



## **“Survey Report on Changes in Variable Compensation Plans”**

**Prepared by the  
Wilson Group  
2005 – 2006**

### ***Overview:***

This survey was created to fill an important gap of information about variable cash and equity 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 develop new business strategies or determine the most cost-effective response to changing regulations (such as expensing stock options or reporting executive compensation), there is increasing need to understand what other firms are doing. So, the purpose of this report is to provide you with *the most current information on what is changing in all forms of variable compensation plans.*

### ***Report Description:***

Survey was conducted in September and October, 2005  
35 companies participated in the survey  
46 pages in length  
29 pages of graphs and tables presenting specific details of the survey findings

Some of the companies that participated in the survey include:

<b>Bose Company</b>	<b>Campbell Soup Company</b>
<b>Digitas</b>	<b>Fuji Photo Film USA</b>
<b>Jordan’s Furniture</b>	<b>Harvard Pilgrim Healthcare</b>
<b>Hasbro</b>	<b>LL Bean</b>
<b>Millipore Corporation</b>	<b>Monster Worldwide</b>
<b>Oxfam America</b>	<b>Sepracor</b>
<b>Stratus Technologies</b>	<b>Stop &amp; Shop Supermarket Co’s</b>

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## ***Executive Summary:***

- 1. Variable pay plans are used widely both across industries and within organizations.** While cash oriented variable pay plans are the most prevalent, companies are examining all forms of variable pay to determine which provides the greatest value (or return) on the investment. The primary objectives of these plans are to drive the strategy and performance objectives of the firm, reinforce a pay-for-performance culture and retain critical talent. We found that these plans are more important to retaining than acquiring talent because they are so prevalent in most industries today.
- 2. The effectiveness of these plans does not match their importance.** The survey data showed a clear distinction between the perceived importance of variable pay plans and their perceived effectiveness. There are potentially many reasons for this gap – measures, communication, systems – but we believe this is an area of important change. Are you satisfied with the results you are getting from your variable pay plans? Why or why not?
- 3. Variable cash plans will continue to be expanded, aligned and improved.** Companies tend to use 2 to 5 measures for these pay plans, and provide payouts that increase with higher salaries. One of the most interesting findings was how infrequently companies communicate the progress of performance associated with these plans. Approximately 30% report communicating the performance results only at the time payout is made. It does not appear that companies are expanding cash plans in response to declining use of stock options, but they are making other changes to these plans.

4. **Approximately one-third of the survey participants are changing their equity based plans.** Most of these efforts relate to reducing the number of stock options awarded, reducing the number of people receiving them, and converting options to restricted stock type plans. These actions are the result of implementation of FAS 123(R) – requiring the expensing of stock options -- and pressures by shareholders to reduce the ownership dilution. Companies are also realizing that many broad based plans did not provide the motivational or retention power once sought.
5. **While changes in equity plans are occurring at the executive level, companies are increasing the use of retention bonuses, spot awards and special market adjustments to base salaries** for the managerial, professional and administrative employee groups. Very little change appears in the variable pay plans for hourly, operational employees (whether union or non-union). This reflects an increasing concern over the retention of high performers and key contributors.
6. **The survey participants represent a wide-variety of employers,** from large high population employers (such as in retail organizations) to select not-for-profit service organizations. This breadth reflects **the increasing interest in performance-based compensation plans.** Even among companies that have well established variable pay programs, they are seeking to do the following:
  - Expand the eligibility for cash based variable pay, but limiting the eligibility for equity participation plans.
  - Develop measures that provide a meaningful “line of sight” to the participants while reinforcing the alignment with the organization’s overall mission, strategy and goals.
  - Increase the communication so people understand how their plan works and how they are doing (i.e., progress reports). Firms that provided higher payouts relative to the peer survey companies, tended to provide more meaningful measures and communication about their plans.

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