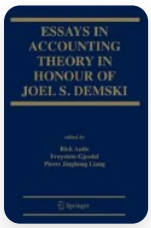
SPRINGER NATURE Link

Log in

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

1707 Accesses 47 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 →

Institutional subscriptions →

Preview

Unable to display preview. Download preview PDF.

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

Corporate Governance | Corporate Finance | Executive Politics | Performance Management | Performance Development | Public-Private Partnership | Executive Compensation and Performance Evaluation Practices

References

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

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

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

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

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

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

Frieswick, K. 2003. Better options. CFO.com, May 1 (http://www.cfo.com/article/1,5309,9415 0 BS 12 141,00.html).

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

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

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.

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

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).

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.

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

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

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

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

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

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

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

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

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

Westphal, J. and Zajac, E. 1998. The symbolic management of stockholders:

corporate governance reforms and shareholder reactions. Administrative Science Quarterly 43: 127–153.

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

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

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

© 2007 Springer Science+Business Media, LLC

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 (R0)	

Key words

Compensation | stock options | performance measurement | incentives

Publish with us

Policies and ethics

Search

Search by keyword or author

Navigation

Find a journal

Publish with us

Track your research