CEO Short-term Incentives and Corporate Policies

Thursday, 28 February 2019, 2 PM
Seminar Room, Department of Economics and Management, Via Inama 5, Trento.

Speaker:
- Andrea Signori – Università Cattolica del Sacro Cuore, Milano

Abstract
We exploit exogenous reductions in a CEO’s career horizon, triggered by the CEO’s diagnosis of a serious illness or an illness or death of a close relative, to study the effects of short-termism on corporate policies. We show that CEOs subject to a personal shock become more short-term oriented. There is a reduction in both R&D and CAPEX, and an increase in cash distributions to shareholders following the shock. Our setting reveals that short-termism is not necessarily detrimental to shareholders, as both operating and stock performance increase in the aftermath of the shock. Earnings management, CEO compensation, and the likelihood of being acquired remain unchanged, indicating that the improved performance comes from the implementation of relatively more efficient firm policies rather than from opportunistic behavior.

JEL classification: G32, G34
Keywords: CEO, short-termism, tenure, illness, opportunism, investment, R&D, payout.