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Discretionary disclosure and stock-based incentives

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Abstract

We examine the relation between managers' disclosure activities and their stock price-based incentives. Managers are privy to information that investors demand and are reluctant to publicly disseminate it unless provided appropriate incentives. We argue that stock price-based incentives in the form of stock-based compensation and share ownership mitigate this disclosure agency problem. Consistent with this prediction, we find that firms' disclosures, measured both by management earnings forecast frequency and analysts' subjective ratings of disclosure practice, are positively related to the proportion of CEO compensation affected by stock price and the value of shares held by the CEO.



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Keywords

Discretionary disclosure; Incentive; Share ownership; Stock compensation

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