

SHAREHOLDER LITIGATION AND EARNINGS MANAGEMENT

Bo Ouyang

Associate professor of accounting
Great Valley School of Graduate Professional Studies
Pennsylvania State University

Abstract: Protection of investors' interest is the focus point of corporate governance. Designed as a corporate governance mechanism, shareholder litigations enable investors to pursue legal actions to recover their losses in the event of corporate wrongdoings. In this study, we examine whether shareholder litigation risk can constrain earnings management. Our sample period spans over 1990-2016. Our evidence suggests a strong limiting effect of shareholder litigation risk and earnings management, proxied by abnormal accruals. Our study thus provides empirical evidence to support the corporate governance role of shareholder litigation.