

CEO Career Concerns and Corporate Policy

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Abstract

We study the effects of CEOs' career concern incentives on firms' corporate policies. Following the theoretical framework of Zweibel (1995), we empirically test whether CEOs facing the pressure of being terminated have the incentives to choose risky corporate policies in order to rescue their career. In our analysis, a two-step approach is used with measures to control for endogenous effects. We provide evidence consistent with the prediction that when a CEO has high likelihood to be fired, the firm tends to have more R&D investment, higher leverage ratio, lower firm diversification, and greater equity risk, than a firm in which the CEO has low likelihood to be fired.

Key words: managerial career concerns; CEO turnover; risk taking incentives; corporate policy

JEL Classification: G31, G32, G34

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