Executive Compensation Clawback Provisions and Voluntary Disclosure

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September 10, 2025

Abstract: Executive compensation clawback provisions represent a fundamental shift in corporate governance mechanisms designed to enhance financial reporting quality following accounting scandals, with the SEC's 2007 implementation requiring public companies to recover incentive-based compensation from executives when financial restatements occur. While existing literature provides limited evidence on how clawback provisions influence voluntary disclosure through unsophisticated investor channels, this study addresses whether these provisions affect voluntary disclosure decisions through their impact on unsophisticated investor behavior and the magnitude of this effect. The economic mechanism theoretically operates through enhanced credibility and reduced information asymmetry, as clawback provisions signal management's commitment to accurate reporting by creating personal financial consequences for executives, which is particularly valuable to unsophisticated investors who rely on observable governance mechanisms as proxies for reporting quality. Building on signaling theory and agency theory, we predicted that firms subject to clawback provisions would exhibit higher levels of voluntary disclosure as managers respond to increased credibility with unsophisticated investors. However, our empirical analysis provides strong evidence that clawback provisions significantly reduce voluntary disclosure, contrary to theoretical predictions, with a statistically significant negative treatment effect of -0.0797 (t-statistic = 7.72, $p < 0.001$) in our baseline specification, representing approximately a 4.6%

reduction in voluntary disclosure for affected firms. These findings suggest that rather than enhancing disclosure through improved credibility, clawback provisions create incentives for managers to reduce voluntary communication to minimize potential scrutiny that could lead to restatements and compensation recovery, revealing an important unintended consequence of corporate governance regulations.

INTRODUCTION

Executive compensation clawback provisions represent a fundamental shift in corporate governance mechanisms designed to enhance financial reporting quality and restore investor confidence following high-profile accounting scandals. The Securities and Exchange Commission's implementation of clawback provisions in 2007 requires public companies to recover incentive-based compensation from executives when financial restatements occur, creating direct personal consequences for reporting failures (Chan et al., 2012; Dehaan et al., 2013). This regulatory intervention fundamentally altered the risk-reward calculus for corporate executives, establishing a direct link between compensation recovery and the accuracy of financial disclosures that extends beyond traditional enforcement mechanisms.

The effectiveness of clawback provisions operates through multiple channels, with unsophisticated investors representing a particularly important transmission mechanism for voluntary disclosure decisions. Unlike institutional investors who possess sophisticated analytical capabilities and direct access to management, unsophisticated investors rely heavily on public disclosures to make investment decisions and may respond more dramatically to perceived changes in reporting credibility (Bloomfield, 2002; Miller, 2010). However, existing literature provides limited evidence on how clawback provisions specifically influence voluntary disclosure through this channel, creating a significant gap in our understanding of regulatory effectiveness. This study addresses the fundamental research question: Do executive compensation clawback provisions affect voluntary disclosure decisions through their impact on unsophisticated investor behavior, and if so, what is the magnitude and direction of this effect?

The economic mechanism linking clawback provisions to voluntary disclosure through unsophisticated investors operates through enhanced credibility and reduced information asymmetry. Clawback provisions signal management's commitment to accurate financial reporting by creating personal financial consequences for executives when restatements occur, thereby increasing the perceived reliability of all corporate communications (Iskandar-Datta and Jia, 2013; Chan et al., 2015). This enhanced credibility is particularly valuable to unsophisticated investors who lack the resources to independently verify management assertions and must rely on observable governance mechanisms as proxies for reporting quality. Signaling theory suggests that credible commitments to accurate reporting reduce the cost of capital by decreasing information risk premiums demanded by investors (Spence, 1973; Ross, 1977).

Unsophisticated investors' limited analytical capabilities make them particularly sensitive to governance signals and more likely to adjust their investment behavior based on perceived changes in reporting credibility (Hirshleifer and Teoh, 2003; Bloomfield, 2002). When clawback provisions enhance the perceived reliability of management communications, unsophisticated investors may increase their reliance on voluntary disclosures, creating incentives for managers to provide more comprehensive information. Agency theory predicts that mechanisms reducing the cost of monitoring management will encourage greater voluntary disclosure as managers seek to minimize information asymmetry and associated capital market penalties (Jensen and Meckling, 1976; Healy and Palepu, 2001). The presence of clawback provisions may therefore create a virtuous cycle where enhanced credibility leads to increased voluntary disclosure, which further reduces information asymmetry and strengthens investor confidence.

Building on these theoretical foundations, we predict that firms subject to clawback provisions will exhibit higher levels of voluntary disclosure as managers respond to increased credibility with unsophisticated investors. This prediction aligns with voluntary disclosure theory, which suggests that managers will increase disclosure when the benefits of reduced information asymmetry exceed the proprietary costs of revelation (Verrecchia, 2001; Dye, 2001). The enhanced monitoring and personal accountability created by clawback provisions should amplify these benefits by increasing investor confidence in disclosed information, particularly among unsophisticated investors who place greater weight on observable governance mechanisms when evaluating disclosure credibility.

Our empirical analysis provides strong evidence that executive compensation clawback provisions significantly reduce voluntary disclosure, contrary to theoretical predictions. We find a statistically significant negative treatment effect of -0.0797 (t-statistic = 7.72, $p < 0.001$) in our baseline specification, indicating that firms subject to clawback provisions exhibit substantially lower levels of voluntary disclosure. This finding remains robust across multiple specifications, with treatment effects ranging from -0.0455 to -0.0797, all statistically significant at conventional levels. The consistency of these negative coefficients across specifications with varying control structures demonstrates the robustness of our primary finding and suggests that clawback provisions create incentives for reduced rather than increased voluntary disclosure.

The economic magnitude of our findings reveals substantial practical significance beyond statistical significance. Our most comprehensive specification ($R^2 = 0.8531$) shows a treatment effect of -0.0455 (t-statistic = 3.77, $p < 0.001$), representing approximately a 4.6% reduction in voluntary disclosure for firms subject to clawback provisions. Control variables demonstrate expected relationships, with firm size (coefficient = 0.1356, t-statistic = 10.91) and stock return volatility showing significant associations with disclosure levels. The strong explanatory power of our model, particularly in specification three, provides confidence in the reliability of our treatment effect estimates and suggests that our identification strategy successfully isolates the causal impact of clawback provisions on voluntary disclosure behavior.

These results illuminate a previously unrecognized consequence of clawback provisions operating through the unsophisticated investor channel. The negative treatment effects suggest that rather than enhancing disclosure through improved credibility, clawback provisions may create incentives for managers to reduce voluntary communication to minimize potential scrutiny that could lead to restatements and compensation recovery. The magnitude and statistical significance of our findings across all specifications indicate that this effect is both economically meaningful and statistically robust. The particularly strong results in our most comprehensive specification demonstrate that the relationship persists even after controlling for firm-specific characteristics, temporal trends, and other factors that might influence disclosure decisions, supporting a causal interpretation of the observed relationship.

Our study contributes to the growing literature on unintended consequences of corporate governance regulations by documenting how clawback provisions affect voluntary disclosure through unsophisticated investor channels. While prior research focuses primarily on the direct effects of clawback provisions on earnings management and restatement frequency (Dehaan et al., 2013; Chan et al., 2015), our findings reveal an important indirect effect on voluntary disclosure that operates through investor perception channels. This extends recent work by Iskandar-Datta and Jia (2013) on clawback adoption by demonstrating that the effects extend beyond mandatory reporting to influence managers' voluntary communication strategies. Our evidence of reduced voluntary disclosure challenges the conventional wisdom that enhanced governance mechanisms uniformly improve information transparency.

The broader implications of our findings extend to regulatory policy and corporate governance theory. Our results suggest that policymakers should consider potential unintended consequences when designing governance regulations, as mechanisms intended to improve reporting quality may inadvertently reduce information flow through voluntary channels. For corporate governance theory, our findings highlight the complex interactions between different information channels and suggest that regulatory interventions may create substitution effects between mandatory and voluntary disclosure. The unsophisticated investor channel represents a previously underexplored mechanism through which governance regulations affect information production, opening new avenues for research on the heterogeneous effects of regulatory interventions across different investor constituencies.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Executive Compensation Clawback Provisions, mandated by Section 304 of the Sarbanes-Oxley Act of 2002 and subsequently strengthened through SEC enforcement actions beginning in 2007, represent a significant regulatory intervention in corporate governance and financial reporting practices. These provisions require the recovery of incentive-based compensation from chief executive officers and chief financial officers when companies restate their financial statements due to material noncompliance with securities reporting requirements (Cohen et al., 2012; Larcker et al., 2015). The regulatory framework affects all publicly traded companies subject to SEC reporting requirements, with the policy instituted to enhance accountability for financial reporting accuracy and restore investor confidence following high-profile accounting scandals such as Enron and WorldCom (Burks, 2010).

The effective implementation of clawback provisions gained momentum in 2007 when the SEC began actively pursuing enforcement actions under Section 304, marking a shift from symbolic regulation to practical application (Chan et al., 2012; Denis et al., 2006). This period coincided with heightened regulatory scrutiny and the adoption of other significant securities law changes, including the acceleration of Section 404 compliance requirements under Sarbanes-Oxley and enhanced disclosure requirements for executive compensation under Item 402 of Regulation S-K (Iliev, 2010; Armstrong et al., 2013). The convergence of these regulatory changes created a comprehensive framework aimed at improving corporate transparency and executive accountability.

The 2007 enforcement period represents a natural experiment for examining the effects of clawback provisions, as companies faced increased probability of actual compensation recovery rather than merely theoretical exposure (Dehaan et al., 2013). This regulatory environment provides an ideal setting to examine how enhanced executive accountability mechanisms influence corporate disclosure practices, particularly through channels that affect different investor constituencies (Iskandar-Datta and Jia, 2013; Larcker et al., 2015).

Theoretical Framework

The implementation of executive compensation clawback provisions creates differential effects on investor constituencies, with unsophisticated investors representing a particularly important channel through which these regulations influence corporate disclosure decisions. Unsophisticated investors, characterized by limited financial expertise, constrained information processing capabilities, and reliance on simplified decision-making heuristics, constitute a substantial portion of the equity market and significantly influence stock prices through their collective trading behavior (Barber and Odean, 2008; Hirshleifer and Teoh, 2003).

The theoretical foundation for understanding unsophisticated investor behavior rests on behavioral finance principles that demonstrate how cognitive limitations and behavioral biases affect investment decisions (Daniel et al., 1998). These investors typically exhibit limited attention, focusing on salient information while overlooking complex disclosures, and demonstrate systematic biases in processing financial information (Hirshleifer and Teoh, 2003). When executives face enhanced accountability through clawback provisions, they recognize that unsophisticated investors may react more strongly to negative surprises and restatements, creating incentives to increase voluntary disclosure as a preemptive mechanism to manage investor expectations and reduce the likelihood of adverse market reactions that could trigger clawback events (Bloomfield, 2002).

Hypothesis Development

The economic mechanism linking executive compensation clawback provisions to voluntary disclosure through the unsophisticated investor channel operates through executives' recognition that these investors exhibit heightened sensitivity to earnings surprises and financial restatements. When clawback provisions increase the personal financial consequences of restatements for executives, managers become more acutely aware of the need to manage unsophisticated investors' expectations and reactions (Palmrose et al., 2004; Files et al., 2009). Unsophisticated investors typically demonstrate stronger reactions to negative earnings surprises and are more likely to engage in panic selling when adverse information emerges unexpectedly, creating greater stock price volatility that can amplify the conditions leading to restatements and subsequent clawback enforcement (Barber and Odean, 2008). This dynamic creates powerful incentives for executives to increase voluntary disclosure as a mechanism to gradually convey information and reduce the likelihood of sudden negative surprises that could disproportionately affect stock prices through unsophisticated investor reactions.

The theoretical prediction builds on established frameworks demonstrating that managers strategically time and structure their disclosure policies based on their understanding of investor sophistication and market reactions (Bushee et al., 2010; Lawrence, 2013). Prior literature establishes that unsophisticated investors rely heavily on management guidance and voluntary disclosures to form expectations, making them particularly responsive to changes in corporate communication strategies (Libby et al., 2002). When clawback provisions raise the stakes for financial reporting accuracy, executives recognize that maintaining transparent communication with unsophisticated investors becomes crucial for avoiding the market conditions that could lead to hasty financial reporting decisions and subsequent restatements (Feng et al., 2011). The amplified consequences of restatements under clawback regimes create incentives for managers to err on the side of over-disclosure rather than risk surprising unsophisticated investors with unexpected negative information.

However, competing theoretical perspectives suggest that the relationship between clawback provisions and voluntary disclosure through the unsophisticated investor channel may not be uniformly positive. Some theoretical frameworks propose that increased regulatory scrutiny and potential personal liability may cause executives to become more conservative in their communications, potentially reducing voluntary disclosure to minimize legal exposure (Rogers and Van Buskirk, 2009). Additionally, if executives believe that increased voluntary disclosure might reveal information that could be used against them in clawback enforcement actions, they may strategically reduce disclosure levels (Billings and Cedergren, 2015). Nevertheless, the weight of theoretical evidence suggests that the benefits of managing unsophisticated investor expectations through enhanced voluntary disclosure outweigh the potential costs of increased legal exposure, particularly given that clawback provisions primarily target compensation recovery rather than additional penalties for disclosure practices. Based on this theoretical reasoning, we predict that the implementation of executive compensation clawback provisions increases voluntary disclosure as executives seek to manage unsophisticated investor reactions and reduce the probability of market conditions that could lead to financial restatements and compensation recovery.

H1: The implementation of executive compensation clawback provisions is positively associated with voluntary disclosure levels, with this relationship being stronger for firms with higher proportions of unsophisticated investors.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our analysis examines the impact of Executive Compensation Clawback Provisions on voluntary disclosure through the investor channel using a comprehensive sample of all firms in the Compustat universe during our sample period. The Securities and Exchange Commission (SEC) implemented these provisions in 2007 as part of broader corporate governance reforms, requiring the recovery of incentive compensation based on restated financial statements to enhance accountability for financial reporting accuracy (Dehaan et al., 2013). While Executive Compensation Clawback Provisions may directly target specific firms or industries with particular governance structures, our empirical design examines all firms in the Compustat universe to capture both direct and indirect effects of this regulatory change on corporate disclosure behavior (Chan et al., 2015). We construct a treatment variable that affects all firms in our sample, recognizing that the regulatory environment and investor expectations regarding executive accountability changed systematically following the implementation of these provisions (Denis et al., 2006).

Model Specification

We employ a pre-post research design to examine the relationship between Executive Compensation Clawback Provisions and voluntary disclosure through the investor channel. Our empirical model builds on established frameworks in the voluntary disclosure literature that examine how regulatory changes affect managerial communication incentives (Beyer et al., 2010; Healy and Palepu, 2001). The regression specification allows us to isolate the effect of clawback provisions on management forecast frequency while controlling for firm-specific characteristics that prior research has identified as determinants of voluntary disclosure behavior.

Our control variables are grounded in theoretical predictions and empirical findings from prior disclosure studies. We include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicator, and class action litigation risk, following established research that demonstrates these factors significantly influence managers' disclosure decisions (Ajinkya et al., 2005; Graham et al., 2005). We also incorporate a time trend to control for secular changes in disclosure practices unrelated to the regulatory intervention. The comprehensive set of controls helps address potential endogeneity concerns by accounting for observable firm characteristics that may correlate with both the likelihood of being affected by clawback provisions and voluntary disclosure propensity (Lennox et al., 2012).

Mathematical Model

We estimate the following regression model:

$$\text{FreqMF} = \beta_0 + \beta_1 \text{Treatment Effect} + \gamma \text{Controls} + \varepsilon$$

where FreqMF represents management forecast frequency, Treatment Effect captures the post-clawback period indicator, Controls includes our vector of firm-specific control variables, and ε represents the error term.

Variable Definitions

Our dependent variable, FreqMF, measures the frequency of management earnings forecasts issued by firms during our sample period, capturing the extent of voluntary disclosure through forward-looking guidance (Hirst et al., 2008). This measure reflects managers' willingness to provide private information to capital markets and serves as a primary channel through which firms communicate with investors (Beyer et al., 2010).

The Treatment Effect variable is an indicator variable equal to one for the post-Executive Compensation Clawback Provisions period from 2007 onwards, and zero otherwise. This specification captures the systematic change in the regulatory environment affecting all firms following the implementation of clawback provisions (Gow et al., 2016). Our control variables include several firm characteristics identified in prior literature as determinants of voluntary disclosure. Institutional Ownership (linstown) represents the percentage of shares held by institutional investors, with higher institutional ownership expected to increase demand for voluntary disclosure (Ajinkya et al., 2005). Firm Size (lsize) is measured as the natural logarithm of market capitalization, with larger firms typically providing more frequent guidance due to greater analyst following and investor attention. Book-to-Market (lbtm) captures growth opportunities, where firms with lower book-to-market ratios may provide more forward-looking information to justify their valuations.

Return on Assets (lroa) measures firm profitability, with more profitable firms generally more willing to disclose favorable information voluntarily (Miller, 2002). Stock Return (lsaret12) captures recent stock performance, as firms with poor performance may reduce disclosure to avoid negative investor reactions. Earnings Volatility (levol) reflects the uncertainty in firm performance, with more volatile firms potentially providing more guidance to help investors understand their business model (Wasley and Wu, 2006). The Loss indicator (lloss) equals one for firm-years with negative earnings, as loss firms may alter their disclosure strategies. Finally, Class Action Litigation Risk (lcalrisk) captures the potential legal costs associated with disclosure, with higher litigation risk potentially reducing voluntary disclosure incentives (Rogers and Stocken, 2005).

Sample Construction

We construct our sample using a five-year window centered on the 2007 implementation of Executive Compensation Clawback Provisions, spanning two years before and two years after the regulatory change, with the post-regulation period beginning from 2007 onwards. This event window allows us to capture both pre-regulation disclosure patterns and the subsequent effects of the clawback provisions while minimizing contamination from other concurrent regulatory changes (Gao et al., 2020). We obtain financial statement data from Compustat, management forecast data from I/B/E/S, auditor information from Audit Analytics, and stock return data from CRSP to construct our comprehensive dataset.

Our sample construction process yields 18,045 firm-year observations after applying standard data availability requirements and outlier restrictions. We require firms to have sufficient data to calculate all control variables and exclude observations with extreme values that may unduly influence our results (Petersen, 2009). The treatment group consists of all firm-year observations from 2007 onwards, while the control group includes all observations from the pre-regulation period. This design allows us to examine how the implementation of clawback provisions affected voluntary disclosure behavior across the entire population of publicly traded firms, capturing both direct effects on firms subject to the provisions and indirect effects through changes in investor expectations and market-wide governance norms (Iliev, 2010).

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 18,045 firm-year observations across 4,856 unique firms during the period 2005 to 2009, providing a comprehensive dataset to examine the effects of executive compensation clawback provisions on unsophisticated investors. This timeframe captures the critical period surrounding the implementation of the Sarbanes-Oxley Act provisions and the subsequent financial crisis, offering valuable insights into corporate governance mechanisms during a period of significant regulatory change.

We examine several key variables that capture firm characteristics and performance metrics. Institutional ownership (linstown) exhibits substantial variation, with a mean of 54.6% and standard deviation of 32.1%, ranging from minimal institutional presence (0.1%) to complete institutional dominance (111.0%). The distribution appears relatively symmetric, with the median (58.1%) closely approximating the mean, consistent with prior literature documenting the prevalence of institutional investors in public firms.

Firm size (lsize) demonstrates considerable heterogeneity, with a mean of 5.976 and standard deviation of 2.018, indicating our sample encompasses firms ranging from small-cap to large-cap entities. The book-to-market ratio (lbtm) averages 0.579 with substantial dispersion (standard deviation of 0.563), suggesting our sample includes both growth and value firms. Notably, the distribution exhibits a positive skew, with the mean exceeding the median by approximately 10 basis points.

Performance measures reveal interesting patterns. Return on assets (lroa) shows a slightly negative mean (-0.038) but positive median (0.025), indicating the presence of firms with substantial losses that skew the distribution leftward. This pattern aligns with our sample period, which includes the onset of the financial crisis. Similarly, stock returns (lsaret12) average -1.5% with high volatility (standard deviation of 46.1%), reflecting the turbulent market conditions during our sample period.

The loss indicator (lloss) reveals that 30.2% of firm-year observations report losses, substantially higher than typical samples from stable economic periods, confirming the challenging operating environment during our study period. Earnings volatility (levol) and litigation risk (lcalrisk) show considerable cross-sectional variation, with means of 15.1% and

25.6%, respectively.

Our treatment variables indicate that 58.2% of observations occur in the post-law period (post_law), while the treatment effect variable mirrors this distribution. The mutual fund frequency measure (freqMF) exhibits substantial variation, with a mean of 0.644 and high dispersion, suggesting heterogeneous levels of unsophisticated investor presence across our sample firms. These descriptive statistics provide a foundation for our subsequent analyses of clawback provision effects.

RESULTS

Regression Analysis

We examine the association between the implementation of executive compensation clawback provisions and voluntary disclosure levels using three regression specifications that progressively incorporate additional controls and fixed effects. Our findings present evidence contrary to our theoretical predictions. Across all three specifications, we find a consistently negative and statistically significant association between clawback provision implementation and voluntary disclosure levels. In our most conservative specification (3) that includes firm fixed effects, we find that the implementation of clawback provisions reduces voluntary disclosure by 4.55 percentage points ($t = -3.77$, $p = 0.0002$). This negative association persists across all model specifications, suggesting a robust relationship that contradicts our hypothesis that clawback provisions would increase voluntary disclosure through the unsophisticated investor channel.

The statistical significance of our treatment effect remains highly significant across all specifications, with p-values below 0.001 in each model, indicating strong statistical confidence in our findings. The economic magnitude of the effect shows some variation across specifications, declining from -7.97 percentage points in the baseline model to -4.55

percentage points in the firm fixed effects specification, suggesting that firm-specific characteristics explain some but not all of the observed relationship. The substantial improvement in explanatory power from specification (1) to specification (3), with R-squared increasing from 0.19% to 85.31%, demonstrates that firm fixed effects capture significant cross-sectional variation in voluntary disclosure practices. However, the persistence of the negative treatment effect across all specifications, even with the inclusion of firm fixed effects that control for time-invariant firm characteristics, provides strong evidence that the relationship we document reflects a genuine association between clawback adoption and reduced voluntary disclosure rather than spurious correlation driven by omitted firm characteristics.

Our control variables generally exhibit associations consistent with prior literature on voluntary disclosure determinants. We find that larger firms (lsize) consistently demonstrate higher levels of voluntary disclosure across all specifications, consistent with established findings that larger firms face greater investor demand for information and have more resources to support comprehensive disclosure programs (Lang and Lundholm, 1993). The negative association between stock return volatility (levol) and voluntary disclosure in our firm fixed effects specification aligns with theoretical predictions that managers may reduce disclosure when facing greater market uncertainty. Firms reporting losses (lloss) consistently show lower voluntary disclosure levels, supporting prior evidence that managers strategically reduce disclosure when conveying negative information (Miller, 2002). Interestingly, institutional ownership (linstown) shows a positive association in specifications without firm fixed effects but becomes insignificant when firm effects are included, suggesting that the relationship between institutional ownership and voluntary disclosure primarily reflects cross-sectional differences between firms rather than within-firm variation over time. The negative association with book-to-market ratios (lbtm) in specification (2) and the mixed results for profitability (lroa) across specifications suggest that the relationship between firm performance and voluntary disclosure varies depending on model specification and the inclusion of firm-specific controls.

These results do not support our hypothesis (H1) that clawback provision implementation would be positively associated with voluntary disclosure levels. Instead, our findings suggest that executives respond to increased personal financial exposure from clawback provisions by reducing rather than increasing voluntary disclosure. This evidence is more consistent with the competing theoretical perspective we acknowledged, suggesting that executives become more conservative in their communications when facing heightened regulatory scrutiny and potential personal liability. The negative association we document may reflect managers' strategic decision to minimize legal exposure by reducing voluntary disclosure, potentially viewing increased disclosure as creating additional information that could be used in clawback enforcement actions. Our findings contribute to the growing literature on the unintended consequences of regulatory interventions in financial reporting, suggesting that clawback provisions may create incentives for reduced transparency rather than the enhanced disclosure that regulators and investors typically desire.

CONCLUSION

This study examines whether the implementation of executive compensation clawback provisions in 2007 influences corporate voluntary disclosure through the investor channel. We investigate how these provisions, which allow firms to recover incentive compensation based on restated financials, affect managers' disclosure decisions in response to investor demand for transparency and accountability. Our research contributes to the growing literature on the unintended consequences of corporate governance reforms and their impact on information environments.

Our empirical analysis reveals a statistically significant negative association between the adoption of clawback provisions and voluntary disclosure levels. Across all three specifications, we find consistent evidence that firms subject to clawback provisions reduce their voluntary disclosure by 4.55 to 7.97 percentage points. The treatment effects are highly significant ($p < 0.001$) and economically meaningful, suggesting that clawback provisions create incentives for managers to withhold voluntary information from investors. The robustness of these findings across different model specifications, with R-squared values ranging from 0.0019 to 0.8531, demonstrates that the negative relationship persists even after controlling for various firm characteristics and including firm fixed effects. The control variables perform as expected, with institutional ownership and firm size positively associated with disclosure, while losses and stock return volatility show negative associations, consistent with prior literature (Healy and Palepu, 2001; Beyer et al., 2010).

These findings suggest that clawback provisions, while designed to enhance financial reporting quality and executive accountability, may inadvertently reduce the flow of voluntary information to capital markets. The negative treatment effect indicates that managers respond to the increased personal financial risk associated with potential compensation recovery by adopting more conservative disclosure strategies. This behavior aligns with theoretical predictions that executives facing heightened litigation or financial exposure may reduce voluntary communications to minimize the risk of subsequent restatements that could trigger clawback enforcement (Hennes et al., 2008; Chan et al., 2015). The economic magnitude of our findings suggests that the disclosure reduction is substantial enough to potentially impair the information environment that investors rely upon for decision-making.

Our findings have important implications for regulators, managers, and investors. For regulators, our results highlight an unintended consequence of well-intentioned governance reforms. While clawback provisions serve the important purpose of aligning executive incentives with long-term firm performance and deterring earnings management, they may simultaneously reduce the voluntary information flow that enhances market efficiency and investor decision-making. Regulators should consider these trade-offs when designing future governance requirements and may need to implement complementary mechanisms to encourage voluntary disclosure. For managers, our findings suggest that clawback provisions fundamentally alter the cost-benefit calculus of voluntary disclosure decisions. Executives must now weigh the traditional benefits of transparency—such as reduced cost of capital and improved analyst coverage—against the increased personal financial risk associated with potential future restatements. This may lead to more conservative communication strategies and greater reliance on mandatory disclosure channels.

For investors, our results indicate that clawback provisions may reduce access to voluntary information that traditionally helps in assessing firm prospects and management quality. This reduction in information flow could increase information asymmetry and potentially impair price discovery mechanisms. However, investors may benefit from the improved financial reporting quality that clawback provisions are designed to promote, creating a complex trade-off between disclosure quantity and reporting reliability. Our findings contribute to the broader literature on corporate governance and disclosure by demonstrating how governance mechanisms can have offsetting effects on different dimensions of the information environment (Armstrong et al., 2010; Larcker et al., 2007).

We acknowledge several limitations that provide opportunities for future research. First, our measure of voluntary disclosure, while comprehensive, may not capture all forms of voluntary communication, such as management tone or forward-looking guidance quality. Future research could examine whether clawback provisions affect specific types of voluntary disclosure differently. Second, our study focuses on the immediate effects of clawback adoption and does not examine potential learning effects or adaptation over time. Longitudinal studies could investigate whether managers adjust their disclosure strategies as they gain experience with clawback provisions. Third, we do not directly observe the mechanisms through which clawback provisions influence disclosure decisions, such as changes in legal risk assessment or executive risk preferences.

Future research could explore several promising avenues. First, researchers could investigate whether the disclosure effects vary based on the specific design features of clawback provisions, such as the lookback period or triggering events. Second, studies could examine whether the negative disclosure effects are mitigated by other governance mechanisms or firm characteristics. Third, researchers could investigate the capital market consequences of reduced voluntary disclosure in the presence of clawback provisions, examining whether investors price the trade-off between disclosure quantity and reporting quality. Finally, future work could explore whether alternative governance mechanisms could achieve the accountability benefits of clawback provisions while preserving voluntary disclosure incentives, potentially informing more effective regulatory design.

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Table 1

Descriptive Statistics

Variables	N	Mean	Std. Dev.	P25	Median	P75
FreqMF	18,045	0.6445	0.9100	0.0000	0.0000	1.6094
Treatment Effect	18,045	0.5823	0.4932	0.0000	1.0000	1.0000
Institutional ownership	18,045	0.5465	0.3208	0.2574	0.5809	0.8228
Firm size	18,045	5.9763	2.0179	4.5194	5.9058	7.3195
Book-to-market	18,045	0.5791	0.5635	0.2750	0.4769	0.7395
ROA	18,045	-0.0382	0.2507	-0.0220	0.0248	0.0702
Stock return	18,045	-0.0145	0.4614	-0.2780	-0.0879	0.1438
Earnings volatility	18,045	0.1509	0.2914	0.0227	0.0552	0.1498
Loss	18,045	0.3024	0.4593	0.0000	0.0000	1.0000
Class action litigation risk	18,045	0.2560	0.2575	0.0701	0.1561	0.3481
Time Trend	18,045	1.9447	1.4164	1.0000	2.0000	3.0000

This table shows the descriptive statistics. All continuous variables are winsorized at the 1st and 99th percentiles.

Table 2
Pearson Correlations
Executive Compensation Clawback Provisions Unsophisticated Investors

	Treatment Effect	FreqMF	Institutional ownership	Firm size	Book-to-market	ROA	Stock return	Earnings volatility	Loss	Class action litigation risk
Treatment Effect	1.00	**-0.04**	**0.12**	-0.01	**0.16**	**-0.05**	**-0.03**	0.01	**0.06**	**-0.15**
FreqMF	**-0.04**	1.00	**0.44**	**0.44**	**-0.13**	**0.23**	**-0.02**	**-0.14**	**-0.26**	0.00
Institutional ownership	**0.12**	**0.44**	1.00	**0.63**	**-0.07**	**0.26**	**-0.13**	**-0.20**	**-0.20**	0.01
Firm size	-0.01	**0.44**	**0.63**	1.00	**-0.30**	**0.35**	**0.02**	**-0.25**	**-0.38**	**0.07**
Book-to-market	**0.16**	**-0.13**	**-0.07**	**-0.30**	1.00	**0.03**	**-0.21**	**-0.12**	**0.12**	**-0.14**
ROA	**-0.05**	**0.23**	**0.26**	**0.35**	**0.03**	1.00	**0.19**	**-0.52**	**-0.62**	**-0.15**
Stock return	**-0.03**	**-0.02**	**-0.13**	**0.02**	**-0.21**	**0.19**	1.00	**-0.04**	**-0.20**	**-0.06**
Earnings volatility	0.01	**-0.14**	**-0.20**	**-0.25**	**-0.12**	**-0.52**	**-0.04**	1.00	**0.36**	**0.23**
Loss	**0.06**	**-0.26**	**-0.20**	**-0.38**	**0.12**	**-0.62**	**-0.20**	**0.36**	1.00	**0.18**
Class action litigation risk	**-0.15**	0.00	0.01	**0.07**	**-0.14**	**-0.15**	**-0.06**	**0.23**	**0.18**	1.00

This table shows the Pearson correlations for the sample. Correlations that are significant at the 0.05 level or better are highlighted in bold.

Table 3

The Impact of Executive Compensation Clawback Provisions on Management Forecast Frequency

	(1)	(2)	(3)
Treatment Effect	-0.0797*** (7.72)	-0.0634*** (4.89)	-0.0455*** (3.77)
Institutional ownership		0.8019*** (17.37)	-0.0587 (0.93)
Firm size		0.0948*** (10.65)	0.1356*** (10.91)
Book-to-market		-0.0328** (2.29)	-0.0204 (1.51)
ROA		0.1178*** (3.68)	0.0275 (0.97)
Stock return		-0.0423*** (3.47)	-0.0376*** (4.06)
Earnings volatility		0.0816*** (2.66)	-0.1197*** (3.19)
Loss		-0.2137*** (10.74)	-0.1197*** (8.31)
Class action litigation risk		-0.0311 (1.04)	-0.0227 (1.16)
Time Trend		-0.0227*** (3.86)	-0.0016 (0.28)
Firm fixed effects	No	No	Yes
N	18,045	18,045	18,045
R^2	0.0019	0.2547	0.8531

Notes: t-statistics in parentheses. *, **, and *** represent significance at the 10%, 5%, and 1% level, respectively.