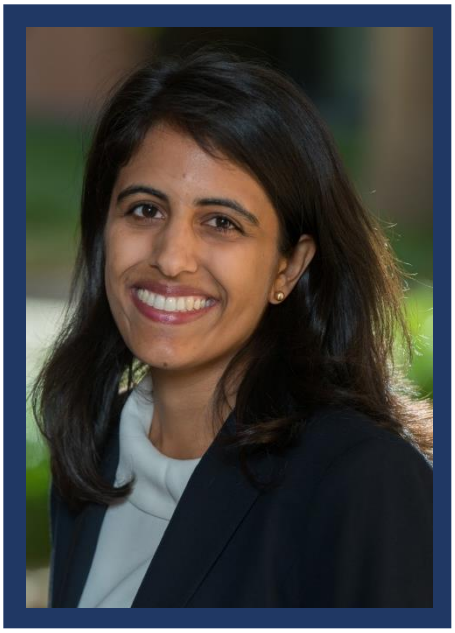
"Financial Reporting Quality and Wage Differentials: Evidence from Worker-level Data"



Presented by Sara Malik
February 9th @ 1:00 pm ET

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Abstract: We examine whether financial reporting quality affects worker wages using employer-employee matched data in the U.S. We find that low financial reporting quality is associated with a compensating wage differential—i.e., a risk premium—even after controlling for worker characteristics. The data show a sizable wage differential using both firm-level reporting quality and workers switching to low financial reporting quality firms. We explore two potential channels of this association: the performance pay and turnover risk channels, where workers bear risks from noise in performance measurement and unemployment, respectively. We find that the association is stronger when industries use more performance pay for rank-and-file employees and that firms with low reporting quality exhibit high employee turnover. To mitigate endogeneity concerns over omitted firm characteristics, we show that—after the accounting scandals in 2002 and after the announcements of an internal control weakness (ICW)—former Andersen clients and ICW firms pay wage premiums to employees, with magnitudes between 0.9% to 2.8% of annual wages. Overall, we demonstrate economically significant compensating wage differentials for low financial reporting quality firms.

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