

Equity Incentive of Core Employees and Enterprise Performance

-- Taking Alibaba as an Example

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ABSTRACT

Against the backdrop of rapid digital economy development, core employees are key to enterprises' competitive advantage. Equity incentive, a critical mechanism linking core employees to long-term corporate growth, has drawn wide attention for its relationship with enterprise performance. This paper uses literature research, case analysis, and financial indicators to study Alibaba, sorting out its core employee equity incentive development and system design, analyzing the internal mechanism of equity incentive on performance, and verifying effects via financial and non-financial data. Findings show Alibaba's "hierarchical grant, dynamic adjustment, long-term lock-in" equity incentive system significantly boosts performance by cutting agency costs, stimulating innovation, and stabilizing talent. However, issues like unbalanced incentive intensity and rigid assessment mechanisms exist. Conclusions provide theoretical and practical references for Internet enterprises to optimize equity incentive schemes and achieve sustainable performance growth.

KEYWORDS

Core Employees; Equity Incentive; Enterprise Performance; Alibaba; Incentive Mechanism

1. INTRODUCTION

1.1. Research Background

In the knowledge economy era, core employees—with professional skills, innovation ability, and industry experience—determine enterprise survival and development. Especially in the technology-intensive Internet industry, their loss may cause technical gaps and strategic failures. Traditional salary systems fail to meet core employees' demands for long-term income and value recognition, while equity incentive, enabling them to share corporate surplus value and align personal and corporate interests, has become a core tool to attract, retain, and motivate them [1].

As a leading Chinese Internet enterprise, Alibaba has prioritized core employee incentives since 1999, developing a mature equity incentive system over 20 years. Public data shows over 100,000 employees have received equity incentives, with core management and technical backbones achieving synchronous growth of personal and corporate value. However, academia has no unified conclusion on the equity incentive-enterprise performance relationship: some studies confirm positive effects [2, 3], while others find no significant or even negative correlations [4]. Thus, studying Alibaba's case has important theoretical and practical significance.

1.2. Research Significance

1.2.1. Theoretical Significance

Focusing on Internet enterprises' core employees, this paper analyzes the transmission path of equity incentive on performance, making up for the lack of attention to "core employees" in existing research [5]. It enriches case studies on the equity incentive-performance relationship and provides new empirical support for applying principal-agent theory and human capital theory in the Internet industry [6].

1.2.2. Practical Significance

Alibaba's equity incentive practice is typical. By analyzing its system design and implementation effects, this paper summarizes replicable experiences and avoidable risks [7], offering practical guidance for other Internet and tech enterprises to optimize core employee equity incentive schemes, enhance incentive effectiveness, and promote performance growth [8].

1.3. Research Methods and Contents

1.3.1. Research Methods

Literature Research: Systematically sorts domestic and foreign literature on the equity incentive-performance relationship [2-4], clarifies research context and core views, and builds the theoretical framework.

Case Analysis: Takes Alibaba as a case, analyzes the development stages, core content, and operation mechanism of its core employee equity incentive system, and identifies key nodes of equity incentive's impact on performance.

Financial Indicator Method: Selects Alibaba's 2018-2023 return on net assets, operating income growth rate, and R&D investment intensity, combines non-financial indicators to quantitatively analyze equity incentive's impact on performance [9].

1.3.2. Research Contents

First, sorts relevant theories and literature; second, expounds Alibaba's core employee equity incentive development and system design; third, analyzes the mechanism and actual effects of equity incentive on performance; finally, summarizes conclusions and puts forward optimization suggestions and research prospects [10].

2. THEORETICAL BASIS AND LITERATURE REVIEW

2.1. Definition of Core Concepts

2.1.1. Core Employees

Refers to employees with scarce professional skills, undertaking key responsibilities and influencing corporate strategy and value creation. In Internet enterprises, they include core management, R&D backbones, and core business leaders, with high irreplaceability, value contribution, and loss cost [1].

2.1.2. Equity Incentive

A long-term incentive for core employees using corporate stocks. By granting equity, incentive objects become shareholders, aligning personal and corporate long-term interests and stimulating work enthusiasm and creativity [11]. Common models include stock options, restricted stocks, and stock appreciation rights [12].

2.1.3. Enterprise Performance

Reflects corporate management results in a period. This paper measures it from financial (profitability, growth) and non-financial (innovation, talent stability) dimensions [13].

2.2. Theoretical Basis

2.2.1. Principal-Agent Theory

Proposed by Jensen and Meckling, it holds that the separation of ownership and management causes interest conflicts between principals and agents. Agents may harm principals' interests to maximize personal gains, leading to agency costs [2]. Core employee equity incentive allows them to share corporate surplus value, aligning interests, reducing agency costs, and improving operational efficiency [3].

2.2.2. Human Capital Theory

Proposed by Schultz, it argues human capital—knowledge, skills, and experience of workers—is the core capital for corporate value creation [5]. As carriers of high-value human capital, core employees' enthusiasm and creativity determine performance. Equity incentive, an important human capital incentive method, activates their human capital value to achieve a win-win situation [6].

2.2.3. Two-Factor Theory

Proposed by Herzberg, it divides incentive factors into hygiene factors (eliminating dissatisfaction) and incentive factors (bringing satisfaction) [4]. Equity incentive, a typical incentive factor, gives core employees long-term income rights and a sense of belonging, exceeding salary limits and continuously stimulating work motivation [1].

2.3. Literature Review

2.3.1. Equity Incentive and Enterprise Performance

Recent studies on core employee equity incentive are remarkable. Wu Qiusheng et al. confirmed its promotion of corporate new quality productivity using 2013-2022 A-share data, with incentive intensity, breadth, and validity period having positive effects [2]. Zeng Yating et al. found core employee equity incentive has a more significant impact on new quality productivity than management incentive, acting through attracting talents, promoting innovation, and improving factor efficiency [3].

For the Internet industry, Jiang Yingbing et al. proved core employee equity incentive increases innovation output quantity and quality, with stock options outperforming restricted stocks [5]. Wang Huaiming et al. noted stronger promotion effects in competitive, high-concentration industries like the Internet [6]. Tong Changfeng et al. showed a positive correlation between core employee equity incentive intensity and performance, with restricted stocks being more effective [4].

From a broader perspective, executive equity incentive boosts corporate solvency and affects financial growth, with restricted stocks outperforming stock options [14, 15]. It also promotes ESG performance: Wang Haifang et al. found executive incentive restrains management myopia and improves risk-taking to boost ESG, especially in heavy-polluting and high-media-attention enterprises [16]. Wang & Liu pointed out it works via better governance, lower agency costs, and more R&D [17].

2.3.2. Particularity of Core Employee Equity Incentive

Yu Huanjun found core technical staff equity incentive correlates positively with performance, and executive incentive regulates it positively, highlighting complementarity between core employee and management incentives [7]. These studies show core employees, as direct participants in innovation

and value creation, have unique equity incentive mechanisms, especially in tech-intensive industries like the Internet [8].

Further studies show combining salary and equity incentives improves state-owned enterprises' total factor productivity, with internal control playing an intermediary role and management myopia weakening effects [18]. Management equity incentive also promotes R&D, enhancing market vitality by easing financing constraints, with differences across property rights [19].

2.3.3. Internet Enterprise Equity Incentive

Ying Yun took Alibaba as a case, stating equity incentive boosts core competitiveness in start-up and growth stages, providing direct support for this paper [7].

3. ANALYSIS OF ALIBABA'S CORE EMPLOYEE EQUITY INCENTIVE SYSTEM

3.1. Development Course

3.1.1. Venture Initial Stage (1999-2003): Equity Commitment

Short of funds, Alibaba used equity commitments to attract core teams, with Ma Yun issuing handwritten option certificates to early employees. Though unstandardized, it retained core employees like Tong Wenhong, laying a talent foundation [7].

3.1.2. Growth Stage (2004-2013): System Improvement

With scale expansion, Alibaba launched a systematic equity incentive plan in 2004, establishing post-level-based grant standards and clarifying stock option quantity and maturity rules. The system shifted from "commitment-based" to "standardized," adapting to talent demands [1].

3.1.3. Maturity Stage (2014-Present): Dynamic Optimization

After its 2014 US IPO, Alibaba formed a diversified system covering stock options and restricted stocks. It optimizes incentive scope, intensity, and assessment standards with strategy and market changes—e.g., adjusting equity incentive levels with management changes to match incentives and responsibilities [14].

3.2. Core Content of System Design

3.2.1. Incentive Objects and Scope

Focuses on core employees, adopting a "hierarchical coverage" model including P6+ technical backbones, M3+ managers, and core business leaders. Objects are determined by post importance, performance, and potential, ensuring resources tilt to high-value contributors [15].

3.2.2. Incentive Modes and Tools

Mainly uses stock options, supplemented by restricted stocks. Stock options allow core employees to buy shares at an agreed price in the future—e.g., 2010 P7 employees got 20,000 options at \$4.75/share. Restricted stocks target senior core employees, unlockable only after meeting service and performance requirements [16].

3.2.3. Grant and Maturity Mechanism

Implements "grant upon entry + annual additional grants": basic equity is granted by post level at entry, and additional equity by annual performance (1,000-2,000 shares for grassroots, 3,000-6,000 for middle-level). It uses a 4-year maturity system: 50% mature after 2 years, 100% after 4 years, with annual additional equity locked for another year to form long-term constraints [17].

3.2.4. Assessment and Adjustment Mechanism

Centered on "performance orientation," assessment indicators include individual performance, team contribution, and corporate performance. Annual equity quantity links to performance ratings; underperformers lose additional qualifications. Equity incentive levels adjust with corporate strategy or post changes—e.g., Zhang Yong got corresponding treatment after being promoted from CFO to president [18].

4. IMPACT OF ALIBABA'S CORE EMPLOYEE EQUITY INCENTIVE ON ENTERPRISE PERFORMANCE

4.1. Mechanism of Action

4.1.1. Reduce Agency Costs and Improve Operational Efficiency

Equity incentive makes core employees shareholders, aligning their interests with the enterprise [2]. They shift from "employees" to "owners," making long-term-oriented decisions and reducing short-term profit-seeking and opportunistic behaviors [3]. For example, core management balances short-term gains and long-term layout in business strategies, avoiding sacrificing R&D for short-term performance, thus cutting agency and supervision costs [6].

4.1.2. Stimulate Innovation and Enhance Core Competitiveness

Internet competition relies on innovation, and core technical staff's innovation ability determines competitiveness [5]. Alibaba's equity incentive for R&D backbones lets them share innovation-driven value growth, greatly stimulating innovation enthusiasm [4]. From 2018 to 2023, its R&D investment rose from 37.4 billion yuan to 130 billion yuan (annual growth >25%), achieving breakthroughs in cloud computing and AI—direct evidence of equity incentive activating innovation.

4.1.3. Stabilize Talent and Ensure Strategic Continuity

The "4-year maturity + annual additional lock-in" design fosters long-term service expectations among core employees, reducing turnover [1]. Tong Wenhong's growth from front desk to HR president and Tmall vice president reflects equity incentive's long-term effect on talent retention and development [7]. A stable core team ensures the implementation of Alibaba's "customer first, employee second, shareholder third" strategy.

4.2. Performance Impact Analysis

4.2.1. Significant Financial Performance Growth

Profitability: 2018-2023, Alibaba's ROE stayed above 15% (higher than the 10% industry average) despite market fluctuations; net profit rose from 61.4 billion yuan to 141.4 billion yuan (annual growth 18.2%), showing equity incentive boosts profitability via efficiency improvement [4].

Growth Ability: Operating income increased from 250.2 billion yuan to 868.6 billion yuan (annual growth 28.3%), with 3.2% growth even in the 2022 industry slowdown, reflecting equity incentive's supporting role [3].

Financial Stability: Asset-liability ratio remained 50%-60% (lower than Tencent's ~65% and JD's ~70%), proving stable operations from equity incentive guarantee financial stability [14].

4.2.2. Outstanding Non-Financial Performance

Innovation Ability: By 2023, Alibaba had over 120,000 authorized patents (85% invention patents), ranking top 3 globally in cloud computing patents; Alibaba Cloud had a 40.5% market share (No.1 in China), showing strong innovation [5].

Talent Stability: Core employee turnover was below 5% (far lower than the 15% industry average); core management and technical backbones had an average tenure of over 8 years, forming a stable talent echelon [1].

Market Competitiveness: It jumped from 300th to 55th in the Fortune Global 500 (2018-2023), ranking No.1 among Chinese Internet enterprises, consolidating market position [7].

4.3. Existing Problems

4.3.1. Unbalanced Incentive Intensity

The equity incentive gap between grassroots and senior core employees is excessive: P6 employees get 1/4 of P9 employees' initial equity, with a 5x+ gap in annual additional equity. This may cause unfairness among grassroots employees, weakening incentives and even leading to talent loss [7, 18].

4.3.2. Rigid Assessment Mechanism

Assessment overemphasizes short-term performance, lacking support for long-term innovation projects. Some R&D teams failed to get additional equity due to poor short-term performance, dampening enthusiasm for long-term innovation [4, 5].

4.3.3. Imperfect Exit Mechanism

After core employees leave, mature equity has strict transfer restrictions, and immature equity handling is unclear, leading to disputes and harming the employer brand [7, 19].

5. DISCUSSION AND RECOMMENDATIONS

5.1. Research Conclusions

(1) Alibaba's core employee equity incentive system, after three development stages, forms a mature "hierarchical grant, dynamic adjustment, long-term lock-in" model, fitting Internet enterprises' talent demands and laying an institutional foundation for incentives.

(2) Equity incentive improves financial (profitability, growth) and non-financial (innovation, talent stability) performance by cutting agency costs, stimulating innovation, and stabilizing talent, confirming its positive impact.

(3) Problems like unbalanced incentives, rigid assessment, and imperfect exit mechanisms exist, restricting incentive effects and requiring system optimization.

5.2. Optimization Suggestions

5.2.1. Optimize Incentive Distribution for Precision

Establish a "post value + personal contribution + team performance" 3D evaluation system [18], narrowing the grassroots-senior incentive gap. Increase initial and annual additional equity for grassroots technical and business backbones to enhance their sense of belonging [7, 18].

5.2.2. Improve Assessment to Balance Short- and Long-Term Goals

Reconstruct the indicator system, including long-term innovation progress and technological breakthroughs (30%-40% weight) [5]. Adopt "milestone assessment" for long-term projects, granting phased equity incentives upon reaching key milestones to stimulate long-term innovation [4, 5].

5.2.3. Perfect Exit Mechanism to Reduce Disputes

Clarify equity handling rules for resigned core employees [19]: allow mature equity transfer at market price or corporate repurchase; calculate immature equity repurchase price by service years. Establish a green channel for resigned equity handling to maintain the employer brand [7, 19].

6. CONCLUSION

This single-case study on Alibaba deeply analyzes the equity incentive-performance relationship, but conclusions need more case verification. Future research can compare multiple Internet enterprises to explore incentive model differences and performance impacts across scales and development stages; or use A-share Internet listed companies as samples for quantitative analysis on the incentive intensity-performance relationship to enrich results.

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