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Strategic Executive Compensation in Alphabet: Governance and Long-Term Alignment

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Abstract. This study provides an in-depth analysis of Alphabet's executive compensation policies for the fiscal years 2020 to 2024. Through the systematic content analysis of public documents such as shareholder proxy letters, it is revealed that its compensation structure is centered on basic salary, annual bonus and the dominant long-term equity incentive. Research has found that Alphabet's compensation strategy aims to attract, retain and motivate top talents through market-leading compensation levels, while striving to closely align the interests of executives with the company's long-term strategy, shareholder value creation and corporate governance requirements through a sophisticated performance-linked mechanism. And it shows an evolving trend of strengthening performance orientation, paying attention to ESG factors and responding to market dynamics. This study provides a key reference for understanding how global tech giants balance incentives, risks and long-term value, and deal with complex governance environments. The findings offer valuable implications for executive incentive design in other innovation-driven enterprises navigating dynamic market conditions and increasing stakeholder scrutiny.

Keywords: Executive compensation, Alphabet, corporate governance, incentive alignment.

1. Introduction

This study aims to conduct a comprehensive analysis of Alphabet's executive compensation policy. Explore the various components that make up Alphabet's executive compensation, including base salary, annual performance bonuses, and long-term equity incentives. At the same time, it will also delve into the concepts behind these compensation structures and examine the necessity for Alphabet to balance rewarding executive performance with promoting long-term value creation and reducing excessive risks. This article also considers the impact of corporate governance mechanisms, shareholder activism, and broader market dynamics on Alphabet's compensation decisions. As an important factor in solving the problem of corporate agencies, executive incentives are usually regarded as an important means to promote the high-quality development of enterprises [1].

By analyzing Alphabet's executive compensation framework, valuable insights are provided for the strategies adopted by leading technology companies to manage their human capital and drive corporate success.

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Alphabet, as one of the world's most influential technology companies, has a wide range of business operations, covering everything from core search and advertising businesses to cutting-edge fields such as artificial intelligence, autonomous driving, and life sciences. Its unique corporate culture and innovative genes make its executive compensation policy have distinct industry characteristics and contemporary features. An in-depth study of Alphabet's executive compensation policy can not only reveal its unique aspects in talent management and corporate governance but also provide valuable experience for other technological companies and even the broader industry. This study analyzes Alphabet's executive compensation system from multiple dimensions, including its constituent elements, compensation concepts, decision-making mechanisms, and its impact on company performance and shareholder value, striving to present a comprehensive and in-depth analysis.

The significance of this study lies in the fact that through the analysis of the typical case of Alphabet, it can provide a clear perspective for understanding the complexity of executive compensation in modern technology enterprises. Analyze how Alphabet effectively balances short-term performance with long-term strategic goals through its compensation structure, and how it responds to the increasing attention and pressure from investors, regulatory authorities and the public regarding executive compensation.

2. Literature review

There is a considerable amount of academic literature on executive compensation, covering various theoretical and empirical findings. Agency theory is the cornerstone of executive compensation research, which holds that there are conflicts of interest between shareholders and executives. Compensation contracts alleviate this agency problem by aligning executive incentives with the maximization of shareholder wealth [1]. Human capital theory emphasizes that executive compensation reflects the value of executive skills, experience and knowledge [2]. From this perspective, higher compensation is a reward for outstanding human capital that contributes to the company's performance.

Meanwhile, technology companies usually rely heavily on intellectual property rights and human capital, resulting in a compensation structure that highly emphasizes equity rewards to stimulate innovation and long-term commitment [3]. The rapid growth and high-risk nature of technology companies also affect compensation. Compared with traditional industries, performance-based compensation has a greater weight, and fixed salary has a smaller weight. Furthermore, the role of corporate governance, including the composition and independence of the compensation committee, has been proven to have a significant impact on executive compensation decisions and their consistency with corporate performance [4].

Executive compensation, as one of the core issues in corporate governance, its theoretical basis mainly includes agency theory, human capital theory and efficiency wage theory, etc. The agency theory holds that in modern companies where ownership and management rights are separated, there exist problems of information asymmetry and inconsistent goals between shareholders and senior executives [5]. Executives may pursue the maximization of their own interests rather than that of shareholders' wealth. Therefore, designing a reasonable compensation mechanism, especially linking the compensation of senior executives to the company's performance, is an effective way to alleviate agency conflicts and motivate senior executives to be diligent and responsible.

The theory of human capital explains the salary level from the perspective of the value of senior executives themselves. This theory holds that the compensation of senior executives is a reasonable return to the human capital they possess. Executives with higher human capital can create greater

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value for the company and therefore should also receive higher salaries. In the technology industry, senior executives often possess profound technical backgrounds and forward-looking strategic vision. These scarce human capitals are the key to driving enterprise innovation and maintaining a competitive edge. Therefore, the executive compensation of technology companies is often higher than that of traditional industries to reflect the unique value of their human capital.

The efficiency wage theory explores executive compensation from the perspective of the supply and demand relationship in the labor market. This theory holds that when enterprises pay salaries higher than the market equilibrium level, they can attract and retain more outstanding talents, enhance employees' work enthusiasm and efficiency, and reduce the risks of employees job-hopping and slacking off. For senior executives, high compensation is not only an acknowledgement of their current contributions, but also an incentive for their continuous efforts and loyalty in the future. In the technology industry, the competition for talent is extremely fierce. High salaries are an important means for enterprises to attract and retain top executives. The structure of executive compensation is becoming increasingly complex. Besides basic salary and bonuses, the proportion of long-term incentives, such as stock options, restricted stocks, and performance stock units, is growing larger and larger. The main purpose is to closely integrate the short-term behaviors of executives with the long-term strategic goals of the company.

In recent years, with the improvement of corporate governance and the awareness of corporate social responsibility, the rationality, transparency and fairness of executive compensation have received increasing attention. The rise of shareholder activism has made executive compensation packages repeatedly the focus at shareholders' meetings. Regulatory authorities have also introduced a series of policies to regulate executive compensation and prevent excessive compensation and short-term behavior. Therefore, the analysis of Alphabet's executive compensation policy also needs to be examined in the context of the current corporate governance and market environment.

3. Research method

This study adopts a qualitative research method, mainly through the content analysis of the public documents related to executive compensation of Alphabet Company. The main sources of data include Alphabet's annual proxy Form DEF 14A submitted to the U.S. Securities and Exchange Commission (SEC), annual report Form 10-K, and other investor relations materials [6]. Meanwhile, this study also searches for relevant academic literature, industry reports and well-known financial news articles. The content analysis will focus on identifying the key components of executive compensation, the trends of compensation changes over time, and the established goals of Alphabet's compensation Committee. Special attention should be paid to the structure of equity rewards, such as restricted stock units (RSUs) and performance stock units (PSUs), and how they are linked to performance targets. This study also examines the role of the remuneration committee, its independence, and the decision-making process disclosed in the proxy. Although it mainly focuses on qualitative analysis, quantitative data related to executive compensation figures and company performance indicators will be extracted and presented to support qualitative findings.

In terms of data analysis, this study adopts content analysis to conduct a systematic analysis of the collected text data. The specific steps include:

1.Carefully read the text contents regarding executive compensation in the power of attorney and the annual report, identify and code each component of the compensation, performance indicators, as well as the decision-making principles and processes of the compensation committee.

2.By comparing data from different years, analyze the evolution trends of Alphabet's executive compensation policies, including changes in total compensation, adjustments in the proportions of different compensation components, and the improvement of the performance-linked mechanism.

3.Explore the potential correlations between executive compensation and the company's financial performance, market performance, and innovation achievements.

4.Compare Alphabet's executive compensation policies with those of other leading companies in the technology industry or similar companies to identify their uniqueness and universality.

4. Research results

The core findings of this study are based on the analysis of AlphaBetannual Proxy Forms DEF 14A and other public financial documents submitted to the SEC from 2020 to 2024. These documents disclose in detail the composition, amount, decision-making basis and correlation with the company's performance of the compensation of its senior executives by the company.

4.1. The core components of Alphabet's executive compensation

This compensation structure is associated with improved market-to-book ratios, ROA, and profit margins [7]. Alphabet's executive compensation portfolio reflects the typical characteristics of the technology industry in attracting and retaining top talent, highly relying on equity incentives and emphasizing long-term performance. Its core constituent elements mainly include:

Base salary: This is the fixed cash compensation that senior executives receive, usually set based on their job responsibilities, experience, market compensation levels, and personal contributions.

Equity incentive: The largest proportion of compensation, mainly in the forms of restricted stock units and performance stock units. RSUs is usually attributed in installments over time, while the attribution of PSUs is linked to the achievement of the company's preset long-term performance targets.

Non-equity incentive plan compensation and annual performance bonus: This part is based on the company's annual financial and operational performance as well as the individual contribution of senior executives to strategic goals.

All other compensation: including personal security expenses, insurance premiums paid by the company for senior executives, contributions to retirement plans, etc.

4.2. Analysis of executive compensation data for fiscal years 2020-2024

This section focuses on the compensation data of Alphabet's CEO Sundar Pichai.

Mr. Pichai's compensation has shown significant cyclical fluctuations over the past five years, mainly influenced by his large equity grant plan that occurs once every three years.

According to the DEF 14A document disclosed in 2021, Pichai's total compensation was approximately 7.4 million US dollars, including a base salary of 2 million US dollars, and there were no new stock grants. The total compensation for the fiscal year 2021 was approximately 6.3 million US dollars, with the base salary remaining at 2 million US dollars. There were also no new major equity grants.

Pichai's total compensation soared to approximately 226 million US dollars in fiscal year 2022. It mainly stems from a new three-year equity incentive worth approximately 218 million US dollars, aiming to motivate him to continue leading the company to achieve strategic goals in the future. His base salary remains at 2 million US dollars.

In 2023, according to DEF 14A submitted in April 2024, Pichai's total compensation returned to approximately $8.8 million, with a base salary of $2 million. There were no large-scale periodic

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equity grants in that year.

According to DEF 14A submitted around May 2025, Pichai's total compensation in 2024 was 10.725 million US dollars. Among them, the basic salary slightly rose to 2.015 million US dollars, the amount of stock grants was relatively small, while the "All other compensation" part was significant, at 8.3 million US dollars, among which personal security expenses accounted for a relatively large proportion, at 8.27 million US dollars. It reflects the compensation structure of the non-cyclical equity grant year.

The positive relationship between CAP-based misalignment and SOP dissent is stronger when equity constitutes a greater portion of compensation and is weaker when total shareholder return is used to determine CEO non-equity incentive payout [8]. The compensation structure of other NEOs is also mainly based on equity incentives, but the total amount and volatility are usually smaller than those of the CEO. For all NEOs, equity incentives constitute the vast majority of the total compensation, especially in the years when the CEO receives periodic large grants. It highlights Alphabet's strategy of deeply tying executive compensation with the long-term interests of shareholders. Compared with the huge fluctuations in total compensation, the base salary of NEOs remained relatively stable or increased slightly during the research period. The base annual salary of several senior executives rose from $650,000 to $1 million at the beginning of 2022. Alphabet continues to use PSUs, whose attribution is linked to performance indicators such as the company's relative overall shareholder return (TSR) in the coming years. In the equity incentives Pichai received in 2022, the proportion of PSUs increased from 43% in 2019 to 60%, further strengthening the connection between compensation and performance. Especially for CEO Sundar Pichai, personal security expenses are an important component of "All other compensation" and have been increasing year by year, reaching 8.27 million US dollars in 2024, reflecting the company's high regard for the personal safety of the CEO.

4.3. The structure of equity incentives is linked to the performance mechanism

Alphabet's equity incentive system is meticulously designed to achieve multiple goals: attracting and retaining talent, motivating long-term performance, and aligning the interests of executives with those of shareholders. The results demonstrate that digital transformation significantly increases executive compensation through two primary channels: enhancing executives' human capital and improving firm performance [9].

RSUs usually sets a vesting period of several years, mainly to retain talents. Executives must continue to serve in the company until the vesting date to obtain the corresponding stocks. The classification of PSUs is not only determined by the years of service, but more importantly, by the company's performance within a specific performance period relative to the preset goals or peer companies. One of the key indicators frequently used by Alphabet is Relative Total Shareholder Return (TSR), which compares Alphabet's TSR with that of other companies in the S&P 100 Index. This mechanism directly links part of the compensation of senior executives to the relative value created for shareholders. In the equity grant of Pichai, the final vesting amount of PSUs can be adjusted based on the performance of TSR, ranging from 0% to a maximum of 200%.

4.4. The decision-making basis and transparency of the remuneration committee

Alphabet's Leadership Development, Inclusion and Compensation Committee is responsible for formulating and approving executive compensation. In the "Compensation Discussion and Analysis"

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section of its annual proxy statement, the Compensation Committee elaborates on its decision-making philosophy and processes in detail:

The compensation philosophy aims to attract, retain and motivate the world's top talents by offering competitive compensation packages, while ensuring that the compensation is highly consistent with the company's long-term strategy, performance and shareholder interests. At the same time, the compensation committee will refer to a set of pre-selected compensation data from peer companies to ensure that Alphabet's compensation level is market-competitive. The design of the compensation structure also takes into account avoiding incentives for excessive risky behaviors, such as through mechanisms like long-term vesting equity, stock ownership guidance, and potential compensation recovery policies.

4.5. The evolution trend of Alphabet's compensation policy from 2020 to 2024

During the research period, Alphabet's executive compensation policy demonstrated specific evolving trends. During the research period, it showed a strengthened performance-oriented approach, gradually increasing the proportion of PSUs in equity incentives, and placing greater emphasis on the correlation between compensation and measurable long-term performance indicators. At the same time, the increase in the basic salary, the basic salary of some senior executives at the beginning of 2022, and the attractive signing plans for new senior executives reflect the company's efforts to maintain competitiveness in the highly competitive talent market.

Although Alphabet does not directly serve as a quantitative indicator for NEO's compensation, on a broader scale, the company has begun to mention environmental, social, and governance (ESG) goals as one of the factors in executive performance considerations, and in its 2022 bonus plan, it referred to contributions to achieving social and environmental goals.

Meanwhile, the ratio of CEO to median employee compensation has become a continuously watched indicator. In 2022, Pichai's total compensation was 808 times the median compensation of its employees, but by 2024, this ratio had dropped to approximately 32 times [10]. This fluctuation is mainly caused by the periodicity of CEO equity grants.

5. Discussion and conclusion

This study, through an in-depth analysis of Alphabet's executive compensation policies for the fiscal years 2020 to 2024, reveals the complexity of its compensation structure, strategic intentions, and its evolution in a dynamic market environment.

5.1. The effectiveness of Alphabet's compensation policy in attracting, retaining and motivating top talents

Research data shows that Alphabet's total executive compensation, especially in terms of equity grants, remains at the leading level in the market and has a strong impact on attracting top technology and management talents from around the world. The relative stability and market competitiveness of the basic salary, combined with highly attractive equity incentives, constitute a powerful tool for attracting and retaining talents. Just as human capital theory emphasizes, high compensation is a reasonable reward for the scarce skills, experience and knowledge that executives possess. Especially in the innovation-driven technology industry, the contribution of top talents to the continuous success of enterprises is immeasurable.

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The long-term attributable RSUs and the performance-linked PSUs not only enhance the potential value of compensation but also strengthen the willingness of senior executives to stay through the "golden handcuffs" effect. Executives need to provide long-term services and achieve performance targets in order to fully realize the equity value and effectively reduce the risk of core talent loss. From the perspective of incentives, annual performance bonuses are linked to short-term performance targets, while the dominant equity incentives draw the attention of senior executives towards the long-term development of the company and the continuous growth of shareholder value. The introduction and increased proportion of PSUs have directly tied the financial returns of senior executives to the company's performance relative to the market, forming a powerful incentive mechanism.

5.2. The alignment of compensation policies with the company's long-term performance and shareholder value creation

One of the core conclusions of this study is to assess whether Alphabet's compensation policy has effectively aligned executive incentives with the company's long-term performance and shareholder value creation. Data analysis shows that Alphabet has made remarkable efforts in this regard and achieved certain results.

The dominant position of equity incentives in total compensation and their multi-year vesting nature bind the interests of senior executives to the long-term interests of shareholders. The value of the unvested equity held by senior executives fluctuates directly with the company's stock price, prompting them to focus on long-term strategies that can enhance the company's fundamentals and market valuation.

The performance measurement criteria of PSUs directly reflect the return on investment of shareholders. Linking compensation to relative TSR indicates that executives not only need to lead the company to achieve absolute growth, but also outperform the market average or major competitors in order to obtain higher compensation returns. It conforms to the core idea of the agency theory, that is, to reduce agency costs through elaborately designed contracts and prompt managers to aim at maximizing shareholders' wealth.

5.3. The influence of corporate governance, shareholder interests and market trends

Alphabet's compensation decision-making process reflects the effective operation of corporate governance. The independence of the compensation committee and its prudent assessment of compensation policies are important guarantees to ensure the rationality of compensation. The "Shareholder Suggestions" voting at the annual general meeting of shareholders provides shareholders with a direct channel to express their opinions on executive compensation. Alphabet's relatively high support rate, to a certain extent, reflects shareholders' recognition of the company's compensation policy, but it also prompts the company to continuously pay attention to and respond to possible concerns raised by shareholders. For emerging issues such as AI ethics and social responsibility, shareholders have also begun to exert influence through proposals, which may indirectly affect the comprehensive assessment of executive performance in the future.

Market trends also have a significant impact on Alphabet's compensation policy. The fierce competition for talent in the technology industry has forced companies to offer highly competitive salary packages, especially in cutting-edge fields such as artificial intelligence. Businesses may make a significant contribution to global sustainability and long-term prosperity that benefits the environment and society by coordinating corporate governance with SDGs. In recent years, the

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importance of ESG factors in enterprise operations and investor decisions has been increasing day by day, and they have also begun to be reflected in the design of executive compensation. In its 2022 bonus plan, Alphabet mentioned contributions to social and environmental goals. Although it has not yet become a core quantitative indicator of NEO compensation, it indicates that future compensation policies may further incorporate a broader dimension of value creation measurement. The adoption of the compensation recovery policy also reflects compliance with best practices in corporate governance and regulatory requirements.

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