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Operational Decisions, Capital Structure, and Managerial Compensation: A News Vendor Perspective

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Abstract

While fir … rnal capital,
the oper … considers
the effec … her critical
assumpt … ways act in
the firm … rs of the
comp … s or debt
holde … rom the firm
owners' … ptimal
producti … l incentives.
We expl … erage and
observe … high
extreme … further

extend our model to consider the effects of agency costs on the firm's production decision and debt choice by including performance-based bonuses in the manager's compensation. Our analyses show how managerial incentives may drive a manager to deviate from firm-optimal decisions and that low-margin producers face significant risk from this agency cost while high-margin producers face relatively low risk in using such compensation.

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