The Ups and downs of corporate litigation

Dr. Matteo Arena calls corporate litigation an “external form of discipline,” a mechanism that keeps C-suite executives and governing boards honest. He also says it can often be an inefficient form of discipline.

An assistant professor of finance, Arena studies corporate governance and debt, and some of his latest research looks closely at how companies’ litigation risk affects their cash holdings. According to Arena, companies that are at greater risk of getting sued tend to hold onto more cash.

“It’s intuitive,” he says. “They need to be able to cover not just settlement costs, but also legal fees, including attorneys. And there are implicit costs: customer and supplier losses and negative publicity.”

Curiously, though, Arena found that the converse is not true: Shareholders are not more likely to sue companies with high liquidity. “Just because a company has more cash,” Arena explains, “doesn’t mean they are more likely to get sued.”

Arena points out that corporate lawsuits — and settlement amounts — have increased exponentially in the past 20 years. Further, his research found that the impact of litigation risk on cash holdings is not limited to firms that are actually sued. For instance, when a company is brought into class-action litigation, peer institutions in the same industry respond by increasing their liquidity to compensate for a perceived increase in risk exposure.

As a result, he says, companies across the board have become substantially more risk averse. And when these companies hold onto more cash, they invest less.

“This has significant implications on employment,” Arena notes. “When companies hold onto cash, they’re not growing, they’re not hiring. Even though litigation is a form of external governance with potential benefits, it has also a counterproductive effect.” — CS

BILINGUAL OR NOT: HOW LANGUAGE POLICY IMPACTS CLASSROOM ACHIEVEMENT

What is the best way to teach the increasing number of students for whom English is not their native language?

This question has become a politicized issue and the subject of heated debate in recent years. It’s also at the heart of the immersion and bilingual education research being conducted by Dr. Francesca Lopez, assistant professor of educational policy and leadership.

“Math and science achievement among new immigrants, particularly those struggling to learn the dominant language, is an issue of considerable importance in the U.S.,” Lopez says.

Lopez’s findings show that in states with the highest concentration of Hispanic students, a stronger bilingual education emphasis meant significantly better fourth-grade reading achievement scores among Hispanic English language learners and Hispanic non-ELLs. Now she’s expanding her study to look at math and science results, as well.

“Anti-language policies can be seen as anti-culture messages,” Lopez says. “And when you target a population and say, ‘You can’t use your language and heritage in school,’ they did worse.”

However, there is no uniform approach for teaching ELL students. Some states, such as Arizona, California and Massachusetts, don’t allow any languages other than English to be used in the classroom. Other states, like New Mexico, Texas and Wisconsin, require bilingual education, which incorporates instruction in students’ native language as students acquire English. Still others allow both English immersion and bilingual education, lacking any mandate.

As a result, Lopez concludes that educational policies that vary widely between states have very different — and lasting — effects on this growing student population.

“Ultimately, I want to make the public aware that forcing assimilation by attempting to eliminate students’ cultural heritage will only widen disparities,” she says. — TC