Risk-Taking Incentives, Governance, and Losses in the Financial Crisis

Summary / Zusammenfassung
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Abstract
This paper studies the extent to which risk-taking incentives of CEOs and other governance features in a range of years prior to the recent financial crisis were related to the write-downs of U.S. financial institutions during the crisis. We document that institutions whose CEOs had particularly strong risk-taking incentives, weak ownership incentives and independent boards had the highest write-downs, both in absolute terms and relative to total assets. Furthermore, financial institutions with lower Tier-1 ratios and those with CEOs who earned less than their colleagues at comparable rms had larger write-downs.

Keywords: Executive compensation; Subprime crisis; Write-downs; Corporate governance; Managerial incentives; Risk-taking; Too big to fail


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Funding Source(s) / Unterstützt durch
Universität Zürich (position pursuing an academic career), Others

Duration of Project / Projektdauer
Jan 2010 to Dec 2014