

Long-Term Incentives and Corporate Long-Term Performance in U.S. Listed Companies: Design Patterns, Mechanisms, and Governance Implications

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Abstract. Long-term incentives (LTIs)—such as restricted stock units (RSUs), performance share units (PSUs), stock options, and employee stock purchase/ownership programs—are widely used to connect employees' interests with firms' long-term value, and they have become core governance instruments for listed companies, from China's STAR Market and ChiNext to major U.S. exchanges. This essay examines how American public companies design LTIs in practice and how those designs shape long-run performance through managerial, employee, and market channels. Using a structured comparative analysis of recent proxy statements and filings from multiple U.S. listed firms, the essay documents four recurring patterns: higher LTI intensity in R&D- and talent-dependent sectors; concentrated awards among executives and critical talent; a dominant role for RSUs/PSUs relative to options in mature firms; and frequent reliance on financial metrics. It then develops a mechanism framework showing how LTIs can curb managerial short-termism and support innovation, but also create dilution/expense, metric gaming, and internal equity tensions. Finally, it explains how governance quality, market institutions, and U.S. tax/regulatory rules condition outcomes and offers design recommendations for boards seeking sustainable value creation.

Keywords: Long-term incentives, equity compensation, employee ownership, corporate governance, firm performance

1. Introduction

The modern listed corporation faces a familiar governance challenge: those who control key decisions (managers) are not always the same parties who bear the long-run consequences (shareholders and other stakeholders). Agency theory predicts that when ownership and control are separated, managers may underinvest in long-horizon projects, pursue private benefits, or manage earnings to meet short-term targets rather than maximize long-run value [1,2]. LTIs are intended to reduce these frictions by tying a meaningful portion of compensation to multi-year outcomes—often through equity-based awards whose value rises or falls with firm performance.

In both China and the United States, LTIs have become an increasingly central governance tool, though the institutional motivations can differ. In China's STAR Market and ChiNext, LTIs have

been promoted as ways to bind scarce technical talent during long R&D cycles and to strengthen corporate governance in fast-growth listed firms. In the U.S., LTIs evolved in response to a mix of agency concerns, competitive labor markets for executives and engineers, and investor demand for “pay-for-performance.” The U.S. also institutionalizes investor voice through mechanisms such as advisory “say-on-pay” votes introduced after Dodd–Frank, which require periodic shareholder votes on executive compensation programs [3].

Despite their popularity, LTIs remain controversial. Critics argue that equity pay can be “high-powered” in ways that amplify risk-taking, encourage short-term stock price management, or generate perceived unfairness inside organizations. These concerns are not merely theoretical: proxy advisers and institutional investors periodically mount high-profile challenges to compensation committees when large equity awards are viewed as weakly linked to performance or structured as retention windfalls. For example, Reuters reported that Glass Lewis recommended votes against Goldman Sachs executives’ pay, criticizing what it called a continuing misalignment between pay and performance and highlighting “retention awards” it viewed as excessive [4].

This essay addresses a practical question that matters to boards, investors, and employees: what LTIs actually look like in major U.S. listed companies and how design choices affect long-term performance, focusing on three objectives: describing practical characteristics of U.S. LTI design (including industry distribution, employee coverage, instrument choice, and performance metrics); explaining performance mechanisms—both positive and negative—through management behavior, employee effort, retention, innovation, and market signaling; and identifying moderating factors such as internal governance and external institutions to translate these insights into design recommendations for American companies [5].

Methodologically, the essay uses a structured comparative reading of recent public disclosures, especially proxy statements (DEF 14A) and related filings—because these documents provide unusually granular detail on performance metrics, vesting conditions, and governance safeguards. The analysis draws examples from multiple U.S. listed firms across sectors, including Microsoft, Apple, NVIDIA, Starbucks, Pfizer, and Walmart, complemented by governance and policy sources (SEC rules, clawback standards, practitioner commentary, and tax explanations) [6]. The goal is not to “rank” companies but to extract design patterns and link them to credible long-term performance channels.

2. Practical characteristics of long-term incentives in U.S. public companies

U.S. LTI usage is most intensive in technology and life sciences, where firm value depends heavily on intangible assets and scarce human capital. NVIDIA’s executive program illustrates the “growth + R&D” logic clearly: its compensation design uses performance stock units and financial performance gates tied to ambitious revenue and non-Generally Accepted Accounting Principles (GAAP) operating income targets, reflecting a business model where long-run value is closely connected to sustained innovation and scale [7]. In contrast, more operationally driven sectors often emphasize annual incentives and operational metrics, while still keeping a long-term equity layer to meet market norms.

A common feature of U.S. LTIs is “coverage concentration.” Most public companies provide meaningful multi-year equity awards to named executive officers and to a narrower band of key professionals (e.g., principal engineers, product leaders, senior operations). Broad-based participation exists, but often through smaller-dollar programs such as employee stock purchase plans (ESPPs) or company-wide RSU grants of modest size.

Starbucks provides a useful contrast within one firm: it runs an executive long-term incentive architecture (including multi-year performance RSUs with modifiers) while also featuring a broad-based equity award known as “Bean Stock,” which is reflected as part of median employee compensation in required pay-ratio disclosure [8]. The coexistence of executive-focused and broad-based programs is a typical U.S. pattern—yet the relative economic magnitude (and perceived fairness) can vary sharply.

In mature, large-cap U.S. issuers, full-value shares (RSUs/PSUs) often dominate because they provide more predictable retention value and can be paired with explicit performance conditions [9]. Apple’s proxy statement explains that performance-based RSUs vest entirely based on Relative Total Shareholder Return (TSR) measured against the S&P 500, with vesting ranging from 0% to 200% of target depending on percentile ranking (e.g., 200% at or above the 85th percentile; 100% at the 55th percentile; 25% at the 25th percentile) [10]. This is a canonical “PSU logic”: multi-year, percentile-based outcomes that convert long-term stock performance into earned equity.

Microsoft also illustrates multi-metric design: its fiscal 2025 performance stock award metrics include weighted components spanning commercial cloud and other lines (e.g., 35% commercial cloud revenue growth, 35% Microsoft 365 Consumer revenue growth, plus additional weighted components) and uses a relative TSR adjustment [11].

Options continue to matter in high-volatility or high-growth contexts, but in many established firms they are supplemental rather than dominant. Meanwhile, employee stock purchase/ownership programs remain a broad participation channel, though their motivational impact often depends on financial salience and complementary practices (communication, participation, and credible fairness).

Even when called “long-term,” many LTI scorecards still rely heavily on financial metrics such as revenue, income/EPS, ROIC, and TSR. NVIDIA’s disclosed revenue and non-GAAP operating income performance gates (with threshold/base/stretch values) and its multi-year relative TSR structure are concrete examples of financial dominance in performance architecture [7]. Walmart likewise describes long-term performance equity that uses Return On Investment (ROI), sales, and stock performance, with a one-year performance period followed by additional vesting time.

At the same time, some firms are adding “modifiers” that bring long-horizon stakeholder and human-capital considerations into the LTI plan. Starbucks discloses a three-year PRSU design where a relative TSR modifier can shift payouts up or down by up to 25%, and additional “talent” and “sustainability” modifiers can further adjust outcomes [8]. These developments show a direction of travel: not abandoning financial accountability but expanding the definition of what drives durable value.

3. How long-term incentives affect long-term performance: a mechanism frameworks

LTIs influence performance through three interacting channels—management behavior, employee behavior/human capital, and external market responses—and each channel has both upside and downside potential. The straightforward agency-theoretic mechanism is that equity exposure increases the personal cost to executives of value-destroying decisions. But contemporary U.S. practice refines this into how equity exposure is structured.

Apple’s performance-based RSUs show a clear anti-myopia logic: vesting depends on three-fiscal-year Relative TSR against the S&P 500, and the schedule is nonlinear (0% below the 25th percentile; capped at 200% above the 85th percentile), which encourages management to focus on multi-year value creation rather than single-year earnings optics [8]. Importantly, Apple also caps

vesting at 100% if Apple's TSR is negative, even if relative ranking is strong—an explicit safeguard against “winning by losing less.”

Microsoft's LTI design similarly illustrates how boards attempt to balance growth accountability with market alignment: it uses multi-part business metrics (e.g., cloud and consumer revenue growth components) and then applies a relative TSR adjustment factor [11]. This structure is designed to give managers “line of sight” through operational goals and keep ultimate payouts anchored to shareholder experience.

When these design elements are credible and significant in value, managers face stronger incentives to avoid actions that temporarily inflate earnings but undermine long-run capabilities—such as cutting R&D, underinvesting in security and compliance, or starving product quality to meet quarterly targets.

For knowledge-intensive firms, long-term value creation depends on engineers, scientists, designers, and operational leaders making high-effort and high-risk investments in skill and innovation. Equity-based LTIs can strengthen retention and encourage employees to internalize the payoff from successful innovation.

NVIDIA's incentive design highlights the link between company-scale outcomes and employee rewards: annual and multi-year PSU frameworks are tied to revenue and operating performance and to multi-year relative TSR, with defined threshold/base/stretch levels and payout percentages [7]. This kind of system can motivate employees to prioritize initiatives that contribute to scalable, durable business performance, especially when paired with strong career ladders and clear innovation roadmaps.

Broad-based programs can also matter, particularly for service-oriented firms where frontline effort influences customer experience. Starbucks' disclosure indicates that its median employee compensation includes Bean Stock awards, suggesting that equity participation is part of the “total rewards” narrative even for large frontline workforces. While the dollar amounts for frontline staff may be smaller than executive packages, meaningful ownership may still support engagement, reduce turnover, and improve service consistency—effects that compound over time [8,12].

LTIs can also function as signals. When boards adopt performance-conditioned, multi-year equity with robust disclosure, they communicate that management is willing to “earn” long-term pay through measurable outcomes. Firms that pair LTIs with credible governance safeguards—such as clawbacks, anti-hedging policies, and transparent metrics—can enhance trust among long-horizon investors [5].

This signaling effect is amplified by U.S. governance institutions. Advisory say-on-pay votes provide an iterative feedback loop: boards that persistently miss pay–performance alignment expectations may face reputational costs, higher investor scrutiny, or pressure from proxy advisers. In principle, this strengthens the market's ability to distinguish between LTIs that are truly performance-conditioned and LTIs that function as disguised retention or wealth transfers [9].

Equity compensation is economically costly: it dilutes shareholders and creates a transfer of value from existing owners to recipients. If award sizes are too large relative to incremental productivity and strategic value, LTIs can reduce per-share value rather than enhance it. The problem becomes more acute during high stock-price periods, when large-dollar grants translate into fewer shares but can still be perceived as windfalls, and when companies must recognize substantial stock-based compensation expense.

NVIDIA's proxy statement illustrates how material this expense can be: in its reconciliation of GAAP to non-GAAP operating income, it lists stock-based compensation expense of \$4.737 billion

for fiscal 2025 [7]. Even if a firm treats this as a non-GAAP add-back for certain analyses, the economic transfer remains real and must be justified by long-run performance effects.

When performance metrics are overly narrow—especially when they emphasize revenue growth, near-term income, or single-year operating targets—executives can steer behavior toward “hitting the number” rather than maximizing long-run value. For example, a sales-heavy scorecard can encourage low-margin growth, aggressive discounting, or relaxed credit standards; a ROIC-heavy scorecard can discourage strategically necessary investment in platforms or capability building; a TSR-only scorecard can cause excessive focus on buybacks or short-term narrative management.

Walmart’s disclosure that its long-term performance equity uses ROI, sales, and stock performance, with a one-year performance period and then additional vesting, shows how “long-term” awards can still incorporate shorter-horizon performance windows [13]. Such designs are not inherently flawed—one-year performance can be reasonable in operational contexts—but they raise a design challenge: if the performance window is too short, the plan may reward actions that optimize one cycle while harming the next.

Equity pay can also undermine long-run performance if employees perceive the system as unfair or illegitimate. Pay-ratio disclosure provides one window into this tension. Starbucks reports fiscal 2024 CEO compensation of \$97,813,843 and median employee compensation of \$14,674, yielding a CEO pay ratio of 6,666 to 1 [8]. While pay ratios are not direct measures of unfairness, extreme gaps can become focal points for morale, reputational risk, and labor relations, especially if employees feel that outcomes are not tied to shared success.

A particularly sensitive failure mode is when “long-term” equity is framed as retention rather than performance, and disclosure does not convincingly justify why large awards are necessary or how they are conditioned on outcomes. The Goldman Sachs controversy reported by Reuters—where Glass Lewis criticized pay–performance alignment and highlighted \$160 million in retention awards—illustrates how quickly legitimacy can erode when stakeholders perceive LTIs as excessive or poorly explained [4]. Even if an award is 100% stock-based, investors may still question whether it is truly incentive pay versus guaranteed pay.

4. Moderating factors and design/policy recommendations

Governance safeguards. LTI effectiveness depends heavily on the board’s ability to prevent “softening” of performance conditions and to enforce accountability when outcomes disappoint. NVIDIA, for example, highlights governance practices such as emphasizing at-risk, performance-based compensation, using objective performance goals, requiring multi-year service for full vesting, and maintaining a clawback policy for performance-based compensation [7]. These safeguards shape credibility: if employees and investors believe payouts are genuinely earned, LTIs are more motivational and less likely to be viewed as rent extraction.

Complementary organizational practices. Employee ownership models work better when employees have “line of sight” (understanding how their actions connect to results), and when participation is paired with communication, training, and involvement mechanisms. Starbucks’ use of multi-year PRSUs with financial targets plus TSR and human-capital/sustainability modifiers reflects one approach to integrating long-term strategy with measured accountability [8].

Market institutions and investor voice. Say-on-pay votes and proxy adviser influence shape how far boards can go with generosity or complexity before reputational and governance costs rise. The SEC’s adoption of say-on-pay rules institutionalizes shareholder feedback and increases the stakes of compensation disclosure quality [14].

Clawback rules and listing standards. After regulators required national exchanges to implement clawback listing standards under Dodd–Frank (Rule 10D-1), many U.S. companies adopted or updated policies enabling recovery of incentive compensation tied to misstated financial results [15]. Strong clawbacks and malus provisions can deter manipulation and help reassure investors that the board will not reward failure.

Tax salience to employees [16]. Employee perception of equity value is shaped by taxation and liquidity constraints: RSUs are typically taxed as ordinary income at vesting, which can reduce perceived long-term upside if employees must sell shares to cover taxes. Practical explanations of how restricted stock and RSUs are taxed underscore why “holding requirements” and education matter if boards want employees to think like owners rather than short-term sellers.

Use a balanced instrument mix. Combine RSUs (retention), PSUs (performance leverage), and selective options (upside/innovation risk) so the pay package matches business volatility and capital structure. Broaden participation strategically. Extend meaningful equity to critical technical and operational roles, and use scalable vehicles (ESPPs or broad-based RSUs) to include frontline employees where service quality and retention influence long-run value (as Starbucks’ “Bean Stock” model suggests) [17]. Rebalance metrics toward long-term value drivers. Keep TSR and profitability, but add forward-looking indicators (innovation output, customer satisfaction, safety, human-capital development, Environmental, Social and Governance), ideally as transparent modifiers rather than vague discretion—similar in spirit to Starbucks’ disclosed modifier structure [8]. Reward holding, not trading. Strengthen post-vesting holding requirements and ownership guidelines so employees internalize long-run consequences, not just grant-date value. Make safeguards non-negotiable. Robust performance gates, anti-hedging rules, and enforceable clawbacks should be baseline—not optional—especially given modern U.S. listing expectations [15].

5. Conclusion

Long-term incentives have become a central governance mechanism for listed companies because they promise to connect employee and executive decision-making to durable corporate value. Drawing on agency theory and a comparative analysis of recent U.S. public-company disclosures, this essay identified four practical design patterns across American listed firms: LTIs are most intensive in R&D- and talent-dependent sectors; economically meaningful awards remain concentrated among executives and critical talent; mature firms often rely more on RSUs/PSUs than on options; and performance scorecards still lean heavily on financial metrics, though some firms use strategic modifiers to reflect longer-horizon drivers.

The mechanism framework developed here emphasizes that LTIs operate through multiple channels. When well designed, LTIs can restrain managerial short-termism (as in Apple’s percentile-based Relative TSR vesting), promote sustained investment and innovation (as reflected in NVIDIA’s revenue and operating income performance gates and multiyear TSR), and send credible signals to long-horizon investors. At the same time, the essay highlighted recurring risks: equity plans can be costly through dilution and material stock-comp expense; narrow metrics can distort strategy; and large internal pay gaps can weaken legitimacy and morale—concerns reinforced by both pay-ratio disclosure and investor backlash against perceived misalignment in high-profile cases.

Ultimately, LTI effectiveness is conditional. Internally, strong governance, transparent disclosure, enforceable clawbacks, and a credible pay-for-performance culture are essential. Externally, U.S. institutions—say-on-pay, exchange clawback standards, and tax rules—shape both the incentives

faced by companies and the perceptions of employees and investors. Future research could deepen the analysis by pairing disclosure-based comparisons with firm-level panel data on innovation, retention, and long-horizon returns, allowing us to estimate which specific design elements (holding requirements, metric mixes, broadened participation) most reliably translate into sustainable value creation.

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