

**INDIVIDUAL INVESTOR REACTION TO CORPORATE GOVERNANCE RESTRUCTURING FOLLOWING
AN EARNINGS RESTATEMENT EVENT: CONFIDENCE RESTORED?**

R. Steven Flynn, Thomas More College, USA

[dx.doi.org/10.18374/JIBE-13-3.7](https://doi.org/10.18374/JIBE-13-3.7)

ABSTRACT

Experts maintain that the increased number of earnings restatements in recent years has led to a precipitous decline in investor confidence in the financial reporting process of publicly traded companies. In an attempt to counter investor mistrust, restating firms have frequently initiated major changes in their corporate governance structures. While recent archival research of aggregate stock market reactions points to the potential effectiveness of such alterations, their efficacy in countering individual investor skepticism remains less clear. Using an experimental case as a basis of investigation, this study explores nonprofessional investors' reactions to governance restructuring enacted in response to an earnings restatement. It finds that individual investors perceive prompt governance modifications, in particular the replacement of the CEO and implementation of additional board member restrictions, as enhancing the reliability of reported earnings in the year following an earnings correction. These results suggest that corporate governance restructuring may serve as a credible means by which firms can begin to rebuild individual investor confidence lost in the aftermath of an earnings restatement.

Keywords: *Earnings Restatements, Corporate Governance, Investor Confidence, Earnings Quality.*