
The effect of bonus deferral on managers' self-interest: An experimental examination of investment decisions and effort provision

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Abstract

We examine the impact of deferred bonus payments and clawbacks on managers' self-interest in two experiments. Deferred bonus and clawbacks are an important element of a "bonus bank" scheme designed to motivate managers to act in the best interest of the firm. Consistent with construal level theory from psychology, we find that bonus deferral mitigates managerial self-interest. It increases managers' willingness to make a bonus-decreasing investment by encouraging managers to place greater importance on advancing their company's long-term interests and on improving their reputation within the company. These mediation effects are significant only when participants have a short employment horizon. The second experiment examines the combined effect of bonus deferrals and clawbacks on managers' willingness to exert personally costly effort to advance their company's interests. We expect to find that bonus deferral and clawback provisions work as complements and encourage managers to place greater importance on advancing their company's interests. Our study contributes to the debate on effective managerial compensation by showing that a simple deferral of bonus payments can reduce the negative consequences of managerial self-interest and opportunism.

Keywords: Managerial compensation, self interest, managerial myopia, deferred bonus payments, clawbacks

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