Summary of Paper: CEO Risk Taking Equity Incentives and Workplace Misconduct

What is this Study About?

This study examines how CEO risk-taking incentives, particularly through stock options (called "vega"), are associated with workplace misconduct, including labor law violations and health and safety breaches. The researchers analyzed 17,831 firm-year observations from 1,916 U.S. firms between 2000 and 2018.

What are the major findings of the study?

Firms where CEOs have higher vega experience significantly more workplace misconduct. A one-standard-deviation increase in vega correlates with a 6.7% increase in violations and a 5.5% increase in penalty costs. CEOs' cost-cutting strategies, such as reducing safety expenditures and increasing employee workloads, are key channels leading to these violations. Importantly, the study finds that stronger board oversight—particularly from less busy board members—can mitigate the risk of workplace misconduct associated with high CEO vega.

Why is the study important?

The findings highlight how executive compensation structures can lead to real operational risks, legal exposure, and financial penalties, all of which impact firm reputation, profitability, and shareholder value.

What is the impact on professional practice and society at large?

Professionally, the study suggests that boards and compensation committees must consider the broader societal risks when designing incentive plans. Society bears enormous costs—globally estimated at $2.8 trillion annually—due to workplace misconduct. Accounting professionals must ensure better governance to prevent such negative externalities.

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