

IT Compliance Advisor

For IT professionals who manage IT compliance

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Study: Earnings misstatement is infectious

A study that examined 2,376 financial restatements made by companies between 1997 and 2008 found that firms are more likely to [misstate their own earnings](#) after another company in their industry or region publicly announced a restatement. However, when a misstating firm was penalized by the SEC, faced lawsuits, or media reports surfaced regarding their malpractices, their peers did not imitate misconduct, the study discovered. This finding, the authors said, suggests the “deterrent effects of enforcement activity.”

The study, which was published by the [American Accounting Association](#), [did not identify particular companies](#), but uncovered that when larger and higher-profile firms manipulated their earnings, misconduct was more likely to be copied by others in their industry. The study also found that imitation stopped during the years between 2003 and 2005, likely due to enforcement actions related to the [Sarbanes-Oxley \(SOX\) Act](#). The trend resurfaced between 2006 and 2008, possibly because “the sting associated with SOX has worn off,” the authors said