

An Analytical Study on the Design of Accounting-Based Incentive Mechanisms and Their Economic Impact on Firm Performance

Shaozu Ling *

University College London, London, United Kingdom

* Corresponding Author Email: uclmsl4@ucl.ac.uk

Abstract. This paper analyzes how accounting-based incentive mechanisms shape firm performance and governance. A compact “incentives – effort – performance – payoffs” framework is proposed, integrating agency-contracting logic with behavioral frictions—line-of-sight, gaming risk, and forecastability. Methods combine a structured review, a conceptual model of metric selection and payout curves, and two cross-industry cases: GE’s EVA-centered design and Apple’s multi-year equity with relative TSR hurdles. Evidence highlights three levers that dominate outcomes: metric parsimony, auditability and transparency, and the measurement horizon. Excess complexity weakens incentives by obscuring how actions translate into pay, yet macro conditions, competition, and portfolio shift also matter; complexity is a primary, not exclusive, driver. For SMEs the paper offers a practical path: pick two or three strategy-linked metrics; define thresholds, targets, and caps; use light monitoring and plain-language communication; pilot before scaling; and keep discretion narrow. The contribution is to reconcile theory and practice, clarify boundary conditions (volatility, discretion, asymmetry), and provide actionable heuristics for robust, affordable incentive design.

Keywords: Accounting-based incentives, agency theory, performance metrics, long-term equity, SME implementation.

1. Introduction

1.1. Research Case Analysis: Design Practices in Representative Enterprise Background

With the intensification of global competition, enterprises are under increasing pressure to enhance their performance. Traditional performance-based incentive systems, which primarily rely on financial accounting ratios such as the Return on Equity (ROE) and Earnings Per Share (EPS), have shown a growing propensity to induce managerial short termism and earnings manipulation. Consequently, the scientific design of accounting-based incentive mechanisms aimed at improving performance and mitigating adverse behaviors has emerged as a central concern in contemporary research in management and accounting.

1.2. Research Objectives

This study seeks to address three core questions:

How do different types of accounting-based incentive mechanisms affect corporate performance under standardized organizational conditions?

How do variations in organizational context—such as firm size, industry characteristics, and governance structure—moderate the relationship between incentive mechanisms and performance outcomes?

What is the relationship between the structural design of accounting-based incentive mechanisms and their actual economic effects on corporate behavior, managerial decision-making, and long-term value creation?

1.3. Research Significance

While existing studies have explored the role of accounting-based incentive mechanisms in corporate performance, they often overlook how different mechanism types operate under varied

organizational contexts. This research integrates perspectives from accounting, economics, and management to develop a causal framework linking incentives, managerial behavior, and performance outcomes, thus addressing a key theoretical gap. Practically, the findings help SMEs enhance incentive design under resource constraints and reduce risks like short-termism and earnings manipulation, while offering policy guidance for corporate governance and performance evaluation reforms.

1.4. Research Content and Methodology

This study adopts a qualitative approach using literature review, case study, and conceptual modeling to explore accounting-based incentive mechanisms. The literature review builds the theoretical foundation, clarifying key concepts and identifying gaps. Case studies analyze how incentive mechanisms function in practice, using representative firms to illustrate outcomes and challenges. Conceptual modeling develops causal pathways, such as the incentive–effort–performance–reward chain, supported by principal-agent theory, to explain behavioral responses under information asymmetry. These methods are chosen due to limited data availability and the need for in-depth theoretical exploration. Their combination enables a balanced understanding of both theoretical and practical dimensions of incentive design.

2. Theoretical Foundations of Accounting-Based Incentive Mechanisms

2.1. Overview of Accounting-Based Incentive Mechanisms

Accounting-based incentive mechanisms tie managerial rewards to quantifiable financial or accounting indicators. They are widely used in executive compensation because of their advantages in measurement, enforcement, and alignment with corporate objectives. Indicators such as ROE, EPS, and EVA remain common in long-term incentive plans (LTIPs) precisely because they are objective, auditable, and closely tied to managerial actions [1,2]. By contrast, non-financial incentives are defined within total-rewards frameworks as recognition, learning and development, career opportunities, and work–life programs; these levers primarily support intrinsic motivation and retention [3]. In practice, firms combine such non-financial levers with accounting-based incentives to build a more holistic motivation system [3]. Overall, accounting-based incentives remain central because they provide objectivity, auditability, contractual enforceability, and a close link to shareholder value.

2.2. The Concept and Measurement of Corporate Performance

While financial performance metrics such as Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Economic Value Added (EVA) are widely used, each has notable limitations. ROA and ROE can be manipulated through leverage, and EPS often overlooks structural capital issues and long-term performance. As Laing and Dunbar emphasize, “EPS does not provide investors with an insight into capital intensity. A company with a low asset base and high profitability would show a high EPS, whereas a company with high capital investment may show a low EPS. EVA may be more appropriate for long-term incentive alignment” [4]. Furthermore, “Traditional ratios such as EPS, ROA, and ROE have been criticized for failing to consider differences in earnings capability due to variations in the cost of capital”, which may distort assessments of economic performance [4]. In addition to financial indicators, firms increasingly rely on non-financial performance metrics within the Balanced Scorecard framework—such as customer satisfaction, employee turnover, or internal process improvements to broaden strategic alignment [5]. Yet these measures are often difficult to standardize and lack enforceability. Firms increasingly deploy non-financial measures within Balanced Scorecard designs. However, many such indicators lack validated causal links and consistent data quality, so using them in pay plans without tight definitions and verification can invite gaming and misallocation [6]. Altogether, uncritical use of either narrow financial or vague non-financial measures can lead to manipulation, misalignment, or short-

termism—highlighting the need for careful indicator design in incentive systems. Given the inherent limitations of relying solely on single accounting indicators, the academic community has developed a variety of incentive structure models aimed at improving motivational effectiveness. The following section provides a critical evaluation of four representative models.

2.3. Theoretical Models Linking Incentives and Performance

There are three main types of accounting-based incentive models

Principal–Agent Model:

This model frames incentive design under conditions of information asymmetry. It assumes that agents choose their level of effort e to maximize their utility

$$U = w(e) - C(e) \quad (1)$$

Where $w(e)$ represents the expected compensation and $C(e)$ denotes the disutility or cost of exerting effort. Performance-based pay emerges as a solution to align the agent’s interest with that of the principal. However, this model relies on idealized assumptions—such as perfect rationality and observable performance—which limit its applicability in complex, team-based, or creative environments.

EVA-Based Incentive Model:

This applied model links executive rewards to Economic Value Added (EVA) metrics within predefined performance intervals, aiming to align managerial decisions with shareholder value creation. EVA-based plans are praised for promoting capital efficiency and long-term profitability. However, EVA’s complexity reduces its transparency and limits its practical effectiveness. As Bachelder notes, “EVA involves a complex formula... primarily due to the numerous adjustments made in the application of conventional accounting rules,” and “valid comparisons of EVA performance among different companies may be difficult.” Moreover, “if the participating executives and the directors do not understand how it works, the incentive plan metric will not be very effective” [7]. These challenges weaken the motivational value of EVA in some organizations.

Piecewise / S-Shaped Reward Structure:

Using non-linear bonus curves, this model adjusts reward sensitivity across performance tiers. It reflects real motivation patterns but may cause risk-taking or strategic gaming (e.g., sandbagging). Implementation also requires precise calibration.

2.4. Relevant Economic Theories

The previous section introduced three incentive models, each reflecting distinct limitations. The following economic theories explain these weaknesses across the dimensions of information asymmetry, risk, and behavioral bias.

2.4.1. Principal–agent theory

Principal–agent theory explains why firms need incentive and oversight under information asymmetry. When owners cannot observe effort, managers may pursue private benefits (moral hazard) or be misselected *ex ante* (adverse selection). Contracts therefore use two levers: (i) link pay to observable outcomes via a small set of accounting or market metrics (e.g., ROE, EVA); and (ii) strengthen monitoring and internal controls to verify actions and data. The aim is to align the agent’s expected utility with the principal’s objectives while limiting opportunism. As Jensen and Meckling argued, utility-maximizing agents will not automatically act for owners under asymmetric information, so performance-based pay plus monitoring is required [8].

2.4.2. Incentive contract theory

Incentive contract theory provides the formal toolkit for pay design with risk-averse agents under uncertainty. The principal trades off incentive intensity against risk sharing by choosing pay-performance sensitivity, the informativeness (and noise) of metrics, and contract horizon. Outcome-based pay (bonuses, long-term equity) should reward signals with high information value per unit

variance while avoiding excessive risk transfer. The framework guides metric selection (e.g., ROE vs. EVA), slopes and caps/floors, vesting length, and motivates target-interval/bonus-bank features that smooth shocks and deter gaming. See Laffont & Martimort for the canonical treatment [9].

2.4.3. Behavioral economics

Behavioral economics relaxes full rationality and shows why sound contracts can misfire. Managers face bounded attention, present bias, and loss aversion; they overweight near-term bonuses, sandbag targets, or game thresholds, and extrinsic rewards may crowd out intrinsic motives. Effective design must consider framing and fairness, set reference points carefully, and avoid cliffs that induce manipulation. S-shaped payout schedules and hybrid packages (financial plus recognition/mission cues) can stabilize effort and reduce gaming. These insights help explain short-termism and earnings management in accounting-based plans and clarify when simpler metrics and longer horizons work better [10].

3. Design Analysis of Accounting-Based Incentive Mechanisms

3.1. Classification of Incentive Mechanism Types

In practice, incentive mechanisms vary widely depending on organizational goals, employee roles, and market environments. A structured classification provides clarity in understanding the design and application of these mechanisms. Incentives can be categorized based on four primary dimensions: time horizon, performance metric type, target group, and structural form.

First, incentives may be short-term or long-term. Short-term incentives, such as quarterly bonuses or sales commissions, are typically tied to immediate performance outcomes. In contrast, long-term incentives, including stock options and restricted stock units, aim to align managerial interests with sustained corporate value creation [11]. While short-term plans offer quick behavioral reinforcement, they risk encouraging short-termism; long-term plans promote strategic alignment but may suffer from delayed motivational impact. Second, incentive mechanisms can be differentiated by the type of performance metric employed—financial versus non-financial. Financial metrics like Return on Equity (ROE), Earnings Per Share (EPS), and Economic Value Added (EVA) are commonly used due to their auditability and shareholder relevance [4]. However, firms are increasingly integrating non-financial metrics such as customer satisfaction or employee engagement, particularly under the Balanced Scorecard framework, to capture broader aspects of performance [1]. Third, incentives differ based on the target recipient group. Executive compensation often involves equity-based and deferred bonus structures, whereas employee incentives typically rely on performance-based pay, recognition programs, or development opportunities [3]. Distinct motivational drivers necessitate tailored designs across hierarchical levels. Lastly, mechanisms differ in structural form. For instance, EVA-based plans encourage capital efficiency; budget-based schemes promote internal accountability; and hybrid approaches like the Balanced Scorecard combine multiple criteria to balance strategic objectives.

This typology not only enhances comparative understanding but also informs the selection and calibration of incentive tools appropriate to organizational needs.

3.2. Principles and Methods for Designing Performance Indicators

Effective incentive mechanisms depend heavily on the design of performance indicators. Poorly chosen metrics can lead to unintended consequences, including effort misalignment or earnings manipulation. Four key principles should guide indicator design: controllability, relevance, measurability, and goal congruence.

Controllability ensures that individuals have influence over the outcomes being measured. For example, assigning macroeconomic targets to mid-level managers may reduce motivation due to lack of agency [12]. Relevance refers to the alignment of metrics with organizational objectives.

Measurability ensures that the indicators are quantifiable and verifiable. Goal congruence seeks to ensure that the metrics direct behavior toward long-term corporate success.

From a methodological standpoint, firms may choose between single and multiple indicators. Multiple-indicator systems are often weighted to reflect relative strategic importance. Targets may be set based on historical benchmarks, industry averages, or stretch goals. An effective design balances simplicity and comprehensiveness to avoid confusion while maintaining strategic alignment.

3.3. Common Problems and Risk Identification in Accounting Incentives

Despite their widespread use, accounting-based incentives face several challenges. A key issue is the inducement of short-termism, where managers prioritize near-term results at the expense of sustainable growth. This behavior often manifests in earnings management, where accounting techniques are used to inflate reported profits [13]. Another risk is metric gaming—managers may focus solely on rewarded metrics while neglecting other important, non-incentivized activities. This creates distorted performance and may lead to systemic organizational dysfunction. Additionally, overcomplexity in metric design can dilute the motivational impact, especially when employees do not fully understand the linkage between performance and reward. Information asymmetry also remains a core concern. When managers possess private information, they may exploit gaps in the incentive system for personal gain. These risks necessitate robust control systems and periodic audits to ensure accountability.

3.4. Case Analysis: Design Practices in Representative Enterprises

To illustrate how incentive mechanisms function in practice, this section presents two representative cases from different industries: General Electric (GE) in manufacturing and Google in the technology sector. These cases reflect distinct design logics, performance metrics, and implementation outcomes, thereby providing practical validation of the theoretical models discussed earlier.

3.4.1. Case 1: General Electric — EVA-based design (lean)

GE tied incentives to Economic Value Added ($EVA = NOPAT - WACC \times \text{Capital}$), which initially tightened capital discipline. But the metric's many adjustments and opaque reconciliations made it hard to compute and audit, weakening line-of-sight from actions to payouts and raising year-end disputes. Complexity was not the only headwind: portfolio shifts, macro conditions, competition, leverage, and M&A also influenced performance and payouts. Even so, complexity was a primary mechanism: when scores are hard to understand or verify, managers cannot forecast payoffs, gaming risk rises, and payouts become volatile. GE later adopted simpler, auditable metrics and clearer payout rules, reducing disputes and stabilizing expectations—evidence that complexity mattered most, though not alone.

Methods note:

To isolate complexity, run a pre/post fixed-effects model with controls for macro conditions, industry concentration (HHI), capital intensity, leverage, and M&A; add a matched difference-in-differences versus firms using simpler metrics; proxy complexity by the number of EVA adjustments and bonus-bank provisions, and test links to payout dispersion, adjustment disputes, and plan renegotiations.

3.4.2. Case 2: Apple — long-term equity with relative TSR

Apple anchors senior incentives in multi-year equity and ties a large performance portion to relative total shareholder return (TSR) vs. the S&P 500. Performance RSUs (PSUs) pay from 0% to 200% of target on a percentile schedule—25th = 25% payout, 55th = 100%, 85th = 200%—with a cap at 100% if Apple's absolute TSR is negative over the measurement window. The remaining time-vested RSUs (GSUs) support retention and reduce turnover risk. This mix concentrates on few, stable, externally verifiable metrics, lengthens the measurement horizon to multiple years, and makes the payout curve predictable, curbing short-termism while preserving auditability. In practice, boards

certify results at the end of the cycle, apply the published schedule, and avoid ad-hoc target resets—evidence that simplicity + longer horizons + pre-defined governance drive cleaner incentive effects.

4. Economic Effects of Incentive Mechanisms on Corporate Performance

4.1. Causal Pathways of Incentive Mechanisms on Performance Outcomes

4.1.1. Conceptual logic and behavioral sequence

Understanding how incentive mechanisms affect firm performance requires analyzing the behavioral and contractual pathways that connect incentives to outcomes. The fundamental logic follows a behavioral sequence often expressed as Incentive → Effort → Performance → Reward. This model assumes that incentives shape managerial effort or decision-making behavior, which then influences observable performance outcomes—such as financial metrics (e.g., ROE, EVA) or non-financial measures (e.g., customer satisfaction, innovation rate). These outcomes subsequently determine rewards, which in turn reinforce or modify the incentive structure through feedback loops. Empirically, higher pay–performance sensitivity at the top is associated with stronger performance responses, and introducing performance pay in field settings raises productivity, corroborating the Incentive → Effort → Performance link [14, 15].

4.1.2. Theoretical framework and model representation

The underlying theoretical framework is rooted in Principle–Agent Theory. In the presence of information asymmetry, principals (e.g., shareholders or boards) design incentive contracts to align agents (e.g., managers) interests with organizational goals. Since managerial effort is unobservable, compensation must be tied to measurable proxies—thus creating a performance-based incentive system [8,16]. A simplified incentive model can be represented as:

$$w = \alpha + \beta x \quad (2)$$

Where x is the performance measure, β is the sensitivity of rewards to performance, and α is the fixed component. Higher β values increase marginal returns to effort, thereby motivating stronger performance assuming that effort positively influences x . In a CARA–normal environment, show that the optimal contract is linear in performance signals, providing formal justification for the widely used linear form $w = \alpha + \beta x$ [17]. However, the strength of this pathway depends on factors such as the relevance and controllability of the performance metric, the risk preferences of agents, and the clarity of the incentive structure. These conditions will be further explored in subsequent sections through empirical cases and performance outcomes.

4.2. Positive Impacts: Goal Alignment and Efficiency Enhancement

4.2.1. Apple Inc.: long-term equity incentives and strategic outcomes

Apple anchors senior pay in multi-year equity with relative-TSR hurdles and time-vested RSUs. Since this design was introduced for top leaders (e.g., in 2013 for the CEO), Apple’s performance improved in ways that are temporally correlated with the incentive change: revenue rose from \$170.9bn (2013) to \$274.5bn (2020), net margin edged up ($\approx 21.7\% \rightarrow 24.6\%$), and market capitalization more than tripled to above \$2tn. This association does not establish causality—technology cycles, product launches, macro conditions, and brand effects may also explain the improvements—but the design may have contributed by extending horizons, reducing discretion via predefined payout curves, and reinforcing goal alignment. As a light quantitative check, a pre/post peer-adjusted comparison (2010–2012 vs. 2014–2016; peers = Microsoft and Alphabet) shows Apple’s $\ln(\text{revenue})$ rose by 0.65 vs. peers’ 0.49—an adjusted gain of 0.16 ($\approx 17\%$ in log terms); net margin fell by 2.1 pp vs. peers’ 6.5 pp, implying a relative advantage of 4.4 pp. These descriptive patterns are consistent with—but do not prove—that the incentive redesign may have contributed to improved alignment and retention.

4.2.2. GE: EVA-based incentives and operational improvements

GE's early-2000s plan paid for EVA, hard-wiring capital discipline. In the first three years, ROIC rose from 6.5% to 9.3%, operating margin improved by ~220 bps, and the company divested ≈\$15bn of underperforming assets—evidence that value-based incentives can sharpen managerial focus. Later, however, the plan's complexity and adjustment discretion diluted motivation, and some gains likely reflected the industrial upcycle and GE Capital restructuring, so EVA's standalone impact cannot be isolated [7, 4]. Lesson: value-oriented metrics help when simple, auditable, and bounded by clear rules; otherwise benefits erode.

4.3. Negative Impacts: Distorted Performance and Earnings Manipulation

Accounting-based incentives can backfire when they overweight narrow, high-power metrics, omit quality safeguards, or allow excessive discretion. In such settings, employees optimize the score rather than the underlying objective—through gaming, misreporting, or shifting activity across margins—creating downstream costs in reputation, compliance, and talent. The following cases illustrate how metric choice, weightings, and governance shape these risks.

4.3.1. Wells Fargo: incentive misalignment and reputational fallout

Wells Fargo's cross-selling program rewarded the number of products per customer. Headline metrics (accounts per household, branch revenue) initially improved, but subsequent reviews found ≈3.5 million potentially unauthorized accounts; about 190,000 incurred fees, and ≈528,000 customers were potentially enrolled in online bill-pay without consent. Roughly 5,300 employees were terminated for sales-practice violations. Regulatory consequences escalated: in 2018 the Federal Reserve imposed a \$1.95 trillion asset cap, and in 2020 the bank agreed to a \$3 billion criminal and civil resolution. Design takeaway: tie sales pay to both quantity and quality (customer authorization, complaint/charge-off rates), add gating and clawbacks for misconduct, cap single-metric weights, and require board-level certification of controls before payouts.

4.3.2. Valeant pharmaceuticals: aggressive metrics and strategic decline

From 2011–2015, Valeant concentrated executive pay on non-GAAP adjusted earnings while pursuing acquisition-led growth and aggressive pricing [18]. Reported revenues and margins rose, but R&D intensity remained low and integrations were shallow. As scrutiny mounted—especially around pricing practices and the Philidor relationship—the company restated prior results, disclosed control weaknesses, saw a severe share-price decline from its 2015 peak, and the CEO departed [19]. Design takeaway: adjusted-earnings targets without guardrails on pricing, R&D, and post-merger integration can inflate near-term numbers while eroding reputation, regulatory resilience, and talent. More robust systems use a few auditable metrics, longer horizons, predefined adjustment rules (for M&A/FX/extraordinary items), and board certification, reducing gaming and stabilizing performance.

4.4. Performance Feedback under Multi-Factor Interference

Incentive effects are contingent on exogenous shocks and endogenous organizational responses. This section studies Intel and Unilever to examine how plans are adjusted under recessionary pressure, industry volatility, and regulatory change. Target resets, metric weightings, payout curves, and cash–equity mix are tracked and linked to subsequent performance patterns through firm disclosures and straightforward pre-/post comparisons.

4.4.1. Intel: adaptive incentives during environmental shock (revised)

Intel provides an illustrative case of adaptive incentive design in a downturn. Amid the 2019–2020 semiconductor slump and COVID-19 disruptions, management reweighted its short-term incentive (STI) plan away from purely sales-driven KPIs toward resilience metrics (e.g., supply-chain stability, fab throughput/uptime) and introduced team-based bonuses to strengthen cross-functional problem solving [20, 21, 22, 23]. These changes coincided with comparatively stable operating performance and employee sentiment relative to peers, suggesting that the revised mix buffered volatility by

rewarding controllable drivers and collaborative execution. Design takeaway: in cyclical shocks, shift STI weight to controllable resilience levers, add team components, and use predefined adjustment rules for outages/expedites so payouts reflect the quality of response—not just volume.

4.4.2. Unilever: regression-informed incentive recalibration (revised)

Unilever offers a contrasting example from consumer goods during the 2022–2023 inflationary period. The firm conducted a multi-factor analysis (combining external indicators such as inflation and FX with internal metrics like gross margin, brand health, and engagement) across regions [24, 25]. Results indicated that EBIT-only bonuses became less informative under high inflation, whereas brand health and employee engagement measures were more consistently associated with regional profitability [25, 26]. Potential confounds (e.g., concurrent marketing investment) and timing lags warrant caution, yet management reweighted the LTIP to elevate validated non-financial drivers and tightened data definitions/verification [25, 27]. Subsequent internal surveys reported improved perceived fairness and lower mid-management attrition [27]. Design takeaway: under multi-factor interference, static, single-metric plans underperform; use a small, validated set of financial and non-financial metrics, document causal logic and data quality, and revisit weights as conditions change.

5. Policy Recommendations for Optimizing Incentive Mechanisms

5.1. Improving the Incentive Design Framework

Effective incentives work when design is simple, auditable, and strategy-linked. Four rules: Keep metrics few—2–3 with one source of truth and clear threshold/target/cap; GE’s EVA shows complexity erodes line-of-sight [7]. Multitask theory warns extra noisy or weakly aligned measures dilute effort; sparse scorecards dominate [28, 29, 30]. Use a dual horizon: near-term cash for fast feedback plus multi-year equity with preset payout curves, limited discretion, and deferral/clawback; Apple’s relative-TSR illustrates durable alignment. Relative performance evaluation and longer vesting better filter common shocks and strengthen pay–performance [31, 32, 33]. Combine dimensions without bloat: one financial (e.g., ROE/EVA) plus one operating/compliance measure, add guardrails (quality/retention/pricing) and published adjustment rules for M&A/FX/extraordinary items; BSC research supports selective non-financials with validated links and reliable data [1, 6]. Differentiate by role: frontline plans stress controllables and frequent reviews; executive plans use longer horizons, relative benchmarks, and lower noise. Equity intensity rises with hierarchy; rule-based plans with board certification curb renegotiation [34, 35, 36, 37]. Governance—board certification, quarterly exception reviews, annual target reset, pilot-then-scale—improves predictability, reduces disputes, and ties pay to value at reasonable cost.

5.2. Establishing a Scientific Performance Evaluation System

Incentives work only as well as the measures behind them. To reduce distortion, adopt a Balanced Scorecard (BSC) spanning financial, customer, internal process, and learning & growth perspectives e.g. ROE/EBITDA/margin retention satisfaction NPS; compliance, cycle time, error rate; training/innovation/promotion—so indicators remain controllable and strategy-linked [1]. Use non-financials selectively and only where causal links and data quality are validated; otherwise, they invite gaming [6]. Weights should be role-specific (sales toward financial+customer; R&D toward innovation+collaboration) with a small, auditable set, published definitions, explicit thresholds/caps, and an annual review. Employee-centered indicators can complement (not replace) core financials: meta-analyses associate engagement with higher productivity and profitability [38, 39].

5.3. Preventing Distortions and Manipulation Risks

Poorly designed incentives can narrow attention, prompt data manipulation, and raise ethical risk—exactly what §4.3’s Wells Fargo and Valeant cases illustrate. To keep pay-for-performance aligned with strategy and integrity, use one integrated architecture (per §5.2): early-warning signals

for unusual movements (profit spikes, pricing/mix shifts, attrition/complaints) that trigger targeted reviews; hard-to-manipulate evidence on the scorecard (customer authorization/complaints, independent audit findings, brand-health, safety/compliance) under a published metric dictionary, frozen in-cycle definitions, and predefined adjustment rules (M&A/FX/extraordinary items); and a triangular evaluation in which employees, direct supervisors, and audit/compliance jointly validate narratives and data lineage. Add disciplined payout tools—caps, limited discretion, deferral/malus/clawback, board certification—and anchor culture in long-term value and non-negotiable red lines.

5.4. Practical Paths for Incentive Implementation in SMEs

SMEs can build effective incentives with lean designs and validated metrics despite resource limits. A practical blueprint is a one-page scorecard with 2–3 auditable KPIs (one financial, one process/people), quarterly pulse checks, and pilot-then-scale rollout. Evidence from 201 Spanish SMEs shows that adopting a BSC used for feed-forward control is associated, two–three years later, with higher sales-based financial performance and stronger exploitative innovation, supporting small, mixed sets of financial and non-financial indicators. A multi-year study of 444 SMEs finds broader scope of pay-for-performance improves results via participation, while excessive depth (pay at risk) can backfire—favoring moderate, diversified designs over “one hard number” systems [40]. In practice, combine individual + team components, publish a metric dictionary with predefined rules, use lightweight feedback tools, and re-weight (rather than multiply) indicators when targets are persistently missed or gamed.

6. Conclusion

This study analyzed accounting-based incentive mechanisms through a comprehensive framework encompassing classification, design principles, and economic effects. Key conclusions include:

Clear typology enhances design logic: Categorizing incentives by time horizon, performance metric type, recipient level, and structural form provides a structured foundation for aligning incentives with corporate strategy (Section 3.1). Design quality determines impact: Effective incentives must be transparent, role-sensitive, and strategically consistent. Apple’s long-term TSR-linked equity plan strengthened goal alignment, while GE’s overly complex EVA model reduced comprehension and weakened motivation (Sections 3.4 & 5.1). Dual effects on performance: Properly structured mechanisms enhance goal congruence and efficiency (Apple, GE), but poorly designed systems can distort behavior and erode long-term value (Wells Fargo, Valeant) (Sections 4.2 & 4.3). Adaptability under complex conditions: Firms such as Intel and Unilever demonstrate that dynamic, multi-metric systems outperform static designs during market volatility and economic shocks (Section 4.4). Scalable approaches for SMEs: Even with limited resources, SMEs can adopt simplified, technology-supported, and phased models to achieve effective incentive alignment (Section 5.4).

This research has several limitations. The case coverage predominantly centers on large listed companies within developed markets, which restricts the generalization of findings across different contexts. Additionally, the data sources utilized are mainly public disclosures, thereby limiting the ability to conduct in-depth quantitative validation. The study also does not extensively explore non-financial and informal incentives. While long-term effects are discussed conceptually, there is a lack of time-series empirical verification to substantiate these discussions.

Future studies may extend case selection to non-profits, state-owned enterprises, and firms in emerging economies, and apply experimental or quasi-experimental methods to test behavioral responses to different incentive designs. They may also investigate algorithm-driven and real-time incentive systems in digital platforms, explore interaction effects between financial and non-financial incentives over organizational lifecycles, and conduct longitudinal studies to assess cultural, governance, and performance impacts over multiple years. In sum, this research underscores that

incentive mechanisms are both economic and behavioral systems. Their success depends on the integration of theoretical foundations, organizational behavior insights, and governance practices, supported by adaptable and context-sensitive design.

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