

Stock and Option Grants with Performance-based Vesting Provisions

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Abstract

We assemble a sample of 983 equity-based awards that include either an accelerated- or a contingent-vesting provision tied to firm performance and explore the frequency, contractual nature, usage, and implications of such awards. We find that performance-vesting (p-v) provisions specify meaningful performance hurdles and provide significant incentives for executives. The propensity to use p-v provisions is positively related to the arrival of a new CEO and the proportion of outsiders on the board of directors and negatively related to prior stock performance. Performance-vesting firms have significantly better subsequent operating performance than control firms. Abnormal accounting performance does not arise from earnings management or discernible differences in financial or investment policy.

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