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The Impact of the Sarbanes-Oxley Act of 2002 on Corporate Legal Liability

2008-2009

Faculty: John M. Mezias, PhD

School of Business Administration

Abstract

The Sarbanes-Oxley Act of 2002 (SOX) represents “the most far-reaching reforms of American business practices since the time of Franklin D. Roosevelt” (Bumiller, 2002). Crafted in response to corporate scandals that shook investor confidence in financial reporting, this sweeping legislation affects all publicly-held firms in the United States (U.S.), their boards, and public accounting firms. While some cost benefit analyses of this legislation exist, there are few examinations of how this legislation affects important aspects of corporate behavior. Specifically, I know of no research investigating if more diligent governance and compliance routines mandated by SOX has reduced the number of lawsuits firms face. Utilizing corporate governance and legal environment theories, this research compares firms’ legal liability in the 4 years before SOX with the 4 years after SOX to determine how this legislation affects corporate civil and criminal lawsuits. Examining relationships between corporate governance structures and types of lawsuits should highlight patterns of change stemming from this legislation. This legislation remains controversial and on April 29, 2007 the U.S. Senate rejected an attempt to limit SOX, but asked regulators to review this legislation. Both supporters and detractors of SOX seek research that could serve as the basis for ‘position papers’ for upcoming deliberations on SOX. Thus, in addition to being of interest to both executives and academics, this research could potentially affect public policy regarding SOX.