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Do executive stock options certainly boost firm performance?

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Abstract

This paper focuses on the granted effect of executive stock option on earnings management and firm unmanaged performance. Whether it is worth that companies issue ESO in exchange of future profitability. Because of the two-years vesting period regulation, to examine the granted effect of ESO more precisely, we separate the incentive ratio of ESO into three parts, the granted year, the year after granted year and the exercisable year. Empirical results not only prove that ESO cause managers to engage in earnings management, but also show that even in response to earnings management, ESO encourages managers to think from shareholders' perspective and to raise the real profitability of companies. In addition, companies could reduce the use of discretionary accruals by adjusting governance structure with more monitoring power.