

Real Options and Investment Incentives

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 Springer

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Foreword

Capital rationing and compensation are the most important instruments to control managers in divisionalized firm. Therefore performance-based compensation plays a prominent role in modern managerial accounting research. As shareholder value and performance measures like Economic Value Added as well as stock options are used in many companies all over the world performance-based incentive systems became important for practice, too.

This book is very innovative as it connects real options with incentive theory. The author analyzes how incentive systems have to be structured if managers have to decide on investments sequentially under uncertainty. Mathematical models are solved on growth options, switching options and waiting options as they arise in decisions on research and development, flexible manufacturing systems and the postponement of investments. Two types of models are used and exemplified very clear in their characteristics and their differences, principal agent models and goal congruence models.

Using their specific properties in order to analyze performance-based incentive and capital rationing systems for sequential investments this book provides very interesting new results. On the one hand it gives scientific explanations on empirical investment processes and empirical hypotheses to be tested. On the other hand it yields valuable information on the structuring of incentive and capital rationing systems in practice.

This book demonstrates how modern accounting theory can be developed. In connecting different concepts like investment, real option and incentive theory important new results can be found. They increase our theoretical knowledge and give useful insights for the decision making in firms and the structuring of their controlling systems. In sum,

VI Foreword

this book takes an important step in managerial accounting research towards a better understanding of investment incentives. Therefore, it will prove useful both to researchers in this area as well as firms.

Munich, August 2006

Prof. Dr. Dr. h.c. Hans-Ulrich Küpper

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Mainz, October 2006

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List of Abbreviations

CVA	Cash Value Added
ed.	edition
et seqq.	and the following
EVA	Economic Value Added
Fig.	Figure
R&D	Research and Development
RoI	Return on Investment
SFAS	Statement of Financial Accounting Standards
U.S.	United States (of America)
US-GAAP	United States-Generally Accepted Accounting Principles
WACC	weighted-average cost of capital
ZfB	Zeitschrift für Betriebswirtschaft
zfbf	Zeitschrift für betriebswirtschaftliche Forschung