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Do managers act opportunistically towards the end of their career?

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Abstract

As managers approach retirement, their career horizons become shorter and they might start to behave opportunistically by taking a more risk-averse and short-term orientation. Long-term risky investments, such as research and development, can suffer the most from this problem as their payoff comes long after CEOs retire. To mitigate such behavior, most executive compensation contracts include long-term performance incentives. In this study, we hypothesize that long-term debt-like compensation in the form of defined benefit pension can make the career horizon problem more severe. We empirically examine the impact of managerial opportunism, influenced by pension compensation, on the research and development investments. We find that on average UK CEOs do not curtail research and development as their career horizons become shorter. But, the defined-benefit pension component of executive compensation leads CEOs, who are closer to retirement, to decrease R&D investments. Our results imply that executive compensation contracts need to be appropriately adjusted when managers approach retirement.

Keywords: Risk-taking, Executive compensation, Career horizon, Pension.

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