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Accelerated Share Repurchases, Bonus Compensation, and CEO Horizons

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Abstract

We examine whether short-term financial reporting objectives related to executive compensation and employment horizons affect managers' decisions to undertake accelerated share repurchases (ASRs) versus open market repurchases (OMRs). In an ASR, the firm repurchases borrowed shares and simultaneously enters into a forward contract with an investment bank. This structure provides potential financial reporting advantages over OMRs in that earnings per share (EPS) benefits are recorded immediately (i.e., the reporting effects are "accelerated") while the actual share repurchases and potential costs associated with the forward contract are deferred to a future date. Consistent with this short-term focus, we find that firms are more likely to choose ASRs over OMRs when the repurchase is accretive to EPS, when annual bonus compensation is explicitly tied to EPS performance, when CEO horizons are short, and when CEOs are more entrenched. These results are robust to controlling for endogeneity in the decision to repurchase shares. In addition, we find no evidence that compensation committees adjust executive pay for the effects of the ASR. Overall, our results suggest that short-term financial reporting benefits are a significant determinant of decisions to undertake ASRs, consistent with theories of managerial myopia.

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