

Dolores Álvarez-Pérez, Edelmira Neira-Fontela,
Carmen Castro-Casal*

Corporate governance, uncertainty and executive stock option plans**

The purpose of this paper is to understand the reasons that have led to the use of the stock option plans (SOPs) to reward Spanish CEOs and discuss whether the popularity of this type of incentive can be attributed to the power of the CEO in the Board of Directors. To this end, the study, besides analysing how the level of monitoring and uncertainty influences the use of CEO stock option plans (SOPs) in the 100 firms with the highest stock market capitalisation listed on the Madrid Stock Exchange for the period 1999–2001, it also aims to determine the influence of the level of uncertainty in the design of SOPs. We used both logit models and difference-of-means statistical techniques to analyse the data. The results reveal that 1) the use of SOPs increases as a) the level of monitoring decreases, and b) uncertainty increases; and 2) conventional stock options granted at the money or in the money become more frequent as the uncertainty increases. In light of these results, there is reason to support the approach to the managerial power view and, therefore, to think that in some cases CEOs use SOPs to extract rents from shareholders.

Key words: **CEO stock options, corporate governance, managerial power**
(JEL: J33, L21, M12, M52)

* M^a Dolores Álvarez-Pérez, University of Santiago de Compostela, Faculty of Economics and Business Administration, Avda. do Burgo s/n, 15704 Santiago de Compostela, Spain.
E-mail: mdolores.alvarez@usc.es.

Edelmira Neira-Fontela, University of Santiago de Compostela, Faculty of Economics and Business Administration, Avda. do Burgo s/n, 15704 Santiago de Compostela, Spain.
E-mail: edelmira.neira@usc.es.

Carmen Castro Casal, University of Santiago de Compostela, Faculty of Economics and Business Administration, Avda. do Burgo s/n, 15704 Santiago de Compostela, Spain.
E-mail: carmen.castro.casal@usc.es.

** Article received: October 17, 2012

Revised version accepted after double blind review: November 22, 2013.