

***2011 Global Equity  
Incentives Survey:***  
The Rise of Performance-based Equity  
Executive Summary





---

# ***Table of contents***

|                                                 |    |
|-------------------------------------------------|----|
| Foreword                                        | 1  |
| Compensation analytics and shareholder approval | 2  |
| Equity grant practices                          | 9  |
| Tax compliance and planning                     | 11 |
| Process and administration                      | 18 |
| Concluding remarks                              | 20 |
| PwC Human Resource Services                     | 21 |
| Contacts                                        | 22 |



---

# Foreword

The lingering impact of the financial downturn continues to affect companies' compensation programs. Our last Global Equity Incentives Survey, performed in 2009, revealed that companies expected compensation levels to remain flat or even decrease. The good news is that companies have a more positive view of compensation levels in the short term, while continuing to express optimism about the long term. The slow nature of the recovery, however, is causing companies to remain conservative. This conservatism, when combined with the unprecedented stakeholder scrutiny of executive pay over the last few years, has seen performance-based equity become the compensation vehicle of choice for companies.

Historically, equity was used for three main purposes: to align recipients with shareholder interests, and to reward those recipients when shareholders were rewarded with share price increases; and to provide compensation levels through share price increases that might be too expensive if the company used cash. The perceptions that equity grants encouraged executives to engage in risky behaviour that arguably caused the financial crisis and subsequent recession, and that executives continued to accumulate wealth despite shareholder losses, have changed the landscape dramatically.

Shareholders, regulators and other stakeholders have successfully pushed companies to provide greater amounts of performance-based equity at the expense of service-vested stock options and full value awards. Since our 2009 Survey, performance-based equity has surpassed all other equity vehicles as the compensation vehicle of choice for companies. This has been combined with clawbacks, ownership guidelines/net holding requirements, and even performance-based deferrals of cash bonuses, to ever more tightly align executive compensation with long-term, sustainable, shareholder value creation. We definitely see the continued evolution towards compensation programs where all stakeholders win or lose together.

PricewaterhouseCoopers (PwC) is pleased to share "The Rise of Performance-based Equity". This Executive Summary provides key insights from the PwC 2011 Global Equity Incentives Survey, the seventh in the survey series. Our survey is one of the most comprehensive studies available on the design and administration of equity incentive compensation plans for multinational companies. One hundred and forty seven multinational companies in 17 countries participated in the survey. The 2011 survey includes new topics reflecting general trends in the mix of equity awards, in the relationship between companies and stakeholders, in administration of equity compensation, and in changes in the global use of equity based on tax compliance. Equity compensation retains its role as the key compensation component driving executives to create sustainable, long-term shareholder value creation, regardless of business, financial or capital markets turbulence.

We hope you find the results from the 2011 Global Equity Incentives Survey useful as you look to drive the right behaviours to drive performance and reward employees for their contributions to company success.

---

# Compensation analytics and shareholder approval

## *Compensation levels expected to rise but with more focus on performance and risk*

The financial downturn and the subsequent economic recession of the recent years have continued to place focus on compensation both at the executive and employee levels. In our 2009 Survey, short-term expectations for compensation were gloomy, with over half of the participating companies expecting a freeze or even a reduction in pay levels over the subsequent 12 months, though long-term outlook on compensation remained positive. Even with the continued global economic uncertainty of today, our 2011 Survey reports that the majority of companies expect short-term pay levels to rise. At the same time, long-term expectations are positive today as they were in 2009 with a majority of companies continuing to expect a rise in compensation but now a larger percentage of companies also expect to see a shift to compensation contingent on performance for an increased employee population.

Executive pay continues to be no exception. Shareholders, shareholder service groups, and governmental agencies have continued to push for more linkage between executive pay and company performance. While compensation/remuneration committees have included pay-for-performance in their approach to compensation, we have begun seeing a push to manage company risk through compensation plan design. In the United States, the Securities and Exchange Commission required, for the first time in 2010, that publicly-traded companies disclose whether any compensation programs could result in material risks to the company. These disclosures generally required companies to assess the potential impacts of company-wide compensation programs from the view of not only the design, but also the administration and governance of those programs.

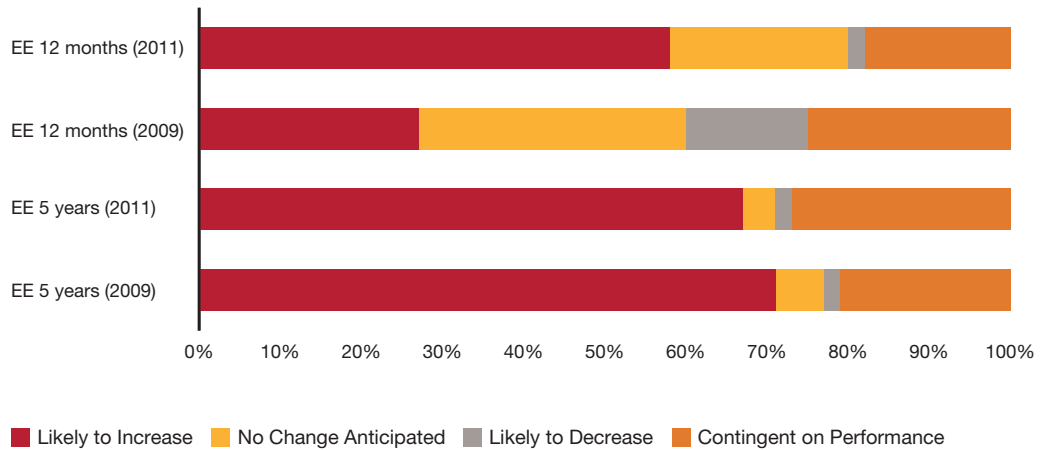
One potential concern was cash-based incentives which may be paid before the full effects of the actions required to earn that compensation become known. In other words, there was a disconnect between the payment of compensation and the associated risk horizon for the company. This was most clearly demonstrated with financial service firms which paid large bonuses based on sales of financial instruments with no further consideration of the performance of the financial instruments which they sold.

As companies began to consider the relationship between compensation and risk, one of the key compensation vehicles commonly viewed as helping to mitigate long-term risk is equity since the shares, when subject to restrictions on sale, subject the employees to the same risk and rewards of other shareholders. This concept was applied by the Special Paymaster for Executive Compensation in setting guidelines for companies which received assistance under the United States Troubled Asset Relief Program. These guidelines recommended that any salary in excess of \$500,000 be awarded in the form of equity with a three year restriction on the sale of those shares.

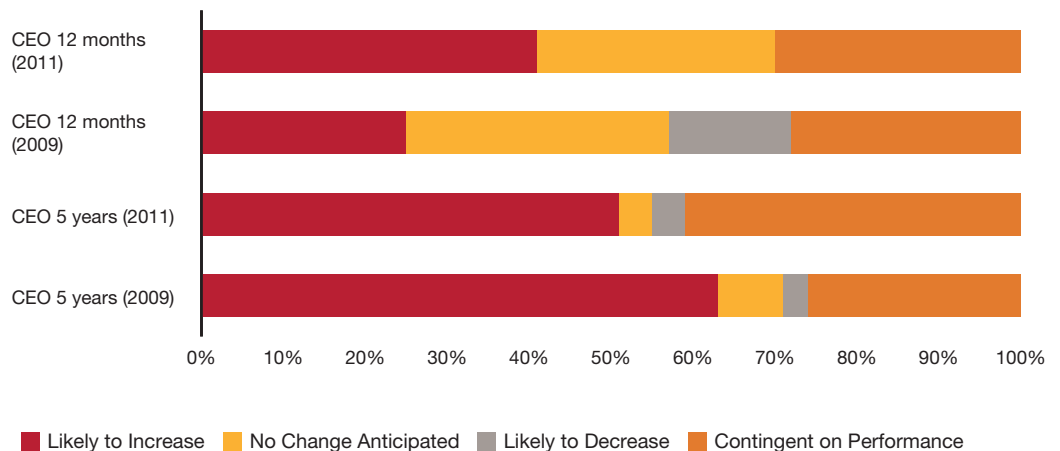
Companies appear to support this shift towards equity compensation with 43% of companies expecting to increase equity compensation levels to executives and senior management in the coming year and 28% of companies expect to increase equity

compensation levels for middle management through vice president levels as well. In both cases, this increase is reported for both stock options as well as other types of equity awards. In the move towards more linkage to performance, on average, 50% of companies report that vesting conditions for Restricted Share Units (RSU) and Restricted Shares (RS) awards will be based on some form of performance or market condition.

#### Anticipated Changes in Employee Compensation



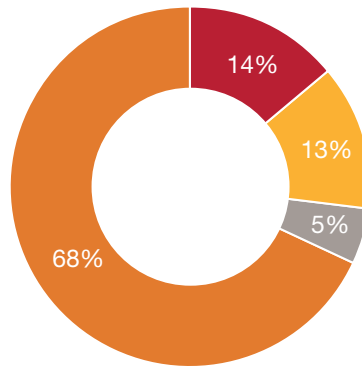
#### Anticipated Changes in CEO Compensation



The most common analytical approach used to assess executive compensation is a market-based benchmark with 97% of companies surveyed using such an approach. Even though this remains the norm, slightly more companies now use this approach than seen in our surveys in 2007 and 2009. On average, 15% of companies use at least one other method for assessing executive compensation. These include assessments of: the total cost of the senior management team, CEO pay to stock price performance, CEO pay to direct reports, and CEO pay to internal performance measures, such as revenue, margin, and turnover. This exhibits the move towards a more holistic approach to executive compensation, performance, and risk.

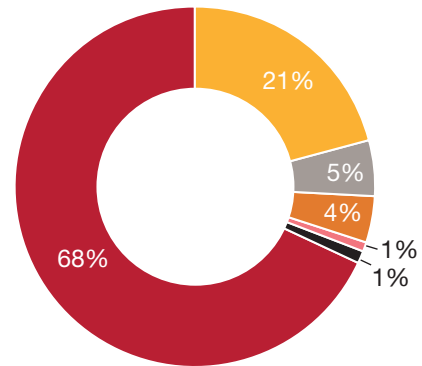
In addition, 87% of companies have or are in the process of developing a formal compensation philosophy, and 96% of companies have internal controls around executive compensation with the majority of those reviewing those controls annually.

**Existence of compensation philosophy**



- Yes, since before this year
- Yes, prepared/updated this year
- No written policy
- No, but policy in development

**Review frequency – Exec comp controls**



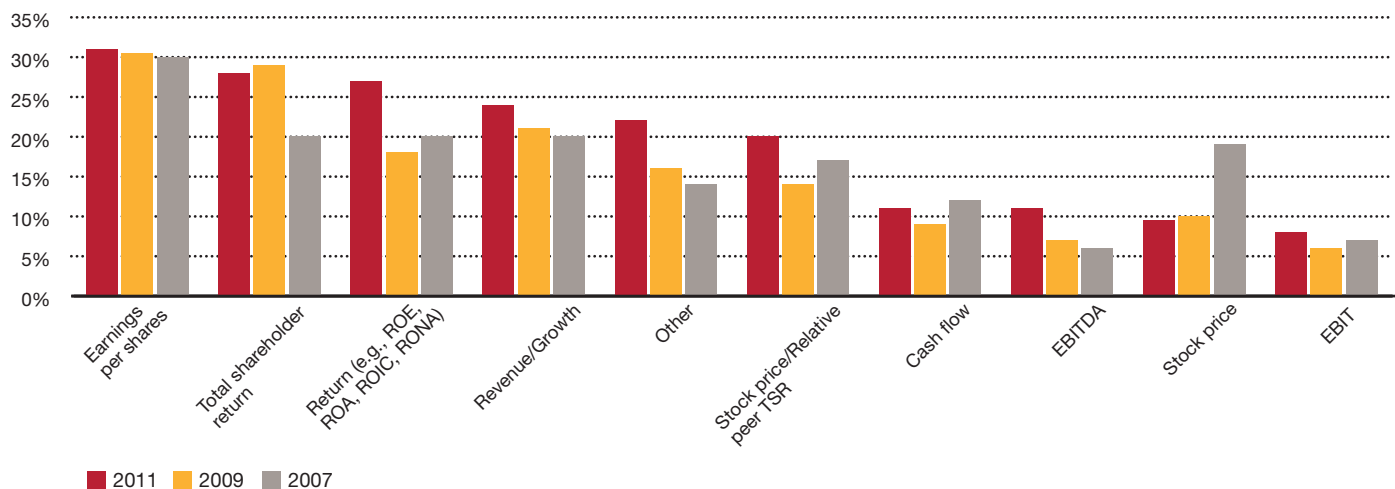
- Once per year
- More than once per year
- Every 2-3 years
- At time of hire
- Developing now
- No internal controls

### ***Performance-based shares and share units are now more favoured than stock options***

The decline in the use of stock options in favour of shares and share units has continued. Restricted Share Units were offered more commonly than stock options in 2009 and 2011 but Restricted Shares for the first time became more commonly used in 2011. The conditions required to earn RSUs and RS have also continued to change from time-vested to market or performance-vested which continue to link the use of share plans to company performance. These design changes are seen both among top executives and the company-wide employee population even on a global basis where most extend these programs out internationally with no change. When changes do occur, it is primarily changed on a country-by-country basis and done for reasons tied to local compensation practices in those countries or labour law issues.

When shares are subject to performance conditions, they are either based on market-based measures (e.g., stock price, shareholder return, etc.) or internal company performance measures (e.g., earnings, cash flows, etc.). The most common measure since 2007 has been Earnings per Share (EPS) followed closely by Total Shareholder Return (TSR). Other measures of return, such as Return on Equity, Return on Assets, and Return on Invested Capital, have seen a return to popularity in 2011 after a brief decline in 2009.

### Most Frequently Cited Performance/Market Targets

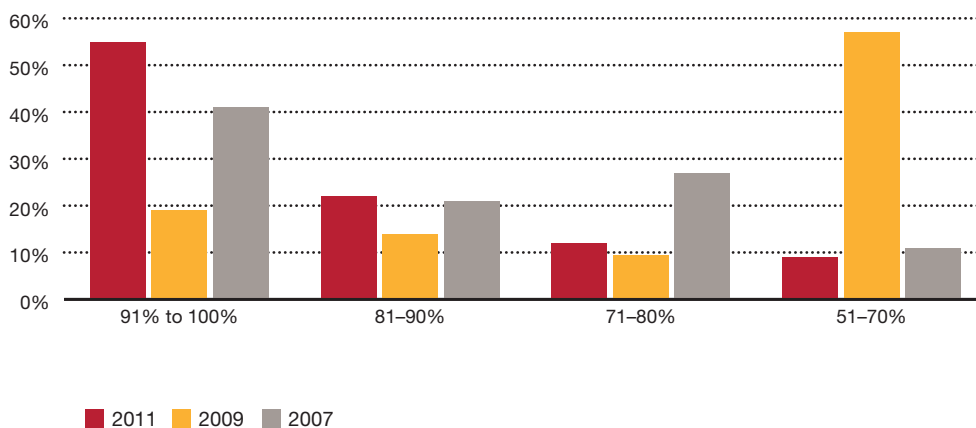


### *The push for performance-based compensation is supported by shareholder voting*

In the past three years, 58% of respondents submitted a new stock plan or an amendment to an existing plan for approval by shareholders. In 95% of these cases, the shareholders approved the plans. While this represents only a small change from the 93% approval rate in 2009, the percentage of shareholders approving the plans has increased dramatically. In 2007, the approval rate was also 95% which shows consistency in the approval levels as that seen in our 2011 survey.

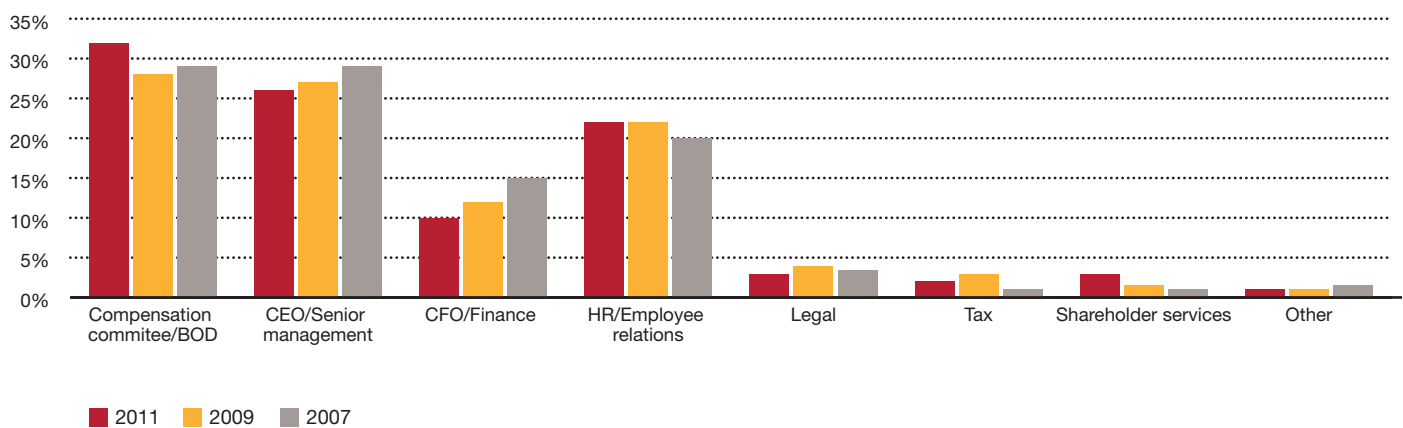
### Percentage of Shareholder 'Yes' Votes

Approving New Plans/Changes to Plan



Compensation/Remuneration Committees continue to be considered the most influential decision-makers though their level of influence has risen since 2009, taking away from management and other internal groups. After many years of companies adjusting their equity compensation practices due to the financial accounting implications under both the United States' Financial Accounting Standards Board and International Accounting Standards Board, the influence of the CFO and finance departments has steadily declined since 2007. While smaller in magnitude, the influence of the CEO and senior management has also declined. Interestingly, the level of influence of human resources departments has remained steady suggesting their involvement in equity compensation programs is supported by the Board of Directors and Compensation/Remuneration Committees.

#### Most Influential Decision Makers of Equity Plans



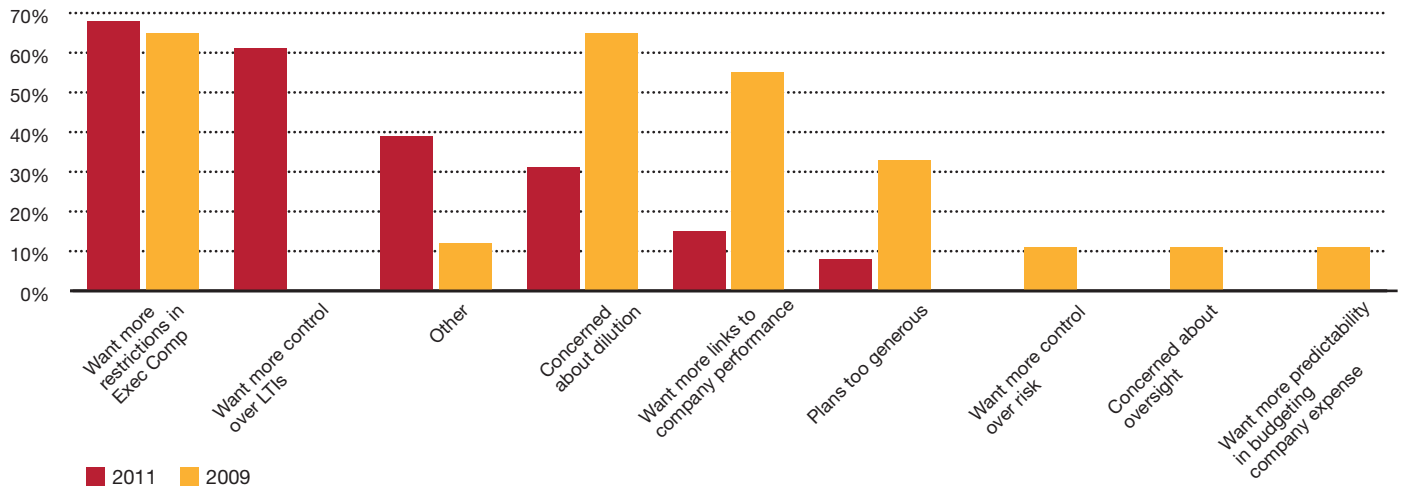
### *Biggest drivers of dissatisfaction are still executive compensation and now more control over plans in general*

While the approval rating of share plans has increased, some shareholders are still reported to be dissatisfied with their company's share plan but the reasons have shifted considerably since 2009. Possibly due to depressed stock prices during the recession, companies reported that shareholder dissatisfaction in 2009 was due to their: desire to restrict executive compensation, concerns over dilution, want for more linkage to company performance, concerns of plans being too generous, and not enough oversight or control over risk.

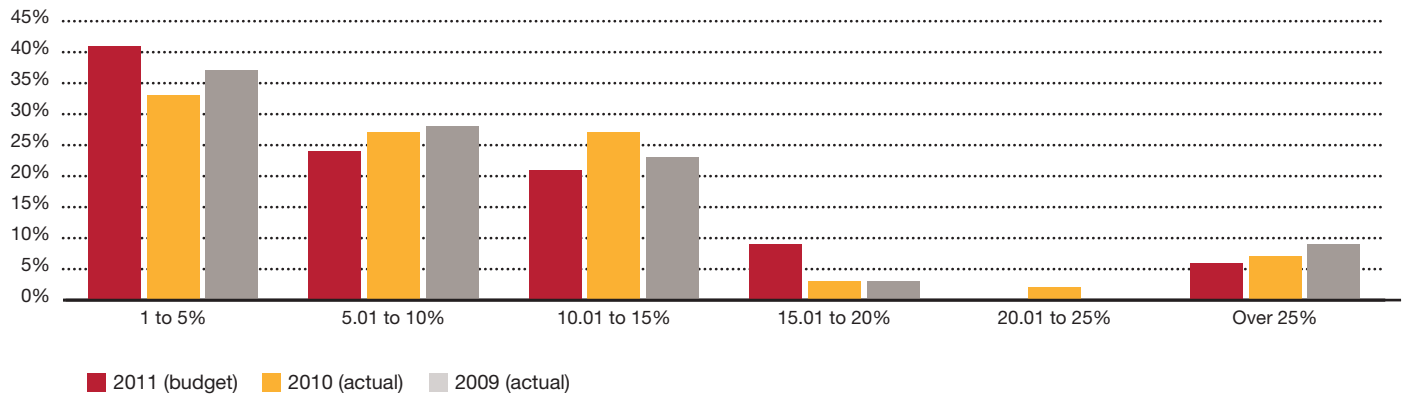
While shareholders continue to want to restrict executive compensation, the other most common measures of dissatisfaction from 2009 have dramatically decreased by 2011. Two of the largest reasons for shareholder dissatisfaction from 2009, dilution and linkage to company performance, are now much less of a concern. It is possible that the continued focus on performance-based compensation has alleviated concerns as to how equity plans link to company performance. In addition, companies appear to have reduced the potential dilution (commonly referred to as overhang) associated with equity plans. With previous concerns still addressed, shareholders would now like to have more control over the use of the share plans by the company.

In general, the percentage of companies reducing overhang has grown with more than 40% reporting a projected overhang of less than 5%. This would in part be explained by the shift away from stock options to RS and RSUs. With the exception of an increase in respondents reporting a projected overhang between 15%-20%, the overall percentage of companies with overhang over 5% has reduced since 2009.

#### Reasons for Shareholder Dissatisfaction in Equity Plans



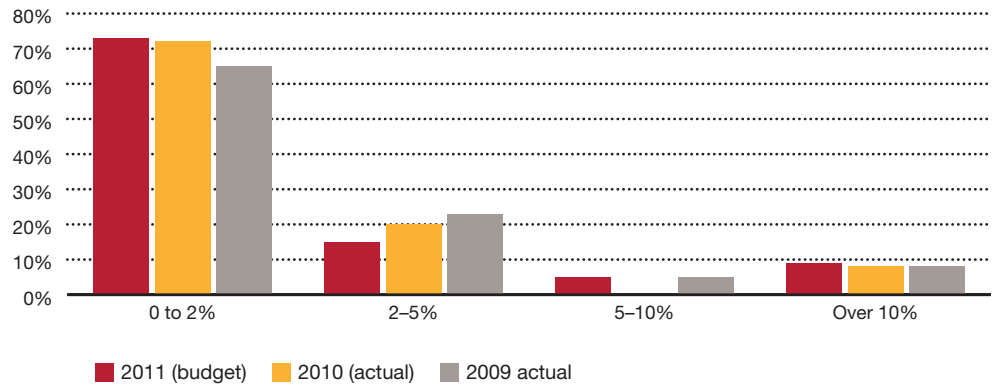
#### Trend in Overhang



The amount of equity issued on an annual basis as a percentage of outstanding stock, known as burn rate, has also decreased in general. The number of companies which reported burn rates between two and five percent in the last two years has declined and those companies now expect to have burn rates of two percent or less. Interestingly, companies with high burn rates continue to maintain those high levels which may be explained by companies continuing to rely heavily on non-cash compensation to support expansion in order to conserve cash.

The decreasing burn rate levels appear to also have reduced the frequency at which companies seek shareholder approval of plans for new shares or other amendments. A little more than half of all companies (58%) in the survey report sought shareholder approval in the last three years which is lower than 2005 and 2007 but higher than 2009. In 2005, 2007, and 2009, the percentage of companies seeking shareholder approval for new shares or other amendments during similar three-year window was 67%, 60%, and 50%, respectively. The dip in 2009 may be associated with that year being one of the lowest points during the recession where unemployment levels were highest.

#### Burn Rate Trends

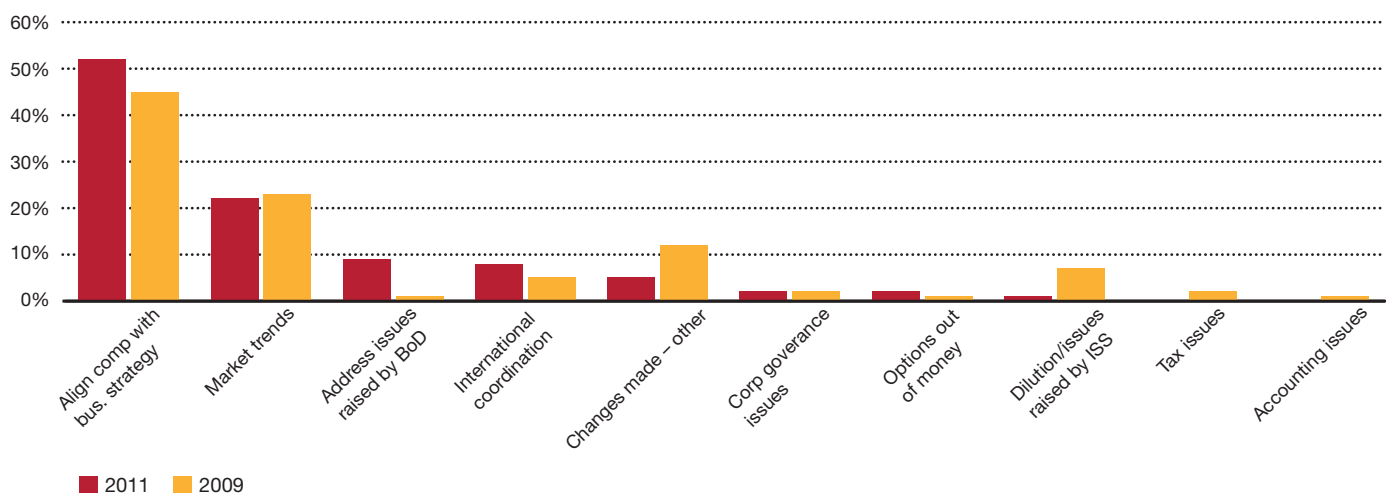


# Equity grant practices

Multinational corporations are constantly considering where and to whom to grant equity, what countries to include in their global equity plans, and what kind of equity to grant. Key questions continue to be whether to put everyone on one global equity plan, or whether to have different plans based on region or country. Where tax and other compliance and efficiency issues force companies to change their plans in certain countries, do they leave people out, provide a different vehicle or just provide cash? Do you give similar grant amounts to all employees regardless of the economic benefit the grant provides in that country, or do you vary grant size by region or territory?

The Survey indicated that the key driver of equity compensation continues to be alignment of compensation strategy to business strategy. Companies must first determine their business strategy and what their compensation philosophy is that will support such a strategy. When the global equity plan design is aligned with the compensation philosophy and overall business strategy, that overall objective provides support when specific adjustments are required to address local country conditions. Flexibility is available in this framework—depending on the difficulty or ease of making a grant in any particular country, but consistency to the corporate strategy and the compensation philosophy will help maintain the necessary support that is needed for the success of any global plan.

Drivers of Changes in Equity Comp

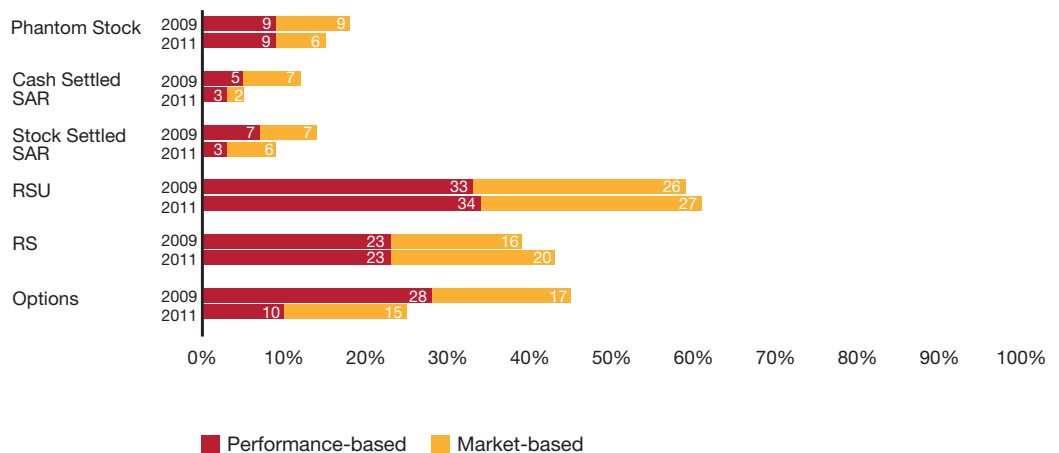


Interestingly, there has been a notable shift in companies that report that they have changed their grant practices to “address issues raised by the Board” which increased from 1% in 2009 to 9% in 2011. This is really driven by the increase in the use of performance based awards—in many cases there is a desire by the Board to use performance based awards compared to service based awards. Such performance based awards allow for companies to have more control over the structure and specifically tailor them to be aligned with their corporate strategies. The increased influence of issues raised by the Board on plan design may also reflect sensitivity to the first round of “say on pay” votes.

On the other hand, it is surprising how many companies reduced equity participation in foreign subsidiaries—almost all countries showed a decline in the number of award recipients since 2009. The question of course is why? We think it is a combination of factors: (1) the 2009 Survey considers grants made prior the market decline (i.e. January – March awards); (2) a number of countries (e.g., UK with a 21% decline) stepped up their audit procedures causing companies to scale back on the number of grants made to mitigate compliance concerns ; and finally (3) several countries (e.g., Australia with a nearly 25% decrease) had significant tax rule changes which make granting equity less attractive than in the past.

We also looked at the types of awards that companies have been granting globally. The big news here is that there is a continuing decline in service based stock options awards. Performance based shares/units are now more popular than at any time in history. Restricted Shares and Restricted Share Units either performance or non-performance based, are the most common equity vehicle in virtually all industries and among all countries surveyed.

#### Types of Equity Offered

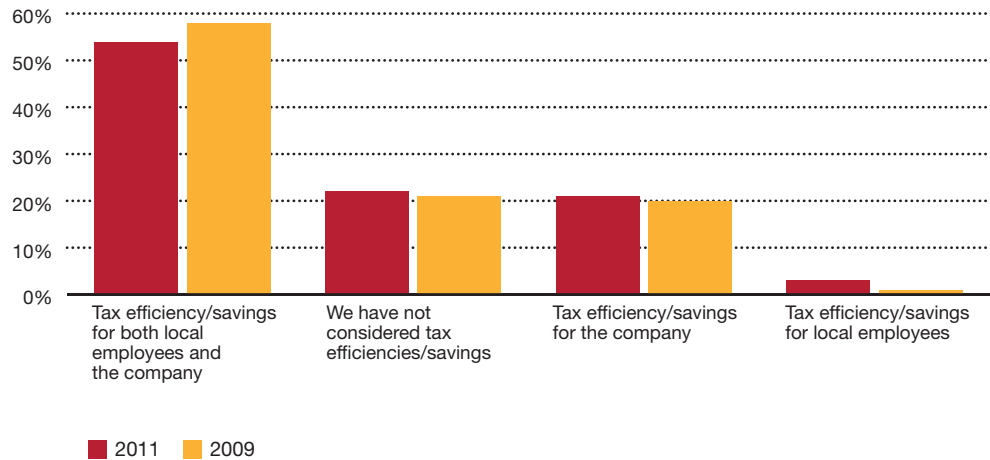


As provided above, we have seen a dramatic increase in the grant of service and performance based RSUs. When considering the graph above, please note that service-based awards are not specifically identified and make up the remaining percentage of equity granted under a particular form. For example, in 2011, performance-based options made up 10% of the grants, market-based options were granted 15% of the time, and service-based options comprise the remaining 25% of awards. The data shows a significant decline in performance-based Options between 2009 and 2011 and the continuing increase in performance and market based RSUs. Restricted Share held steady more or less. To put these into perspective we compared the data for US headquartered companies against non US headquartered companies—interestingly for Options and RSUs—non-US-HQ companies offered more performance and market based awards than US-HQ companies. The only type of award where US-HQ companies offered more performance based awards was for RSUs. For all other types of awards non-US-HQ companies offered more performance and market based awards.

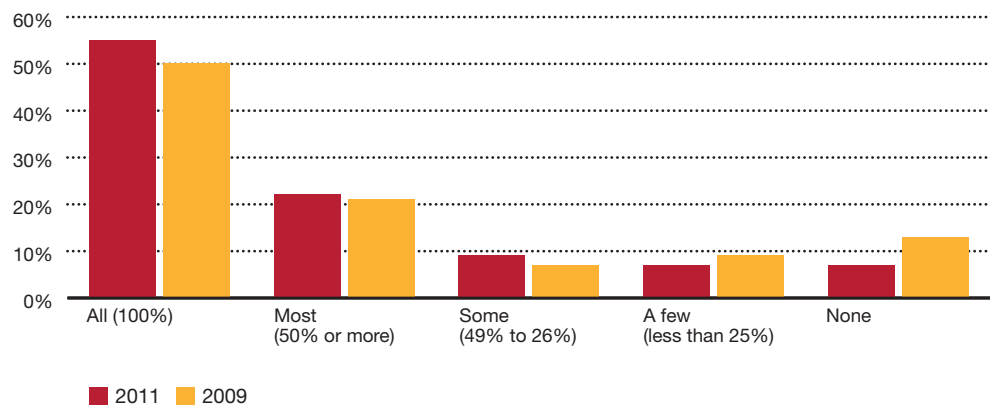
# Tax compliance and planning

In the face of the “Great Recession” participants remain focused on achieving both local employee and company tax efficiency/savings (highest priority of 54% of participants) and global compliance (55% of participants conducted global compliance reviews, a 5% increase over 2009). In fact, there was a parallel double digit decrease in the number of participants that did not conduct any compliance reviews from 13% in 2009 to 7% in 2011. We believe these are indicators of not only increased awareness of global tax compliance and planning, but of more good things to come as participant stock prices rebound.

## Highest Priority Regarding Equity Compensation

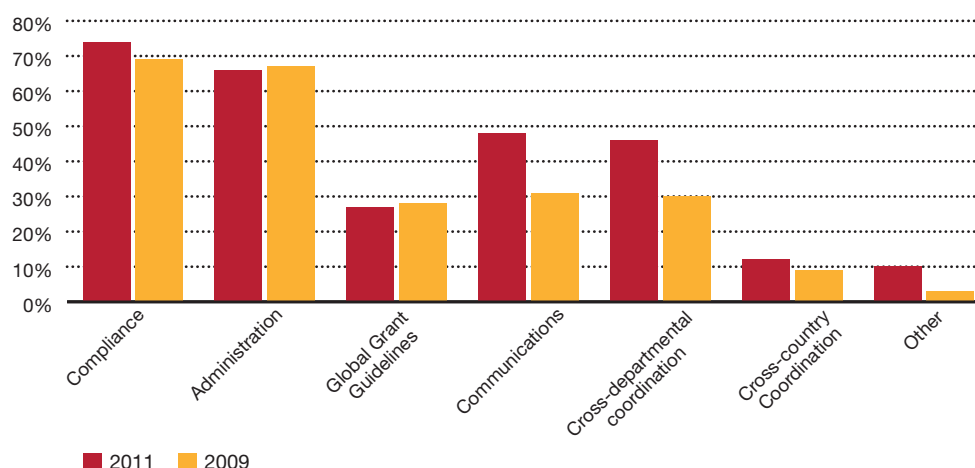


## Prevalence of Internal Global Compliance Reviews



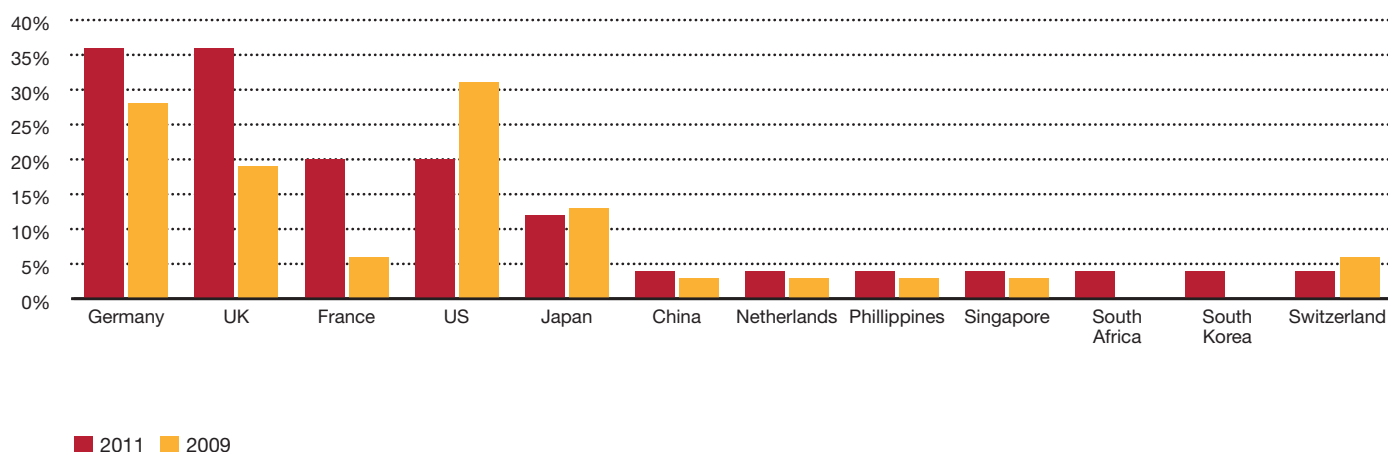
However, achieving local tax efficiency/savings and global compliance are not without their hurdles. Today, more than ever before, changing legislation, increased global audit activity (especially in France, Germany and the UK) and employee communication and cross-border coordination efforts test even the most seasoned equity professional. More specifically, while the most challenging aspect of offering equity remains “compliance” the most significant jumps were in “communications”, which increased from 31% in 2009 to 48% in 2011 and “cross country co-ordination”, which increased from 30% in 2009 to 46% in 2011.

#### Most Challenging Aspects of Offering Equity



#### Companies Audited in the Last Three Years

(as % of responses)

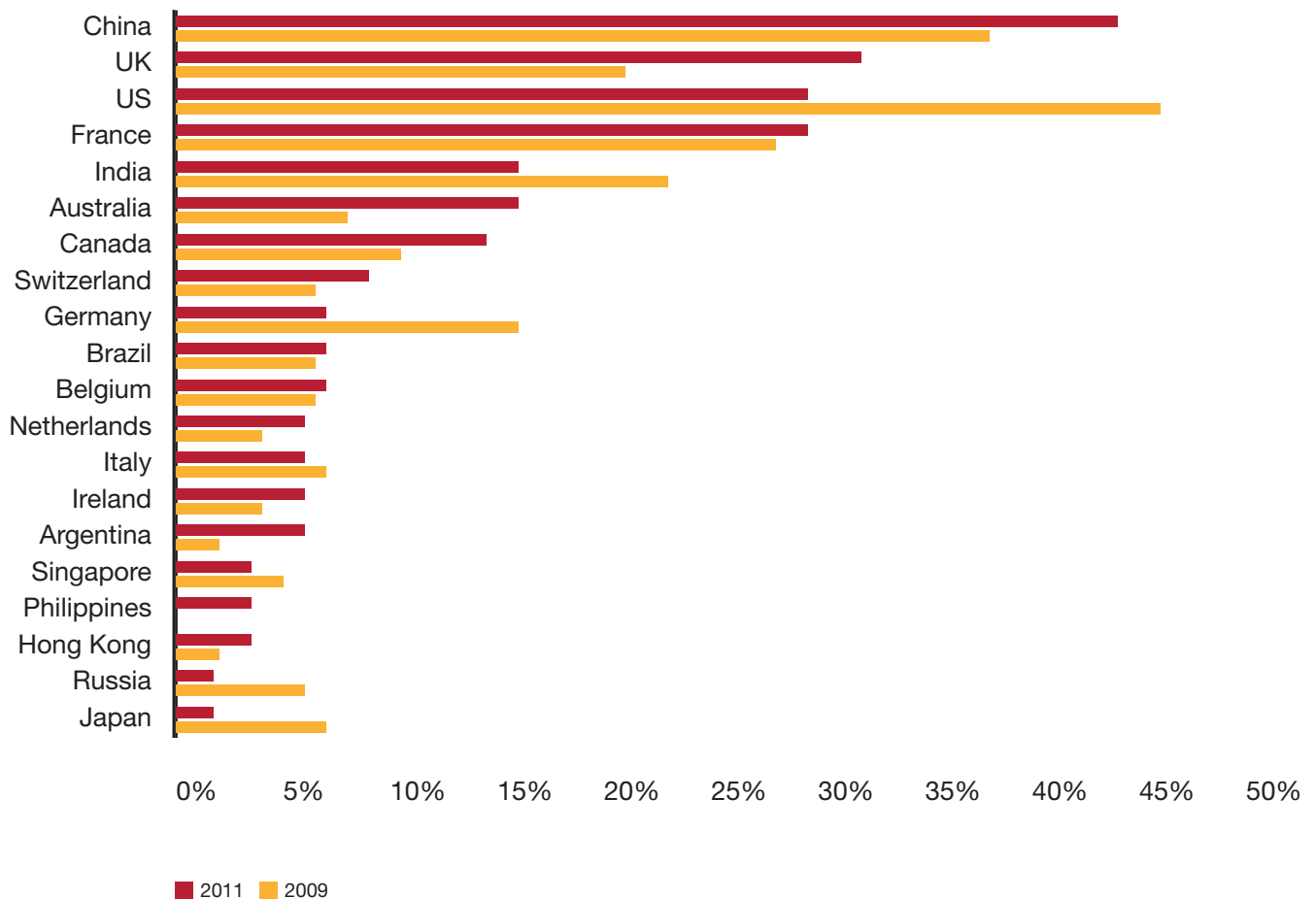


## Compliance

As participants focus on navigating through the diverse and, often times, disparate global tax landscape, not surprisingly there has been a chilling effect where tax efficiency and ease of administration diverge. In this respect, the most challenging tax compliance countries have proven to be China, UK, the United States, France, India and Australia.

For example, as a result of China tax (Circular 35) and foreign exchange (SAFE) registrations, 53% of participants do not grant equity to Chinese nationals. Of those participants that do offer equity in China, 70% have or are in the process of registering their plans with the local in-charge tax authorities under Circular 35 and approximately 60% have or are in the process of obtaining SAFE approval from the Chinese foreign exchange administration. Similarly, only 30% of participants have a qualified free share plans in France; 42% of participants consider qualified option plans too administratively burdensome. Lastly, in light of the change in the timing of taxation of options in Australia (from exercise to vesting), nearly 30% of participants changed their granting practices, of these, 21% no longer grant options in Australia.

### Countries with Most Challenging Tax Compliance



## Communications

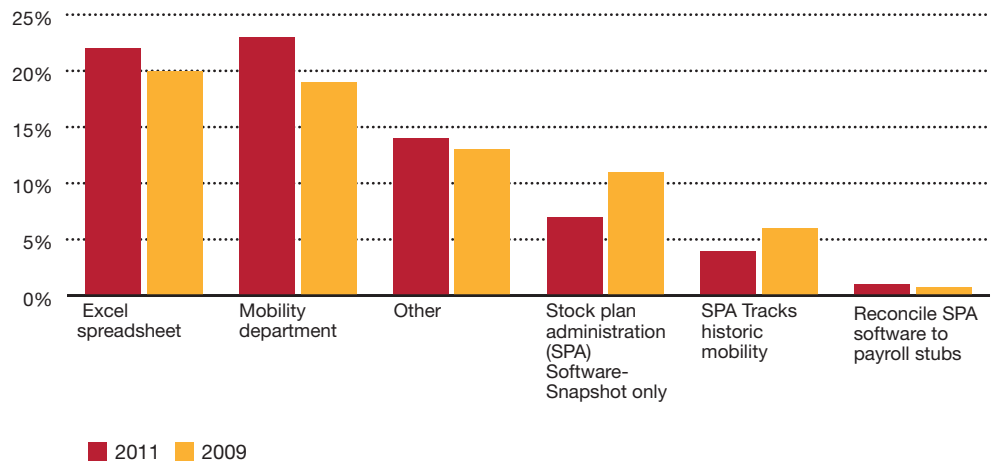
While communicating a consistent message worldwide remains a challenge, participants are leaning on technology to disseminate plan information. 39% of participants in 2011 delivered their award agreements via the administrator's internet site, up from 25% in 2009, and nearly half of employees acknowledge award grants via an electronic system hosted by the Company, an increase from 39% in 2009.

## Cross country coordination

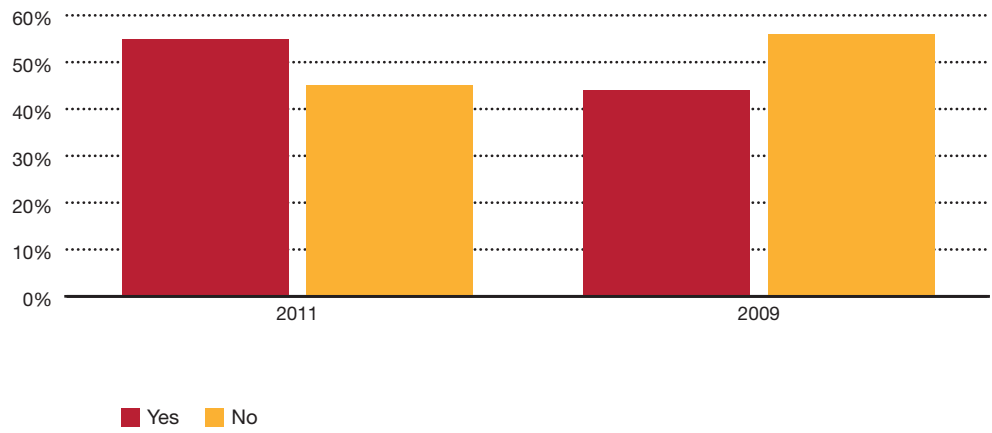
As reflected above, tax compliance efforts are perennial and these efforts, more often than not, are further complicated in cross-border employee scenarios. The good news is that there is a continued commitment to tracking cross-border employees. In fact, 72% of participants track employee movements across foreign borders and while most continue to track via excel, the biggest increase was the use of a dedicated mobility department, increase from 26% in 2009 to 31% in 2011. Participants have also begun focusing more on state-to-state cross border movement, an increase from 44% in 2009 to 56% in 2011.

There is even an effort to simplify cross-border employee withholding. Even as participants navigate accounting requirements, the number of participants that collect required withholding via "net share settlement" increased from 16% in 2009 to 33% in 2011. In fact, nearly 40% of participants perform restricted share unit withholding outside the US by "assuming a generic individual tax rate within each country based on local requirements". The biggest decline was in "taxes collected through payroll" which fell from 20% in 2009 to 11% in 2011.

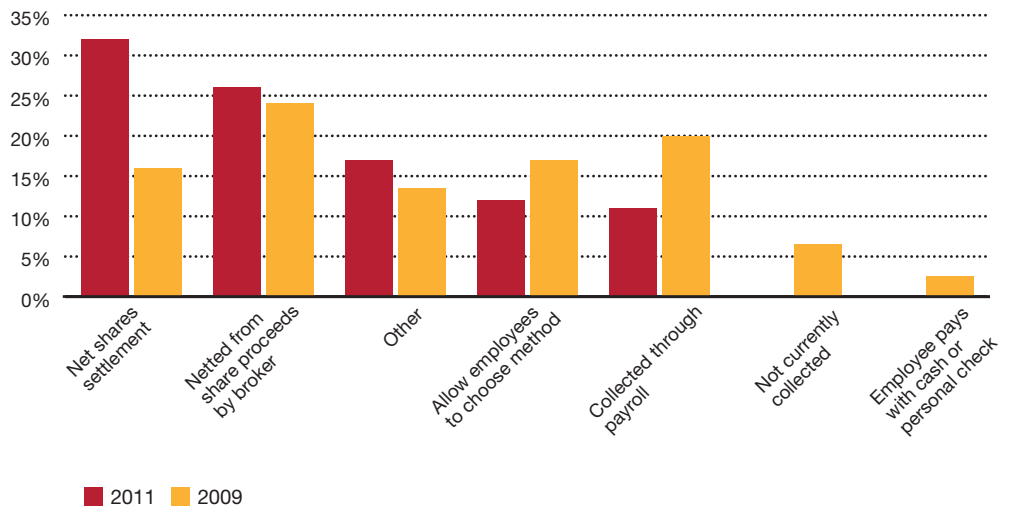
### Methodology to Track Cross-Border Employees from Grant to Settlement



### Is State-to-State Movement of US Employees Tracked?



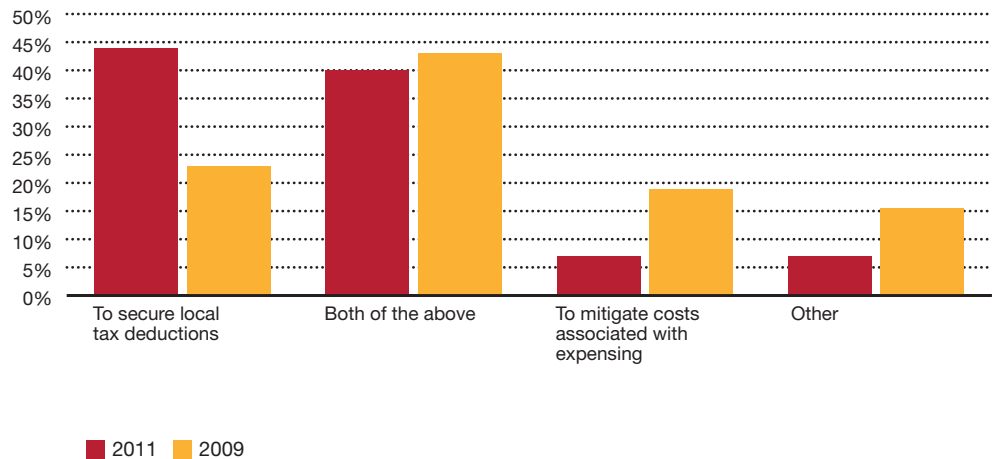
### Method of Collecting Taxes Upon Exercise or Share Delivery



## Cost chargebacks

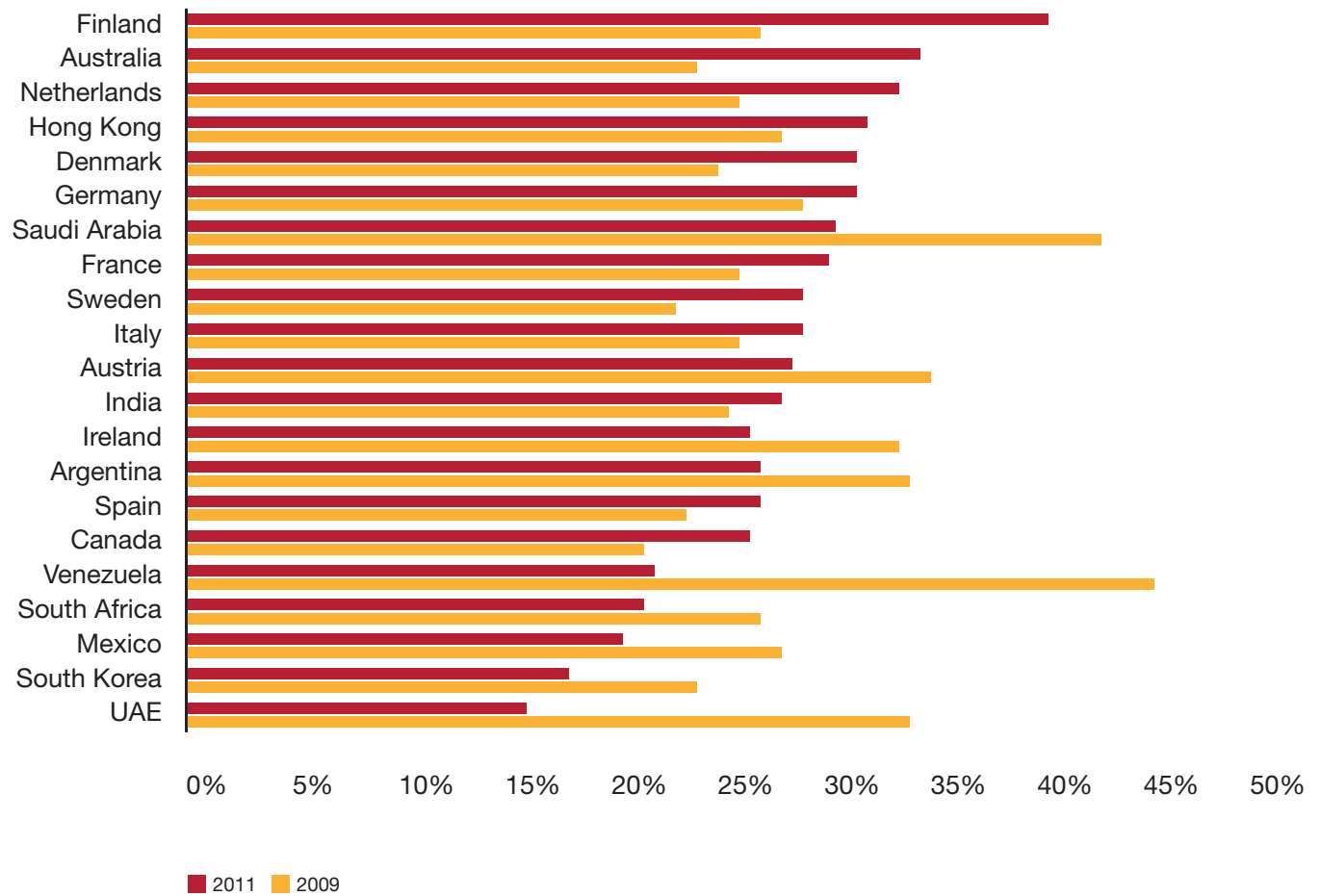
In the past cost chargebacks were implemented to reduce taxes and mitigate accounting expense; today, as the economy slowly recovers, the cash tax savings has increased as businesses are looking to repatriate foreign earnings. There was a significant increase of those participants that seek to recharge equity costs to foreign affiliates in order to secure local corporate tax deductions—from 23% in 2009 to 44% in 2011. That said, 80% of participants indicated they actually have a recharge agreement in place, a drop of 14% from 2009. In other words, securing a local deduction to achieve cash savings is naturally a top priority in a weak economy, however, if costs are recharged it is largely dependent upon materiality. Again, we expect more good things to come as the economy recovers and participant stock prices rebound.

### Reasons to Start Charging Back Equity Plan Costs



### Countries Where Equity Plan Costs are Charged Back

(data shown as a % of companies in that country that charge back equity costs)



---

## *Process and administration*

Whereas the dramatic economic conditions of 2008-09 largely overshadowed the areas of stock plan process and administration, the pressure on companies to disclose, report and otherwise answer to various equity compensation compliance requirements has moved stock plan process and administration into the foreground. Some of the compliance requirements companies face include reporting the total cost of compensation to the executive management team, reflecting the impact of performance based awards on diluted earnings per share, withholding and reporting on the tax liabilities that “trail” a company whose equity compensation is earned while in one country or state but settled after they leave, and, in the US, determining the availability of a corporate tax deduction on compensation earned by employees whose total compensation for the year is over a specific threshold.

Additionally, in 2011, the landscape of stock plan administration service providers has evolved to a point where the number of public companies that take advantage of outside service providers continues to increase. Some of the long standing players in this space have weathered significant storms during the recent market downturn and indeed, acquisition activity continues to present challenges and opportunities for blending strengths in rival service providers. Despite the changes in the marketplace, many of the vendors have continued to invest in stock plan administration as a core element of their business and are able to provide public companies with levels of service in administration and even financial and tax accounting that were previously unheard of—and at fairly cost effective prices.

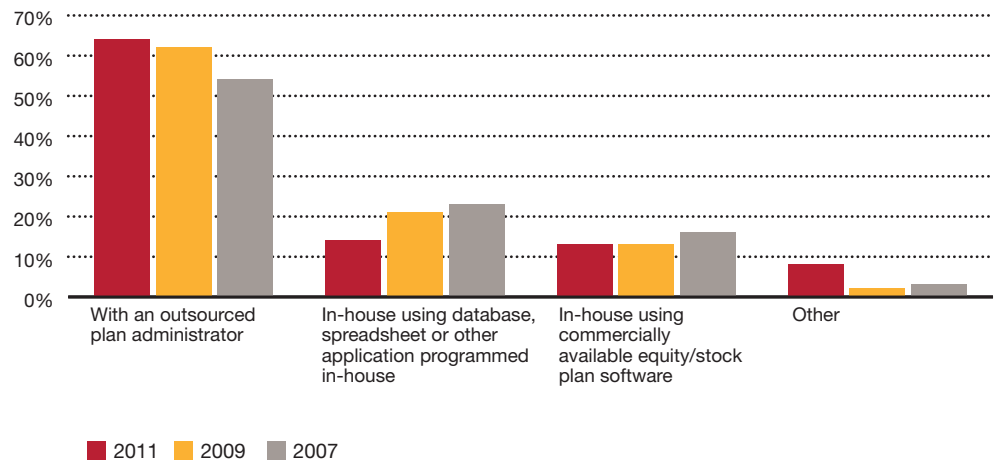
Although there are still some gaps in service offerings of the stock plan vendors, in 2011, companies continue to report increased reliance on outsourced vendors and decreased reliance on “homegrown” solutions, from 17% using internal tools in 2007 to 15% in 2009 to 9% in 2011. We expect that while compensation remains in the limelight as an area of concern for corporate governance, companies will continue to leverage outside stock plan vendors as much as possible as they navigate the various equity compensation reporting and compliance requirements.

In summary, companies are showing a continued tendency to embrace technology and to recruit the services of the experts in order to achieve a higher degree of compliance and to standardize routine administrative tasks. The vendor community, while not immune to change, is generally showing maturity and stability.

---

#### Where Equity/Stock-Based Comp Data is Stored

---



---

## ***Concluding remarks***

Results from the 2011 Global Equity Incentives Survey clearly indicate the desire of multi-national companies to link compensation with business objectives. The shift towards contingent, or performance-based, compensation has been met with approval by shareholders as the desire to exert more control over the use of share plans becomes more apparent. Companies are being more strategic as to who receives equity awards on a global basis; and are ultimately trying to maximize the benefit obtained from these awards. There is an increased focus on changing legislation, including global audit activity, and cross-border coordination efforts which create challenges for even the most experienced stock plan administrator.

---

## ***PricewaterhouseCoopers (PwC)***

PwC firms provide industry-focused assurance, tax and advisory services to enhance value for their clients. More than 161,000 people in 154 countries in firms across the PwC network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

---

## ***PwC Human Resource Services***

As a leading provider of HR consulting services, PwC's Human Resource Services' global network of 6,000 HR practitioners in over 150 countries, brings together a broad range of professionals working in the human resource arena — retirement, health & welfare, total compensation, HR strategy and operations, regulatory compliance, workforce planning, talent management, and global mobility — affording our clients a tremendous breadth and depth of expertise, both locally and globally to effectively address the issues they face.

PwC is differentiated from its competitors by its ability to combine top-tier HR consulting expertise with the tax, accounting and financial analytics expertise that have become critical aspects of HR programs.

PwC's Human Resource Services practice assists clients in improving the performance of all aspects of their HR organizations, both management of Human Capital and HR operational excellence, through technical excellence, thought leadership and innovation.

# Contacts

*If you are interested in a customized report geared toward a specific industry, please contact:*

**AmyLynn Flood**  
+ 1 267 330 6274  
amy.lynn.flood@us.pwc.com

**Andrea Irland**  
+ 1 646 471 2345  
andrea.irland@us.pwc.com

**Parmjit Sandhu**  
+ 1 646 471 0819  
parmjit.k.sandhu@us.pwc.com

*PwC has an extensive global network of Human Resource Services practitioners. For further information contact:*

## **Reward by geography**

**North America—US**  
**William Dunn**  
+ 1 267 330 6105  
william.j.dunn@us.pwc.com

**North America—Canada**  
**Jerry Alberton**  
+ 1 416 365 2746  
jerry.alberton@ca.pwc.com

## **South and Central America**

**Joao Lins**  
+ 55 11 3674 3536  
joao.lins@br.pwc.com

## **Asia**

**Thorsten Barth**  
+ 65 6238 72 78  
thorsten.b.barth@sg.pwc.com

**Mandy Kwok**  
+ 852 2289 3899  
mandy.kwok@hk.pwc.com

## **Australia**

**Debra Eckersley**  
+ 61 2 82 66 9034  
debra.eckersley@au.pwc.com

## **United Kingdom**

**Tom Gosling**  
+ 44 20 7212 3971  
tom.gosling@uk.pwc.com

## **Additional contacts**

**HRS Global Leader**  
**Michael Rendell**  
+ 44 20 7212 4945  
michael.g.rendell@uk.pwc.com

**HRS US Leader**  
**Scott Olsen**  
+ 1 646 471 0651  
scott.n.olsen@us.pwc.com

Please visit our website at [www.pwc.com/us/hrs](http://www.pwc.com/us/hrs) or scan the QR code below with your smartphone.





