

### **Equilibrium incentives in Oligopoly**

The paper simultaneously examines managerial incentives and market structure. A firm's goal is based on the owner-manager relationship, meaning that the manager's motivational incentives were structured by the owner of competing firms.

In an oligopolistic market, the owner-manager relationship relies on the decision of the paring opponent. The study shows the relatedness of internal contracting and external strategic deliberation. If owners tell the manager to aim for profit maximization, the stackelberg will occur. Owner will then choose to twist manager's incentive, so that the competition results are changed for his manager and the rival manager.

The distortion is highly subjected to the nature of oligopolistic competition.

- In the Cournot equilibrium, Managers will get paid more than marginal profit (owner gives positive incentives for sales). The forecasted uncertainty lessens the deviation from profit maximization, while the correlation of firm cost rises the deviation.
  - Random demand
  - Random Cost
  - N cournot firms
- In the price game equilibrium with differentiated products, Managers will get less pay (owner will pay manager to keep sales low)

For the incentive manipulation to be effective to owners, the managerial incentives strategy needs to influence the profits joints allocation in the manager's game.

Thus, Competitive firm's owners often use distortion as the prospectively important strategic instruments to diverge managers from absolute profit maximization. And the external competitive environment can essentially define the internal relationships.