

Executive Stock Options Plans and Its Effect on Short-Run Corporate Performance

Zuriadah Ismail^{1*}, Nurhanie Mahjom¹, Emilda Hashim¹ & Everton Dockery²

¹Faculty of Management and Economics, Universiti Pendidikan Sultan Idris

²Portsmouth Business School, University of Portsmouth

*Email: zuriadah@fpe.upsi.edu.my

Abstract

This paper examines the effect of executive stock option plans on corporate performance. By using a standard event study methodology for Malaysian listed firms, the study findings reveal a negative share returns before announcement day and following with a positive effect as consistent result which reported in past studies. However, the announcement for executive stock option plans does not carry any surprise event to the Malaysia capital market. In short, the weak share price reaction before the event day confirmed that early information releases before official announcement could be ruled out. There is also a possibly an opportunistic behavior among executive levels that used stock option plans as a tool for increasing their personal wealth. Then, they would be selectively delayed bad news and released good news in order to lessen the share prices before official announcement and upward the share prices later. Furthermore, the insignificant effect in returns at the event day may perhaps due to the beneficial groups of stock options are all for internal staffs. Therefore, the market might anticipate that news of stock option plans do not produce good impact to the market. From this result, it also provides an idea that granting executive stock option plans carry less signaling impact to the market. Moreover, a loss in returns for short-run firm performance for beneficial groups could be explained as large fraction of stock options are an immediate cost to shareholders.

Keywords Executive Stock Option Plans (Esops), Event Studies, Short-Run Effects

1. Introduction

Over the years, executive stock option plans (ESOPs) have been widely accepted for gaining firm-value enhancing effects. As a long way back to the Malaysian history, the first used of ESOPs among the Malaysian listed firms are traced since early 1990 as a prevalent view about this plan is designed based on the underlying theory of Jensen and Meckling (1976). In specific, this theory links to the benefit of aligning interests between principal and agent. Therefore, stock option plan is expected to produce the value implications for executives and shareholders in terms of sharing same goals for improving firm performance. However, there is not particularly true when the incentive generated is not always perfectly fit to be an effective approach to diminish an agency problem. This causes for a main concern among practitioners as well as academicians.

Following the previous studies, so far, there has an agreement to support the interests aligning between executives and shareholders will lead to firm value. However, the controversies around benefits is far outweighing its weaknesses generate inconsistencies on the existing study's conclusions. A crucial part of studies that emphasised over stock option plans are created at the cost of the shareholders (Obiyatulla et al., 2009). This is particularly true, when the beneficiaries groups are mostly gained with little contribution to improve the firm performance. In fact, the

stock option plan produces a dilutive effect over the shareholders' wealth when the excessive value of stock option grants for executive levels generate a negative affiliation between stock option plans and firm performance. In this example, several studies such as Yermack (1997) and Ding and Sun (2001) find the incentive effects have more worsening effect when the executive exploits internal information in order to increase their personal-wealth at the expense of shareholders. One type of study in this area concluded that linking the stock option plan with the psychological factors of executives to derive profits through risk-taking behaviour. However, the shareholders as the capital supplier might fear that managers would pursue-over risky project that would harm firm profits (DeFusso et al.; 1990). The pertinent question is the executive goals would be purely aligned with those of shareholders for leading the firm-value enhancing effects. Therefore, by filling this gap, a study on the effect of corporate performance in short-run on using executive stock option grants is a main area for concern.

The empirical works studying the stock option plans and firm value enhancing effects are largely dominated from developing countries like US and UK. However, a great progress of using executive stock option plans among the emerging markets find inconsistencies results that stock option plans might improve the firm value are somewhat difficult to make comparison with the generated incentives affects on corporate financial performance. For example, Yeo et al. (1999) examined the Singaporean market data reveals there is no interaction between stock option plans and performance. In latter study that applies the similar data country produces mixed results for performance effects even though the shareholders react favorably to stock option plans (Ding and Sun, 2001). In the case of Malaysia stock option plans, a study by Obiyatulla et al. (2009) which examined the impact of performance and stock option plans using firm level data concluded that firm size play a significant role for the performance level as if the market would anticipate the outcome. However, the incentive effect for interests aligning is not fully fulfilled in Malaysian firms as prediction drawn when shareholders are mostly lost their benefits.

Responding to existing study's conclusion, the main objective of this paper is to examine the effect of executive stock option plans and firm performance. This study, particularly determines whether the announcement of stock option plans is favorably reacted for short-term Malaysia firm performance. Therefore main focus of this study analysis on the Malaysian country data to an event of stock option plans announcement as the main reason of limited studies on stock option plans in Malaysia. This provides empirical evidence to assess the influential of performance measures over stock option grants in several ways. First, we the split of variables in the event characteristics between first-time adoption and seasonal adoption would generate advantages to the study effects. Second, this study distinguishes between the broad-based stock option plan and executive stock option seeks out the plausible answer for the incentive effects of Malaysian executives to improve their wealth and firm value. As well, this creates a further initiative for firm's board of directors to prevent the possibility of abusing of large fraction of compensatory equity plans by the management's team that would detriment the shareholders.

The structure of this paper is organized as follows. The next section discusses the central findings and study conclusions from previous empirical works between stock option plans and performance effects. The next part of the study emphasizes the approach for research methodology and the empirical results yielded for short term effects. The last part is the discussion and study conclusions.

2. Literature Review

Theoretically, designing the stock option plans are commonly based on the agency theory developed by Jensen and Meckling (1976). In this theory indicates that the agency problems might alleviate when the firms are clearly separated between ownership and control. Numerous studies produce evidence that stock option plans could serve as an effective method to achieve the interests of aligning between principal (i.e. shareholders) and agent (i.e. the managers). However, in some part of studies highlight that if stock option plans are inefficiently designed it could solely achieved for motivation and retention for staffs, instead of for achieving financial goals (Selvarajan, Ramamoorthy, Flood and Rowley (2006)). In the main stream of literature emphasis that stock option plans may affect performance when the firm produces new information to capital market. In this example, if the introduction of stock option plan announcements carry new information to market, this will likely reflect the share price performance in short-term performance. However, the share price might react differently according to the event-characteristics like target group and announcement type (Langmann, 2007).

In the case of short-term market reaction, there has an evidence which indicates a positive relationship between stock option plans, although the result is somewhat controversial (Triki and Ureche-Rangau, 2012). Most evidence from the early empirical works on the positive market reaction is commonly followed with adoption of compensation plans are been observed in many US studies. The study example by Larker (1983) which examined on whether the abnormal returns are pronounced in the US firms in 5 days trading of using sample period between 1971 and 1978. The result shows that the cumulative abnormal returns (CARs) are positively reacted following the stock option plan announcements and it statistically significant in the 2 days trading. Another study by Brickley et al. (1985) which scrutinizes over a sample size of 175 compensation plans reveal that 44 of the US firms with stock options plans are reported small share price reaction between the board date and stamp date. The share prices are reacted favorably but it insignificant surrounding 2-days announcement. The observed of study findings indicating the compensation plan types are slightly affected the share price performance. In fact, for the firms with stock option plans, the share prices are consistently drifted to a positive response in several months before the announcement day (Tehranian and Waegelin, 1985). While, Defusso et al. (1990) investigates 641 stock option plans are documented with a significant abnormal gain for the single event date (i.e SEC stamp date). However, when the examination of the event dates is extended from board meeting date to SEC stamp date, the result remains produce a significant positive in return of 4 percent. The positive market reaction for stock option plan announcements implies that the shareholder reacts in positive way to the plan adoption. In addition to the relationship between stock option plans and wealth-increasing effect which are allocated for top management levels, however it creates a conflict between shareholders and the managers, particularly, for the issue of the managerial efforts to increase the share prices. Although, the measurement for effort among the top management is unobservable by shareholders but the capability of managerial levels to influence the share price performance individually is more direct as compared to the non-managerial staffs. One of reasons which could be the management has a better control over the information releases and enjoys the advantage over appropriate incentive effects, although when the stock prices fall.

In terms of managerial action on behalf for shareholders for increasing firm value, a part of studies highlight that they tend to be a risk-taker for engaging in a high profitable projects. However, some part of the existing studies indicate that they might also tend to be a less risk-

taker for risk-neutral shareholders (DeFusso et al.; 1990, Cohen, Hall and Viceira; 2000 and Rajgopal and Shevlin; 2002). Perhaps, the managerial decision is slightly influenced by the generosity of shareholders' loss in form of dilution effects when the firm uses stock option plans (Ikaheimo et al., 2004). As a consequence, the managerial staffs are overly cautious on the incentive effects that stock option plans have for making decision to increase their self-interests without detriment shareholders' wealth. Accordingly, if the shareholder accepts stock option plans unfavorably, this would produce of decreasing-wealth effects. This is somewhat consistent with a study finding by Gerety et al. (2001) which examined the share prices behavior and the incentive plans proposal for directors. The result indicates that shareholders might lose their benefits from such plans. However, the assessment of the impact of broad-based stock option plans improved performance is offsetting the dilution effects from issuance stock option created. So that stock option plans produce a neutral impact on shareholder returns.

Other than using the US market data, recent studies for examining the firm value effects over the stock option plans have been carried in other regions. For instance, Ding and Sun (2001) use the Singaporean listed firms as their sample and they find the abnormal gains are statistically significant surrounding the announcement of stock option plans adoption. **Matsuura (2003)** uses the Japanese firms' data to determine the capital market reaction of **stock option plans announcement within the context of agency theory**. The main findings in Matsuura's study reveal that firms with highly management ownership make the agency problems are less severe and the stock option plans effect would be greater. This suggests that firms with high management ownership could potentially eliminate the agency problems. When the examination of market reaction for short-term horizon is extended for European data, Ikaheimo et al. (2004) find the positive returns for managerial levels are slightly affected by announcement types. However, when the stock option plans are granted for the non-executive staffs, the market would react in negative way. The finding is consistently supported to the recent regional study that use on Japanese data finds the positive announcement returns of about 2 percent in the five-day period surrounding the announcement, particularly in firms that grant a larger fraction of shares to top managements. For firms with large fraction of stock option plans to employees, the market react negatively to more portion of dilutive effects over the shareholders (Kato et al., 2005). While, Langmann (2007) examines stock option plan granting in Germany firms and reveal the positive share prices increase of 1 percent on the announcement on the day of press announcement. In fact, the significant share price reaction before the announcement plan date specifies that timing of stock options plan proposed is coincide with positive market condition. In more recent study by Triki and Ureche-Rangau (2012) examine the stock option plan announcements effect on the French capital market offer the similar results which support the positive share price effects for the entire sample. However, when the market reaction splits according to the type of announcements, the initiation plans announcement during the 21 days of event window report an average returns of 4 percent.

From discussion above based on past studies, the stock option plan might advantage the shareholder and the manager over the positive or negative of the ascribed effects is largely depending on the harmonization of their interests. Both parties might capture advantages that stock option plans have, although some part of study findings offer mixed results. The concluded findings offer evidence that stock option plans provide good signaling effects to market in the short-term, therefore the share prices react accordingly to the approval of the option plans.

3. Data and Research Methodology

Data

As the first used of the Malaysia stock option plans are been traced since 1990, however the study limits its observation to the event window covers the periods of January 2001 and December 2010 due to data limitation. Within that period, the initial sample size comprises all the listed companies in Malaysia Bourse regardless of trading board that composed of 177 companies after exclude the companies engaged in merger, acquisition, listing as PN17, finance industry and missing data. This sample is making up as a full sample study which representing about 21 percent of the listed companies as at end 2010. After excluded the companies with confounding events, there is 83 listed companies are selected as a clean sample in which 58 companies are fulfill the requirement for event study criteria when they are clearly reveal the meeting date for stock option approval and target groups. In all there are 58 companies are examined in order to ensure that they had been listing for at least 210 trading days before stock option announcement with no confounding events that lead to share price changes or any unrelated event to the stock option plans. The information data regarding plan announcements was collected from Investor Digests (Malaysia Bourse magazine) as well as the stock exchange website.

The process of determination the event date is a crucial part in the event study methodology. Based on the Malaysian regulatory guidelines for establishment of stock option plan for listed companies is subjected to the three important event dates. The first event date is an approval date from the company's board of directors to the issuance of new shares. This applicable to any listed companies whose implementing stock option plan. The second event date is the initial consent of company's board and shareholders decision to grant stock option whether at the annual general meeting (AGM) or extraordinary of general meeting (EGM). Once approval is acquired, the listed company requires immediately inform the Malaysia Bourse and make a public announcement about the ESO application on both its website and its stock monitor. The listing date on the website might consider the third event date. However, its listing is remaining subjected to the shareholders' approval whether in the AGM or EGM. However, since 2004 indicates that the approval from the Securities Commission of Malaysia (SC) was no longer effective for stock option plan preposition, finally based on the chronology events, the event dates include a day that company has its board meeting to approve the plan, date of publicly disclosed on stock monitor and the date to allot and implement the plan. The board meeting date for stock option plan approval is chosen as an event day.

Event Study Methodology

The main objective of the study is to assess the market reaction on the short term to an economic event of stock option plan announcement. An event study methodology is a common approach in accounting, finance and economics literature which provide a clear logical cue, even though event data impacts time series. Elsewhere, event study is widely tested across the business sectors and the practical way to assess the factors that move individual share price. In the efficient markets when new information reaches the market, the share prices react instantaneously, but the information leakages hit the market before official announcement is always damage its effects. Hence, in the study planned also includes a test whether the announcements have contents value that provides a signaling effect to market. In the standard of event study methodology, each time

of firm security selected, an event day is generated on trading day from January 2000 and December 2010. The event day is designated as day '0' for each security with a maximum observation of daily return for at least 210 trading days around its event. The longer observation period for 210 days might guarantee a precise assessment of parameter. In fact, the adequate time frame to cover the event effect in each security around its respective event commence at the day -199 and ending at day +60. Estimating the parameter is designated within the period of -199 through -61 trading day and the following estimation for event period is determined according to the time window of 5 trading days prior to and 5 days following event date. If there significant event such as quarterly earnings or dividend which simultaneously declare with stock option plan that it is believed to provide impact on capital market, the event window will be observed longer for 60 days around the event day.

The estimating return of each security to a particular event is generally based on two models in which the first model is the market model returns and the second is market-adjusted model. Based on previous studies, it finds no difference between both methods for return calculations. For example, Langmann (2007) applies the market model to estimate the returns as well as the market adjustment model could be found in study of De Bond and Thaler (1985), Cox and Paterson (1994) and Ikaheimo et al. (2004). In fact, both methods are more outperform for daily share returns (Brown and Warner, 1985). The market model generates smaller variances and correlations for each security returns that provide more close conformity to standard statistic test (Strong, 1992). The weakness of the market model is obviously observed if the share prices drift significantly prior the event day and resulting biased in return calculation.

By means of the market model, the daily abnormal returns of each stock j at time t is calculated by the difference value of actual return and expected return following the formulas:

$$AR_{j,t} = R_{j,t} - R_{i,t} \quad (1)$$

The actual return of a given stock:

$$R_{j,t} = (P_{j,t} - P_{j,t-1})/P_{j,t-1} \quad (2)$$

Where $P_{j,t}$ and the $P_{j,t-1}$ designate the stock prices of firm j on the day t and $t-1$.

The return market portfolio ($R_{m,t}$) is estimated of using the similar approach of actual return:

$$R_{m,t} = ((P_{m,t} - P_{m,t-1})/P_{m,t-1}) \quad (3)$$

Where $P_{m,t}$, $P_{m,t-1}$ are the market prices on day t and day $t-1$ respectively.

With assumption that there is a linear relationship between expected return and market index in the market model, the parameter of the equation for each stock in the estimation period is calculated:

$$R_{i,t} = \alpha_i + \beta_i * R_{m,t} + \mu_{i,t} \quad (4)$$

Where; t is time index, α_i and β_i is regression constant and coefficient, $\mu_{i,t}$ is prediction error or residuals of stock in time t , $R_{i,t}$ and $R_{m,t}$ are return of stock i in t and return of market portfolio m in t .

To determine the total signaling effects of information release by stock option plan announcements, the cumulative abnormal returns (CARs) are used to capture the entire share prices movement within the event window $[t_1; t_2]$ of a given stock as:

$$CAR_{t_1 t_2} = \sum_{t=t_1}^{t_2} AR_{i,t} \quad (5)$$

For each stock, the calculate Average Cumulative abnormal returns as:

$$CAAR_{t_1 t_2} = \frac{1}{n} \sum_{t=t_1}^{t_2} CAR_{i,t} \quad (6)$$

The significance of calculated CAARs for each of the stock whether the announcement of stock option plan is produced impact for the short-term market performance using the following formula:

$$Z = \frac{CAAR [t_1; t_2]}{\sqrt{\frac{1}{n^2} \sum_{i=1}^n [CAR_i [t_1; t_2] - CAAR [t_1; t_2]]^2}} \quad (7)$$

Then, verifying the extent to which the returns abnormally constitute market reaction, the statistical analysis is follows on data distribution of using the Jarque-Bera test. For the abnormal returns which are normally distributed and the observations are independent, the statistical analysis is the parametric test and for data that does not follow a normal distribution, the non-parametric test is employed. The common non-parametric statistical analysis is the rank test and sign test. The Corrado rank test appropriates to perform the daily returns data (Corrado and Zivney, 1992) and it preserves from outliers and robust to any event type and sample size (Langmann, 2007). However, the application of rank test restricts the observation of abnormal returns on one day event period. In the real event studies are often assess to event windows longer than one day and the sign test is relatively appropriate and provide more power (Cowan, 1992). In the rank test, abnormal returns values are transformed into rank for each security with assumption that the ranked daily returns are independent in which the estimation period and event period are treated as a single time series. Let $K_{i,t}$ denotes the rank of abnormal return ($AR_{j,t}$) of stock i . The Corrado rank test includes the following test statistic:

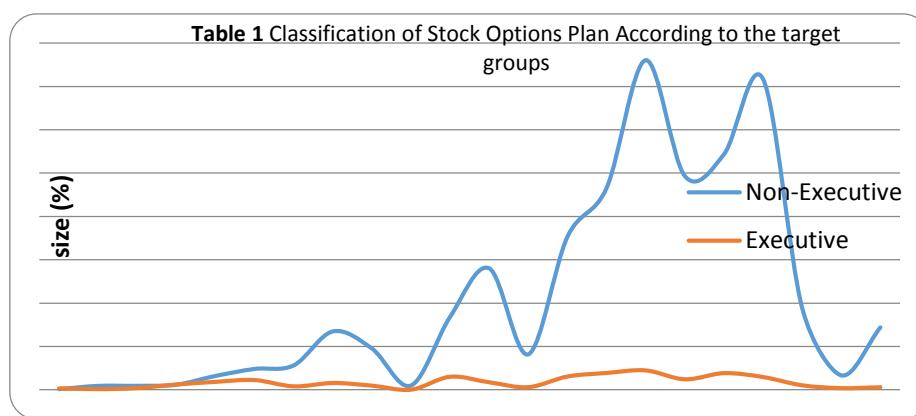
$$CT = \frac{\frac{1}{N} \sum_{t=1}^N (K_{i,t} - \bar{K})}{\sqrt{\frac{1}{D} \sum_{t=-S}^I \left(\frac{1}{N} \sum_{t=1}^N (K_{i,t} - \bar{K})^2 \right)}} \quad (8)$$

- k -End of the event period
- $K_{i,t}$ -Rank of abnormal return of stock i in t
- N -Number of stocks
- D - Number of observations in estimation and event period
- \bar{K} - Average rank for all observations

Further, as the length of event window increases, the wilcoxon sign test provides more powerful tool to assess the positive and negative abnormal returns to support the mean value (Cowan, 1992).

4. Main Findings

For almost two decades, there has a considerable increase in the granting size for Malaysia stock option plans and the plan is more pronounced of within the period of 2004 and 2007. This trend is shown in Table 1 with the highest percentile is about 16 percent (2004). The broad-based stock option plans to the non-executive employees are making up 93 percent in total. This value suggesting that non-executive employees are the predominant holders within the Malaysian corporate evolved. When comparing to the compensatory stock option plans for the executive levels, the results reveal no significant different on the awarding trend within a defined period. After excluded the companies with confounding events, there is 58 listed companies are selected as a clean sample and it roughly composed is about 33 percent from the full sample have implemented stock option plans.



Indeed, in most developed countries, there evidence that stock option plans have a unique characteristics for solving the agency problems through interests aligning between capital providers (shareholders) and the employees. However, the stock option plans have not always perfectly fits with the intended incentive effects. Existing literature, mostly extracted from studies in developed countries, so far the results of interests aligning through stock option plans for value-enhancing effects are mixed. The fact is that the stock options plans are facing lot of controversy regarding the benefits are far outweighing the weaknesses. Moreover, creating the stock option plans on the cost of the existing shareholders make the beneficiary groups are mostly gain with a little contribution to firm performance. In fact, excessive stock option grants and exploiting information to maximize personal-interest at the expenses of shareholders have worsening the effects (Yermack; 1997 and Ding and Sun; 2001). The main concern on dilution effect for shareholders' wealth influence the efficiency of stock option plans as performance-based rewards are open for public debates. Particularly, when the high levels employees manipulate the information releases for personal interests through timing good news and delay bad news. That is the second level analysis focused on share price reaction to the stock option plan announcements in short term prior and subsequent an event day.

Moreover, as a response to the US study conclusions such as Defusso et al. (1990) finds that stock option plans produce evidence on declining result on operating firm performance. Hence, the study interests are to seek whether stock option plans announcement by Malaysia firms produce equal effect in the short-term firms' performance. Discussion on the main findings start with the results obtains for short-term effect. Based on the empirical results, it is clear the share market reacts unfavorable to the stock option plan announcement in which the results show

weak evidence on the day surrounding plan announcements. The result is somewhat contrast to earlier findings on the positive impact hypothesis in the US studies such as Larker (1983), Brickley et al. (1985), Defusso et al. (1990) and Cresson (2007). The consistent results on positive returns also shown among the European studies which offering the stock option plans (Langmann; 2007, Thouraya and Ereche-Rangau, 2012). Nevertheless, when examining the study results in the Asian countries as an examples, it partly on the positive share market reactions (Yeo et al.; 1999, Ding and Sun; 2001 and Kato et al.; 2005). However, the first Malaysian study carried out by Obiyatulla et al. (2009) find a contrast result between market reaction and granting stock option plans. They find a significant loss in returns for at almost 20-day trading after the announcement. Indeed, within the same length of event window, the study reports the share prices are reduced in returns of 0.84 and 2.60 percent. When this study extending the event window up to the three months calendar seems did not improve the result. Hence, this supports an assertion that the price effects are not a short-lived. The weakly and negative reaction for shortest-time period for Malaysia firms could explain that the investors are less encouraging to the equity-compensation pays. That is the reason of market would anticipate it as negative news.

Assessing the total impact of stock option plan announcements whether it engenders good or bad news to share market, the cumulative abnormal returns (CAR) for the entire event window of 121 days are used to capture the entire share prices movement is displayed in the Table 2. On average, the cumulative abnormal returns (CAARs) report insignificant for any length of the event windows and the highest return of 3.26 percent is observed for 60-days before announcement day. The negative returns are run up within the interval periods. In this instance, the cumulated result for the share price effects seem to support the earlier findings that the stock option plans lead to negative response on the market, although weakly. Within the same event window, the positive returns are generated of 50 percent in the event window of the 121-day. When split the event window for 60-day before the event day, they had 48 percent, compared to 45 percent of 60-day after announcement. Comparing to other regional studies conclusion, the results for the number of positive returns is somewhat lower to those reported in Langmann (2007). He finds the percentage of positive abnormal returns on the announcement sample is about 57% which is lower than 71% that generated in Germany share market data. Indeed, the observable weak evidence of positive market reaction at the announcement day perhaps, it provides signalling effect to the shareholders that they are going to loss of their ownership at the equal amount. Whereas, the continuous loss in returns after few days imply that the negative share price reaction of stock option plan is not short-lived (Yeo et al.; 1999 and Obiyatulla et al., 2009). Moreover, the highest returns for three month calendar before announcement day have not seemed do remedy huge loss in returns.

Table 2 Table Cumulative Average Abnormal returns (CAARs) in the event window [-60;+60]

Event window	CAAR	Z-Statistic	Median	Wilcoxon sign rank	% positive
Panel A : Full sample					
[-60; +60]	3.2633	0.1165	0.2702	0.8708	50
[-5;+5]	-0.0705	-0.1393	-0.0020	0.6271	45
[-2;+2]	-0.0887	-0.1614	-0.02568	1.4245	41
[-60,0]	3.2273	0.1152	0.2029	0.0774	48
[-5,0]	-0.0829	-0.1521	0.0025	0.9523	47
[0,+5]	-0.0823	-0.1597	-0.0256	1.3007	40
[0;+60]	-0.0588	-0.1197	-0.0441	0.5729	45

Panel B : First-time announcement plan					
[-60; +60]	4.3773	0.1340	0.2036	0.1625	49
[-5;+5]	-0.0796	-0.13595	-0.0020	0.3876	46
[-2;+2]	-0.1034	-0.16237	-0.0270	1.1253	39
[-60,0]	4.3448	0.133007	0.1857	0.2250	48
[-5,0]	-0.1001	-0.15852	-0.0175	0.8377	46
[0,+5]	-0.0904	-0.15129	-0.0344	0.8127	43
[0;+60]	-0.0078	-0.13731	-0.05084	0.4376	44
Panel C : Seasonal announcement plan					
[-60; +60]	0.3389	0.0467	0.3673	0.6464	53
[-5;+5]	-0.0468	-0.2432	0.0021	0.6464	41
[-2;+2]	-0.0498	-0.2702	-0.0127	0.8014	44
[-60,0]	0.2938	0.0403	0.3273	0.5429	50
[-5,0]	-0.0377	-0.2012	0.0321	0.3878	47
[0,+5]	-0.0613	-0.3314	-0.0135	1.2151	38
[0;+60]	-0.0071	-0.0498	-0.0114	0.3361	47

The sample of Cumulative abnormal returns (CARs) comprises 58 companies that using beta market model for estimation period of day -199 and day-61. The event day is the date of board meeting to approve the stock option plans by shareholders. The significance level employs the generalize sign test which is described in study of Cowan (1992). The Wilcoxon sign rank test for median and the percentage (%) of positive CAR are also reported.

Additional test for cumulated of abnormal gains are investigated according to additional characteristics of stock option plans in Malaysia. The inference that could be drawn is that stock option plans might generate the motivational effect if the firm adopt stock option at the first-time. The value of commitment enhancing-effects are more apparent for top managements to lead improvement for firm value (Huddart and Lang, 1996). In the case of Malaysian firms with stock option plans, the share market seems negatively response, so it reveals dilutive effects are far-outweighing to shareholders rather than motivational effects. Interestingly, there seem no difference effects between the market reaction for stock option plan announcement at the first time or seasonal announcement. The evidence for cumulated of abnormal returns based on the announcement types to beneficial groups between lower level and higher level employees would generate advantages as it could be make difference for measuring the shareholders wealth (Ikaheimo et al., 2004). Using the same length of event windows for pre and post announcement, on average, the CAARs are hold insignificant although it produces positive returns before announcement day. The weak relationship for stock option plans in short-term share price reactions raise to several explanations. One explanation for the findings indicate that announcements stock option plans do not carry signalling effects to market which suggesting that information has no relevant for share market. Indeed, examination on the content value of the announcement of stock option plans have as well as its effects on the share price, the findings are associated to the timing of announcements (Yermack, 1997 and Chauvin and Shenoy, 2001). Ikaheimo et al (2004) highlights most of the announcements carry basic information regarding stock option plans such as announcement types, beneficial groups, exercise price and vesting period. The pre-mature leakage of information could be the second explanation for weak share price effects to the market. When, the information about stock option plans adoption is already known, then the information are processed and factored it to the share price performance at the time of announcement and factored it into share prices (Ikaheimo et al;2004 and Langmann;2007). Perhaps, there a gap between approval date on board meeting and the official announcement date issue are also attributing to the result of information leakages before an official announcement.

5. Concluding Remarks

The main objective of this study is to examine whether the executive stock option plan announcements have a value-enhancing effects in short-term performance for Malaysia firms. Using a standard event study methodology, in short-term, the study findings reveal that a negative share price before announcement and following with positive effect are consistent to the past studies conclusion. However, such announcements do not carry any surprise to the market. In short-term, the weak share price before and the event days seemingly confirm the assertion claimed that early information releases before official announcement could be ruled out. Moreover, the generated results of positive and negative market reaction might link to the opportunistic of managerial behaviors' using stock option plans to increase their personal wealth. Then, they would be selectively delayed bad news and released good news in order to lessen the share prices before official announcement and upward the share prices later. Furthermore, the insignificant effect in returns at the event day may perhaps due to the beneficial groups of stock options are all for internal staffs. Therefore, the market is indeed anticipate that news of stock option plans do not carry good news to generate impact for market. The slow progress on the share price increases after the announcement day opens for several explanations. First, it seems that is Malaysian firms are less response to the benefit of stock option plans have, particularly for aligning interests and reducing agency problems. The second explanation for this results emphasise that allocating stock option plans at the first time do not lead to high share returns as well as the similar results also generated for beneficial groups (i.e. executive levels). Moreover, a loss in returns for the beneficial groups could be explained as large fraction of stock options are actually an immediate cost to shareholders. The third reason indicates that stock option plan announcements seemingly do not reveal any information value to the market which suggesting that stock option plan preposition provides less signaling impact to the market.

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