

Option Repricing, Corporate Governance, and the Effect of
Shareholder Empowerment

Huseyin Gulen , William J. O'Brien

PII: S0304-405X(17)30095-8
DOI: [10.1016/j.jfineco.2017.05.004](https://doi.org/10.1016/j.jfineco.2017.05.004)
Reference: FINEC 2768

To appear in: *Journal of Financial Economics*

Received date: 3 September 2015
Revised date: 13 May 2016
Accepted date: 13 June 2016

Please cite this article as: Huseyin Gulen , William J. O'Brien , Option Repricing, Corporate Governance, and the Effect of Shareholder Empowerment, *Journal of Financial Economics* (2017), doi: [10.1016/j.jfineco.2017.05.004](https://doi.org/10.1016/j.jfineco.2017.05.004)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



Option Repricing, Corporate Governance, and the Effect of Shareholder Empowerment

Huseyin Gulen* and William J. O'Brien**

Abstract

We use the practice of employee option repricing to investigate how shareholder involvement in firm compensation policies affects the quality of firm governance. We find that a 2003 reform that empowered shareholders to approve or reject repricing proposals led to value increases in previous repricers. The likelihood of repricing becomes less sensitive to poor manager performance, but remains similarly sensitive to bad luck, after the reform. Average post-repricing changes in firm performance are positive only after the reform. Overall, our results suggest that shareholder empowerment improves the governance of repricing and can transform repricing into a value-creating tool.

JEL Classifications: G3; G34, G38, G39

Keywords: Shareholder Empowerment, Executive Compensation, Corporate Finance, Corporate Governance, Corporate Regulation

* Krannert School of Management, Purdue University, 403 W. State Street, West Lafayette, IN 47907, USA. Tel: 765-496-2689. E-mail: hgulen@purdue.edu. Phone: 765-496-2689. Fax: 765-494-9658.

** Corresponding Author. College of Business Administration, The University of Illinois at Chicago, 601 South Morgan Street, Chicago, IL 60612. E-mail: obrienw@uic.edu. Phone: 312-996-4552. Fax: 312-413-7948.

*** We thank our referee Mark Humphery-Jenner, along with Utpal Bhattacharya, Mark Chen, David Denis, Mara Faccio, Ted Goodman, Jeremiah Harris, Kate Holland, Yeejin Jang, Swaminathan Kalpathy, Simi Kedia, Erik Lie, John McConnell, Oguzhan Ozbas, Raghavendra Rau, Valeriy Sibilkov, Jin Xu, Deniz Yavuz, and David Yermack, as well as Mitchell Johnston for research assistance. We are responsible for all the remaining errors.

Download English Version:

<https://daneshyari.com/en/article/5100580>

Download Persian Version:

<https://daneshyari.com/article/5100580>

[Daneshyari.com](https://daneshyari.com)