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

Xiaodong Xu & John R. Birge

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Abstract

While firm growth critically depends on financing ability and access to external capital, the operations management and engineering economics literature seldom considers the effects of financial constraints on the firms' operational decisions. Another critical assumption in traditional operations models is that corporate managers always act in the firm
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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.

ACKNOWLEDGMENTS

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