



Variable Compensation Design Trends and Practices

Creating Effective Incentive Plan Designs

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Agenda



Variable Compensation Value



Effective Incentive Plan Design



Long-Term Incentive Vehicles



Ten Design Steps and Best Practices

Variable Compensation Value 

Terminology

Bonus – Typically discretionary, backward-looking with no formulaic performance reward and are generally cash payments

- Also known as annual bonuses, Holiday bonuses, spot bonuses, referral bonuses, and retention bonuses

Incentive - Forward-looking, performance-based centered on pre-established goals, with defined payout opportunity, both communicated to employees beforehand

- Short-Term Incentives (STI) - one year or less performance period, paid in cash
- Long-Term Incentives (LTI) - two or more years performance period and includes cash, equity and equity-like vehicles

Other types of bonuses and incentives

- Sales Commissions
- Profit Sharing
- Recognition

Value of Variable Compensation



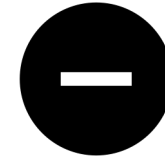
Reinforces Desired Behaviors

Motivates Employees to Go Above and Beyond

Does Not Add to Fixed Costs while Increasing Competitiveness

Creates Performance Oriented Culture

Retention Vehicle



Entitlement – Expect A Payout Every Year

Plan Administration Can Be Burdensome

What to Measure, Too Many Measures

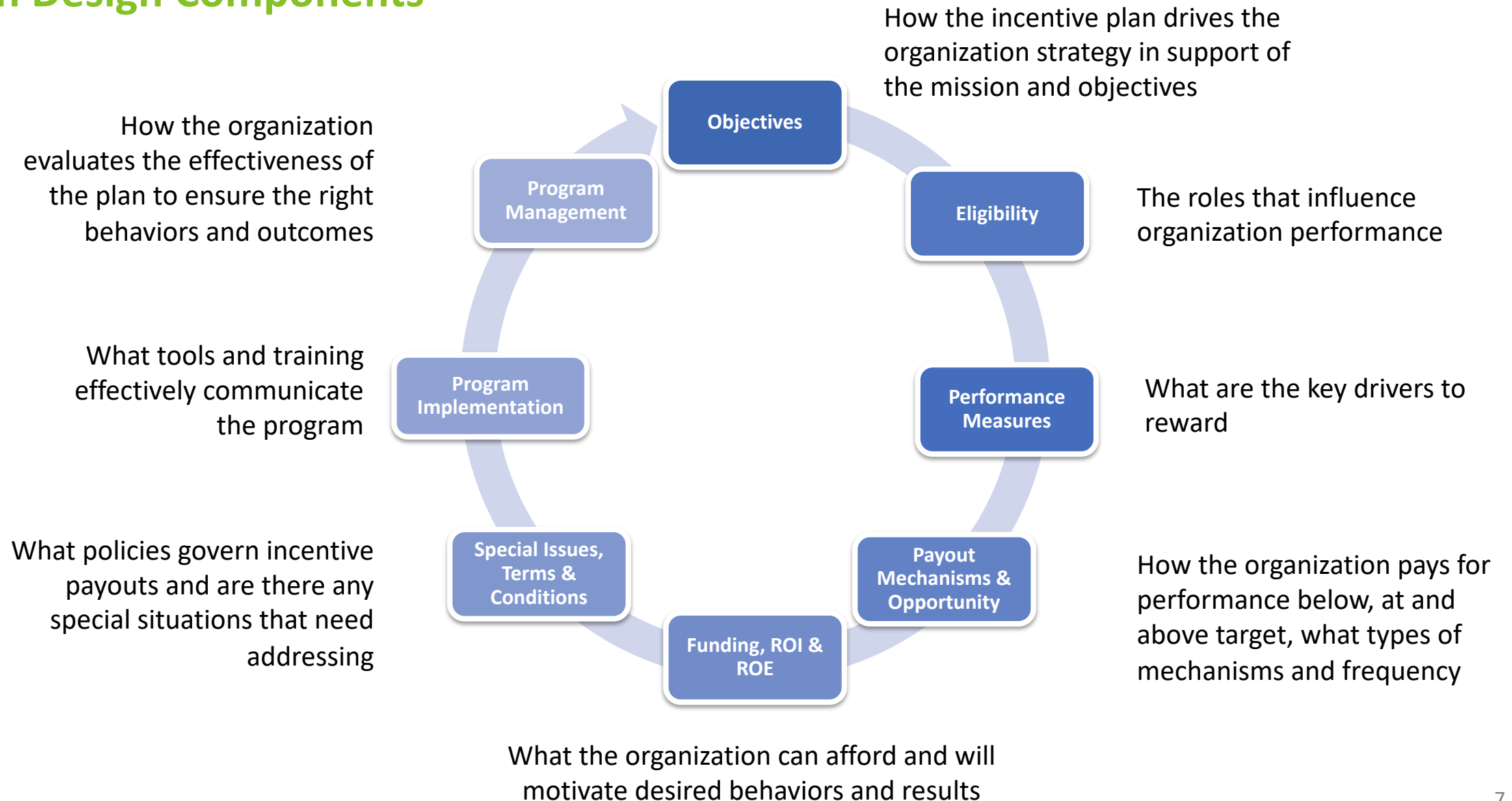
Non-Exempt Employees Payments

You Get What You Pay For

Effective Incentive Plan Design 楽

Effective Incentive Compensation Plan Design

Plan Design Components

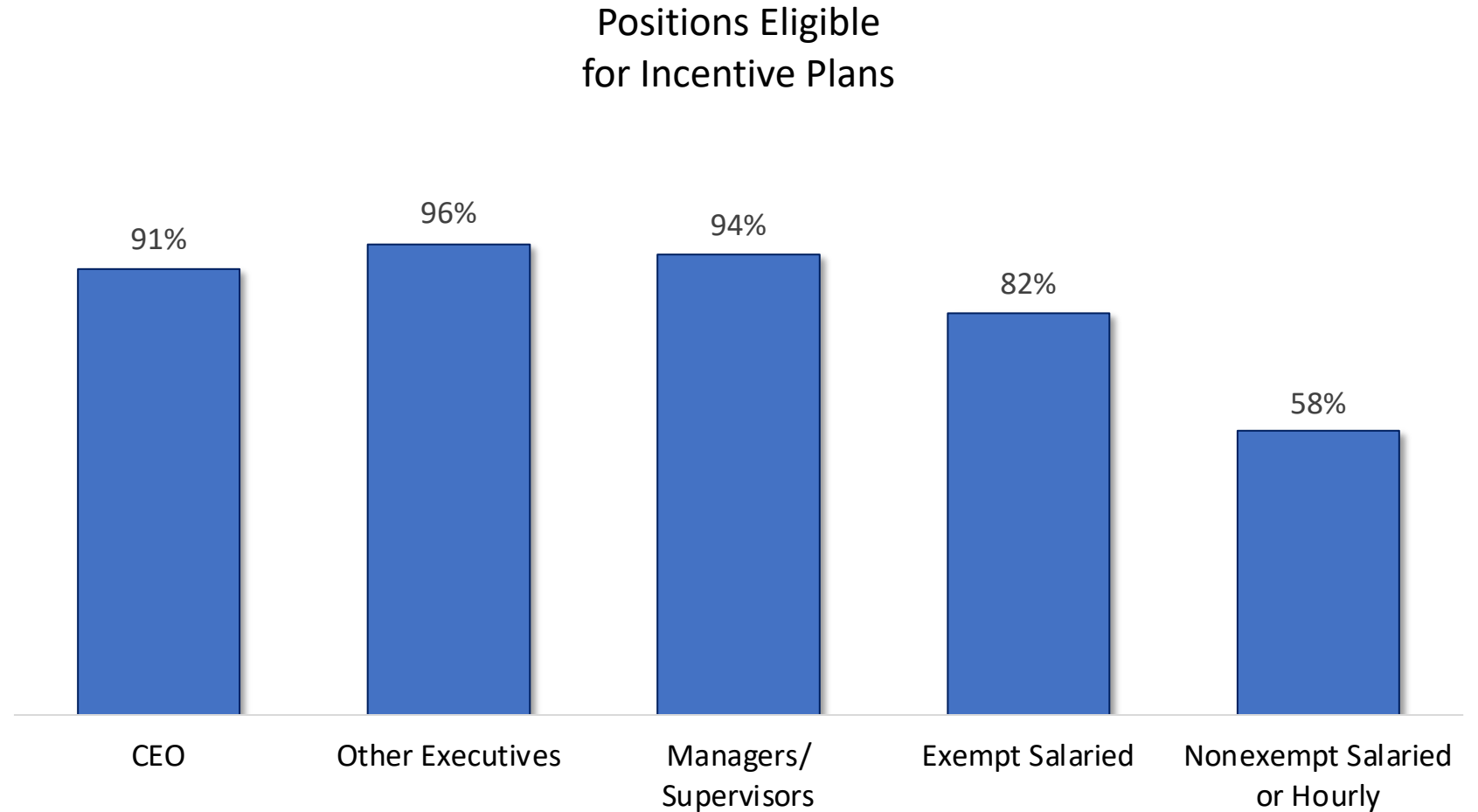


Effective Incentive Compensation Plan Design

Eligibility

- Annual incentive plans are broadly offered across job levels

- More than half of privately held companies extend participation to nonexempt employees



Source: World at Work and CAP Compensation Advisory Partners 2021 Incentive Pay Practices

Effective Incentive Compensation Plan Design

Performance Measures

Incentive Tier	Corporate Goals	Department/ Team Goals	Individual Goals
Chief Executive Officer	100%		
Other Executives/Officers	50%	50%	
Manager/Supervisors	25%	50%	25%
Salaried Exempt		50%	50%
Salaried Non-Exempt/Hourly		50%	50%

Source: World at Work and CAP Compensation Advisory Partners 2021 Incentive Pay Practices

Effective Incentive Compensation Plan Design

Performance Measures

TIP: Stick to 3 to 5 performance metrics

Prevalence

- **Financial:** Profitability 74%, Revenue 44%, Cash Flow 14%
- **Individual Rating:** 66%
- **ESG:** Customer 16%, Safety 10%, Employee 8%
- **Operational:** Quality 11%, Efficiency 11% and Cost Savings 10%

Corporate Goals	Department Goals	Individual Goals
Profitability	Net Sales/Increase in Sales	Performance Rating
Revenue	Account Receivables/ Collections	Special Projects
Net Income	Cost Reduction	Development
Growth	Software Installation/ Business Applications	# of Accounts
Cash Flow	Product Development	Customer Service
Safety	Customer Service	

Source: World at Work and CAP Compensation Advisory Partners 2021 Incentive Pay Practices

Effective Incentive Compensation Plan Design

Payout Opportunity

- Threshold 50% to 75% of target
- Maximum 150% to 200% of target
- Annual (78%) payout in cash (100%) is most prevalent
- Budget/spending % of operating budget
 - 25th percentile 3%
 - 50th percentile 7%
 - 75% percentile 13%

Incentive Tier	25 th Percentile	50 th Percentile	75 th Percentile
Chief Executive Officer	50%	65%	75%
Other Executives/Officers	30%	40%	50%
Manager/Supervisors	10%	15%	20%
Salaried Exempt	7%	10%	10%
Salaried Non-Exempt/Hourly	5%	5%	8%

Source: World at Work and CAP Compensation Advisory Partners 2021 Incentive Pay Practices

Effective Incentive Compensation Plan Design

Payout Mechanisms – Balanced Scorecard

	Target	Actual
Annual Base Salary	\$120,000	\$120,000
Payout %	20%	13%
Annual Bonus Opportunity	\$24,000	\$15,885
Total Cash Compensation	\$144,000	\$135,885

2021 Performance Levels and Payout Opportunity

Criteria		Weight	Threshold	Target	Exceeds
Payout Level			50%	100%	150%
Company	Revenue Growth \$	15%	\$800,000	\$1,200,000	\$1,600,000
	Utilization %	15%	60%	70%	80%
	Strategic Initiatives	20%	50%	100%	150%
Department	Profitability: Net Operating Income %	30%	10%	16%	20%
	Pipeline \$s	20%	\$100,000	\$200,000	\$300,000
		100%			

Results and Payout Calculation

Results	Performance % (Results/Target)	Payout % (Forecast Formula)	Earned (Payout % x Weight x Target)
\$1,250,000	104%	106%	\$3,825
65%	93%	75%	\$2,700
120%	120%	120%	\$5,760
8%	50%	0%	\$0
\$150,000	75%	75%	\$3,600
		66%	\$15,885

Effective Incentive Compensation Plan Design

Payout Mechanisms – Matrix

Bonus Opportunity @ Target	Annual
Annual Total Revenue Goal	\$24,000
Gross Margin Goal	\$2,000,000
	50%

Payout Opportunity % of Base Salary					
Annual Revenue (thousands\$)	Payout as a % Target Incentive				
2301.00	100%	125%	150%	175%	200%
2201 -2300	75%	100%	125%	150%	175%
1801 -2000	50%	75%	100%	125%	150%
1531 -1800	25%	50%	75%	100%	125%
1400 -1530	0%	25%	50%	75%	100%
	35.0%	45.0%	50.0%	55.0%	57.5%
	Gross Margin				

Annual Revenue (thousands\$)	Annual Payout Values				
2301.00	\$24,000	\$30,000	\$36,000	\$42,000	\$48,000
2201 -2300	\$18,000	\$24,000	\$30,000	\$36,000	\$42,000
1801 -2000	\$12,000	\$18,000	\$24,000	\$30,000	\$36,000
1531 -1800	\$6,000	\$12,000	\$18,000	\$24,000	\$30,000
1400 -1530	\$0	\$6,000	\$12,000	\$18,000	\$24,000
	35.0%	45.0%	50.0%	55.0%	57.5%
	Gross Margin				

Long-Term Incentive Incentive Vehicles ❄

Strategic Long-Term Incentive Plan Design

Purpose and Objectives

Common reasons for long-term incentive plans

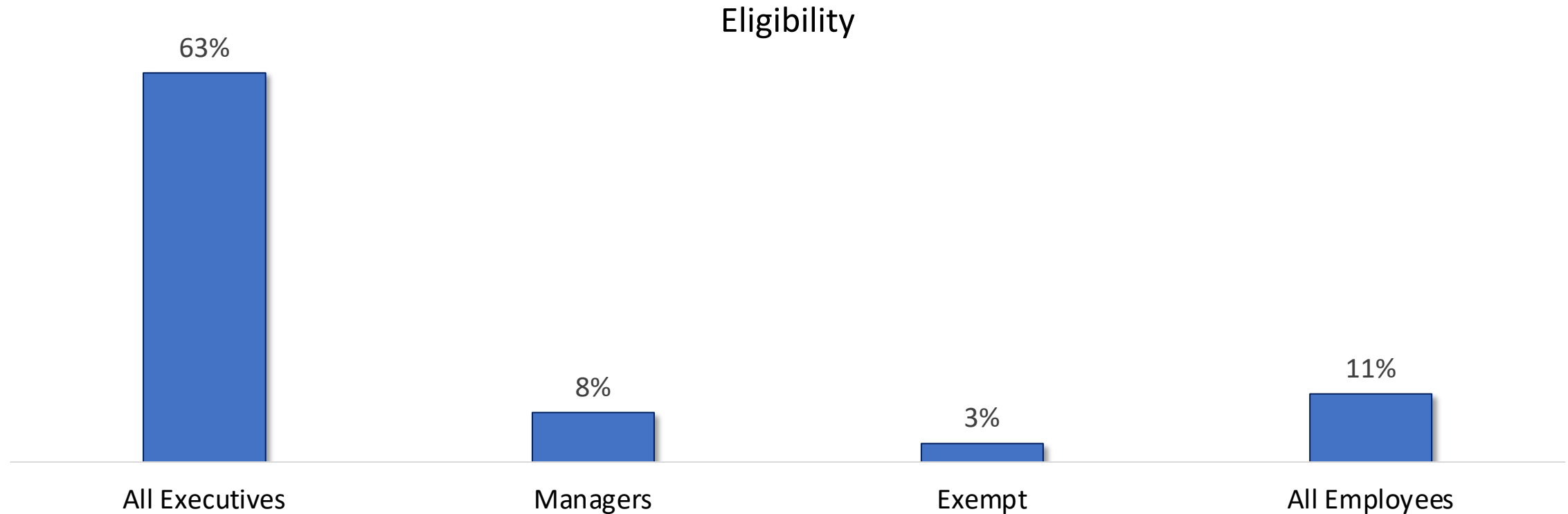
- Reward the achievement of long-term company performance goals
- Align risk/reward with shareholders
- Attract and retain talented and experienced leadership
- Share in the company's financial success
- Be competitive with other companies
- Promote ownership
- Create wealth accumulation

Source: *World at Work and CAP Compensation Advisory Partners 2021 Incentive Pay Practices*

Strategic Long-Term Incentive Plan Design

Eligibility

LTIs are typically reserved for the executive/officer level and above roles

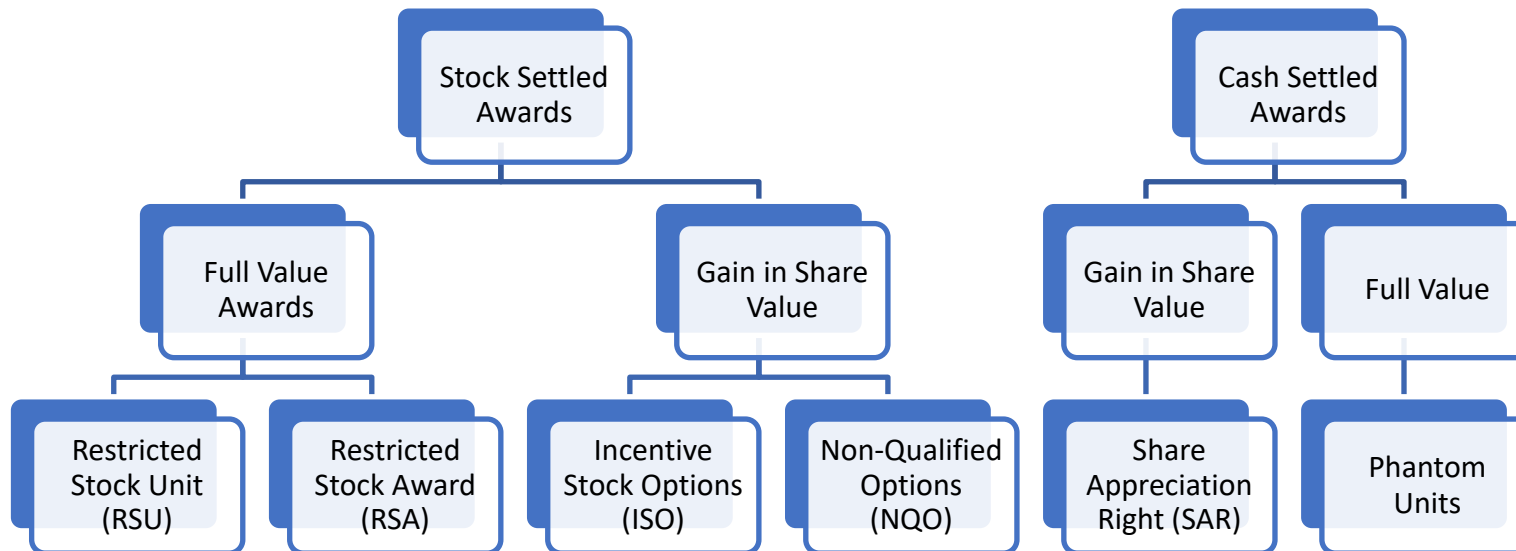


Source: World at Work and CAP Compensation Advisory Partners 2021 Incentive Pay Practices

Long-Term Incentive Plan Design

Vehicles and Vesting

- Performance plans (long-term cash and performance shares/units) are most prevalent (50%)
- Real Equity 42%
- Phantom Equity 22%
- Nonqualified deferred compensation 17%
- Grants are most commonly awarded on an annual basis (62%)
- Vesting is typically over three to five years and three years is most common
- Economic Value Sharing - Companies typically share 15% or less of its total economic value

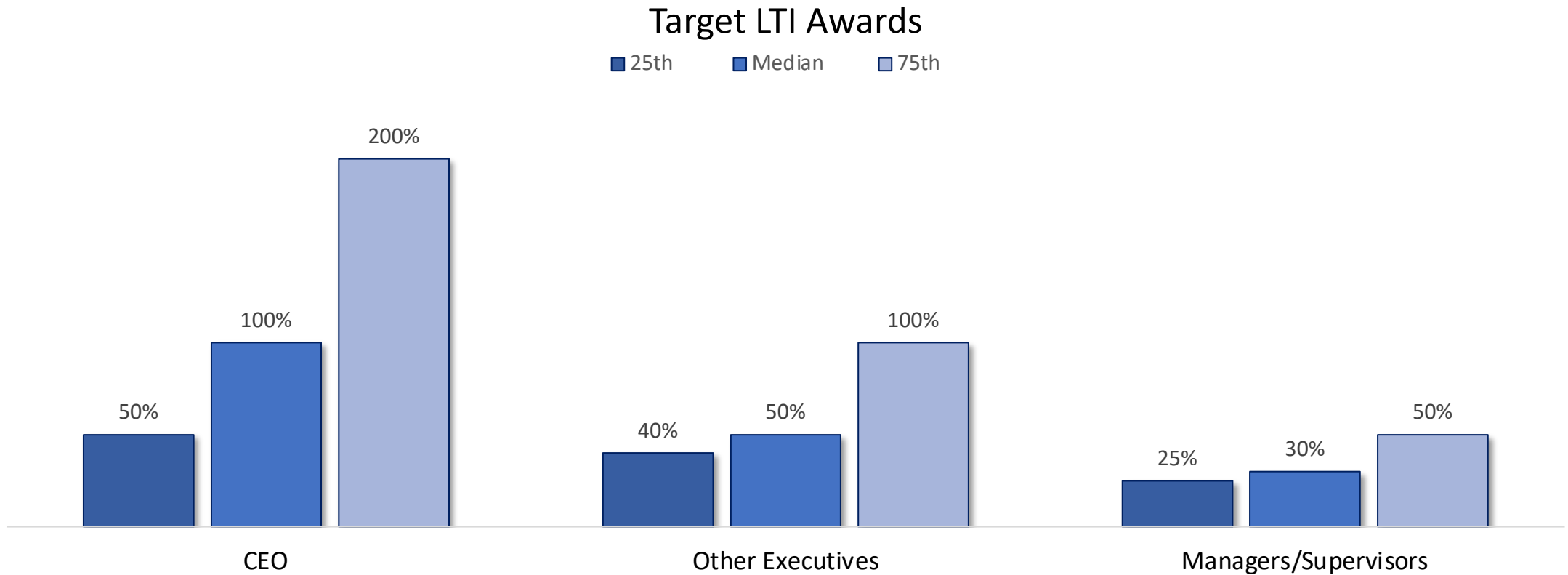


Source: NASPP University and World at Work and CAP Compensation Advisory Partners 2021 Incentive Pay Practices

Long-Term Incentive Plan Design

Payout Opportunity

As a general rule, LTI targets are equal to or slightly exceed AIP targets



Source: World at Work and CAP Compensation Advisory Partners 2021 Incentive Pay Practices

Ten Design Steps and Best Practices ¹⁰

10 Design Steps and Best Practices

Incentive Plan Assessment, Design and Implementation Steps



10 Design Steps and Best Practices

Design Best Practices

1

Participants know how the plan works. The plan is simple but not simplistic, with a maximum of 3-5 goals.

2

They can define what actions they need to take to maximize their payout, and these are the actions most desired by the organization. They feel their work impacts the payouts. There is an appropriate level of 'line of sight'.

3

The goals are viewed as challenging but achievable; three levels of goals are established based on probability of achievement:

- Threshold 80%
- Target 50% - 60%
- Exceptional 20%

4

Participants hear frequent feedback on how performance is progressing. They have time to adjust in performance and effort, otherwise the payout is not associated with the performance.

5

The goals are more “inspirational” than “operational” – they get people excited and view their work as mission driven and not an obligation.

10 Steps and Best Practices

Design Best Practices

- 6** People feel involved in how the goals are set. The process of goal setting needs to reflect how the organization manages its activities/resources.
- 7** The payouts are sufficiently frequent, and performance is discussed in ways that keep people engaged.
- 8** People feel reinforced for the efforts they make to achieve desired results. If there is no payout, people know why during the performance period.
- 9** The rewards are viewed as meaningful and worth the effort by the individual and a good return on the company's investment.
- 10** The program is frequently examined and improved. The program is adapted to the current reality and pressures of the business, and the needs of the participants.

Wilson Group

Services and Solutions

Executive Total Compensation	Employee Total Compensation	Sales Incentive Compensation
• Competitive Assessment of Total Direct Compensation • Short and Long-Term Incentive Plan Design • Total Compensation Philosophy	• Variable Cash and Equity Compensation • Pay Equity Analysis • Base Salary Program • Performance Management • Career Ladders/Job Architecture • Market Pricing/Benchmarking	• Sales Plan Performance Analysis • Market Pricing/Benchmarking • Plan Design and Financial Modeling • Sales Recognition Program Design • Sales Plan Documentation, Illustrations and Tools

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