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Shareholder and management features in the context of behavioural characteristics, effects and life cycle**

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A B S T R A C T

Prerequisites of agent's limited rationality are defined, when their choice is influenced by preferences, last events, emotional characteristics. An impact of behavioral characteristics on making decision in case of limited rationality of the agent is considered. For example, overconfidence managers encourage an increase in debt in capital structure of the company and overinvestment. The conflicts of interests for the Russian companies with ownership concentration are analyzed. Moreover ownership concentration – is a necessary measure of shareholders protection, not always have a negative effect on financial economic results. Behavioral features and agency problems vary at life cycles of the company. The algorithm of transition from one life stage to another in accordance with determined risks, agency problems and drivers is developed. The challenge to stimulate managers for increase of productivity and their decisions is determined. This article presents investigation a motivation and an encouragement of management; defined behavioral characteristics in the way of incentives; behavioral stereotypes in stimulation methods are presented.

A R T I C L E I N F O

Keywords:
behavioral characteristics, management overconfidence, overinvestment, behavioral effects, agency problems, life cycle.

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1. INTRODUCTION

People are a unique resource that affects the long-term potential of the company. According to the assumptions of the theory of capital structure, decision-makers are rational, but in the 60s of XX century there was an introduction about the assumption of agents' rationality, i.e. features, characteristics and preferences that influence the formation of control strategies.

According to traditional notions the consumer is rational. He maximizes the utility and minimizes costs. The utility is determined by the amount set and its benefits. So the consumer has a rational behavior. In this aspect, we consider the theory of expected utility, according to which we estimate the probability of the events with the greatest utility. But the consumer can not perceive all the things and events around him rationally as it is influenced by external factors and the internal psychological characteristics: his character, memories and experiences. That means that the assumptions about the rationality of the individual impugn the theory of the expected utility.

Not always the consumer maximizes his utility and takes into account the uncertainty. In the face of uncertainty, i.e. uncertainty about the risks he thinks about his previous empirical experience. Irrational perception of information, subjective views and preferences of the individual often lead to irrational behavior. This also applies to accessibility of the same information for all investors in its sameness of treatment and understanding, as well as the presence of the same goals.

Also, the individual does not always maximize his expected utility. He does not adequately perceive events that are subjective. It is a particular evident when decision-making enhances, increases the uncertainty and the complexity of the decision.

Investors do not take into account the expected utility. They often do not correctly assess probabilities of outcomes, attributing the greatest weight to the least likely events. This is the influence of their psychological characteristics, limited information and the impact of previous experience. They also tend to the results, where the probability of loss is zero. Investors see outcomes according to losses and gains, but not its general welfare. Usually they cannot decide how to act in a particular situation, and use abstractions, also based on past empirical estimates. According to psychological and emotional characteristics, the individual seems to take rational decisions. He has special internal characteristics and preferences. And even if there are factors that refute his preferences, the investor does not immediately recognize them. They react strongly to the appearance of new information that leads to imbalance in the market, causing a sharp fall of the share price, if, in their opinion, the information is bad.

Sometimes investors are too optimistic about their abilities and knowledge. They are more inclined to take risks in the areas in which they are more aware.

At the same time, investors do not use the instrument of probability theory in making financial decisions and expect the probability of events occurrence. And even if they use mathematical methods, the sample is not always complete and representative. Also the decisions are affected by the view of providing information. Individuals tend to overestimate or underestimate the information according to their own views, they may miss important information, but consider meaningful information, which, in their opinion, is decisive. Investors and financial participants often build incorrect logical sequence about the impact of various factors and events on each other.

It has been observed that while choosing something the individual receives the influence from the surrounding people, so-called effect of the crowd. This can lead to the fact that an individual will not consider his own private interests, but the interests of community. The theory of informational cascades, according to which, the investor, the financial manager makes choice based on decisions of more successful investors or other market participants.

To overcome the above problems associated with the psychological aspects of decision-making the new direction – the theory of prospects authored by D. Kahneman and A. Tversky was created (Kahneman D., Tversky A., 1979). They made the following assumptions: the decision of individuals should be treated by stages. In the first stage, they should assess the posed problem on choosing the solution, dividing it into perspective. Further, they advise to build forecasting function values, attributing to each perspective of its probability, which is determined on the basis of subjective and psychological characteristics of the individual. Probability is underestimated. So they rely on this function and its probability and maximize it. Thus, they make assumptions about the greater importance of individual non-absolute utility, not about the relative, which is based on his psychological perception. He pays attention to the changes in terms of utility losses and winnings. In this case, the amount of losses is overestimated and the value of winning is underestimated. A definite point (defined benefit) is chosen to estimate losses and gains. The author also notes that individuals have different perceptions of the usefulness changes relative to this point. Smaller decrease in utility is more important for him than the bigger one. They found out that the loss is experienced much stronger than a huge resulting gain. Therefore, investors tend to make those financial decisions, where the probability of loss is equal to zero. This effect is the loss of aversion. But this theory has some problems, for example, if to consider small amount of possible prospects, identifying them with the theory of probability is not acceptable, and if the amount is large-it is quite possible.

Behavioral finance theory takes into account the irrational behavior of investors on financial markets in the face of uncertainty, due to different psychological characteristics. It examines the interaction of psychological characteristics and activities of investors.

Investors are not fully rational agents. They subjectively perceive information. They often use the information that is, in their opinion, the most important, but miss actual important information. They follow their beliefs. They perceive the same information differently if it is shown in a different way.

Investors build forecasts based on previous data. Financial decision-making also occurs as a result of various shapes of the request. For example, investments that have more benefits, shares or bonds, but without clarification about the investment horizon.

Motivation in bringing the various combinations of capital sources is not unique and does not depend only on one parameter, which is proved by the results of inspections, when both theories were not rejected and new behavioral factors were introduced.

2. THE CONFLICT INFLUENCE OF MANAGERS-SHAREHOLDERS

Differences in the preferences of shareholders and managers seem to be an objectively conditioned phenomenon in decision of persons with different ownership sizes and forms of participation in the distribution of income, as well as the difference in the distribution of responsibilities and rights in making important strategic decisions for the company.

Prerequisites of capital structure agency models is the use of equity, in case of corporate contradictions debt, in the form of loans, were involved. Complication activity and increased access to various sources of capital determines the need to identify the strengths and weaknesses of the application of various financing methods.

Most agency models of capital structure are manager-shareholder's conflict on the assignment of the company's funds, increase of benefits, payments and preferences for managers. As a consequence of conflicts, so-called agency costs of equity arise, it is related to the implementation costs on monitoring and management incentives. According to the model of M. Jensen and W. Meckling such a conflict can be minimized by giving the stake, leveling preferences with the owners (convergence of interests), contributing to maximize efforts for increasing the company's value, rather than spending the firm's assets in personal purposes (Jensen M., Meckling W.,1976).

Another mechanism for reducing the conflict of agents-principals is the debt financing, which indirectly increases the proportion of the voting shares of managers, who are the owners. However, if there is a conflict between shareholders and creditors, that increase another type of agency costs - the cost of debt. They arise with the lenders guarantees, a higher rate of required income by debt financing sources, reduction of investments in projects because of the substantial debt payments. It is necessary to identify the optimal ratio of equity cost and the debt cost.

For Russian companies, a conflict between the interest of manager (risk attitudes, experience, reputation, age, remuneration is estimated, who alone makes decisions that not always increase the welfare of the company and shareholders, is not prevalent. Management, as a rule, is a major owner, exercising control and strategic decision, and it is not considered as a opportunistically configured hired manager. Russian companies, unlike other foreign firms, are characterized by different inter-company relationships, managers run their own company and at the same time they appear as large owners, or majority shareholders directly manage the actions. In terms of high concentration of ownership and insignificant management role in the company, the impact of large shareholders, the conflict of interests of shareholders - managers have less impact on the funding strategy and the company's performance, and they do not exhaustively characterize intra-relationships (Yerznkyan B.H., Krasilnikova E.V., Nikonova A.A., 2010).

Dominating owners do not attract, moreover, can not notify the minority on strategic decisions on the company's restructuring, on changes in capital structure; they may be aimed at carrying out its own dividend policy. Majority shareholders directly control the cash flows of the company, that allows to use or assign the resources of the company by his own preferences, with the withdrawal of "insider rents." Minority owners, mainly interested in increasing short-term revenues that contribute to the formation of higher dividend payments, as well as in increasing the market value of the shares.

For example, the impact of behavioral characteristics on investment: managers consider themselves to be good professionals, overestimate their performance, identifying shares to be undervalued; overestimate the possibility of getting a return from the investment projects, which leads to the increase of debt financing (Graham J., Harvey C., 2001).

In the case when the director has a share in the company, the trend of increasing of financing debt is extended greater if to compare it with the owner-manager. It can be assumed that the presence of a shareholder-director has a predominant influence on the formation of capital structure of modern companies. "Presumptuous founders of the companies prefer to occupy the post of chairman of the board of directors or the company is characterized by the high control action of the General Director from the Board of Directors, so that presumption of a chairman has a greater effect on the company's capital structure (Dolgopyatova T., 2007 and 2011).

Concentration of capital is a necessary measure for shareholder's protection, but it is not a rational choice in the classical representation of investor's behavior, because it limits the ability to spread risk by diversifying the investments. It is assumed that the concentration of capital gives a positive signal to investors about the shareholder's confidence, especially if a large pack of shares belongs to managers. However, these signals are not stable, since the ownership's term is long, and it is not always associated with the current situation.

Various agency conflicts, availability and appropriateness of certain sources of raising capital are associated with the stages of companies' development. Changing the corporate strategic goals and objectives, as well as types of conflicts and contradictions are caused by the laws of development, accelerated dynamics and changes in cycle stages of organization, that is demonstrated by the studies of some agency models theory of capital structure (Diamond D., 1989). Existing life-cycle theory advantageously carries out analysis of the dynamics of organizational and managerial characteristics, without considering the financial and economic characteristics for each stage of the operation and the growth of the company.

3. OWNERSHIP AND CONTROL CONFIGURATION

A new trend in the corporate sector is competition's growth, the development of the market environment and the mechanisms of control of the stock market to stimulate the transition to professional management.

- However, the retreat of the owner from management occurs differently - in companies belonging to the holding structure and largely dependent on market signals, as opposed to independent firms; there is a significant delegating of the hired management that does not have the company's shares. Integration, unification of business groups helps to reduce opportunistic behavior by connecting the ownership and control.

- If the rights of shareholders are not protected, the risk of delegated rights of management is rather small.

- In this situation the amount of investment is less attracted and ownership's interests do not always convergence the interests of the company and management.

- The companies with significant concentration are characterized by a combination of old and new managers; with an average concentration – old or new managers; for a low one - only old.

The connection of ownership and management, with the participation of management in decision-making is a significant characteristic of Russian companies, as it solves a number of problems caused by opportunistic behavior of economic agents and the weakness of the legal framework.

Management configuration and ownership is also a characteristic of companies' development stages, which manifests itself on the early stages of the life cycle, as well as in the final, ultimately, affects the further strategy of the company, in particular the involvement of various funding sources.

Modern processes of integration, the complexity of technology, business, market and institutional environment lead to the separation of ownership and management, attracting hired managers. Behavioral factors determine the number of delegation features of functions for different types of businesses. Personal characteristics of the founder and managers, the development of their priorities, tendency to risk usually is not taken into account for the study of the life cycle of the company and for decision-making in the face of declining the role of the individual entrepreneur. Not only the organization's objectives, the significant terms of innovation and commercial activities are important for the development of the company, but also the preferences of top management and the interests of stakeholders at various stages.

Thus, it is assumed that there are prove and sound problems for each stage of development, such as difficulties in obtaining funding in the initial stages or overconfidence of the owner to transfer the right of management to professional managers. It is recommended to focus on critical situations beyond normal limits and features.

4. LIFE CYCLE STAGES

Life cycle stages were determined on the basis of the work of Dickinson, which determines the identity of life cycle stages of the organization not as a scientific approach, but as a result of empirical tests, taking into account only the signs of cash flows from operating, financial and investment, without using any agency relationship factors or other internal options to facilitate the assignment of the most adequate steps (Dickinson V, 2011). In addition, the application of the deduction to the empirical testing of the array of companies and partitioning the steps can not reliably characterize each stage, its features as the part of the "life" processes in the company. Every stage has special features that reduce the relevance of the findings about the relationship between stages. So, each new stage of company's development has an accumulated effect of the previous stages, which necessitates the complex research of organizations at different stages, not in isolation within each cycle. On the early stages of development, in accordance with the author's conclusions, there is a funding from external investors (or convertible debt), then - the retained earnings, and at the last stage companies attract new owners or long-term loans to finance the following projects. With a low level of retained earnings on the certain stage, growth rates are low, but if there is the increase of retained earnings, asset growth increase, leverage reaches its maximum threshold, and then falls (Byungmo K., Jungwon S., 2009).

At the initial stage there are bad financial resources, a difficulty in attracting funding, a lack of cash flow, an inadequate system of financial planning - a normal and adequate criterion for this stage, it is recommended to focus on previously designated "narrow" places and potential threats. It was noted that internal conflicts are associated with the distribution of organizational roles and responsibilities that are rather abnormal, it was defined as pathologies that necessitate solutions. Possible reasons are: wrongly chosen staff of the company, the unwillingness to work in a team. The threat of incorrect organization is the most significant at this stage of the development.

At the growth stage of the objective there are problems associated with the growth of a high quality, the resource allocation system. Organizational characteristics include a lack of adequate monitoring and control system. At the stage of maturity a poor provision of financial resources was revealed, but there are significant problems associated with the delegation rights, the centralization of power hampers, the distribution of responsibilities that determines the possibilities of appearance over common problems.

It requires a systematic approach that takes into account the interaction of agency problems, ownership structure, governance, the formation of capital structure; and - methods of decision-making, the gradual formation of Russian companies capital structure depends on the availability of agency conflicts.

5. RUSSIAN COMPANIES IN LIFE CYCLE ORGANIZATION

For the head of the company of Russian organizations - it is important to identify possible contradictions in the development of the company. As we have already defined a significant omission of many works that examine different companies and assign one or another particular stage of development. But the object of study for the correctness of the findings need to identify a dynamic system of organization's development, induction method is used by most scientists in this area, but it is not adequate, since the individual organizations, determined at various stages, do not contribute to the relevant general theoretical conclusions about the characteristics of stages, possible threats, as agency conflicts, economic and financial risks and it is the most appropriate sources of raising the capital.

For Russian companies, the determining factor is the impact of the external environment: competition, barriers and industry development, institutional characteristics. For domestic organizations the duration of their activity and history is lower, which allows to hypothesize the existence of so far only three stages: birth, growth, booming. Certainly there are many downturn companies, but mainly emerging market countries determine the growth and development possibility opposed to companies in developed markets, which have already suspended all main stages, but the stage of decline is typical for such firms.

The author suggests that the main driver and mechanism of the transition from one stage to another (for Russian companies) is dominant owner's preferences (external action is also considered, it rather affects companies in the transforming economy than in developed one), as it was proofed by the results of empirical research (Shirokova G., 2007). In addition, there are differences in the characteristics of the stages for the companies with the dominance of foreign owners, which confirms the hypothesis about the "owner" type, his interests as a significant development features for organizations with highly concentrated ownership, especially Russian. Moreover, the author suggests that nascent desire and preferences regarding the growth of the company's owner are realized with a help of internal resources (another option to take decisions - the choice not to expand the organization); during the growth stage they need external financing for the transition to a new stage of development. It corresponds with the findings of the Russian authors about the dilemma of the property owners, the need formalization of management for attracting a strategic investors or the separation of management from ownership for IPO (Shirokova G., 2007).

However, they determined that if the property owner makes a decision not to enhance in the formalization, not to delegate the rights to management, the growth rate is slowing down, which tends to decline. This conclusion corresponds to the representation of I. Adizes about the different roles which we assume to be different on different stages of development of the company, focusing on the key challenges and problems of growth.

It may be noted that the main drivers of change and evolution, the transition from one stage to the other are internal factors. However, a sustainable path of development can be influenced by the external environment that requires a full survey of the environment.

Joint dynamic system and characteristics of the development stages, including ownership structure, structure and composition of the Board Directors, is the company's financial architecture. Analysis of the financial architecture of the organization - is the only one of the parameters, identifying and evaluating possible admissible cycles of the company. On the one hand, the financial architecture changes, due to the development, the need of organization, on the other hand, its components themselves characterize the lifecycle. So, the data parameter can be considered only as one of the criteria for identifying the stage.

The ownership structure is an indicator of the distribution control in the company, which determines intercompany relationships and conflicts of interest on the impact of financial and economic policies, in particular to raise the capital.

In the context of the designated financial impact in scientific works they are determined both empirically and theoretically by the result of the influence of various types of dominant owners on the performance of the company, the formation of capital structure. And only a few studies connect structure and the configuration of the property with the development stage of the company. But even in such studies a combination of factors was not assessed, only the individual parameters (Dolgopyatova T., 2007 and 2011; Stepanova A., Balkina E., 2013). However, it is still difficult to clearly assess the effects of the influence of ownership concentration, which often determines the possibility of agency conflicts between the dominant owners as well as between majority and minority shareholders. On the one hand, the concentration of ownership helps to reduce the information asymmetry and to make timely decisions under monitoring of shareholder, on the other hand, to abuse corporate control, a limit of qualified management for shaping the policies (Jensen M., Meckling W.,1976). Other studies have determined the concentration of ownership due to different life cycles and company indicators, revealing a U-shaped dependence on the stage of maturity and opposite in the growth stage, and while downturn, the concentration improves the features (Stepanova A., Balkina E., 2013).

Authors verify the hypothesis that there is a mutual control when there are two major property owners, which leads to reduce the probability of opportunism and the positive impact of concentration (Dolgopyatova T., 2007 and 2011). In addition, on the base of theoretical assumptions of Greiner about possible organizational obstacles in the development of the company, we can assume a positive effect of ownership concentration at the developing stage company, the birth stage, as a way to overcome the threats and the growing risk with the presence of a common goal and convergence of interests of large and small owners. The hypothesis on reducing the risk of appearance of agency conflicts when the presence of several large owners was empirically was confirmed by the author.

For small organizations with further development at the stages of rapid growth the "owner's trap", reluctance to delegate its powers to the hired professional management, the desire to exercise control over its decisions is possible, which is common for Russian internal (agency) relationship. Manifestations of conflicts of interest during the presence of two major shareholders on key growth stage, in author's opinion, is less significant at this stage of development. For large companies with significant development the risk of contradictions of large owners in future strategies, the struggle for control is typical.

Thus, identifying possible threats appearance of agency conflicts, it is necessary to take into account the size of the company. For a small organization contradictions which are normal for a large one, appear with a certain lag, or they are original, so it requires a different approach and analysis based on the size or significant industry-specific.

At the stage of maturity in small companies, the owner has a desire to receive a benefit from its activities and the effort, the so-called "investor's trap", in large ones, on the contrary, the majority shareholders after contradictions in the redistribution of control and ownership are focused on the implementation of mutual monitoring, but the dissonance (gap) of preferences with minorities increases. While extending the share owned by one majority shareholder and his benefits that exceed the received cash flows from discrimination, his opportunism and abuse reduces.

Moreover, there is the least predictability of transition from maturity to decline stage, when the company is in the prime of different scenarios of further development: modifications, innovations that help to develop the growth stage in this direction or the standardization of activities that naturally lead to the downturn.

Growth stage, in addition to maintaining the current rate of growth, investments in working capital, requires substantial investment to the fixed assets. It was found that the companies that are in the process of growth have a higher sensitivity of investments (elasticity) to the cash flow (Alti A., 2003). Young companies should have a small share of borrowed funds, and at the stage of booming provide dispersed shareholding structure to avoid the crisis associated with the subjective decisions of the manager-owner (Ivashkovskaya I., Konstantinov G., Filonovich S., 2004).

At the stage of maturity operating cash flow becomes positive, required investments are focused on maintaining current operations, investment cash flows increase. A positive relationship of dividends and investments was empirically confirmed. At this stage of development the uncertainty decreases, monitoring increases. There is a control of risk, Q-Tobin, which characterizes the long-term aspect of the company that is more applicable to the construction of models, than the rate of cash flow - on the growth stage.

The approach to the analysis of the company as a dynamic system is being studied, while the basic fundamental studies were missed from the survey of prior periods, it was assumed that the organization was at the stage of booming and maturity. In addition, the examination of the company during turning points seems to be interesting, when there is an inevitable transition to a new stage and identity of the internal and external driving forces.

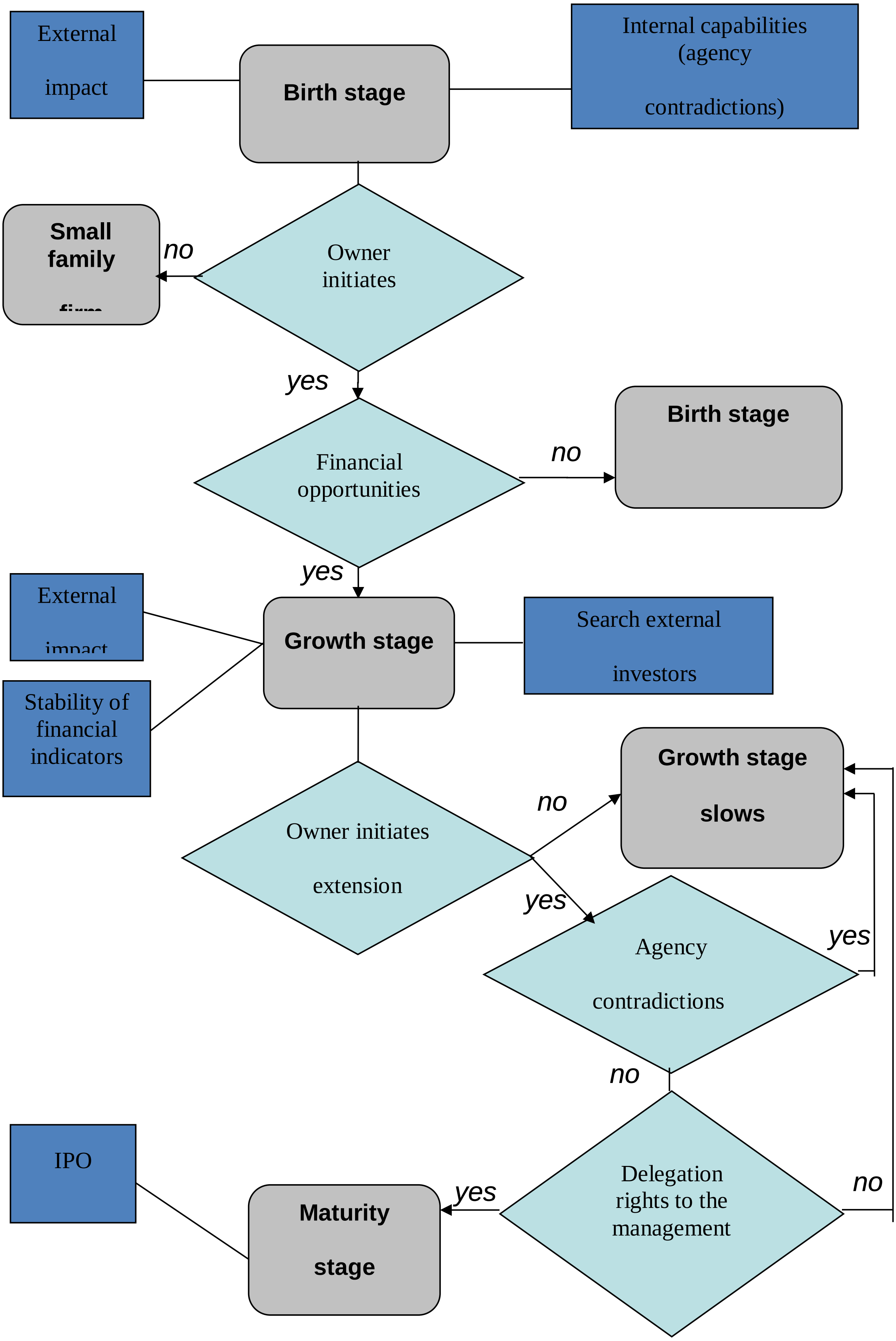

Figure 1. Algorithm of transition from one life stage to another

Essential challenges in life cycle organization:

- Indirectly in theories of capital structure and in theory of information asymmetry.
- Various objects of study of the life cycle (organizational characteristics, personal qualities of owners, company's organization, decision-making methods, the financial parameters: sales, cash flow, retained earnings, capital structure).
- Inductive approach reduces the relevance of the results.
- Each new stage accumulates the effects of previous ones (the research of organizations is not isolated within a single cycle, but in the dynamics).
- Various criteria for the identification of stages and its length (without focuses on concentrated capital).
- Different drivers of transition from stage to stage.
- Various agency problems at each stage of development.
- Uneven steps for small and large companies.
- Distinctive features of development for privatized and new created companies.
- Delegating functions for hired management as the transition factor to a new stage of life cycle is not always conducive for qualitative growth, and the combination of ownership and management do not leads to the limited development.
- Influence of environmental and institutional features during the stages of development.
- The object of studying is a dynamical system of development organization.

6. MANAGEMENT MOTIVATION

The question of how to encourage managers and other employees to improve performance of the organization as a whole, their actions in particular is rather important. May the company's management establish an effective model that takes into account the behavior and preferences of the employees of the firm? What are the stereotypes in methods of stimulation and should we devote a considerable attention to motivation, because preferences may change and that will require additional ways to promote transformation.

There will be several ways to harmonize insider's interests (managers and directors) with the interests of investors. Typically, they are divided into two types, external and internal. External mechanisms include, for example, the market of corporate control and manufactured product, production factor markets. Examples of internal mechanisms – the system of material incentives for managers, insider ownership and ownership concentration.

There are some standard approaches to stimulate the executives to qualitatively perform its functions (Pustynnikova Y.M., 2003):

1. Managers' compensation is calculated on the base of their qualifications, positions. The goals, set by the owner, shall not be considered for the motivation of managers.

2. Management remuneration depends on the achieved results and objectives, set by the owner. The value of performance indicators is estimated, on which managers can affect.

3. The stimulation of managers as the owners happens with the provision of different options for companies share.

According to the classical theory, bonus share options are given to reduce the abuses by managers and to align their interests with the shareholders. However, an opportunistic solution of the problem may lead the manager to other incentives for his own goals, such as expanding its capabilities and something else, that is not connected with the value maximization. Evaluation of managers' work by trends in the level of corporation shares prices is also possible. It is important to bear in mind that developments are affected by internal and external factors; and changes in the price of shares may occur not only in a result of actions taken by managers and management decisions. One of the most important ways to solve agency problems appears in forming a system of contracts, involving the interests of all participants in the agency's relationship. Main objective of the contracts system – risk allocation between the parties and ensuring, as far as it is possible, to generate income, in accordance with risk. Sometimes owners are taking on some risk, reserving the right of decision in a particular range of issues. In this case, the role of the financial manager is reduced. In some cases, all the risk is transferred to managers and theoretically they should have the right for any residual income. If the owner transfers all risk to the manager director, they should provide shareholders with a fixed income, taking into account alternative investments. Managers provide the required income of the capital and the level of rates on alternative investments, taking residual income for themselves.

Owners can also encourage managers to make high-quality work with a variety of incentives (higher premiums, share options – then the manager will try to increase the value of a corporation and the domestic price of the option); different regulators (secret rating system, and measures to counteract the erosion of capital, improving the performance of the Board of Directors); punishment (dismissal, the threat of corporation takeover). At the same time ways to encourage management with options, during the downturn, is not resultive. For favorable results of management decisions, measured by the the proportion of earnings per share, the owners provide managers with premium shares. Stimulation of both tangible and intangible, should take into account and limit opportunistic behavior of managers, which occurs upon the separation of ownership and control of management.

Financing through long-term and short-term liabilities of the company decreases with increasing of managerial capacity (ability), measured through the payment of the CEO, the ratio of CEO profitability of assets, the number of years in office, the ratio of the number of years in office to the age. The increase of 1% payout of CEO leads to low long-term debt by 11%, and short-term - by 38% (Adizes I., 2004). However, this does not overlook the internal preferences that are also very important and effective.

We should create such incentives that are oriented on long-term outcome, at the same time it "ties" the manager to the company that would become for him not just a place to work, but a special place. A component of monetary motivation is important, but not for all manager and directors. Money is a measure of an adequate assessment, the measure of respect to the person as a whole. It was noted that significant failure is the standardization of motivational and incentive mechanisms, in particular if they are strictly formalized, and in case of individual preferences it can not be circumvented. Corporate culture of Western-style has the influence on some employees/managers and has the opposite effect, it does not unite the community and affects subordination, and people do not share the preferences of activities that should strengthen mutual support and guidance for the company. Many traditions, according to the survey, are not taken seriously (for example, the tradition of congratulations on the birthday and actually, singing songs by the person causes discomfort and tension rather than enhancing the reputation and the role in the company, so that his colleagues did not forgot the holiday).

To identify priorities, we should conduct surveys, observe the behavior. A psychologist, whose purpose – reveal preferences, can be perceived as an invasion to the personal space, for many workers, the outsider who clarify their preferences, is associated with some upcoming threat by virtue of having, apparently, some problems if sided interference was needed. Most acceptable situation is when information about revealed preferences and aims is not declared by the owner. If the reputation is the most important thing for the person, and someone want to encourage him, it is better not do this explicitly, so that he would not understand that his preferences are well known, that those who build ways to stimulate and promote the intangible know about his dreams, weaknesses (if the person is vain the best reward for him – a regular praise).

Anyone who is really significant for the company needs an individual approach. However, there is no organization that is able to satisfy all career ambitions of their employees, but if the basic interests of the key agents were not implemented, these stakeholders would prefer another firm. Thus, we should build the capacity of staff, providing attempts to implement features.

Motivation can be external or internal, the significance of which is underestimated. There is an example, when a successful motivation (motivation from the outside) of the owner is a magnet that collects people together, but when the action is over, people are still fragmented. In fact, each of these people acted and will act with their inner motives. Indeed, there is nothing that affects like an internal attitude. Some people want to raise the status in the eyes of colleagues, that does not require a significant investment, but to enhance their activities. Positive emotions also improve the productivity of their activity, there is a desire to "go beyond". Surprisingly, such obvious incentives are not seen, as most people are accustomed only to material incentives. Another important understanding perspective is when the manager sees examples of execution and implementation of other desired capabilities.

There are many stereotypes and failures in stimulating (Sprenger R., 2004):

- Managers are focused only on receiving cash payment bonuses (for example – managers of large investment banks such as Lehman Brothers corrected reports to inflate the results and to obtain significant bonuses).

- The owners pay attention usually only to the first revealed stimulus of the manager, ignoring others.

  - Successful manager is always successful in all cases (behavioral halo effect – success in any single case marks the success of this employee in other cases).

  - If the results are nonpositive, then in the future they will be the same (effect of failure, contrast).

  - If there is no result, it is necessary to motivate more; motivation is not always valid.

  - Monetary incentives quick stale; dissatisfied managers constantly feel unsatisfied (as the way of obtaining privileges).

  - Welfare and education can change the position, make a person more prone to criticism (however, when the status increases, it sometimes leads to the effect of overconfidence).

  - Short-term incentive effect ("How much does the company earn on me, if it can spend such large amount on incentives for such efforts?").

The example of guaranteed premiums: managers were fully transferred on salaries, increasing them by the average monthly premium for the results of the work but awards were abolished. Six months later, company's executives noted that the managerial staff stopped working effectively, and returned the original conditions. In addition, the irrationality and unpredictability of agents determines that the existing postulates and axioms distort the results and simplify the reality, there is the impact of behavioral effects, both for investors, managers and owners.

7. EXAMPLES OF THE OCCURRING EFFECTS FOR INVESTORS:

The effect of "wasted money"

This effect displays a reluctance to take and withdraw funds from any project that does not bring significant benefits. Also, it is typical for large and successful companies that have reached maturity cycle, and who already have new significant competitors, in this case, such organizations do not need to diversify their activities, to seek new ways of development and growth factors. This effect is manifested in trading. For example, in case of a significant funds investment to the company's share, by which the market is fully analyzed, the company's activities, which have predicted the growth forecast, but the expectations failed. A trader regrets about the time spent on analysis, he suggests that a detailed analysis is realistic at the moment, but it might be in the future, so he refuses to close it. It is easier to keep an open mind, than to admit a wrong decision and accept the loss. The example of the unwillingness to withdraw money from an unprofitable project is the construction of a water channel Tennessee-Tombigbee Waterway Project in the United States, the analysis of project profitability showed the only viable option - to close the project, but on the contrary, Congress has increased funding, arguing that tax revenues will otherwise be considered wasted.

The effect "method of information inflow"

If the investors believe in the truthfulness of the information, they tend to perceive it as the truth and to rely on the original information. If they are not confident in the information – they rely on the secondary information. This effect refers to unconfident investors, that are not seeking to change, they perceive bad news, that mismatched with their notions about the company, and react to them late or in a limited extent. Furthermore, this effect is manifested in deals, connected with acquisitions and integrations. So, they initially show the primary information, which will interest the customer. The remaining components of the treaty are provided with more complete information.

The effect of "subliminal accounting"

It is manifested in the fact that the same loss in different situations affects decision-making. A typical example is associated with a loss of money or an object whose value is equivalent to that amount. In the first case, an individual often buys an object and in the second – he does not. Also, for example, the investor has a specific portfolio, the yield of the whole portfolio is negative, while the yield of individual company is high, the growth of which, he did not even expect. The portfolio will not be reformed. The same situation is seen with the dividend income and exchange difference.

The effect of "Tom Sawyer"

This tendency can be manifested in trading (buying shares), employee motivation (to conduct and to report - the most difficult task that can be performed only by the nicest staff), free training (you get an invaluable experience). It is widely spread in common marketing for promoting products: hired buyers stimulate to purchase, praising their goods.

The effect of "addiction to certainty" taking into account the effect of specular reflection

The investors, who have recently appeared on the market, rather rely on wins, than to get the loss, so they do not cover losing positions. They prefer certainty when choosing outcomes, guaranteeing a profit. At the same time, they seek a way to avoid any certainty in the case of loss, even if the unlikely chance of success will lead to additional costs.

The effect of "isolation"

It lies in the fact that the choice varies depending on how the probabilities are presented. The effect of isolation means that investors tend to consider the possibility and the costs, separately.

The effect is related to the "fact that people do not learn from their mistakes"

Firstly, due to the fact that the bureaucracy does not imply interest in the analysis and initiative. Secondly, a lot of top managers are focused on achieving success, in this case they use the experience of the market leaders, repeating their actions, which is not always successful for this particular company by virtue of its various features.

The effect of the "crowd"

Investor behavior is different if he acts alone, without consulting and focusing on the actions of the majority. Example: Californian "Gold Rush." It also assumes that significant price changes are associated with the action of crowd effect, it is especially evident in the stability of companies, banks during the crisis.

The effect of "Peak-end"

If the stock market is dominated by negative expectations and forecasts, confirmed by analytical studies, with the appearance of positive news investors will be skeptical to positive dynamics since it was influenced by negative background.

Below are the behavioral effects, that should be noted while stimulating management/employee:

The effect of "optimism and faith in the desired"

Some owners believe that managers, will necessarily act in the interests of shareholders, if you just give them bonuses, while they often do not taken into account the fact that the permanent benefits tend to be addictive.

The effects of "certainty"

Managers would be most preferable to know how and under what conditions, if they can get, both tangible and intangible rewards.

The effects of "illusion of control"

Thrifty owners have the impression that if they regularly check accounts - they control the activities of managers. As a rule, many of the facts are hidden, or not taken into account or hide income and expenses.

It is also important to make it clear to the manager that he is unique, significant for the company, and his features are possible to exercise in this particular company (to avoid the transition to a competing firm); that he develops the company.

The effects of "resilience of opinions"

Owners sometimes mistakenly believe that monetary incentives are the strongest.

The effect of a "failure"

Sometimes ways to stimulate are selected incorrectly, that affects the activities and effectiveness of the company and it forces owners to refuse non-standard policy incentives. However, it should be simply adjusted, based on the personal preferences, determination what is important for the manager.

The effect of "deviation to positive result"

Rules are important for owners, and the need to assess the quality of decisions by the circumstances of the time when it was taken, for example, the financial crisis or enhancing the company's assets, which reduces the free cash flows.

The method of "receiving the information"

Owners should first submit to manager's positive information related to their future prospects, tangible and intangible, and then - the requirements and conditions of the project, a new job.

The effect of "subconscious accounting"

Many owners have a perception that if they pay premiums, they manage the money of the company and if they somehow encourage managers or use other methods of motivation, they attract their own resources (own reputation, for example).

The "Anchor" effect

The role of memory is important: the manager remembers that he was awarded, what bonus he has received, and how he had used it - this is an additional incentive for him in the future to improve the results.

Thus, a system of incentives and promotion should take into account the material motivation, social motivation and corporate motivation. Each manager is focused on achieving the specific result, the company's goals for successful implementation of the interests of managers, as well as the company should choose the most appropriate behavioral effects of exposure. In addition, there is a transition to behavioral economics, expediency of behavioral characteristics of stakeholder: investors, suppliers, owners, managers; the need for a course of behavioral and experimental economics in the educational process increases.

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