

Why some business firms do not rely on financial measures?

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Abstract

This paper studies why several business firms do not (have to) rely on explicit contracts to resolve incentive problems even though they have contractible financial measures. Implicit incentives (career concerns) play a key role in those firms as in the government sector where reports based on business accounting are not available. Using the Normal-Exponential (CARA-Gaussian) model and assuming that firms have non-contractible measures as well as contractible measures, this paper implies that firms wish to give their managers disincentive if they could because their managers have been overworking.

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