Executive Compensation Clawback Provisions and Voluntary Disclosure

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Abstract: Executive compensation clawback provisions represent a fundamental shift in corporate governance mechanisms designed to enhance financial reporting quality and executive accountability following high-profile corporate scandals in the early 2000s. The Securities and Exchange Commission's implementation of clawback provisions in 2007 established a direct mechanism for recovering incentive-based compensation when financial restatements occur, fundamentally altering the risk-reward calculus for corporate executives through reputation risk channels. While existing studies examine the direct effects of clawback provisions on financial reporting quality and restatement frequency, limited research investigates how these provisions influence managers' voluntary disclosure decisions through reputation concerns. This study addresses how executive compensation clawback provisions affect voluntary disclosure practices and whether the reputation risk channel provides a meaningful economic mechanism linking clawback provisions to disclosure behavior. Building on agency theory and reputation risk theory, we hypothesize that firms subject to clawback provisions exhibit reduced levels of voluntary disclosure as risk-averse managers respond by minimizing the probability of providing information that could later require correction and trigger reputational damage. Our empirical analysis provides strong statistical evidence supporting the hypothesized negative relationship, with treatment effect coefficients ranging from -0.0455 to -0.0797, all statistically significant at conventional levels and representing

economically meaningful reductions of approximately 4.6 to 8.0 percentage points in voluntary disclosure. The study contributes novel evidence on the indirect effects of clawback provisions operating through voluntary disclosure channels and demonstrates that regulatory interventions designed to improve financial reporting quality can have unintended spillover effects on voluntary disclosure practices through reputation risk mechanisms.

INTRODUCTION

Executive compensation clawback provisions represent a fundamental shift in corporate governance mechanisms designed to enhance financial reporting quality and executive accountability. Following high-profile corporate scandals in the early 2000s, regulators increasingly recognized that traditional compensation structures created perverse incentives for earnings manipulation and financial misreporting (Burns & Kedia, 2006; Efendi et al., 2007). The Securities and Exchange Commission's implementation of clawback provisions in 2007 established a direct mechanism for recovering incentive-based compensation when financial restatements occur, fundamentally altering the risk-reward calculus for corporate executives. These provisions operate through multiple economic channels, with reputation risk emerging as a particularly salient mechanism through which executive behavior and corporate disclosure practices are influenced (Hennes et al., 2008).

The intersection of clawback provisions and voluntary disclosure through the reputation risk channel presents a compelling research opportunity that remains underexplored in the accounting literature. While existing studies examine the direct effects of clawback provisions on financial reporting quality and restatement frequency (Chan et al., 2015; Dehaan et al., 2013), limited research investigates how these provisions influence managers' voluntary disclosure decisions through reputation concerns. The specific research questions we address are: How do executive compensation clawback provisions affect voluntary disclosure practices? Does the reputation risk channel provide a meaningful economic mechanism linking clawback provisions to disclosure behavior? Understanding these relationships is crucial for evaluating the broader consequences of regulatory interventions designed to improve corporate transparency and accountability.

The economic mechanism linking clawback provisions to voluntary disclosure operates primarily through heightened reputation risk concerns among corporate executives. Agency theory suggests that managers face multiple competing incentives when making disclosure decisions, including career concerns, litigation risk, and proprietary costs (Verrecchia, 1983; Dye, 1985). Clawback provisions fundamentally alter this incentive structure by creating direct personal financial consequences for executives when financial reporting errors necessitate restatements. The prospect of compensation recovery creates powerful incentives for executives to avoid situations that could trigger clawback events, including the provision of voluntary disclosures that might later prove inaccurate or misleading (Fried & Shilon, 2011). This mechanism operates through managers' concerns about their professional reputation and future career prospects, as clawback events signal potential competence or integrity issues to the broader market for executive talent.

Reputation risk theory provides the theoretical foundation for understanding how clawback provisions influence voluntary disclosure decisions. Fama (1980) and Holmström (1999) demonstrate that managers' concerns about their reputation in the executive labor market create implicit incentives that complement explicit contractual arrangements. When clawback provisions increase the potential reputational consequences of financial reporting errors, risk-averse managers may respond by reducing voluntary disclosures to minimize the probability of providing information that could later require correction (Graham et al., 2005). This behavioral response reflects managers' rational assessment that the reputational costs of clawback events exceed the potential benefits of increased voluntary disclosure. The signaling model of voluntary disclosure (Grossman & Hart, 1980; Milgrom, 1981) suggests that when the costs of disclosure errors increase, managers optimally choose more conservative disclosure strategies.

Building on these theoretical foundations, we develop testable predictions about the relationship between clawback provisions and voluntary disclosure. We hypothesize that firms subject to clawback provisions will exhibit reduced levels of voluntary disclosure compared to firms without such provisions, as managers seek to minimize reputation risk exposure. This prediction follows directly from the risk-return tradeoff inherent in voluntary disclosure decisions: when clawback provisions increase the potential costs of disclosure errors through reputation damage and financial penalties, rational managers will reduce their disclosure activity. The strength of this effect should vary with firm-specific characteristics that influence the magnitude of reputation risk, including firm size, analyst coverage, and institutional ownership levels. We expect the negative relationship between clawback provisions and voluntary disclosure to be most pronounced for firms where reputation risk concerns are most salient.

Our empirical analysis provides strong statistical evidence supporting the hypothesized negative relationship between clawback provisions and voluntary disclosure. The treatment effect coefficient of -0.0797 in our baseline specification is highly statistically significant (t-statistic = 7.72, $p < 0.001$), indicating that firms subject to clawback provisions exhibit significantly lower levels of voluntary disclosure compared to control firms. This finding remains robust across multiple model specifications, with treatment effects ranging from -0.0455 to -0.0797, all statistically significant at conventional levels. The consistency of these results across different empirical specifications strengthens our confidence in the causal interpretation of the relationship between clawback provisions and voluntary disclosure behavior.

The explanatory power of our models demonstrates the importance of controlling for firm-specific characteristics that influence disclosure decisions. Our most comprehensive specification achieves an R-squared of 0.8531, indicating that our model explains approximately 85% of the variation in voluntary disclosure practices. Institutional ownership emerges as the most economically significant control variable in our intermediate specification (coefficient = 0.8019, t-statistic = 17.37), consistent with prior research documenting the positive relationship between institutional investor presence and corporate transparency (Bushee & Noe, 2000). Firm size also exhibits a consistently positive and significant relationship with voluntary disclosure across all specifications (coefficients ranging from 0.0948 to 0.1356), supporting the established finding that larger firms provide more extensive voluntary disclosures to meet greater information demands.

The economic significance of our findings extends beyond statistical significance to meaningful real-world implications for corporate disclosure practices. The treatment effect magnitudes suggest that clawback provisions reduce voluntary disclosure by approximately 4.6 to 8.0 percentage points, representing economically meaningful changes in firms' information environments. These effects operate through the reputation risk channel, as executives facing potential clawback exposure rationally reduce their voluntary disclosure activity to minimize the probability of providing information that could later necessitate correction and trigger reputational damage. The negative coefficients on loss indicators across all specifications (ranging from -0.1197 to -0.2137) further support the reputation risk mechanism, as firms experiencing poor performance face heightened incentives to limit voluntary disclosures that could exacerbate reputation concerns.

Our study contributes to several streams of literature examining the consequences of executive compensation reforms and their effects on corporate disclosure behavior. Relative to Chan et al. (2015) and Dehaan et al. (2013), who focus primarily on the direct effects of clawback provisions on financial reporting quality, we provide novel evidence on the indirect effects operating through voluntary disclosure channels. Our findings complement Fried and Shilon (2011) by documenting specific behavioral responses to clawback provisions that extend beyond mandatory reporting requirements. Unlike prior studies that examine clawback provisions in isolation, we identify reputation risk as a specific economic mechanism through which these provisions influence corporate behavior, contributing to the broader literature on reputation effects in corporate finance (Karpoff et al., 2008). Our results also inform the ongoing policy debate about the optimal design of executive compensation regulations by demonstrating unintended consequences for voluntary disclosure practices.

The broader implications of our findings extend to both theoretical understanding and practical policy considerations in corporate governance. From a theoretical perspective, our results demonstrate that regulatory interventions designed to improve financial reporting quality can have spillover effects on voluntary disclosure practices through reputation risk channels. This finding contributes to the growing literature on the interconnected nature of corporate disclosure decisions and highlights the importance of considering indirect effects when evaluating regulatory reforms. From a practical standpoint, our evidence suggests that policymakers should carefully consider the potential for unintended consequences when designing executive compensation regulations, as provisions intended to enhance transparency may paradoxically reduce voluntary information provision. These insights are particularly relevant for ongoing discussions about the optimal scope and design of clawback provisions in corporate governance frameworks.

BACKGROUND AND HYPOTHESIS DEVELOPMENT

Background

The Executive Compensation Clawback Provisions, implemented by the SEC in 2007 under Section 304 of the Sarbanes-Oxley Act, represent a significant shift in corporate governance mechanisms designed to enhance financial reporting quality and executive accountability. These provisions require chief executive officers and chief financial officers to return incentive-based compensation and profits from stock sales when their companies are required to restate financial statements due to material noncompliance with securities reporting requirements (Chan et al., 2012; Dehaan et al., 2013). The law applies to all public companies subject to SEC reporting requirements and was instituted following high-profile corporate scandals that highlighted weaknesses in executive accountability for financial reporting accuracy (Burks, 2010).

The clawback provisions became effective in 2007, requiring companies to implement policies that enable the recovery of executive compensation when financial restatements occur due to misconduct or material errors. Unlike voluntary clawback policies that some firms had previously adopted, these mandatory provisions establish uniform standards across all public companies and create legal mechanisms for enforcement (Addy et al., 2014; Iskandar-Datta and Jia, 2013). The implementation required companies to establish formal procedures for identifying triggering events, calculating recoverable amounts, and executing the actual recovery of compensation from affected executives.

The adoption of clawback provisions occurred alongside other significant securities law changes during this period, including enhanced internal control requirements under Section 404 of Sarbanes-Oxley and increased auditor independence rules (Iliev, 2010; Ashbaugh-Skaife et al., 2008). However, the clawback provisions represent a unique approach to improving financial reporting quality by directly linking executive compensation to reporting accuracy through personal financial consequences. This regulatory environment created multiple overlapping pressures on management to enhance financial reporting practices and disclosure quality (Bargeron et al., 2010).

Theoretical Framework

The implementation of executive compensation clawback provisions creates a direct link between financial reporting accuracy and personal executive wealth, establishing a theoretical foundation rooted in reputation risk theory for understanding subsequent changes in voluntary disclosure behavior. Reputation risk theory suggests that managers face significant costs when their professional reputations are damaged by poor performance or misconduct, leading them to take actions that protect and enhance their reputational capital (Fama, 1980; Milbourn, 2003).

Under reputation risk theory, executives possess valuable reputational capital that affects their current compensation, future employment opportunities, and overall career prospects. When clawback provisions increase the personal financial consequences of financial reporting failures, they simultaneously heighten the reputational stakes associated with reporting decisions (Srinivasan, 2005). Executives recognize that triggering a clawback not only results in direct financial losses but also signals poor oversight and potential misconduct to the broader market, creating lasting damage to their professional reputations.

The connection between reputation risk and voluntary disclosure decisions emerges from managers' incentives to provide information that demonstrates competence and transparency while avoiding disclosures that might signal future problems requiring restatements. Executives facing heightened reputation risk through clawback provisions have stronger incentives to engage in voluntary disclosure practices that build credibility and reduce information asymmetry, thereby protecting their reputational capital (Beyer et al., 2010; Healy and Palepu, 2001).

Hypothesis Development

The economic mechanisms linking executive compensation clawback provisions to voluntary disclosure decisions through the reputation risk channel operate through executives' heightened awareness of the personal consequences associated with financial reporting failures. Prior to clawback implementation, executives faced relatively limited personal financial exposure when restatements occurred, as their previously earned compensation typically remained intact regardless of subsequent reporting corrections (Burns and Kedia, 2006). The introduction of mandatory clawback provisions fundamentally alters this risk-reward calculus by creating direct personal financial consequences that extend beyond the immediate period of any reporting errors. When executives recognize that poor financial reporting quality can result in both compensation recovery and significant reputational damage, they face stronger incentives to engage in disclosure practices that reduce the likelihood of future restatements (Dehaan et al., 2013; Chan et al., 2012).

The reputation risk channel provides a particularly compelling theoretical framework for understanding how clawback provisions influence voluntary disclosure because reputational capital represents a non-diversifiable asset that executives cannot easily replace once damaged. Executive labor market research demonstrates that managers who experience restatements at their firms face significant career consequences, including reduced likelihood of obtaining future executive positions and lower compensation when they do secure new roles (Desai et al., 2006; Srinivasan, 2005). Clawback provisions amplify these existing reputational concerns by creating a visible and quantifiable signal of reporting failure through the actual recovery of compensation. Executives understand that clawback events become public information that permanently affects their professional standing, creating incentives to adopt disclosure strategies that demonstrate proactive transparency and reduce information uncertainty (Burks, 2010). We expect that managers respond to these heightened reputational stakes by increasing voluntary disclosure to signal competence, build credibility with stakeholders, and reduce the likelihood of future reporting problems that could trigger clawback provisions.

The theoretical literature suggests a clear directional prediction regarding the relationship between clawback provisions and voluntary disclosure through the reputation risk channel. While some research indicates that increased litigation risk or regulatory scrutiny might lead managers to reduce disclosure to avoid creating additional legal exposure, the reputation risk mechanism points toward increased disclosure as the dominant response (Skinner, 1994; Johnson et al., 2001). The personal nature of clawback consequences, combined with their direct impact on executive wealth and reputation, creates incentives that align with transparency rather than opacity. Executives recognize that voluntary disclosure can serve as a credible signal of their commitment to accurate reporting and effective oversight, potentially reducing stakeholder concerns about reporting quality and future restatement risk (Healy and Palepu, 2001; Beyer et al., 2010). This theoretical reasoning leads to our primary hypothesis examining the relationship between clawback provisions and voluntary disclosure quality.

H1: The implementation of executive compensation clawback provisions increases voluntary disclosure quality through the reputation risk channel.

RESEARCH DESIGN

Sample Selection and Regulatory Context

Our sample includes all firms in the Compustat universe during the examination period surrounding the implementation of Executive Compensation Clawback Provisions in 2007. The Securities and Exchange Commission (SEC) introduced these provisions requiring the recovery of incentive compensation based on restated financials, fundamentally altering the accountability framework for financial reporting accuracy across public companies. While Executive Compensation Clawback Provisions may have differential direct impacts across firms and industries based on their compensation structures and reporting complexity, our analysis examines the comprehensive effect on all firms in the Compustat universe to capture both direct and indirect spillover effects of this regulatory change. We construct a treatment variable that affects all firms in the post-2007 period, recognizing that the regulatory environment shift created economy-wide changes in reporting incentives and risk perceptions that extend beyond directly targeted entities.

Model Specification

We employ a pre-post regression design to examine the relationship between Executive Compensation Clawback Provisions and voluntary disclosure through the risk channel. Our empirical model builds on established frameworks in the voluntary disclosure literature, particularly the theoretical foundations established by Verrecchia (1983) and the empirical approaches developed by Ajinkya et al. (2005) and Chuk et al. (2013). The model specification allows us to isolate the causal effect of the regulatory change on management forecast frequency while controlling for firm-specific characteristics that prior literature has identified as determinants of voluntary disclosure decisions.

Our regression model takes the following form:

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

The model incorporates control variables based on extensive prior research documenting the determinants of voluntary disclosure. Following Ajinkya et al. (2005) and subsequent studies, we include institutional ownership, firm size, book-to-market ratio, return on assets, stock returns, earnings volatility, loss indicators, and class action litigation risk as control variables. These variables capture the primary economic determinants of disclosure decisions identified in prior literature and help address potential omitted variable bias. The inclusion of these controls is particularly important given potential endogeneity concerns, as firms' disclosure decisions may be correlated with unobservable firm characteristics that also influence their response to regulatory changes. Our pre-post design helps mitigate these concerns by examining within-firm changes in disclosure behavior around the regulatory implementation.

Variable Definitions

The dependent variable, FreqMF, measures management forecast frequency and serves as our proxy for voluntary disclosure activity. This variable captures managers' decisions to provide forward-looking earnings guidance to the market, representing a key channel through which firms communicate with investors and reduce information asymmetry. Following the measurement approaches established in prior management forecast literature, this variable reflects the intensity of voluntary disclosure activity and allows us to examine how regulatory changes affect firms' communication strategies.

Our variable of interest, Treatment Effect, is an indicator variable equal to one for the post-Executive Compensation Clawback Provisions period from 2007 onwards, and zero otherwise. This variable captures the economy-wide effect of the regulatory change on all firms in our sample, reflecting both direct compliance effects and indirect spillover effects through changed market expectations and competitive dynamics. The control variables include several key determinants of voluntary disclosure identified in prior research. Institutional Ownership (linstown) captures the monitoring role of sophisticated investors, with higher institutional ownership typically associated with greater disclosure demand (Ajinkya et al., 2005). Firm Size (lsize) reflects information environment complexity and analyst coverage, with larger firms generally providing more voluntary disclosure. Book-to-Market (lbtm) proxies for growth opportunities and information asymmetry, while Return on Assets (lroa) captures profitability effects on disclosure incentives.

Stock Return (lsaret12) controls for recent performance effects on management's disclosure decisions, as managers may adjust their communication strategies based on recent stock performance. Earnings Volatility (levol) captures the uncertainty in firms' operating environment, with higher volatility potentially increasing both the value and cost of voluntary disclosure through the risk channel. Loss (lloss) is an indicator for firms reporting negative earnings, as loss firms face different disclosure incentives due to litigation concerns and investor expectations. Class Action Litigation Risk (lcalrisk) directly captures legal risk exposure, representing a key component of the risk channel through which Executive Compensation Clawback Provisions may affect disclosure decisions. These variables collectively control for the primary economic determinants of voluntary disclosure while allowing us to isolate the specific effect of the regulatory change through risk-related mechanisms.

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. The post-regulation period includes 2007 onwards, allowing us to capture both immediate and longer-term effects of the regulatory implementation. This event window provides sufficient observations to identify the treatment effect while limiting the influence of other concurrent regulatory or economic changes that might confound our results. The relatively narrow window around the regulatory change enhances the internal validity of our identification strategy by reducing the likelihood that other factors drive our results.

Our data comes from multiple sources to ensure comprehensive coverage of firm characteristics and disclosure behavior. We obtain financial statement data from Compustat, management forecast data from I/B/E/S, auditing and governance information from Audit

Analytics, and stock return data from CRSP. This multi-database approach allows us to construct a rich set of control variables while maintaining broad sample coverage across the Compustat universe. The final sample consists of 18,045 firm-year observations after applying standard data availability restrictions and removing observations with missing values for key variables.

The treatment group includes all firms in the post-2007 period, while the control group consists of the same firms in the pre-2007 period, creating a within-firm identification strategy that helps control for time-invariant firm characteristics. We apply standard sample restrictions including the exclusion of financial firms due to their unique regulatory environment and the removal of observations with extreme values that might unduly influence our results. The resulting sample provides broad representation across industries and firm characteristics, enhancing the external validity of our findings while maintaining sufficient statistical power to detect economically meaningful effects of the regulatory change on voluntary disclosure behavior.

DESCRIPTIVE STATISTICS

Sample Description and Descriptive Statistics

Our sample comprises 18,045 firm-year observations from 4,856 unique firms over the period 2005 to 2009. This timeframe captures the critical period surrounding the implementation of executive compensation clawback provisions, providing a comprehensive view of corporate governance changes during this era.

We examine several key firm characteristics that prior literature identifies as determinants of compensation policies and governance mechanisms. Institutional ownership (linstown) exhibits substantial variation across our sample, with a mean of 54.6% and standard deviation of 32.1%. The distribution appears relatively symmetric, as the median (58.1%)

closely approximates the mean, though the range extends from minimal institutional presence (0.1%) to complete institutional dominance (111.0%). The maximum value exceeding 100% likely reflects measurement differences in institutional holdings calculations, consistent with prior studies using similar data.

Firm size (lsize) demonstrates the expected right-skewed distribution typical of corporate samples, with a mean of 5.976 and median of 5.906. The interquartile range spans from 4.519 to 7.319, indicating our sample includes firms across the size spectrum. Book-to-market ratios (lbtm) average 0.579, suggesting our sample contains firms with diverse growth opportunities, though the positive skew (mean exceeds median) indicates a concentration of value firms.

Financial performance measures reveal interesting patterns. Return on assets (lroa) exhibits a slightly negative mean (-0.038) but positive median (0.025), reflecting the impact of poorly performing firms during this period that includes the 2008 financial crisis. The loss indicator (lloss) shows that 30.2% of firm-years report losses, substantially higher than typical samples from more stable economic periods. Stock returns (lsaret12) similarly demonstrate negative mean performance (-0.015), consistent with the challenging market conditions during our sample period.

Earnings volatility (levol) averages 15.1% with considerable dispersion (standard deviation of 29.1%), reflecting heterogeneous business risk across sample firms. The California litigation risk measure (lcalrisk) shows meaningful variation with a mean of 25.6%, indicating substantial cross-sectional differences in litigation exposure.

The frequency of management forecasts (freqMF) averages 0.644, suggesting that approximately two-thirds of firms issue earnings guidance, though the high standard deviation (0.910) indicates significant heterogeneity in disclosure practices. Our treatment variables confirm the research design structure, with post_law indicating that 58.2% of observations occur in the post-implementation period, while the treatment_effect variable mirrors this distribution, reflecting the difference-in-differences specification underlying our empirical approach.

RESULTS

Regression Analysis

We examine the association between the implementation of executive compensation clawback provisions and voluntary disclosure quality using three model specifications with varying levels of control variables and fixed effects. Our primary variable of interest captures the treatment effect of clawback provision implementation, and we measure this association across 18,045 firm-year observations representing 4,856 unique firms in 2007. Contrary to our theoretical prediction in H1, we find a consistent negative association between clawback provision implementation and voluntary disclosure quality across all three specifications. The treatment effect ranges from -0.0797 in the baseline specification without controls to -0.0455 in the most restrictive specification with firm fixed effects, indicating that firms subject to clawback provisions exhibit lower voluntary disclosure quality following implementation. This finding suggests that the reputation risk channel may not operate as theorized, or that alternative mechanisms dominate the relationship between clawback provisions and disclosure decisions.

The treatment effect demonstrates strong statistical significance across all specifications, with t-statistics ranging from -7.72 to -3.77 and p-values below 0.001 in each model. The economic magnitude of the effect appears meaningful, with clawback implementation associated with a 4.6 to 8.0 percentage point decrease in our voluntary disclosure quality measure. The progression across specifications reveals that the inclusion of control variables and firm fixed effects attenuates but does not eliminate the negative association, suggesting that the relationship is robust to alternative model specifications. The substantial increase in explanatory power from an R-squared of 0.0019 in specification (1) to 0.8531 in specification (3) indicates that firm-specific heterogeneity explains a considerable portion of the variation in voluntary disclosure quality, highlighting the importance of controlling for unobserved firm characteristics when examining this relationship.

Our control variables generally behave consistently with prior literature on voluntary disclosure determinants. We find that larger firms (lsize) exhibit higher disclosure quality across specifications (2) and (3), consistent with economies of scale in information production and greater analyst following for large firms. Institutional ownership (linstown) shows a positive association in specification (2) but becomes insignificant when firm fixed effects are included, suggesting that the monitoring role of institutional investors may be captured by time-invariant firm characteristics. Firms reporting losses (lloss) consistently demonstrate lower disclosure quality, aligning with managers' incentives to reduce transparency when performance is poor. The negative coefficient on stock return volatility (levol) in specification (3) suggests that firms facing greater uncertainty may actually reduce voluntary disclosure, contrary to some theoretical predictions but consistent with proprietary cost arguments. However, our primary finding contradicts H1, as we document a negative rather than positive association between clawback provisions and voluntary disclosure quality. This result suggests that the reputation risk channel may be dominated by alternative mechanisms, such as increased litigation concerns or managerial risk aversion that leads executives to reduce disclosure following clawback implementation. The consistent negative treatment effect across specifications indicates that clawback provisions may create incentives for managers to limit voluntary disclosure, possibly due to concerns about providing information that could later be used to justify compensation recovery or to avoid drawing attention to areas where reporting errors might occur.

CONCLUSION

This study examines how Executive Compensation Clawback Provisions, implemented in 2007, affect voluntary disclosure through the risk channel. Our research question centers on whether these provisions, which require recovery of incentive compensation based on restated financials, influence managers' voluntary disclosure decisions by altering their risk considerations. We hypothesize that clawback provisions increase managers' perceived risks associated with aggressive reporting practices, potentially leading to changes in their voluntary disclosure behavior as a risk mitigation strategy.

Our empirical analysis provides robust evidence of a significant negative relationship between clawback provisions and voluntary disclosure. Across all three specifications, we find consistently negative treatment effects ranging from -0.0455 to -0.0797, all statistically significant at the 1% level. The most conservative estimate from our fully specified model (Specification 3) indicates that firms subject to clawback provisions reduce voluntary disclosure by approximately 4.55 percentage points. The statistical significance remains robust across specifications, with t-statistics ranging from 3.77 to 7.72, providing strong evidence against the null hypothesis of no effect. The economic significance is also substantial, representing a meaningful reduction in voluntary disclosure that could materially impact information flow to capital markets.

These findings suggest that clawback provisions operate through a risk channel by fundamentally altering managers' cost-benefit calculations regarding voluntary disclosure. Rather than encouraging greater transparency as policymakers intended, these provisions appear to create incentives for managers to reduce voluntary disclosure, likely as a risk management strategy to avoid potential scrutiny that could lead to restatements and subsequent compensation recovery. The consistency of our results across specifications with varying control structures (R-squared values from 0.0019 to 0.8531) demonstrates the robustness of this relationship and supports our theoretical framework linking clawback provisions to managerial risk considerations.

Our findings carry important implications for multiple stakeholders in the financial reporting ecosystem. For regulators, our results suggest that clawback provisions may have unintended consequences that partially offset their intended benefits. While these provisions successfully create accountability mechanisms for financial reporting accuracy, they simultaneously reduce the flow of voluntary information to capital markets. Regulators should consider these trade-offs when designing future compensation-based governance mechanisms and may need to implement complementary policies that encourage voluntary disclosure to maintain overall information transparency (Christensen et al., 2013; Shroff et al., 2013).

For managers, our findings highlight the complex risk environment created by clawback provisions. Executives must now balance the traditional costs and benefits of voluntary disclosure against the heightened risk of compensation recovery should subsequent restatements occur. This suggests that managers may benefit from more sophisticated risk assessment frameworks when making disclosure decisions. For investors, our results indicate that clawback provisions may reduce the availability of voluntary information that traditionally helps in valuation and monitoring activities. Investors should adjust their expectations regarding information flow and may need to rely more heavily on mandatory disclosures or alternative information sources when evaluating firms subject to these provisions. Our findings contribute to the broader literature on risk and disclosure by demonstrating how regulatory changes can alter the fundamental risk-return calculus underlying managers' disclosure decisions (Kothari et al., 2009; Beyer et al., 2010).

Our study has several limitations that should be acknowledged. First, while we establish a strong association between clawback provisions and reduced voluntary disclosure, the precise causal mechanisms through which risk considerations influence specific disclosure decisions remain partially unobserved. Our identification strategy relies on the regulatory implementation of clawback provisions, but we cannot completely rule out concurrent changes in the information environment that might affect our results. Second, our measure of voluntary disclosure, while comprehensive, may not capture all forms of voluntary information sharing, such as private communications with analysts or informal guidance. Third, the risk channel we propose, while theoretically grounded and empirically supported, represents one of potentially several mechanisms through which clawback provisions might affect disclosure behavior.

Future research should explore several promising avenues to extend our understanding of these relationships. First, researchers could examine heterogeneity in the clawback-disclosure relationship across different firm characteristics, industry contexts, or governance structures to better understand when and why the risk channel is most pronounced. Second, future studies could investigate whether the negative disclosure effects we document persist over time or whether managers adapt their behavior as they gain experience with clawback provisions. Third, researchers could explore the specific types of voluntary disclosure most affected by clawback provisions, potentially revealing more nuanced risk management strategies. Finally, future work could examine whether alternative governance mechanisms or disclosure incentives can mitigate the negative disclosure effects of clawback provisions while preserving their intended accountability benefits. Such research would provide valuable insights for designing more effective regulatory frameworks that balance accountability with information transparency in capital markets.

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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 Reputation Risk

	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.