

Managers may compromise safety due to earnings expectations, study says

April 19 2017, by Brittany Magelssen

Managers of U.S. companies facing market pressures to meet earnings expectations may risk damaging the health and safety of workers to please investors according to recent research from the Naveen Jindal School of Management at UT Dallas.

Companies may create incentives for employees to increase productivity or reduce discretionary expenditures, but often these actions come at the cost of managers and workers paying insufficient attention to safety.

Dr. Naim Bugra Ozel, assistant professor of accounting in the Jindal School, and his co-author Dr. Judson Caskey of UCLA, recently studied firms that meet or just beat [analyst expectations](#). The study, published in the February issue of *The Journal of Accounting and Economics*, found that these firms have a roughly 12 percent higher [injury](#) rate for employees than other firms do.

"We know that firms try to meet earnings benchmarks because the benchmarks have implications for the firms," Ozel said. "If firms do not meet these benchmarks, then investors punish them, and stock prices go down significantly after a miss of earnings expectations. That gives managers incentive to use the tools they have to ensure they are going to perform at least to the expectations."

Using injury data from the Occupational Safety and Health Administration and companies' financial data, the researchers examined [company](#) spending and worker output. They found that discretionary

expenditures are associated with high injuries in firms that meet or just beat expectations, which is consistent with the conclusion that companies reduce safety-related expenditures such as oversight and [employee training](#).

The study also found that higher employee output is associated with higher rates of injuries in these firms.

"Our research suggests that there is also an increase in the workload of the employees, so it's not just cutting expenditures, but asking employees to work a little harder," Ozel said. "That might be in the form of overtime, or that might be in the form of putting in more work in a shorter time period. If employees are forced to work harder, they might inadvertently ignore the safety procedures themselves."

The researchers identified three factors that affect the relationship between injuries and meeting or just beating expectations.

The relationship is weaker in highly unionized industries, which relates to unions' role in negotiating for and enforcing safety measures.

- The relationship is weaker in firms with a large amount of government contracts, which relates to the government requiring certain safety standards.
- The relationship is weaker in states where injuries translate into higher workers' compensation costs.
- Ozel said the study shows one way that companies deal with the pressure to meet earnings expectations. Missing expectations not only means lower [stock prices](#), but also can affect CEO career outcomes.

"When we think about [firms](#), we always think, 'These are rational players, so performance is important, but they will not sacrifice people's

health for this purpose," Ozel said. "You may be able to think of some anecdotes where companies might be willing to sacrifice employees' [safety](#), but we looked at a large sample. And in this sample, we find quite a significant result—a 10 to 15 percent increase in employee injuries.

"There's clearly an economic trade-off. Managers are there to think about the best interest of their investors, and they have to make a decision of what would be in the best interest of the investors, and sometimes they might decide to risk injuries."

More information: Judson Caskey et al. Earnings expectations and employee safety, *Journal of Accounting and Economics* (2017). [DOI: 10.1016/j.jacceco.2016.12.002](#)

Provided by University of Texas at Dallas

Citation: Managers may compromise safety due to earnings expectations, study says (2017, April 19) retrieved 23 June 2024 from <https://phys.org/news/2017-04-compromise-safety-due.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.