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New Academic Study Confirms That Institutional Investors' Leadership of Securities Litigation Actions Enhances Investors' Recoveries and Improves Corporate Governance

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In the forthcoming issue of the *Journal of Financial Economics*, an academic study entitled "Institutional Monitoring Through Shareholder Litigation," by C.S. Agnes Cheng of Louisiana State University, Henry Huang of Prairie View A&M University, Yinghua Li of Purdue University, and Gerald J. Lobo of the University of Houston, concludes that institutional investors serving as lead plaintiffs in securities litigation actions results in increased success, larger settlements, and improves the quality of defendant companies' corporate governance.

The study notes a trend of increasing institutional involvement in securities litigation and underscores the important monitoring role of institutions, from both an immediate disciplining of management as well as a long-term corporate governance perspective. It notes that after the lawsuit filings, the defendant firms in cases with institutional lead plaintiffs experience greater subsequent governance improvement - particularly in their board independence - than defendant firms in cases with individual lead plaintiffs.

The study's findings also reinforce the conclusions and results of numerous other prior academic and professional analyses - that institutional investors as lead plaintiffs achieve larger monetary recoveries than do individual investors, and securities class actions with institutional owners as lead plaintiffs are less likely to be dismissed.

In their conclusion, the authors posit that securities litigation is indeed a meaningful lever for institutional investors to make their voice heard: "In light of the ineffectiveness of traditional institutional monitoring channels (e.g., private communication and filing proposals, etc.) and the increasing number of securities litigations, institutional investors could use litigation as a mechanism to discipline management and to secure the long-term health of the firms."

The paper is available here.