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Top Five Trends in Long-Term Incentive Plans at Technology Companies

From targeting larger equity awards for technical employees to greater differentiation of awards globally, these top trends are key to benchmarking competitive rewards at technology firms.

Developing competitive long-term incentive plans is a critical element of any compensation strategy, but not an easy task. For one, defining what is competitive in the marketplace is ever-changing, particularly in this red-hot labor market. And with every company becoming more like a technology company, organizations across industries are even more strained to find the talent they need to pursue innovation.

For technology companies to compete in this market, they need to offer a motivating and competitive total rewards package that offers long-term incentives as an essential component. We highlight five trends in the development of long-term incentive plans we're observing. The data is based the *2018 Radford Long-Term Incentive Practices Report for Technology Companies* where we looked at LTI practices at 177 software and 184 hardware companies across the globe. Click here to learn more about the report.

#1: Software companies have higher equity eligibility but also greater differentiation of award amounts.

Software companies have greater differentiation in their equity programs for technical employees, particularly at the senior manager/manager and career professional job levels. These types of firms also have greater eligibility and participation rates for their employees, on average, when compared with hardware companies.

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Figure 1

LTI Premium: Technical vs. Non-Technical at the Career Job Level

Professional Job Levels	Software Companies		
	Market 25th	Market 50th	Market 75th
Level 6	1.2X	1.5X	1.9X
Level 5	1.2X	1.2X	1.4X
Level 4	1.1X	1.2X	1.2X
Level 3	1.2X	1.6X	1.8X
Level 2	1.1X	1.5X	1.9X
Level 1	2.8X	3.7X	2.6X
Average	1.4X	1.8X	1.8X

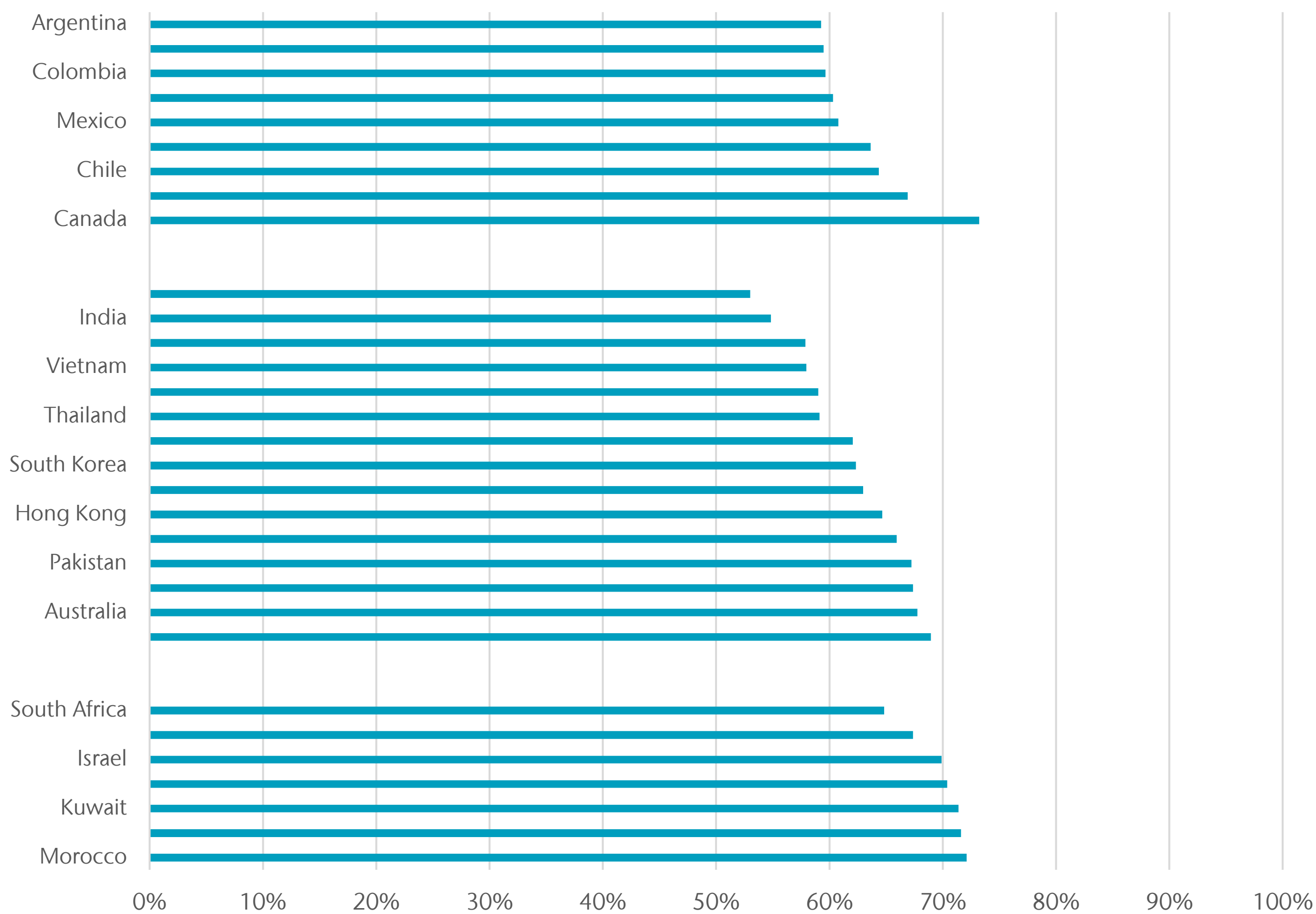
Source: 2018 Radford Long-Term Incentive Practices Report for Technology Companies

#2: Most technology companies grant equity at a discount for employees outside of the United States.

Our research has found that global technology companies grant lower values of long-term incentives to their employees outside of the United States. Country discounts generally range from 60% to 75% of U.S. values with the Asia-Pacific region showing the greatest discounts overall as shown in Figure 2. (Note: More information about equity discounts across 28 European countries is available in our report.)

Figure 2

LTI Award Value as % of US Award Value: Americas, Asia Pacific, Middle East & Africa



Source: 2018 Radford Long-Term Incentive Practices Report for Technology Companies

#3: Full-value shares have passed stock options in popularity.

At almost every job level, companies use either full-value shares (including restricted stock and performance-based stock) or a combination of stock options and full-value shares for new-hire and ongoing awards. The migration away from stock options at technology companies began more than a decade ago and has continued to accelerate.

Figure 3

Vehicle Mix as a Percent of Total Value Delivered at Software Companies

	New Hire			Ongoing		
	Options	RSUs	PSUs	Options	RSUs	PSUs
Executive	25%	70%	5%	10%	75%	15%
Vice President	10%	85%	5%	10%	80%	10%
Director	5%	95%	0%	5%	95%	0%
Sr. Manager/Manager Technical	0%	100%	0%	5%	95%	0%
Sr. Manager/Manager Non-Technical	0%	100%	0%	5%	95%	0%
Career Technical	0%	100%	0%	5%	95%	0%
Career Non-Technical	0%	100%	0%	0%	100%	0%
Entry Professional Technical	0%	100%	0%	5%	95%	0%
Entry Professional Non-Technical	5%	95%	0%	5%	95%	0%

Source: 2018 Radford Long-Term Incentive Practices Report for Technology Companies

#4: Many technology companies use a variety of techniques to allocate a larger equity pool for top performers.

Some companies consider broader ranges where only a select few employees receive a grant at or above target. This approach enables higher participation but will result in a significant year-over-year drop in value delivered (except for key employees who may be at or above prior year grant sizes on a number-of-shares/units basis)

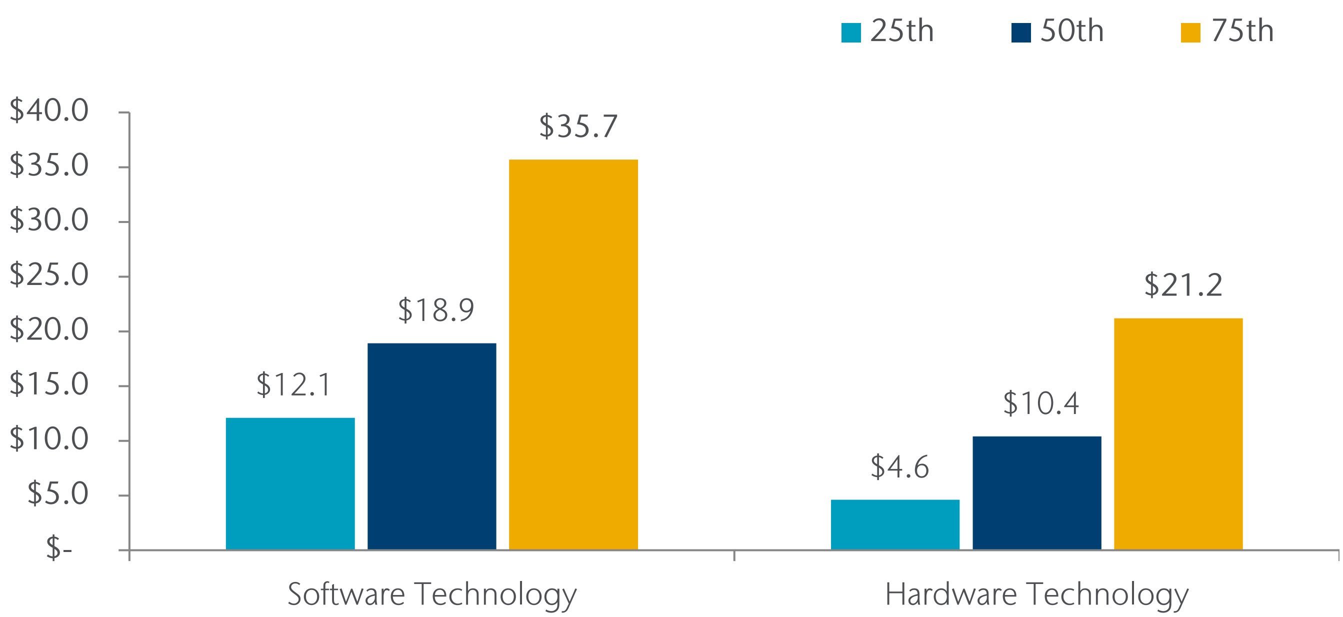
When looking at reducing equity participation, many companies consider cutting back in one or more of the following areas: international employees, employees outside major technology hubs where equity is not used as heavily, non-technical employees, new-hire grant eligibility or excluding sales roles

#5: Software companies are spending significantly more on equity compared to hardware companies.

Stock-based compensation expense on a per employee level is much higher at software technology companies compared to hardware technology companies. This is due to a combination of both higher burn rates and higher relative valuations.

Figure 4

Stock-based Compensation Expense per Employee ($000)



Source: 2018 Radford Long-Term Incentive Practices Report for Technology Companies

Next Steps

Do you want more data and insights? The 2018 Radford Long-Term Incentive Practices Report for Technology Companies is available for purchase here. If you have any questions about rewards design and want to speak with one of our experts, please write to consulting@radford.com.

About Rewards Solutions

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