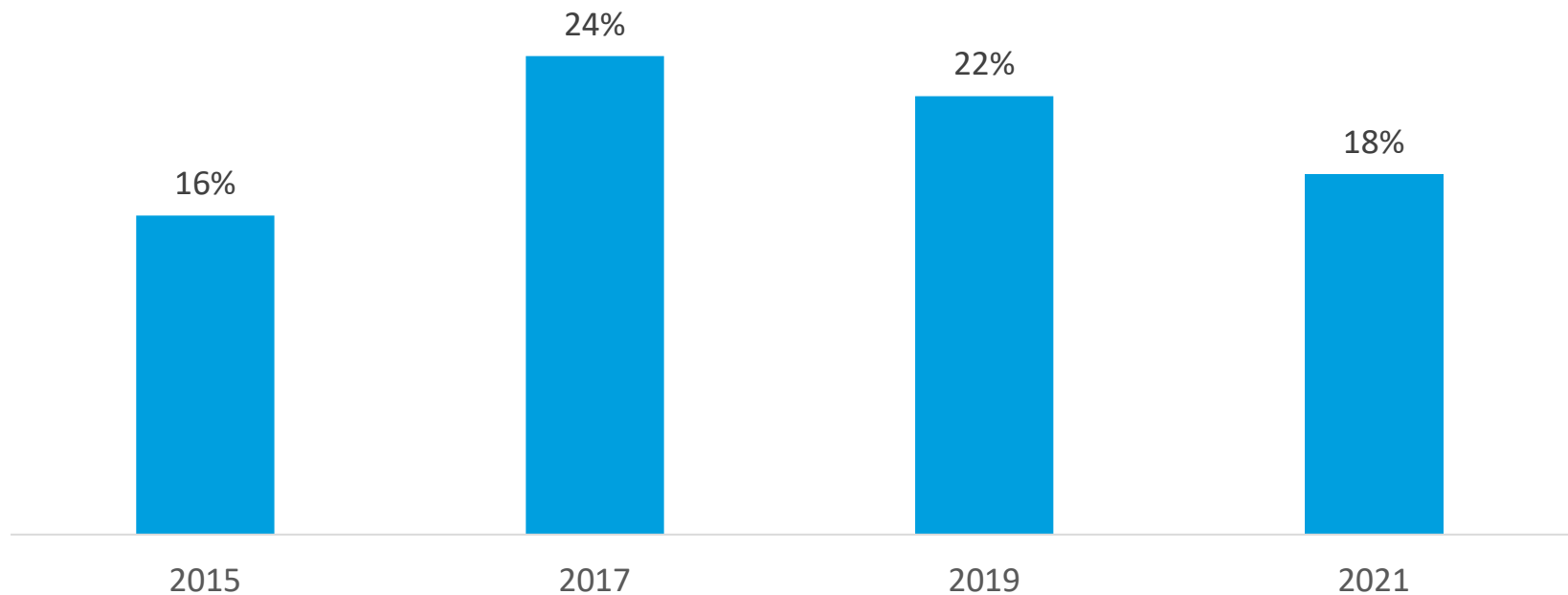
Which of the following performance measures are used in your annual incentive plan? Please select all that apply.



n = 50

Consistent with previous surveys, about one-fifth of nonprofit organizations have long-term incentive programs

Does your organization have a long-term incentive plan?



n = 116

While the 2021 sample is too small for in-depth reporting on LTIs, some general observations can be made:

- With regard to LTI vehicles, nonprofit organizations report using long-term cash plans and nonqualified deferred compensation
 - The long-term cash plans cover three-year performance periods
- The most common LTI objectives are aligning employee rewards with long-term organizational goals and being competitive with other employers
- LTI awards are made only to the CEO, direct reports, and other executives and officers
 - Median target LTI awards are 30% of salary for CEO and direct reports, and 15% of salary for other executives and officers

Respondent Profile

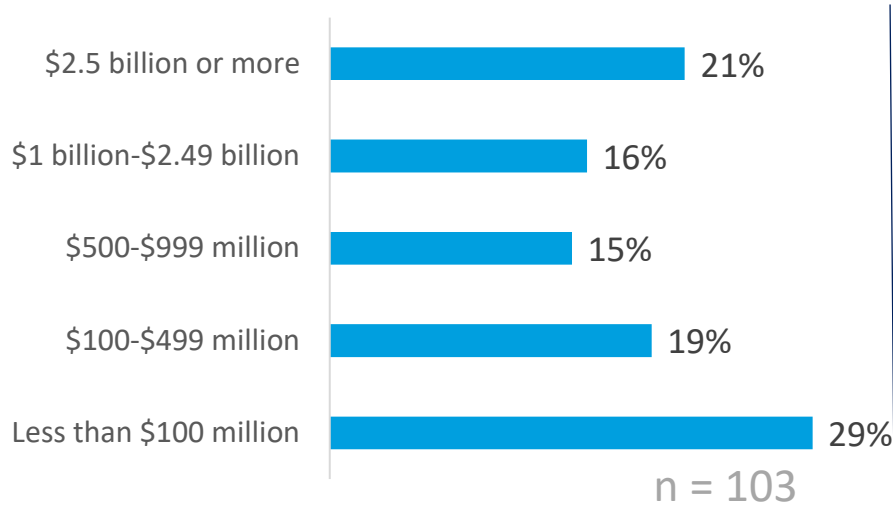
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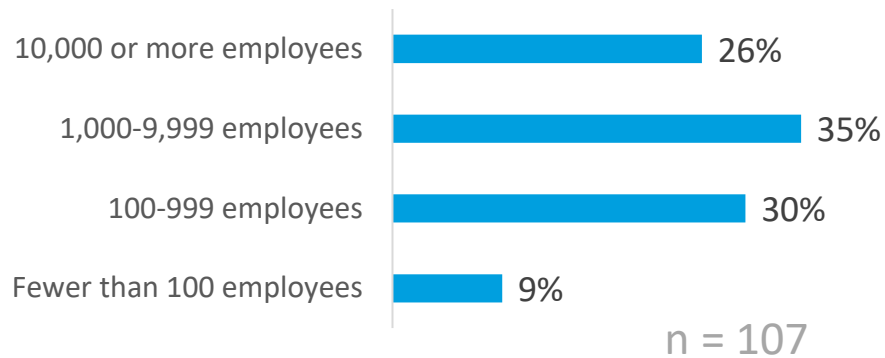
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Organization Profile

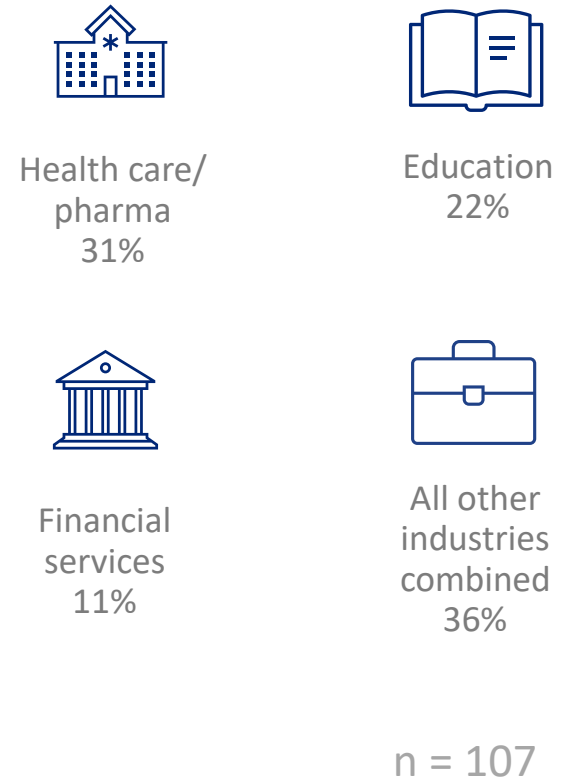
Respondents by Revenue Range



Respondents by Revenue Range



Industry



Topline Results

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Short-Term Incentive Program Prevalence

Does your organization have a short-term incentive program?

Yes	82%
No	18%

n = 180

Number of Short-Term Incentive Programs

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

One	34%
Two	25%
Three	24%
Four	5%
Five	5%
Six or More	8%

n = 140

Types of Short-Term Incentive Plans

Which types of short-term incentive plans does your organization use? Please select all that apply.

Annual incentive plan (AIP)	70%
Spot awards	49%
Discretionary bonus	39%
Retention bonus	26%
Team/small-group incentives	12%
Project bonus	9%
Gainsharing plan	6%
Profit-sharing plan	5%
Other	9%

n = 138

Changes to Short-Term Incentive Plan for 2021

Did your organization add or modify a short-term incentive plan for 2021?

Yes	29%
No	71%

n = 140

Reason for Changes to Short-Term Incentives

If your organization has added or modified a short-term incentive, what prompted it? Please select all that apply.

Participants responding “Yes” to adding or modifying a short-term incentive plan for 2021 received this question.

Changes due to the global pandemic/economy	58%
Change in business results	38%
Align programs with market practices	35%
Regular annual review and update of the plan(s)	30%
Change in strategy	23%
Reorganization	18%
Organizational growth	10%
New ownership/management	8%
Board of Directors	5%
Other	8%

n = 40

Changes to Short-Term Incentive Program

If your organization added or modified a short-term incentive program, what changes were implemented? Please select all that apply.

Participants responding “Yes” to adding or modifying a short-term incentive plan for 2021 received this question.

Changing performance measures	49%
Adjusting performance goals	41%
Changing target award levels	36%
Changing the incentive payout range	23%
Changing threshold triggers	23%
Changing plan participants	21%
Exercising/adding discretion in incentive payouts	18%
Adjusting the performance period	15%
Suspended or eliminated the plan	10%
Combining plans	8%
Excluding one-time charges and/or COVID from performance	8%
Adding a plan	3%
Other	13%

n = 39

Short-Term Incentive Budget

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

	2020 Actual	2021 Estimated
75th Percentile	8%	10%
Median	2%	4%
25th Percentile	1%	1%

n = 79

Annual Incentive Plan Objectives

What are the three primary objectives of your annual incentive plan?

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Align employees’ incentives with short-term goals	54%
Reward employees	51%
Focus employees on specific goals	46%
Share the organization’s financial success with employees	40%
Retain employees	40%
To be competitive with other employers	30%
Provide special recognition	11%
Recruit qualified employees	9%
Other	2%

n = 57

Annual Incentive Plan Eligibility

*Please indicate which of the following positions are eligible for annual incentives in 2021.
Please select all that apply.*

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

CEO	95%
Other executives/officers	96%
Managers/supervisors	82%
Exempt salaried	63%
Nonexempt salaried or hourly	57%

n = 56

Annual Incentive Plan Payout Frequency

If your annual incentive plan awards pay out on a schedule more frequently than once per year, what is the schedule of payout?

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Our plan only pays out annually	98%
Quarterly	2%
Every six months	0%
Monthly	0%
Other	0%

n = 56

Annual Incentive Plan Payouts

How are annual incentive plan awards typically paid to employees? Please select all that apply.

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question. Participants could select all responses that apply.

Cash	100%
Voluntary deferrals	2%
Equity	0%
Mandatory deferrals	0%
Other	0%

n = 56

Annual Incentive Plan Threshold, Target, Maximum Prevalence

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

Participants responding "Annual incentive plan (AIP)" to the type of short-term plan their organization uses received this question.

Threshold	70%
Target	88%
Maximum	88%

n = 56

Annual Incentive Plan Target Opportunity

What is your target annual incentive pay level, as a percentage of salary, for the following positions?

Participants responding “Target” to their organization’s incentive program specifying this type of award for participants received this question.

	25th	Median	75th
CEO (n=41)	30%	45%	50%
Other executives/officers (n=45)	20%	25%	30%
Managers/supervisors (n=40)	8%	10%	15%
Exempt salaried (n=27)	5%	8%	10%
Nonexempt salaried or hourly (n=22)	3%	5%	6%

Annual Incentive Plan Threshold Payout Level

What is your threshold payout level?

Participants responding “Threshold” to their organization’s incentive program specifying this type of award for participants received this question.

Less than 25% of target	5%
25% of target	11%
Between 26% and 49% of target	5%
50% of target	38%
Between 51% and 74% of target	5%
75% of target	14%
Greater than 75% of target	16%
No threshold in the plan	0%
Other	5%

n = 37

Annual Incentive Plan Maximum Payout Level

What is your maximum payout level?

Participants responding “Maximum” to their organization’s incentive program specifying this type of award for participants received this question.

The target is the same as the maximum	17%
Less than 125% of target	13%
125% of target	19%
Between 126% and 149% of target	2%
150% of target	34%
Between 151% and 199% of target	4%
200% of target	4%
Between 201% and 249% of target	0%
250% of target	0%
Between 251% and 299% of target	2%
300% of target	0%
Greater than 300% of target	0%
No maximum in the plan	2%
Other	2%

n = 47

Number of Annual Incentive Plan Performance Measures

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

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

One measure	10%
Two Measures	10%
Three measures	16%
Four measures	22%
Five measures	26%
Six measures	8%
Seven measures	2%
Eight measures	2%
Nine measures	0%
10 or more measures	6%

n = 51

Annual Incentive Plan Performance Measures

Financial

Which of the following performance measures are used in your annual incentive plan? Please select all that apply.

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Financial Objectives

A profitability measure (net income, EBITDA, operating income)	46%
Revenue/revenue growth	28%
Capital efficiency	10%
A return measure (return on equity, assets or investment)	8%
Cash flow/cash-flow growth	6%
Economic profit	4%
Total shareholder return (stock price appreciation + dividends)	0%
Other financial objectives	12%

n = 50

Annual Incentive Plan Performance Measures

Operational

Which of the following performance measures are used in your annual incentive plan? Please select all that apply.

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Operational Objectives

Quality/defects	30%
Efficiency	26%
Cost reduction/savings	12%
Other operational objectives	8%
Volume/orders	6%

n = 50

Annual Incentive Performance Measures

Environmental, Social, Governance (ESG) and Individual

Which of the following performance measures are used in your annual incentive plan? Please select all that apply.

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Environmental, Social, Governance (ESG) Objectives

Customer measures (service, satisfaction, retention, new customers)	52%
Employee measures (satisfaction/engagement/culture)	28%
Diversity, equity and inclusion	22%
Safety/occupational injury	16%
Environmental	4%
Other ESG objectives	4%

Individual Performance (including performance rating, achievement of goals, other)	60%
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n = 50

Annual Incentive Plan Discretion

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

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Significantly	10%
Somewhat	20%
To a lesser degree	22%
Not at all	49%

n = 51

Annual Incentive Plan Funding

How is your incentive plan funded?

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

Corporate-level financial hurdle or formula				73%
Sum of individual targets				8%
Discretionary				8%
Division- or unit-level financial hurdle or formula				4%
Sum of individual targets with funding hurdle				2%
Other				6%

n = 51

Annual Incentive Plan Clawback Policy

Are payments made under an annual incentive plan subject to a clawback policy?

Participants responding “Annual incentive plan (AIP)” to the type of short-term plan their organization uses received this question.

No	88%
Yes, for either violations of our code of conduct or financial restatements	6%
Yes, for financial restatements	4%
Yes, for violations of our code of conduct	2%

n = 51

Long-Term Incentive Prevalence

Does your organization have a long-term incentive plan?

Yes	18%
No	82%

n = 116

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Definitions

- **Annual incentive plan (AIP):** Pay plan that is designed to reward the accomplishment of specific results. Rewards usually are tied to expected results identified at the beginning of the performance cycle. In contrast to discretionary bonus plans, they are not primarily discretionary, but may have a discretionary component.
- **Clawback policy:** A provision in which incentives already paid must be returned to the employer or the firm.
- **Discretionary bonus plan:** A bonus in which management determines the size of the bonus pool and the amounts to be allocated to specific individuals after a performance period. This type of plan has no predetermined formula or promises, and the bonus pool and individual bonus amounts are not guaranteed.
- **Gainsharing plan:** Any one of a number of incentive programs designed to share the results of productivity gains with employees as a group.
- **Long-term cash plans:** Cash awards where payment is contingent on performance as measured against predetermined financial or strategic objectives over multiple years. Typical incentive periods are three to five years.

Definitions (cont.)

- **Nonqualified deferred compensation plans:** An elective or non-elective plan or agreement between an employer and an employee to pay the employee compensation in the future.
- **Profit-sharing plan:** A plan providing for employee participation in the profits of an organization. The plan normally includes a predetermined and defined formula for allocating profit shares among participants, and for distributing funds accumulated under the plan. However, some plans are discretionary. Funds may be distributed in cash, deferred as a qualified retirement program or distributed in a cash/deferred combination.
- **Project bonus plan:** A form of additional compensation paid to an employee or department as a reward for achieving a specific project. A project bonus is compensation beyond normal wages and is typically awarded after an appraisal and analysis of the project(s) completed by the employee over a specific period of time.

Definitions (cont.)

- **Retention bonus plan:** A payment or reward outside of an employee's regular salary that is offered as an incentive to keep a key employee on the job during a particularly crucial business event, like a merger or acquisition, or during a crucial production period.
- **Spot awards:** Spot awards recognize special contributions as they occur for a specific project or task. Spot awards are generally for a special contribution accomplished over a relatively short time period.
- **Team/small group incentives:** Any incentive program that focuses on the performance of a small group, usually a work team. These programs are most useful when measurable output is the result of group effort and individual contributions are difficult to separate from the group effort.

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Sincerely,

The WorldatWork Research Team