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The Journal of Finance / Volume 42, Issue 4 / pp. 823-837

Article

Managerial Incentives and Corporate Investment and Financing Decisions

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First published: September 1987

https://doi.org/10.1111/j.1540-6261.1987.tb03914.x

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ABSTRACT

This paper examines the relationship between common stock and option holdings of managers and the choice of investment and financing decisions by firms. The authors find support for the hypothesis of a positive relationship between the security holdings of managers and the changes in firm variance and in financial leverage. This conclusion is based on samples of acquiring and divesting firms. The findings are consistent with the hypothesis that executive security holdings have a role in reducing agency problems.

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