

Accepted Manuscript

Profit Sharing between Managers and Investors: An Experimental Investigation

PhD Belma Ozturkkal, Assistant Professor

PII: S2214-8450(15)00012-5

DOI: [10.1016/j.bir.2015.02.002](https://doi.org/10.1016/j.bir.2015.02.002)

Reference: BIR 49

To appear in: *Borsa istanbul Review*

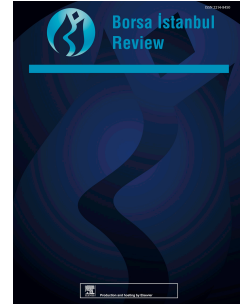
Received Date: 7 July 2014

Revised Date: 7 February 2015

Accepted Date: 7 February 2015

Please cite this article as: Ozturkkal B. Profit Sharing between Managers and Investors: An Experimental Investigation, *Borsa istanbul Review* (2015), doi: 10.1016/j.bir.2015.02.002.

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.



Profit Sharing between Managers and Investors: An Experimental Investigation

Abstract

This study analyzes the effect of interest and power structures and conflict of interest among managers and investors and tests the effect of different payout mechanisms on willingness to pay. In this study 74 student subjects are involved in a setting where the manager is determining his own compensation. A series of experiments that vary managers' ability to determine their own compensation and investors' ability to punish inappropriate behavior are reported. The experiments involve pairs of subjects consisting of an investor and a manager with asymmetric decision making powers. When managers compensate themselves inappropriately, investors' recourse is to shun the company's shares—a model that arguably corresponds more closely to reality than the accepted efficient market traditional paradigm. The experiment shows that managers share profits even when investors cannot withhold investment and investors fairly compensate managers as well. This pattern explains both the ability of capital markets to function despite the presence of inherent moral hazard, and occasional managerial misbehavior.

Keywords: Behavioral Finance; Payout Policy; Experiment

JEL Codes: G02; G03

Download English Version:

<https://daneshyari.com/en/article/7341984>

Download Persian Version:

<https://daneshyari.com/article/7341984>

[Daneshyari.com](https://daneshyari.com)