

THE IMPLICATIONS OF ESOS ON THE SHAREHOLDERS' WEALTH

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ABSTRACT

The using of ESO as a compensation package has become well known since the past decade. This is because the ESO is believed to be able to mitigate the agency problems between shareholders and managers or employees to achieve the goal of firm (Fich and Shivdasani, 2005; Bryan et al., 2000 and Eisenhardt, 1989). The goal of the firm is to maximize the shareholders' wealth. There is a mix empirical result as to whether ESO can help to maximize the shareholders wealth or not. This research is aimed to investigate the implication of ESO on the shareholders' wealth in Malaysia. By investigating the impact of ESO on dividend yield, share price performance and dilution effect on earnings per share, to find out the relationship between those variables with ESO. The dividend yield and the dilution effect were studied by comparing the change in dividend yield and earnings per share before and after the issuance of ESO, respectively. With proper studies made, this research will attempt to see if either the ESO has positive or negative relationship with the dividend yield, either there is a relationship between ESO and share price performance and either the ESO cause the dilution effect on EPS or not.