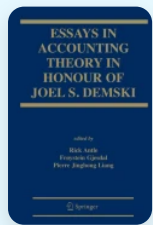


[Home](#) > [Essays in Accounting Theory in Honour of Joel S. Demski](#) > Chapter

The Structure of Performance-Vested Stock Option Grants

| Chapter

| pp 227–249 | [Cite this chapter](#)



[Essays in Accounting Theory in Honour of Joel S. Demski](#)

[Joseph J. Gerakos](#), [Christopher D. Ittner](#) & [David F. Larcker](#)

 **1569** Accesses  **22** Citations

Abstract

U.S. executive compensation traditionally relies on stock options that vest over time. Recently, however, a growing number of institutional investors have called for the use of performance-vested options that link vesting to the achievement of performance targets. We examine the factors influencing the structure of performance-vested stock option grants to U.S. CEOs. We find that performance-vested options comprise a greater proportion of equity compensation in firms with lower stock return volatility and market-to-book ratios, and in those with new external CEO appointments, providing some support for theories on the options' incentive and sorting benefits. However, firms with larger holdings by pension funds are less likely to completely replace traditional options with performance-vested options, and make traditional options a greater percentage of option

grants, suggesting that token performance-vested option grants may also be used to placate pension funds that are calling for their use. In addition, our exploratory examination of performance-vesting criteria finds similarities and differences to prior studies on the choice of performance measures in compensation contracts.



This is a preview of subscription content, [log in via an institution](#) to check access.

Access this chapter

Log in via an institution →

Chapter

EUR 29.95

Price includes VAT (Poland)

- Available as PDF
- Read on any device
- Instant download
- Own it forever

Buy Chapter →

eBook

EUR 85.59

Price includes VAT (Poland)

- Available as PDF
- Read on any device
- Instant download
- Own it forever

Buy eBook →

Softcover Book

EUR 139.09

Price includes VAT (Poland)

- Compact, lightweight edition
- Dispatched in 3 to 5 business days
- Free shipping worldwide - [see info](#)

Buy Softcover Book →

Hardcover Book

EUR 106.99

Price includes VAT (Poland)

- Durable hardcover edition
- Dispatched in 3 to 5 business days
- Free shipping worldwide - [see info](#)

Buy Hardcover Book →

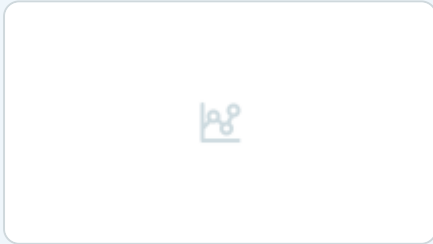
Tax calculation will be finalised at checkout

Purchases are for personal use only

Preview

Unable to display preview. [Download preview PDF.](#)

Similar content being viewed by others



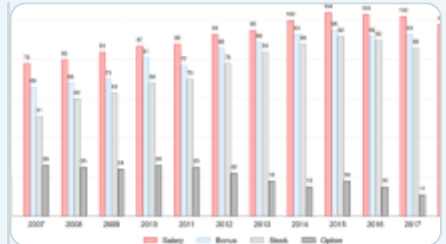
ROE as a performance measure in performance-vested stock option contracts in China

Article | Open access
08 June 2017



Adoption of performance-vested equity incentives under investor pressure: window dressing or taking the windo...

Article | 29 April 2019



REIT Chief Executive Officer (CEO) Compensation in the New Era

Article | 15 March 2022

References

AFL-CIO. 2003. Exercising authority, restoring accountability. AFL-CIO.

[Google Scholar](#)

Arya, A. and Mittendorf, B. 2004. Offering stock options to gauge managerial talent. Working paper, Ohio State University and Yale School of Management.

[Google Scholar](#)

Bushman, R.; R. Indjejikian; and A. Smith. 1996. CEO Compensation: The Role of Individual Performance Evaluation. *Journal of Accounting and Economics* (April): 161–93.

[Google Scholar](#)

CalPERS, 2003, Investment Committee Agenda, Sacramento, CA.

[Google Scholar](#)

Camara, A. 2001. The pricing of relative performance based incentives for executive compensation. *Journal of Business Finance & Accounting* 28(9 & 10): 1149-1191.

[Google Scholar](#)

Canyon, M., Peck, S., Read, L., and Sadler, G. 2000. The structure of executive compensation contracts: UK evidence, *Long Range Planning* 33, 478-503.

[Google Scholar](#)

Frieswick, K. 2003. Better options. CFO.com, May 1
(http://www.cfo.com/article/1,5309,9415_0_BS_12_141,00.html).

[Google Scholar](#)

Hodgson, P. 2002. Applying Performance Conditions to Stock Options (The Corporate Library, Portland, Maine).

[Google Scholar](#)

Institutional Shareholder Services 2004.
<http://www.amerindo.com/pdfs/2004CondensedUSGuidelines.pdf>

[Google Scholar](#)

Ittner, C.D.; D.F. Larcker; and M.V. Rajan. 1997. The Choice of Performance Measures in Annual Bonus Contracts. *The Accounting Review* (April): 231-55.

[Google Scholar](#)

Johnson, S. and Tian, Y. 2000. The value and incentive effects of nontraditional executive stock option plans, *Journal of Financial Economics* 57, 3-34.

[Article](#) [Google Scholar](#)

Kim, J. 2002. The 2002 Top 250: long-term and stock-based grant practices for executives and directors (Frederic W. Cook & Co., Inc., New York, New York).

[Google Scholar](#)

Lambert, R.A.; and D.F. Larcker. 1987. An Analysis of the Use of Accounting and Market Measures of Performance in Executive Compensation Contracts. *Journal of Accounting Research (Supplement)*: 179-203.

[Google Scholar](#)

Lambert, R. and Larcker, D. 2005. Stock options, restricted stock, and incentives. Working paper, University of Pennsylvania and Stanford University.

[Google Scholar](#)

Larcker, D. and Rusticus, T., 2005. On the use of instrumental variables in accounting research. Working paper, University of Pennsylvania.

[Google Scholar](#)

Meyer, J. and Rowan, B. 1977. Institutional organizations: formal structure as myth and ceremony. *American Journal of Sociology* 83: 340-363.

[Article](#) [Google Scholar](#)

Morgenson, G. 2003. Greed is still good at some companies. *New York Times*, June 14, Section 3, 1, 5.

[Google Scholar](#)

Morgenson, G. 2004. Bubble lives on at Broadcom, where options still rain down. New York Times, April 18: Section 3, 1, 9.

[Google Scholar](#)

Smith, C.; and R. Watts. 1992. The Investment Opportunity Set and Corporate Financing, Dividend, and Compensation Policies. Journal of Financial Economics (December): 263-92.

[Google Scholar](#)

Tully, S. 1998. Raising the bar. Fortune 137(11), June 8: 272-275.

[Google Scholar](#)

Wahal, S. 1996. Pension fund activism and firm performance, Journal of Financial and Quantitative Analysis 31, 1-23.

[Article](#) [Google Scholar](#)

Westphal, J. and Zajac, E. 1994. Substance and symbolism in CEOs' long-term incentive plans. Administrative Science Quarterly 39: 367-390.

[Article](#) [Google Scholar](#)

Westphal, J. and Zajac, E. 1998. The symbolic management of stockholders: corporate governance reforms and shareholder reactions. Administrative Science Quarterly 43: 127-153.

[Article](#) [Google Scholar](#)

Westreich, S.I. 1999. Letter to the editor: performance-vested options best for shareholders. Wall Street Journal, June 7: A23.

[Google Scholar](#)

Zajac, E. and Westphal, J. 1995. Accounting for the explanations of CEO compensation: substance and symbolism. *Administrative Science Quarterly* 40: 283–308.

[Article](#) [Google Scholar](#)

Author information

Authors and Affiliations

University of Pennsylvania, USA

Joseph J. Gerakos & Christopher D. Ittner

Stanford University, USA

David F. Larcker

Editor information

Editors and Affiliations

Yale School of Management, USA

Rick Antle

Norwegian School of Economics and Business Administration, Norway

Frøystein Gjesdal

Carnegie Mellon University, USA

Pierre Jinghong Liang

Rights and permissions

[Reprints and permissions](#)

Copyright information

About this chapter

Cite this chapter

Gerakos, J.J., Ittner, C.D., Larcker, D.F. (2007). The Structure of Performance-Vested Stock Option Grants. In: Antle, R., Gjesdal, F., Liang, P.J. (eds) Essays in Accounting Theory in Honour of Joel S. Demski. Springer, New York, NY. https://doi.org/10.1007/978-0-387-30399-4_11

[.RIS↓](#) [.ENW↓](#) [.BIB↓](#)

DOI	Publisher Name	Print ISBN
https://doi.org/10.1007/978-0-387-30399-4_11	Springer, New York, NY	978-0-387-30397-0
Online ISBN	eBook Packages	
978-0-387-30399-4	Business and Economics	
	Business and Management (RQ)	

Publish with us

[Policies and ethics](#) 

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

Track your research