

## **Does corporate outside counsel better serve shareholders or managers?**

Although outside counsel should owe allegiance to the corporation as a whole, in practice, outside attorneys are claimed to serve managers' rather than shareholders' interests. We find evidence consistent with this claim, and show that companies represented by top law-firms have higher accruals, higher management compensation, and weaker governance. Recent regulation that sought mechanisms to ensure attorneys serve shareholders, has met with fierce opposition from law firms, and was eventually watered down. Our results suggest that outside attorneys indeed serve managers, sometimes at the expense of shareholders' interests.