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The Optimization of Adobe's Compensation System

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Abstract. While growing competition in the tech industry and increasing societal focus on pay equity and corporate social responsibility, Adobe faces new challenges. The executive compensation system is the key tool to attract, motivate, and retain top talent. This paper explores Adobe's executive pay system to uncover its potential problems and offer practical suggestions for improvement. The goal is to help balance corporate goals and social expectations. The study uses literature review, case study, and comparative analysis to examine Adobe's executive pay structure, how it works, and its strengths and weaknesses. The findings show that Adobe links executive pay closely to company performance, which helps ensure leaders take responsibility for revenue growth and shareholder returns. The heavy reliance of stock-based rewards boosts performance incentives, but it also leads to high volatility and fairness concerns. The current system focuses more on financial outcomes and less on broader employee satisfaction or social goals. The pay gap between top executives and regular employees remains wide, which is common in the tech industry, but may hurt team cohesion and public image as society grows more sensitive to fairness. In conclusion, Adobe's pay system shows clear strengths in performance alignment but needs improvement in terms of stability, fairness, and balancing multiple goals. Based on the literature and case analysis, this paper suggests using more non-financial performance metrics, increasing pay transparency, and giving employees a stronger voice in pay-related matters to support more sustainable corporate governance.

Keywords: Executive compensation, pay equity, corporate governance, performance alignment, sustainability.

1. Introduction

In recent years, the global technology industry has been undergoing rapid changes. Advances in artificial intelligence, big data, and automation have significantly reshaped business models and competition [1]. At the same time, economic uncertainty, tighter regulations, and rising stakeholder expectations are pushing companies to rethink their corporate strategies. In this context, how a company rewards its leaders has become a symbol of both strategic direction and public accountability. The increasing competition for executive talent in the tech industry has made competitive compensation a critical factor for business success [2]. Meanwhile, public concern over income inequality and fairness has grown. More investors, employees, and customers are calling for greater pay transparency and a better balance between financial performance and social

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responsibility [3]. These pressures suggest that traditional executive pay models may need to evolve in order to meet new demands.

Effective executive compensation systems contribute to improved company performance by aligning managerial focus with corporate objectives. In tech firms like Adobe, it is important to pay well to keep talent. Adobe gives bonuses and stock to its leaders. The pay is based on how the company performs. This can make leaders work harder. But too much focus on stock price can be risky. It can also make pay unfair for workers. Many people now want companies to also care about fairness and social goals. This paper looks at how Adobe pays its leaders. It finds the system has good points but also problems. The paper then gives ideas to improve it. These ideas are based on what other firms do and what recent studies suggest. The rest of the paper explains Adobe's business and board, shows the problems, and gives simple ways to fix them.

2. Company introduction

2.1. Adobe's business

Adobe is a worldwide technology enterprise aiming to change the world through individualized digital experiences. For over four decades, Adobe's advancements have redefined how individuals, teams, businesses, enterprises, institutions, and governments engage and interact across all types of media channels. Their products, services and solutions are used around the world to conceptualize, produce, oversee, assess, refine, and engage with content across surfaces and drive digital engagement [4].

Adobe makes creative and marketing software. It sells tools like Photoshop and Acrobat. It also helps companies run digital ads and websites. The company serves a broad audience, including consumers, communicators, creative professionals, developers, students, small and medium businesses and enterprises. They are also empowering their customers by equipping users with AI-driven tools, and doing so in ways they believe are responsible. Adobe's products and services help liberate creativity, accelerate document productivity and power businesses in a digital world. In 2024, Adobe made about $21.51 billion in revenue [5]. This shows it is strong in its field.

2.2. Company growth and strategy

The company has earned more than $125 million in bookings from AI-driven products and features, with approximately 35% of Photoshop's active monthly users utilizing generative AI features, and Adobe's roadmap includes launching new Firefly web app subscriptions and incorporating additional third-party AI models. Meanwhile, Adobe has restructured its reporting to differentiate income from each customer group, with Business Professionals and Consumers generating $1.53 billion (up 15% year over year) and Creative and Marketing Professionals generating $3.92 billion (up 10% year over year). Adobe exceeded Wall Street estimates in Q1, posting a 10% increase in revenue. For Q2, Adobe expects revenues between $5.77 billion to $5.82 billion, with EPS ranging from $4.95 to $5. Strategically, Adobe outlined a dual strategy to drive sustainable long-term growth: integrating AI throughout its product portfolio and segmenting customers to deliver tailored solutions. However, shares of Adobe were down about 3% in early after-hours trading due to growing economic uncertainty [6]. Adobe earns money from cloud software. It grows fast and uses money to build new tools. It invests a lot in research.

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2.3. Governance setup

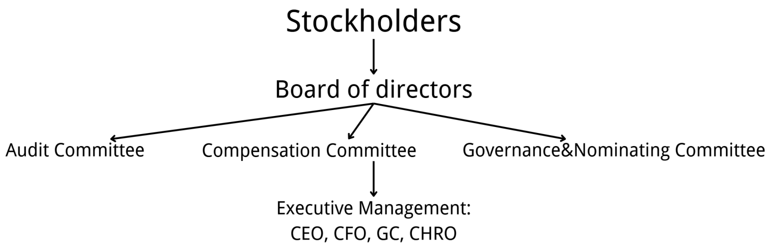

Figure 1: Governance setup [4]

As shown in Figure 1, Adobe's corporate governance follows a clear hierarchical structure. The stockholders elect the Board of Directors, which oversees the company's overall strategy and decision-making. The board operates through three specialized committees: the Audit Committee, the Compensation Committee, and the Governance & Nominating Committee. These committees are responsible for different aspects of oversight—financial integrity, executive compensation, and corporate governance standards, respectively. The Compensation Committee, in particular, plays a central role in evaluating and determining executive pay packages.

The committee structure helps ensure accountability and transparency in Adobe's leadership decisions. Most board members are independent directors, which is intended to reduce internal bias and strengthen shareholder trust. The Compensation Committee works closely with executive management—such as the CEO, CFO, GC, and CHRO—to design pay structures that align with corporate performance, talent retention, and shareholder value.

This governance model not only provides checks and balances but also forms the foundation for how executive pay is structured and justified. In later sections, this paper will explore how such a system influences compensation outcomes, including the balance between financial incentives and broader social responsibility goals.

3. Compensation system introduction and issue analysis

3.1. Adobe's pay plan

Adobe's executive compensation plan includes base salary, annual cash incentives, and long-term equity awards, which together reflect the company's strong pay-for-performance strategy. In 2024, approximately 97% of the CEO's total compensation and 94% for other named executive officers (NEOs) were considered "at-risk pay," meaning they were not guaranteed but depended on the company's performance outcomes [4].

The base salary forms the smallest portion of total pay, providing financial stability for executives. Annual bonuses, under the Executive Annual Incentive Plan (EAIP), are based on the achievement of pre-established financial goals, such as total revenue, non-GAAP earnings per share (EPS), and net new Digital Media Annualized Recurring Revenue (ARR). Each metric is assigned a weight—for instance, in 2023, Adobe weighted revenue at 40%, EPS at 30%, and ARR at 30% [4].

Long-term incentives are the largest portion of executive pay and include two major components:

(1)Performance Share Programs (PSPs): These are performance-based stock awards granted every year. Executives receive actual shares only if Adobe meets multi-year performance targets,

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such as relative total shareholder return (TSR) compared to a peer group, and net new sales over a three-year period.

(2)Restricted Stock Units (RSUs): These are time-based equity awards that vest gradually—typically quarterly over four years—to encourage retention and long-term commitment.

Adobe also conducts an annual performance evaluation for each executive, using both quantitative metrics (financial results, market performance) and qualitative criteria, such as leadership effectiveness, innovation, and diversity goals. Final bonus payouts and PSP allocations are determined based on this mixed evaluation, and may be adjusted by the Compensation Committee to reflect individual impact and strategic alignment.

As for benefits, Adobe provides a standard set of employee benefits such as health care, life insurance, retirement savings (401(k) with company match), and paid time off. However, Adobe does not bundle these benefits into the executive pay plan. Instead, they are offered separately through company-wide programs, meaning executives and regular employees largely share the same benefits platform [4].

In summary, Adobe's executive compensation system is built to reward performance, promote long-term growth, and align management interests with shareholder outcomes. The combination of strict financial targets and equity-based rewards ensures that pay reflects not only short-term success but also sustainable value creation over time.

3.2. Good and bad parts

Adobe's executive compensation system successfully connects rewards with business performance, which helps match executive actions with shareholder priorities [7]. The use of performance-based equity, such as performance share programs (PSPs), ensures that a substantial part of executive pay is contigent upon meeting financial and market-based goals. This structure encourages accountability and long-term value creation. However, a large proportion of total compensation is delivered in the form of stock-based awards, which means compensation levels can fluctuate significantly with changes in Adobe's stock price [8]. While this can motivate executives to enhance shareholder value, it also creates instability and may lead to disconnect between effort and reward if market conditions change vary regardless of executive performance [9].

3.3. Governance checks

Although Adobe's executive pay structure is merit-based and evaluated by its Compensation Committee, questions linger about equity and consistency [10]. The CEO's compensation is substantially greater than that of the median worker, potentially creating disparity worries among investors and staff [11]. While Adobe employs industry comparisons to gauge executive compensation levels, these approaches can lead to rising pay trends over time without careful management [8]. Furthermore, the company's evaluation criteria are mainly monetary and exclude environmental, social, or governance (ESG) targets. This omission in the reward structure could restrict wider responsibility, particularly as shareholders more frequently demand that companies synchronize executive compensation with lasting stability and moral influence.

One of the primary equity issues in Adobe's executive compensation system is the pronounced differential between the CEO's pay and that of the median employee. Although performance-based incentives are prevalent among technology firms, such disparities may be considered unbalanced by employees and shareholders alike, potentially impacting workforce sentiment and stakeholder trust [11]. Moreover, while Adobe emphasizes financial and operational metrics in its pay-for-

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performance design, it does not incorporate environmental, social, and governance (ESG) goals in its incentive structure. As stakeholders increasingly call for socially responsible business practices, the omission of ESG-oriented benchmarks in executive compensation frameworks may be seen as a misalignment of corporate rewards with broader societal expectations [12].

4. Optimization recommendations

4.1. Add more goals

To develop a more holistic and forward-looking compensation system, Adobe should integrate non-financial performance goals into its executive pay framework criteria such as workforce satisfaction, diversity and inclusion, environmental sustainability, and community engagement can better synchronize with long-term corporate purpose and stakeholder value. These goals respond to growing investor and societal expectations that companies prioritize environmental, social, and governance (ESG) responsibilities in leadership evaluation [12]. Linking a portion of executive incentives to quantifiable achievements in areas like climate initiatives or employee mental health can also demonstrate Adobe's commitment to sustainable growth and social accountability. Integrating ESG-related targets into compensation not only enhances fairness but may also help mitigate reputational risks and attract long-term-oriented investors [10].

4.2. Smarter peer use

Adobe should adopt a more selective and strategic approach when using peer benchmarking to determine executive compensation. While comparing pay levels with industry peers is a standard practice, doing so uncritical adoption of market data may result in upward pay spirals and excessive compensation. Adobe should limit its benchmarking pool to companies of comparable market capitalization, organizational sophistication, and market scope to ensure more valid and equitable comparisons. In addition, the company should avoid consistently targeting the 75th percentile of peer group compensation, a practice that can lead to persistent overpayment and misalignment with actual performance [8]. A refined peer comparison framework can help Adobe maintain competitive yet responsible pay levels and fortifying institutional trust of its compensation practices among stakeholders [9].

4.3. Clearer rules

To implement robust disclosure practices and build stakeholder trust, Adobe should provide detailed disclosure of how executive pay decisions are made, including the rationale for changes in compensation levels. A comprehensive disclosure framework can help investors and employees understand the link between pay outcomes and performance metrics, mitigating skepticism and strengthening governance accountability [10]. In addition, Adobe should systematically track and redress the compensation differential between executives and average employees to avoid perceptions of inequity and maintain organizational justice. Excessive disparities in compensation may undermine morale, weaken employee engagement, and attract negative public and regulatory attention [11]. By improving disclosure practices and equitable pay distribution, Adobe can enhance its corporate governance and strengthen sustainable stakeholder relations.

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4.4. Better board oversight

Improving board oversight is critical to maintaining that executive compensation at Adobe continues to demonstrate equity, performance-driven, and harmonized with stakeholder priorities. The board, particularly the Compensation Committee, should assess remuneration frameworks more frequently to keep them adaptive to dynamic business conditions and investor expectations. In addition to internal reviews, systematic consultation with shareholders can enhance transparency and provide actionable insights, regarding compensation fairness and performance alignment [13]. The board should also seek guidance from a broader set of independent experts—not just compensation consultants—to mitigate dependence on benchmarking and to incorporate diverse perspectives on executive pay. Enhanced oversight and more inclusive consultation can help ensure that compensation frameworks are equitable, evidence-based, and reflective of both market practices and social accountability standards [10].

5. Conclusion

This paper has examined Adobe's executive compensation framework, identifying both its strengths and critical areas for reform. Adobe successfully links a large portion of executive pay to corporate performance through structured equity incentives and financial metrics, thereby aligning leadership incentives with shareholder interests and fostering long-term value creation. However, the analysis revealed several governance and fairness challenges. These include significant pay disparities between executives and average employees, overreliance on peer benchmarking practices that risk inflating compensation levels, and the exclusion of environmental, social, and governance (ESG) goals from the incentive framework.

In response to these issues, the paper proposed targeted recommendations to enhance the transparency, fairness, and long-term sustainability of Adobe's executive compensation framework. These include enhancing board oversight and stakeholder engagement, incorporating non-financial performance indicators such as employee well-being and climate initiatives, refining the use of peer comparisons, and narrowing the communication gap around pay decisions and equity. By adopting these reforms, Adobe can not only strengthen its internal governance but also set an industry standard for responsible and balanced executive compensation in the technology sector.

This research holds practical significance for corporate boards, HR professionals, and policymakers seeking to optimize executive compensation systems that are both performance-driven and socially responsible. The findings contribute to a growing body of literature on corporate governance and offer actionable insights for companies aiming to align leadership incentives with long-term stakeholder value.

While this study provides a focused and evidence-based analysis of Adobe's compensation structure, it is limited by its reliance on publicly available data and company disclosures, which may not capture internal decision-making nuances. Future research could expand the scope by incorporating cross-industry comparisons or qualitative interviews with board members and executives to further refine understanding of incentive design in evolving corporate contexts.

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