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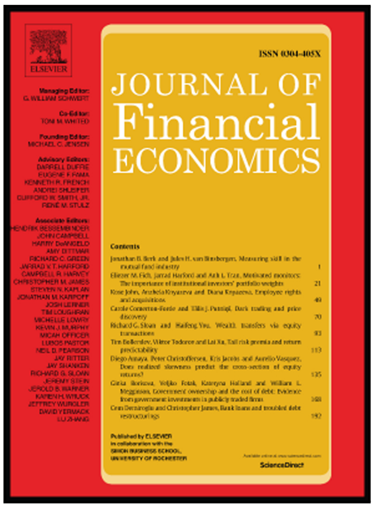

CEO Attributes, Compensation, and Firm Value: Evidence from a Structural Estimation

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CEO Attributes, Compensation, and Firm Value: Evidence from a Structural Estimation[☆,☆☆]

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Abstract

I present and estimate a dynamic model of chief executive officer (CEO) compensation and effort provision. I find that variation in CEO attributes explains the majority of variation in compensation (equity and total) but little of the variation in firm value. The primary drivers of cross-sectional compensation are risk aversion and influence on the board. Additionally, I estimate the magnitude of CEO agency issues. Removing CEO influence increases shareholder value in the typical firm by 1.74%, making CEOs risk neutral increases shareholder value by 16.12%, and removing all agency frictions increases shareholder value by 28.99%.

Keywords: CEO Compensation, Dynamic Principal-Agent Model, Structural Estimation

JEL classification: G32, G34, J33.

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