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Equity Vesting and Managerial Myopia

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Abstract

This paper links the CEO's concerns for the current stock price to reductions in real investment. These concerns depend on the amount of equity he intends to sell in the short-term, but actual equity sales are an endogenous decision. We use the amount of stock and options scheduled to vest in a given year as an instrument for equity sales. Such vesting is determined by equity grants made several years prior, and thus unlikely driven by current investment opportunities. An interquartile increase in instrumented equity sales is associated with a decline of 0.25% in the growth of R&D/assets, 4.6% of the average R&D/assets ratio. Vesting-induced equity sales also increase the likelihood of meeting or marginally beating analyst earnings forecasts, and are associated with higher returns to earnings announcements. More broadly, by introducing a measure of incentives that is not driven by the current contracting environment ➤ vesting-induced equity sales ➤ our paper suggests that CEO contracts affect real outcomes.

Keywords: CEO Incentives, Managerial Myopia, Short-Termism, Vesting**JEL Classification:** G31, G34, M12, M52[Suggested Citation](#) >[Show Contact Information](#) >

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