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Not all clawbacks are the same: Consequences of strong vs. weak clawback provisions

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Abstract

We develop a *Clawback Strength Index* and show that while some firms adopt unambiguous and strong clawback provisions, others adopt weak ones. We find that strong clawback adopters experience improvements in financial reporting quality, fewer CEO turnovers, and lower CEO pay. We advance two possible explanations: First, clawback strength may be primarily responsible for the improvements in reporting quality. Second, strong clawbacks may yield benefits because they are part of a broader reform package. While our findings on reporting quality and CEO turnover are consistent with both explanations, our results on CEO pay support only the broader reform explanation.
Keywords: Clawback provisions; corporate governance; linguistic analysis; reporting quality
JEL codes: G30, G34, G35, K22, M21, M41

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