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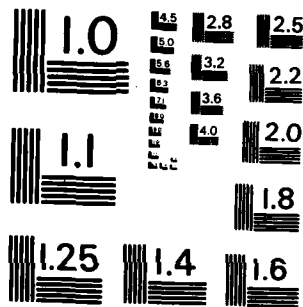
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The overall objective of this study was to provide US Air Force acquisition officers and program managers a greater understanding of internal contractor motivation as it impacts contract negotiations with the Air Force. By understanding the goals, satisfactions, and motivations of managers in the contractor divisions, subsidiaries, and operating units, Air Force personnel have the basic information to anticipate likely contractor positions and (CONTINUED ON REVERSE)

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20. actions in negotiations. They can test and plan alternate Air Force contracting strategies that maximize the goals of the contractor while leveraging contract terms to the Air Force's advantage.

The study identified internal methods used by the corporate management of top Air Force contractors to influence, motivate, and leverage the behavior and performance of managers in their divisions, subsidiaries, and operating units. A summary matrix of their present incentive plans is provided.

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WASHINGTON, D.C. OFFICES

## STUDY OF CONTRACTOR INTERNAL REWARD STRUCTURES

Final Study Report  
and  
Incentive/Contractor Summary Matrix

Contract No. F33600-81-C-0603

### Submitted by:

Management Decisions Department  
CACI, Inc.-Federal  
1815 North Fort Myer Drive  
Arlington, Virginia 22209  
Telephone: (703) 841-7800

### Submitted to:

AFBEMC/EDCB  
Room 2063, Building 125, Area B  
Wright-Patterson AFB, Ohio 45433

December 15, 1981

The views and conclusions contained in this document are those of the authors and should not be interpreted as necessarily representing the official policies either expressed or implied, of the U.S. Air Force or the U.S. Government.

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## EXECUTIVE SUMMARY

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### Background

In July 1981, CACI, Inc. submitted an unsolicited proposal to the Air Force Business Research Management Center (AFBRMC) to analyze how motivational programs within large defense contractor organizations affect the actions of managers and executives who negotiate contracts with the Air Force. The principal objective of this research was to assess whether knowledge of these contractor motivational programs by Government acquisition and program offices would provide them with additional leverage in tailoring contract terms to maximize Air Force acquisition objectives.

### Research Need

Earlier, the Joint Logistics Commander Group requested that Headquarters, Air Force Logistics Command (AFLC) enhance aspects of the acquisition process by conducting research into contractor motivation. AFLC submitted a research need to AFBRMC and a contract was awarded to CACI, Inc. to begin work on August 14, 1981 to collect data on contractor internal motivation systems in specified defense corporations.

### Study Focus

The data collected on each company focus on the corporate objectives set down in executive and management incentive plans. These plans motivate key personnel to act and achieve corporate goals by promising significant bonuses, recognition, promotions, company stock or other compensation. An assessment of these key corporate goals by Air Force acquisition and program offices can point to probable actions that

contractor management will take and can help the Air Force plan better acquisition strategies to achieve their objectives through contracting.

#### Research Steps

The following approach has been taken:

1. Fifty large defense corporations that do business with HQ USAF and AFLC were identified.
2. Key factors about their internal motivational programs were defined to guide data collection.
3. A thorough examination of data sources was conducted.
4. Specific data were collected on each of the contractor organizations.
5. Detailed and summary versions of the data on executive incentive programs and corporate objectives for each company were submitted as deliverables.

#### Conclusions

1. Most companies grant awards of company stock and options on the basis of length of tenure, position in the corporate hierarchy, and contribution to annual net earnings per share. While these types of incentive plans are meant to build long-term equity for corporate managers, they motivate actions that maximize short-term profits.
2. Most companies also award annual bonuses based on growth in net earnings or return on equity, which again yield short-term management efforts to maximize fee, reduce costs, and improve cash flow.
3. Many companies are beginning to experiment with incentive plans focused on achieving long-term corporate objectives, such as long-term growth in earnings, achievement of cash flow objectives, return on invested capital, and multi-year strategic performance targets

established for divisions or operating units. These types of incentives are likely to produce management actions to tradeoff short-term profit for guarantees of future business and multi-year contracts, obtain government funded capital investments, make larger corporate investments, and diversify into the commercial sector.

#### Next Steps

How can this information on contractor motivation be integrated best into the routine planning process of acquisition offices to help anticipate likely contractor actions and tailor contracts to achieve Air Force acquisition goals?

A practical planning tool can be developed for use by acquisition and program officers that would:

- Retrieve specific up-to-date information on each company, and
- Enable officers to test, simulate and ask "what if" questions about the impact of contractor motivation on contractor actions on a company-specific basis. The tool can also provide the ability to ask "what if" questions that assess the impact of alternate contract terms on maximizing Air Force goals while satisfying contractor objectives.

This planning tool would require development of a model of the acquisition planning process that could provide feedback on the likely benefits of pursuing alternate contracting strategies in different types of procurements.

The model could be engineered so that new users can operate it without prior training. The results of the model can be designed to provide highly practical assistance in evaluating acquisition strategies. The tool would also be very useful for training new acquisition and program officers.

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## OBJECTIVES OF THE STUDY

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The overall objective of this study is to assist U.S. Air Force acquisition officers and program managers gain greater understanding of internal contractor motivation as it impacts on contract negotiations with the Air Force.

By understanding the goals, satisfactions, and motivations of managers in the contractors' divisions, subsidiaries and operating units, Air Force personnel have the basic information to anticipate likely contractor positions and actions in negotiations. They can also test and plan alternate Air Force contracting strategies that maximize the goals of the contractor while leveraging contract terms to the advantage of the Air Force.

More specifically, the project is focused on identifying the particular techniques by which corporate management in the top Air Force contractors attempt to influence, motivate and leverage the behavior and performance of managers in their divisions, subsidiaries and operating units. These methods include formal incentive and reward programs, the establishment of strategic business goals against which divisional management will be evaluated, and the management climate and culture within which managers must operate.

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## PURPOSE OF THIS REPORT

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This Final Study Report presents the results of the data collected internal contractor incentive/reward programs. Among the areas discussed are:

- Summary trends.
- Practical utilization of the data.
- Data sources.
- Data updating.
- Next steps.

A summary matrix of current incentive plans at each of the top Air Force contractors in the study is also presented.

Previous technical reports have focused in detail on the data collection plan (dated September 30, 1981) and the actual data collected in their fully expanded form (dated November 20, 1981).

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## SUMMARY TRENDS

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### DATA AVAILABILITY

Complete and current data on executive incentive programs were available on 45 of the 50 defense contractors included in the study sample. Data were not available through public sources or direct request from Aerospace Corporation, Hughes Aircraft Company, Mitre Corporation, Sargent Fletcher Company, and Sverdrup Corporation. Current data on strategic business goals and management climate were found on 29 of the 50 companies.

### TYPES OF INCENTIVE PLANS

Of the 45 companies on which data were available,

- 40 have active Bonus Plans, primarily annual cash bonus plans,
- 37 have active Market-Based Equity Building Plans, primarily annual stock options plans, and
- 16 have active Performance-Based Equity Building Plans, primarily long-term performance unit plans.

The annual cash bonus and stock option plans typically set yearly targets that motivate short-term, tactical management efforts toward maximizing profit, reducing costs, and improving cash flow. The long-term performance unit plans, on the other hand, typically set 3 to 5 year strategic targets and award performance units to managers as they make progress toward achieving these objectives. Only at the end of the award period and with successful achievement of the targets can the units be cashed in. These plans motivate more strategic management actions where tradeoffs against short-term profit are more likely.

## GOALS MANAGERS ARE SHOOTING FOR IN INCENTIVE PLANS

Different targets are established for each category of incentive plan. Knowledge of these targets can help in anticipating contractor actions.

### Bonus Plan

- Targeted % growth in net earnings
- Earnings must exceed a set % of capital or shareholder equity
- Achievement of pre-set corporate, division or individual targets (volume growth, profit goals, technical achievements, return on assets, return on equity, cash flow, new contracts, new products)
- Management formula keyed to individual performance, position in company, length of service, contribution to profit and supervisory appraisal.

### Long-Term Performance Unit Plans

- 3 to 5 year targets set for earnings per share growth rates, return on assets, return on capital or other financial or strategic goals.

### Stock Options Plans

- Management formula keyed to upper management positions, and contribution to corporate financial goals.

### OTHER STRATEGIC GOALS MANAGERS ARE SHOOTING FOR

Other publicly-stated corporate objectives were collected. These goals are presented below in rank order based on the number of companies in the sample that have espoused them.

| <u>Strategic Goals</u>                         | <u>Number of Companies</u> |
|------------------------------------------------|----------------------------|
| Make higher profits and margins                | 11                         |
| Tighten financial controls                     | 8                          |
| Pursue acquisitions and diversity              | 7                          |
| Increase research and capital spending         | 5                          |
| Reduce dependence on government contracts      | 4                          |
| Be the low cost producer                       | 3                          |
| Become the technical innovator in the field    | 3                          |
| Dominate the market                            | 3                          |
| Reduce corporate investments                   | 2                          |
| Strengthen the cash flow                       | 2                          |
| Pursue long-term goals over short-term rewards | 2                          |
| Pursue short-term earnings                     | 1                          |
| Seek new commercial spinoff products           | 1                          |
| Stress company service and reliability         | 1                          |

### MANAGEMENT CLIMATE WHICH MANAGERS MUST CONFORM TO

Every corporation has a climate, culture or philosophy which managers must conform to or risk dismissal. Management climate also reflects the current "state of the organization" in terms of morale, internal disruptions, reorganizations, and so forth. An understanding of management climate can help in anticipating the potential directions of managerial actions.

C Categories of management climates are identified below in rank order based on the number of companies in the study sample that have them.

| <u>Management Climate</u>                                    | <u>Number of Companies</u> |
|--------------------------------------------------------------|----------------------------|
| High management turnover                                     | 8                          |
| Centralized decision-making in corporate headquarters        | 4                          |
| Decentralized decision-making in units                       | 2                          |
| Strategic direction lacking                                  | 2                          |
| Risk-averse, conservative style                              | 2                          |
| High respect for corporate hierarchy, loyalty and philosophy | 2                          |

#### Conclusions

C The incentive, goal, and climate data collected on each of the large Air Force contractors offers a unique advantage to Air Force acquisition and program offices. They provide key information for anticipating potential contractor actions and can help in testing, planning and evaluating the impact of alternate contracting strategies that the Air Force might pursue vis a vis these contractors.

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## PRACTICAL UTILIZATION OF THE DATA

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How can this data be used to assist Air Force acquisition officers and program managers motivate contractors to maximize Air Force acquisition objectives? The principal applications of this information are in planning for negotiations with contractors and in training of new acquisition officers and program managers.

### ANTICIPATION OF CONTRACTOR ACTIONS

Internal incentive programs attempt to motivate divisional management toward achieving corporate objectives. If these objectives are identified by analyzing the data gathered in this project, it might be possible to anticipate likely contractor actions that would further achievement of these goals.

For instance, if a contractor seeks program continuity they might be willing to compromise on fee. A contractor seeking to tighten cash flow might push for upfront payments and short-term progress payments. A contractor seeking new product offshoots for the commercial market might be willing to take greater risk in a government R&D type contract and fund it partially through internal dollars while planning to gain a large return on investment later in the commercial sector.

Depending upon the goals managers are shooting for, their actions in contracting situations are likely to produce concessions, demands, compromises, and tradeoffs. For example, changes in corporate goals and philosophy could potentially result in changes to:

- Risk-taking propensity.
- The importance of profit versus patriotism and the national security.

- The desired mix of military and commercial business,
- Contract types desired.
- The desired timing of contract awards.

#### TESTING AND EVALUATING ALTERNATE GOVERNMENT STRATEGIES

Data gathered on executive incentives and corporate goals can also help acquisition officers test and evaluate alternate government contracting strategies vis-a-vis particular contractors by anticipating their probable responses. For instance, if the government offers longer term funded contracts, that would probably be seen as a very favorable provision to a company whose objective is to build, expand and retain the technical capability of its staff. Such a company might be willing to tradeoff the guarantee of program continuity for fee. The "what if" tool described in the next section would facilitate this type of testing and planning.

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## DATA SOURCES

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### SECURITIES AND EXCHANGE COMMISSION FILINGS

Most U.S. public companies with more than 500 shareholders and more than \$1/2 million in assets are required to file certain documents with the Securities and Exchange Commission (SEC) that contain information on their executive compensation and incentive plans. Among those documents that are most useful in identifying details of these plans are:

- Proxy Statements
- 10K Reports and their Exhibits
- Annual Reports to Shareholders
- Registration Statements (S-8 and S-1)

These documents are available through the SEC directly or Disclosure, Inc. on microfiche or hard copy (current year only). Data are usually available on the incentive plan description, eligibility and participation criteria, performance criteria, reward type, bonus pool formula, and expiration date of the plan. In some cases, the amounts awarded annually through the plans are available -- primarily in the Proxy Statements and 10Ks.

Most subsidiaries, divisions, or operating units are not required to file with SEC separately from their parent company. A list of companies required to file is available from the SEC. But in almost all instances, executive incentive programs are established corporate-wide and include upper middle management and top management of all corporate units that contribute to the consolidated income statement.

Financial performance data for 3 to 10 years are also available on an industry segment basis in the 10K and Annual Shareholders Report. These segments are usually aggregates of several divisions or operating units that are all in the same line of business.

In some cases, corporations provide exhibits of the entire incentive plan verbatim, summaries of the plan, guidelines for managers on performance criteria, forms that are used in administering the plan, and payout statistics to officers, directors, and other employees.

In most cases, only the most recent documents filed with the SEC need be referenced since the executive incentive program is summarized for the benefit of shareholders each year. However, in many cases, it was necessary to trace back to an earlier year's filings to obtain expanded descriptions or particular aspects of the plan.

#### QUESTIONNAIRES

Letters with response forms were mailed to all 50 corporations included in the study requesting detailed information on their current executive incentive plans. A sample letter and response form is presented in Figure 1. The major purpose of this letter was to fill in gaps concerning performance criteria for awards and provide data on privately-held companies or those not required to file with the SEC.

Through December 4, 1981, six responses were received from the following corporations:

- General Dynamics Corporation
- Rockwell International Corporation
- Westinghouse Electric Corporation
- Textron Inc.

Figure 1  
**C.A.C.I.**

WASHINGTON, D.C. OFFICES

date

address

Dear :

CACI, Inc., an international R&D firm, is conducting a survey of executive incentive and stock option programs in use by the top industrial corporations. I would greatly appreciate your assistance in helping gather data on your firm.

Specifically, we would like a description of your programs and the award criteria that must be achieved or surpassed to be granted a bonus or stock option -- the objectives executives are shooting for, corporate performance goals, or the appraisal guidelines used to determine individual awards.

While we have already gathered some data on your firm's incentive programs as reported in SEC filings, information on the award criteria was not readily available in those documents.

For your convenience, I have enclosed a form that requests the desired information. Thank you for your consideration.

Cordially,

Bertram I. Spector, Ph.D.  
Vice President and Manager  
Management Decisions Department

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Enclosure

**SURVEY OF EXECUTIVE INCENTIVE PROGRAMS**

1. Your company \_\_\_\_\_
2. Place a check next to each executive incentive program your company currently has in force.
- |                                                          |                                                             |
|----------------------------------------------------------|-------------------------------------------------------------|
| <input type="checkbox"/> a. Bonus plan                   | <input type="checkbox"/> f. Stock options                   |
| <input type="checkbox"/> b. Performance unit plan        | <input type="checkbox"/> g. Stock purchases                 |
| <input type="checkbox"/> c. Performance shares plan      | <input type="checkbox"/> h. Stock appreciation rights       |
| <input type="checkbox"/> d. Purchase/appreciation grants | <input type="checkbox"/> i. Stock grants (restricted stock) |
| <input type="checkbox"/> e. Full-value grants            | <input type="checkbox"/> j. Other: _____                    |

3. For each of the programs you indicate above, please provide the following information.

A. Plan type: \_\_\_\_\_

Reward: \_\_\_\_\_  
\_\_\_\_\_

Eligible Personnel: \_\_\_\_\_  
\_\_\_\_\_

Award criteria (objectives or standards): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

B. Plan type: \_\_\_\_\_

Reward: \_\_\_\_\_  
\_\_\_\_\_

Eligible Personnel: \_\_\_\_\_  
\_\_\_\_\_

Award criteria (objectives or standards): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(over please)

C. Plan type: \_\_\_\_\_

Reward: \_\_\_\_\_  
\_\_\_\_\_

Eligible Personnel: \_\_\_\_\_  
\_\_\_\_\_

Award criteria (objectives or standards): \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

4. Your name and title \_\_\_\_\_

Thank you for your assistance. Please return this form to: Dr. Bertram  
I. Spector, CACI, Inc., 1815 North Fort Myer Drive, Arlington, Virginia  
22209.

- Texas Instruments Inc.
- Thiokol Corporation

All but Rockwell provided additional useful information.

#### OPEN SOURCE LITERATURE

An extensive search of business journals published over the last five years was conducted for the 50 companies included in the study. Articles were analyzed to identify current corporate/subsidiary/divisional strategic goals and objectives that would likely motivate executives and managers in each company. Indications of the current management climate -- for example, managerial morale, degree of managerial autonomy, the corporate financial situation, risk-taking versus conservative management style, and conflicts within the top management group -- were also identified as additional motivators of divisional management.

The five journals that proved most useful in gathering this type of data were:

- Business Week
- Forbes
- Fortune
- Industry Week
- Financial World

Relevant and current data could not be found on all companies in the study sample since the corporate coverage of these journals tends to be uneven.

#### ORGANIZATION CHARTS

Current organization charts of the corporations in the study and their principal divisions and subsidiaries were available from the Defense Industry Organization Service. Subscriptions to this service are available from Carroll Publishing Company, Washington, D.C.

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## **DATA UPDATING**

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### **SEC FILINGS**

Executive incentive programs usually expire after several years or reach an award ceiling and then must be renewed and revised. This usually requires a shareholder vote and thereby is reported in the proxy statement. Stock option plans often have a maximum number of shares to grant which may be totally distributed before the expiration date of the plan. Therefore, it is important to monitor the SEC filings every year to identify the active plans and the current goals managers are shooting for.

The 10K and Annual Report to Shareholders are filed after the close of the company's fiscal year. The Proxy Statement is distributed several months before the annual shareholder's meeting. Registration statements are published to register securities before they are offered to investors or employees under incentive plans.

### **QUESTIONNAIRES**

Mailings of additional questionnaires are not likely to yield significant amounts of information unless new companies are added to the list.

### **OPEN SOURCE LITERATURE**

The five journals indicated earlier should be monitored on a regular basis to gather new insight into corporate strategic objectives and management climate that might influence the performance and behavior of divisional management.

ORGANIZATION CHARTS

The service mentioned earlier updates corporate organization charts on a regular basis over the year as changes occur.

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## NEXT STEPS

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How can this information on contractor motivation be integrated best into the routine planning process of acquisition offices to help anticipate likely contractor actions and tailor contracts to achieve Air Force acquisition goals?

One way to institutionalize the use of this information is to develop and implement a practical planning tool that would:

- Retrieve specific up-to-date information on the incentive plans, corporate objectives, management climate, and financial performance of each company, and
- Enable officers to test, simulate, and ask "what if" questions about the impact of different incentive plans on contractor actions on a company-specific basis. The tool can also provide the capacity to ask "what if" questions that assess the impact of alternate contract terms on maximizing Air Force goals while satisfying contractor objectives.

This planning tool would require the design and development of a sophisticated model of the acquisition planning process that could provide feedback on the likely benefits and costs of pursuing alternate contracting strategies in different types of procurements.

The model could be engineered so that new users can operate it without prior training. To facilitate processing, it would be wise to implement the model on a computer, where it could be developed in a "user friendly" interactive fashion. The results of the model can be designed to provide highly practical assistance in evaluating alternate acquisition strategies. In addition to serving the planning function, this

C tool would also be very useful for training new acquisition and program officers by allowing them to test alternate strategies, getting feedback and comparing their results to a baseline database of experienced acquisition officers.

**CONTRACTOR/INCENTIVE SUMMARY MATRIX**

| CONTRACTOR                      | BONUS INCENTIVE PLANS<br>Type Criteria |                                                                                                                                | PERFORMANCE-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                                                   | MARKET-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                                                                                                 | STRATEGIC<br>BUSINESS<br>GOALS                          | MANAGEMENT<br>CLIMATE                                                   |
|---------------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|---------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------------------|
| Aerospace Corporation           | Data not available                     |                                                                                                                                |                                                             |                                                   |                                                        |                                                                                                 |                                                         |                                                                         |
| AVCO Corporation                | Annual Discretionary Bonus             | Earnings must exceed 8 percent of capital                                                                                      | -                                                           | -                                                 | Stock Option Plan                                      | Management formula                                                                              |                                                         |                                                                         |
| Bendix Corporation              | Annual Bonus                           | Growth in net earnings and management appraisal                                                                                | Long-Term Performance Units Plan                            | 3-year EPS growth rate objectives                 | Stock Options with SAR                                 | Management formula and continued employment                                                     | Major high technology acquisitions                      | No clear strategic direction                                            |
| Boeing Company                  | Annual Bonus                           | Management formula including individual's capacity, efficiency, effort, loyalty, length of service and contribution to success | -                                                           | -                                                 | -                                                      | -                                                                                               | Low cost producer in commercial jets                    | Less corporate investment outside commercial sector                     |
| Chromalloy American Corporation | Discretionary Bonus                    | Not available                                                                                                                  | Stock Bonus Plan                                            | Earnings per share growth                         | Stock Option Plan                                      | Management formula                                                                              | Emphasis on financial planning                          | Move to replace old-timer management with young and aggressive managers |
| Emerson Electric Company        | -                                      | -                                                                                                                              | Long-Term Performance Shares                                | Earnings per share growth of 12 1/2% over 5 years | Stock Option Plan                                      | Management formula                                                                              |                                                         |                                                                         |
| E-Systems, Inc.                 | Annual Bonus                           | Management formula                                                                                                             | -                                                           | -                                                 | Restricted Stock Option Plan                           | Management formula                                                                              |                                                         |                                                                         |
| Fairchild Industries, Inc.      | Annual Bonus                           | Individual performance and management appraisal                                                                                | -                                                           | -                                                 | Stock Options with SARs                                | Management formula includes nature of services rendered, and current and potential contribution | Reduce dependence on government contracts; acquisitions |                                                                         |

| CONTRACTOR                                    | BONUS INCENTIVE PLANS<br>Type Criteria |                                                                                                              | PERFORMANCE-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                    | MARKET-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                                                                                                                                                          | STRATEGIC<br>BUSINESS<br>GOALS                                         | MANAGEMENT<br>CLIMATE                                                                                                          |
|-----------------------------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------|--------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Ford Motor Company                            | Annual Bonus                           | Income must exceed 6 percent of capital employed                                                             | -                                                           | -                  | Stock Options with SARs                                | Management formula                                                                                                                                       |                                                                        |                                                                                                                                |
| General Dynamics Corporation                  | Annual Bonus                           | Profits before tax must exceed 14 percent of shareholder equity. Achieve MBO goals.                          | -                                                           | -                  | Stock Options                                          | Management formula includes nature of services rendered, present and potential contributions, number of years yet to serve, and achievement of MBO goals |                                                                        |                                                                                                                                |
| General Electric Company                      | Annual Bonus                           | Net consolidated earnings and management formula                                                             | Performance Units Plan                                      | Management formula | Stock Options                                          | Management formula                                                                                                                                       |                                                                        | Emphasis on bottom-line; conservative, risk-averse; cost-cutting emphasis; resistance of older managers to new technologies    |
| General Motors Corporation                    | Annual Bonus                           | Corporate and divisional profit goals; performance of individual managers                                    | -                                                           | -                  | Stock Options                                          | Management formula                                                                                                                                       | Become world wide innovator in manufacturing and product design        | Centralize product assembly; decentralize R&D; stable corporate culture; respect for hierarchy and loyalty                     |
| General Telephone and Electronics Corporation | Annual Bonus                           | Return on equity must exceed 10%; earnings per share target; component's and individual's performance goals. | -                                                           | -                  | -                                                      | -                                                                                                                                                        |                                                                        |                                                                                                                                |
|                                               | Long-Term Bonus                        | 3 year corporate financial performance targets                                                               |                                                             |                    |                                                        |                                                                                                                                                          |                                                                        |                                                                                                                                |
| General Tire and Rubber Company               | Annual Bonus<br>Deferred Bonus         | Not available<br>Not available                                                                               | -                                                           | -                  | Stock Options                                          | Management formula                                                                                                                                       | Cut corporation into separate companies to achieve higher stock prices | Lack of logical management structure and corporate coordination; Aerojet General executives have less autonomy now than before |

| CONTRACTOR                       | BONUS INCENTIVE PLANS<br>Type Criteria |                                                                                                                                                                      | PERFORMANCE-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                    | MARKET-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                                                                                                                      | STRATEGIC<br>BUSINESS<br>GOALS                                                                                                                  | MANAGEMENT<br>CLIMATE                                                                    |
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| Goodyear Tire and Rubber Company | Profit-Sharing Plan                    | Consolidated net income that exceeds 5% of consolidated book value of outstanding capital stock; divisional or specific unit profit and ROI goals                    | -                                                           | -                  | Stock Options                                          | Management formula                                                                                                   |                                                                                                                                                 |                                                                                          |
| Crumann Corporation              | Annual Bonus                           | Pretax profits must exceed 10% of average invested capital                                                                                                           | -                                                           | -                  | Restricted Stock Awards<br><br>Stock Options and SARs  | Management formula plus continued employment<br><br>Management formula                                               | Attain 50% of earnings from non-defense business                                                                                                |                                                                                          |
| Hercules, Inc.                   | Annual Bonus                           | After tax profit that exceeds stockholder investment and long-term debt; development of innovations or inventions that lead to financial benefit or safer operations | Performance Units Plan                                      | Management formula | Restricted Stock Awards                                | Management formula includes nature of services rendered; and past, present, and future contributions to the business | Desire for higher returns, committed to high capital spending through 1984, major thrust at cost-cutting, higher value-added, low cost producer | Extreme centralization, reorganized along functional lines, large turnover in management |
| Hewlett Packard Company          | Profit-Sharing Bonus<br>Tenure Bonus   | Profits before taxes<br>10 years of service                                                                                                                          | -                                                           | -                  | Stock Options with SAR                                 | Management formula                                                                                                   | Continue big R&D spending, stress reliability and company service                                                                               | Autonomy of small divisions                                                              |

| CONTRACTOR                                        | BONUS INCENTIVE PLANS<br>Type Criteria |                                                                                                                                                                                          | PERFORMANCE-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                                                         | MARKET-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                                          | STRATEGIC<br>BUSINESS<br>GOALS                                                                                                                 | MANAGEMENT<br>CLIMATE |
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| Honeywell, Inc.                                   | Annual Bonus                           | Formula includes corporate and unit performance, and individual performance toward pre-established targets; dividends of at least 50¢ per share must be paid                             | Performance Shares Plan                                     | Long-term earnings growth and other performance factors | Stock Purchase<br>Stock Option                         | Management formula<br>Management formula |                                                                                                                                                |                       |
|                                                   | Long-Term Bonus                        | Management formula and continued employment through retirement                                                                                                                           |                                                             |                                                         |                                                        |                                          |                                                                                                                                                |                       |
| Hughes Aircraft Company                           | Data not available                     |                                                                                                                                                                                          |                                                             |                                                         |                                                        |                                          | Build cash flow, continue heavy R&D spending, seek long-term strategic goals at expense of short-term profits, require high capital investment |                       |
| International Business Machines Corporation       | Annual Bonus                           | Individual, unit and corporate financial performance. For corporate executives, EPS growth and for operating unit executives, business volume growth and achievement of financial goals. | -                                                           | -                                                       | Stock Options with SAR                                 | Management formula                       | Dominate information processing markets, boost growth rate to 15-20% per year, low cost producer, confront Japanese competition.               |                       |
| International Telephone and Telegraph Corporation | Annual Bonus                           | Consolidated net income must exceed 6% of shareholders average equity                                                                                                                    | Performance Unit Plan                                       | Earnings per share growth rate greater than 6% annually | Stock Options with SAR                                 | Management formula                       |                                                                                                                                                |                       |

| CONTRACTOR             | BONUS INCENTIVE PLANS<br>Type Criteria |                                                                                                                  | PERFORMANCE-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                                             | MARKET-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                    | STRATEGIC<br>BUSINESS<br>GOALS                                                        | MANAGEMENT<br>CLIMATE                                                                                          |
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| Ittek Corporation      | Annual Bonus                           | Management formula includes position classification, and achievement of performance goals by unit and individual | -                                                           | -                                           | Stock Options                                          | Management formula |                                                                                       |                                                                                                                |
|                        | Long-Term Bonus                        | At least 3 year targets to achieve growth in EPS, return on equity, return on assets, or other goals             |                                                             |                                             |                                                        |                    |                                                                                       |                                                                                                                |
| Lear Siegler Inc.      | Annual Discretionary Bonus             | Management appraisal                                                                                             | -                                                           | -                                           | Stock options                                          | Management formula | For every \$1 of total assets, get back \$2 in sales on which get 4-5% net in profits | Strong believer in planning, dump least profitable product lines each year, emphasize profits and productivity |
| Litton Industries Inc. | Annual Bonus                           | Net earnings before tax must exceed 15% shareholders' investment                                                 | Long-Term Stock Options Plan with SAR                       | Management formula includes long-term goals | -                                                      | -                  | Major acquisitions in defense electronics and energy                                  | Tighten operating controls                                                                                     |
| Lockhead Corporation   | -                                      | -                                                                                                                | -                                                           | -                                           | Stock Options with SAR                                 | Management formula | -                                                                                     |                                                                                                                |
| Loral Corporation      | Annual Bonus                           | Management formula keyed to profits and cash flow objectives as well as division earnings                        | -                                                           | -                                           | Stock Options                                          | Management formula |                                                                                       |                                                                                                                |
|                        | Annual Bonus                           | Achievement of at least 15% higher after tax profits than previous year                                          |                                                             |                                             |                                                        |                    |                                                                                       |                                                                                                                |

| CONTRACTOR                         | BONUS INCENTIVE PLANS<br>Type Criteria |                                                                                                                                                                                                              | PERFORMANCE-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                                                | MARKET-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                                             | STRATEGIC<br>BUSINESS<br>GOALS                                                                                | MANAGEMENT<br>CLIMATE                                                                                     |
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| LTV Corporation                    | Annual Bonus                           | Pre-determined profit goals for the corporation and profit centers, usually net profits before taxes                                                                                                         | Performance Units Plan                                      | Long-term goals of profit and return on assets | Stock Options                                          | Management formula                          | Expand aerospace and oil services industries; boost contribution of Vought to operating income of corporation |                                                                                                           |
| Martin Marietta Corporation        | Annual Bonus                           | Achievement of pre-established objectives                                                                                                                                                                    | -                                                           | -                                              | Stock Options with SAR                                 | Management formula and continued employment |                                                                                                               |                                                                                                           |
| McDonnell Douglas Corporation      | Annual Bonus                           | Net earnings must exceed 6% shareholder equity and appraisal of individual performance                                                                                                                       | -                                                           | -                                              | -                                                      | -                                           | Diversify in existing businesses; increase share of non-government business                                   | Highly conservative risk-averse style, paternal management, decisions made based on quantitative analysis |
| Nitro Corporation                  | Data not available                     |                                                                                                                                                                                                              |                                                             |                                                |                                                        |                                             |                                                                                                               |                                                                                                           |
| North American Philips Corporation | -                                      | -                                                                                                                                                                                                            | -                                                           | -                                              | Stock options with SAR                                 | Management formula                          | Streamline operations, tighten management controls, pursue aggressive R&D commitment                          |                                                                                                           |
| Northrop Corporation               | Annual Bonus                           | Management formula based on corporate performance, including return on equity, attainment of profit objectives, new contracts, new product development, return on company assets, and individual performance | Long-term incentive plan                                    | Five year growth in earnings per share         | -                                                      | -                                           |                                                                                                               |                                                                                                           |
| Raytheon Corporation               | -                                      | -                                                                                                                                                                                                            | -                                                           | -                                              | Stock Options                                          | Management formula                          |                                                                                                               |                                                                                                           |

| CONTRACTOR                         | BONUS INCENTIVE PLANS<br>Type Criteria |                                                                                                                                                                                 | PERFORMANCE-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                                                | MARKET-BASED<br>EQUITY BUILDING PLANS<br>Type Criteria |                                             | STRATEGIC<br>BUSINESS<br>GOALS                                                  | MANAGEMENT<br>CLIMATE                                             |
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| HCA Corporation                    | Annual Bonus                           | Minimum 5% of capital employed must be earned                                                                                                                                   | -                                                           | -                                              | Stock Options with SAR                                 | Management formula                          | Long range goals and planning emphasized, commitment to electronics             | Intense politicking and wrangling internally                      |
| Rockwell International Corporation | Annual Bonus                           | Net earnings                                                                                                                                                                    | Performance Unit Plan                                       | Long-term growth in primary earnings per share | Stock Options with SAR                                 | Management formula                          |                                                                                 |                                                                   |
| Senders Associates, Inc.           | Annual Bonus                           | Company, group and division actual or projected sales and income; individual performance appraisal; profitability of a particular contract; technical or delivery achievements. | Performance Unit Plan                                       | 3 year financial performance growth goals      | Stock Options                                          | Management formula                          |                                                                                 |                                                                   |
| Sargent Fletcher Company           | Data not available                     |                                                                                                                                                                                 |                                                             |                                                |                                                        |                                             |                                                                                 |                                                                   |
| Signal Companies, Inc.             | Corporate Annual Bonus                 | Consolidated income before taxes must exceed 10 percent of shareholder equity                                                                                                   | -                                                           | -                                              | Stock Options and restricted stock awards              | Management formula                          | Maximize net profits, be competitive with industry profit average               | Subsidiary management is given almost complete operating autonomy |
|                                    | Garrett Annual Bonus                   | Management formula                                                                                                                                                              |                                                             |                                                |                                                        |                                             |                                                                                 |                                                                   |
| Singer Company                     | Annual Bonus                           | Achievement of individual, organization and company performance objectives set annually                                                                                         | -                                                           | -                                              | Stock Options with SAR                                 | Management formula and continued employment | Flexibility in restructuring company to be able to respond to changes in demand | High personnel turnover                                           |

| CONTRACTOR              | BONUS INCENTIVE PLANS |                                            | PERFORMANCE-BASED<br>EQUITY BUILDING PLANS |                                                                | MARKET-BASED<br>EQUITY BUILDING PLANS |                                                                                                                          | STRATEGIC<br>BUSINESS<br>GOALS                                                                                                                        | MANAGEMENT<br>CLIMATE                                                                                 |
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|                         | Type                  | Criteria                                   | Type                                       | Criteria                                                       | Type                                  | Criteria                                                                                                                 |                                                                                                                                                       |                                                                                                       |
| Sperry Corporation      | Annual Bonus          | Management formula                         | -                                          | -                                                              | Stock Options                         | Management formula                                                                                                       | Be a \$100 billion company by 1985 with earnings of \$15 per share                                                                                    |                                                                                                       |
|                         |                       |                                            |                                            |                                                                | RAR plan                              | Management formula                                                                                                       |                                                                                                                                                       |                                                                                                       |
| Sundstrand Corporation  | -                     | -                                          | -                                          | -                                                              | Restricted stock plan                 | Management formula                                                                                                       | Stay in high technology business, high profits return, market leadership                                                                              |                                                                                                       |
| Sverdrup Corporation    | Data not available    |                                            |                                            |                                                                |                                       |                                                                                                                          |                                                                                                                                                       |                                                                                                       |
| Teledyne, Inc.          | Annual Bonus          | Management appraisal and continued service | -                                          | -                                                              | -                                     | -                                                                                                                        | Remain an important technical subcontractor rather than prime; minimize risk and get high return; projects should return at least 20% on total assets | Keep each business as a small profit center; get high margins; corporate is tight on capital spending |
| Texas Instruments, Inc. | -                     | -                                          | Performance Waive Plan                     | Growth in net income; net income must exceed 6% of net capital | Stock Options                         | Management formula keyed to individual career targets, prior year performance, future potential and rank in organization | Control of assets asset turnover, cash flow                                                                                                           | Strong company loyalty, peer competition and recognition                                              |
| Textron Inc.            | Annual Bonus          | Exceed targeted 1 return on common equity  | -                                          | -                                                              | -                                     | -                                                                                                                        | Tighten cash flow                                                                                                                                     | Crackdown on divisional autonomy                                                                      |
|                         | Annual bonus          | Exceed targets on 3 performance objectives |                                            |                                                                |                                       |                                                                                                                          |                                                                                                                                                       |                                                                                                       |

| CONTRACTOR                        | BONUS INCENTIVE PLANS |                                                                                                                                           | PERFORMANCE-BASED<br>EQUITY BUILDING PLANS |                                                                                                                            | MARKET-BASED<br>EQUITY BUILDING PLANS |                                                | STRATEGIC<br>BUSINESS<br>GOALS                                                                                                                                   | MANAGEMENT<br>CLIMATE                                                                                                                           |
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|                                   | Type                  | Criteria                                                                                                                                  | Type                                       | Criteria                                                                                                                   | Type                                  | Criteria                                       |                                                                                                                                                                  |                                                                                                                                                 |
| Thiokol Corporation               | Annual bonus          | Net income before taxes must exceed 10% of company's net worth. Contribution of individuals and units to achieving established objectives | Performance Units Plan                     | Long-term (4 year) growth goals and increase in market price of company stock                                              | Stock Options                         | Management formula keyed to growth in earnings | 5 year plan to be less dependent on government contracts; acquisitions in specialty chemicals; dominant market share; gross margins of 35%; proprietary position |                                                                                                                                                 |
| TRW, Inc.                         | Annual Bonus          | Individual, unit, and company performance, level and complexity of the job and external comparisons                                       | -                                          | -                                                                                                                          | Stock Options with SAR                | Management formula                             | 25% return and 10% real profits; new commercial products no defense spinoffs                                                                                     | Hard-nosed about profit                                                                                                                         |
| United Technologies Corporation   | Annual bonus          | Earnings before tax                                                                                                                       | Performance Units Plan                     | Achievement of long-term targets and management formula keyed to appraising judgment, initiative, and effort of individual | -                                     | -                                              | Annual sales of \$20 billion by 1985; diversify away from aerospace; net earnings more important than market share in jet engines; high profit targets           | Strong centralized management; turnover of managers who fail to meet profit goals; tight controls on operating expenses and capital investments |
| Westinghouse Electric Corporation | Annual Bonus          | Earnings per share performance                                                                                                            | Performance Share Plan                     | 4 year growth in return on invested capital                                                                                | Stock options                         | Management formula                             | Shift toward service business, broadcasting and energy                                                                                                           |                                                                                                                                                 |

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