Study links personal, corporate risk-taking

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(PhysOrg.com) -- A CEO who enjoys the adrenaline rush of flying a private airplane is more likely than other chief executives to exhibit similarly bold management characteristics, according to a new study by finance professors at the University of Oregon and the University of Notre Dame.

The study, "Cleared for Takeoff? CEO Personal Risk-Taking and Corporate Policies," documents a link between the personality traits of high-flying executives and business moves such as mergers, acquisitions and accumulation of debt. The study is co-authored by Stephen McKeon, an assistant professor of finance at the UO's Lundquist College of Business; and Matthew Cain, an assistant professor of finance at Notre Dame's Mendoza College of Business.

"CEOs who seek thrills in their personal lives are more likely than others to be aggressive in their corporate policies," McKeon said. "They also tend to be effective leaders. If anything, these CEOs execute acquisitions that are more value-creating than those completed by other executives."

For their study, McKeon and Cain compared 179 corporate executives who hold private pilots' licenses to 2,900 non-pilot CEOs. The Sensation Seeking Scale - developed in the 1970s by psychologist Marvin Zuckerman and used since then in hundreds of psychological studies - identifies the desire to fly airplanes as a very high predictor of thrill- and adventure-seeking traits.

The co-authors identified the subjects of their studies by searching the

Federal Aviation Administration's airmen certification database and other public records.

Prior research indicates that undesirable behaviors sometimes exhibited by thrill-seekers tend to show up in those who lack outlets for their creativity. The study conducted by Cain and McKeon suggests that managing a public corporation may serve as a creative release and draw out abilities that can be beneficial to the executives' firms.

"We found a variety of evidence to support our hypothesis that risk-taking CEOs are associated with riskier corporate policies," McKeon said. "These individuals take on higher leverage than their counterparts and are more active in mergers and acquisitions. The volatility of equity returns in their companies also is higher."

That can be either a good thing or a bad thing, depending on the company and its corporate goals and needs, he said.

"It may be that risk-taking CEOs are good for some firms but not as good for others," McKeon said. "Our evidence can be used during the hiring process to help boards of directors better understand the behavioral tendencies of CEO candidates prior to selection."

The study is currently posted for peer review on the Social Science Research Network website.

Provided by University of Oregon