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GES Executive Compensation Survey

July 2025

Unlocking the potential of employee incentive plans

Effective employee incentive plans go well beyond financial compensation. These plans can be powerful tools to attract, retain, and motivate high-caliber talent, all while driving business success and reinforcing company values. In today's competitive talent market, especially for private companies, having strong incentive programs is crucial. They can help level the playing field with public companies that often offer equity-based incentives to a broader range of employees.

Short-term and long-term incentive (LTI) programs are valuable tools that private companies can leverage to achieve a range of compensation objectives. By understanding these and other variable pay mechanisms within the broader incentive landscape, private companies can better align their compensation strategies with their overarching talent goals. This thought piece draws on insights gathered from Deloitte's *2025 Executive Compensation Practices Private Company Survey* to help inform and guide these efforts.

Contents

About the survey

Deloitte surveyed 500 private companies about their incentive compensation practices to provide a clear picture of the private company incentives compensation landscape.

The data was collected in December 2024, and survey respondents included private companies with revenue between $500 million and $20 billion across a wide range of industries.

These companies reflect various types of ownership structures, such as family-owned, closely held, and private equity-owned.

Key takeaways

What insights did the survey uncover?
Here are some noteworthy highlights:

- A range of variable compensation programs are adopted by organizations to drive alignment and performance.
- Annual incentive plans are the most common form of short-term incentives, followed by team bonuses and recognition programs.
- At the majority of companies surveyed, annual incentive participation is limited to the director's level and above.
- As a company matures, there's a shift from discretionary bonus plans to more structured annual incentives.
- Financial metrics like profit and revenue are the most prevalent measures; however, non-financial metrics such as customer satisfaction and talent benchmarks also play an important role in driving employee performance and increasing engagement.
- Profits interest, performance cash, and stock options are the most prevalent long-term incentive vehicles.
- LTI program participation is concentrated at the director's level and above.
- LTI grants for senior and mid-level leaders help align leadership with the performance of the company and reduce turnover. Not surprisingly, 82% of companies surveyed maintain an LTI plan.
- Effective management and strategic planning are essential for balancing equity usage and preventing excessive dilution.

We invite you to explore many other important survey findings and takeaways in the pages ahead.

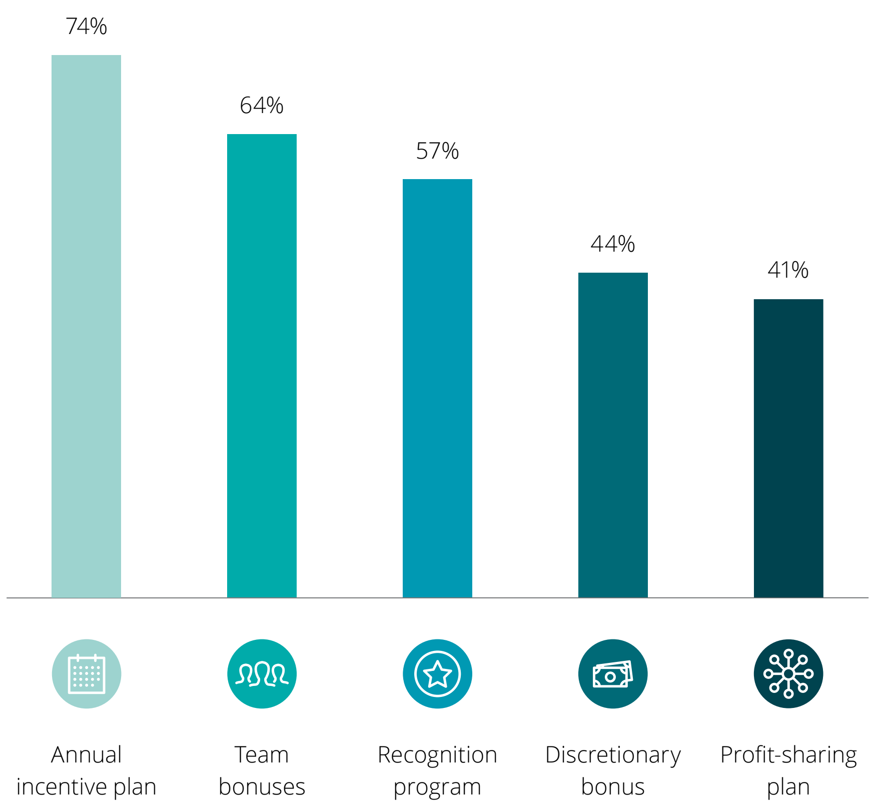
Short-term incentive plan findings

Short-term incentive trends and insights

Short term incentive plans tend to evolve based on company maturity, with the level of sophistication corresponding to a company's financial planning capabilities. Maintaining successful short term incentive programs also depends on setting clearly defined goals, which can be challenging for developing private companies. Both financial and non financial metrics are central to attracting and retaining top talent, especially senior leaders, and achieving other talent goals.

Prevalence of short-term incentive plans

The most prevalent type of short-term incentive plan was annual.



It's important to note that survey participants had the option of making multiple selections, which they frequently did. This flexibility in selection reflects the reality that many private companies employ various types of plans to achieve different objectives. For example, profit-sharing plans are often used to supplement bonus plans to align employee interests with those of the company.

Types of short-term incentive plans

The most suitable type of short term incentive plan for an organization depends on its specific goals and challenges. In general, as a company matures, there is a noticeable shift from discretionary bonus plans to more structured annual incentives with clearly defined goals established at the beginning of the period. This trend typically aligns with the company's financial planning capabilities, particularly its ability to set appropriate targets.

Here is a list of the most common types of short term incentive plans:

Annual incentive plans

Rewards employees for achieving specific performance goals over a one year period.

Discretionary bonuses

These bonuses are awarded to employees at the company's discretion, based on subjective criteria.

Profit sharing plans

An employer shares a portion of the company's profits with employees, typically through contributions to retirement accounts or direct cash payments, based on the company's profitability and predetermined formulas.

Team bonuses

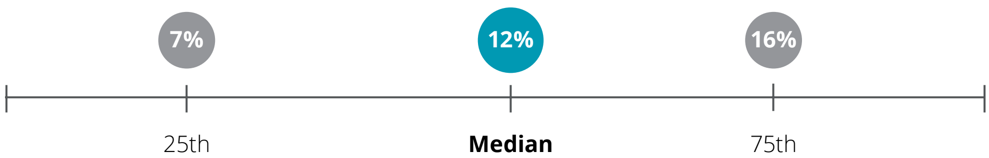
These incentives are awarded to a group of employees based on the performance of the team, often tied to achieving specific goals or project milestones.

Recognition programs

Sometimes referred to as "spot awards" recognition programs reward employees for their achievements oftentimes on an immediate basis.

Size of bonus pool

Based on the survey, the median target bonus pool is 12% of operating income.



Deloitte's perspective

Private organizations typically utilize two approaches when evaluating bonus pool size: 1) bottom up, where they evaluate the aggregate of market-based individual target opportunities for employees, and 2) top down, where they evaluate the potential total spend versus market practice as noted above. Most organizations will adopt a self-funding bonus plan, a type of incentive compensation program in which the bonuses paid to employees are directly tied to the financial performance or profitability of the company, department, or team. The key characteristic is that the pool of funds available for bonuses is generated from the actual financial results—meaning the plan "funds itself" from the value created.

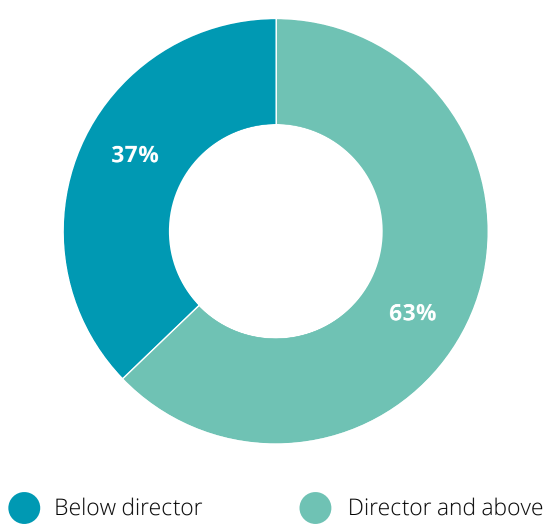
Participation

At most surveyed companies (63%), annual incentive participation is limited to the director's level and above. This decision is generally influenced by the fact that:

Directors and above typically have greater influence over organizational strategy, financial results, and key business outcomes. Their roles are more directly tied to the metrics that drive incentive plans (e.g., profitability, revenue growth).

Non-director roles may be compensated primarily through base salary and other forms of recognition or short-term incentives (like spot bonuses or team awards), which are more closely tied to individual or team performance rather than company-wide results.

Annual incentives are used as a tool to attract, motivate, and retain senior leaders who are critical to the company's long-term success.

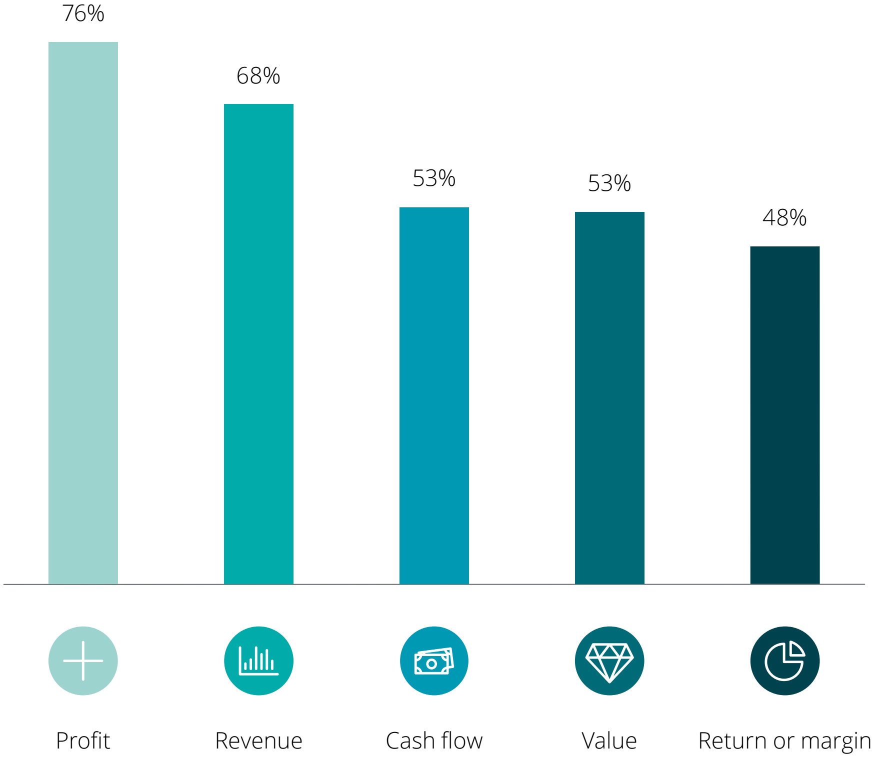


It's common for organizations to determine annual incentive plan participation based on level. As a company matures and its leveling structure becomes more reliable, determining participation by level can be a more equitable approach to equity incentives.

Of the 37% of companies that provide participation below director level, approximately 20% permit all employees to participate in the annual incentive plan. The definition of "all" may vary, but in general includes all full time employees. It is typically for the annual incentives to make up a greater portion of pay mixed at the senior leadership level and a smaller portion at the individual contributor level.

Financial metrics prevalence

Profit and revenue were the most prevalent financial metrics among the companies surveyed.



The advantages and disadvantages of specific financial metrics can influence which plans a company decides to implement. The following table lists the pros and cons of each financial metric, indicating why a company may choose one over another.

Financial metric	Potential benefits	Potential challenges
Profit	• Directly measures company success and sustainability. • Aligns employee interests with value creation. • Encourages cost control and efficiency.	• Can be influenced by accounting decisions (timing, reserves). • May discourage necessary investments or risk-taking. • External factors (market, economy) can impact results beyond employee control.
Revenue	• Simple to understand and communicate. • Drives top-line growth and market share. • Less subject to accounting nuances than profit.	• Does not account for costs—may incentivize unprofitable growth. • Can encourage discounting or deals that hurt margins. • May not align with long-term value creation.
Cash flow	• Focuses on liquidity and financial health. • Harder to 'game' than profit or revenue. • Encourages efficient working capital management.	• Can be volatile and affected by timing of payments. • May discourage necessary investments (e.g., capital expenditures). • Not always well understood by all employees.
Value (EVA)	• Measures true economic profit after cost of capital. • Strong alignment with shareholder value creation. • Encourages long-term decision-making.	• Complex to calculate and communicate. • May require significant education for participants. • Can be affected by accounting adjustments and assumptions.
Return (ROA,ROIC)	• Measures efficiency in using assets or capital. • Encourages enhanced resource allocation. • Aligns with long-term value creation.	• Can be affected by accounting policies and asset valuations. • May discourage necessary capital investments. • Complex for some employees to understand.
Margin	• Balances revenue growth with cost control. • Focuses on profitability of core operations. • Useful for comparing performance across units or periods.	• Can be manipulated by shifting costs. • May discourage investment in growth or innovation. • Not always aligned with overall company performance if used in isolation.

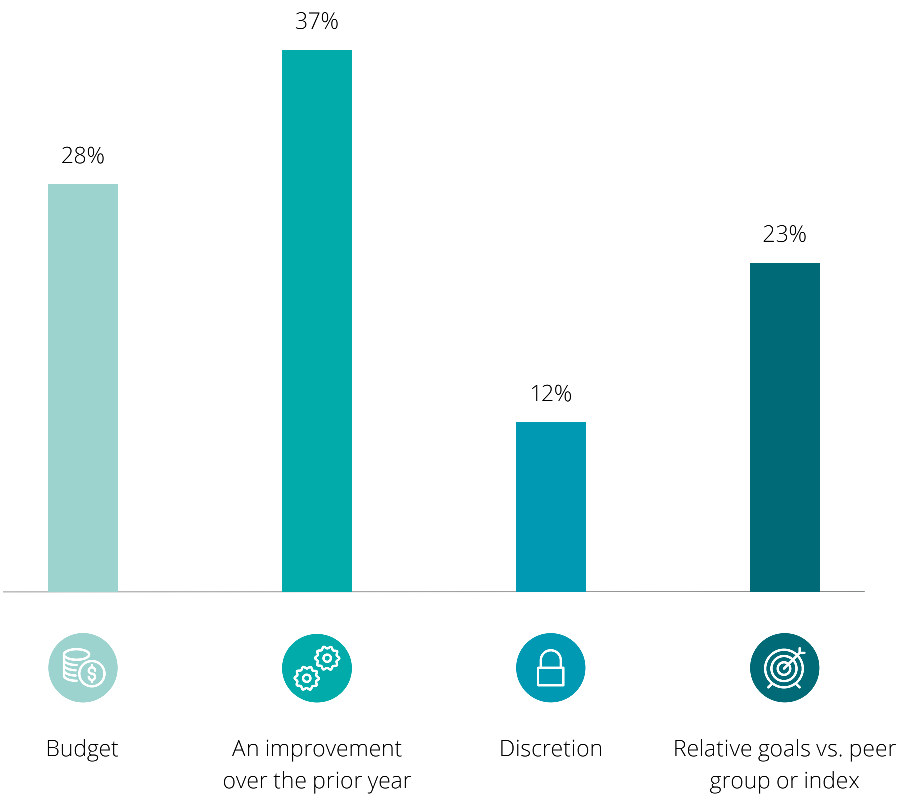
Deloitte's perspective

Many organizations often include more than one financial metric in their bonus plans to create a more balanced and effective incentive program. Relying on a single metric (e.g., just revenue) can lead to unintended consequences, such as sacrificing profitability for growth. Multiple measures can encourage a more holistic approach.

Combining metrics (e.g., revenue and profit) can encourage employees to focus on both top-line growth and bottom-line results. Many organizations often have several strategic priorities (growth, efficiency, cash flow, value creation). Multiple metrics can allow incentives to align more closely with multiple key goals.

Financial metrics

Most survey respondents set financial targets based on improvements over the prior year.

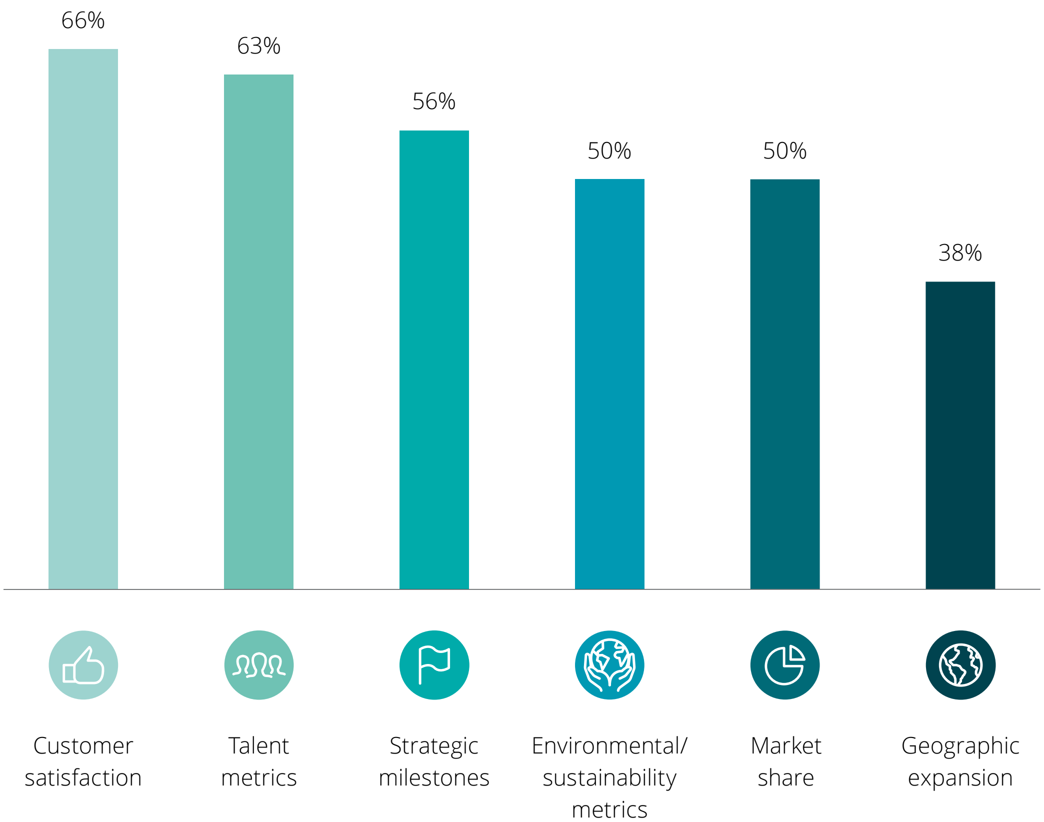


In fact, 37% set financial targets based on this benchmark. Examples of this approach include setting a 10% revenue growth year after year or 15% operating income growth over the previous year. The second most prevalent approach at 28% was setting targets based on budget for the year, followed by relative goals at 23%.

Goal setting is one of the more challenging aspects of annual incentive design. It's often a negotiation between management and the board or other stakeholders regarding performance expectations for the next year. When setting targets, careful consideration should be given to macroeconomic factors, affordability, and stakeholder interests. Annual incentive plans should be self funding, meaning that the cost of the plan should be taken into consideration when setting performance targets.

Non-financial metrics prevalence

Though not used in every industry, based on the survey, customer satisfaction is the most prevalent non-financial measure, followed closely by talent metrics.



We discovered that the surveyed companies also use a wide range of non-financial metrics, from client and stakeholder satisfaction to talent, progress toward strategic milestones, and market share. Many organizations typically select non-financial metrics based on their culture and strategic priorities over the coming year. When setting non-financial measures, it's important that goals are clearly defined and measurable to reduce the need for the board or management to make a qualitative assessment at year end.

Payout curve

The median threshold payout as a percentage of target was 55%, and the maximum was 145%.

Payout as a percentage of target	25th	Median	75th
Threshold	40%	**55%**	70%
Maximum	125%	**145%**	160%

The payout curve illustrates incentive compensation payout as a percentage of target. As this chart illustrates, for surveyed companies that established a threshold and maximum performance goal for their financial metrics, the median and maximum payout amounts were 55% and 145% of target, respectively.

This means that an executive eligible for a $100,000 annual incentive would receive $55,000 (55% of target) if threshold performance was achieved. The same executive would receive a payout of $145,000 (or 145% of target) if the maximum performance goal was achieved. Performance below threshold would result in no payout.

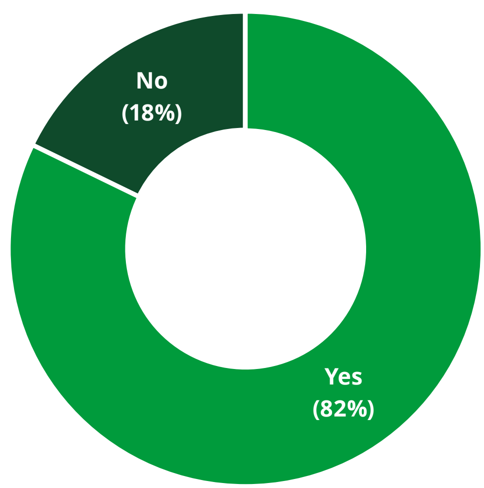
Long-term incentive plan findings

LTI plans: Not just for the C-suite

Regular long-term incentive plans for senior and mid level leaders are typically used to align the interests of participants with those of stakeholders. They can also help reduce turnover and ensure leadership continuity. Broader inclusion of these programs can enhance overall employee engagement, motivation, and alignment with organizational goals.

Prevalence of long-term incentive plans

Our survey revealed that a significant majority—82%—of private companies have implemented long-term incentive plans.



This high adoption rate underscores the importance that private companies place on long-term incentives as a strategic tool for talent management. The widespread use of long-term incentive plans indicates that companies recognize their value and strategic importance in aligning employees' interests with the long-term goals of the organization. These plans are seen as essential for attracting and retaining top talent, fostering loyalty, and driving sustained performance.

Considerations for companies without long-term incentive plans

Potential missed opportunities:
Eighteen percent of companies surveyed that do not have long term incentive plans may be missing out on key benefits such as enhanced employee motivation and retention. Without these plans, these companies might face challenges in competing for top talent, especially in industries where long term incentives are standard practice.

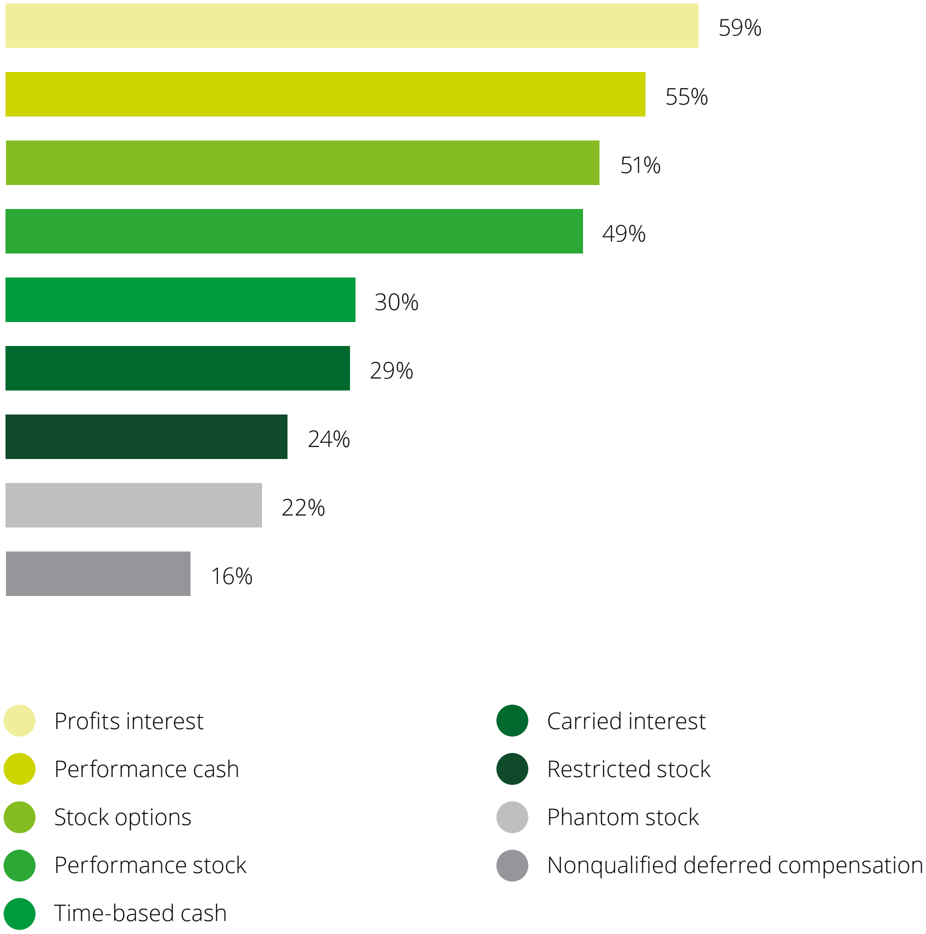
Reasons for non adoption:
It's important to consider why some companies might not have adopted long term incentive plans. Possible reasons could include:

- Smaller company size or limited resources.
- Different ownership structures or industry-specific factors.
- A focus on short term performance metrics over long term goals.

Understanding these reasons can provide insights into potential barriers and opportunities for these companies to reconsider their compensation strategies.

Prevalence of LTI vehicles

Profits interest, performance cash, and stock options are the most prevalent LTI vehicles.



Many companies use a mix of time-based and performance-based vehicles to balance retention and performance goals. A portfolio-based approach—that is, two or more vehicles—can be expensive but necessary for effective long-term incentive plans. Our survey identified four long-term incentive vehicles most commonly used by private companies: profits interest, performance cash, stock options, and performance stock. Five other vehicles, including time-based cash and carried interest, also registered significant levels of adoption. Each of these vehicles offers unique benefits and aligns with different strategic goals of the organization.

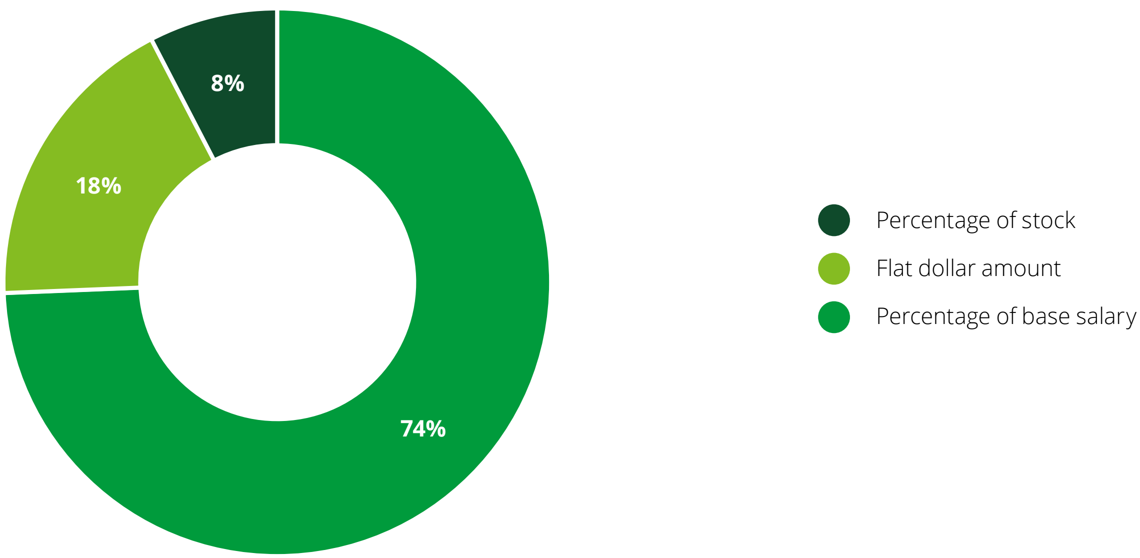
LTI type	Potential benefits	Potential challenges
Profits interest	• Can be structured to avoid immediate tax consequences for the recipient. Can be granted tax-free and taxed as capital gains rather than ordinary income when the interest is realized. • Aligns the interests of the recipients with those of the company, as they benefit from the company's growth and profitability. • Serves as a powerful tool for retaining key employees or partners by providing them with a stake in the future success of the business.	• Structuring profits interest can be complex and may require significant legal and tax planning to ensure compliance with IRS regulations. • Granting profits interest can dilute ownership percentages of existing partners or members, which may not be desirable for all parties involved. • Determining the value of profits interest can be challenging, especially for companies without a clear market valuation.
Performance cash	• Ties participants' compensation to the attainment of preestablished performance goals and continued service with the company. • Rewards participants for the attainment of financial and operational goals that are key to long-term success. • Award often has some upside, as there is typically the opportunity to earn 1.5 to 2 times the target opportunity for outperformance. • No dilution of shareholders' interests. • Does not require valuations of the business.	• Payouts are not based on changes in the value of the company. • Requires establishment of performance goals.
Stock options	• Aligns the interests of shareholders and participants. • Rewards participants for the creation of shareholder value. • Easily understood by participants. • Offers potential for long-term appreciation as shareholder value increases.	• Indirect ownership until exercise. • Poor "line of sight" for non-executive participants. • Weakens stock ownership if stock price growth remains flat or the award is "underwater." • More dilutive than full-value shares. • Requires regular valuations of the business or the adoption of a valuation methodology.
Performance stock	• Generally, less dilutive than stock options. • Ties participant compensation to stock price performance, the attainment of preestablished performance goals and/or continued service with the company. • Rewards participants for the creation of shareholder value. • Enhances stock ownership if performance goals are achieved and awards are settled in stock. • Promotes retention to the extent awards will be forfeited before completion of the performance period.	• Lower perceived value and therefore less of a retention incentive than time-vested restricted stock. • Requires establishment of long-term performance goals. • Requires additional participant communication to explain vesting requirements. • Could appear duplicative with the annual bonus plan if the same goals are used to determine payouts. • Requires regular valuations of the business or the adoption of a valuation methodology.

Deloitte's perspective

While profits interests are typically highly regarded due to their favorable tax treatment, it is important to understand the limits and complexities of adopting a profits interest plan. Profits interest plans are most frequently adopted by limited liability companies (LLCs) taxed as partnerships. Partnerships (including limited partnerships and limited liability partnerships) can also grant profits interests to partners or employees. The plan leverages partnership tax rules, allowing for favorable tax treatment if structured correctly. Joint ventures or investment vehicles structured as partnerships may use profits interests to incentivize management teams or key contributors. Organizations that cannot use profits interest plans include C or S corporations and non-US entities, as the concept is specific to US tax law and may not be recognized or effective in other jurisdictions.

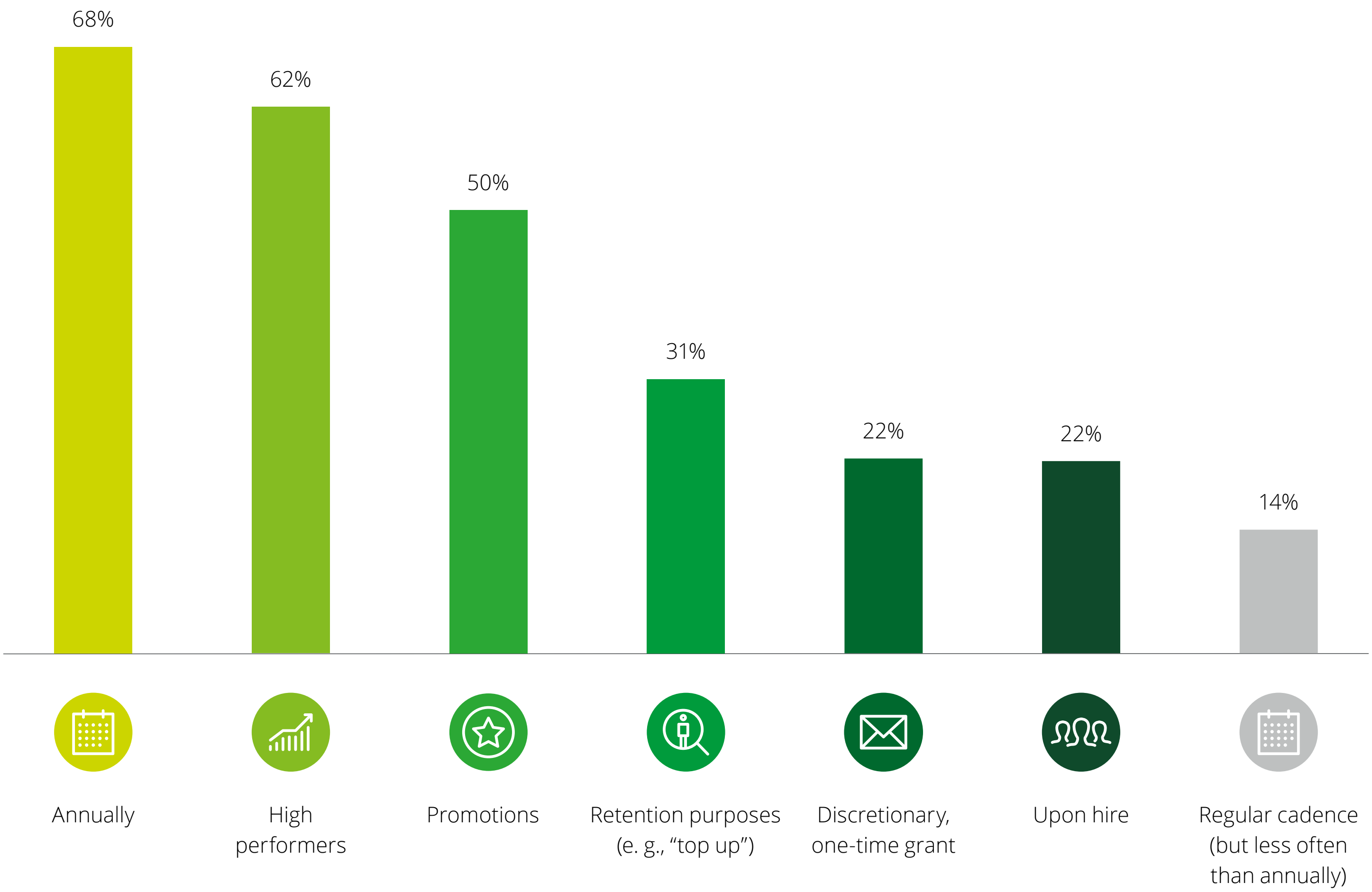
How is target LTI opportunity communicated?

Most companies surveyed express target LTI as a percentage of base salary.



Frequency of LTI grants

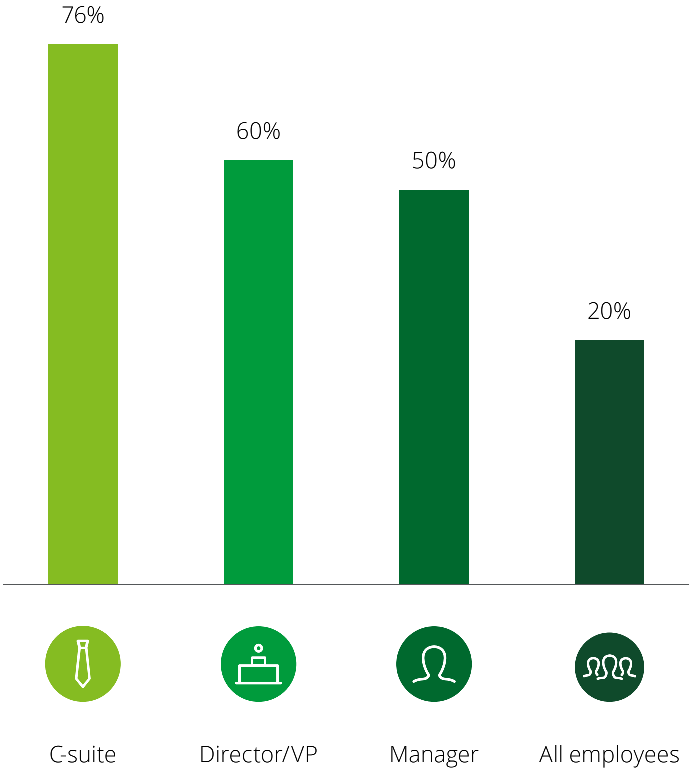
Most of the surveyed companies grant their LTI awards annually.



More than two-thirds of companies issue annual long-term incentive grants as part of their overall compensation packages, which also include base salary and bonuses. Notably, a considerable portion of respondents indicated that high performance (62%) and promotions (50%) are also key considerations for awarding LTIs.

Participation in LTI plans

LTI plan participation at surveyed companies is concentrated at the director/ VP level and above, with 76% of grants taking place at the C-suite level.



Why might a private company limit LTI grants to senior leaders? Among other reasons, larger participant groups increase the complexity and expense of compensation programs.

Retention risks beyond the C-suite

However, companies also recognize retention risks exist beyond the C-suite, and many choose to expand LTI programs to meet strategic needs, such as scaling for growth or competing for talent.

Talented individuals contribute to all levels of an organization. Important roles may include culture carriers, not just those influencing financial metrics. For these reasons, companies may expand participation in compensation plans to lower levels. Accordingly, 50% of respondents in our survey offer LTI participation at the manager level, and 20% enable all employees to participate.

Summary conclusions on long-term incentive grant distribution

Some key long term incentive findings emerged from our survey:

C suite priority:

LTI plans to prioritize senior leadership.

Mid level leadership:

LTI plans emphasize significant inclusion of directors and VPs.

Managerial engagement:

Inclusion of managers in LTI programs increases their engagement.

Selective distribution:

Limited broad based long term incentive grants.

Strategic implications and considerations

No one size fits all approach exists for long term incentives. Companies should consider their unique circumstances and goals, such as ownership, profit sharing, retention, and interest alignment. Key factors in these decisions include:

Targeted incentive strategies

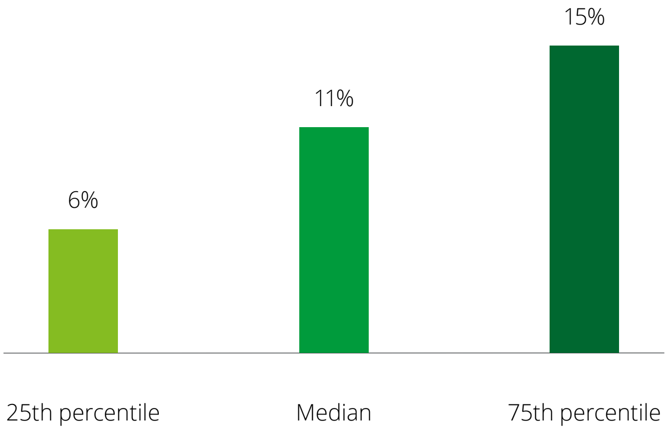
Balancing inclusivity and impact

Retention and motivation of key talent

Potential for broadening incentive programs

Equity dilution

For companies in our survey that grant real equity, the median equity dilution rate is 11%.



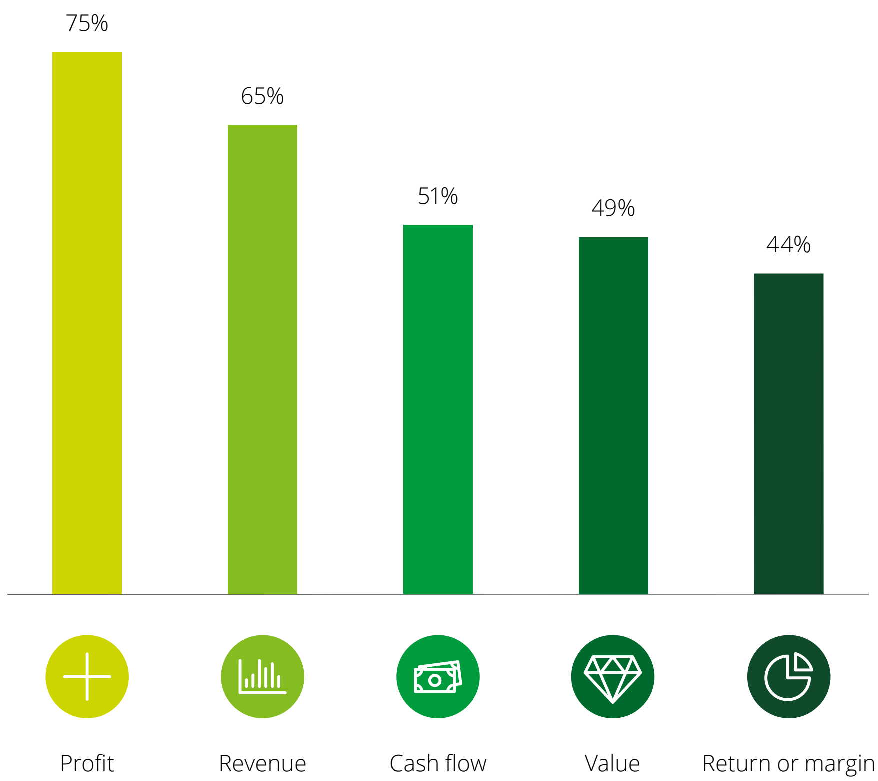
The range of equity dilution in practice varied significantly, from 6% at the 25th percentile to 15% at the 75th percentile. Many companies strategically dilute equity for long term incentive plans to incentivize employees, retain and attract talent, and balance ownership and control. However, using actual equity for LTI plans carries inherent risks and may not be feasible or even possible for many private companies. Effective management and strategic planning are essential to balance equity usage and prevent excessive dilution. Regular tracking and reporting of equity usage are crucial for mitigating dilution issues.

Financial metrics like profit and revenue are commonly used in performance based long term incentives.

Profit was the most common financial metric, embraced by 75% of surveyed companies, followed by revenue, used by more than half of respondents. Focusing on profit aligns with bottom line results and shareholder value, while revenue prioritizes top line growth, market position, and competitiveness. Using both of these metrics, together with the others reported in the survey, can offer a balanced and holistic measure of company performance.

Financial metrics

Based on the survey, profit and revenue are the most prevalent financial metrics for companies that grant performance-based awards.



Non-financial metrics

Based on the survey, the most common non-financial metrics used to determine payout include:

- Strategic milestones
- Market share
- Geographic expansion
- Customer satisfaction
- Environmental/sustainability metrics
- Talent metrics

Non-financial metrics are often closely aligned with employee performance, motivation, and engagement. By directly correlating benchmarks such as strategic milestones, customer satisfaction, and talent metrics with performance, organizations can significantly enhance employee motivation and engagement.

Payout curve

Based on the survey, the median threshold payout was approximately 50% of target with maximum of 150% of target, like the short-term incentives' payout curve.

Payout as a percentage of target	25th	Median	75th
Threshold	40%	**50%**	70%
Maximum	125%	**145%**	160%

Putting the survey data into action

Based on the survey data, it's clear that attracting and retaining top talent, along with aligning performance with business objectives, remain top priorities for private company incentive plans. The data also indicates a trend toward more mature and streamlined incentive plans. Finally, our survey reveals that managing the intricate parameters and nuances of effective incentive plans requires careful thought and strategic planning.

What role can Deloitte play?

Fortunately, you don't have to go it alone. Deloitte is a leader in advising private companies on compensation planning, including short term and long term incentive programs. Our network of globally based incentive specialists can help with plan design, governance, compliance, tax, regulatory, operations, communications, accounting, and finance.

Get in touch

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