

Incentive Pay Practices: Publicly Traded Companies

July 2021

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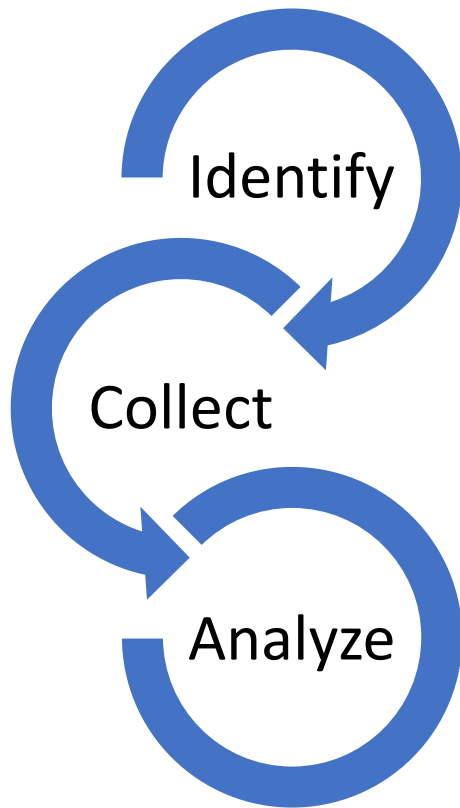
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Content Directory

Methodology.....	2
Key Findings.....	3
Short-Term Incentive (STI) Plan Practices.....	6
Long-Term Incentive (LTI) Plan Practices.....	15
Respondent Profile.....	21
Topline Results.....	24
Definitions.....	61
Contact Us.....	67

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, 81% of which represent U.S. organizations. A total of 421 completed responses were received for this report, representing public companies of different sizes and across multiple industries.

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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Overview

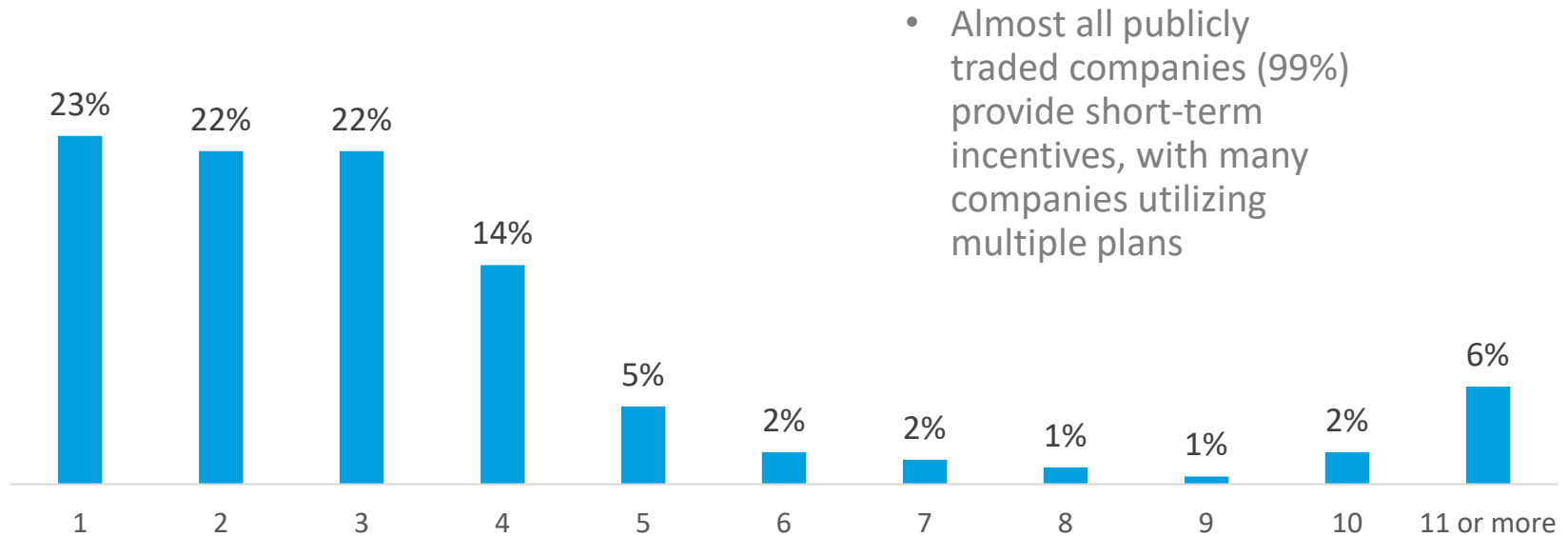
- Almost all publicly traded companies provide short-term incentives (99%) and long-term incentives (94%). Many companies use multiple STI and LTI plans.
- More companies (one-third of respondents) made changes to annual incentive plans than long-term incentive plans (one-quarter of respondents) for 2021. The most prevalent modifications to both STI and LTI plans are changes to performance measures and target award levels.
- The short-term incentive spending budget for 2021 is 7% of operating income at median. While this percentage is the same as 2020, a strengthening economy means that total STI dollar spend will likely increase in 2021.
- STI participation is generally extended from the executive level through exempt salaried employees. Slightly more than half of publicly traded companies extend AIP participation to nonexempt employees.

Overview (cont.)

- STI plan measures continue to emphasize financial performance (profitability, revenue, cash flow), followed by individual performance. Environmental, social, and governance (ESG) and operational measures are becoming more prevalent.
- Prevalent LTI vehicles are restricted stock/units (89%) and performance shares/units (62%), followed by stock options (40%). LTI participation is mostly limited to officer level and above, with the exception of RSUs, which are granted to managers.
- Most companies (92%) grant LTIs on an annual basis, and a majority of companies (66%) vest LTI awards over three years.

Most companies operate multiple short-term incentive (STI) plans

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

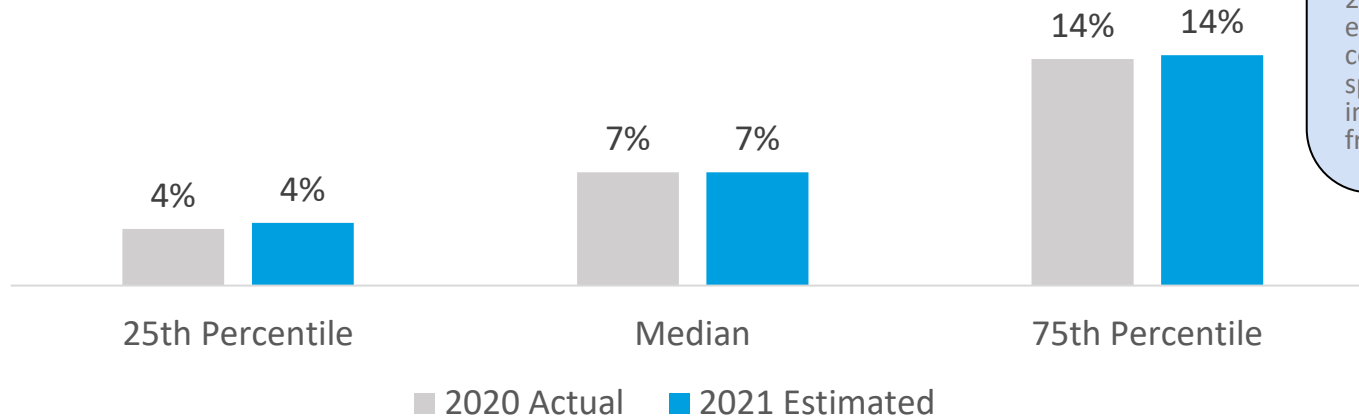


n = 374

STI budgets are flat for 2021

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

- Publicly traded companies estimated short-term incentives at levels consistent with 2020



Insight

While STI budgets are relatively flat (as a percentage of operating income), heading into 2021 the strengthening economy means that companies' total dollar spend on STIs will likely increase significantly from 2020.

n = 192

Some STI plan are changing in 2021



Roughly one-third (34%) of publicly traded companies modified their 2021 STI plans



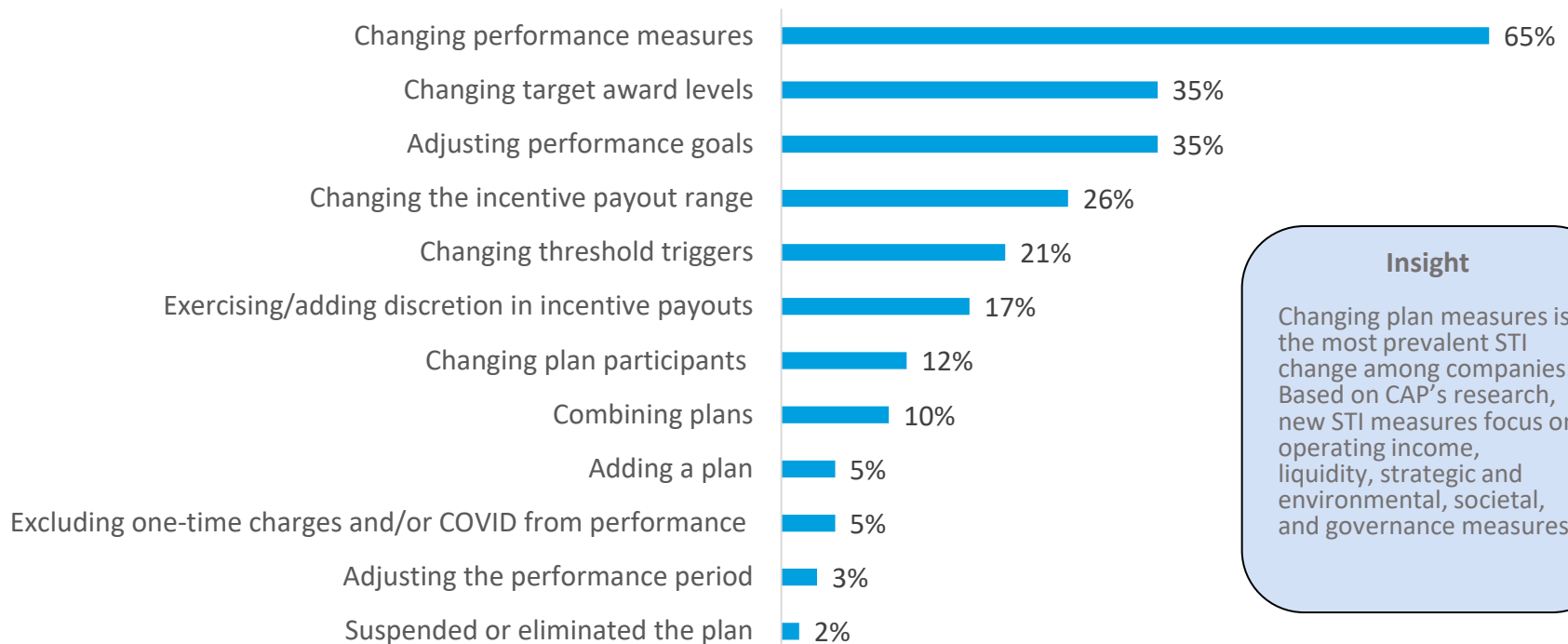
Out of the companies that modified STI plans, 26% reported they changed their plans due to the global pandemic/economy



83% of the pandemic-related changes were made on a temporary basis

The most common STI modification for 2021 is changing performance measures

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



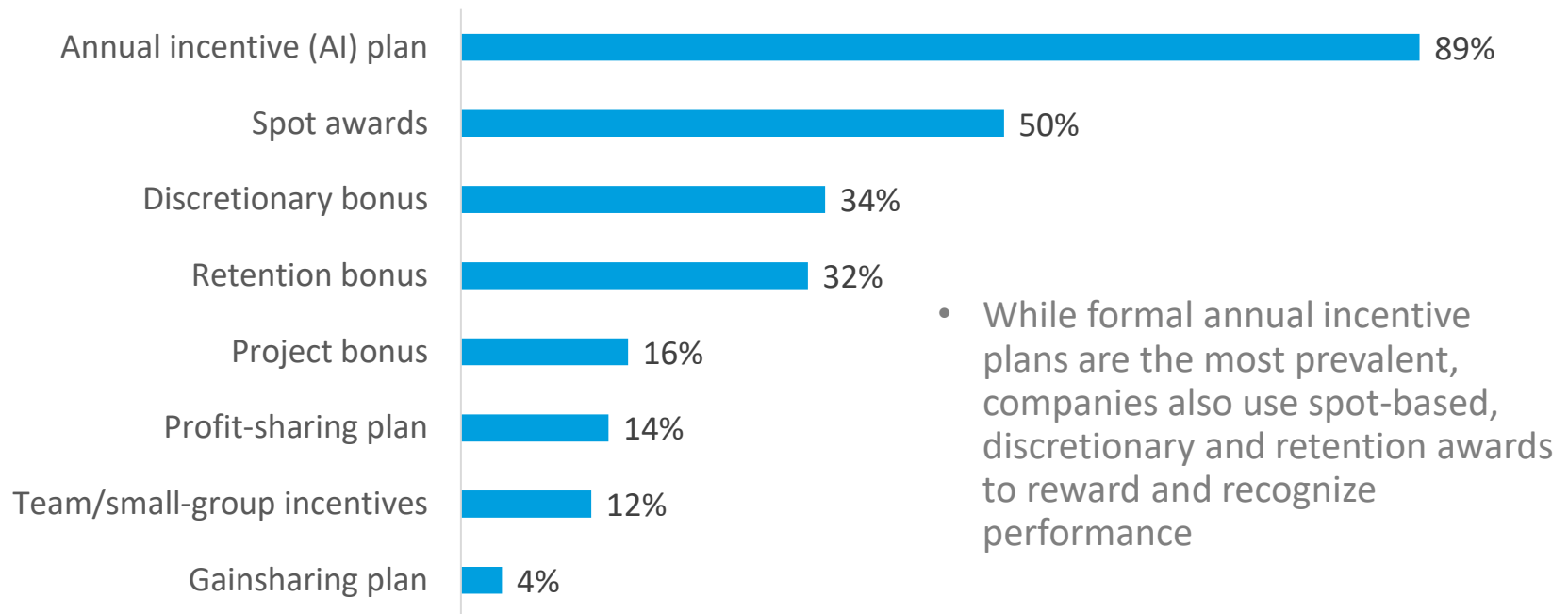
Insight

Changing plan measures is the most prevalent STI change among companies. Based on CAP's research, new STI measures focus on operating income, liquidity, strategic and environmental, societal, and governance measures.

n = 121

Annual incentive plans are the most common STIs used

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

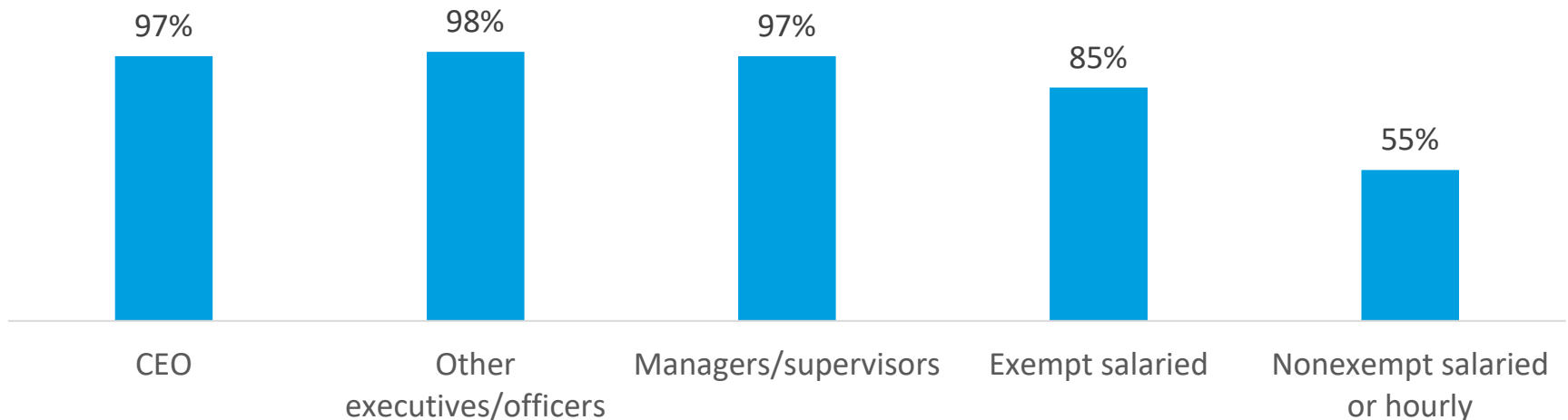


n = 373

Annual incentive plans (AIP) are offered broadly across employees

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

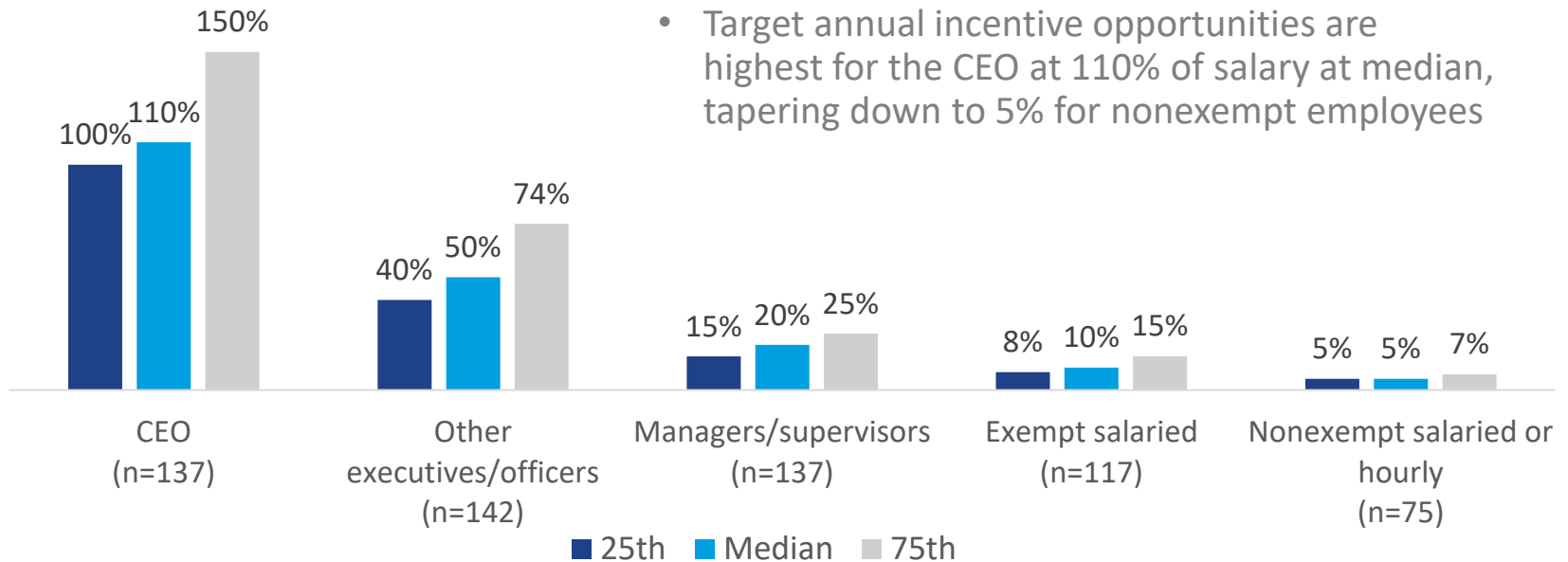
- Participation in annual incentive plans is generally extended from the executive level through exempt salaried employees
- Slightly more than half of publicly traded companies extend AIP participation to nonexempt employees



n = 183

Target annual incentive (AIP) awards vary by position

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

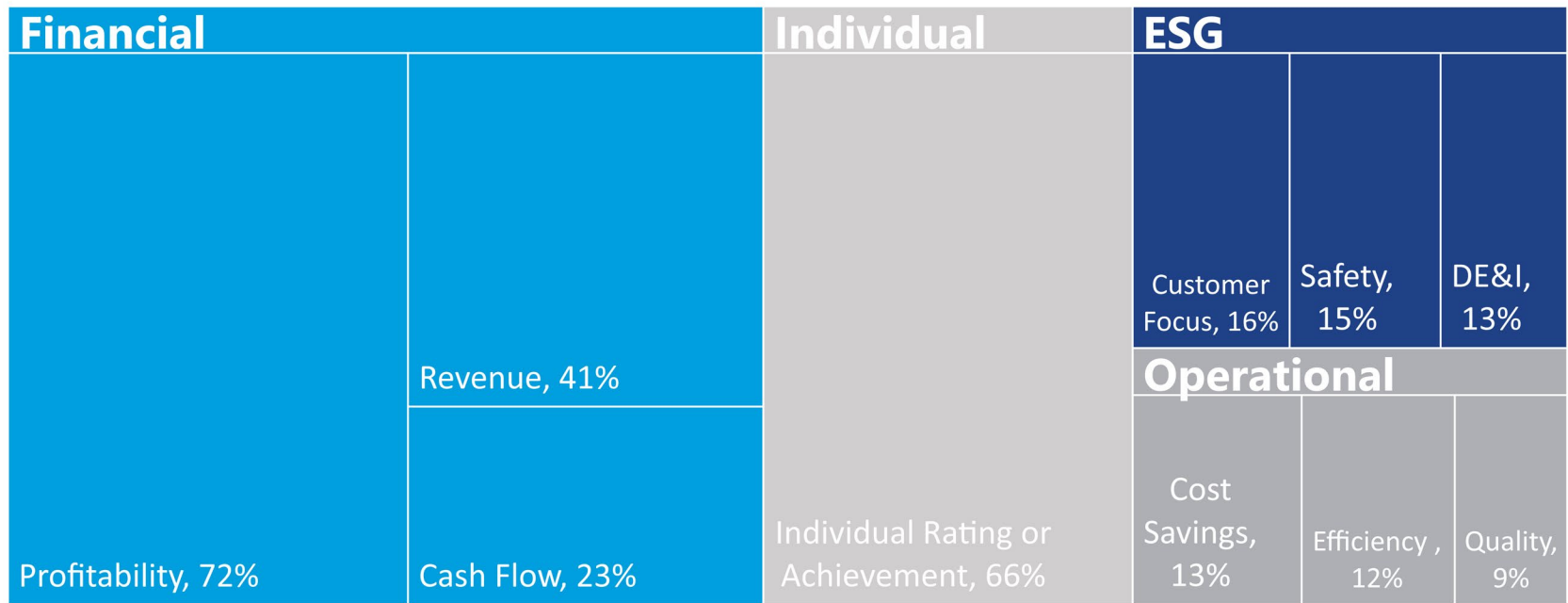


AIP award leverage and payouts

- **Annual incentive payout leverage**
 - Threshold: Close to half of companies have threshold payouts between 25% to 50% of target awards
 - Maximum: Close to half of companies have maximum payouts at 200% of target awards
- **AIP plan payout terms**: The majority of AIP plans pay out:
 - Once per year (89%)
 - In cash (99%)

AIP plan measures are broadening

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



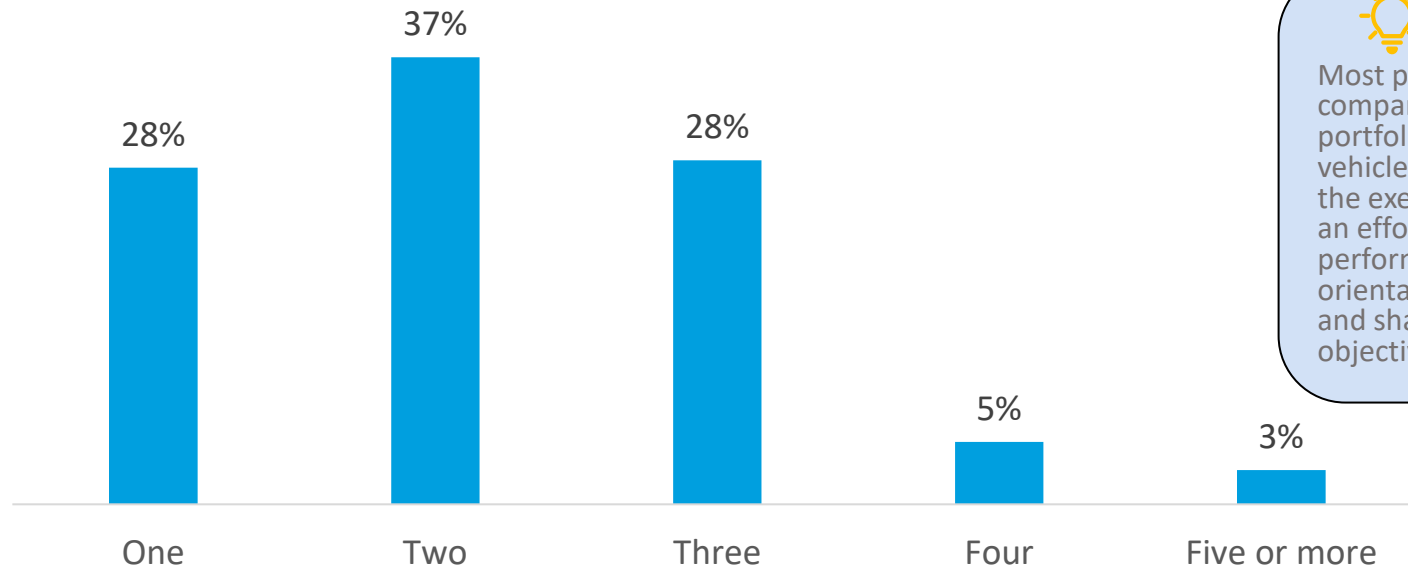
■ Financial ■ Operational ■ ESG ■ Individual

n = 162

Long-term incentives (LTI) are popular

How many long-term incentive vehicles does your organization have?

- Long-term incentive (LTI) plans are offered at most companies (94%)



Insight

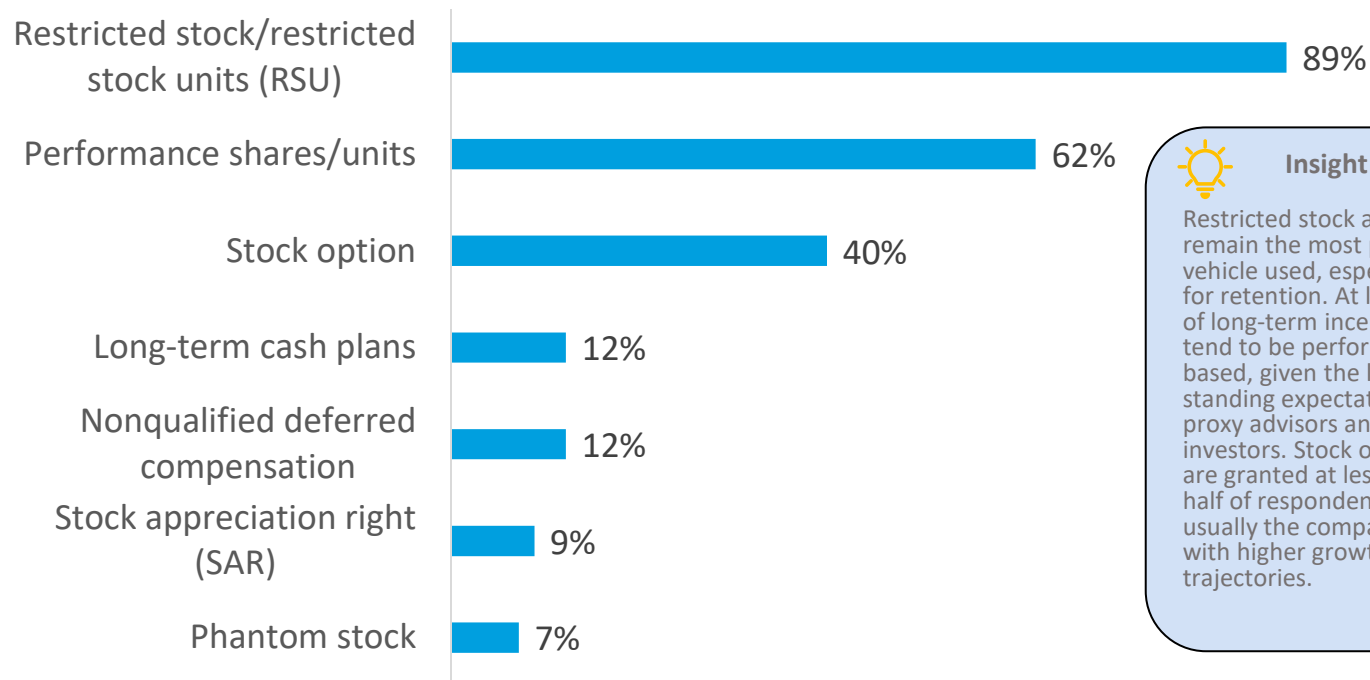
Most publicly traded companies use a portfolio of equity vehicles, especially at the executive levels, in an effort to balance performance-orientation, retention, and share-conservation objectives

n = 178

Full-value shares are prevalent

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

- Three-quarters of publicly traded companies use a combination of time and performance-based awards



Insight

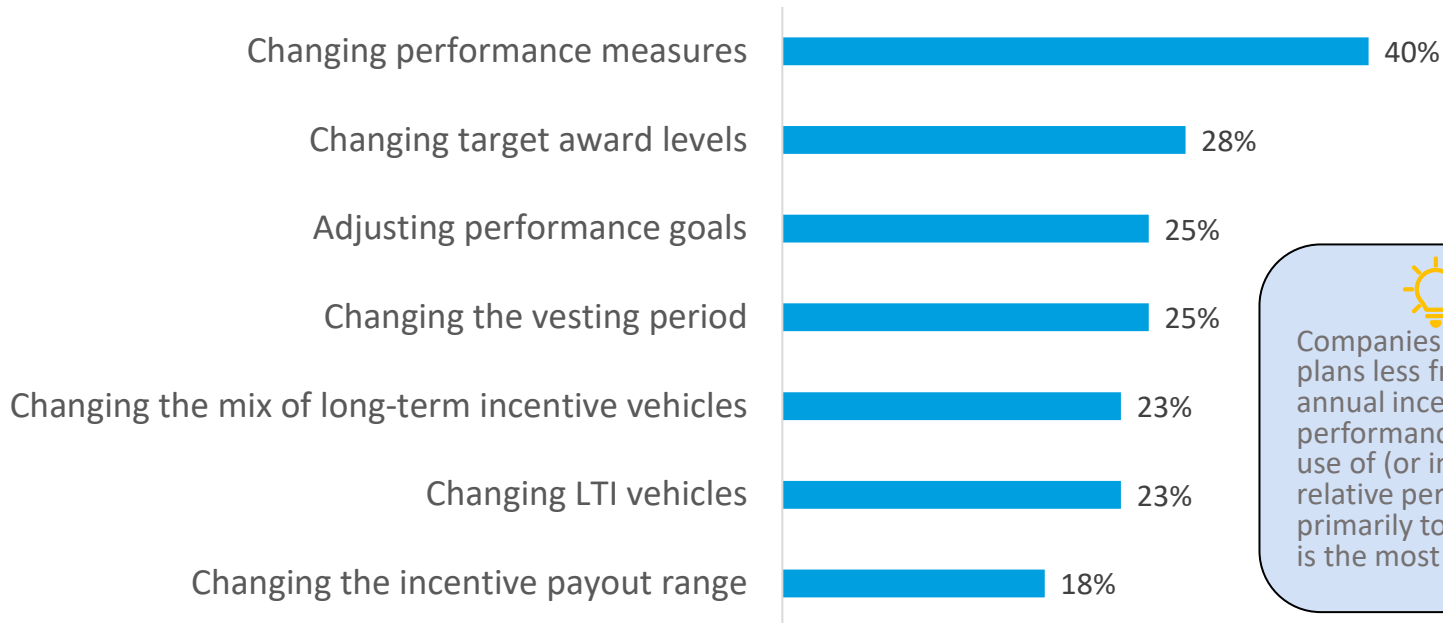
Restricted stock and RSUs remain the most popular vehicle used, especially for retention. At least 50% of long-term incentives tend to be performance-based, given the long-standing expectations of proxy advisors and major investors. Stock options are granted at less than half of respondents; usually the companies with higher growth trajectories.

n = 180

Some LTI plan are changing in 2021

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

- Less than one-quarter (23%) of respondents added or modified their 2021 LTI plan. Of those, only 12% modified due to the global pandemic or economy.



Insight

Companies tend to change their LTI plans less frequently than their annual incentive plans. Changing performance measures, including, use of (or increased weighting on) relative performance measures, primarily total shareholder return, is the most prevalent change.

n = 40

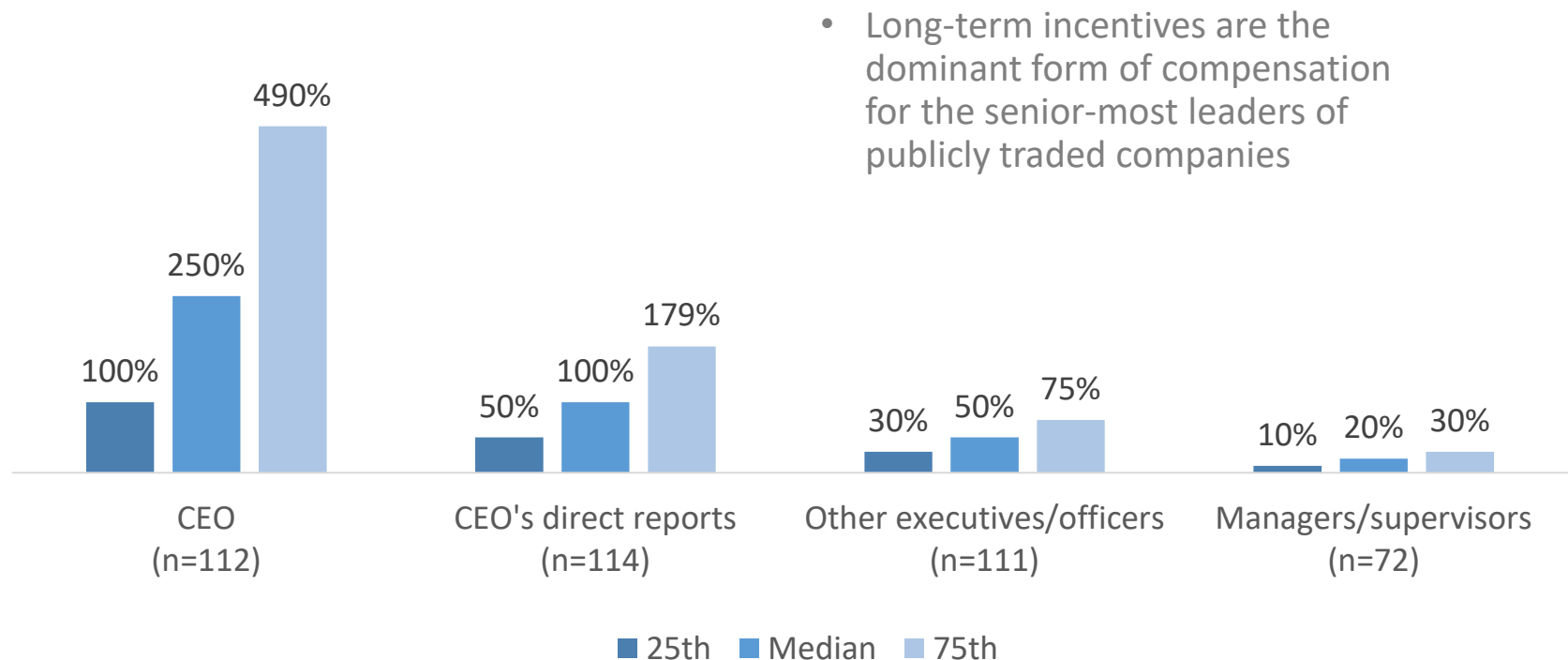
LTIs are typically awarded to the executive / officer level and above, except for RSUs which are granted more broadly

Please indicate which positions are eligible to receive the following long-term incentive awards. Please select all that apply.

	Responses	CEO only	CEO and direct reports	Other executives/officers	Managers/supervisors	Exempt salaried	Nonexempt salaried or hourly
Stock option	68	3%	84%	81%	38%	16%	9%
Restricted stock/restricted stock units (RSU)	154	3%	81%	87%	60%	30%	10%
Phantom stock/Stock Appreciation Rights (SAR)	28	0%	29%	64%	50%	14%	7%
Long-term cash plans	21	5%	62%	52%	43%	24%	19%
Performance shares/units	105	4%	91%	70%	18%	6%	1%
Nonqualified deferred compensation	22	0%	91%	82%	5%	0%	0%

LTI target award opportunities are significant for top leaders

What is your target long-term incentive award opportunity, as a percentage of salary, for the following positions?



Other prevalent LTI terms include:

- **Grant Practices:** More than 92% of companies grant LTIs on an annual basis
- **Vesting Period:** Two-thirds of companies vest LTI awards over three years
- **Equity Overhang:** Approximately half of companies report equity overhang levels below 10% of common shares outstanding

Respondent Profile

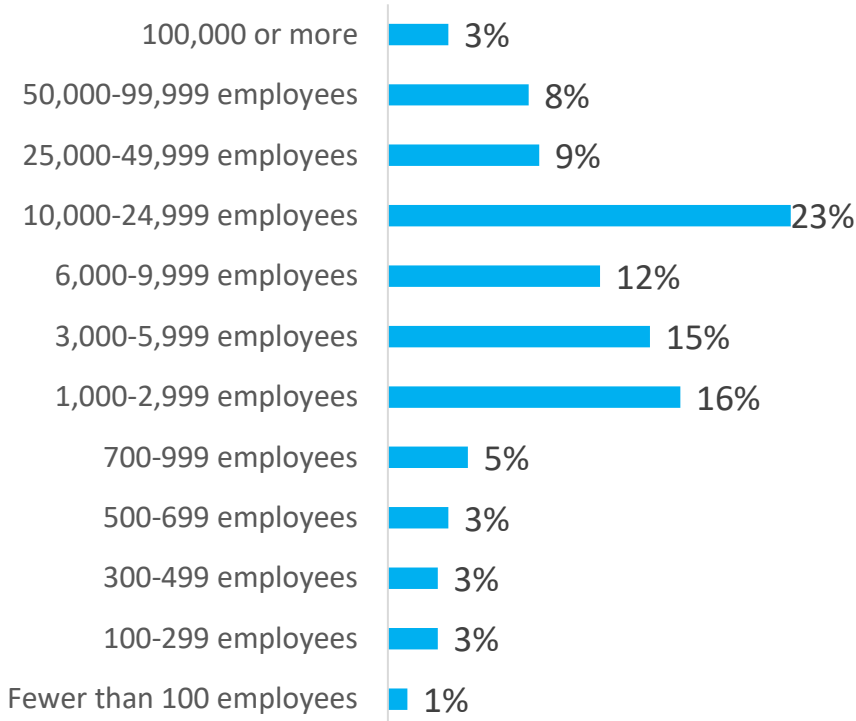
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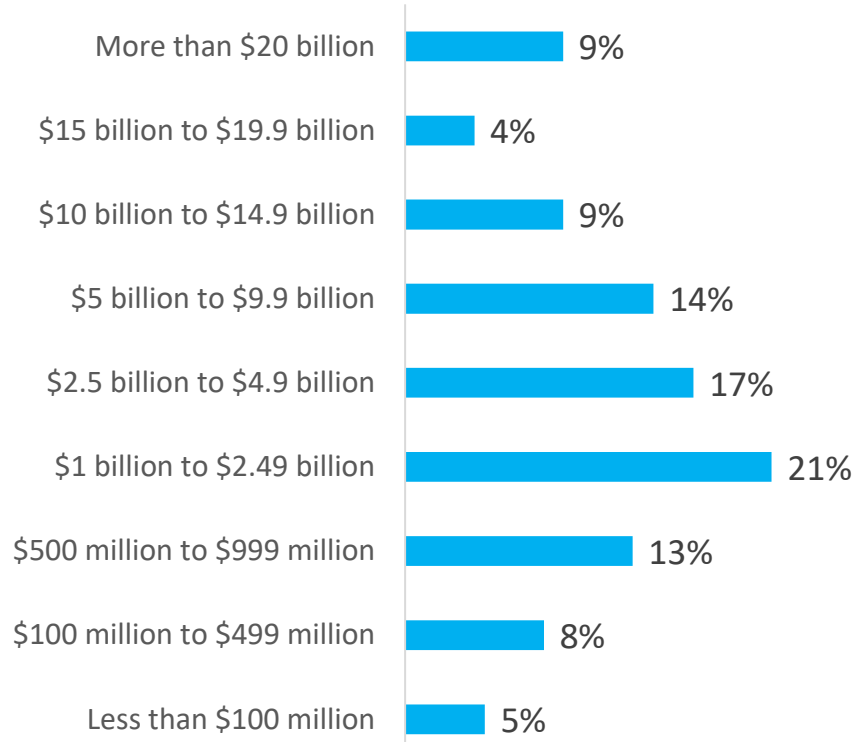
Organization Profile

Number of Employees Worldwide



n = 178

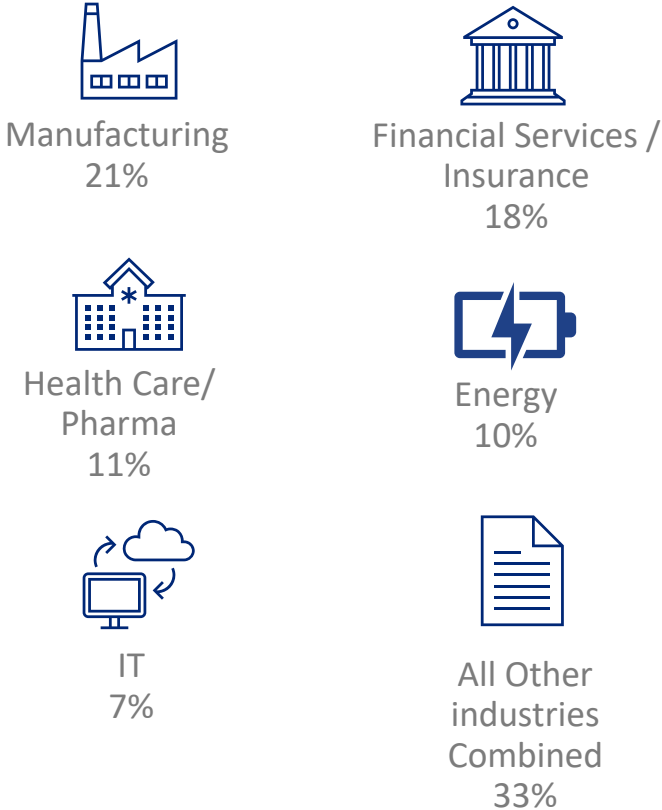
Revenue



n = 176

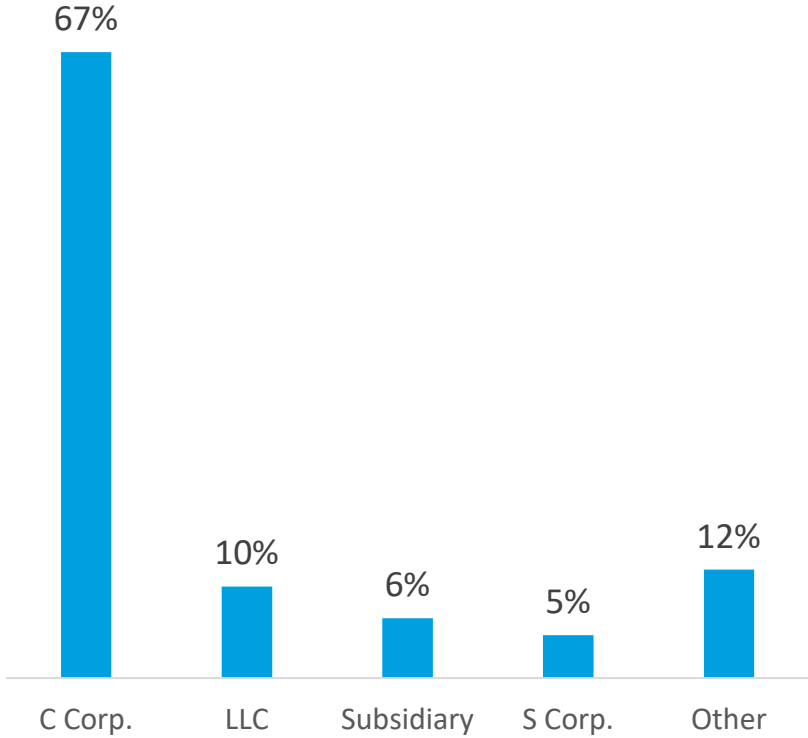
Organization Profile (cont.)

Industry



n = 178

Corporate Status



n = 174

Topline Results

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Short-Term Incentive Program Prevalence

Does your organization have a short-term incentive program?

Yes	99%
No	1%

n = 421

Number of Short-Term Incentive Programs

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

1	23%
2	22%
3	22%
4	14%
5	5%
6	2%
7	2%
8	1%
9	1%
10	2%
11 or more	6%

n = 374

Types of Short-Term Incentive Plans

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

Annual incentive (AI) plan	89%
Spot awards	50%
Discretionary bonus	34%
Retention bonus	32%
Project bonus	16%
Profit-sharing plan	14%
Team/small-group incentives	12%
Gainsharing plan	4%
Other	7%

n = 373

Changes to Short-Term Incentive Plan for 2021

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

Yes	34%
No	66%

n = 368

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.

Regular annual review and update of the plan(s)	38%
Align programs with market practices	37%
Change in strategy	30%
Changes due to the global pandemic/economy	26%
Change in business results	20%
Organizational growth	9%
Increased focus on Environmental, Social and Governance (ESG) or Diversity, Equity and Inclusion (DE&I) matters	14%
Reorganization	6%
New ownership/management	6%
Board of Directors	4%
Changes due to regulatory requirements	1%
Other	6%

n = 125

Changes Due to the Global Pandemic/Economy

If your organization added or modified a short-term incentive plan due to the global pandemic/economy, was the change:

Participants responding “Changes due to the global pandemic/economy” to the prompt for adding or modifying a short-term incentive plan for 2021 received this question.

Temporary due to the pandemic/economy	83%
Permanent due to the pandemic/economy	13%
Not associated with the pandemic/economy	0%
Other	3%

n = 30

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	65%
Changing target award levels	35%
Adjusting performance goals	35%
Changing the incentive payout range	26%
Changing threshold triggers	21%
Exercising/adding discretion in incentive payouts	17%
Changing plan participants	12%
Combining plans	10%
Adding a plan	5%
Excluding one-time charges and/or COVID from performance	5%
Adjusting the performance period	3%
Suspended or eliminated the plan	2%
Other	5%

n = 121

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
25th Percentile	4%	4%
Median	7%	7%
75th Percentile	14%	14%

n = 192

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	65%
Reward employees	62%
Share the organization’s financial success with employees	51%
To be competitive with other employers	37%
Retain employees	33%
Focus employees on specific goals	28%
Recruit qualified employees	9%
Provide special recognition	7%
Other	1%

n = 183

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	97%
Other executives/officers	98%
Managers/supervisors	97%
Exempt salaried	85%
Nonexempt salaried or hourly	55%

n = 183

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	89%
Quarterly	6%
Every six months	2%
Monthly	1%
Other	4%

n = 183

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	99%
Equity	8%
Voluntary deferrals	7%
Mandatory deferrals	4%

n = 183

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	73%
Target	95%
Maximum	80%

n = 183

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=137)	100%	110%	150%
Other executives/officers (n=142)	40%	50%	74%
Managers/supervisors (n=137)	15%	20%	25%
Exempt salaried (n=117)	8%	10%	15%
Nonexempt salaried or hourly (n=75)	5%	5%	7%

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	14%
25% of target	12%
Between 26% and 49% of target	4%
50% of target	30%
Between 51% and 74% of target	4%
75% of target	11%
Greater than 75% of target	10%
No threshold in the plan	4%
Other	12%

n = 121

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	5%
Less than 125% of target	4%
125% of target	2%
Between 126% and 149% of target	4%
150% of target	22%
Between 151% and 199% of target	5%
200% of target	47%
Between 201% and 249% of target	2%
250% of target	0%
Between 251% and 299% of target	2%
300% of target	0%
Greater than 300% of target	1%
No maximum in the plan	2%
Other	6%

n = 133

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	11%
Two measures	21%
Three measures	25%
Four measures	17%
Five measures	12%
Six measures	4%
Seven measures	2%
Eight measures	1%
Nine measures	0%
10 or more measures	7%

n = 166

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, EBIT, earnings per share (EPS))	72%
Revenue/revenue growth	41%
Cash flow/cash-flow growth	23%
A return measure (return on equity, assets or investment)	9%
Capital efficiency	6%
Economic profit	5%
Total shareholder return (stock price appreciation + dividends)	4%
Other	11%

n = 162

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

Cost reduction/savings					13%
Efficiency					12%
Quality/defects					9%
Volume/orders					7%
Other					12%

Note: Other operational objectives include: backlog, research and development, strategic initiatives/objectives, customer retention, project milestones, product pipeline, operational milestones, talent management, employee turnover and client satisfaction

n = 162

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)	16%
Safety/occupational injury	15%
Diversity, equity and inclusion	13%
Employee measures (satisfaction/engagement/culture)	10%
Environmental	10%
Other	1%

Individual Performance (including performance rating, achievement of goals, other)	66%
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n = 162

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	13%
Somewhat	28%
To a lesser degree	33%
Not at all	26%

n = 166

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	51%
Sum of individual targets	18%
Division- or unit-level financial hurdle or formula	11%
Sum of individual targets with funding hurdle	14%
Discretionary	4%
Other	2%

n = 166

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	58%
Yes, for either violations of our code of conduct or financial restatements	25%
Yes, for financial restatements	12%
Yes, for violations of our code of conduct	5%

n = 166

Long-Term Incentive Prevalence

Does your organization have a long-term incentive plan?

Yes	94%
No	6%

n = 191

Types of Long-Term Incentives

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

Restricted stock/restricted stock units (RSU)	89%
Performance shares/units	62%
Stock option	40%
Long-term cash plans	12%
Nonqualified deferred compensation	12%
Stock appreciation right (SAR)	9%
Phantom stock	7%
Other	1%

n = 180

Changes to Long-Term Incentive Plan for 2021

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

Yes	23%
No	77%

n = 180

Reason for Changes to Long-Term Incentive

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

Participants responding “Yes” to adding or modifying a long-term incentive plan for 2021 received this question. Participants could select all responses that apply.

Align programs with market practices	48%
Regular annual review and update of the plan(s)	43%
Change in strategy	38%
Changes due to the global pandemic/economy	13%
Company growth	13%
Reorganization	8%
Change in business results	8%
New ownership/management	8%
Increased focus on Environmental, Social and Governance (ESG) or Diversity, Equity and Inclusion (DE&I) matters	3%
Changes due to regulatory requirements	0%
Other	5%

n = 40

Changes to Long-Term Incentive Program

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

Participants responding “Yes” to adding or modifying a long-term incentive plan for 2021 received this question. Participants could select all responses that apply.

Changing performance measures	40%
Changing target award levels	28%
Changing the vesting period	25%
Adjusting performance goals	25%
Changing LTI vehicles	23%
Changing the mix of long-term incentive vehicles	23%
Changing the incentive payout range	18%
Adjusting the performance period	10%
Changing threshold triggers	10%
Adding a plan	8%
Exercising/adding discretion in incentive payouts	5%
Changing plan participants	5%
Excluding one-time charges and/or impact of global pandemic/economy from performance	3%
Combining plans	3%
Other	5%

n = 40

Long-Term Incentive Objectives

What are the top three objectives of your long-term incentive programs?

Align employee rewards with long-term organization goals	69%
Align employee rewards with shareholder objectives	51%
Reward employees	35%
To be competitive with other employers	32%
Reduce employee turnover and improve retention	27%
Focus employees on specific long-term goals	24%
Share the organization's financial success with employees	20%
Promote employee ownership	17%
Recruit qualified employees	10%
Provide participants with a wealth-accumulation opportunity	6%
Other	2%

n = 178

Number of Long-Term Incentive Vehicles

How many long-term incentive vehicles does your organization have?

One	28%
Two	37%
Three	28%
Four	5%
Five or more	3%

n = 178

Type of Long-Term Incentive Awards

Are your long-term incentive awards time-based or performance based?

Combination of time and performance	74%
All time based	19%
All performance based	7%

n = 178

Long-Term Incentive Eligibility

Please indicate which positions are eligible to receive the following long-term incentive awards. Please select all that apply.

	n =	CEO only	CEO and direct reports	Other executives/officers	Managers/supervisors	Exempt salaried	Nonexempt salaried or hourly
Stock option	68	3%	84%	81%	38%	16%	9%
Restricted stock/restricted stock units (RSU)	154	3%	81%	87%	60%	30%	10%
Phantom stock/Stock Appreciation Rights (SAR)	28	0%	29%	64%	50%	14%	7%
Long-term cash plans	21	5%	62%	52%	43%	24%	19%
Performance shares/units	105	4%	91%	70%	18%	6%	1%
Nonqualified deferred compensation	22	0%	91%	82%	5%	0%	0%

Long-Term Incentive Target Opportunity

What is your target long-term incentive award opportunity, as a percentage of salary, for the following positions?

	25th	Median	75th
CEO (n=112)	100%	250%	490%
CEO's direct reports (n=114)	50%	100%	179%
Other executives/officers (n=111)	30%	50%	75%
Managers/supervisors (n=72)	10%	20%	30%
Exempt salaried (n=29)	<i>Insufficient data</i>		
Nonexempt salaried or hourly (n=10)	<i>Insufficient data</i>		

Equity Overhang Level

What is the level of equity overhang in your organization for the most recent completed fiscal year?*

*Overhang is the sum of equity awards outstanding divided by the total number of outstanding common shares.

0%	10%
0.01% to 4.99%	29%
5% to 9.99%	23%
10% to 14.99%	19%
15% to 19.99%	10%
20% to 24.99%	5%
More than 25%	5%

n = 168

Long-Term Incentive Grant Frequency

What is the typical grant frequency of long-term incentive awards?

Annually	92%
Every two years	1%
Every three years	4%
At hire/promotion	1%
Special one-time grants	0%
Other	2%

n = 168

Long-Term Incentive Vesting/Performance Period

What is the most common vesting and/or performance period for your organization's long-term incentive awards?

At grant/no vesting	0%
One year	1%
Two years	1%
Three years	66%
Four years	21%
Five or more years	8%
Other	2%

n = 168

Definitions

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Definitions

- **Annual incentive plan (AIP):** A 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 pay plan 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 plan:** 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 *(continued)*

- **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.
- **Performance shares/units:** Grants of shares or unit value of the company's stock for which payment is contingent on performance as measured against predetermined objectives over multiple years. The value paid fluctuates with stock price changes and the number of shares or units earned based on performance against objectives. Payout may be settled in cash or stock.
- **Phantom stock:** A type of incentive grant in which the recipient is not issued actual shares of stock on the grant date, but receives an account credited with a certain number of hypothetical shares. The value of the account increases or decreases over time based on the appreciation or depreciation of the stock price and the crediting of phantom dividends. Payout may be settled in cash or stock.

Definitions *(continued)*

- **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:** 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 project(s) completed by the employee over a specific period of time.
- **Restricted stock:** Grants of shares of the company's stock subject to restrictions on sale and risk of forfeiture until vested by continued employment (time-based vesting) or meeting performance criteria (performance-based vesting).

Definitions *(continued)*

- **Restricted stock units (RSU):** Grant valued in terms of company stock, but company stock is not issued at the time of the grant. After the recipient of a unit satisfies the vesting requirement, the company distributes shares or the cash equivalent of the number of shares used to value the unit.
- **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.
- **Stock appreciation right (SAR):** A contractual right that allows an individual to receive cash or stock of a value equal to the appreciation of the stock from grant date to the date the SAR is exercised.

Definitions *(continued)*

- **Stock option:** A contractual right granted by the company to purchase a specified number of shares of the company's stock at a specified price (the exercise price) for a specified period of time (generally five or 10 years).
- **Team/small-group incentives:** Any incentive program that focuses on the performance of a small group, usually a work team. These incentive 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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The WorldatWork Research Team