

# *Preview*



## *Variable Cash Compensation:*

### *Survey on Primary Practices and Trends*



***Executive Compensation Research***

## Preview of the Variable Cash Compensation Report

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This survey was created to fill an important gap in information about variable cash compensation plans. While traditional compensation surveys show how much people make in various positions, there is usually little specific information on how companies structure their variable pay programs. Further, as companies consider changes in their equity participation programs, many wonder if they should place greater emphasis on variable cash programs. Finally, variable pay programs are becoming more prevalent and more meaningful to the financial conditions of individuals and companies.

Consider these facts about U.S. companies

- ✓ 75% regard variable pay as important or critical to their business.
- ✓ 76% regard variable pay as the most effective reward system to align and achieve strategic goals.
- ✓ 77% use variable pay beyond their executives.

Organizations are both adopting and expanding the use of variable pay programs. As this increases, executives and Board of Directors often ask:

- (1) How are these plans structured in other organizations?
- (2) How much money do others spend on variable pay plans?
- (3) What measures are used in these plans?
- (4) How well do they produce meaningful results?
- (5) What changes are companies making to their current plans?

This Report summarizes the findings from a special survey of New England companies that use variable pay plans. The survey was conducted to answer these questions and provide critical information to those most concerned with implementing strategic plans and total reward systems.

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This is one of the most thorough surveys of its kind. The survey participants include 26 leading New England companies with median revenues of \$400 million and 1,500 employees. The survey includes companies from a variety of industries, and the Report provides specific information for firms in

- Technology,
- Retail and Consumer Products, and
- Manufacturing industries.

Plus, the survey summarizes the variable pay plans for companies planning **rapid** (20%+) and **moderate** (5% - 19%) **growth in 2004-2005**. The report also includes comparative findings of three (3) other major national studies on variable cash compensation. So, you can assess not only what New England companies do, but examine practices and trends nationally.

This report contains over 60 pages of information, including 36 pages of graphs, charts and tables you can use to assess or design your variable pay plans. No where else can you get this wealth of information in one report.

The survey was conducted in collaboration with the New England Compensation Consortium (NECC), an organization of leading companies in the New England area. We sincerely appreciate their support and active participation in this survey.

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## You will learn from this Survey Report:

1. How companies *structure their variable pay plans* for executives, senior and mid-level managers, sales professionals and individual contributors (exempt and non-exempt).
2. The *performance measures that are used most frequently* – financial, operational, customer-focused and internal process metrics.
3. *How much* people should (target) and do (actual) receive in variable pay by 8 different salary levels.
4. How much companies *spend on variable pay programs* as a percent of their revenues, net income and total payroll.
5. Comparative highlights from *three (3) other major national studies* on variable pay.
6. *How effective plans are and what changes* companies are implementing to improve their effectiveness.
7. What other companies are doing with variable pay *when they comply with new regulations on stock options* and other forms of equity compensation.
8. Review a “check list” of the *most important variables to successful variable pay plans* – to be used for assessing your current plans or designing new ones.

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## Table of Contents:

- I. Background of the Variable Cash Compensation Survey
- II. Philosophy and Purpose of Variable Compensation
- III. How Plans Are Structured
- IV. Profiles of Specific Segments
- V. Assessment of Plan Effectiveness
- VI. Highlights of Similar Studies on Variable Pay Plans
- VII. Commentary on the Survey Findings

**The Report provides detailed plan design information for specific employee groups. These are:**

- Top Executives
- Senior Managers
- Directors and Managers
- Sales Professionals
- Professional/Technical Individual Contributors (exempt)
- Operational/Service/Administrative Individual Contributors (non-exempt)

**Use this Report to:**

- *Make more informed decisions.*
- *Compare your company to other leading New England firms.*
- *Learn how to get more impact from your variable pay plans.*

## List of Survey Company Participants

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A.W. Chesterton  
Analog Devices, Inc.  
Avid Technologies, Inc.  
Axcelis Technologies, Inc.  
Babson College  
Beacon Mutual Insurance Company  
BHM Corporation  
Brooks Automation  
Digitas  
Eastern Bank  
Gorton's Company  
GTech Holdings Company  
Jordan's Furniture  
Millipore Corporation  
New Balance Athletic Shoe Co.  
New England Business Service, Inc.  
NMS Communications  
Parexel International  
PartyLite Worldwide, Inc.  
Polariod Corporation  
Private Healthcare Systems, Inc.  
Sepracor  
Teradyne, Inc.  
Thermo Electron Corporation  
TJX Companies, Inc.  
Waters Corporation