Global Equity Insights **2016**

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Success goes hand in hand with equity-based Long-Term Incentives

As an essential compensation tool, equity continues its worldwide expansion—and not just for executives. It's no coincidence, this year's major findings reinforce the last three years: More successful companies offer long-term incentive plans (LTIP), and expand it to more of their workforce.

LTIP are now offered by more companies, and to more of their employees, than ever before. LTIP's viability and positive overall effect is acknowledged by the vast majority of corporate leaders around the world, who also recognize that LTIP's positive effects can be compounded when designed and implemented with expertise and long-term vision.

The Global Equity Insights 2016 survey highlights the positive potential companies can achieve by expanding eligibility, and increasing LTIP as a proportion of their total compensation packages. The survey also reveals great opportunities to increase plan effectiveness by design and administration, particularly through intensive internal communication to realize higher employee satisfaction with LTIP.

This year's survey findings provide a comprehensive deep dive into global LTIP market best practice.

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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 types of 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) with some form of full-value share grants that offer a more balanced risk profile than options. Today, North American companies predominantly use restricted stock (units), while European companies prefer performance shares, and companies from other regions rely on both forms. This convergence in market practices for varying types of long-term incentives is but one of the interesting observations from our Global Equity Insights 2016 survey.

Fourth edition of Global Equity Insights in 2016– The foremost global report on equity-based compensation practices and their impact on company performance

After three successful surveys on equity-based compensation in 2013, 2014 and 2015 we are delighted to present the results of the Global Equity Insights 2016 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 148 large global companies from 21 countries. We would like to thank all survey participants for sharing their long-term incentive plan experiences with us. Their contribution makes this report a unique source for 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 Insight survey. First and foremost, we are grateful for the commitment of our Premium Sponsors: Fidelity—the administration service provider for equity compensation plans; 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; Equatex—the global provider of international employee and executive compensation plan services; and the Fellowship Program in Equity Compensation and Employee Stock Ownership at the Rutgers University School of Management and Labor Relations—the leading source of expertise in the world of work.

Special thanks go to our co-operation partners: the Certified Equity Professional Institute (CEPI), Deutsches Aktieninstitut (DAI), ifs ProShare, the South African Reward Association (SARA), Stock & Option Solutions, and WorldatWork for inviting all their members and relevant contacts to participate. They have helped us significantly in expanding the survey's scope and gaining new international ground.

Finally, we would like to thank the people who strongly drove this project: Sebastian Firk (University of Goettingen) for his tremendous engagement and excellent analytical skills; Sandra Sussman and Jessica Vinsand (both SAP), Sebastian Hees and Dr. Dieter Kuhn (both hkp/// group) for bringing this challenging project to life.

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

Sincerely,

Emily Cervino (Fidelity)
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 discourage 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, although many leading global companies had already implemented long-term incentive plans years ago. These plans form an integral part of a company's equity culture and are an effective tool for maximizing shareholder value.*

Nevertheless, in practice companies and compensation experts face many challenges. They have to navigate through a complex landscape of regulatory and tax regimes and seemingly infinite number of design alternatives. Besides this, varying experiences with global long-term incentive plans aggravate the situation, while the complex nature of the plans requires sophisticated communications so they are comprehensible to employees. Smart communication and satisfaction with the plans are crucial determinants for successful implementation and thus the company's success.

* 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.

Contribution of the Global Equity Insights survey

Our report helps resolve many practical issues on the implementation of long-term incentive plans. Firstly, we find a positive link between long-term incentives and company performance among the surveyed companies. Secondly, we provide concrete information regarding global market practice by analyzing the extent of eligibility, plan types, and design features (such as performance measures, vesting periods, caps). Thirdly, we present insights into implementation, administration, and communication aspects of equity-based compensation. In conclusion, we summarize our primary findings and point out practical implications.

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

- 148 companies including the largest corporations worldwide: 91% of participants have a market capitalization above USD 1 billion; the top 4% exceed USD 100 billion in market capitalization at year-end 2015
- 60% of the companies generated revenues of more than USD 5 billion in 2014
- National leading companies from 21 countries around the world with special focus on North America and Europe
- Representative sample across 10 industries
- 54% of survey participants already participated in the Global Equity Insights 2015 survey

Participants by market capitalization

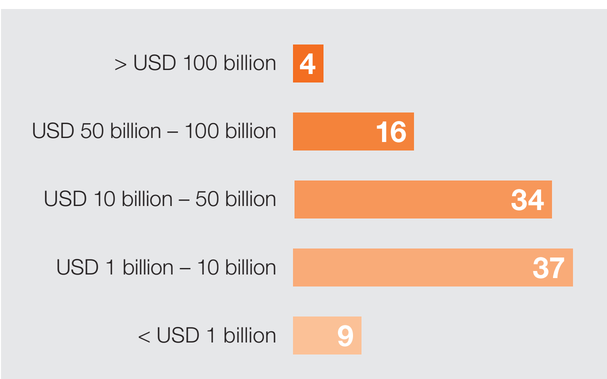

Fig. 1: Participants by market capitalization at year-end 2015 in % of companies

Participants by revenue

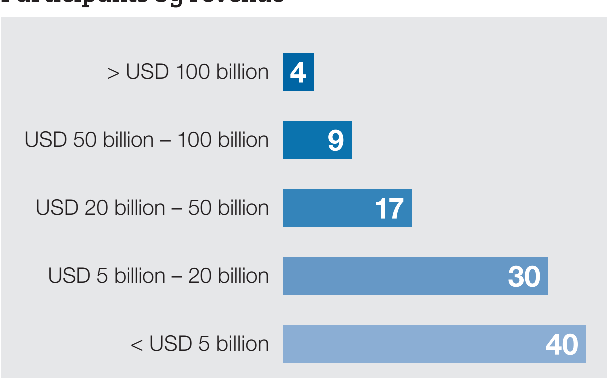

Fig. 2: Participants by revenue in fiscal year 2014 in % of companies

Country distribution

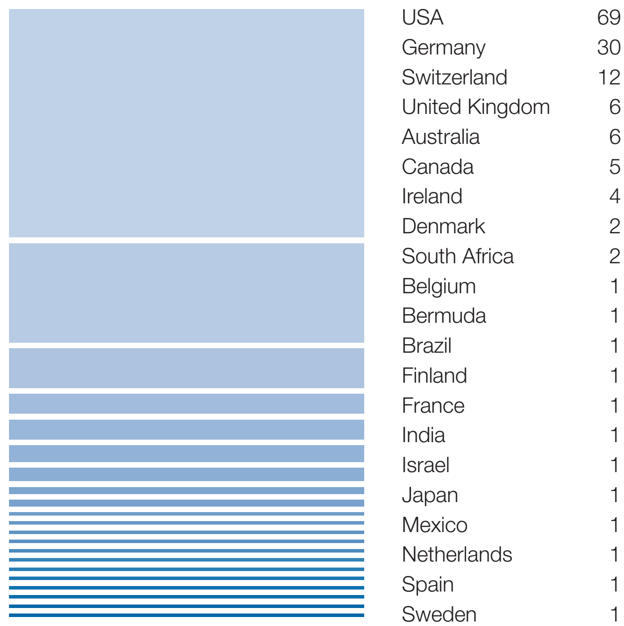

Fig. 3: Participants by headquarters' country

Industry clusters

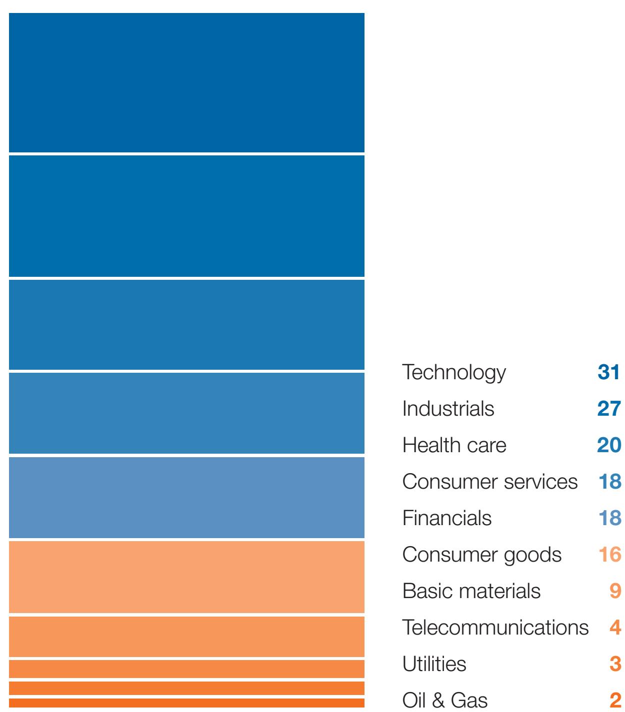

Fig. 4: Participants by industry

▶▶▶ Please find the full list of participants on page 28.

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

- Invited companies: All GEO members and prospective member contacts, selected non-member companies in places of geographic interest, clients and prospects of the survey's sponsors, as well as members and relevant contacts of CEPI, DAI, ifs ProShare, SARA, Stock & Option Solutions, and WorldatWork
- Data collection period: eight weeks beginning mid-December 2015
- The distributed questionnaire consisted of three sections, namely: company information, long-term incentive plans (LTIP), and administration of equity-based compensation

TOPIC SECTIONS		
	1	Company Information
	2	Long-Term Incentive Plans ▪ General information ▪ Plan design
	3	Administration

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 an 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 three dimensions

For the whole sample

The analysis provides useful 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

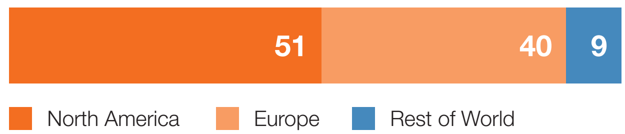

Fig. 6: Participants by region in % of companies

By communication budget

The analysis shows a link between a high communication budget and employee satisfaction with LTIP. A high budget indicates a budget allocation of at least 11 to 15% of the total administration budget. High employee 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, Bermuda, Brazil, India, Israel, Japan, Mexico, and South Africa.

Long-Term Incentive Plans – Objectives & Eligibility

Successful companies make more employees eligible

- **Retention is first-order objective of LTIP implementation**
- **Broad eligibility for LTIP is positively related to company performance**
- **LTIP eligibility is commonly determined by the employee's career level**

Demographic shifts and the recent economic recovery in several countries have intensified the competition for talent, with many companies using LTIP to successfully attract sought-after employees. Almost half of the surveyed companies regard retention as the most important objective for LTIP implementation. However, companies also give high priority to competitive pay and best market pay practice.

Objectives with LTIP grants

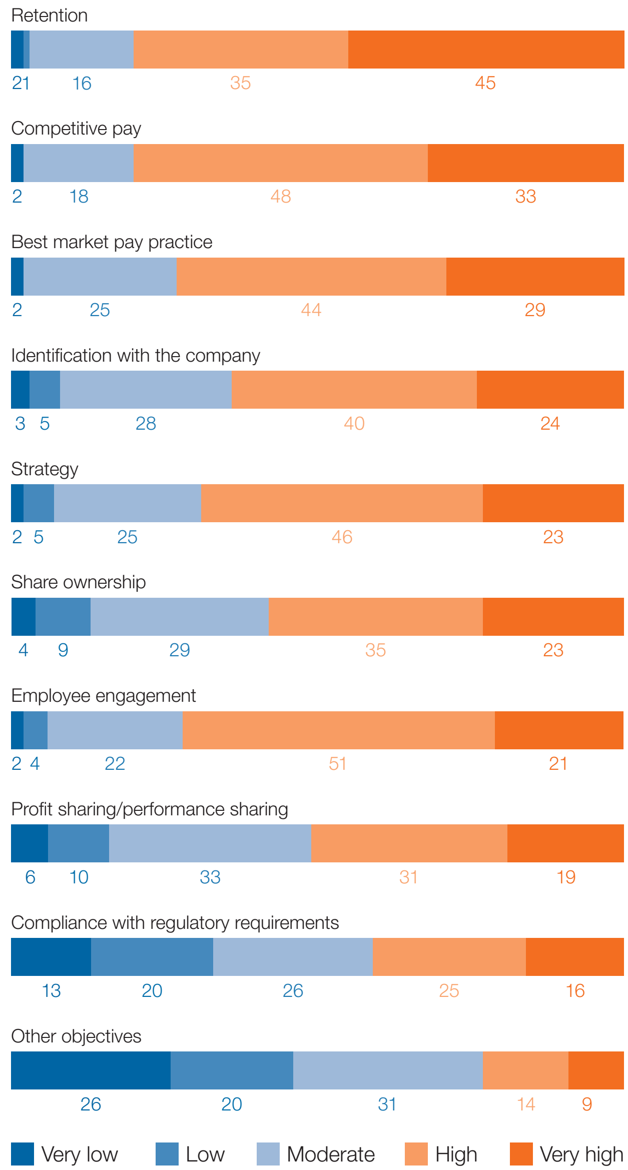

Fig. 7: LTIP objectives ranked by prevalence in % of companies

Long-Term Incentive Plans – Objectives & Eligibility

On average, the companies surveyed have utilized LTIP for 16 years. The majority of the companies have extended it to their executive and senior management levels. These companies no longer limit LTIP exclusively to the management board/executive committees. Almost all companies offer LTIP to executives, and 89% of companies extend LTIP to senior management. While eligibility significantly decreases at lower levels, there you will find significant differences between regions. More than 80% of North American companies offer LTIP to middle management. In addition to this, more than 50% of North American companies even offer LTIP to other (key) employees. By contrast, most companies from Europe and other economic regions do not offer LTIP to middle management and other (key) staff.

LTIP-eligible staff by level

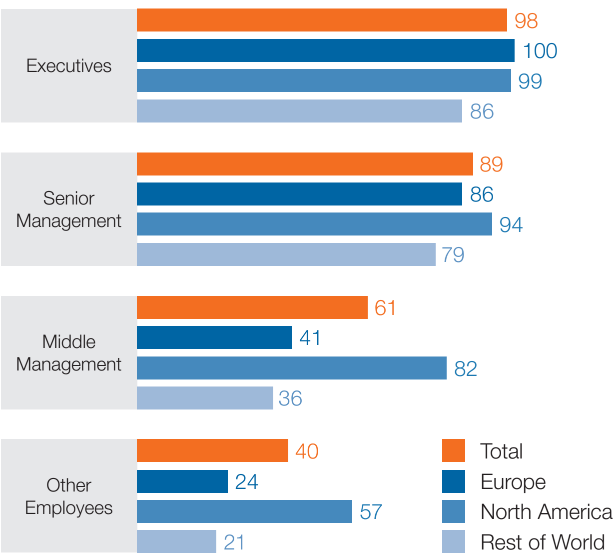

Fig. 8: LTIP eligibility by level in % of companies*

* 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.

Regional differences in LTIP eligibility by level can partly explain differences in the relative coverage across all employees within companies. While more than 40% of employees are eligible to participate in LTIP in North American companies, eligibility drops to 11% in European companies. Irrespective of the companies' regional location, around 75% of eligible employees actually participate in the LTIP.

Portion of LTIP-eligible staff

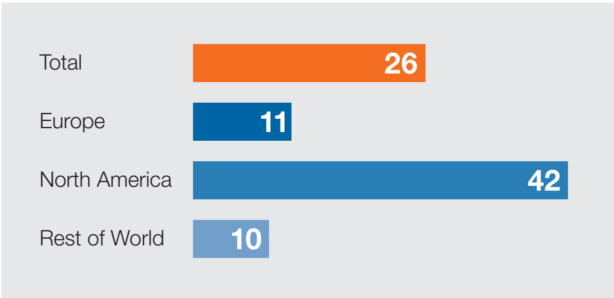

Fig. 9: LTIP-eligible staff scaled by all employees in %

Eligibility rates in LTIP also demonstrate the importance of long-term incentives for company success. Employees of high performing companies are more often eligible for 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 run.

Long-Term Incentive Plans – Objectives & Eligibility

Link between LTIP eligibilty and performance

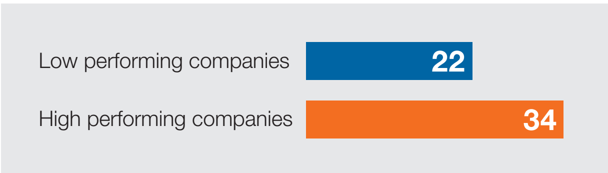

Fig. 10: LTIP eligibility in % of all employees

Across all economic regions, companies apply similar criteria for LTIP eligibility. Important criteria are career levels (81%), management discretion (58%), criticality of retention (53%), and performance ratings (49%). Further results reveal that companies apply nearly the same criteria to determine the grant size.

Criteria for LTIP eligibility

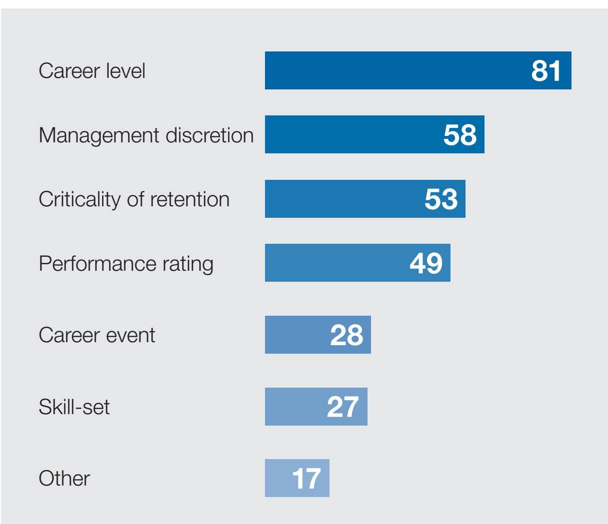

Fig. 11: Criteria for LTIP eligibility in % of companies

Beside regular grants, special or 'premium' grants are an alternative for special bonuses or allowances on a short-term basis. 26% of the companies surveyed do not use premium grants at all. About one-third of the companies grant a 'premium' due to the participant's performance rating and due to a special purpose for the grant.

Criteria for 'premium' grants

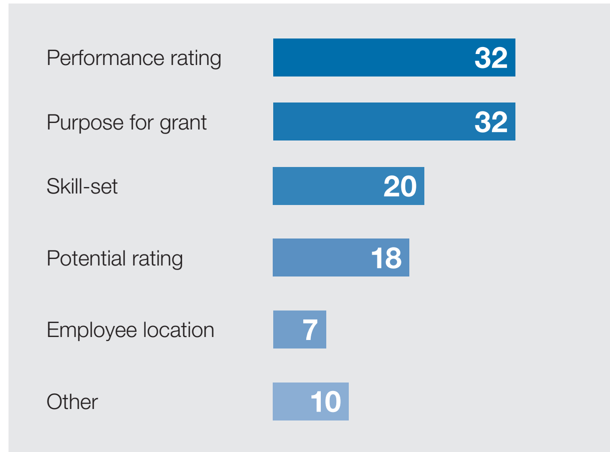

Fig. 12: Criteria for a 'premium' to grant size in % of companies

Successful companies make more use of Long-Term Incentives

- **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**
- **Low portions of LTIP at lower staff levels indicate potential for a better incentive alignment with the interests of shareholders**

North American companies are pioneers regarding the use of LTIP, and remain at the forefront of LTIP grants. Employees of North American companies receive a higher portion of long-term incentives than their European counterparts across all levels of corporate hierarchy. While European companies have recently made strong progress in the development of 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 in accordance with the corporate hierarchy—ranging from 42% for the management board/ executive committee to 15% for middle management. Currently, LTIP plays a minor role for the compensation of senior and middle managers. The expansion of LTIP to senior and middle management levels also provides an opportunity to align the managers' interest with the shareholders' interest.

* The term "Other employees" 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.

Pay mix by level & economic region

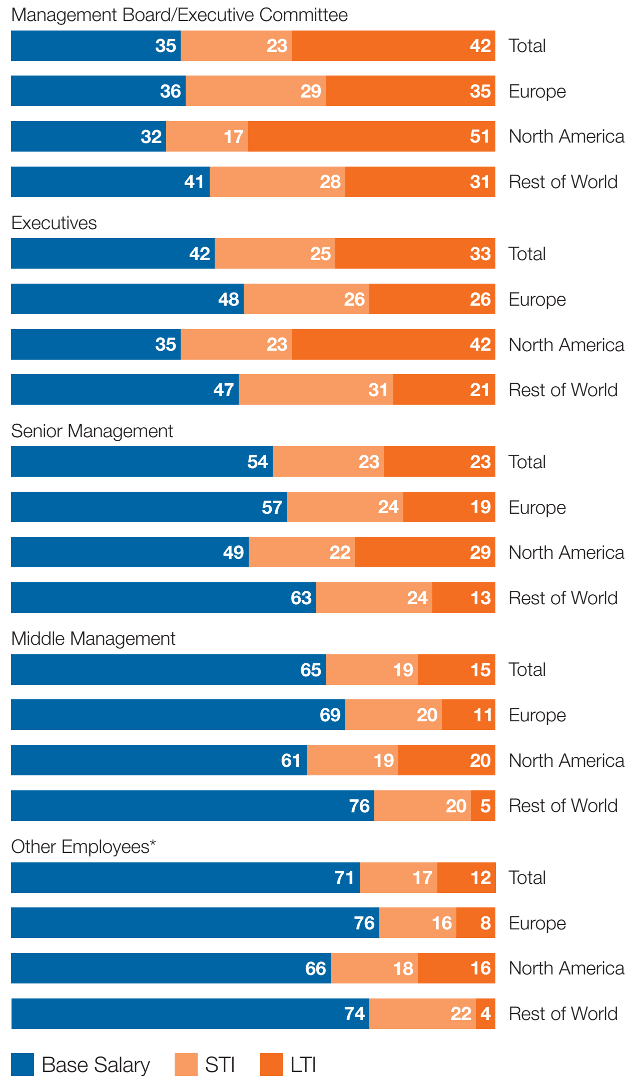

Fig. 13: Compensation structure by level and region in % of total direct compensation

The compensation structure of the survey participants is consistent with the notion that LTIP fosters sustainable and long-term value creation. At all upper executive levels, 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 47% of total direct compensation in the form of long-term incentives. In low performing companies, long-term incentives account for only 40%.

Long-Term Incentive Plans – Pay Mix & Country Coverage

Link between pay mix and performance

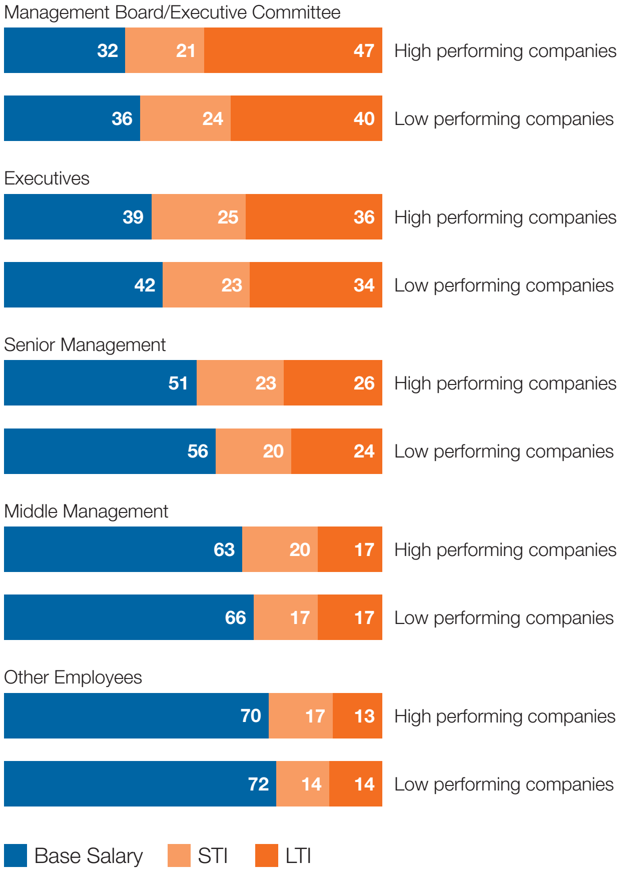

Fig. 14: Pay structure in % of total direct compensation

Country coverage for LTIP differs considerably across companies: 43% of companies roll out LTIP in most of their operating countries; around three-fourth roll out LTIP in more than half of operating countries; 20% implement LTIP in only selected countries.

LTIP country coverage

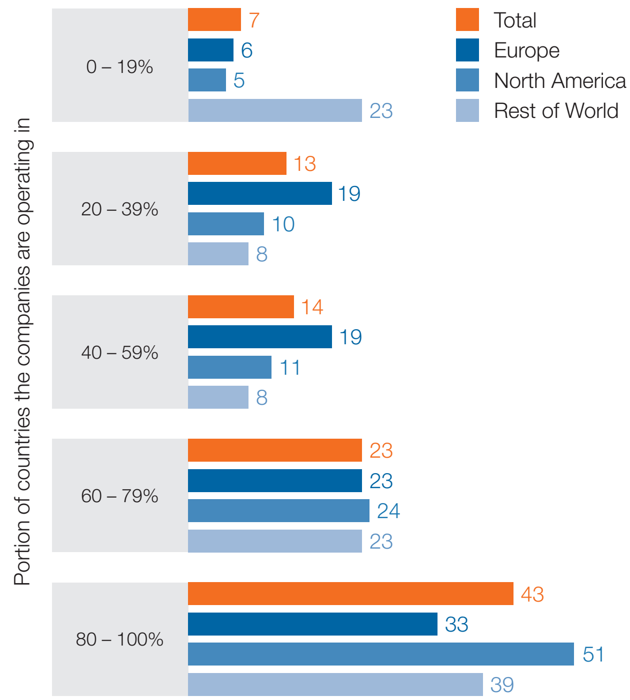

Fig. 15: Countries with LTIP out of all operating countries in % of companies

Companies strive to roll out LTIP globally to maintain consistent incentives to all its subsidiaries. Survey participants indicated the leading causes for keeping companies from rolling out LTIP to countries outside their home country are country-specific regulatory challenges and challenges with mobile employees. Other major issues in this context are foreign personal and corporate tax consequences. However, most companies are optimistic enough to tackle these issues.

Rollout barriers

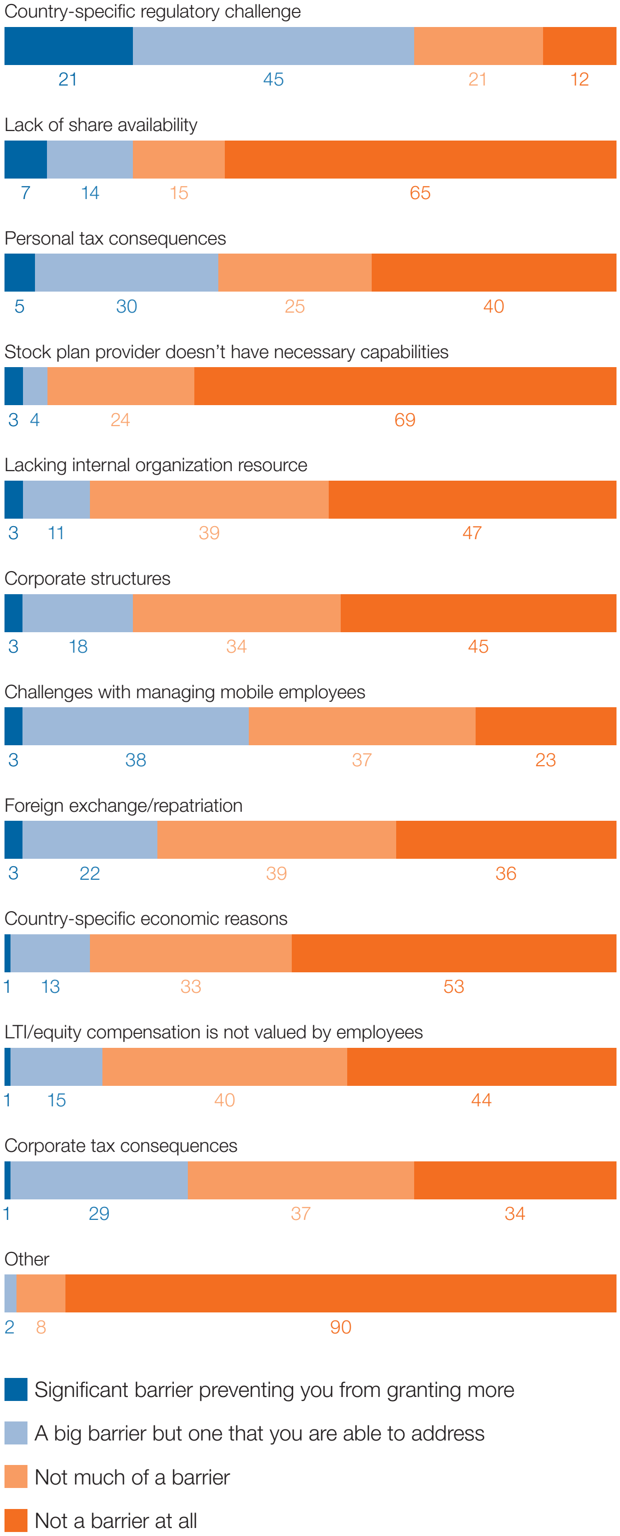

Fig. 16: LTIP rollout barriers to countries outside the headquarters' country in % of companies

Plan types and performance measures

- **Distribution of plan types differs considerably between Europe and North America**
- **Regional differences in the use of plan types influence the use of performance measures: European companies prefer external performance measures (e.g. TSR), whilst North American companies prefer earnings-based measures**
- **Recommendation: Use a mix of internal and capital market performance measures as well as relative performance measures**

The market practice for LTIP types confirms certain trends we identified in our prior surveys. In particular, the popularity of stock options has declined over the past years, and is now stable at a relatively low level. In Europe and North America a decade ago, stock options were the predominant plan type. Today stock options rank third among the companies from North America and for European companies they rank even lower–at fifth place. Generally, the distribution of plan types differs significantly between European and North American companies. European companies prefer performance shares as a long-term incentive (32%) while North American companies prefer restricted stock (units) (33%). Other plan types such as performance cash, share matching, and equity and cash deferrals only play a minor role in the compensation mix.

The preference for performance shares and restricted stock (units) reflects the notion that stock awards provide a more balanced risk profile than stock options. In the aftermath of the financial crisis, many public commentators and politicians argued–rightly or wrongly–that stock options caused excessive risk-taking.

LTIP types

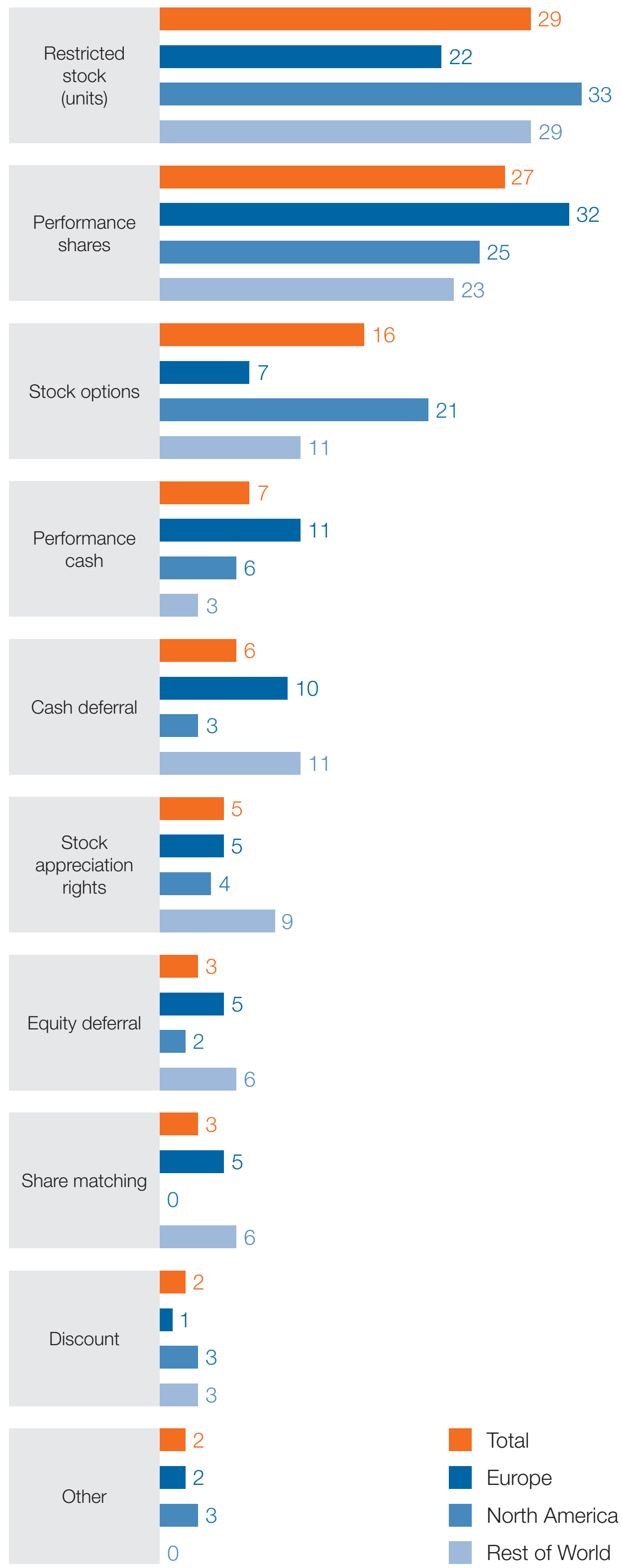

Fig. 17: LTIP types ranked by prevalence in %

Long-Term Incentive Plans – Types & Performance Measures

The most popular performance measure for European and North American companies is total shareholder return (TSR). It is used by almost one-fourth of the companies surveyed. Among internal performance measures, companies prefer earnings per share (EPS; 15%) and profit/earnings (14%), respectively. The additional choice of performance measures differs between European and North American companies: European companies tend to use share price, while North American companies tend to use earnings-based measures. These tendencies reflect cultural differences between the intended uses 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 (units): internal performance measures often determine the budget available for restricted stock (unit) grants.

Performance measures

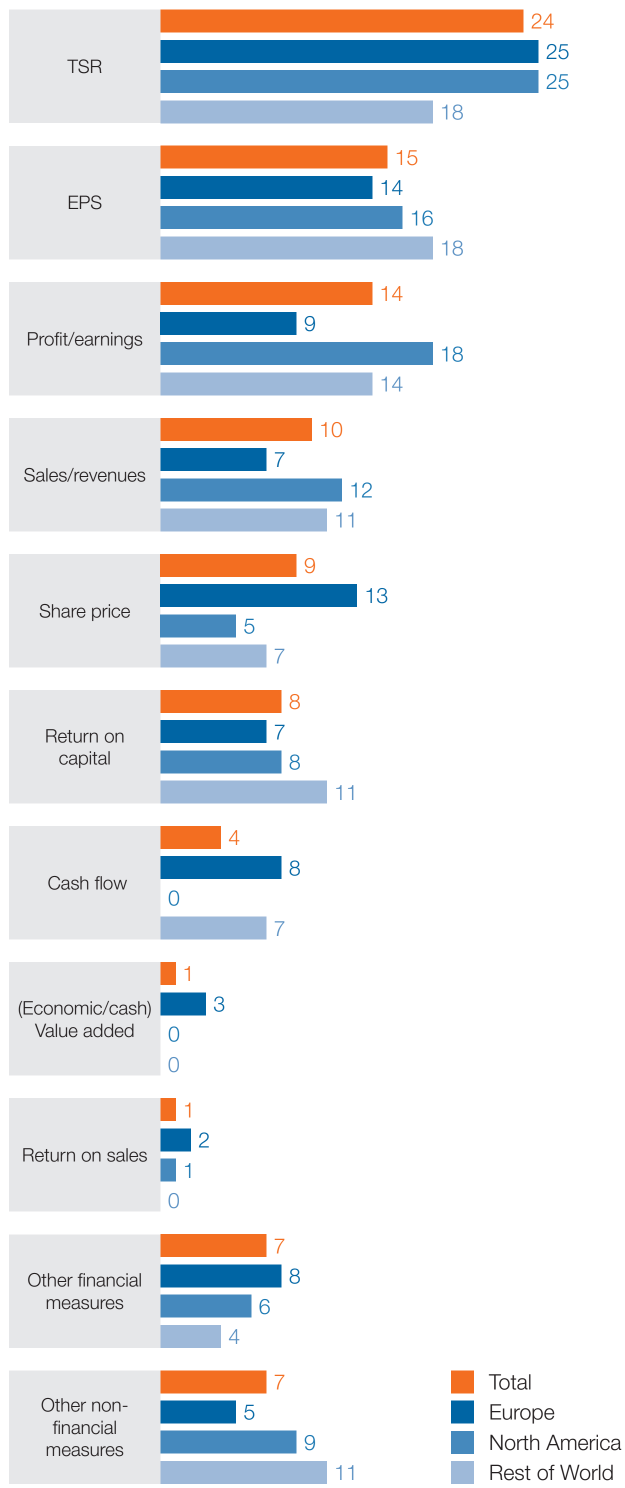

Fig. 18: LTIP performance measures ranked by prevalence in %

A well-balanced set of performance measures used in the LTIP is essential since LTIP is the major incentive system to focus on the company's strategy targets. Our analysis indicates a strong link between the choice of performance measures and company performance: companies that apply internal and capital market performance measures are more successful than companies which do not.

Link between mix of internal and capital market measures and performance

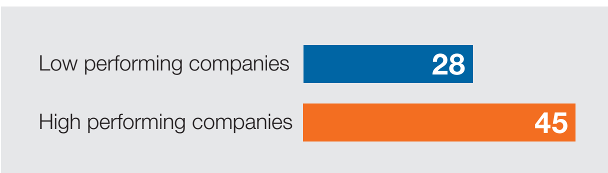

Fig. 19: Combined application of internal and capital market performance measures in % of companies

Performance measures are used in absolute (e.g. "revenues in USD") or relative terms (e.g. "increase in revenues compared to main competitors" or "increase in revenues compared to last fiscal year"). European companies prefer using relative performance measures (70%), compared to their counterparts in North America (59%), or in other regions (45%).

The most popular performance measure used in relative terms is TSR (75%). Frequently, TSR is measured by comparing the TSR of a peer group or index. Thus, relative TSR captures the advantages of an investment into the company's shares instead of an alternative investment.

Absolute and relative performance measures

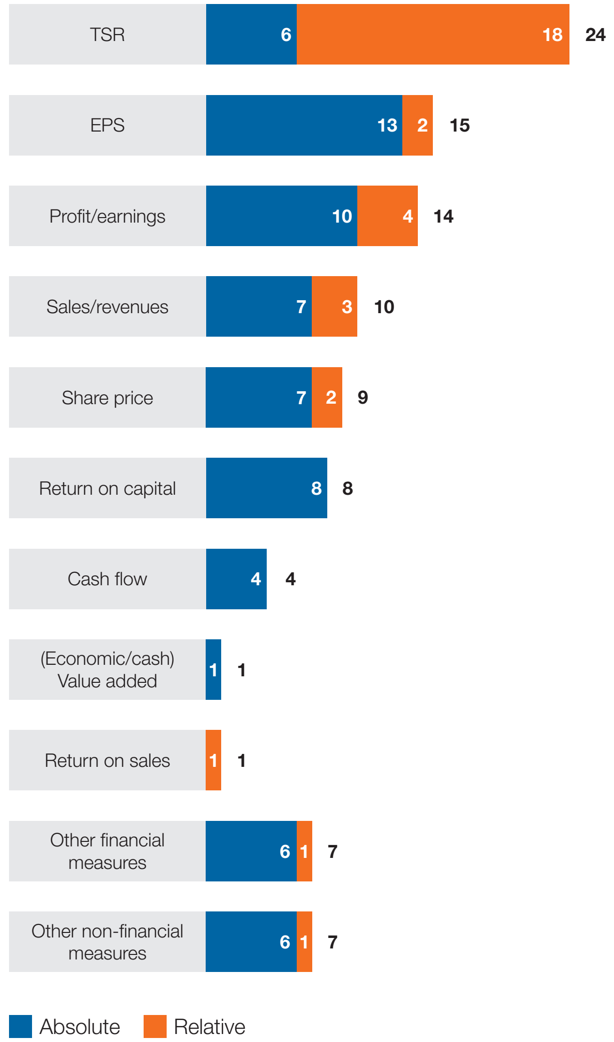

Fig. 20: LTIP performance measures ranked by prevalence in %

Our analysis leads to the conclusion that it is beneficial to apply relative performance measures in LTIP. High performing companies make remarkably more use of relative performance measure than low performing companies.

Link between relative measures and performance

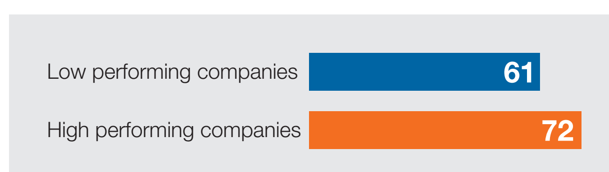

Fig. 21: Application of relative performance measures in % of companies

Market practice of vesting and settlement

- LTIP grants are typically made once a year
- Vesting periods average about 42 months, trend towards 48 months
- Payouts 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

Cliff vesting and ratable vesting are both common market practice. There are, however, some regional differences. North American companies tend to use ratable vesting schemes, whereas European companies and companies from other economic regions have a strong preference for cliff vesting schemes.

Vesting schemes

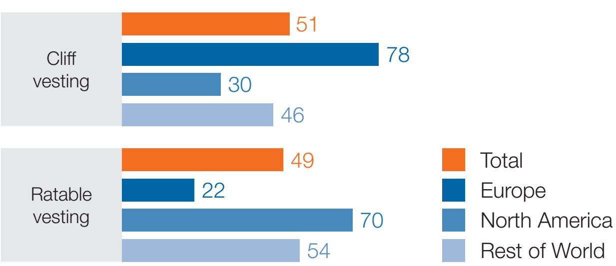

Fig. 22: LTIP vesting schemes in % of companies

LTIP awards with ratable vesting schemes typically vest on an annual basis. Shorter vesting periods of a semi-annual, quarterly, or monthly basis can rarely be observed.

Frequency of ratable vest dates

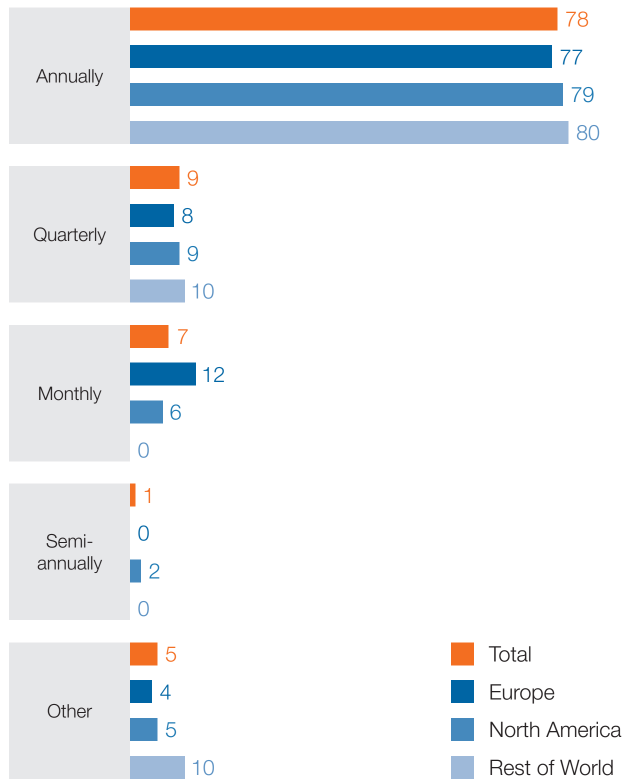

Fig. 23: Frequency of ratable vest dates in %

Vesting periods are quite similar across all economic regions averaging 42 months. 40% of the companies implement vesting periods of 36 months, and 44% extend their vesting periods up to 48 months. Furthermore, we detect a trend towards extending the maximum vesting periods from 36 months up to 48 months. Vesting periods up to 24 months are not common, consistent with the notion that companies offer LTIP to inhibit myopic decision-making. More than 10% of companies implement vesting periods beyond 48 months. HR professionals are experiencing an ongoing trend towards longer vesting periods especially as several institutional investors already require them for the management board/executive committee.

Vesting periods

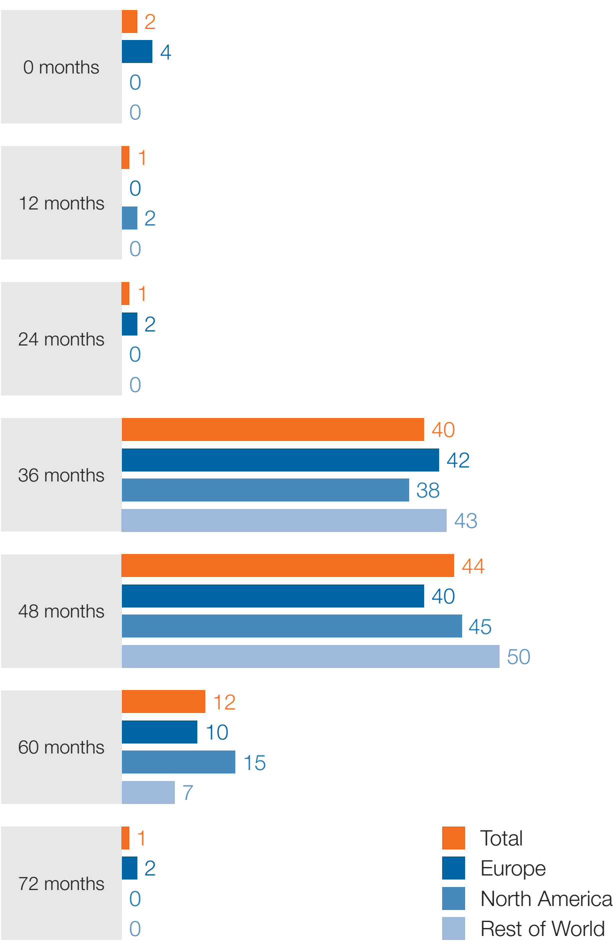

Fig. 24: LTIP vesting periods in % of companies

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 and in other economic regions. In North America, only 8% of companies pay out awards in cash. By contrast, 42% of the companies from Europe make LTIP payouts in cash only.

LTIP settlement

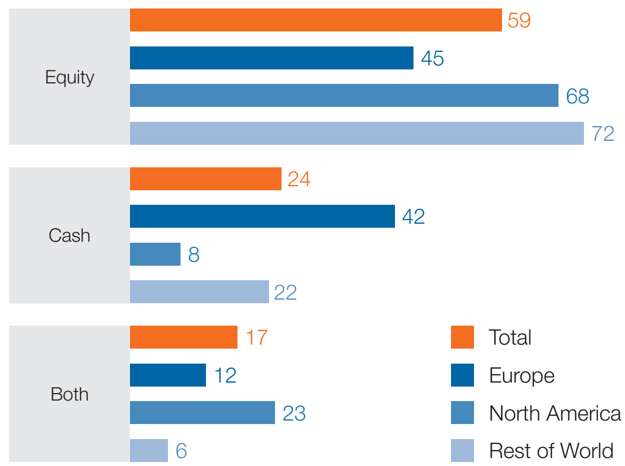

Fig. 25: Forms of LTIP settlement in % of companies

For LTIP payouts in equity, 68% of North American companies award in equity from newly issued capital. In Europe, companies seem averse to dilution which results from issuing new shares. Only one-fourth of European companies awards new shares, while 62% initiate share repurchase programs to finance LTIP equity settlements.

Share types of equity-financed settlement

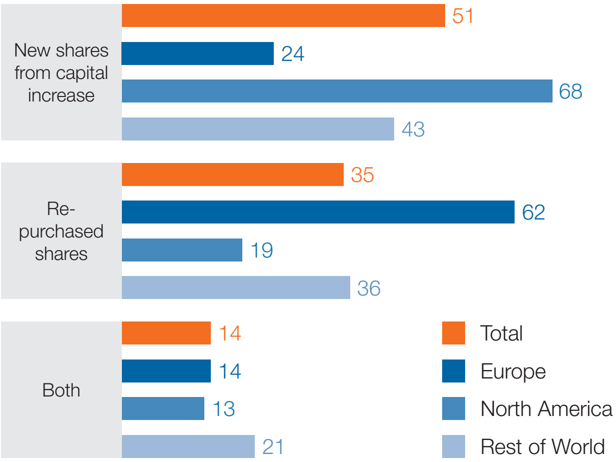

Fig. 26: Share types for settlement in equity in %

Recently, several governments around the world have proposed or passed laws requiring pay level caps. In our sample, almost half of the companies currently apply caps on LTIP payouts with some regional differences. 71% of the companies from economic regions other than Europe and North America do not limit LTIP payouts.

Application of caps

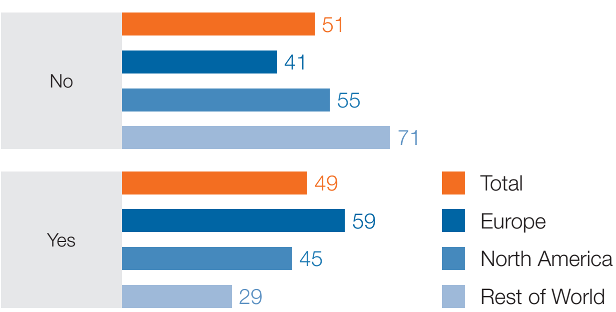

Fig. 27: Application of caps in % of companies

Looking back and into the future

- **Both the number of employees receiving LTI grants and the value of LTI awards increased in the past five years**
- **Challenges in granting in the last two years mainly arose from changes in the corporate structure**
- **Both the number of employees receiving LTI grants and the value of LTI awards in the next 2-3 years are expected to remain constant**

As mentioned at the start of this report, there is a trend towards offering LTIP to a greater number of employees. This can be attained by expanding it to more hierarchical levels, and/or other countries in which the company operates. The survey results confirm the trend: Almost half of the companies stated an increased number of employees receiving grants over the last five years. There are no significant differences between North American and European companies. Just 16% of the surveyed companies report a decreasing number of employees receiving LTI grants.

Over the last 5 years, the number of employees receiving LTI grants...

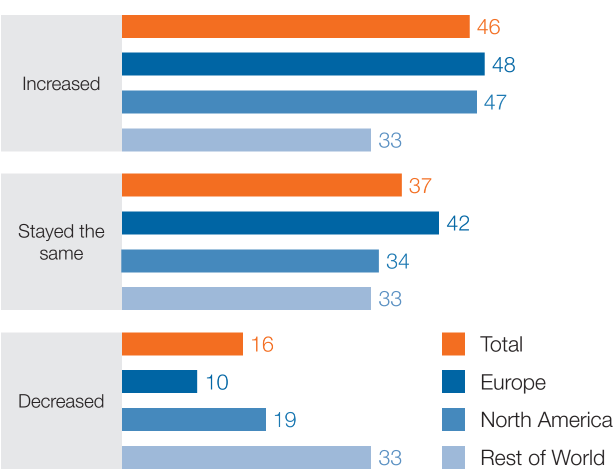

Fig. 28: Prevalence of changes in employees receiving LTI grants over the last 5 years in %

50% of the companies report an increasing LTI award value over the last five years. Companies in other economic regions of the world are at the forefront of this development: three-fourth of these companies saw increasing LTI awards, while more than 50% of the European companies state the same. North American companies, however, show a slight tendency of no further increase in the LTI award value with 45% of North American companies stating the value remained stable or even decreased (14%).

Over the last 5 years, the value of LTI awards...

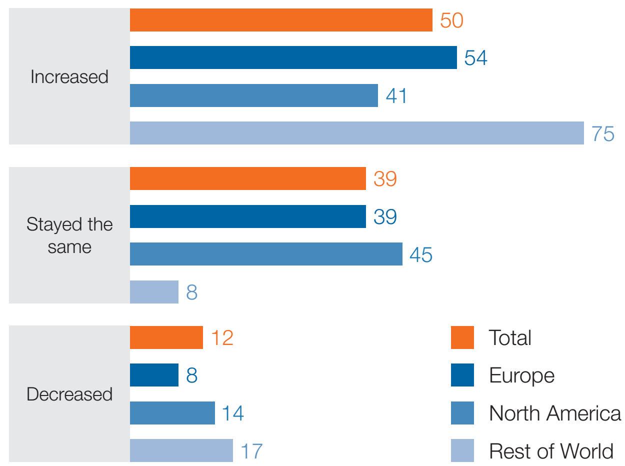

Fig. 29: Prevalence of changes in the value of LTI awards over the last 5 years in %

The findings taken together show a remarkable trend towards an increased number of employees receiving LTI grants coupled with an absolute increased value of LTI awards.

The most mentioned challenges effecting the granting process are changes in the regulatory environment, e.g. law, tax. This is also mirrored in our findings. However, many companies stressed changes in corporate structure which keep them from granting. Generally it should be noted nearly half of the causes effecting the ability to grant are internal (changes in corporate structure and changes in the administrative structure). Just 36% of the changes that challenge companies in granting can be found externally. Consequently, the company can influence its own granting ability.

Challenging changes in the past 2 year effecting the ability to grant

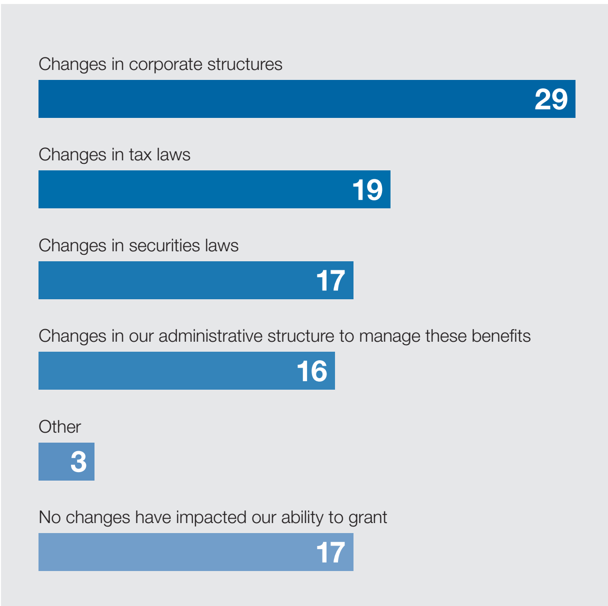

Fig. 30: Prevalence of challenging changes to grant in the last 2 years in %

Looking towards the future, most companies surveyed do not expect further increases in the number of employees receiving grants within the next two to three years. 55% of the companies expect more or less a constant number of employees receiving LTI grants. On the contrary, impressive 41% of European companies, as well as 29% of both North American companies and companies from the other economic regions, expect a further increase.

In the next 2-3 years, the number of employees receiving LTI grants will...

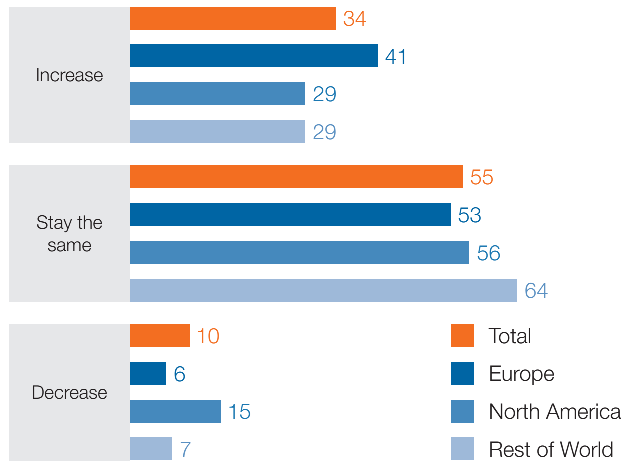

Fig. 31: Prevalence of changes in employees receiving LTI grants in the next 2-3 years in %

A much more homogenous picture arises when focusing on the future value of LTI awards. Almost 60% of the companies expect a constant value of LTI awards in the next two to three years. Only one-third of the companies estimate an increasing trend regarding the value of LTI awards.

In the next 2-3 years, the value of LTI awards will...

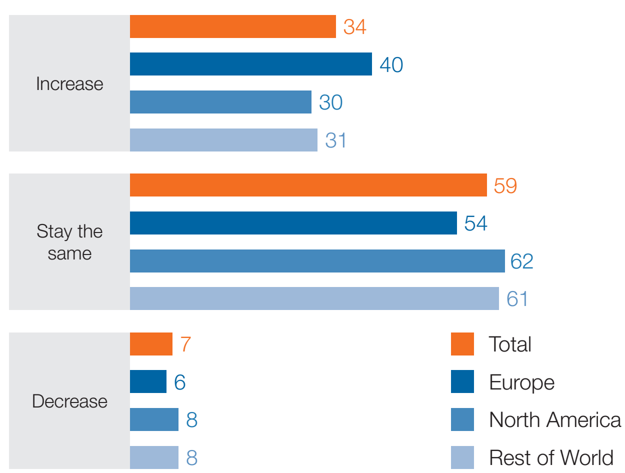

Fig. 32: Prevalence of changes in the value of LTI awards in the next 2-3 years in %

Administration of equity-based compensation

- Most administration topics, except banking and tax, are mainly administered in-house
- Rollout and legal matters are crucial aspects of actual and desired additional budgets
- Traditional communication tools, such as letters/e-mails and intranet, are the most common communication tools
- Communication is a main lever to achieve higher employee satisfaction

Most companies surveyed centrally manage the budget for equity-based compensation (86%) and the administration budget (96%). Nearly two-thirds of the companies state human resources as being responsible for the administration of equity-based compensation plans. Other departments only play minor roles for the responsibility of LTIP administration.

Administration responsibility for equity plans

Fig. 33: Department responsible for administration of equity-based compensation plans in % of companies

On average the surveyed companies employ 3 FTEs (full-time equivalent) for the administration and communication of equity-based compensation plans. There are, however, large regional differences. While European companies only employ 2.5 FTEs on average, companies from other economic regions employ 4.5 FTEs. This difference in staff levels may partially reflect the number of equity plans in place and the higher frequency of plan modifications in the other economic regions.

Number of FTEs in administration

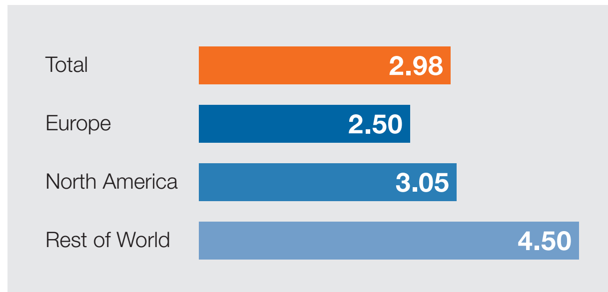

Fig. 34: Average FTEs working in administration and communication of equity-based compensation plans

Outsourcing at least some parts of the administration of equity-based compensation plans is quite common. Full outsourcing is most common for employee share purchase plans (ESPP; 25%) and more common for LTIP (20%) than for share ownership guidelines (SOG). If at all, parts of the SOG administration are partially outsourced.

Administration of equity plans

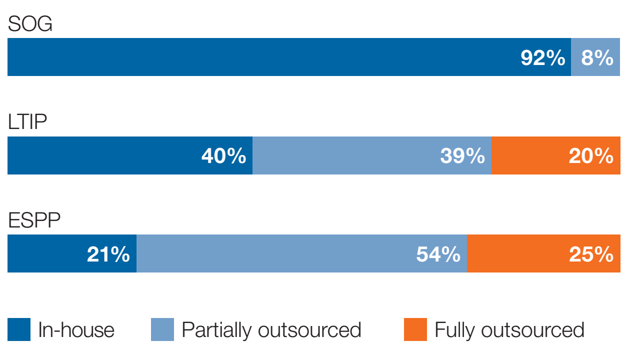

Fig. 35: In-house and outsourced administration of equity plans in % of companies

Administration

Companies deal with most administrative activities in-house. The focus on in-house administration underscores the crucial role equity-based compensation plays for the companies. Two main exceptions are banking and tax. Note, banking and tax are also activities companies allocate a comparably high budget. Accordingly, the process of allocating budgets to different administrative activities is strongly constrained by the degree of outsourced activities.

In-house vs. outsourced administration

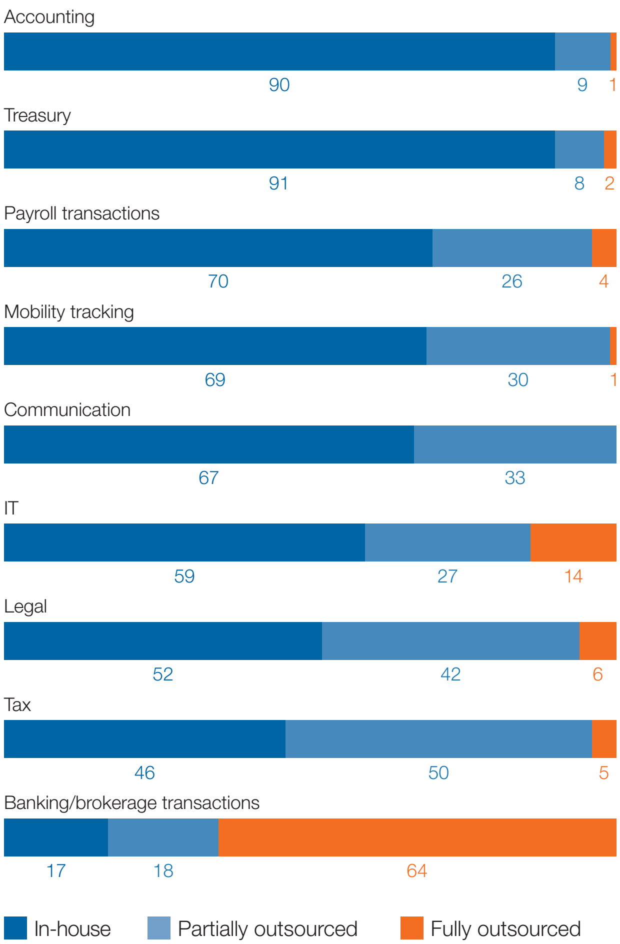

Fig. 36: In-house and outsourced administration in % of companies

The administration of globally rolled out equity compensation plans is a complex responsibility for both the company and the supporting administration provider. Commonly, the selection of the administration provider takes considerable time due to the multiple aspects to consider. However, remarkably 24% of the companies surveyed do not see any challenge in finding an appropriate equity compensation provider to effectively serve a global employee population. If the companies are facing challenges, these are mostly related to the complicated rules related to the plan terms (29%).

Challenges in finding an administration provider

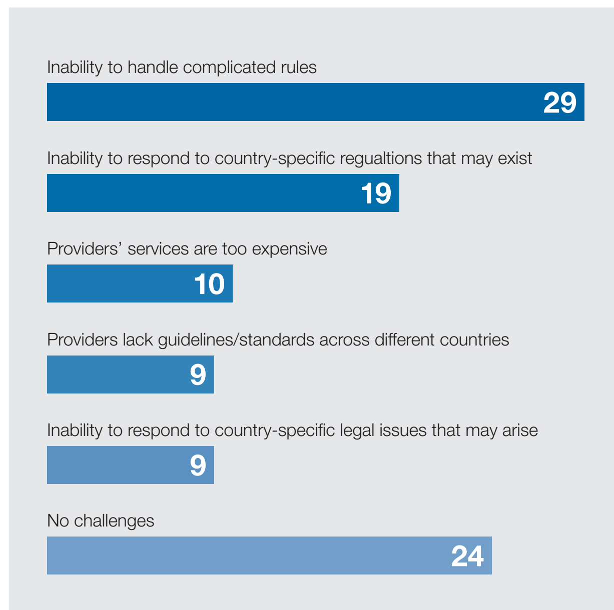

Fig. 37: Most difficult challenges in finding equity compensation providers to serve a global employee population in %

Administration

Budget allocation of the companies surveyed highlights the importance and complexity of legal, accounting and tax for equity-based compensation. Most of the administration budget belongs to these three aspects—besides additional staff and followed by the rollout, a closely related topic. Budget allocated to IT aspects does not play as important a role as we saw two years ago when IT was ranked first. This may be caused by the fact that administration providers significantly invested in their IT solutions and provide their clients feasible solutions that unburdens companies from extensive adjustments in their own IT landscape.

Allocation of administration budget

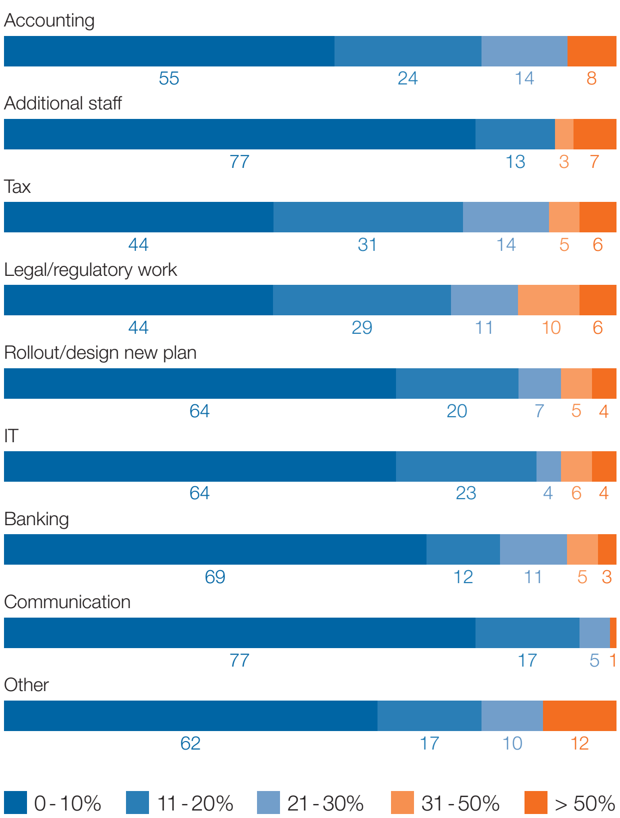

Fig. 38: Allocation of administration budget in %

As we will see, companies could greatly improve employee satisfaction with their LTIP by extending their communications efforts. Most companies seem to be aware of the need for additional communication efforts, particularly as the actual budget allocation neglects the crucial role of communication. The desired budget allocated is quite high, while the actual budget allocated is quite low.

Companies would also prefer to devote more budget for additional staff and to further roll out their equity plans.

Desired additional administration budget

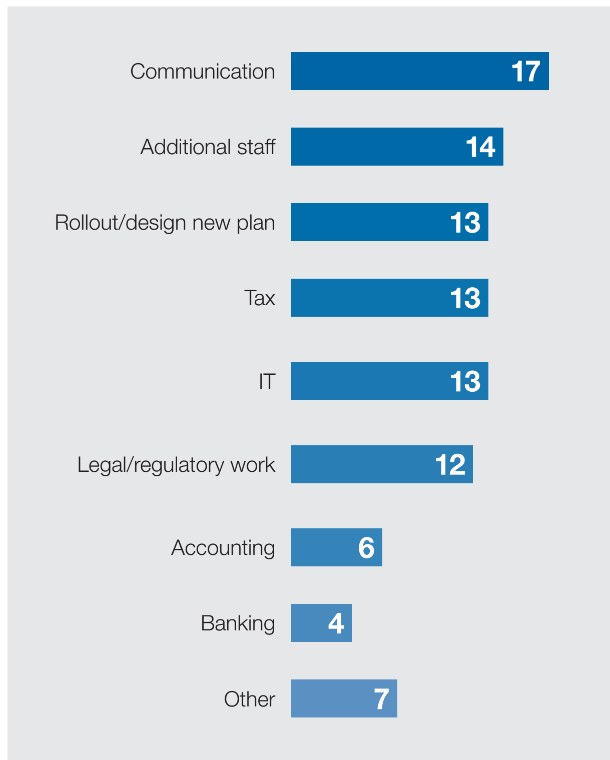

Fig. 39: Desired allocation of additional administration budget in %

More than half of LTIP-related communication to employees is based on letters/e-mails or intranet. 21% of European companies also use brochures and flyers. Total compensation statements are more common in North American companies (16%). In general, interactive communication tools, such as workshops, image videos, and roadshows, as well as social media, have yet to play an important role in LTIP communication.

LTIP communication tools

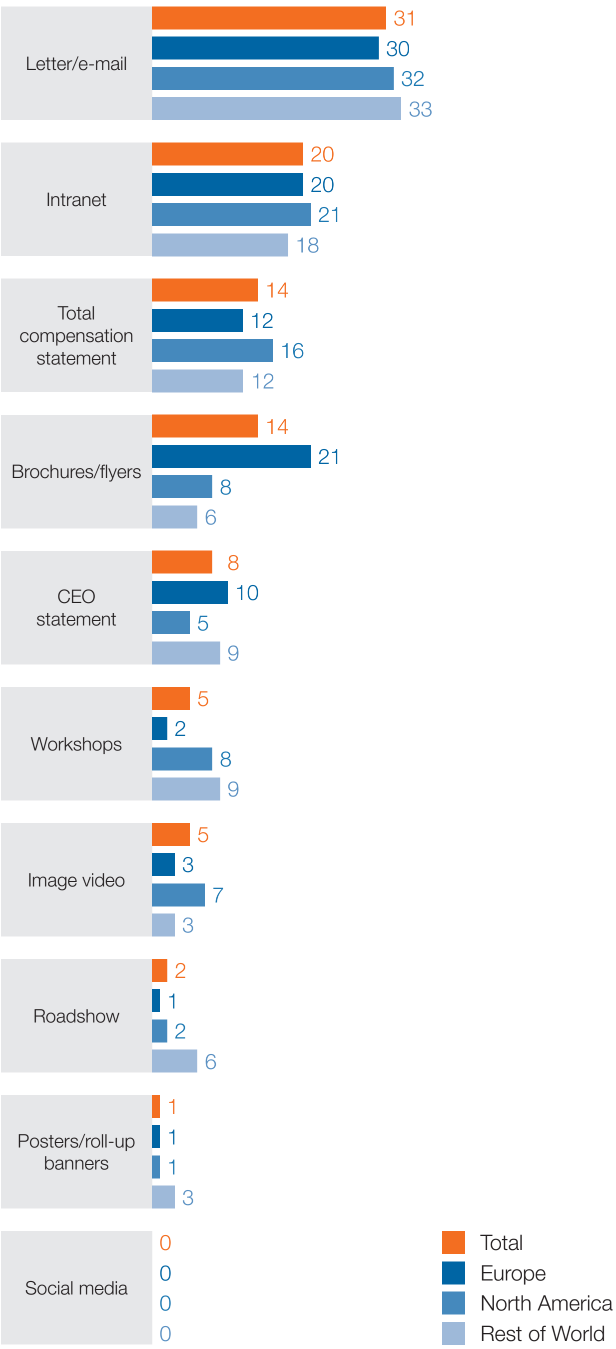

Fig. 40: LTIP communication tools ranked by prevalence in %

As we have seen previously, the additional budget desired for communication of equity plans is quite high. And communication is the right lever to increase employee satisfaction with LTIP. Our analysis reveals that companies that allocate a high portion of their administration budget towards plan communication have more employees who are satisfied with LTIP.

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 intensive LTIP-related communication is an opportune way to tackle these challenges.

Link between communication budget and employee satisfaction

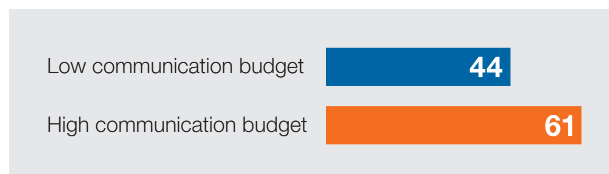

Fig. 41: Companies with highly satisfied employees in % of companies

Conclusion

Long-Term Incentive Plans

Broad-based eligibilty

High portion in the pay structure

Internal and external performance measures

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 continue to substantiate the findings of our prior surveys. Companies have established a sound equity culture. This is 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. Probably, this development will intensify as global competition for talent increases.

A sophisticated equity culture positively shapes the performance culture within companies. High performing companies grant a larger portion in the form of long-term incentives across almost all staff levels and make more employees eligible for LTIP. In addition to this, they use a balanced set of internal and capital market performance measures more often than low performing companies. Hence, a compensation strategy that aims to develop a deeply integrated and well-balanced equity culture is a crucial factor for company success.

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 from allocating more budget for intensive communication to increase their plan's acceptance within the organization. An intensified communication ultimately leads to a better understanding, and thus to greater satisfaction with the LTIP. As soon as companies start expanding their LTIP coverage (especially on a vertical hierarchy level) communication takes an even more prominent role as these new 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 LTIP in the compensation structure and the portion of LTIP-eligible employees.**
- **Second, companies should apply a combined set of internal and capital market performance measures for their LTIP.**
- **Third, companies should communicate their LTIP more intensively. Intensive communication makes LTIP more understandable, increases employee satisfaction and thus invigorates LTIP grants.**

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Merck
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National Australia Bank
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Novartis
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OSRAM
Outbrain
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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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Emily Cervino – Fidelity

Emily Cervino is Vice President at Fidelity Stock Plan Services. Emily has been working in varied roles in the equity compensation industry since 1998, Emily has a unique appreciation for the opportunities and challenges of equity compensation. At Fidelity Stock Plan Services, Emily focuses on strategic marketing initiatives, thought leadership, and building Fidelity's strong industry presence.

In her former role as executive director of the Certified Equity Professional Institute (CEPI) at the Santa Clara University, Emily was involved in all aspects of certification, research, and program marketing. In previous roles, Emily managed all the equity compensation programs at National Semiconductor and held various roles at E*TRADE/ShareData.

Emily is a frequent speaker at equity compensation events, past president of the Silicon Valley Chapter of the NASPP, a member of NASPP, GEO, and NCEO, and a 2015 recipient of the NASPP's Individual Achievement Award. Emily is a Certified Equity Professional (CEP) and she holds Series 7 and 63 securities registrations.

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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 gaining 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 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 as well as his public commentary on current developments have underpinned his status as an expert.

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Marc Muntermann joined Siemens in October 2011. Marc 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 is leading the Global Share Programs team. In this position he is responsible for the design and administration of all company-wide equity plans. 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 153,000 employees already participating in the plans.

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

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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 and 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.

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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 and Employee Stock Ownership at the School coordinates over 120 scholars at universities throughout the United States and the world studying equity compensation and employee stock ownership plans. The Program sponsors the annual Beyster Symposium and Workshop in honor of Louis O. Kelso, along with the Beyster Fellowships, the Kelso Fellowships, the Fidelity Investments Fellowship in Equity Compensation, and other fellowships. The program awards 10-15 competitive research fellowships to young and emerging scholars annually.

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