

Accepted Manuscript

Employee Bargaining Power, Inter-Firm Competition, and Equity-Based Compensation

Francesco Bova, Liyan Yang

PII: S0304-405X(17)30153-8
DOI: [10.1016/j.jfineco.2017.07.006](https://doi.org/10.1016/j.jfineco.2017.07.006)
Reference: FINEC 2799

To appear in: *Journal of Financial Economics*

Received date: 1 August 2014
Revised date: 12 May 2016
Accepted date: 3 August 2016

Please cite this article as: Francesco Bova, Liyan Yang, Employee Bargaining Power, Inter-Firm Competition, and Equity-Based Compensation, *Journal of Financial Economics* (2017), doi: [10.1016/j.jfineco.2017.07.006](https://doi.org/10.1016/j.jfineco.2017.07.006)

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.



Employee Bargaining Power, Inter-Firm Competition, and Equity-Based Compensation

Francesco Bova and Liyan Yang*

March 08, 2017

Abstract

We develop a model to illustrate that equity-based compensation for non-executive employees and product market decisions are related. When the product market is competitive and employees have low bargaining power, the unique equilibrium is for each firm's owners to offer equity-based compensation to their employees. In this setting, equity-based compensation leads to a lower wage rate, which makes each firm more competitive with its rival. However, this unique equilibrium is a Prisoner's Dilemma for the firms' original owners. Our results are consistent with several empirical regularities and provide predictions on when firms will offer equity-based compensation to their employees.

JEL classification: G30; J33; J41

Key words: Employee bargaining power, market competition, equity compensation

*Bova: corresponding author, francesco.bova@rotman.utoronto.ca, Rotman School of Management, University of Toronto, 105 St. George Street, Toronto, M5S3E6, ON, Canada; Tel.: +1 416-978-3985, Fax: +1 416 971-3048. Yang: liyan.yang@rotman.utoronto.ca, Rotman School of Management, University of Toronto, 105 St. George Street, Toronto, M5S3E6, ON, Canada; Guanghua School of Management, Peking University, 100871, Peking, China. We are grateful to the editor (G. William Schwert) and an anonymous referee for constructive comments that have significantly improved the paper. We also thank Viktoria Diser, David Easley, Christian Hofmann, Bjorn Jorgensen, Erica Li, Brian Mittendorf, Maureen O'Hara, N. V. Ramanan, Florin Sabac and seminar participants at the 2013 Beyster Symposium, the 2014 AAA Management Accounting Midyear Meeting, the 2016 China International Conference in Finance, the London School of Economics, the Munich School of Management, the University of Alberta, and the University of Toronto for helpful comments. Bova is grateful for funding from the University of Toronto and the Louis O. Kelso and Accurate Equity Fellowships which fund research on employee ownership. Yang thanks the Bank of Canada and Social Sciences and Humanities Research Council of Canada (SSHRC) for financial support. The views expressed herein are not necessarily those of the Bank of Canada and are the authors' alone.

Download English Version:

<https://daneshyari.com/en/article/7362154>

Download Persian Version:

<https://daneshyari.com/article/7362154>

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