

Managerial Incentives and Corporate Investment and Financing Decisions

ANUP AGRAWAL, GERSHON N. MANDELKER

First published: September 1987

<https://doi.org/10.1111/j.1540-6261.1987.tb03914.x>Accessibility issue? [Request accessibility update.](#)

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.

REFERENCES

1 Y.Amihud and B.Lev. "Risk Reduction as a Managerial Motive for Conglomerate Mergers." *The Bell Journal of Economics* 12 (Autumn 1981), 605-17.

[Web of Science®](#) | [Google Scholar](#)

2 A.Barnea, R.Haugen, and L.Senbet. *Agency Problems and Financial Contracting*. Englewood Cliffs, NJ: Prentice-Hall Inc., 1985.

[Google Scholar](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

5 F.Black and M.Scholes. "The Pricing of Options and Corporate Liabilities." *Journal of Political Economy* 81 (May/June 1973), 637-54.

[Web of Science®](#) | [Google Scholar](#)

6 E.Fama. "Agency Problems and the Theory of the Firm." *Journal of Political Economy* 88 (April 1980), 288-307.

[Web of Science®](#) | [Google Scholar](#)

7 E.Fama and M.Jensen. "Separation of Ownership and Control." *Journal of Law and Economics* 26 (June 1983), 301-25.

[Web of Science®](#) | [Google Scholar](#)

8 M.Harris and A.Raviv. "Optimal Incentive Contracts with Imperfect Information." *Journal of Economic Theory* 20 (April 1979), 231-59.

[Web of Science®](#) | [Google Scholar](#)

9 R.Haugen and L.Senbet. "Resolving the Agency Problems of External Capital through Options." *Journal of Finance* 36 (June 1981), 629-47.

[Web of Science®](#) | [Google Scholar](#)

10 M.Jensen and W.Meckling. "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure." *Journal of Financial Economics* 3 (October 1976), 305-60.

[CAS](#) | [Web of Science®](#) | [Google Scholar](#)

11 G.Manne. "Mergers and the Market for Corporate Control." *Journal of Political Economy* 73 (April 1965), 110-20.

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)

Manage Preferences

Accept All

Reject Non-Essential

13 K.Murphy. "Corporate Performance and Managerial Remuneration: An Empirical Analysis." *Journal of Accounting and Economics* 7 (April 1985), 11-42.

[PubMed](#) | [Web of Science®](#) | [Google Scholar](#)

14 A.Smith. *The Wealth of Nations (1776)*. Cannan ed. New York: Modern Library, 1937.

[Google Scholar](#)

15 C.Smith, Jr. and J.Zimmerman. "Valuing Employee Stock Option. Plans Using Option Pricing Models." *Journal of Accounting Research* 14 (Autumn 1976), 357-64.

[Web of Science®](#) | [Google Scholar](#)

16 R.Walkling and M.Long. "Agency Theory, Managerial Welfare, and Takeover Bid Resistance." *The Rand Journal of Economics* 15 (Spring 1984), 54-68.

[Web of Science®](#) | [Google Scholar](#)

Citing Literature



Download PDF

ABOUT WILEY ONLINE LIBRARY

[Privacy Policy](#)

[Terms of Use](#)

[About Cookies](#)

[Manage Cookies](#)

[Accessibility](#)

[Wiley Research, DEI Statement and Publishing Policies](#)

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. [Privacy Policy](#)



Manage Preferences

Accept All

Reject Non-Essential