HOW CEO WEALTH AND THE COMPOSITION OF THEIR WEALTH AFFECTS THE RISKINESS OF THE FIRM

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ABSTRACT

The owners and the managers of a firm have different goals, and Agency theory tries to align their goals in many ways most notably by the composition of the managers pay. The pay - performance model is the most widely used model to align the principal - agent goals. However, the model does not take into effect the total amount of wealth the manager holds outside the firm and its effect on their actions. This article considers both of those, the total wealth of the CEO and proportion of it held in the firm, and then tries to find how they affect his decision making. We find evidence that CEOs run less risky firms as they become wealthier, the CEOs with more outside wealth take less risk with their firm to the detriment of their shareholders.

Keywords: *CEO Wealth, risk, firm*