The tremendous growth in incentive compensation during the late 1990s was a benchmark in American corporate practices. This represented a major change in the way that top executives are paid. Today, a typical CEO compensation package consists of stock options and bonuses, which exposes the chief executive to any volatility in the firm's performance.

Comment [DP1]: This sentence isn't really necessary

<footnote> In 1992, S&P 500 executives received 52% of their pay in stock options and bonuses. That percentage had grown to 74% by 1999. (Delves (2005) calculates that) Between 1992 and 2000, median CEO pay increased by 340 percent. Most of that increase came from the dramatic growth in stock option compensation.
</footnote>

Comment [DP2]: The sentence is just too long to work the Hall and Murphy 2000 into the sentence just do it as a normal foornote

Comment [DP3]: Again, citing the source within the senence makes it long and awkward.

However, the award of stock options to non-executive employees (broad-based plans) is also growing steadily. In their 1994-97 sample, Core and Guay (2001) found that the average number of options outstanding to all employees exceeded seven percent of all equity . Non executive employees held 67 percent of these options.

Comment [DP4]: In the U.S.?

Comment [DP5]: Uncleaer what you are saying here

At the same time, the percentage of large firms granting stock options to most of their employees increased from 17 to 39 percent in the 1990s (W. Mercer, USA Today). In aggregate, these companies granted around $11 billion in stock options in 1992 and $119 billion in 2000 before falling back to $71 billion in 2002 (Hall and Murphy (2003).

Comment [DP6]: Why the 8-year gap?

Why are stock options so popular? Some argue that they are necessary to create the incentive compatible contracts for firm employees (Murphy (1999). However, with an emergence and growth of broad-based stock option plans, this hypothesis has been questioned. Pay-to-performance sensitivity appears to be too low for non-executives, and free-rider problems abound in large groups.

Comment [DP7]: These 3 words unclear

Other researchers link the surge in stock option awards, total compensation and repricing practices to declining corporate morale. Stock options can be used to manipulate a firm's earnings. They can also alleviate liquidity problems for firms that lack cash to pay fixed salaries. Stock options can also be used for attraction and retention of employees (Ittner, Lambert and Larcker, 2003; Oyer and Schaefer, 2005). or to minimize renegotiation costs when employees' outside opportunities are correlated with firm profits or stock price (Oyer, 2004), options minimize renegitiation costs.. Further, stock option compensation allows start-ups and young firms to remunerate their employees without immediate cash payments [refs]. Hall and Murphy (2003) argue that managers falsely perceive stock options to be inexpensive.