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# Choosing the Right Long-Term Incentive Vehicle in a Private Company

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For private companies, long-term incentives (LTI) can be one of the most powerful tools for attracting, retaining and motivating key leaders. When designed well, they create an ownership mindset, align executives with long-term value creation and reward sustained company performance. Unlike public companies, however, private businesses face unique challenges: there is no readily observable share price, liquidity is often uncertain and the objectives of owners can vary dramatically depending on whether the company is private equity-backed, venture-backed, family-owned or employee-owned.

These challenges make vehicle selection critically important. An LTI plan is not just a compensation tool; it is a strategic design choice. The right vehicle can reinforce business priorities and strengthen alignment. The wrong one can create confusion, unintended cost, retention issues or a perceived “black box” that employees discount heavily.

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## The Three Main Private Company LTI Vehicles

Private company LTI vehicles generally fall into three categories: full value awards, appreciation-based awards and long-term cash plans.

Vehicle	Description	Pros	Cons
<b>Full value awards</b> (e.g., restricted stock, restricted stock units (RSUs), phantom stock, or performance units)	<ul style="list-style-type: none"> <li>• Provide participants with an award tied to the overall value of the company</li> <li>• Often effective when the goal is to create an ownership mentality and provide meaningful retention value</li> </ul>	<ul style="list-style-type: none"> <li>• Aligns executives with owner</li> <li>• Provides strong retention value</li> <li>• Can offer some downside protection because the award has value even if company value declines</li> </ul>	<ul style="list-style-type: none"> <li>• May create dilution if settled in real equity</li> <li>• Can reward participants even when value creation is limited unless performance conditions are built in</li> <li>• Require careful valuation, clear rules around transactions and strong participant education</li> </ul>
<b>Appreciation-based awards</b> (e.g., stock options, stock appreciation rights, or profits interests)	<ul style="list-style-type: none"> <li>• Reward participants only for value created above a starting point or hurdle</li> <li>• Common in private equity or venture-backed companies where growth and a potential exit are central to the investment thesis</li> </ul>	<ul style="list-style-type: none"> <li>• Create strong alignment with shareholder value creation</li> <li>• Limited compensation value unless the company grows</li> <li>• Can be particularly effective in high-growth environments</li> </ul>	<ul style="list-style-type: none"> <li>• May lose perceived value if growth slows or value declines</li> <li>• Require careful valuation, clear rules around transactions and strong participant education</li> </ul>
<b>Long-term cash plans</b>	<ul style="list-style-type: none"> <li>• Incentive program with right to earn payout based on company performance over a multi-year period, often 3 years</li> <li>• Can be especially useful for family-owned companies, companies with limited appetite for dilution or long-term owners with no planned exit</li> </ul>	<ul style="list-style-type: none"> <li>• Easy to understand</li> <li>• Avoids equity dilution</li> <li>• Can be customized around company-specific goals</li> <li>• May be easier to administer than equity-based arrangements</li> <li>• Clear payout timing and structure</li> </ul>	<ul style="list-style-type: none"> <li>• Requires goal setting over multi-year period</li> <li>• Does not create direct alignment with shareholders</li> <li>• Can create significant cash obligations, particularly if payouts are uncapped or if the plan does not define how acquisitions, divestitures or extraordinary events will be handled</li> </ul>

## One Size Does Not Fit All

The most effective LTI plans start with the company's ownership structure, time horizon and risk profile. A private equity-backed company with a typical three-to-seven-year hold period, often centered around a five-year exit horizon, may prioritize appreciation vehicles or other awards that align payouts with a liquidity event. A venture-backed company may lean toward options or RSUs that support retention through a longer growth cycle. A family-owned business may prefer phantom equity, stock appreciation rights or cash-based LTI plans that preserve control while rewarding loyalty and performance. An ESOP-owned company may use supplemental plans to reinforce broad-based ownership and executive retention.

The key is to match the vehicle to the company's strategy. A plan designed to deliver value only upon an exit is unlikely to be effective for a company with no intention of selling. Similarly, a five-year performance period may not fit a company operating against a three-year business plan. A complex formula may technically align with value creation, but it can fall short if employees do not understand how they benefit.

## The Tradeoff: Alignment vs. Simplicity

Private companies often try to solve too many problems with one plan. They want retention, performance alignment, affordability, shareholder protection, tax efficiency and flexibility. Each objective is valid, but over-engineering the plan can reduce its effectiveness.

The best plans usually balance three principles.

1. The plan should be simple enough to understand. Participants need to know what they received, how it grows in value and what they can do to influence outcomes.
2. The plan should be flexible enough to remain relevant. Multi-year goals can become outdated quickly due to market shifts, interest rates, acquisitions, leadership changes or strategic pivots. Annual grants, regular reviews of plan design, and clearly defined adjustment provisions can help ensure the plan continues to support the company's strategy while maintaining credibility with participants.
3. The plan should be affordable under multiple scenarios. Companies should model outcomes under base, upside and extreme performance cases. Caps, installment payments and liquidity-event triggers can help avoid unexpected financial strain.

## Communication Is the Multiplier

Even the best-designed LTI plan will fail if participants do not understand it. This is especially true in private companies, where employees cannot look up a public stock price or review public filings to estimate value. Participants need upfront education, plain-English plan summaries, periodic valuation updates and, where possible, modeling tools that show how awards could grow under different performance scenarios.

Communication turns a technical compensation arrangement into a motivational tool. Without it, even valuable awards may be discounted or ignored.

## The Bottom Line

Private company LTIs are most effective when vehicle selection is intentional. Full value awards, appreciation vehicles and long-term cash plans each have a role, but come with tradeoffs. The right answer depends on ownership structure, liquidity expectations, growth strategy, affordability and culture.

Ultimately, a winning private company LTI plan should be simple, flexible, financially disciplined and clearly communicated. When those elements come together, LTI can both retain talent and create true alignment between leadership behavior and long-term enterprise value.



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