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Information asymmetry, contract design and process of negotiation: The stock options awarding case

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Résumé en anglais	Stock option plans are used to increase managerial incentives, and business practices usually set the exercise price equal to the stock market price. The purpose of this paper is to underline the importance of a process of negotiation leading to a possibleequilibrium contract satisfying both managers and shareholders. The two key variables of the model are the percentage of equity capital offered by the shareholders to the managers and the exercise price of the options that may be at a discount. We explicitly introduce risk aversion and information asymmetries in the form of (i) an economic uncertainty in the gain of cash flow, (ii) possibly biased information between the two parties and (iii) a noise in the valuation price of the stock in the market. The existence of a process of negotiation between shareholders and managers leading to a possible disclosure of private information is highlighted. As a conclusion, we show that “efficient” stock option plans should be granted in a context of trade-off between the percentage of capital awarded to managers and the discount in stock price.
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