Global Equity Insights **2015**

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Equity plans still on a rise and key for company success

The findings of this survey show:

- Long-term incentives have become a common compensation element worldwide—both for executives as well as for employees at lower staff levels.
- This survey highlights the potential of long-term incentives for performance improvements: Successful companies rely more heavily on long-term incentives across and within all staff levels.
- All-employee long-term incentive plans are on the rise and offer excellent opportunities to increase the equity culture within the entire company.

Table of contents

Dear Reader,

Companies from North America, Europe, and other economic regions make every effort to develop and increase their equity culture. While North American companies are the pioneers of this development, companies from Europe and other economic regions are catching up. The different experiences with long-term incentive plans seem to be converging into a global market practice for some design features. Most notably, companies have substituted stock options, which were most popular during the 90s, by some form of full-value share grants that offer a more balanced risk profile than options. Today North American companies predominantly use restricted stock, while European companies prefer performance shares, and companies from other regions rely on both forms. This convergence in market practice for varying types of long-term incentives is but one interesting observation from our Global Equity Insights 2015 survey.

Third edition of Global Equity Insights in 2015—The foremost global report on equity-based compensation practices and their impact on company performance

After two successful surveys on equity-based compensation in 2013 and 2014, we are delighted to present this report on the Global Equity Insights 2015 survey. This year, we devote special attention to long-term incentives. Our analysis covers the international market practice for long-term incentives, detects trends, and identifies relationships between design features, company performance, and employee satisfaction.

Again we are proud of the survey's high participation rates and broad country coverage. The sample includes 144 large global companies from 21 countries. The portion of companies that have their roots outside North America and Europe has increased to almost 20%. New participants come from India, Israel, Mexico, and New Zealand.

We thank all survey participants for sharing their long-term incentive plan experiences with us. Their contribution makes this report a unique source of the latest trends in equity-based compensation. We welcome you to contact us with any questions or comments.

Joint survey by leading experts on equity-based compensation

Many leading companies have contributed to the great success of the Global Equity Insights survey. First and foremost, we are grateful for the commitment of our premium sponsors: GEO—the Global Equity Organization; hkp/// group—the international consulting firm for compensation, talent and performance management; SAP—the market leader in enterprise application software; Siemens—the global technology powerhouse; and the Chair of Management and Control of the University of Goettingen—renowned for academic research in corporate governance and management incentives.

We also highly appreciate the support of our sponsors: Baker & McKenzie—the international law firm with its Global Equity Services practice; Computershare—the global registry and employee share plan service provider; Discovery Communications—the leading pay-TV programmer; Equatex—the global provider of international employee and executive compensation plan services; and the Fellowship Program in Equity Compensation of Rutgers University School of Management and Labor Relations—the leading source of expertise on the world of work.

Special thanks belong to our co-operation partner, the South African Reward Association (SARA), as well as to the Certified Equity Professional Institute (CEPI) and the National Center for Employee Ownership (NCEO) for inviting all their members and relevant contacts to participate. They have helped us greatly in expanding the survey's reach even further and gaining new international ground.

Finally, we would like to thank those persons who strongly drove this project: Sebastian Firk (University of Goettingen) for his tremendous engagement and excellent analytical skills; Jessica Vinsand (SAP), Bernd Albrecht, Dirk Filbert, Sebastian Hees, and Dr. Dieter Kuhn (all hkp/// Deutschland) for bringing this challenging project to life; and Ernst and Sonja van der Linden (hkp/// IT) for their IT support.

We trust you find this report an informative and an enlightening read.

Sincerely,

Danyle Anderson (GEO)
Michael H. Kramarsch (hkp/// group)
Marc Muntermann (Siemens)
Heike Neumann (SAP)
Prof. Dr. Michael Wolff (University of Goettingen)

Implementing Long-Term Incentive Plans—Motivation and challenges

In the aftermath of the global financial crisis, governments around the world put reforms of corporate governance high on the agenda. Many of these reforms address executive compensation in general and long-term incentives in particular. The focus on long-term incentives is based on the notion that they foster sustainable corporate development and prevent excessive risk-taking and myopic decision-making. The regulatory changes in the institutional environment partly explain the dominant role of long-term incentives in compensation designs. However, many leading global companies already implemented long-term incentives plans years ago. These plans form an integral part of a company's equity culture and are an effective tool to maximize shareholder value.*

In practice, however, companies and compensation experts face many challenges. Practitioners must navigate through a complex landscape of regulatory and tax regimes, infinite design alternatives, and varying experiences with long-term incentive plans globally. Moreover, the complex nature of the plans requires sophisticated communication to make them understandable to employees. Ultimately, smart communication and satisfaction with the plans are crucial determinants of successful implementation. Long-term incentive grants foster company success only when participants clearly understand their plans.

* Many academic studies document the positive effect of long-term incentives on corporate performance and firm value. See, e.g., Chang/Mayers (1992): Managerial vote ownership and shareholder wealth: Evidence from employee stock ownership plans, Journal of Financial Economics, 32,101-103; Rapp/Schaller/Wolff (2012): Do stock-based incentives promote long-term oriented firm behavior? Evidence from the recent credit crises, Journal of Business Economics, 82 (10), 1057-1087; Blasi/Freeman/Kruse (2014): Chapter 5, Evidence, in *The Citizen's Share*, Yale University Press, 167-194.

Contribution of the Global Equity Insights survey

Our report helps resolve many practical issues about the implementation of long-term incentive plans. First, we can confirm the main argument for plan implementation: We find a positive link between long-term incentives and company performance across the companies surveyed. Second, we deliver practical information on global market practice: We analyze participation rates, plan types, design features (such as performance measures, vesting periods, caps, “Good Leaver” regulations, treatment after M&As, and the role of proxy advisors and institutional investors), determinants of employee and employer satisfaction, communication tools, and compensation expenses. Third, we provide insights into performance effects, implementation rates, and performance measures of broad-based long-term incentive plans available to all employees. At the end of the report, we provide a comprehensive summary of our primary findings and point out practical implications.

Participants at a Glance

A broad sample representing a selection of the world's largest companies in 21 countries

- 144 companies including the largest global corporations: 95% of the participants have a market capitalization above USD 1 billion; the top 11% exceed USD 100 billion in market capitalization at year-end 2014.
- Almost two-thirds of the companies generated revenues above USD 5 billion in 2013.
- National leading companies from 21 countries around the world, with special focus on North America and Europe
- Representative sample across 10 industries

Participants by market capitalization

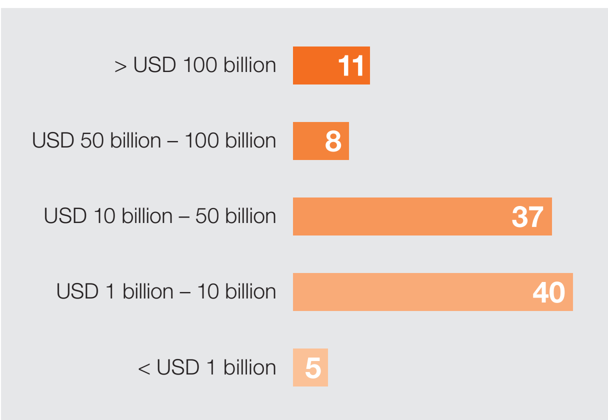

Fig. 1: Participants by market capitalization at year-end 2014 in % of companies

Participants by revenue

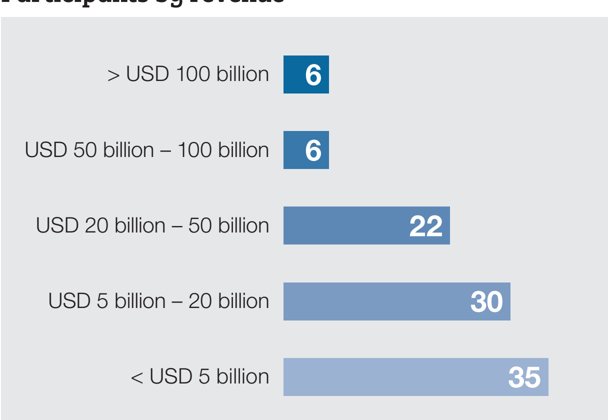

Fig. 2: Participants by revenue in fiscal year 2013 in % of companies

Country Distribution

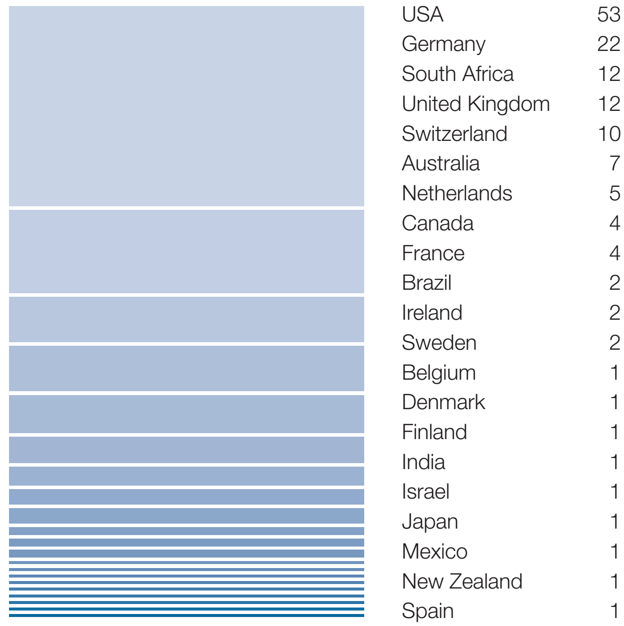

Fig. 3: Participants by country

Industry clusters

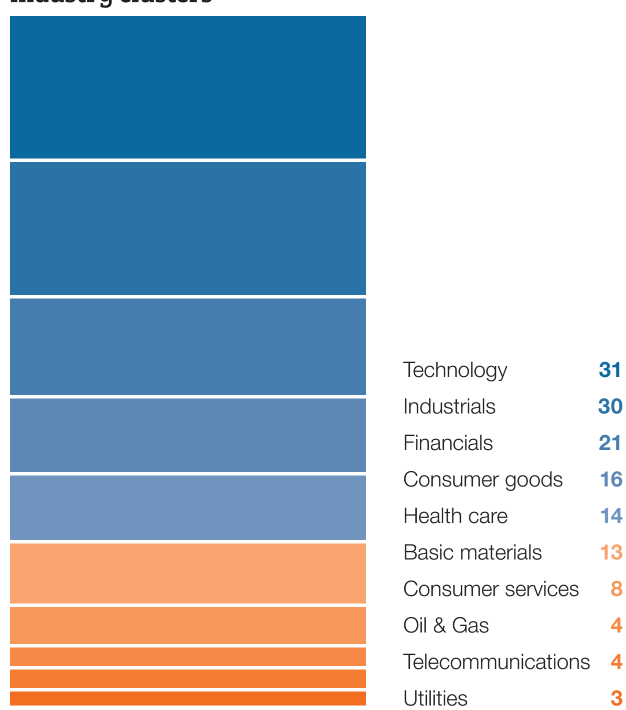

Fig. 4: Participants by industry

▶▶▶ Please find the full list of participants on page 27.

A detailed questionnaire about Long-Term Incentive Plans (LTIP)

- Invited companies: All GEO members, selected non-member companies in places of geographic interest, as well as members and relevant contacts of SARA, CEPI, and NCEO
- Questionnaire with two main topics related to equity-based compensation: long-term incentive plans (LTIP) and broad-based all-employee long-term incentive plans
- Data collected over five weeks beginning mid-January 2015

TOPIC SECTIONS		
	1	Company Information
	2	Long-Term Incentive Plans ▪ General information ▪ Plan details ▪ Communication measures ▪ Employee and employer satisfaction
	3	All-Employee Long-Term Incentive Plans ▪ General information ▪ Plan details

Fig. 5: Questionnaire structure

An analysis of the relation between long-term incentives and performance

The analysis reveals differences in LTIP implementation between high and low performing companies. We measure performance with the industry-adjusted return on assets (ROA), averaged over the past three years. High (low) performers have return on assets in the upper (lower) third of the distribution.

Comprehensive and in-depth analysis in several dimensions

For the whole sample

The analysis provides practical information about LTIP market practice across the world's leading companies.

By economic regions

The analysis reveals differences in the implementation of LTIP between companies from Europe, North America, and the rest of the world.*

Regional distribution

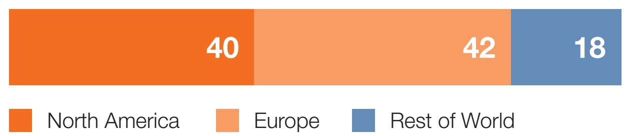

Fig. 6: Participants by region in % of companies

By communication efforts

The analysis demonstrates the positive role a broad set of communication tools have for employee satisfaction with LTIP. A broad set of communication tools is assumed if a company uses three or more different communication methods. High satisfaction is assumed if a company rates overall employee satisfaction at least "high".

By payout

The analysis demonstrates how high and low payouts influence employee satisfaction. Companies with high (low) payout are defined as the third of all companies with the highest (lowest) ratio of actual LTIP payout compared to its target level. High satisfaction is assumed if a company rates overall employee satisfaction at least "high".

* "Rest of World" includes all companies that have their headquarters outside Europe and North America. These companies are headquartered in Australia, Brazil, India, Israel, Japan, Mexico, New Zealand, and South Africa.

Successful companies make more use of Long-Term Incentive Plans

- Successful companies give more weight to LTIP in their compensation structure across all organizational levels
- Differences in the compensation structure are most pronounced for top management
- Employee participation in LTIP is positively related to company performance

The compensation structure of the survey participants is consistent with the notion that LTIP fosters sustainable and long-term value creation. At each executive level, high performing companies grant a larger portion in the form of long-term incentives than low performing companies. The difference in the compensation structure is most pronounced at the top of corporate hierarchy. In high performing companies, the management board/executive committee receives 43% of total direct compensation in the form of long-term incentives. In low performing companies, long-term incentives account for only 34%.*

Link between pay mix and performance

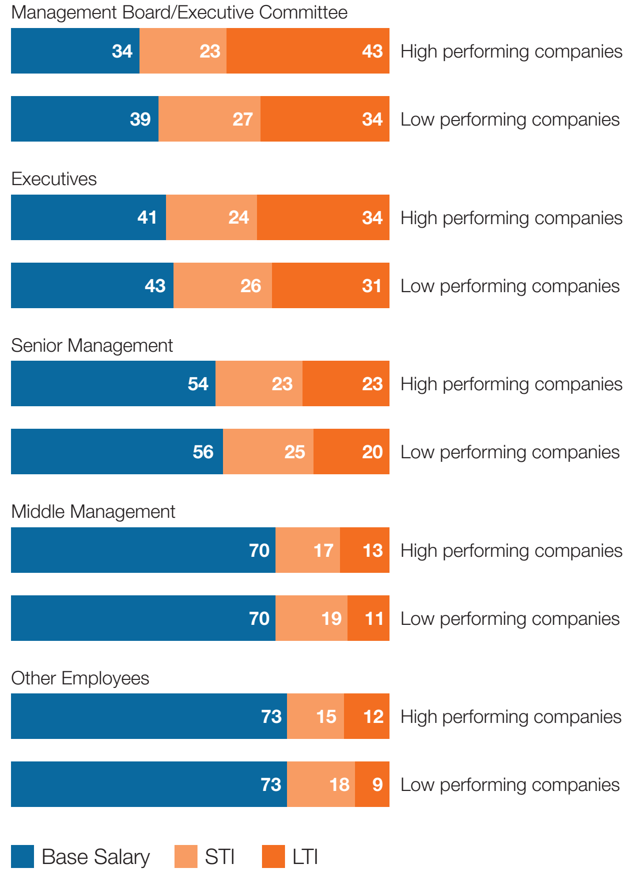

Fig. 7: Pay structure in % of total direct compensation

Participation rates in LTIP also demonstrate the importance of long-term incentives for company success. Employees of high performing companies participate remarkably more in LTIP than employees of low performing companies. Hence, the extension of LTIP to a broader range of employees provides great potential for performance improvements. Such an extension increases the equity culture within the company, enhances long-term perspective, and creates sustainable value in the long-term.

Link between LTIP penetration and performance

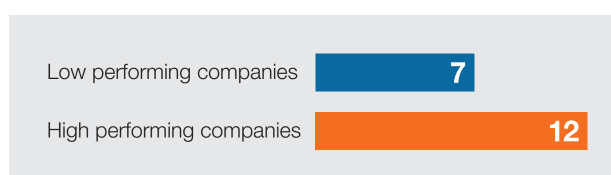

Fig. 8: LTIP participants scaled by all employees in % of companies

* The term "Other Employees" in Fig. 7 refers to employees at lower staff levels in general. Some companies offer LTIP only to selected staff such as high potentials, while other companies offer LTIP to all employees.

Participants in Long-Term Incentive Plans

- **North American companies are still at the forefront of LTIP grants, but European companies are catching up**
- **Low portions of LTIP at lower staff levels indicate potential for a better incentive alignment with the interests of shareholders**
- **Low participation rates leave room for improvements in the equity culture**

North American companies pioneered the use of LTIP, and they are still at the forefront of LTIP grants. Employees of North American companies receive a higher portion of long-term incentives than their European counterparts on all levels of corporate hierarchy. While European companies have recently made strong progress in the development of an equity culture, the gap with North American companies indicates considerable potential for further improvements.

Across all economic regions, the portion of long-term incentives decreases further down the corporate hierarchy—ranging from 37% for the management board/ executive committee to 12% for middle management. The relatively unimportant role LTIP currently plays for the compensation of senior and middle managers provides an opportunity to better align their interests with the interests of shareholders.

Pay mix by level & economic region

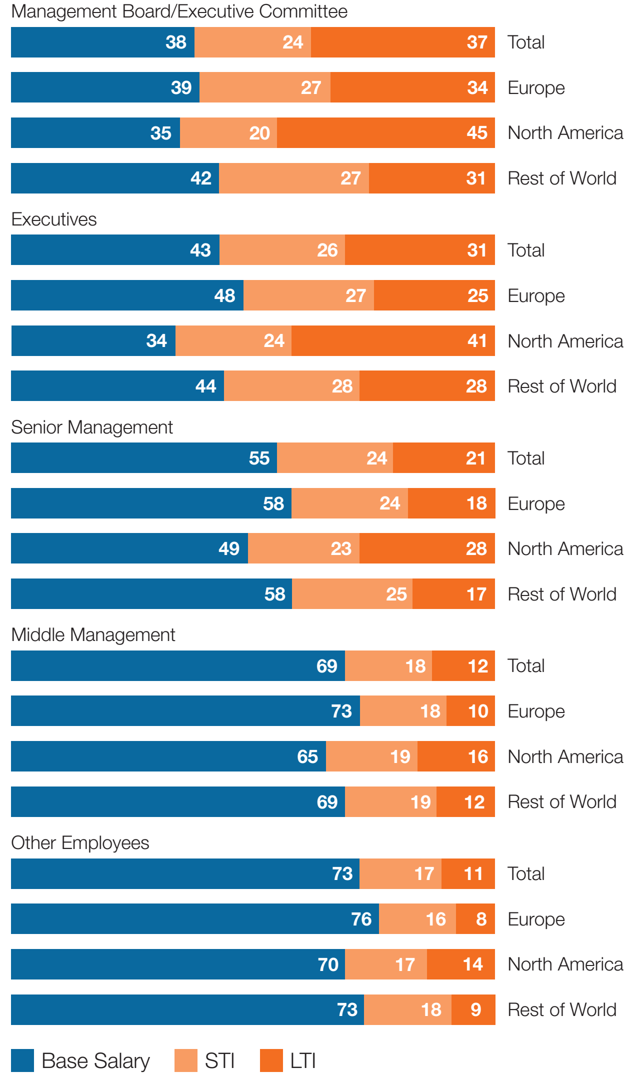

Fig. 9: Compensation structure by level and region in % of total direct compensation

Companies no longer use LTIP exclusively for the management board/executive committee, but commonly include executives and senior management. Almost all companies offer LTIP to executives, and 84% of companies extend LTIP to senior management. While eligibility significantly decreases at lower levels, there are tremendous differences between economic regions. More than 70% of North American companies offer LTIP to middle management, and more than half of these companies to other (key) staff (“Other employees”). By contrast, middle management and other (key) staff are ineligible for LTIP at the majority of companies from Europe and other economic regions.

Long-Term Incentive Plans – Participation & Coverage

LTIP-eligible staff by level

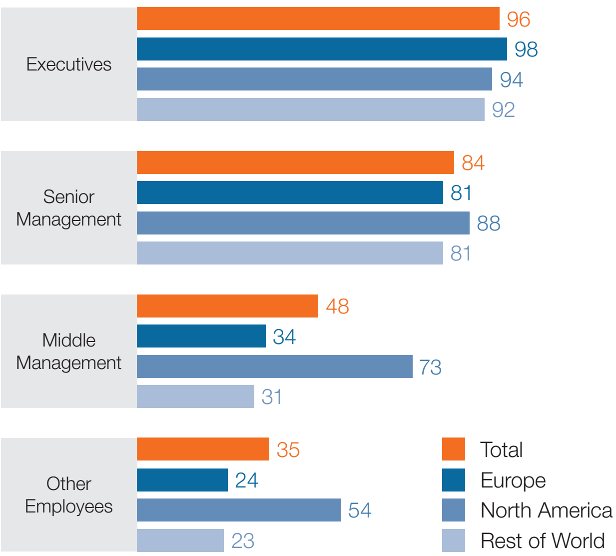

Fig. 10: LTIP eligibility by level in % of companies*

Regional differences in LTIP eligibility by level can partly explain differences in the relative coverage across all employees within companies. While almost one-third of employees are eligible to participate in LTIP in North American companies, eligibility drops to 14% in European companies.

Across all economic regions, companies apply similar criteria for LTIP grants. Important criteria are career levels (73% of companies), management discretion (56%), performance ratings (54%), and the criticality of retention (46%).

Portion of LTIP-eligible staff

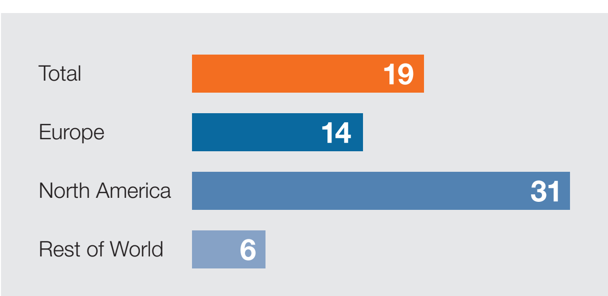

Fig. 11: LTIP-eligible staff scaled by all employees in %

* The figure shows LTIP eligibility for staff levels below the management board/executive committee. Across all companies, members of the management board/executive committee are eligible for LTIP participation.

Criteria for LTIP grants

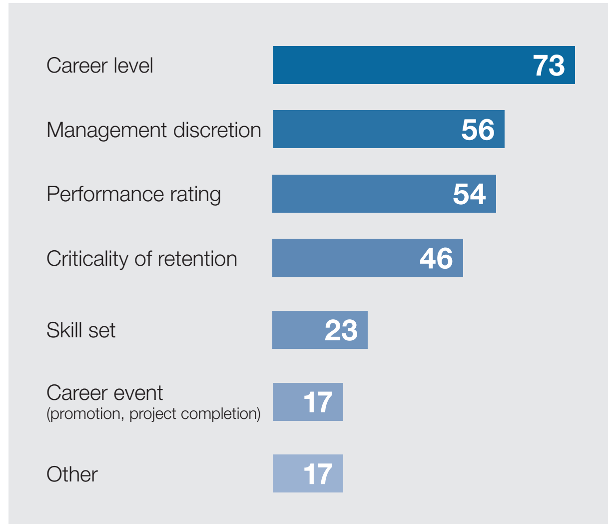

Fig. 12: Criteria for LTIP grants in % of companies

Country coverage for LTIP differs considerably across companies: 41% of companies roll out LTIP extensively in almost all operating countries; around 75% roll out LTIP in more than half of operating countries; 15% implement LTIP in only selected countries.

LTIP country coverage

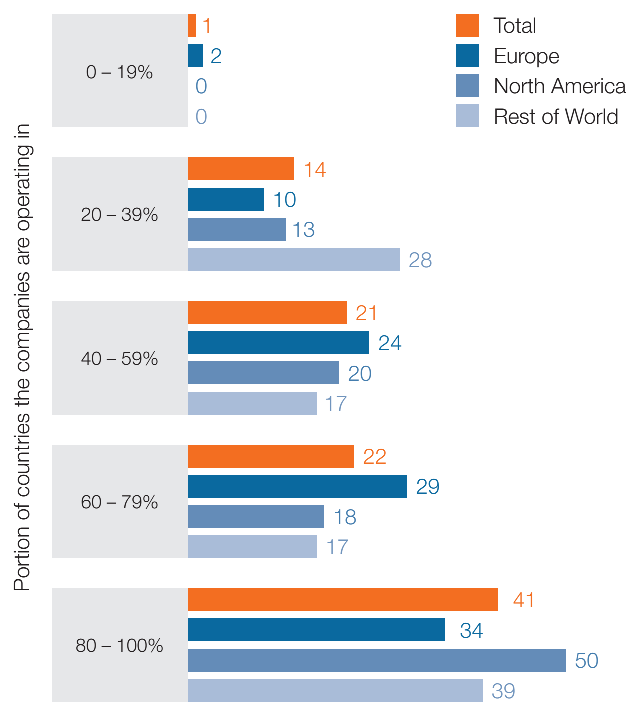

Fig. 13: Countries with LTIP out of all operating countries in %

Plan types and objectives

- **Distribution of plan types differs considerably between Europe and North America**
- **Stock options continue a sharp and steady decline**
- **Retention is first-order objective of LTIP implementation**

The market practice for LTIP types confirms some trends that we elaborated on in our prior surveys. In particular, the popularity of stock options is steadily declining. While stock options were the predominant plan type a decade ago, they rank only third among the companies from Europe and North America. Apart from this similarity, the distribution of plan types differs markedly between European and North American companies. European companies prefer performance shares as a long-term incentive (31%) while North American companies prefer restricted stock (35%). Other plan types, namely performance cash, share matching, and equity and cash deferrals play only a minor role in the compensation mix.

The preference for performance shares and restricted stock reflects the notion that stock awards provide a more balanced risk profile than do stock options. In the aftermath of the financial crisis, many public commentators and politicians argued that stock options caused excessive risk-taking and were therefore seen as a primary culprit of the financial meltdown.

LTIP types

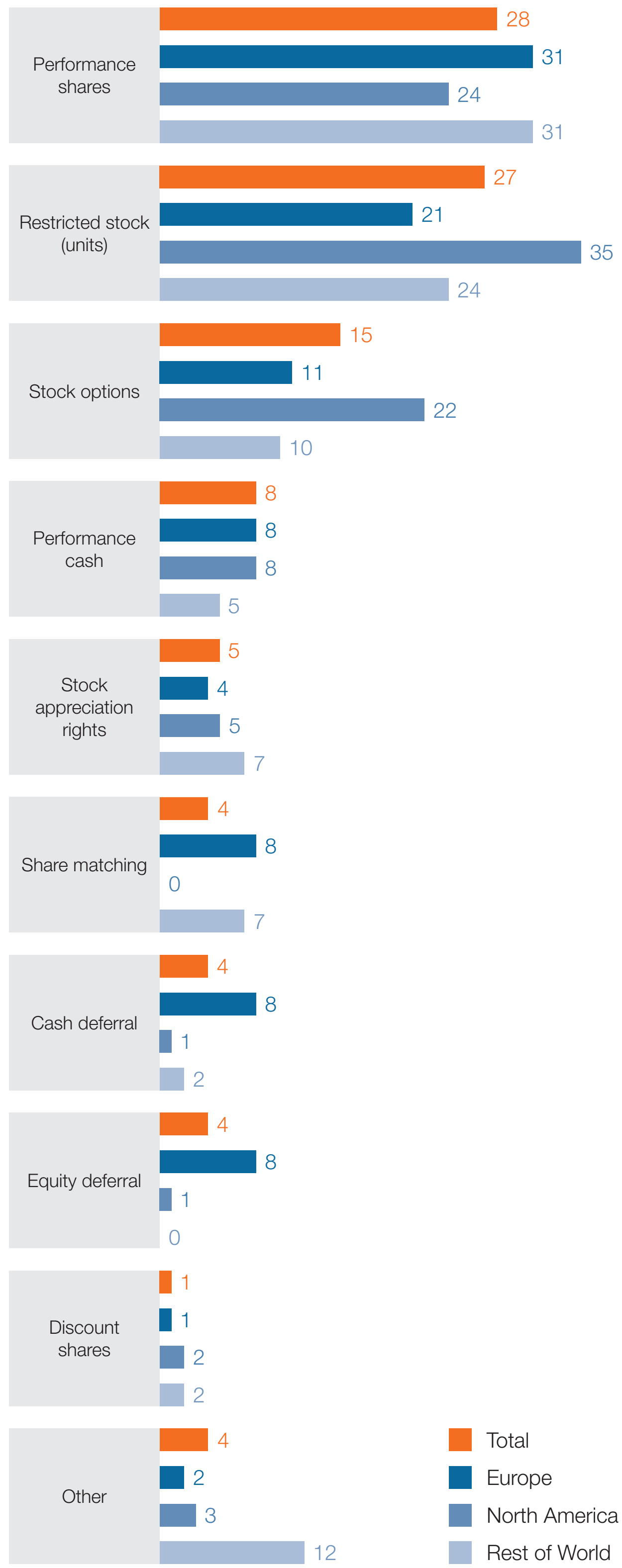

Fig. 14: LTIP types ranked by prevalence in %

Demographic shifts and the recent economic recovery in several countries have intensified the competition for talent, with many companies using LTIP to successfully draw sought-after employees. More than half of the companies surveyed regard retention as the first-order objective for LTIP implementation. However, companies also give high priority to market pay best practice, strategic considerations, identification with the company, and share ownership.

Objectives with LTIP grants

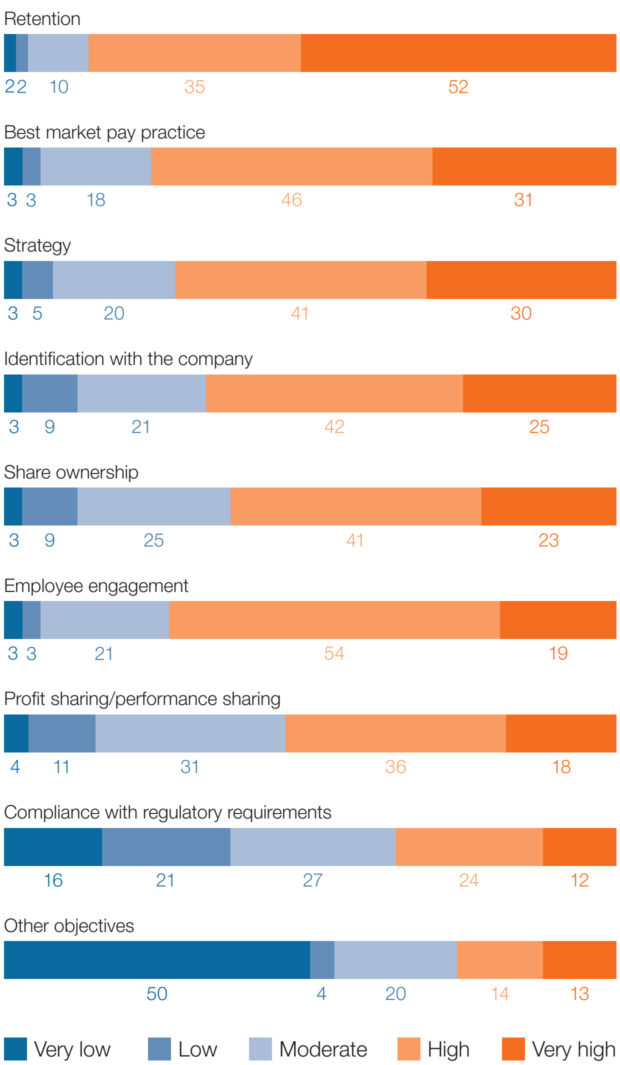

Fig. 15: LTIP objectives ranked by prevalence in % of companies

Market practice of design features

- Regional differences in the use of LTIP types influence the use of performance measures: European companies prefer external performance measures (TSR), while North American companies prefer earnings-based measures
- LTIP grants are typically made once a year
- Vesting periods average about 40 months
- Settlements in equity are common market practice: North American companies deliver new shares, European companies use repurchased shares
- Caps are on the rise in their market prevalence
- Influence of proxy advisors and institutional investors is increasing

The most popular performance measure is (Relative) TSR, which is used by almost 20% of the companies surveyed. Among internal performance measures, companies prefer profit/earnings (16%). The choice of performance measures differs between European and North American companies: European companies tend to use (Relative) TSR and share price, while North American companies tend to use earnings-based measures. These tendencies reflect regional differences in the intended use of LTIP. In Europe, companies explicitly emphasize the incentive effect of LTIP by linking the final number of performance shares to external performance measures. In North America, companies rely more strongly on implicit incentives that result from holding restricted stock. Internal performance measures determine the budget available for restricted stock grants.

Performance measures

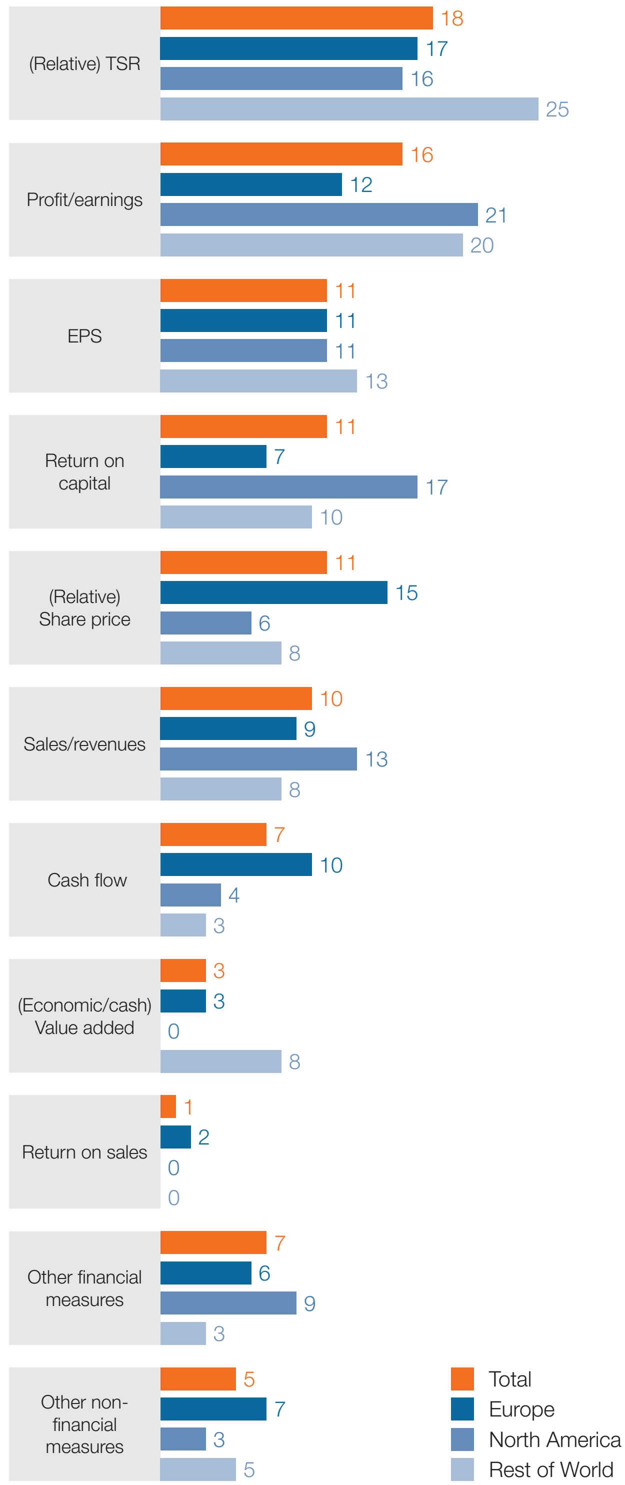

Fig. 16: LTIP performance measures ranked by prevalence in %

Companies typically grant long-term incentives once a year. However, almost 25% of North American companies make long-term incentive grants on a quarterly or monthly basis.

Frequency of LTIP grants

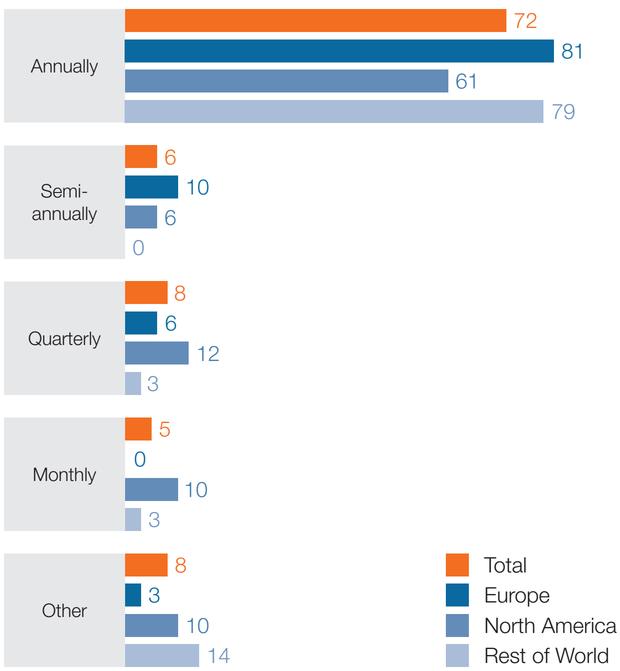

Fig. 17: Frequency of LTIP grants in %

Vesting periods are quite similar across all economic regions averaging 41 months. More than half of the companies implement vesting periods of 36 months, and almost one third extend their vesting periods up to 48 months. Vesting periods of 24 months or less are not common, consistent with the notion that companies offer LTIP to inhibit myopic decision-making. Currently, only 10% of companies implement vesting periods beyond 48 months. However, HR professionals are experiencing a rising trend towards longer vesting periods, which several institutional investors already require for the management board/executive committee.

Vesting periods

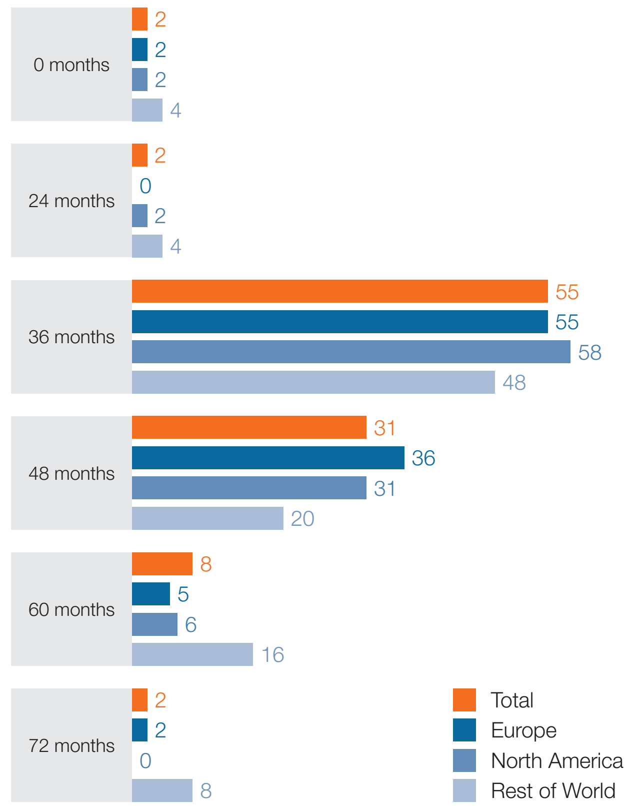

Fig. 18: LTIP vesting periods in % of companies*

* The portion of companies with vesting periods of 48 months includes a small number of companies with periods of 44 and 45 months.

LTIP awards with ratable vesting schemes typically vest on an annual basis. Shorter vesting periods of a semi-annual, quarterly, or monthly basis are an uncommon market practice.

Frequency of ratable vest dates

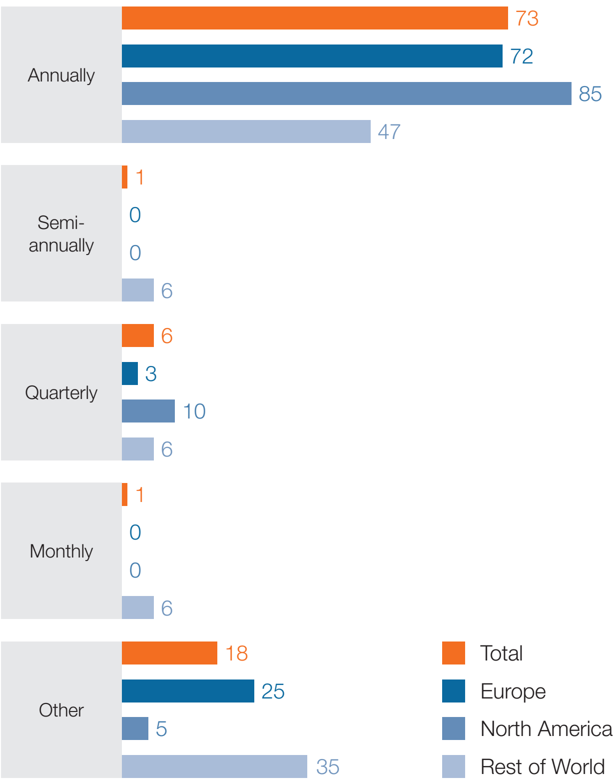

Fig. 19: Frequency of ratable vest dates in %

The majority of companies settle LTIP awards in equity rather than in cash. Equity settlements provide the opportunity to maintain an equity culture within the company after the grants have vested. Equity settlements are most common in North America where only 8% of companies pay out awards in cash. By contrast, 29% of the companies from Europe and 24% of the companies from other economic regions make LTIP settlements only in cash.

LTIP settlement

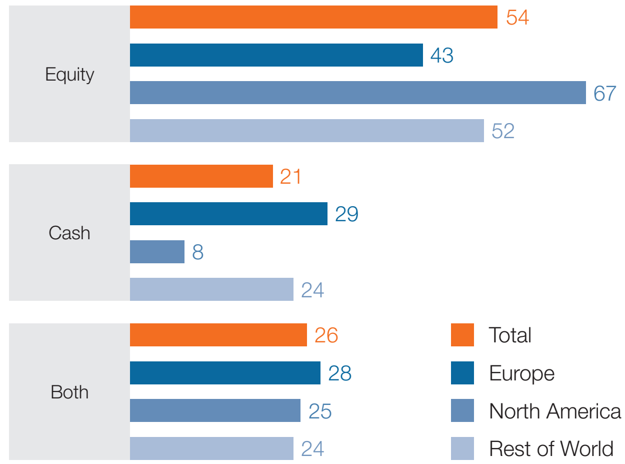

Fig. 20: Forms of LTIP settlement in % of companies

For LTIP settlements in equity, 70% of North American companies award in equity from newly issued capital. In Europe, companies seem to be more strongly adverse to the dilution that results from the issuance of new shares. Only 15% of European companies award new shares, while 60% initiate share repurchase programs to finance LTIP equity settlements.

Share types of equity-financed settlement

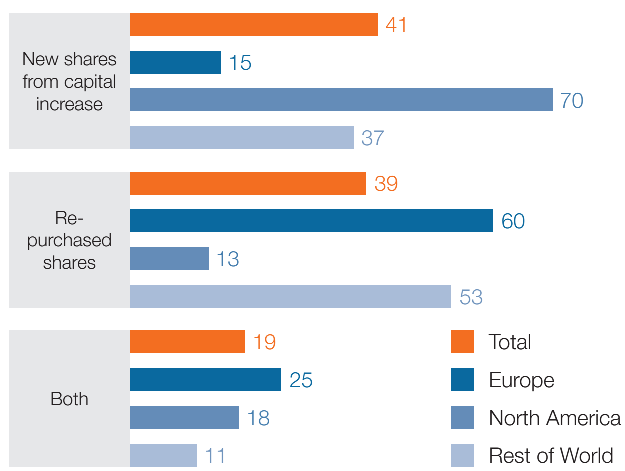

Fig. 21: Share types for settlements in equity in %

Long-Term Incentive Plans – Design Features

Recently, several governments around the world have proposed or passed laws requiring pay level caps. In our sample, almost 50% of companies currently apply caps on LTIP payouts with some regional differences. Around 75% of the companies from economic regions other than Europe and North America do not limit LTIP payouts.

Application of caps

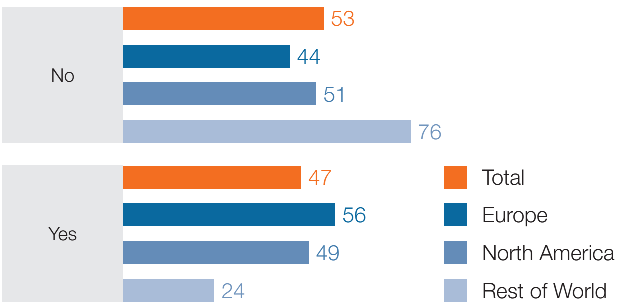

Fig. 22: Application of caps in % of companies

Companies differentiate LTIP payouts for Bad- and Good Leavers. While Bad Leavers typically forfeit their claims on any payouts, rules for Good Leavers are quite heterogeneous. Many companies, in particular those from North America, withhold the non-vested portion (31% of companies). Other companies make pro-rated payouts of non-vested portions at the end of the plan period (21%), pay out the vested portion at the end of the plan period (19%), or make payouts of vested portions (17%) and pro-rated payouts of non-vested portions (17%) immediately.

Good Leaver provisions

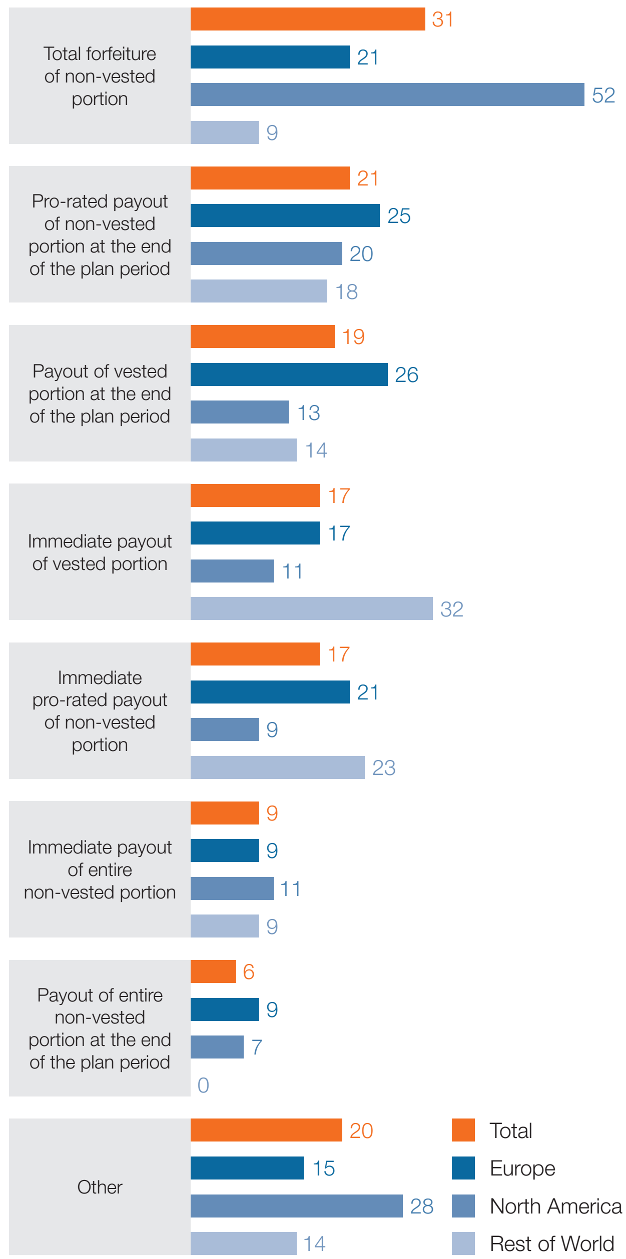

Fig. 23: Definition of Good Leaver provisions in % of companies

Long-Term Incentive Plans – Design Features

Market activities with regard to corporate control lead to many challenging and complex tasks. Among others, the acquiring party must determine the treatment of LTIP of the target company in the aftermath of a successful bid. While almost 70% of companies use their own LTIP for new grants to employees of the target company, the treatment of old grants from the target company is quite heterogeneous: 25% of companies immediately pay out old LTIP grants of the target, 23% phase out these plans, and 21% replace LTIP of targets by their own plans.

Treatment of LTIP of acquired companies

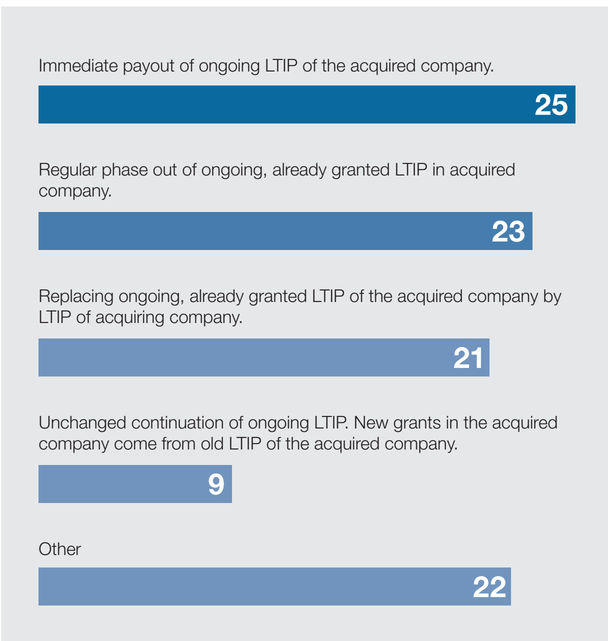

Fig. 24: Treatment of LTIP of acquired companies in %

Many recent governance reforms focus on shareholder rights. One prominent tool is "say-on-pay", which extends shareholder voting rights on executive compensation at annual meetings. Say-on-pay has increased both the influence of proxy advisors and institutional investors. Their recommendations significantly influence LTIP design in about 80% of the companies surveyed. Their influence is stronger in North America than in Europe where 27% of companies do not take these external recommendations into account.

Impact of proxy advisors' and institutional investors' opinion on LTIP designs

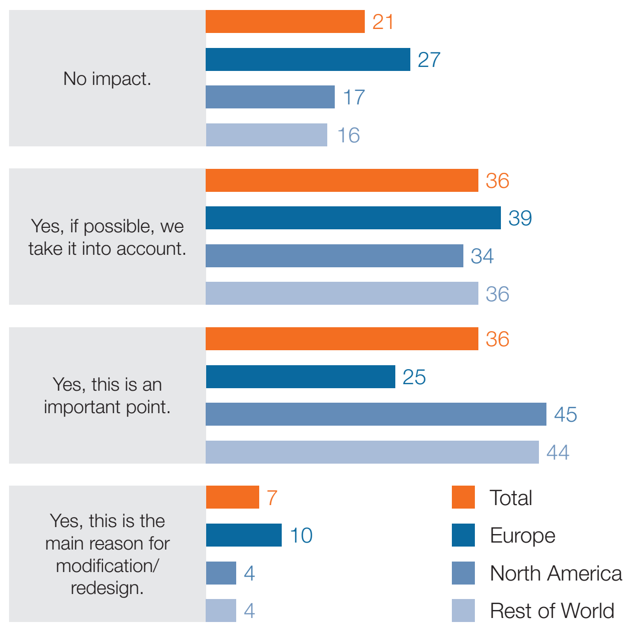

Fig. 25: Influence of proxy advisors and institutional investors on LTIP design in % of companies

Communication tools and compensation expense

- Traditional communication tools, such as letters/emails and intranet, are the most common communication tools
- Interactive communication tools, such as social media, are quite rare
- Compensation expenses significantly differ between large European and large North American companies

More than half of companies use letters/emails or intranet to communicate LTIP to employees. Almost a quarter of European companies also use brochures and flyers. Total compensation statements are quite common in North American companies (18%). In general, interactive communication tools, such as workshops, image videos, roadshows, and social media, have yet to play an important role in LTIP communication.

LTIP communication tools

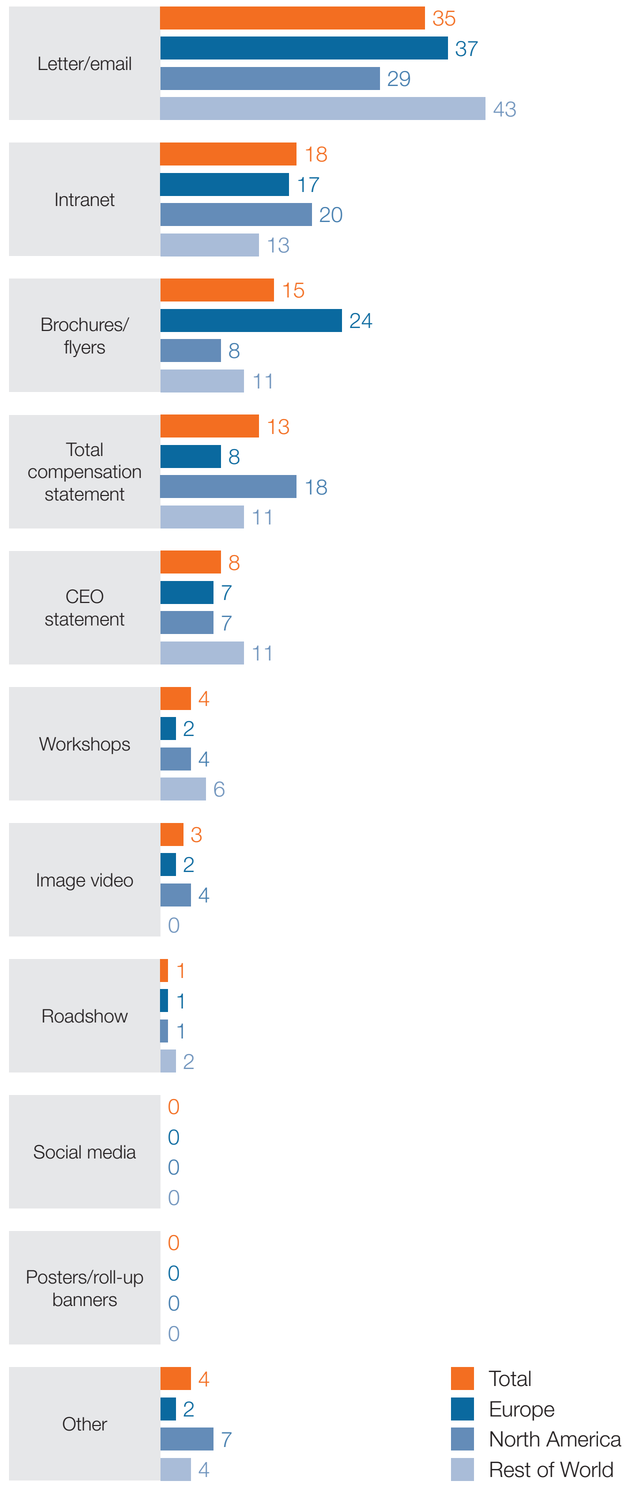

Fig. 26: LTIP communication tools ranked by prevalence in %

Long-Term Incentive Plans – Administration

The volume of LTIP programs clearly depends on company size. Larger companies have more plan participants and pay higher wages, which translate into higher compensation expenses for long-term incentives. In our sample, companies with market capitalization above USD 10 billion spend about USD 160 million on LTIP. For companies with market capitalization below USD 10 billion, compensation expenses drop to USD 16 million. Regional differences are tremendous. Compensation expenses of large companies from North America average USD 314 million, while large European companies spend just USD 49 million.

A similar pattern arises for companies with revenues above and below USD 10 billion. Companies with revenues above USD 10 billion spend around USD 134 million on LTIP, while companies with revenues below USD 10 billion spend around USD 53 million.

Market capitalization and compensation expense for LTIP

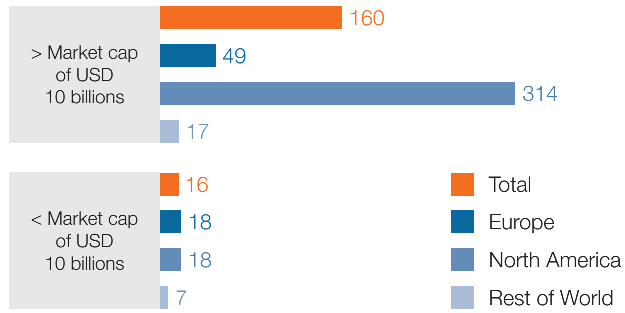

Fig. 27: Compensation expense for LTIP in millions of USD for companies with market capitalizations above and below USD 10 billion.

Revenues and compensation expense for LTIP

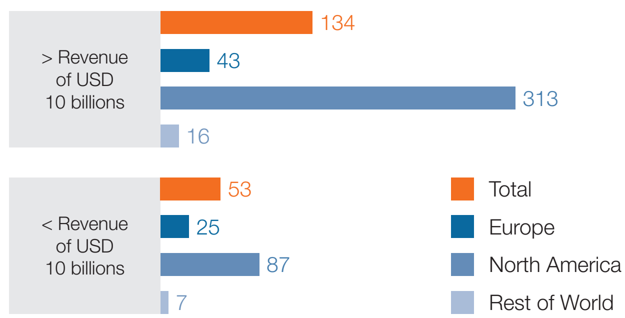

Fig. 28: Compensation expense for LTIP in millions of USD for companies with revenues above and below USD 10 billion.

Evaluation of Long-Term Incentive Plans

- Employees and employers are mostly satisfied with LTIP
- Regional differences in satisfaction partly result from differences in market practice for plan types
- Multi-channel communication fosters employee satisfaction

Employee satisfaction with LTIP is remarkably high. More than half of the companies state that their employees are highly satisfied with their LTIP. Employees from North American companies are more dissatisfied with their LTIP than employees from Europe and other economic regions. These regional differences partly result from different market practice for LTIP types. Employees are more satisfied with full-value share grants than with stock options. Stock options offer a more unbalanced risk profile and are more prevalent in North America.

LTIP employee satisfaction

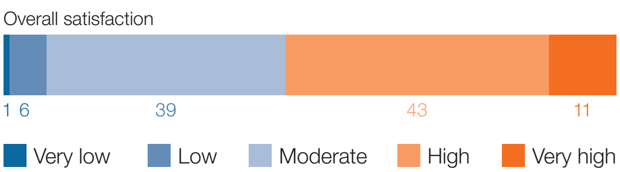

Fig. 29: Employee satisfaction with LTIP in % of companies

Highly satisfied employees

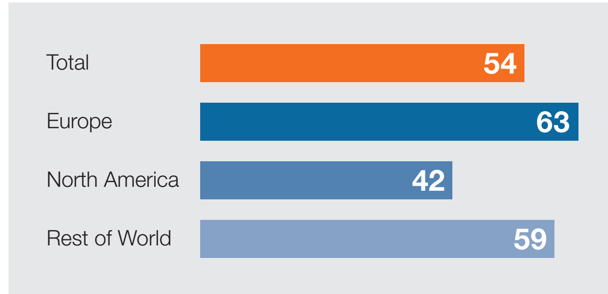

Fig. 30: Highly satisfied employees by region in % of companies

Companies that use a broader set of communication tools are better connected with their employees. This broader connection results in higher employee satisfaction: The portion of employees that are highly satisfied with LTIP increases by 40% when companies switch from a limited set to a broader set of communication tools.

This link has important practical implications since companies face significant challenges to achieve crucial objectives of LTIP grants like retention, employee engagement, and identification. The implementation of multi-channel communication systems is a fruitful avenue to tackle these challenges.

Link between communication and satisfaction

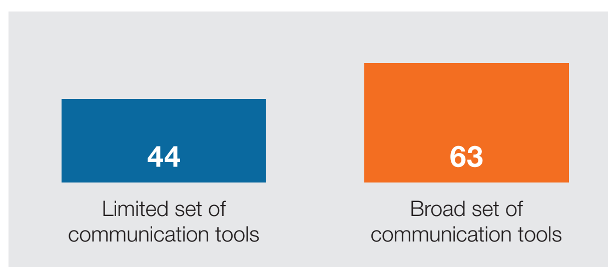

Fig. 31: Highly satisfied employees by communication effort in % of companies

Naturally, employee satisfaction with LTIP largely depends on payout levels. Employees are markedly more satisfied with their LTIP if actual payouts exceed target payout levels. Among the companies surveyed, the portion of highly satisfied employees is almost 50% higher in companies with high payouts than in companies with low payouts.

The strong association between payouts and employee satisfaction provides a challenge for low performing companies to maintain a high level of employee satisfaction, and, in turn, to retain their employees—a key objective of LTIP grants among the companies surveyed. Low performing companies may increase their communication efforts to make employees aware of future opportunities for long-term pay. Such awareness dampens the impact of negative satisfaction during periods of low payouts and helps companies meet their retention targets.

Link between LTIP payout level and employee satisfaction

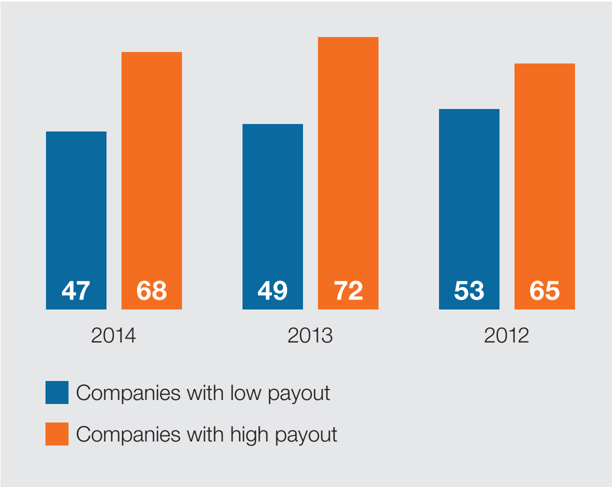

Fig. 32: LTIP payouts and highly satisfied employees in % of companies

Employer satisfaction with LTIP is also high. Almost two-thirds of companies rank employer satisfaction with LTIP as high or very high. Employer satisfaction by economic region shows a similar pattern as employee satisfaction. Employers from North American companies are more dissatisfied with their LTIP than employers from Europe and other economic regions.

LTIP employer satisfaction

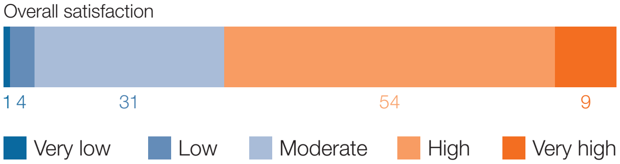

Fig. 33: Employer satisfaction with LTIP in % of companies

Highly satisfied employers

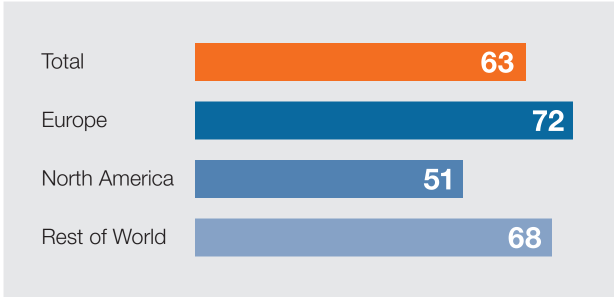

Fig. 34: Highly satisfied employers by region in % of companies

All-Employee Long-Term Incentive Plans

- **High performing companies offer all-employee LTIP more often than low performing companies**
- **Low implementation rates suggest great potential for performance improvements**
- **Usage of performance measures differs by economic region**

Companies increasingly grant long-term incentives to lower staff levels. This trend peaks with the implementation of broad-based LTIP available to a big portion of all employees. Such plans anchor an equity culture within the company and spread an entrepreneurial spirit across all organizational levels. Consistent with this view, implementation rates of all-employee* LTIP are positively related to company performance. While one-third of high performing companies implement such plans, implementation rates drop to 24% in low performing companies.

Link between all-employee LTIP and performance

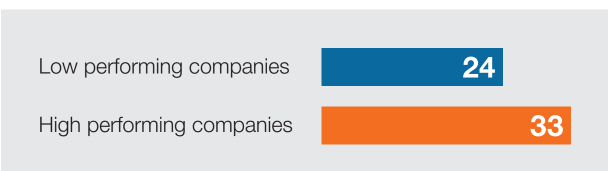

Fig. 35: Implementation rate of all-employee LTIP in high and low performing companies

While all-employee LTIP are not yet common market practice, they are steadily on the rise. Already more than 20% of companies have implemented such plans. However, eligibility for plan participation differs considerably: While 46% of companies cover more than 75% of their employees, 27% offer the plans to less than 25% of their employees. Hence, many companies could improve their equity culture by implementing all-employee LTIP or by extending eligibility of existing plans to more employees. In particular, companies could roll out these plans in more subsidiaries and in more countries.

Implementation of all-employee LTIP

Fig. 36: Implementation of all-employee LTIP in % of companies

Coverage of broad-based LTIP

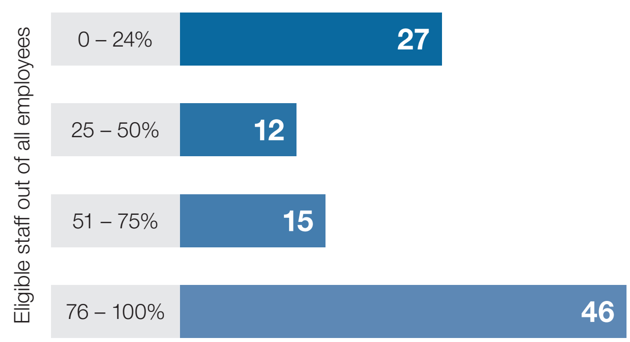

Fig. 37: Eligible staff scaled by all employees in % of companies

* The term "all-employee" LTIP suggests that eligibility is 100%. Note however, companies may not roll out the plans in subsidiaries and some countries. Moreover, trainees and employees with fixed-term contracts are typically not eligible to participate in these plans.

All-Employee Long-Term Incentive Plans – Key Findings

Around half of companies do not link all-employee LTIP to performance measures, 26% use one performance measure, and 19% use two or three performance measures. However, market practice differs by economic region. European companies tend to link all-employee LTIP grants to one performance measure. By contrast, the majority of companies from North America and other economic regions do not apply any performance measure.

Companies do not show a clear preference for certain types of performance measures. Internal measures, such as profit/earnings (16%), cash flow (14%), and sales/revenues (9%), as well as external measures, such as (relative) share price (9%), are common.

Number of performance measures

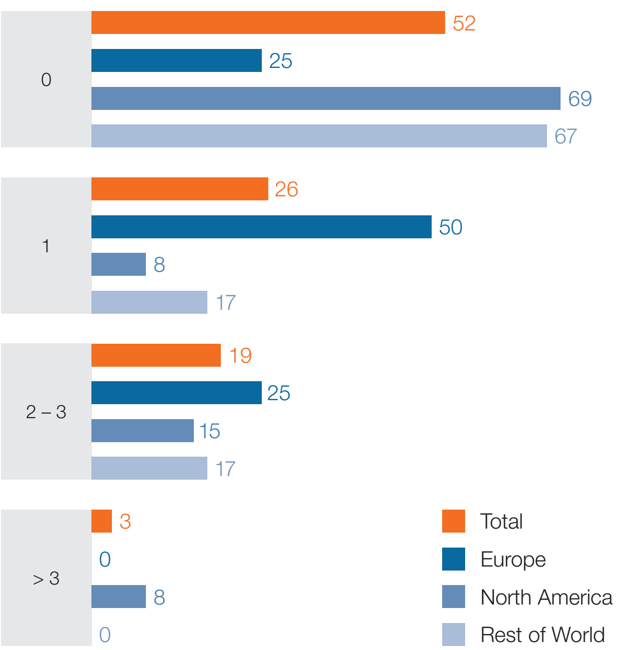

Fig. 38: Number of performance measures for all-employee LTIP in % of companies

Performance measures

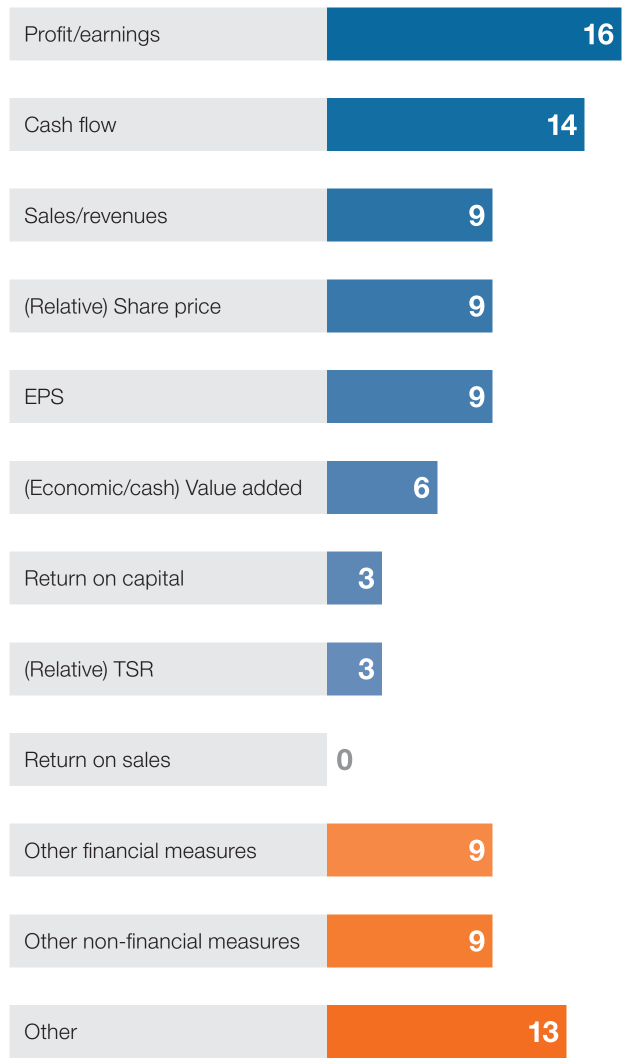

Fig. 39: Performance measures ranked by prevalence in %

Conclusion

Long-Term Incentive Plans

High portion in the pay structure

Integration across staff levels

High participation rates

Implementation of all-employee LTIP

Increased communication efforts

Company success

This report sheds light on the current market practice of long-term incentives and reveals links between plan integration, communication practices, employee satisfaction, and company performance. In general, we confirm from our prior surveys that companies have established a good level of equity culture as indicated by the high portion of long-term incentives in the compensation structure of executives. While companies from North America traditionally have a strong equity culture, companies from other regions are making considerable effort to catch up. This development will further intensify global competition for talent.

We find a strong link between long-term incentives and company performance, consistent with the notion that a sophisticated equity culture shapes the performance culture within companies. High performing companies grant a larger portion in the form of long-term incentives across all staff levels, have higher participation rates in LTIP, and implement all-employee LTIP much more than low performing companies. Hence, a compensation strategy that aims at the development of a broad-based equity culture is a crucial factor for company success.

The implementation of all-employee LTIP is particularly promising for improving an equity culture within the company. These plans turn the entire staff into equity investors of the company and, thus, are an effective tool to align the interests of employees across all organizational levels with the interest of shareholders.

For LTIP to have a positive effect on company performance, employees must understand their plans and be satisfied with them. Therefore, effective communication is a main lever to breathe life into a company's equity culture. In particular, companies benefit by using a broader set of communication tools to increase their plans' reach within the organization, to make them understandable to employees, and to foster employee satisfaction. Communication is likely to play a more crucial role for plan success once companies expand their coverage of LTIP down the corporate ladder where participants are arguably less familiar with equity-based instruments compared to top executives.

In conclusion, companies can increase their equity culture and, in turn, performance by focusing on three main factors in their compensation strategy:

- **First, companies should increase both the portion of long-term incentives in the compensation structure and the participation rates in LTIP.**
- **Second, companies should actively promote their equity culture by introducing broad-based LTIP that are available to all employees.**
- **Third, companies should create a more diversified communication platform. A broader set of communication tools increases employee satisfaction and invigorates LTIP grants. Employee satisfaction with LTIP is crucial to achieve important objectives, such as retention, engagement, and identification.**

Appendix

Survey participants

21st Century
AAR
Accenture
adidas
Aditya Birla Management
Agnico Eagle Mines
Alexander Forbes
Allianz
AngloGold Ashanti
ANSYS
Armanino
Armstrong World Industries
ASML Netherlands
Aspen Technology
AstraZeneca
AT&T
BAE Systems
Baloise Group
Bank of America
Barry Callebaut
BKW Energie
Blackhawk Network
BMW Group
Boehringer Ingelheim
Bombardier
Booz Allen Hamilton
BroadVision
CA Technologies
Cabot
Capital One
Cargill
Carnival
CEMEX
Charles River Laboratories
Chart Industries
Citrix
Cobham
Computershare
Continental
Con-way
CSL
Daimler
Dell
Demandware
Deutsche Lufthansa
Deutsche Post DHL
Dialog Semiconductor
Direct Line Group
DSM
E.ON
eHealth
Eli Lilly
Emergence Growth
Ericsson
Evonik Industries
ferrovial
Finisar
Firmenich
First National Bank
Fletcher Building
Fresenius Medical Care
GfK
Givaudan
GlaxoSmithKline
Halliburton
Hewlett-Packard
Imerys
Impala Platinum
Infineon Technologies
Ingram Micro
Insight Enterprises
Intel
Kimberly-Clark
Kinross Gold
KLABIN
LANXESS
Lexmark International
Life Healthcare
Linde
Maquinas Sanmartin
Marketo
Mastercard
Mead Johnson Nutrition
Merck
Meritor
METRO
MMI
National Australia Bank
NN Group
Nokia
Nomura
Novartis
Old Mutual
OSRAM
Philip Morris International
Plantronics
Procter & Gamble
QAD
Qantas Airways
Qualcomm
Ralph Lauren
Red Hat
Richemont
Rio Tinto
Road Accident Fund
Rolls-Royce
Royal Philips
salesforce.com
SanDisk
Sanlam
Sanofi
SAP
Sasol
Schneider Electric
Seagate Technology
SGL Carbon
Siemens
Simpson Manufacturing
SKF
Staples
STMicroelectronics
Sun Life Financial
Suncorp
SunGard
SunPower
Swiss Re
Symantec
Syngenta
TDC
Tecan Trading
Tech Data
Telstra
Tetra Tech
Teva Pharmaceutical Industries
TFG
The Clorox Company
ThyssenKrupp
Treasury Wine Estates
UCB
Veeva Systems
Veolia
Vodafone
William Hill
Xylem

Editors

Danyle Anderson – GEO

Danyle Anderson serves as the Executive Director of the Global Equity Organization (GEO), a member-founded and member-driven not-for-profit organization dedicated to advancing knowledge and understanding of equity compensation worldwide through a global community of well-informed professionals. Prior to joining GEO, Danyle was the Programs Director for the National Association of Stock Plan Professionals (NASPP). Danyle also served as Head of Investor Relations and Shareholder Services for Tech Data Corporation, where she had responsibility for all aspects of the company's equity plans providing benefits in more than 38 countries. Prior to Tech Data, Danyle was a member of the audit division of Deloitte & Touche LLP.

Danyle holds a Bachelor of Science degree in Accounting from the University of South Florida, is a Certified Public Accountant, a Chartered Global Management Accountant, a Certified Equity Professional, and a member of the Advisory Board of the Certified Equity Professional Institute.

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Michael H. Kramarsch – hkp/// group

In his more than 20 years as a consultant, Michael H. Kramarsch has established himself as one of the most highly regarded experts in corporate governance, performance management, and top executive compensation in German-speaking countries. In 1998, he joined an international HR management consulting firm as Head of Executive Compensation and ultimately gained responsibility for all of the newly formed company's business in German-speaking countries in 2005. In 2010, he founded hkp/// group, a consulting firm with focus on performance management, talent management, and compensation.

Michael H. Kramarsch was a named specialty expert for German regulatory bodies as Governmental Commission on Corporate Governance and the Government Commission German Corporate Governance Code. He is founding member and CEO of the German Association of Independent Compensation Consultants (VUVB) as well as member of the advisory board of HHL Center for Corporate Governance, Leipzig.

His books and other publications on issues of management compensation and corporate governance and his public commentary on current developments have underpinned his status as an expert.

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Marc Muntermann – Siemens

Marc Muntermann joined Siemens in October 2011. Marc Muntermann holds a graduate degree in vocational studies and economic education from the University of Cologne where he specialized in the fields of Vocational Education and Corporate Development and Organization and a Master's Degree in Business Administration (MBA) where he specialized in Accounting.

Within Siemens, Marc Muntermann is leading the Global Share Program team. In this position he is responsible for the design and administration of all company-wide equity programs. This includes the global Long-Term Incentive and Employee Participation Program that was introduced in 2009 and has been rolled out to 67 countries with 140,000 employees already participating in the plan.

Before joining Siemens, Marc Muntermann was practice leader in Towers Watson's Talent & Rewards line of business where he was responsible for Global Data Services and conducted consulting activities with regards to non-executives, executives, executive board and supervisory board remuneration.

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Heike Neumann – SAP

Heike Neumann has been with SAP since 2009. She joined the company as Global HR Business Partner and later became the Global HR BP Lead for an organization with 6,000 employees, driving the implementation of SAP's People and Organization Strategy and acting as HR Business Partner for one of SAP's co-CEOs. Beginning of 2014, she was appointed to the role of Global Head of Executive Rewards and Equity at SAP.

Prior to joining SAP, Heike held multiple HR lead roles at Hewlett-Packard and Celesio. For 5 years she ran her own HR consulting organization, offering talent acquisition services in the technology and pharmaceutical sectors. Heike has over 17 years of experience in various HR functions and holds a master degree in business administration.

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Michael Wolff – University of Goettingen

Prof. Dr. Michael Wolff is full professor and holds the Chair of Management and Control at the Georg-August-Universitaet Goettingen (Germany). Before joining the University of Goettingen, he was Professor for Corporate Governance at the University of Mainz and management consultant at McKinsey & Company, Inc. He studied at the University of Frankfurt and holds a doctoral degree from the HHL–Leipzig Graduate School of Management.

Besides aspects of corporate strategy and governance, his main research areas are the design and implementation of incentive systems for executives and employees and their impact on firm behavior and performance. He published several articles in national and international journals with theoretical and practical references to these topics. Moreover, he taught courses on corporate strategy, value-based management, and corporate governance in several graduate, MBA, and PhD programs.

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Global Equity Organization (GEO)

The Global Equity Organization (GEO) is a member-founded and member-driven not-for-profit organization dedicated to advancing knowledge and understanding of equity compensation worldwide through a global community of well-informed professionals.

GEO provides its members—regardless of location, position, or affiliation—opportunities to share and learn about the strategic, governance, financial, cultural, legal, tax, communication, and administrative issues affecting equity-based employee compensation around the world, from the fundamentals to the latest market intelligence.

GEO was founded in 1999 to support corporate executives and equity compensation professionals dealing with the challenges of creating, managing, and administering employee share plans large and small, national and global.

GEO has more than 4,500 individual members representing over 1,500 companies and professional firms in more than 60 countries around the world.

hkp/// group

The hkp/// group is a partner-led, international consulting firm specializing in performance management, talent management, and compensation.

The hkp/// approach to performance management integrates the requirements of financial management and HR strategies. At the same time it connects the performance management requirements at the corporate level with those at individual level. Based consistently on a value- and values-oriented implementation, this approach helps our clients achieve sustainable long-term success.

The hkp/// partners possess many years of international consulting experience. They are recognized experts in the market for compensation, talent, financial, and risk management. In these focus areas, our clients—supervisory boards, top managers, and management boards, as well as specialists—rely on us as a competent partner for value-enhancing, innovative, results-oriented solutions.

hkp/// has a special business unit providing advisory consulting services to executive committees such as supervisory and management boards. Through our work with regulators, banks, and insurances, we have in particular established a leading position in advising financial service companies on performance management and compensation systems.

SAP

As market leader in enterprise application software, SAP helps companies of all sizes and industries innovate through simplification. From back office to boardroom, warehouse to storefront, on premise to cloud, desktop to mobile device—SAP empowers people and organizations to work together more efficiently and use business insight more effectively to stay ahead of the competition. SAP applications and services enable customers to operate profitably, adapt continuously, and grow sustainably.

Headquartered in Walldorf, Germany, SAP has locations in more than 130 countries, and 282,000 customers around the world.

Siemens

Siemens (Berlin and Munich) is a global technology powerhouse that has stood for engineering excellence, innovation, quality, reliability, and internationality for more than 165 years. The company is active in more than 200 countries, focusing on the areas of electrification, automation, and digitalization.

One of the world's largest producers of energy-efficient, resource-saving technologies, Siemens is No. 1 in offshore wind turbine construction, a leading supplier of combined cycle turbines for power generation, a major provider of power transmission solutions, and a pioneer in infrastructure solutions as well as automation, drive and software solutions for industry.

The company is also a leading provider of medical imaging equipment—such as computed tomography and magnetic resonance imaging systems—and a leader in laboratory diagnostics as well as clinical IT. In fiscal 2014, which ended on September 30, 2014, Siemens generated revenue from continuing operations of EUR 71.9 billion and net income of EUR 5.5 billion. At the end of September 2014, the company had around 357,000 employees worldwide.

University of Goettingen

Founded in 1737, Georg-August-Universitaet Goettingen is a research university of international renown with strong focuses in research-led teaching. The university is distinguished by the rich diversity of its subject spectrum particularly in the humanities, its excellent facilities for the pursuit of scientific research, and the outstanding quality of the areas that define its profile. From 2007 to 2012, Georg-August-Universitaet Goettingen was rewarded funding from the Initiative of Excellence of the German Federal and State Governments with its institutional strategy for the future entitled „Tradition—Innovation—Autonomy".

The Chair of Management & Control, which is the academic partner of the Global Equity Insights survey, is part of the Faculty of Economic Sciences at the University of Goettingen, and is led by Prof. Dr. Michael Wolff. Based on state-of-art econometric methods, several researchers of the Chair analyze the design and impact of incentive systems of executives and non-executives (e.g. the positive impact of equity compensation on long-term decision and performance). Results of these research activities are published in national and internationals journals with theoretical and practical orientation.

Baker & McKenzie

Baker & McKenzie's Global Equity Services practice works with multinational employers to design, implement, and maintain equity-based compensation programs for global employees, consultants, and directors.

We design programs, considering both the employer and employee, to anticipate and minimize adverse accounting effects and to satisfy tax, securities, labor, exchange control, and data privacy compliance considerations globally. Leveraging our unmatched network of 77 offices in 47 countries, we work with Baker & McKenzie lawyers around the world to provide a coordinated, detailed approach to plan implementation.

Our free Global Equity Matrix App provides information on tax, securities, exchange control, labor and data privacy issues for equity in 50 countries. In addition, „The Global Equity Equation" blog provides bi-weekly analysis of developments in global equity-based compensation programs.

Computershare

Computershare is one of the largest registry and employee share plan service providers in the world, with more than 16,000 clients and 14,000 employees globally. Computershare was founded in 1978 and is listed on the Australian Stock Exchange. We provide leading solutions for Employee Share Plans, Share Registry, Communications, Trustee Services, and more.

With over 30 years of experience, we are an industry leader in the administration of Global Employee Share Plan services. We provide services for companies with executive and broad-based employee programmes, operating global and country-specific plans.

Computershare is committed to investing in our people and technology. Our innovative approach and commitment means we can provide clients with robust, yet flexible solutions, and has led to many market 'firsts' such as our mobile, multilingual web platform. We provide a consultative approach, from design to implementation, communication, analysis, and ongoing management. We partner with our clients to provide solutions aimed at making participation and transactions easier and more convenient so that the barriers to employee ownership are minimized.

We are proud to support GEO with its mission to advance knowledge and understanding of equity compensation worldwide.

Discovery Communications

Discovery Communications is the world's #1 pay-TV programmer reaching nearly 3 billion subscribers in more than 220 countries and territories. Discovery is dedicated to satisfying curiosity, engaging and entertaining viewers with high-quality content on worldwide television networks. Discovery is also active in sports entertainment as well as educational products and services to schools.

In 2013, Discovery generates USD 5.5 billion in revenue and USD 2 billion if operating income and, as of December 31, 2013, employed approximately 5,700 employees.

Equatex

Equatex provides international employee and executive compensation plan services for today's global enterprise, supporting clients with participants across Europe, Asia, Australia, and America. With world-class cloud technologies, Equatex enables companies to deliver engaging compensation schemes across borders, languages, and currencies.

Equatex currently supports around 100 international businesses and their one million employees, providing customised end-to-end solutions from funding instruments to administration and execution. The business was formerly the CEFS International operation of Swiss bank UBS.

Fellowship Program in Equity Compensation
Rutgers University School of Management and Labor Relations

Rutgers' School of Management and Labor Relations (SMLR) is the leading source of expertise on the world of work, building effective and sustainable organizations, and the changing employment relationship. The Fellowship Program in Equity Compensation at the School coordinates over 100 scholars at universities throughout the United States and the world studying equity compensation plans and sponsors the annual Beyster Symposium on equity compensation and the Beyster Fellowships. The program awards competitive research fellowships to young and emerging scholars annually.

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