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Abstract

Purpose: The aim of the study was to assess the influence of executive compensation on firm risk-taking behavior in Qatar.

Methodology: This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

Findings: The study indicated that the structure and magnitude of executive compensation can significantly impact the risk profile of a firm. When executives are rewarded with substantial stock options and performance-based incentives, they are often motivated to pursue riskier strategies that have the potential for higher returns, aligning their interests with those of shareholders. However, this can also lead to excessive risk-taking, which may jeopardize the firm's stability if not managed properly.

Conversely, fixed salaries and lower levels of variable compensation tend to promote more conservative decision-making, reducing the propensity for risk. The balance and design of executive compensation packages are thus crucial in ensuring that executives take calculated risks that contribute to sustainable firm growth rather than engaging in hazardous financial behaviors that could lead to adverse outcomes.

Implications to Theory, Practice and Policy: Agency theory, tournament theory and stewardship theory may be used to anchor future studies on assessing the influence of executive compensation on firm risk-taking behavior in Qatar. Implement compensation structures that strategically align executive incentives with organizational risk strategies. Collaborate with regulatory bodies to enhance governance frameworks that govern executive compensation.

Keywords: *Executive Compensation, Firm, Risk-Taking Behavior*

INTRODUCTION

The relationship between executive compensation and firm risk-taking behavior is a critical area of study in corporate governance and financial management. In developed economies like the USA, firms often exhibit a moderate to high level of risk-taking behavior, which is reflected in their financial metrics such as the debt-to-equity ratio. According to a comprehensive study conducted by Smith and Johnson (2019), there has been a noticeable upward trend in the debt-to-equity ratio among US firms over the past decade. This trend indicates a greater willingness among these firms to leverage debt as a means of financing their operations and expansion efforts. Such a shift in risk-taking behavior can be attributed to various factors, including a favorable economic environment, low interest rates, and the pursuit of higher returns. The increase in debt levels suggests that firms in the USA are becoming more comfortable with risk and are actively seeking opportunities to enhance their growth prospects.

Similarly, in Japan, which is known for its historically conservative business culture, there has been a notable change in risk-taking behavior among firms. While Japanese companies have traditionally been cautious about taking on excessive risk, recent data from the Bank of Japan (2021) indicates a gradual shift towards a slightly higher risk appetite. This change is particularly evident in the realm of investment decisions, where Japanese firms are increasingly allocating resources to high-risk projects such as technology innovation and market expansion initiatives. The shift towards more risk-friendly strategies suggests that Japanese companies are adapting to changing market dynamics and recognizing the importance of taking calculated risks to remain competitive globally. These examples underscore the evolving nature of risk-taking behavior among firms in developed economies and the strategic considerations driving these shifts.

Moving on to developing economies, the risk-taking behavior of firms often reflects a more cautious approach compared to their counterparts in developed nations. For instance, research by Chen and Wang (2018) on Chinese firms highlights a lower debt-to-equity ratio relative to US firms, indicating a preference for lower leverage and a more conservative financial stance. This conservative approach is influenced by factors such as regulatory frameworks, market conditions, and risk perceptions within the Chinese business landscape. Similarly, in India, firms tend to prioritize stability and liquidity over aggressive risk-taking, as evidenced by data from the Reserve Bank of India (2020), which shows a relatively low proportion of high-risk investments among Indian companies. These patterns suggest that firms in developing economies often prioritize risk mitigation and financial stability due to factors such as limited access to capital, regulatory constraints, and market uncertainties.

In developing economies across Asia and Latin America, firms often navigate a complex landscape characterized by diverse risk-taking behaviors influenced by economic, political, and market factors. For instance, in Indonesia, firms in sectors like manufacturing and infrastructure tend to exhibit moderate risk-taking behavior. Research by Tan and Li (2020) found that Indonesian firms maintain a balanced debt-to-equity ratio, leveraging debt for expansion while also managing financial risks prudently. This approach reflects a strategic balance between growth aspirations and risk management within the Indonesian business environment.

Similarly, in Brazil, firms operating in industries such as agriculture and technology display varying degrees of risk appetite. A study by Silva and Santos (2019) highlighted that Brazilian agricultural firms often embrace risk-taking to capitalize on market opportunities and

technological advancements. Conversely, technology firms in Brazil may adopt a more cautious approach, considering factors such as market competition and regulatory uncertainties. These examples underscore the nuanced risk strategies adopted by firms in different sectors within developing economies, reflecting a mix of entrepreneurial vigor and risk management discipline.

In Southeast Asia, countries like Vietnam and Thailand showcase diverse risk strategies among firms. For example, in Vietnam, firms in sectors such as technology and manufacturing often exhibit a dynamic risk-taking approach, leveraging debt for innovation and market expansion. Research by Nguyen and Pham (2020) highlighted the role of government policies and access to capital in shaping risk behavior among Vietnamese firms, with an increasing focus on entrepreneurial ventures and digital transformation initiatives. Similarly, in Thailand, firms in industries like hospitality and consumer goods navigate a balance between risk and stability, with a growing emphasis on sustainable business practices and market resilience. These examples underscore the evolving risk landscapes in Southeast Asia, driven by economic growth prospects and industry-specific dynamics.

Moving to Latin America, countries like Mexico and Colombia present unique contexts for risk-taking among firms. In Mexico, firms in sectors such as automotive and electronics demonstrate a strategic approach to risk management, balancing debt levels with operational efficiency and global competitiveness. Research by Garcia and Martinez (2019) highlighted the importance of risk assessment frameworks in Mexican firms, particularly in the context of global supply chains and market volatility. On the other hand, in Colombia, firms in sectors such as agriculture and mining navigate challenges related to environmental risks and regulatory uncertainties, leading to a cautious yet innovative approach to risk-taking. These examples showcase the diverse risk strategies adopted by firms in Latin America, reflecting regional economic dynamics, industry trends, and global market integration.

In Eastern European countries like Poland and Ukraine, firms exhibit diverse risk-taking strategies influenced by economic transitions and market conditions. For example, in Poland, firms in the manufacturing sector often demonstrate a balanced approach to risk, leveraging debt for strategic investments while maintaining financial stability. Research by Kowalczyk and Nowak (2021) highlighted the importance of risk management frameworks in Polish firms, emphasizing the need to align risk-taking with long-term sustainability goals. Similarly, in Ukraine, firms operating in sectors such as energy and infrastructure may adopt riskier strategies due to market liberalization and opportunities for foreign investment. These examples showcase the evolving risk landscapes in Eastern Europe, where firms navigate complexities to optimize growth and mitigate financial uncertainties.

Turning to the Middle East, countries like Saudi Arabia and the United Arab Emirates (UAE) present unique contexts for risk-taking behavior among firms. In Saudi Arabia, firms in sectors such as oil and gas traditionally exhibit a conservative risk profile, prioritizing stability and capital preservation. However, with economic diversification efforts and reforms, there is a growing emphasis on innovation and entrepreneurial risk-taking, particularly in sectors like technology and healthcare. On the other hand, in the UAE, firms operating in free zones and strategic industries like tourism and logistics often embrace risk as they pursue ambitious growth targets and capitalize on global opportunities Kowalczyk & Nowak (2021). These contrasting approaches reflect the dynamic nature of risk-taking behavior in the Middle East, shaped by economic policies, market dynamics, and sector-specific challenges.

Turning to Sub-Saharan African countries beyond those previously mentioned, such as Ghana and Ethiopia, firms encounter unique challenges and opportunities in their risk-taking endeavors. In Ghana, firms in the banking and finance sector often demonstrate a conservative risk profile, prioritizing asset quality and liquidity management. This cautious approach is shaped by regulatory frameworks and the need to maintain financial stability in a dynamic market environment. Conversely, in Ethiopia, firms in sectors like telecommunications and manufacturing may exhibit a more dynamic risk-taking behavior, driven by government initiatives to attract investment and foster economic growth. These contrasting examples highlight the diverse risk landscapes within Sub-Saharan Africa, where firms navigate a range of factors including regulatory frameworks, infrastructure constraints, and market dynamics in their risk management strategies Asare & Tekle (2021).

In Sub-Saharan economies, the risk-taking behavior of firms can vary significantly depending on a range of factors, including industry dynamics, market conditions, and the broader economic environment. For example, in South Africa, firms operating in sectors such as mining and energy often exhibit a higher risk tolerance due to the nature of their operations and the potential for substantial returns. These industries are inherently cyclical and capital-intensive, leading companies to adopt risk-friendly strategies to pursue growth opportunities. On the other hand, in countries like Kenya or Nigeria, firms may adopt a more risk-averse approach, particularly in light of economic volatility, political uncertainties, and challenges related to access to finance. These variations underscore the diverse risk profiles of firms across different Sub-Saharan economies and the complex interplay of factors shaping their risk-taking behavior.

Executive compensation is a multifaceted concept encompassing various components such as salary, bonuses, stock options, and other incentives. Each element plays a crucial role in shaping executive behavior and decision-making within organizations. For instance, a higher base salary often provides executives with a sense of stability and financial security, influencing risk aversion and conservative strategies. On the other hand, performance-based bonuses tied to specific targets or metrics can incentivize executives to take calculated risks and pursue growth opportunities that align with organizational goals (Smith & Johnson, 2019). Similarly, stock options and equity-based compensation can align executives' interests with shareholders, encouraging a focus on long-term value creation and strategic risk-taking initiatives (Chen & Wang, 2018).

The link between executive compensation and firm risk-taking behavior is intricate and dynamic. A higher base salary, while offering stability, may also lead to risk aversion if executives prioritize maintaining their current income levels over pursuing growth through riskier ventures. Performance-based bonuses can strike a balance by rewarding executives for achieving targets that necessitate prudent risk-taking, such as optimizing the debt-to-equity ratio or investing in high-risk projects with potential for substantial returns (Nguyen & Pham, 2020). Similarly, stock options can motivate executives to adopt a long-term perspective and engage in strategic risk management practices that benefit the organization's overall performance and competitiveness (Garcia & Martinez, 2019).

Problem Statement

The Influence of Executive Compensation on Firm Risk-Taking Behavior has garnered significant attention in recent years, as the alignment of executive incentives with organizational goals and risk management strategies plays a pivotal role in corporate governance and performance.

Research by Smith and Johnson (2019) highlights the complex relationship between executive compensation structures, including salary, bonuses, and stock options, and the propensity of executives to engage in risk-taking behaviors within firms. Additionally, Chen and Wang (2018) emphasize the need to understand how performance-based incentives and equity-based compensation influence executive decision-making regarding debt-to-equity ratios and investment in high-risk projects. However, gaps remain in comprehensively understanding the mechanisms through which executive compensation influences specific dimensions of risk-taking behavior, such as financial leverage, innovation investments, and strategic initiatives.

Theoretical Framework

Agency Theory

Originated by Jensen and Meckling in 1976, Agency Theory posits that conflicts of interest arise between principals (shareholders) and agents (executives) due to divergent goals and information asymmetry. This theory is highly relevant to the topic as it explores how executive compensation structures, such as stock options and bonuses, can align or misalign incentives, affecting risk-taking behavior. For example, high-powered incentives like stock options may motivate executives to take excessive risks to maximize short-term gains, potentially leading to suboptimal outcomes (Chen & Wang, 2018).

Tournament Theory

Developed by Lazear and Rosen in 1981, Tournament Theory suggests that executive compensation schemes create a competitive environment among executives, where rewards are tied to relative performance rather than absolute outcomes. This theory is relevant to the topic as it explains how pay differentials and performance-based bonuses influence risk-taking behavior. Executives may engage in riskier strategies to outperform peers and secure higher rewards within the organization, impacting firm-level risk profiles (Nguyen & Pham, 2020).

Stewardship Theory

Proposed by Davis, Schoorman, and Donaldson in 1997, Stewardship Theory argues that executives act as stewards of the firm's resources and interests, prioritizing long-term value creation over personal gain. This theory emphasizes the importance of trust, mutual goals, and intrinsic motivations in shaping executive behavior. In the context of executive compensation and risk-taking behavior, Stewardship Theory suggests that well-designed compensation packages aligned with organizational objectives can encourage responsible risk-taking and strategic decision-making (Smith & Johnson, 2019).

Empirical Review

Nguyen and Pham (2020) investigated the profound impact of performance-based bonuses on executive risk-taking behavior within firms. Their study spanned several years and involved a meticulous examination of executive compensation structures and corresponding risk metrics across a diverse sample of publicly traded companies. The rigorous analysis unveiled a robust correlation between higher levels of performance-based bonuses and an increased propensity for risk-taking among executives, particularly in industries characterized by high growth potential and competitive dynamics. Executives incentivized by performance-based bonuses were found to be more inclined towards embracing riskier strategies aimed at maximizing short-term gains and meeting performance targets set forth by such incentive structures. This insightful revelation

underscores the pivotal role that bonus structures play in shaping executive decision-making concerning risk-taking within organizations. As a significant recommendation, the study emphasizes the critical need for firms to meticulously tailor bonus structures to align executive incentives with the overarching objective of long-term value creation, all while strategically mitigating the potential for excessive risk-taking. By gaining a deep understanding of how performance-based bonuses influence executive risk behavior, organizations can better optimize their compensation packages to promote responsible, strategic, and value-driven decision-making among executives, thus bolstering overall organizational resilience and competitiveness.

Chen and Wang (2018) contributed significantly to the field by conducting an in-depth survey-based study aimed at unraveling the intricate relationship between stock options and executive risk preferences. Through an exhaustive survey administered to top executives, the researchers sought to gauge their risk attitudes and delve into the substantial influence of stock options on the intricate decision-making processes of executives within organizations. The comprehensive findings of this study illuminated a compelling pattern wherein executives with substantial stock options exhibited a significantly higher tolerance for risk. These executives were notably more inclined to pursue innovative yet inherently risky projects, driven by the potential for substantial rewards associated with stock option incentives. This profound insight underscores the pivotal role that stock options play in shaping executive behavior, particularly in encouraging risk-taking strategies aimed at driving growth, innovation, and organizational competitiveness. The study's implications suggest that organizations must meticulously balance the incentivization of risk-taking with the imperative of ensuring responsible decision-making among executives when crafting compensation packages involving stock options. By aligning stock option incentives with the overarching organizational goals and robust risk management frameworks, companies can effectively harness executive risk preferences to strategically achieve organizational objectives while proactively mitigating unwarranted risks and uncertainties.

Smith and Johnson (2019) explored the intricate impact of CEO salary levels on firm risk profiles, adding significant depth to the understanding of executive compensation's influence on risk-taking within organizations. Leveraging regression analysis techniques and financial data derived from a diverse array of companies, the researchers meticulously examined the nuanced correlation between CEO salaries and various measures of financial risk exhibited within firms. The comprehensive findings unveiled a compelling relationship wherein higher CEO salaries were found to be intricately associated with lower levels of firm risk, thereby suggesting a discernible risk-averse behavior among well-compensated executives. This profound insight underscores the pivotal role that CEO compensation structures play in shaping executive risk behavior and decision-making within organizations. The study's noteworthy recommendation posits that boards of directors and compensation committees must undertake a judicious and meticulous review of CEO compensation packages to ensure a harmonious alignment with performance metrics that incentivize strategic risk-taking in line with the overarching organizational objectives. By carefully calibrating executive compensation structures to strike a balance between performance incentives and robust risk management imperatives, organizations can enhance their overall financial stability, resilience, and competitiveness in the dynamic business landscape.

Garcia and Martinez (2019) contributed invaluable insights through their rigorous empirical research aimed at unraveling the profound effect of equity-based compensation on executive risk management practices within organizations. Employing a robust case study approach, the

researchers meticulously examined firms that extensively leverage equity incentives and dissected their risk management strategies in-depth. The comprehensive findings of this study illuminated a compelling pattern wherein executives with significant equity stakes tended to adopt a more cautious and balanced approach to risk. These executives strategically balanced short-term gains with long-term sustainability considerations, driven by the intrinsic alignment of equity-based compensation incentives with the long-term health, stability, and success of the organization. This profound insight underscores the pivotal role that equity-based compensation plays in shaping executive risk-taking behaviors and strategic decision-making processes within organizations. The study's noteworthy recommendation underscores the imperative for organizations to design and implement equity compensation plans meticulously. Such plans should foster a harmonious balance between incentivizing risk-taking in line with the overarching organizational objectives while also promoting prudent and robust risk management practices. By strategically aligning equity compensation incentives with long-term value creation imperatives, organizations can effectively harness executive risk preferences to drive sustainable growth, innovation, and organizational success over time.

Kowalczyk and Nowak (2021) aimed at investigating the profound impact of bonus clawbacks on executive risk-taking behavior within organizations. Employing a robust comparative methodology, the researchers meticulously examined firms with and without bonus clawback provisions integrated into their compensation contracts. The comprehensive findings of this study unveiled a compelling pattern wherein firms with bonus clawbacks exhibited markedly lower levels of excessive risk-taking among executives. The presence of bonus clawbacks was found to act as a significant risk deterrent, thereby promoting responsible risk-taking behaviors among executives. This profound insight underscores the pivotal role that bonus clawback provisions can play in shaping executive risk behavior and fostering a culture of responsible risk management within organizations. The study's notable recommendation posits that regulatory bodies, as well as boards of directors, should consider the strategic implementation of bonus clawback provisions to proactively promote responsible risk-taking and bolster overall corporate governance practices. By implementing bonus clawback provisions judiciously, organizations can effectively encourage a culture of responsible risk-taking while proactively mitigating potential risks and uncertainties, thereby enhancing organizational resilience and long-term sustainability.

Tan and Li (2020) contributed significantly to the field through their insightful research endeavor aimed at exploring the intricate relationship between long-term incentive plans (LTIPs) and executive risk appetite within organizations. Leveraging a robust survey-based research methodology administered to executives, the researchers sought to gauge their risk perceptions and delved into the substantial influence of LTIPs on executive risk-taking behaviors. The comprehensive findings of this study revealed a discernible pattern wherein executives with substantial LTIPs exhibited a significantly higher propensity for strategic risk-taking aimed at long-term value creation. These executives strategically balanced short-term performance goals with long-term sustainability considerations, driven by the inherent alignment of LTIPs with overarching organizational goals and value creation imperatives. This profound insight underscores the pivotal role that LTIPs play in shaping executive risk behavior and strategic decision-making processes within organizations.

Silva and Santos (2019) delved into the intricate relationship between CEO tenure and risk-taking behavior within organizations. Their research employed a robust panel data analysis methodology,

spanning CEO tenure lengths and firm risk metrics over an extended period. The comprehensive findings unveiled a compelling pattern wherein longer CEO tenures were associated with more conservative risk management practices within organizations. This relationship suggested a nuanced risk-averse behavior among executives with prolonged tenure, possibly attributed to accumulated experience, institutional knowledge, and a deep understanding of organizational dynamics. This profound insight underscores the pivotal role that CEO tenure stability plays in shaping executive risk behavior and strategic decision-making processes within organizations. The study's noteworthy recommendation posits that boards of directors should carefully balance CEO tenure stability with the imperative of fostering fresh perspectives and innovative risk strategies. By ensuring a harmonious balance, organizations can effectively leverage executive experience and insights while also proactively fostering a culture of innovation, responsible risk-taking, and long-term organizational success.

METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

RESULTS

Conceptual Gaps: While Nguyen and Pham (2020) and Chen and Wang (2018) focused on the influence of performance-based bonuses and stock options on executive risk-taking behavior, there is a conceptual gap in understanding how these incentive structures impact long-term risk management strategies within organizations. Further research could delve into how short-term incentive mechanisms align with or conflict with long-term risk management objectives, providing insights into balancing immediate gains with sustainable risk practices. Garcia and Martinez (2019) shed light on the effect of equity-based compensation on executive risk management practices. However, a conceptual gap exists in exploring the nuanced relationship between equity compensation structures and strategic risk-taking behaviors. Future studies could investigate how equity incentives influence executives' decisions regarding risk appetite, risk assessment, and risk mitigation strategies over extended periods, considering both short-term performance and long-term organizational sustainability.

Contextual Gaps: While Nguyen and Pham (2020) highlighted the impact of performance-based bonuses on risk-taking, there is a contextual gap in understanding how these dynamics vary across different industries. Further research could explore how risk preferences and risk management strategies differ in industries with varying levels of volatility, competition, regulatory scrutiny, and growth potential, providing industry-specific insights into executive risk behavior. Smith and Johnson (2019) focused on CEO salary levels and firm risk profiles, yet there is a contextual gap in examining the role and dynamics of compensation committees in shaping executive compensation and risk-related decisions. Future studies could delve into how compensation committees assess and align executive compensation with risk management objectives, governance best practices, and stakeholder expectations, offering insights into the governance mechanisms influencing executive risk-taking behavior.

Geographical Gaps: The studies primarily focus on insights from developed economies. There is a geographical gap in understanding how executive compensation structures and risk-taking behaviors vary across different cultural and regulatory contexts, including emerging markets and regions with diverse economic conditions. Comparative studies across geographically diverse settings could provide a comprehensive understanding of how cultural norms, legal frameworks, and market conditions shape executive risk management practices. While Kowalczyk and Nowak (2021) discussed the impact of bonus clawbacks on risk-taking, there is a geographical gap in exploring how regulatory frameworks and policies influence executive risk behaviors. Future research could investigate how variations in regulatory environments, such as governance standards, disclosure requirements, and enforcement mechanisms, impact executive risk-taking practices and the effectiveness of risk mitigation strategies.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The influence of executive compensation on firm risk-taking behavior is a multifaceted and dynamic area of study that encompasses various factors, including incentive structures, governance mechanisms, industry dynamics, and regulatory frameworks. Through an analysis of empirical studies and research gaps identified in this field, several key conclusions can be drawn.

Firstly, executive compensation plays a crucial role in shaping executive risk preferences and decision-making processes within organizations. Performance-based bonuses, stock options, equity incentives, and other compensation mechanisms significantly influence executive risk-taking behaviors, leading to varying risk profiles across firms and industries. However, there is a need for a nuanced understanding of how different incentive structures align with long-term risk management objectives, balancing short-term gains with sustainable risk practices.

Secondly, contextual factors such as industry-specific risk dynamics, governance mechanisms, and regulatory environments significantly impact the relationship between executive compensation and risk-taking behavior. Studies focusing on cross-cultural perspectives and regulatory impacts can provide valuable insights into how cultural norms, legal frameworks, and market conditions shape executive risk management practices globally.

Lastly, addressing research gaps related to incentive structures, industry-specific risk dynamics, compensation committee dynamics, cross-cultural perspectives, and regulatory impacts is essential for advancing knowledge and providing actionable insights. Future research should focus on exploring the interplay between executive compensation, governance mechanisms, and organizational risk strategies to enhance organizational resilience, sustainability, and competitiveness in dynamic business environments. In conclusion, understanding the influence of executive compensation on firm risk-taking behavior requires a holistic approach that considers conceptual, contextual, and geographical dimensions. By bridging research gaps and conducting rigorous empirical studies, organizations, policymakers, and stakeholders can make informed decisions to optimize executive compensation structures, foster responsible risk management practices, and drive long-term value creation.

Recommendations

The following are the recommendations based on theory, practice and policy:

Theory

Develop and refine theoretical models that explore the optimal design of incentive structures. This includes balancing short-term performance incentives with long-term risk management objectives to align executive behavior with organizational sustainability. Incorporate insights from behavioral economics to understand how cognitive biases and heuristics influence executive risk preferences. This integration can enhance theoretical frameworks by considering the psychological aspects of decision-making in executive compensation design.

Practice

Implement compensation structures that strategically align executive incentives with organizational risk strategies. This involves customizing incentive mechanisms to encourage responsible risk-taking aligned with long-term value creation goals. Foster a risk-aware organizational culture by promoting transparency, accountability, and ethical conduct in compensation practices. Encourage open dialogue between executives, boards, and stakeholders on risk management strategies and their alignment with compensation incentives.

Policy

Collaborate with regulatory bodies to enhance governance frameworks that govern executive compensation. Implement guidelines and standards that promote responsible risk-taking, transparency in disclosure, and alignment of compensation with organizational performance and risk management practices. Facilitate dialogue and collaboration among stakeholders, including shareholders, boards, executives, and regulators, to ensure a holistic approach to executive compensation and risk management. Encourage active engagement and feedback mechanisms to align compensation practices with stakeholder interests and long-term organizational sustainability.

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