

CEO Health and Corporate Governance

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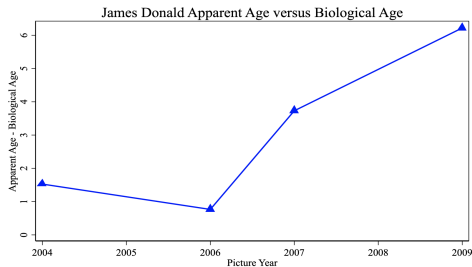
Summary

- ▶ Impressive data work!
 - ▶ Linking CEOs to both mental and physical health histories for all firms in Sweden
- ▶ Findings:
 1. CEOs are healthier than average population and other high-skilled workers
 2. CEO health does not change after becoming CEO
 3. Worse health associated with worse performance and higher CEO turnovers
- ▶ Interpretation: health is an important criteria for boards' decision to select and fire CEOs

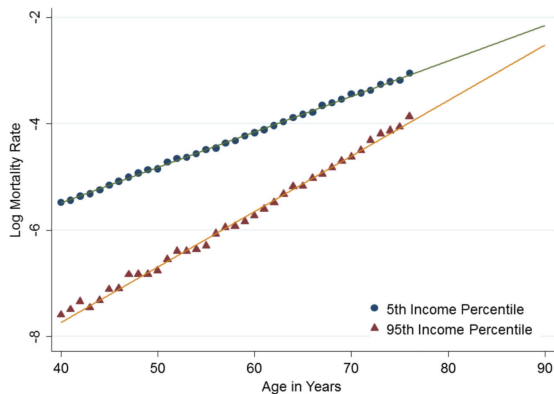
Do boards observe CEO's health?

- ▶ Do CEOs need to disclose health when they are being hired and during the tenure?
- ▶ Effects are mostly driven by mental health. Any mental health related clauses in CEO contracts?
- ▶ Privacy concerns may dominate when the illness is not severe

Health can be observable to some extent



Or could it be other things correlated with health?



Chetty et al. (2016)

Are CEOs selected based on health?

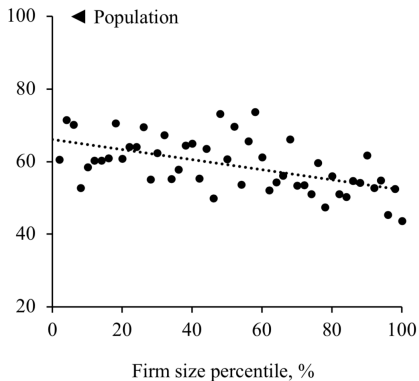
- ▶ People who have more successful careers have higher income and better health, and also more likely to become CEOs
- ▶ People from wealthy families are healthier and more likely to become CEOs
- ▶ Can group people by age+gender+pre-CEO income, OR compare within the sample of senior managers being selected for CEO

How do the effects differ by corporate governance?

- ▶ When there is stronger corporate governance (dispersed ownership, higher competition), do boards select healthier CEOs?
- ▶ Are entrenched CEOs (e.g. Cronqvist et al., 2009) less likely to be fired when there are health shocks?
- ▶ Does CEO health worsen in firms with stronger corporate governance? (Borgschulte et al., 2020)

Sorting

- ▶ Not all CEOs are equally important (Steve Jobs)
- ▶ Bigger firms have healthier CEOs



Sorting

- ▶ Is this because bigger firms are better-governed and selects better CEOs in general?
- ▶ Or is the health of CEOs more important for bigger firms? (which could be a rationale for disclosing CEO health of bigger firms)
- ▶ Or is it because managing a larger firm is less stressful?
- ▶ Where do CEOs end up after a negative health shock? Do they become CEOs at smaller firms? How do health shocks affect CEOs' careers?

Is CEO health accurately reflected by the medical data?

- ▶ Paper shows health index explains mortality similarly for CEOs and non-CEOs
- ▶ But CEOs health may be differentially measured during the CEO tenure vs during the period when they are not CEOs
- ▶ This reporting bias also contaminates the effect of being CEO on health: when becoming CEO, one may have worse health and go to hospitals less, which nets out to a zero effect on hospital visits
- ▶ Can compare the relationship between reported health and mortality for different periods within CEOs

CEO health and firm performance

- ▶ Reverse causality: CEOs expecting poor performance next year experience worse health (especially mental health)
- ▶ Placebo tests using leads and lags
- ▶ Do other senior executives have a similar effect?
- ▶ How much can it be explained by reverse causal effect? Look at how industry-level shocks affect CEO health

Conclusion

- ▶ Important paper providing a comprehensive picture of CEO health
- ▶ Suggestions:
 - ▶ Provide more evidence for the corporate governance interpretation
 - ▶ Investigate the time-varying reporting bias
 - ▶ Sharpen the causal effect of CEO health on firm performance