

# **Creditor protection and Real earning management: Empirical evidence from a quasi-natural experiment**

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## **Abstract**

This study examines the relationship between creditor protection and real earning management, using the establishment of bankruptcy courts as a quasi-natural in Chinese firms listed from 2014 to 2023. The effects of bankruptcy court establishment on firm real earning management are more significant for non-big4 firms, firms with high financial constraints. Decreasing firms' inefficient investment and corporate risk-taking are the two mechanisms through which the establishment of bankruptcy courts reduces firm real earning management. These findings remain valid after sequential robustness checks. Overall, our findings imply that enhancing creditor protection can compel firms to elevate disclosure quality. Our study enriches the literature on the outcomes of bankruptcy system reform and determinants of real earning management.

**Keywords:** Bankruptcy court; Judicial efficiency; Creditor protection; Real earning management

**JEL Classification:** M41, G33, K10