WHO MAKES THE DECISION? MANAGERIAL INFLUENCE ON CORPORATE

BOARDS AND AUDITOR SELECTION, CHANGE, AND COMPENSATION

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This dissertation examines whether managers influence corporate boards of directors in their auditor selection, change, and compensation decisions. This topic is important because it addresses concerns that the Sarbanes-Oxley Act of 2002 (SOX) is not effective in eliminating managerial influence over auditor engagement decisions and that it may provide a false sense of security to investors. These concerns are based on the implicit assumption that managers prefer weaker governance oversight and lower audit quality. However, empirical research testing associations between managerial influence and audit-related decisions post-SOX is scarce and generally guided by agency theory. Incorporating agency, stewardship, and resource dependence perspectives, I find that managerial preferences for auditor selection are not aligned. Specifically, CEOs positively influence the selection of higher quality auditors, whereas CFOs have the opposite effect. Further, CEOs who hold powerful roles as chairs of their companies' boards of directors appear to mitigate the negative influence of CFOs and inside directors on audit quality. CEOs serving in dual roles also oppose auditor turnover when lower earnings quality prompt higher demand for audit effort. Finally, my study provides some evidence that management exercises downward pressures on audit fees, suggesting that managers utilize their authority beyond the regulations established by SOX to negotiate auditor compensation.

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CHAPTER 1

INTRODUCTION

This dissertation examines the impact of managerial influence on auditor selection, change, and compensation decisions by corporate boards of directors (boards) and their audit committees. Recent surveys and interviews report that management continues to provide input into the auditor selection process post Sarbanes-Oxley Act of 2002 (SOX) (Cohen, Krishnamoorthy, and Wright 2010; Almer, Philbrick, and Rupley 2014; Dhaliwal, Lamoreaux, Lennox, and Mauler 2015). Following financial scandals in the early 2000s (i.e., Enron, WorldCom, etc.), SOX regulations were enacted to restore and improve investor confidence in financial reporting by corporations. Specifically, SOX requires that audit committees be directly responsible in their oversight of the financial reporting and audit process, including auditor selection, evaluation, and compensation. This statutory requirement aims to enhance auditor independence by eliminating managerial influence over the external auditor. Presumably, this is to align auditor incentives with those of shareholders, represented by corporate boards. However, researchers and practitioners have expressed concerns that SOX regulations may provide a false sense of security if management continues to impact the auditor selection process (Cohen et al. 2010, Beck and Mauldin 2014; Dhaliwal et al. 2015).

Yet, SOX also increased executive managers' accountability for financial reporting accuracy, which may have influenced managerial preferences for certain auditor characteristics or audit services to enhance the credibility of corporate financial statements. Additionally, there is some evidence that interactions between management and boards can benefit corporate governance and improve board decisions (DeZoort, Hermanson, Archambeault, and Reed 2002; Cohen, Krishnamoorthy, and Wright 2004; Beasley, Carcello, Hermanson, and Neal 2009).

Accounting researchers have turned to a multitude of theories, predominantly agency theory, in an attempt to better understand the relationship between management and boards. The notion that management plays an important role in the governing mechanism is somewhat inconsistent with agency theory's premise that boards should monitor management to prevent, or at least mitigate, opportunistic behavior by managers. Thus, under the agency view, boards are more effective in their oversight and monitoring role if they are separate and independent of management. However, viewing corporate governance in strictly monitoring roles limits our full understanding of managerial behavior and organizational performance (Larcker, Richardson, Anthony, and Tuna 2005; Becher and Frye 2011). For example, Cohen et al. (2004) point out that "management potentially has a significant impact on the effectiveness of the corporate governance structure" (p. 91). As such, managerial influence on corporate governance can have positive outcomes. For example, managerial power has been associated with enhanced leadership, reduced information asymmetry, and improved firm performance (Anderson and Anthony 1986; Brickley, Coles, and Jarrell 1997; Dey, Engel, and Liu 2011). In contrast, accounting scandals (i.e., Enron, WorldCom, etc.) leading to the enactment of SOX have shown that powerful managers can weaken or outwit oversight by corporate boards. Cohen et al. (2004) posit that even post-SOX, governance activities can be undermined if management does not subject itself to monitoring by boards.

Given the strong focus on the board's monitoring role, the majority of accounting research utilizes agency theory as the guiding framework and focuses primarily on boards and audit committees as the principal decision makers in corporate governance. Yet, governance measures utilizing characteristics of boards and audit committees fail to account for management's influence on these governance mechanisms. Additionally, the agency perspective

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assumes that managers engage in opportunistic behavior. This view potentially undervalues management's contribution to the overall effectiveness of a company's governance framework and their role in ensuring the quality of financial reporting. Auditors recognize that managers can potentially exercise significant influence on corporate governance and thereby, include managerial incentives and activities in their assessment of corporate governance efficacy (Cohen et al. 2004). In summary, the agency theory's focus on the monitoring role of the board may not fully account for other important factors that influence auditor selection decisions.

Due to the limitations of agency theory, a more comprehensive framework should include additional perspectives, such as stewardship as well as resource dependence views, and consider the positive interplay among boards and managers. Specifically, the stewardship view presumes that managers, as trustworthy stewards of their companies, do not need to be monitored (Davis, Schoorman, and Donaldson 1997). The resource dependence perspective holds that managers and directors work together to overcome their dependence on scarce resources (Pfeffer and Salancik 1978). While management leads these efforts, the board's role is that of a helper and partner, rather than that of a monitor. Taken together, stewardship and resource dependence theories assume that managers act in the best interest of their companies and form coalitions among management and boards in which managerial leadership provides unity. Supplementing agency theory with these two alternative views provides a more complete picture of the complex interactions among management and boards. Thus, utilizing multiple perspectives provides additional opportunities to examine whether and how managerial influence on boards and audit committees impacts companies' auditor selection, change, and compensation decisions.

Finally, the majority of archival accounting studies examining associations between managerial influence on board of directors and audit committees utilize pre-SOX data. However,

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SOX has significantly increased management's responsibility and accountability for the accuracy of their company's financial statements and disclosures. Therefore, post-SOX, managerial incentives related to the independent evaluation of financial performance and reporting may be much closer aligned with the incentives of shareholders and boards. In the post-SOX era, the literature provides little insight into whether managerial influence on corporate boards and audit committees is associated with auditor selection decisions. I address this gap in the literature by examining multiple forms of managerial influence on corporate boards and audit committees to determine whether and how management influences auditor-related decisions. Specifically, I investigate whether managers influence (a) the selection of high quality auditors; (b) auditor change; and (c) auditor compensation.

I utilize four databases for this dissertation: BoardEx, ExecuComp, Audit Analytics, and Compustat North America (Compustat). BoardEx and ExecuComp provide information on board and audit committee composition. Audit Analytics provides audit fee, audit office location, and audit firm market share data, while Compustat is a source of company-specific financial information. Over the sample period of 2006-2018, I obtain 14,595 company-year observations.

Findings show that managers' functional roles drive managerial preferences for audit quality. CEOs, the most influential managers in a company, are positively associated with the selection of high-quality auditors, whereas CFOs and insiders have the opposite effect. Additionally, CEOs serving as chairpersons on corporate boards appear to mitigate the negative effects that CFOs and insiders serving on board have on companies' decisions to hire high-quality auditors. Finally, I find that management exercises downward pressures on auditor compensation, suggesting that managers utilize their authority beyond the parameters established by SOX to negotiate audit fees with the external auditor.

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I contribute to the literature in corporate governance and auditing in several ways. I provide insights into the multiple dimensions of managerial influence on auditor selection, change, and compensation by examining the effect of one form of managerial influence while controlling for the effects of the others. Next, I show that the influence of CEOs serving as chairpersons on corporate boards mitigates the opposite effects of other managers serving on boards. Taken together, I reconcile, to some extent, the different views of agency, stewardship, and resource dependence theories. Finally, I find that management exercises downward pressures on audit fees despite one of the aims of SOX to eliminate managerial influence over the external auditor and auditor compensation decisions.

The remainder of this dissertation is organized into chapters. Chapter 2 reviews and synthesizes prior literature of managerial influence on corporate boards and relevant insights related to managerial influence on auditor selection. Chapter 3 presents the theory, hypotheses development, and research methodology utilized. Chapter 4 presents and discusses the results of this study and Chapter 5 concludes this dissertation.

CHAPTER 2

REGULATORY BACKGROUND AND LITERATURE REVIEW

2.1     Regulatory Background and the Role of Corporate Governance

Corporate governance is defined as a framework of rules, practices, and processes that direct and control a company (Blue Ribbon Committee Report 1999; Sarbanes-Oxley 2002; Cohen et al. 2004). A company's board of directors is the primary force that influences corporate governance. While companies decide on their own optimal level of "good" governance, lacking good or strong corporate governance may threaten a company's integrity, reliability, and financial health. After a series of corporate accounting scandals in the United States in the early 2000s (e.g., Enron, WorldCom, etc.), the effectiveness of corporate governance, specifically, board oversight, came into question. In response, the U.S. Congress enacted SOX in July 2002 to enforce a standard of corporate governance and restore investors' confidence in the financial markets. Consequently, SOX has had a profound effect on corporate governance of public companies trading on U.S. stock exchanges.

Prior to SOX, the degree of board independence was decided by each company. Post-SOX, public companies are required to maintain a simple majority of independent directors on the board. SOX defines an independent director as one who (1) does not accept any consulting, advisory, or other compensation from the company, and (2) is not an affiliated person of the company or of its subsidiaries. However, SOX also imposed even higher levels of independence on audit committees, which are subsets of the board of directors. In addition to mandating that all public companies have audit committees, all its members are required to be independent directors. Additionally, although the full board retains oversight authority, the audit committee has latitude in overseeing the financial reporting and audit process under SOX. Thus, the audit

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committee is responsible for appointing, compensating, and overseeing the company's external auditor. The audit committee is also responsible for approving audit and non-audit services, as well as handling complaints regarding management's accounting practices.

While SOX aimed to improve corporate governance by increasing independence requirements of public companies' boards and audit committees, it also increased management's responsibility for financial reporting. SOX requires that executive managers, specifically the CEO and CFO, personally certify the accuracy of financial reports, making them liable for the accuracy of their financial statements. If directors or managers of public companies are convicted of securities law violations, they can be barred from serving in governance roles at any other public company in the United States.

## 2.2    Literature Review

Highly publicized financial reporting frauds and subsequent regulatory reforms mandated by SOX have resulted in hundreds of corporate governance studies in accounting and auditing research. Predominantly, this stream of research draws on agency theory as the overarching framework (Jensen and Meckling 1976; Fama and Jensen 1983), thereby assuming that managers, if not monitored, engage in opportunistic behavior and that boards are more effective monitors of management's actions if they are separate and independent of management (Cohen et al. 2004, 2008).

Overall, the basic notion in the literature suggests that "good" corporate governance is associated with "good" accounting and "good" audit quality (Cohen et al. 2004, 2008; Bronson, Carcello, Hollingsworth, and Neal 2009; Carcello, Hermanson, and Ye 2011). However, there is no consensus as to what constitutes "good" governance or "good" audits. Based on agency theory, "good" boards are associated with higher levels of independence, and independent boards

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are associated with higher governance efficacy (Cohen et al. 2004; Beasley et al. 2009; Carcello et al. 2011). Consequently, managerial influence is implicitly associated with decreased board independence and effectiveness. However, there is some evidence countering the agency view as the most effective model for explaining organizational behavior (Romano 2005; Cohen, Krishnamoorthy, and Wright 2008). Additionally, proxies for board independence frequently fail to capture whether independent boards effectively serve to protect shareholders' interests (Cohen et al. 2004; MacAvoy and Millstein 2004; Becher and Frye 2011).

SOX has also significantly increased management's responsibility and accountability for the accuracy of their company's financial statements and disclosures. In the post-SOX era, managerial incentives related to the independent evaluation of financial reporting may be comparable to those of directors serving on corporate boards and audit committees. Consequently, I first analyze the extent to which managerial influence on boards and audit committees has been associated with board independence and auditor selection post-SOX in the following literature review. Next, I discuss research that explores managerial incentives for audit quality. I finish by examining divergent incentives among managers and directors to investigate power dynamics among management and boards in the context of auditor selection, change, and compensation.

2.2.1   Management Influence and Board Independence

Since the accounting and auditing literature draws primarily upon agency theory, the principal focus in measuring governance effectiveness is to examine the impact of board and audit committee independence on accounting and audit outcomes. In this context, prevalent measures of board independence, or a lack thereof, are CEO duality, number of outsiders or insiders serving on the board, and the extent to which the board is "co-opted" by the CEO.

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### 2.2.1.1    CEO Duality

CEO duality refers to instances in which the CEO serves as the chair of the board of directors. In the role of chair, the CEO controls the agenda of board meetings, leads board meeting discussions, and determines what information directors receive in advance of meetings (Daily and Johnson 1997). Consistent with the agency view, a primary concern with CEO duality is that the board of directors cannot objectively monitor a CEO who also chairs the board. Contrary to the agency perspective, some studies show that CEO duality reduces information asymmetry through enhanced leadership (Anderson and Anthony 1986; Brickley, Coles, and Jarrell 1997) and that shareholders assign value to a CEO in a duality role (Dey, Engel, and Liu 2011). The literature shows conflicting evidence in terms of the CEO's role in audit issues. Bliss (2011) suggests that CEO duality might compromise board independence, resulting in lower demand for high quality audits, proxied by audit fees. In contrast, Cassell, Giroux, Myers, and Omer (2009) examine the role of corporate governance in client-initiated auditor switching and find that, post-SOX, CEO duality is not associated with a demand for lower audit quality, proxied by switches from Big N to non-Big N audit firms. In summary, while CEO duality is associated with decreased board independence, studies have mainly examined the effect of board independence on auditor selection. There is little insight into the effects of CEO duality, and perhaps more importantly, the incremental effects of CEO influence on auditor selection.

### 2.2.1.2    Inside Directors

Guided by the agency framework, the literature tends to view insiders, directors employed by the company in management roles, negatively. Many studies suggest that boards comprised of a majority of outside directors are more independent of management and thus, more effective in executing their monitoring and oversight responsibilities (Abbott and Parker

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2000; Abbott, Parker, Peters, and Raghunandan 2004; Cohen et al. 2004; Lee, Mande, and Ortman 2004; Beasley et al. 2009; Lin and Hwang 2010; Carcello et al. 2011). However, a number of studies challenge this view and indicate that frequent and meaningful interactions between audit committees, boards, and managers are critical to effective governance (DeZoort et al. 2002; Cohen et al. 2004; Beasley et al. 2009). The presence of key insiders on corporate boards helps directors better understand the workings of the company, thereby improving the board's decision-making, evidenced by stronger internal controls and enhanced reporting quality and accuracy (Larcker et al. 2005; Ramanan 2014; Bedard, Hoitash, and Hoitasch 2015). Mande and Son (2013) suggest that companies with higher levels of governance quality, utilizing a composite score including board and audit committee independence, are more likely to change auditors after financial restatements compared to companies with weaker governance structures. However, their study documents significant auditor turnover within the same audit quality tier classification (Big 4 to Big 4 and non-Big 4 to non-Big 4) but does not find any significant evidence that less independent boards switched to auditors providing differential audit quality.

### 2.2.1.3    Co-Option

Another concern of managerial influence on board oversight relates to the CEO's influence over outside director selection. Of particular concern are co-opted (or captured) directors, which are directors that were appointed after the current CEO assumed office. CEOs can co-opt the board by recommending "sympathetic" new directors (Finkelstein and Hambrick 1989). In doing so, CEOs can, over time, increase the number of directors who feel indebted to the CEO for their appointments (Hermalin and Weisbach 1988). These directors are thereby more inclined to agree with the CEO (Hermalin and Weisbach 1988). In its aim to prevent managerial influence on corporate boards, SOX requires that a board's governance and

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nominating committees as well as its audit committee be comprised solely of independent directors. However, viewing directors as independent because they meet regulatory independence requirements may be misleading. Coles, Daniel, and Naveen (2014) posit that not all independent directors are equally effective in their monitoring roles. They show that independent co-opted directors are associated with weaker monitoring, proxied by CEO turnover-performance and pay-performance sensitivities, while independent directors who are not co-opted are associated with stronger monitoring. Therefore, despite conventional measures of director independence, there is some evidence that as co-option increases, board effectiveness decreases (Hermalin and Weisbach 1988; Shivdasani and Yermack 1999; Cohen, Frazzini, and Malloy 2012; Coles et al. 2014).

Lisic, Neal, Zhang and Zhang (2016) document that the CEO's indirect involvement in director selection in the post-SOX era extends to the audit committee. Their study shows that CEO power moderates audit committee effectiveness on a company's internal control quality. Specifically, Lisic et al. report that, when CEO power is low, audit committee effectiveness is negatively associated with the incidence of internal control weaknesses and that this association weakens as CEO power increases. However, Lisic et al. (2016) find no evidence that the moderating effect of CEO power on committee effectiveness is associated with the level of co-option on audit committees. Taken together, the literature provides inconsistent insights into the effect of cooption on board and audit committee effectiveness.

Collectively, prior studies suggest that CEO duality, inside directors, and co-opted boards are all associated with managerial influence on corporate boards. However, research results provide conflicting evidence as to the benefits or threats of managerial influence on boards and audit committees. Based on agency theory, managerial influence impedes board independence

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and thus, decreases effective board oversight. Conversely, managerial influence and power is also associated with improved firm performance and shareholder value (Boyd 1995; Donaldson and Davis 1991; Davis et al. 1997). Finally, Wells (2019) finds evidence that individual managers have an incremental impact on accounting quality, which may result in differential incentives among managers to utilize their influence on corporate boards.

The positive impact of managerial influence on financial outcomes may partially be explained with alternative theories, such as stewardship theory and resource dependence theory. The stewardship view holds that managers act in the best interest of their companies and thereby protect and maximize shareholder wealth through firm performance (Donaldson and Davis 1991; Boyd 1990). The resource dependence perspective posits that management and boards work together in setting policies and strategies for the company to access and manage scarce resources (Pfeffer and Salancik 1978; Boyd 1990; Williamson 1999). Therefore, stewardship and resource dependence theories view the role of corporate boards as a partner to management, rather than a monitoring mechanism. Based on these two perspectives, the level of board independence is less central to effective governance. Thus, additional measures of managerial influence on boards and audit committees may help our understanding of the association between management influence and auditor selection decisions.

### 2.2.2    Do Managers Want High Quality Audits?

Jensen and Meckling (1976) suggest that the demand for auditing derives from a desire to reduce opportunistic behavior by management resulting from information asymmetries between managers and owners. They also posit that managers voluntarily increase the transparency of operational performance and financial reporting by hiring independent auditors to monitor their behavior in order to avoid a higher cost of capital. Expanding on the work of Jensen and

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Meckling (1976), DeAngelo (1981) defines audit quality as the probability that an auditor will both discover a breach in the accounting system and report the breach. Given this definition, audit quality alleviates agency conflicts between management and owners, represented by the board of directors.

Archival research is generally limited to drawing indirect inferences about managers' audit quality preferences by testing associations between board independence and audit quality and between board independence and auditor selection (DeAngelo 1981; DeFond and Zhang 2014). Drawing on agency theory, managerial influence is associated with lower board independence and thus, weaker governance. Weak governance in turn is associated with lower audit quality (Carcello et al. 2011). Consistent with this notion, a particular focus of SOX was to enhance the separation of management and board oversight by imposing increased independence requirements on corporate boards and audit committees. Specifically, SOX requires that fully independent audit committees appoint, compensate, and oversee the external auditor. This requirement implicitly attempts to eliminate managerial influence on important governance decisions, including auditor selection and dismissal. Accordingly, some scholars have criticized that SOX requirements are based upon the agency perspective, despite a lack of evidence that supports the agency view as the most effective model for guiding organizational behavior (Romano 2005; Cohen et al. 2008). Although questions surrounding best practices in organizational behavior remain unsettled, it is worthwhile to examine whether management remains influential in the auditor selection decision post-SOX.

In this context, it is important to remember that SOX not only enacted new regulations on audit firms, boards, and audit committees, but also imposed substantial regulations on the executive management of public companies. Therefore, post SOX, managers' incentives for

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choosing high-quality auditors are comparable to those of directors. Similar to directors, executive managers of public companies in the U.S. have broad responsibilities and are exposed to a variety of legal liabilities. They have to comply with regulatory requirements, corporate laws, as well as an organization's own constitution and bylaws. Particularly, the CEO and CFO are personally responsible for the accuracy and reliability of their company's financial statements. If these executives incorrectly certify that their companies' financial statements and disclosures are accurate when they are not, they may face prison sentences, civil and criminal litigation, and can be barred by the Security Exchange Commission (SEC) from serving as a corporate officer or director for any public company in the United States (SOX 2002).

CEOs and CFOs also face reputational risks. Specifically, actual or perceived wrongdoing by these executives can result in termination by their company. Desai, Hogan, and Wilkins (2006), as well as Agrawal and Cooper (2017), show that executive management turnover increases following restatements of financial reports relative to non-restating companies. If managers serve as directors on the boards of other companies and are associated with accounting problems or financial fraud, they risk losing their director seats, even if they are ultimately cleared from any wrongdoing. Accordingly, reputational risks are not limited to executives' primary employment but extend to their professional networks.

In summary, these studies suggest that CEOs and CFOs can face civil and criminal litigation for being associated with accounting problems or accounting fraud. Even if executives are ultimately cleared from any allegations of misconduct, they generally suffer from reputational damages due to perceptions (Black, Cheffins, and Klausner 2006; Cheffins and Black 2006). Considering the wide variety of risks that executive officers face, they have strong incentives to select high quality external auditors to mitigate their legal and reputational

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exposure. In choosing high quality auditors, managers can demonstrate their willingness to comply with regulatory requirements and fiduciary obligations while adding credibility to their financial statements and disclosures.

### 2.2.3 Diverging Incentives and Power Dynamics in Corporate Governance

Even if management and boards share a mutual desire for quality audits to enhance transparency of the financial reporting process and financial reporting quality, they may vary in their perceptions of the underlying components of audit quality (Carcello, Hermanson, and McGrath 1992). Therefore, depending on the perceived importance that managers and directors assign to specific quality attributes, their incentives to contract with particular auditors can vary. Consequently, the following sections review studies that examine differences in audit quality perceptions among managers and directors and how these differences may influence the selection of the external auditor.

#### 2.2.3.1 Diverging Perceptions of and Incentives for Audit Quality

Prior literature identifies various audit quality attributes, including audit firm size (DeAngelo, 1981; Francis, 1984); audit service and attention to the client (Carcello et al. 1992; Kilgore, Radich, and Harrison 2011); auditor tenure (Carey and Simnett 2006); industry expertise and specialization (Carcello et al. 1992; Knechel, Naiker, and Pacheco 2007; Zerni 2012); auditor communication (Behn, Carcello, Hermanson, and Hermanson 1997), as well as audit outputs and opinions (Lennox 1999; Francis 2011). The vast majority of accounting research examines these audit quality characteristics at the audit firm level, generally examining only one attribute in each study. However, a few studies explore the issue of audit quality from a behavioral perspective to identify and compare relative differences in perceptions of audit quality attributes among users/directors, managers, and auditors.

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Based on surveys, board members find auditor independence to be the most important audit quality attributes (Goddard and Schmidt 2018) while managers focus most heavily on working relationships (Boyle 2015), along with audit firm size, brand recognition, and industry expertise when evaluating audit quality (ACCA 2016). Therefore, diverging viewpoints of managers and directors are likely to result in different selections of audit firms when companies want to find the best fit. Despite diverging perceptions of audit quality among managers and directors, it is worthwhile to note that most of the identified audit quality characteristics, such as auditor size, independence, brand, and industry expertise are inter-related and inherently associated with the largest audit firms. Therefore, an attribute that can be more easily differentiated among audit firms, such as audit fees, may be more helpful in examining diverging incentives among managers and directors when evaluating and choosing the external auditor.

Higher audit fees have been associated with a differentially higher audit quality due to higher audit effort (Carcello et al. 1992). Specifically, when directors desire higher confidence in the company's financial statements, they may demand additional assurance from the external auditor. To provide this additional assurance, audit firms increase their audit efforts by extending their standard audit procedures, which results in higher audit fees. Several studies link strong and independent boards to higher audit fees, consistent with director incentives to counter opportunistic behavior by management (DeZoort et al. 2002; Dao, Raghunandan, and Rama 2012). The marginal benefits to directors are generally greater than the marginal costs, particularly when compared to managers. Higher audit fees lower net income, which is a common measure for operational performance. While both managers and directors are evaluated on the financial success of their company, managerial performance pressures and equity compensation incentives are significantly higher than those of directors. Therefore, managers

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may have stronger incentives to reduce audit fees than outside directors to optimize financial outcomes without reducing audit effort. Additionally, managers are preparing the financial statements and therefore, have generally no need to increase oversight of their own actions. However, managers have incentives to reduce information asymmetry for their stakeholders, which they may want to provide at the lowest cost possible for a chosen level of audit quality. Ultimately, even if directors and managers share a desire to hire quality auditors or large audit firms, their incentives in controlling audit fees likely diverge.

2.2.3.2    Power Dynamics in Corporate Governance

In the context of SOX and its emphasis on reducing management influence on the auditing process, the question arises whether diverging incentives among managers and directors influence the selection of the external auditor. In theory, the provision of SOX to charge audit committees with the responsibility to hire, evaluate, and compensate the external auditor creates an environment in which the auditor is free of managerial influence and fear of repercussions resulting from auditor judgments and evaluations contrary to those of management. However, Bennet and Hatfield (2013) show in an experimental setting that auditors' perceptions of managerial power and status impacts auditors' decision-making, diligence, and audit quality. Additionally, management has a central role in the audit process. For example, managers have significant interactions with auditors during an audit engagement and are thereby better positioned to evaluate the competence of the audit team and timeliness of work performed (Almer et al., 2014). Accordingly, Almer et al. (2014) document that audit committees view management as an important information source when assessing an audit firm's reputation, accessibility, timeliness, and expertise. Evidence from post-SOX interviews with Big 4 audit

managers and partners also suggests that top management continues to exercise influence over auditor appointments and terminations (Cohen et al. 2010).

Some evidence of managerial influence on auditor selection is provided by Dhaliwal et al. (2015), who show that Big 4 auditors with whom managers had prior employment affiliations were more likely to be hired, as compared to Big 4 auditors without prior affiliations. Prior affiliations can provide executives with meaningful insights into audit firm's internal processes, which they can share with directors to assist audit committees when they select and evaluate their auditors (Dhaliwal et al. 2015). Dhaliwal et al. find no evidence of decreased audit quality following auditor selection decisions associated with management-auditor affiliations. Therefore, management's input does not have to result in negative outcomes, such as sub-optimal auditor selection or compromised auditor independence as presumed by SOX (Dhaliwal et al. 2015).

Beck and Mauldin (2014) examine the relative influence of CFOs compared to audit committees on audit fee negotiations. Bargaining power in audit fee negotiations reflects a company's ability to select, retain, dismiss, and compensate the external auditor (Moore, Tetlock, Tanlu, and Bazerman 2006). Beck and Mauldin's (2014) archival study demonstrates that both the CFO and the audit committee exercise this bargaining power on behalf of the company. Beck and Mauldin (2014) show that powerful CFOs achieve larger audit fee reductions during periods of financial crisis compared to powerful audit committees. However, their study provides no insights as to whether the CFO's involvement in negotiating and reducing audit fees had any impact on auditor selection or audit quality.

Yu, Kwak, Park, and Zang (2018) document network ties that arise when executive officers serve as outside directors at other companies and that these network ties are associated with auditor selection decisions. Their study shows that companies are more likely to hire the

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same audit firm that is utilized by the company at which their executive managers serve as directors. Additionally, Yu et al. (2018) find that audit quality decreases subsequent to auditor turnover associated with these network ties compared to audit quality of companies whose executives are not associated with any network ties. Yu et al. (2018) measure audit quality in terms of likelihood of misstatements, magnitude of absolute discretionary accruals, and the propensity to meet or beat earnings benchmarks.

Collectively, studies examining managerial influence on boards suggest a more complex relationship between key actors in corporate governance than current regulations recognize. Specifically, these research studies suggest that managerial input on auditor selection, change, and compensation decisions can provide benefits without compromising auditor independence and audit quality as presumed by SOX. Additionally, these studies provide support for the stewardship and resource dependence perspectives that posit that managerial influence increases the efficacy of boards through collaboration and information sharing.

The literature documents that top managers value audit quality, specifically, auditor competence, independence, working relationships with the auditor, as well as audit firm size, brand recognition, and industry expertise (Carcello et al. 1992; Boyle 2015; ACCA 2016; Goddard and Schmidt 2018). Despite this evidence, managerial influence is implicitly associated with lower audit quality (Carcello et al. 2011). One possible explanation is that archival studies frequently draw indirect inferences about managers' audit quality preferences by investigating board and audit committee characteristics (DeAngelo 1981; DeFond and Zhang 2014). Since higher levels of board and audit committee independence are associated with the selection of high quality auditors, managerial influence is implicitly associated with lower quality auditors. Furthermore, board independence, or rather a lack thereof, is not an exclusive measure of

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managerial influence. Another explanation for the contradicting evidence in the literature may be that measures of managerial influence, board independence, and audit quality vary widely across studies. Next, guided by the agency perspective, the majority of archival studies presume that managerial influence governance mechanism to be "bad" per se, without allowing alternative explanations based on contradicting or supplementing theoretical views, such as stewardship or resource dependence theories. Finally, audit quality is often proxied by the converse, a lack of audit quality or financial reporting quality, utilizing measures such as bankruptcy, going concern opinions, weak internal controls, discretionary accruals, and restatements. Therefore, studies tend to measure the association of managerial influence with negative accounting and audit outcomes while potentially neglecting the empirical testing of relationships between managerial influence and "good" accounting and quality auditing. This dissertation will empirically examine these possibilities and extend the literature on managerial influence, board independence, and auditor selection. Specifically, I investigate multiple dimensions of managerial influence on auditor selection, change, and compensation by examining the effect of one form of managerial influence while controlling for the effects of the others.

CHAPTER 3

THEORY, HYPOTHESES DEVELOPMENT, AND RESEARCH METHODOLOGY

3.1    Theoretical Foundation

Corporate governance studies in accounting and auditing research predominantly utilize agency theory to examine the role of corporate governance. The agency perspective holds that boards and audit committees are responsible for monitoring management, who otherwise may act in their own self-interests rather than the interests of the company and its shareholders. Thus, directors serving on boards and audit committees oversee management to prevent opportunistic behavior (Jensen and Meckling 1976; Fama and Jensen 1983).

Alternative theories such as stewardship theory and resource dependence theory provide different views on the interaction between boards of directors and management. The stewardship perspective presumes that managers act as responsible stewards of the company's resources and place high value on cooperation and collaboration (Davis et al. 1997; Nicholson and Kiel 2007). Accordingly, based upon stewardship theory, managers are trustworthy advisors to boards and do not need to be monitored. Similarly, the resource dependence view emphasizes the mutual interdependence of boards and management. Under this perspective, directors and managers work together to overcome their dependence on scarce resources, and the board's primary role is to assist management with strategy and resource acquisition (Pfeffer and Salancik 1978; Cohen, Gaynor, Krishnamoorthy, and Wright 2007; Nicholson and Kiel 2007). The board's role is that of a helper and partner, rather than that of a monitor of management. Thus, based on stewardship and resource dependence theories, managerial influence increases the efficacy of boards through collaboration and information sharing. Although management, particularly the CEO, has substantial authority over the company, shareholders benefit because managerial incentives,

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strategies, and goals are aligned with those of boards and stakeholders. In terms of auditor selection, incentives of managers and directors to comply with legal requirements, protect against legal liabilities, and demonstrate responsible use of company resources suggest the choice of high quality auditors to independently verify firm performance.

In summary, empirical evidence in the accounting literature predominantly utilizes the agency perspective as the guiding theoretical framework. Therefore, the majority of research studies build on the assumption that management has to be separate from board oversight. As such, managerial influence on governance structures is associated with weaker governance and lower audit quality. Stewardship theory presumes managers are honest and acting in the best interest of shareholders, thereby needing little monitoring. Resource dependence theory views boards as partners to management who assist with strategy and resources. Studies using these views as their guiding framework see management and boards as a coalition in which the CEO's leadership provides unity. Overall, based on stewardship theory and resource dependency theory, managerial influence and power are associated with stronger governance and the selection of high quality auditors.

## 3.2     Hypotheses Development

### 3.2.1    Managerial Influence and Auditor Selection

Archival studies are generally limited to drawing indirect inferences about managers' audit quality preferences by investigating board and audit committee characteristics (DeAngelo 1981; DeFond and Zhang 2014). Prior literature predominantly utilizes agency theory and suggests that managerial influence decreases board independence and effectiveness (Cohen et al. 2004; Beasley et al. 2009; Carcello et al. 2011). Since higher levels of board independence are associated with the selection of high quality auditors, managerial influence is implicitly

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associated with lower quality auditors. However, board independence, or rather a lack thereof, is not an exclusive measure of managerial influence. Utilizing additional dimensions of managerial influence may provide further insights into the association between management influence and auditor selection. Specifically, varying levels of CEO influence, measured as CEO chairmanship of the board (i.e., CEO duality) or membership on the board, CFO membership on the board, as well as levels of co-option on corporate boards and audit committees are frequently cited means of managerial influence on corporate governance.

Additionally, there is some evidence countering the agency view as the most effective model for guiding organizational behavior (Romano 2005; Cohen et al. 2008). Consequently, some scholars posit that alternative views, such as stewardship and resource dependence perspectives, are better suited to explain managerial behavior and incentives. Further, SOX increased management's responsibility for financial reporting by holding executive managers personally liable for the accuracy of their company's financial statements. Considering the wide variety of risks that executive officers face, it is reasonable to assume that CEOs and CFOs have strong incentives to select high quality external auditors to mitigate their legal and reputational exposure. Specifically, in choosing high quality auditors, managers can demonstrate their willingness to comply with regulatory requirements and fiduciary obligations while adding credibility to their financial statements and disclosures. However, while managers' expertise and knowledge of company operations is a beneficial source for directors, managers serving on boards may try to use their influence to sway important decisions in their favor. Additionally, co-opted directors may feel inclined to agree with the CEO without constructive discussion and collaboration due to their actual or perceived perception of indebtedness to the CEO for their appointment. Given the conflicting views provided among the various theories, the first

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hypothesis (in the alternative form) posits a non-directional association between managerial

influence and auditor quality:

> *H1a:    Managerial influence on corporate boards and audit committees is associated with the selection of high quality auditors.*

The CEO, a company's most powerful manager, is uniquely positioned to utilize deep

knowledge of the company to set corporate strategies and optimize limited resources. In the

leadership role as chairperson of the board, the CEO has widely undisputed authority over the

company but is likely held to high levels of accountability and responsibility to provide

exceptional value to shareholders. As such, the CEO has great incentives to provide quality

financial statements and high quality independent assurance from highly recognized audit firms.

While the stewardship and resource dependence views suggest that the CEO in a dual role

provides unity among managers and directors, the agency view holds that incentives of managers

and shareholders are not always aligned. Considering the powerful position of a CEO serving in

a dual role, diverging incentives among managers and shareholders may be more dominant in

companies in which the CEO has wide authority over the company as the chairperson of the

board as compared to companies in which the CEO does not serve on the board. Reflecting on

the conflicting views provided among the various theories, the second hypothesis (in the

alternative form) posits a non-directional association between managerial influence and auditor

quality in companies with CEO duality as compared to companies without CEO duality and

without CEO board membership:

> *H1b:    Managerial influence on corporate boards and audit committees is associated with the selection of high quality auditors in companies in which the CEO serves as the chairperson of the board of directors as compared to companies in which the CEO is not included on the board.*

In contrast to the unique leadership role that CEO duality provides to the top executive of

a company, CEOs serving as members on the board are limited to advisory roles. Without strong leadership and consistent collaboration among directors, opinions about corporate strategies and evaluation of managerial performance can vary greatly. In an environment without strong cooperation and collaboration that lacks a leader, the stewardship and resource dependence views are not well suited to explain organizational behavior. Instead, the agency perspective with its emphasis on agency conflicts among boards and management may correctly predict that managerial influence on board membership impedes board independence, which is associated with a lower likelihood of selecting high quality auditors. Thus, diverging incentives among managers and shareholders may be more dominant in companies in which the CEO as a member on the board has some influence on board decisions as compared to companies in which the CEO does not serve on the board. Accounting for the various views provided among the theories, the third hypothesis (in the alternative form) posits a non-directional association between managerial influence and auditor quality in companies in which the CEO serves as a board member (but not as the chairperson) compared to companies in which the CEO does not serve on the board:

> *H1c:    Managerial influence on corporate boards and audit committees is associated with the selection of high quality auditors in companies in which the CEO serves as a member on the board of directors as compared to companies in which the CEO is not included on the board.*

### 3.2.2    Diverging Incentives and Auditor Change

Prior literature suggests that managers and directors assign different importance to audit quality attributes, which can result in diverging views between these two groups when assessing the quality of audit providers. While literature based on interviews and surveys indicate that managers value audit quality attributes associated with large audit firms, particularly Big 4 firms (Carcello et al. 1992; ACCA 2016), other studies based on agency theory provide conflicting insights (Bliss 2011; Carcello et al. 2011; Coles et al. 2014). Specifically, drawing upon agency

theory, managers may reject oversight by their boards, particularly when managerial

performance and earnings quality prompt higher demand for monitoring. Because CEOs are the

most powerful managers in a company, they may utilize their influence to lower the level of

oversight by changing to audit firms that respond more favorably to management's views and

needs. Thus, based on agency theory views, CEOs may utilize their influence on corporate

boards to achieve a change in audit firms. In contrast, based on stewardship and resource

dependence perspectives, CEOs act in the best interest of shareholders, need no monitoring, and

therefore have no incentives to change to more favorable auditors. Additionally, when concerns

about earnings quality arise, CEOs may oppose changes to more favorable auditors to

demonstrate that they did not engage in opportunistic behavior but act in the best interest of their

shareholders. Given the conflicting views provided among the various theories, the following

hypotheses (in the alternative form) posit non-directional associations between CEO influence

and auditor turnover dependency on monitoring demand:

> *H2a: The association between CEO influence on corporate boards and auditor turnover depends on the demand for monitoring in the previous year.*

> *H2b: The association between CEO influence as the chairperson of corporate boards and auditor turnover depends on the demand for monitoring in the previous year.*

> *H2c: The association between CEO influence as a member on corporate boards and auditor turnover depends on the demand for monitoring in the previous year.*

As previously discussed, audit fees may be more useful to investigate whether diverging

incentives among managers and directors impact auditor selection. Prior research suggests that

higher audit fees are frequently perceived as an indicator for higher audit effort desired by

directors to mitigate agency conflicts (Carcello et al. 1992; DeFond 1992; DeZoort et al. 2002;

Dao et al. 2012). When managers, particularly CEOs, perceive the current level of audit quality

as sufficient to bridge information asymmetries between management and outside stakeholders,

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they generally have no desire to increase audit effort. However, considering the agency view's focus on opportunistic behavior by management, CEOs may want to reduce audit effort to limit information sharing with boards and shareholders. In contrast, given the stewardship and resource dependence perspectives, the CEO is held to high levels of accountability and responsibility and has great incentives to maintain current audit efforts. Additionally, CEOs may want to reduce audit fees to improve net income, which is a frequent measure of managerial success. Based on the agency view, CEOs are more likely to promote auditor changes in the presence of high audit fees to improve measures of managerial performance, such as net income. In contrast, the stewardship and resource dependence views suggest that CEOs will collaborate with their respective boards to optimize shareholder value. Thus, audit effort and related fees will be reflective of the company's needs rather than managers' performance targets. Given the conflicting assumptions of the various theories, the following non-directional hypotheses (stated in the alternative form) test the associations between CEO influence and auditor turnover dependency on audit fees:

> *H2d: The association between CEO influence on corporate boards and auditor turnover depends on the level of audit fees in the previous year.*

> *H2e: The association between CEO influence as the chairperson of corporate boards and auditor turnover depends on the level of audit fees in the previous year.*

> *H2f: The association between CEO influence as a member on corporate boards and auditor turnover depends on the level of audit fees in the previous year.*

### 3.2.3  Power Dynamics and Auditor Compensation

Power reflects one's ability to influence others while remaining fairly free of the influence of others (Galinsky, Magee, Gruenfeld, Whitson, and Liljenquist 2008). Thus, in discussing power dynamics in corporate governance, it is necessary to recognize that managerial influence is inversely related to board influence. Therefore, in general, as management power

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increases, board power decreases, and vice versa.

Survey research indicates that management provides input into the auditor engagement decision process despite the fact that SOX directly charges audit committees with the responsibility to select and compensate the external auditor (Cohen et al. 2010). Bargaining power in contract negotiations stems from the ability to make a decision. In the context of auditor engagement and auditor compensation decisions, bargaining power derives from the ability to hire, dismiss, or compensate the auditor on behalf of the company (Moore et al. 2006; Beck and Mauldin 2014). Beck and Mauldin (2014) argue that depending on their relative level of power, either management or audit committees exercise their bargaining power in making auditor-related decisions. While managerial input in auditor-related decisions is not necessarily bad, the question arises whether management or the board is more influential in making the decision.

Strong and independent boards are frequently associated with higher audit fees. Thus, when management rather than boards exercise their bargaining power to negotiate auditor fees, auditor compensation is likely to be lower. Further, considering the agency view, managers may reject oversight by their boards and external auditors, thereby exercising downward pressures on auditor compensation to limit auditor effort. Additionally, managers have incentives to reduce auditor compensation to cut cost and improve net income, a frequent measure for managerial performance. Utilizing the stewardship and resource dependence perspectives, managers have no incentives to limit audit effort but are likely to control cost, including auditor compensation, in an effort to maximize resources. By reducing audit costs, management can re-allocate monetary resources to improve operational performance and enhance shareholder value. Taken together, the three perspectives suggest that when powerful managers are the primary drivers of auditor

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compensation negotiations, audit fees will be lower compared to audit fees negotiated by

companies in which managers are not a key force in negotiating auditor compensation. Stated

differently, when managers negotiate audit fees, auditor compensation will be lower compared to

auditor compensations that are not negotiated by managers. This leads to the following

hypotheses (stated in alternative form):

> *H3a:    Managerial influence on corporate boards and audit committees is negatively associated with the level of auditor compensation.*
>
> *H3b:    Managerial influence on corporate boards and audit committees is negatively associated with the level of auditor compensation in companies in which the CEO serves as the chairperson of the board of directors as compared to companies in which the CEO is not included on the board.*
>
> *H3c:    Managerial influence on corporate boards and audit committees is negatively associated with the level of auditor compensation in companies in which the CEO serves as a member of the board of directors as compared to companies in which the CEO is not included on the board.*

Also, changes in auditor compensation will be lower when managers influence

compensation negotiations with the external auditor compared to compensation changes that are

not influenced by managers. In summary, greater managerial influence is associated with

downward pressures on auditor compensation and auditor compensation changes. This leads to

the following hypotheses (stated in alternative form):

> *H3d:    Managerial influence on corporate boards and audit committees is negatively associated with the year-over-year change in auditor compensation.*
>
> *H3e:    Managerial influence on corporate boards and audit committees is negatively associated with the year-over-year change in auditor compensation in companies in which the CEO serves as the chairperson of the board of directors as compared to companies in which the CEO is not included on the board.*
>
> *H3f:    Managerial influence on corporate boards and audit committees is negatively associated with the year-over-year change in auditor compensation in companies in which the CEO serves as a member on the board of directors as compared to companies in which the CEO is not included on the board.*

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3.3     Research Methodology

This subsection describes the research methodology for this study. I present the various methodologies that I utilize to test my hypotheses and describe the data sources that I used for this study. Additionally, I discuss the sample selection process and the compositions of the various samples utilized for this dissertation.

3.3.1   Methodology for Testing H1

DeAngelo (1981) points out that auditor size is a surrogate for unobservable audit quality because larger audit firms have higher client-specific quasi rents. DeAngelo's argument relies on the assumption that client-specific quasi-rents, the cost advantages of incumbent auditors due to auditor startup and client switching costs, accrue to incumbent auditors. Since larger audit firms have more clients, they have more aggregate client-specific quasi-rents at stake if they become associated with audit failures or low quality audits. Following DeAngelo's argument, Francis and Wilson (1988) propose the utilization of a cardinal ordering of auditor size to proxy for audit quality, which contrasts with the brand name approach of Klein, Crawford, and Alchian (1978) and Klein and Leffler (1981). Findings from these studies suggest that audit firms develop a quality reputation for their brand name in order to secure quasi-rents arising from their brand. Thus, the brand-name development comes first and this in turn leads to the ability to charge audit premiums. In the auditing industry, the Big 4 firms hold the brand name recognition and are frequently associated with higher audit quality. However, this proxy relies on the assumption that a particular auditor tier, either Big 4 or non-Big 4, supplies a single level of audit quality. It is unlikely that any group of audit firms provides homogenous audit quality. Instead, measuring audit quality based on auditor size may be better suited to providing insights within auditor tiers and among audit firms. Therefore, this study utilizes the Big 4 versus non-Big 4 measure as well

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as an auditor size measure to proxy for audit quality.

H1 examines the association between managerial influence on corporate boards and auditor selection. The following regressions are based on a model used in Lawrence, Minutti-Meza and Zhang (2011) who investigate whether differences in audit quality are a reflection of audit client characteristics. Extending on Lawrence et al. (2011), I incorporate managerial influence variables into the regression model to test H1a, H1b, and H1c. Equation (1a) utilizes five different measures of managerial influence to represent the overall association between managerial influence and the selection of high quality auditors. Next, I test the association between managerial influence and audit quality depending on the role of the CEO, i.e. whether the CEO serves on the board as the chairperson (Equation 1b) or as a member (Equation 1c)[1].

$$AU\_QUALITY_{i,t} = \beta_0 + \beta_1 CEO\_INFLUENCE_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} + \beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \gamma CONTROLS_{i,t} + \varepsilon_{i,t} \quad (1a)$$

$$AU\_QUALITY_{i,t} = \beta_0 + \beta_1 CEO\_DUAL_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} + \beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \gamma CONTROLS_{i,t} + \varepsilon_{i,t} \quad (1b)$$

$$AU\_QUALITY_{i,t} = \beta_0 + \beta_1 CEO\_BOARD_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} + \beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \gamma CONTROLS_{i,t} + \varepsilon_{i,t} \quad (1c)$$

I measure the dependent variable, AU_QUALITY, in two ways: The audit firm's brand-name recognition, AU_BRAND, and the audit firm's size, AU_SIZE. AU_BRAND is equal to 1 if the auditor is a Big 4 audit firm and 0 otherwise. AU_SIZE is the natural log of aggregated client audit fees earned by an audit firm's practice office in a specific year (Francis and Yu 2009). The first variable of interest, CEO_INFLUENCE, is equal to 2 if the CEO chairs the board, equal to 1 if the CEO serves as a member on the board (but not as a chair), and 0 otherwise. Next, CEO_DUAL is equal to 1 if the CEO serves as the chairperson of the board of directors and 0 otherwise. Similarly, CEO_BOARD is equal to 1 if the CEO serves as a director

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[1]Each of the equation numbers correspond to the respective hypothesis numbers that are tested.

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on the board (but not as the chairperson of the board) and 0 otherwise. Likewise, CFO_BOARD is equal to 1 if the CFO serves as a director on the board and 0 otherwise. INSIDERS measures the proportion of insiders on the board and is calculated as the number of management members serving on the board of directors divided by the total number of directors serving on the board. Hence, INSIDERS is an inverse proxy of board independence, a measure frequently utilized in the accounting literature (Beasley and Petroni 2001; Lin and Hwang 2010; Carcello et al. 2011). COOPTED_BD is the proportion of co-opted directors on the board and calculated as the number of non-insider directors appointed after the current CEO assumes office divided by the total number of directors serving on the board (Coles et al. 2014). Similarly, COOPTED_AC is the proportion of co-opted directors on the audit committee and represents the number of directors appointed to the audit committee after the current CEO assumes office divided by the total number of directors serving on the audit committee.[2]

Control variables in the model follow the Lawrence et al. (2011) study and include financial performance characteristics of the audit client company. Asset turnover ratio, ASSET_TURN, represents sales in the current year divided by lagged total assets. The current ratio, CURR_RATIO, is calculated by dividing current assets by total liabilities in the current year. LEVERAGE is total liabilities in the current year divided by lagged total assets. Return-on-assets, ROA, is computed by dividing net income in the current year by lagged total assets. SIZE_AT, proxies for company size by utilizing the natural logarithm of total assets. Extending on Lawrence et al. (2011), I include other controls frequently used in auditor selection research. SALE_GROWTH is the percentage change in sales from the previous to the current year. ALTMAN is based on five financial ratios that measure a company's likelihood of bankruptcy.

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[2] For all managerial influence variables, a higher value of the variable indicates higher managerial influence.

LOSS, an indicator variable, is equal to 1 if the company reported a net loss and 0 otherwise. Additionally, in line with prior studies of auditor selection, the model controls for industry-specific and year-specific fixed effects, as well as clustered standard errors at the company level.

To address H1, $\beta_1$ through $\beta_5$ are the coefficient estimate of interest in equations (1a), (1b) and (1c). Significant positive $\beta_1$ through $\beta_5$ support H1a, H1b, and H1c, and provide evidence that managerial influence on corporate boards increases the likelihood of quality auditor selection, thereby providing support for stewardship and resource dependence perspectives. Significant negative $\beta_1$ through $\beta_5$ establish that managerial influence decreases the selection of high quality audit firms, thereby providing support for the agency view.

### 3.3.2   Methodology for Testing H2

H2a and H2b examine the association between CEO influence on corporate boards and auditor change decisions. Agency theory suggests that CEOs may reject the notion of oversight and may utilize their influence on corporate boards to change to a more favorable auditor, particularly in the presence of lower earnings quality that demand a higher need for monitoring. In contrast, based on stewardship and resource dependence perspectives, CEO have no incentives to change their current level of oversight and are unlikely to promote an auditor change auditor when facing the need for higher monitoring. The following equations test H2a through H2c[3]:

$$AU\_CHANGE_{i,t} = \beta_0 + \beta_1 CEO\_INFLUENCE_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} + \\ \beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \beta_6 ABS\_DACC_{i,t-1} + \\ \boldsymbol{\beta_7 CEO\_INFLUENCE_{i,t}*ABS\_DACC_{i,t-1}} + \gamma CONTROLS_{i,t} + \varepsilon_{i,t} \quad (2a)$$

$$AU\_CHANGE_{i,t} = \beta_0 + \beta_1 CEO\_DUAL_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} + \\ \beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \beta_6 ABS\_DACC_{i,t-1} + \\ \boldsymbol{\beta_7 CEO\_DUAL_{i,t}*ABS\_DACC_{i,t-1}} + \gamma CONTROLS_{i,t} + \varepsilon_{i,t} \quad (2b)$$

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[3] Each of the equation numbers correspond to the respective hypothesis numbers that are tested.

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$$AU\_CHANGE_{i,t} = \beta_0 + \beta_1 CEO\_BOARD_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} +$$
$$\beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \beta_6 ABS\_DACC_{i,t-1} +$$
$$\boldsymbol{\beta_7 CEO\_BOARD_{i,t}*ABS\_DACC_{i,t-1}} + \gamma CONTROLS_{i,t} + \varepsilon_{i,t} \quad (2c)$$

As previously discussed, audit fees may be more useful to investigate whether diverging

incentives among CEOs and directors impact auditor selection and more specifically, auditor

changes. CEOs have incentives to reduce audit fees to improve net income, which is a common

measure of managerial performance. Therefore, CEOs may exercise their influence on boards to

switch to lower cost auditors to reduce audit fees, which would suggest a positive association

between audit fees that occurred in the previous year and auditor changes in the current year. The

following equations test H2d through H2f[4]:

$$AU\_CHANGE_{i,t} = \beta_0 + \beta_1 CEO\_INFLUENCE_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} +$$
$$\beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \beta_6 AU\_FEES_{i,t-1} +$$
$$\boldsymbol{\beta_7 CEO\_INFLUENCE_{i,t}*AU\_FEES_{i,t-1}} + \gamma CONTROLS_{i,t} + \varepsilon_{i,t} \quad (2d)$$

$$AU\_CHANGE_{i,t} = \beta_0 + \beta_1 CEO\_DUAL_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} +$$
$$\beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \beta_6 AU\_FEES_{i,t-1} +$$
$$\boldsymbol{\beta_7 CEO\_DUAL_{i,t}*AU\_FEES_{i,t-1}} + \gamma CONTROLS_{i,t} + \varepsilon_{i,t} \quad (2e)$$

$$AU\_CHANGE_{i,t} = \beta_0 + \beta_1 CEO\_BOARD_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} +$$
$$\beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \beta_6 AU\_FEES_{i,t-1} +$$
$$\boldsymbol{\beta_7 CEO\_BOARD_{i,t}*AU\_FEES_{i,t-1}} + \gamma CONTROLS_{i,t} + \varepsilon_{i,t} \quad (2f)$$

The dependent variable, AU_CHANGE, is a binary variable equal to 1 if the audit client

company changed its auditor in the current year and 0 otherwise. As in Equation (1a), the

variables of interest include seven types of managerial influence, CEO_INFLUENCE,

CEO_DUAL, CEO_BOARD, CFO_BOARD, INSIDERS, COOPTED_BD, and

COOPTED_AC. ABS_DACC is the absolute value of abnormal accruals in the previous year

and based on the cross-sectional modified Jones (1991) model. This model estimates expected

accruals from the change in revenue adjusted by the change in accounts receivable, the level of

property, plant, and equipment, and the prior year's operating performance by industry (at the

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[4] Each of the equation numbers correspond to the respective hypothesis numbers that are tested.

two-digit SIC code level). AU_FEES represent the natural logarithm of audit fees, captured as the previous year's amount of audit fees. Equations (2a) through (2f) include the same control variables as equations (1a), (1b), and (1c), along with industry-specific and year-specific fixed effects as well as clustered standard errors at the company level.

To address H2a through H2f, $\beta_7$ is the coefficient estimates of interest in equations (2a) through (2f). Significant positive $\beta_7$ would suggest that CEOs support auditor turnover when monitoring demand is high (equations (2a) through (2c)) or when audit fees are high (equations (2d) through (2f)).

### 3.3.3 Methodology for Testing H3

H3 asks whether management influences auditor compensation decisions. Managerial influence attenuates audit fee increases and amplifies audit fee decreases, thereby resulting in downward pressures on auditor compensation and changes in auditor compensation. Utilizing the model of Lawrence et al. (2011) I estimate auditor compensation, proxied by audit fees. However, I include two additional control variables, RESTATE and G_CONCERN, to control for increases in auditor risk, a known determinant of audit fees (Mande and Son 2013; Lennox and Kausar 2017). The following equations test H3a through H3c[5]:

$$AU\_COMP_{i,t} = \beta_0 + \beta_1 CEO\_INFLUENCE_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} + \beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \gamma CONTROLS_{i,t} + \varepsilon_{,i,t} \quad (3a)$$

$$AU\_COMP_{i,t} = \beta_0 + \beta_1 CEO\_DUAL_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} + \beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \gamma CONTROLS_{i,t} + \varepsilon_{,i,t} \quad (3b)$$

$$AU\_COMP_{i,t} = \beta_0 + \beta_1 CEO\_BOARD_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} + \beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \gamma CONTROLS_{i,t} + \varepsilon_{,i,t} \quad (3c)$$

The dependent variable in equations (3a), (3b), and (3c) is AU_COMP, measured as the

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[5] Each of the equation numbers correspond to the respective hypothesis numbers that are tested.

natural logarithm of total audit fees in the current year. All other managerial influence variables as well as all control variables remain the same as in previous equations. To address potential endogeneity from unobserved correlated variables, I also use a change model to reduce concerns for time-invariant unobservable variables. The following compensation change model tests H3d through H3f[6]:

$$CH\_COMP_{i,t} = \beta_0 + \beta_1 CEO\_INFLUENCE_{i,t-1} + \beta_2 CFO\_BOARD_{i,t-1} + \beta_3 INSIDERS_{i,t-1} + \beta_4 COOPTED\_BD_{i,t-1} + \beta_5 COOPTED\_AC_{i,t-1} + \gamma CH\_CONTROLS_{i,t} + \varepsilon_{i,t} \quad (3d)$$

$$CH\_COMP_{i,t} = \beta_0 + \beta_1 CEO\_DUAL_{i,t-1} + \beta_2 CFO\_BOARD_{i,t-1} + \beta_3 INSIDERS_{i,t-1} + \beta_4 COOPTED\_BD_{i,t-1} + \beta_5 COOPTED\_AC_{i,t-1} + \gamma CH\_CONTROLS_{i,t} + \varepsilon_{i,t} \quad (3e)$$

$$CH\_COMP_{i,t} = \beta_0 + \beta_1 CEO\_BOARD_{i,t-1} + \beta_2 CFO\_BOARD_{i,t-1} + \beta_3 INSIDERS_{i,t-1} + \beta_4 COOPTED\_BD_{i,t-1} + \beta_5 COOPTED\_AC_{i,t-1} + \gamma CH\_CONTROLS_{i,t} + \varepsilon_{i,t} \quad (3f)$$

The variables in equations (3d) through (3f) are defined as discussed earlier, except calculated as the current year change from the prior year. The dependent variable, CH_COMP, measures the percentage change of a company's total audit fees paid in the current year from the previous year. Following Beck and Mauldin (2014), I utilize managerial influence measures from the prior year (rather than changes from the previous year) to reflect their characteristics at the beginning of the year when audit fees are likely to be negotiated.[7]

Consistent with all previous equations, the variables of interest are the managerial influence measures CEO_INFLUENCE, CEO_DUAL, CEO_BOARD, CFO_BOARD, INSIDERS, COOPTED_BD, and COOPTED_AC. The audit compensation model and the audit compensation change model include all control variables utilized in the previous equations. The additional control variable RESTATE is equal to 1 if the company announced a restatement in the current year, and 0 otherwise. G_CONCERN equals 1 if the company received a going-

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[6] Each of the equation numbers correspond to the respective hypothesis numbers that are tested.

[7] Beck and Mauldin (2014) used measures of CFO influence and board characteristics from the prior year in their change model, positing that audit fees may be negotiated early in the client's fiscal year.

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concern modified opinion in the current year, and 0 otherwise. Additionally, all models include industry-specific and year-specific fixed effects as well as clustered standard errors at the company level. To address H3, $\beta_1$ through $\beta_5$ are the coefficient estimates of interest in equations (3a) through (3f). Significant negative $\beta_1$ through $\beta_5$ support H3 and provide evidence that managerial influence on boards and audit committees is associated with auditor compensation and changes in auditor compensation.

## 3.4    Data Sources

I utilize four databases for my study: BoardEx, ExecuComp (ExecuComp), Compustat, Audit Analytics, and Compustat North America (Compustat). BoardEx includes individual profiles of business leaders from public, private, and non-profit organizations. I utilize these profiles to determine executives' membership on corporate boards and directors' membership on audit committees. ExecuComp provides annual data for the top five executive officers as well as board directors of companies in the Standard & Poor's Composite 1500 Index (S&P 1500), which covers about 90% of the market capitalization of U.S. stocks. I use ExecuComp to supplement data for business leaders that are not included in BoardEx. Audit Analytics provides information on active audits, the audit firm office and location that performed a specific audit, as well as data related to auditor changes, reasons for changes, and auditor opinions. I utilize Audit Analytics data related to auditor changes (i.e., auditor resignations and dismissals), audit fees, audit opinions, and auditor location. Compustat data is standardized according to financial statement presentations to ensure consistent and comparable data for analyzing companies and industries in the United States. I use Compustat as a source of firm-specific information to measure company size, complexity, earnings quality, audit risk, and profitability factors.

3.5    Sample Selection

The enactment of SOX contributed to a restructuring in the audit market and extensive auditor-client realignments spanning over several years post-SOX (Landsman, Nelson, and Rountree 2009; Ettredge, Heintz, Li, and Scholz 2011; Cassell et al. 2012). To exclude auditor selection decisions resulting from the implementation of SOX, I utilize a sample period beginning in 2006. Consistent with prior literature, I exclude companies in the financial services industry because they are highly regulated and thus, differ in their governance structures from other companies. After removing financial services companies and restricting firms to only those that have all required governance and financial information, the sample size reduces to 14,595 total available firm years over the sample period 2006 to 2018.

Table 1, Panel A shows the sample selection process for H1, H2, and H3. Within the 14,595 firm year observations, 12,622 companies had auditor and auditor location data available, which is necessary information to test H1. Of the 14,595 firm year observations, only 1,486 firm observations relate to companies with client-initiated auditor turnover. Thus, the proportion of companies with auditor turnover compared to companies without auditor turnover is less than 20 percent. While a ratio of 50:50 is ideal, less optimal ratios are acceptable as long as they range from 10:20 to 10:50 (Cosslett 1981; Imbens 1992; King and Zeng 2001). To improve analysis reliability and usefulness, I follow King and Zeng (2001) and reduce, through random sampling, the proportion of companies without auditor turnover to approximately 80 percent of the sample. This results in a sample size of 7,423 firm year observations to test H2. While I obtain separate control groups to test H1 and H2, prior accounting literature shows that this sampling method is appropriate when treatment groups are small in comparison to control groups (McMullen 1996). Finally, prior research documents the practice of lowballing, the pricing of initial audits below

cost (Kanodia and Mukherji 1994; Dopuch and King 1996). To omit potential effects resulting from lowballing, I exclude all observations involving auditor turnover, whether initiated by clients or audit firms, to test H3. This results in 10,596 initial firm observations to test H3. After excluding 2,656 observations that are missing audit firm and audit fee data, the sample size for testing H3 consists of 7,519 firm year observations. For the change model used in testing H3, I exclude another 1,321 firm year observations due to missing prior year financial and governance information, resulting in a sample size of 6,198 observations for the audit fee change model.

Table 1, Panel B presents the sample composition of firms by industry based upon a company's one-digit SIC code. Companies in the manufacturing, machinery, and electronics industry comprise the largest group, constituting about 30 percent of the sample. The second largest group, food, tobacco, textiles, paper, and chemicals make up about 19 percent of the sample. SIC 0 and SIC 1, agriculture, mining, oil, and construction, were combined and contribute about seven percent to the sample. Similarly, SIC 8 and SIC 9, health, legal, educational, and other services were combined and have the smallest share of about six percent of the sample. All other industries are fairly equally distributed. Considering the consistent composition of samples used in testing the various hypotheses, their representativeness is not a concern.

Table 1, Panel C, presents the sample composition of firms by year. As shown in the table, the frequency of available firm years is steadily declining from 2006 through 2018, which shows a decrease of nearly 30 percent over twelve years. Among the samples used in testing H1, H2, and H3, the distribution of firm observations among years is reasonably consistent, which further supports the representativeness of the samples utilized in this study.

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CHAPTER 4

RESULTS

4.1     Descriptive Statistics

Table 2, Panel A through Panel C, present descriptive statistics for various dependent and independent variables used in the regression analyses that predicts the association between managerial influence and auditor quality, auditor change, and audit fees. As shown in Table 2, Panel A, about 73 percent of the sampled companies utilized to test the association between managerial influence and auditor quality are audited by Big 4 auditors, which are the audit firms that have the highest brand-name recognition. AU_SIZE, the natural log of audit fee revenues earned by audit offices, measured at the city level ranges from 9.7 to 19.3 with a mean of 16.5. With respect to the variables of interest, in about 24 percent of the sampled firms, the CEO serves in a dual role as the chair of the board of directors compared to about 70 percent of firms in which the CEO serves as a board member (but not as the chair). Thus, while the CEO serves on the board for about 94 percent of the sampled companies, the CFO serves on the board in only 11 percent of the companies. The ratio of insiders serving on the board relative to board size ranges from zero to 60 percent with an average of a little over 17 percent. The ratios of co-option for boards and audit committees vary from not co-opted to fully co-opted boards and audit committees. The average ratio of co-opted board members relative to not co-opted board members is 39 percent compared to an average of nearly 70 percent of co-opted directors serving on audit committees. The descriptive statistics further show that the majority of sampled companies have fully co-opted audit committees.

Table 2, Panel B, shows descriptive statistics for the sample used in the Logit model analysis that predicts the probability of auditor change. As shown, about 20 percent of the

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sample consists of companies with auditor turnover. Table 2, Panel C shows descriptive statistics for the sample used in the regression analyses related to auditor compensation and compensation changes. As shown, AU_COMP, the natural log of audit fees paid by a company ranges from 9.6 to 17.4, with a mean of 13.7. Auditor compensation changes range from almost 26 percent decreases to about 33 percent increases, with an average of a little over three percent increase from the previous year. The variables of interest display similar characteristics across the samples.

Table 3, Panels A through Panel C, present correlation coefficients for all variables. Table 3 Panel A provides correlation information about variables used in testing H1 with 12,622 sample firms. Correlation coefficients are shown on the first row and probabilities are located on the second row for each variable. Pearson (Spearman) correlations are presented above (below) the diagonal. Both, AU_BRAND and AU_SIZE are significantly and positively correlated with the variables CEO_INFLUENCE, CEO_DUALITY, CEO_BOARD, as well as COOPTED_BD and are significantly and negatively correlated with CFO_BOARD, INSIDERS, and COOPTED_AC.

Table 3, Panel B, provides correlation information about variables for 7,423 firm year observations used in testing H2. AU_CHANGE is significantly and negatively correlated with CEO_INFLUENCE, CEO_DUAL, and CEO_BOARD, and is significantly and positively correlated with CFO_BOARD and INSIDERS. AU_CHANGE is not significantly correlated with COOPTED_BD, COOPTED_AC and PY_ABS_DACC but is significantly and negatively associated with PY_AUDIT_FEES. Finally, Table 3, Panel C, presents the correlation coefficients for variables included in testing H3. Based on the full sample of 7,519 firm year observations, the table shows a significant positive correlation between AU_COMP and

CEO_INFLUENCE, CEO_DUAL, and CEO_BOARD. AU_COMP is negatively and positively associated with CFO_BOARD, INSIDERS, and COOPTED_AC. CH_COMP, the percent change in auditor compensation from the previous year, is positively and significantly associated with COOPTED_BD but is not significantly associated with any of the other variables of interest.

## 4.2 Empirical Results

### 4.2.1 Results for Testing H1

H1 examines the association between managerial influence on corporate boards and the selection of quality auditors. This study utilizes auditor brand as well as auditor size (measured on the office level) to proxy for audit quality. Table 4, Panel A, reports the results of logistic regressions testing H1 utilizing auditor brand as a proxy for audit quality[8]. To assess economic significance, Table 4, Panel B, shows the marginal effects that each of the managerial influence variables has on the response probability of companies selecting a brand name (Big 4) auditor. Regression results utilizing auditor size to proxy for audit quality are shown in Table 4, Panel C.

Panels A through C, Columns 1, present the regression results of the full sample (Equation (1a)). Columns 2 and 3 report the regression results of the partitioned samples, consisting of companies at which CEOs serve as the chairperson (Equation (1b)) or as a member (Equation (1c)) on the board. The base group in all samples contains companies at which CEOs do not serve on corporate boards in either role. Overall test results indicate that all three models are significant at the 0.01 level.

Panel A and B, Table 4, report the logistic regression results utilizing auditor brand as a

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[8] Variance Inflation Factors (VIFs) are calculated for each model and none exceed a value of 3, suggesting multicollinearity issues are unlikely to be a concern.

proxy for audit quality. The estimated results indicate that the association between managerial influence and auditor selection deviates among manager types, particularly among the CEO, CFO, and insiders serving on the board. Specifically, the association between CEO_INFLUENCE and AU_BRAND is positive and significant ($p < 0.05$). More specifically, each increase in category of CEO_INFLUENCE increases the likelihood of Big 4 auditor selection by 2.2 percent. In the full sample, CFO_BOARD is negatively and significantly associated with AU_BRAND ($p < 0.05$). As shown in Panel B, the CFO's membership on the board of directors decreases the likelihood of Big 4 auditor selection by an average of four percent. Consistent with prior literature, INSIDERS is negatively and significantly associated with AU_BRAND ($p < 0.001$). Marginal effects reported in Panel B indicate that the probability of a company selecting a Big 4 auditor decreases by 37.7 percent for every percentage point increase in the ratio of insiders serving on the board. There is no evidence that the level of co-option on corporate boards or audit committees is associated with brand-name auditor selection[9].

Test results utilizing the partitioned samples provide additional insights into managerial influence on quality auditor selection. CEO_DUAL is positively and significantly associated with AU_BRAND ($p < 0.001$), suggesting that the likelihood of Big 4 auditor selection is 11 percent higher for companies in which the CEO chairs the board compared to companies that do not have a CEO as a chairperson. INSIDERS is negatively and significantly associated with AU_BRAND ($p < 0.001$). In terms of economic significance, test results show that for every percentage point increase in the proportion of insiders serving on boards chaired by the CEO, the probability of Big 4 auditor selection decreases by 28.7 percent compared to companies without

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[9] The negative sign on the coefficient of ROA as well as the positive sign of the coefficient of LOSS in Tables 4, 6, and 9 appear counterintuitive. However, similar results have been reported in prior literature (Landsman et al. 2011; Tepalagul and Lin 2014; DeFond, Erkens, and Zhang 2016).

a CEO serving in a dual role. Finally, for companies with CEO's serving as a chairperson on the board, there is no evidence that the CFO's board membership or the levels of co-option on either corporate boards or audit committees are associated with the selection of brand-name auditors.

CEO_BOARD is positively and significantly associated with AU_BRAND ($p < 0.001$). Companies at which the CEO is a board member (but not the chairperson) have a 14.1 percent higher probability of selecting a Big 4 auditor compared to companies at which the CEO does not serve on the board. In contrast, the CFO's board membership is associated with a five percent ($p < 0.1$) decreased likelihood of Big 4 auditor selection for companies with CEO board membership compared to those without. Further, every percentage point increase in the proportion of insiders serving on the board decreases the likelihood of Big 4 audit firm selection by 47.1 percent ($p < 0.001$) compared to companies without CEO board membership. Finally, there is no evidence that the levels of co-option on either corporate boards or audit committees are associated with the selection of brand-name auditors.

Overall, these findings provide support that CEOs serving on corporate boards are positively associated with brand-name auditor selection, independent of the CEO's role as a chairperson or a member on the board of directors. In contrast, CFO board membership is negatively associated with brand-name auditor selection. However, there is no evidence for this negative association at companies at which the CEO serves as as the chairperson on corporate boards. This may suggest that the CEO in a more influential position as a dual leader can mitigate diverging auditor preferences among the CEO and CFO. Further, the proportion of insiders serving on boards is negatively associated with brand-name auditor selection. The effect of this negative association appears strongest at companies at which the CEO serves as a board member, which may provide further evidence of the mitigating influence of CEOs serving in

dual roles. Taken together, managerial influence on corporate boards and brand-name auditor selection appears to be different based on manager type and CEOs serving in a dual role appear to alleviate the economic significance related to these differences.

Table 4, Panel C, Column 1, presents results from estimating Equation (1a). The overall results indicate that the model is significant at the 0.01 level (General F test = 41.03) and that it has an adjusted $R^2$ of 29.9 percent. Test results indicate that for every increase in category of CEO_INFLUENCE, AU_SIZE increases by about 0.14 percent ($p < 0.01$). The CFO's membership on corporate boards is associated with an average decrease of 0.18 percent ($p < 0.1$) in auditor size. INSIDERS has a negative and significant association with AU_SIZE ($p < 0.001$), indicating that for every percentage point increase in the proportion of insiders serving on board, auditor size decreases by about 1.77 percent. There is no evidence that the level of co-option on corporate boards and audit committees is associated with the selection of large audit firms.

Table 4, Panel C, Column 2, presents results from estimating Equation (1b). The overall results indicate that the model is significant at the 0.01 level (General F test = 18.46) and that it has an adjusted $R^2$ of 30.9 percent. Test results indicate that CEO duality is associated with a 0.32 percent increase in auditor size ($p < 0.05$). For companies in which the CEO serves in a dual role, there is no evidence that any other forms of managerial influence measures utilized in the model are associated with the selection of large audit firms.

Table 4, Panel C, Column 3, presents results from estimating Equation (1c). Test results indicate that the model is significant at the 0.01 level (General F test = 38.26) and that it has an adjusted $R^2$ of 31.2 percent. Board membership of CEOs is associated with an increase in auditor size of 0.43 percent ($p < 0.001$). The CFO's membership on corporate boards is associated with an average decrease of 0.23 percent ($p < 0.1$) in auditor size. INSIDERS has a negative and

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significant association with AU_SIZE ($p < 0.001$), indicating that for every percentage point increase in the proportion of insiders serving on the board, auditor size decreases by about 2.18 percent. There is no evidence that the level of co-option on corporate boards and audit committees is associated with the selection of large audit firms.

Overall, these findings provide support that CEOs serving on corporate boards are positively associated with the selection of larger audit firms, independent of the CEO's role as a chairperson or a member on the board of directors. Both, CFO board membership and the proportion of insiders serving on boards are negatively associated with larger audit firm selection. However, there is no evidence for these negative associations at companies at which the CEO serves as a dual leader. Taken together, managerial influence on corporate boards and audit firm size selection appears to be different among manager types. Specifically, the CEO is positively associated with larger audit firm selection and this association is opposite of the associations between auditor size and CFO as well as between auditor size and insiders serving on boards. Additionally, in companies with CEO duality, the CEO's influence appears to be the only significant form of managerial influence on auditor selection. Finally, test results show that the overall pattern is very similar for both measures of auditor quality (i.e. auditor brand and auditor size).

The positive association between measures of CEO_INFLUENCE and both, AU_BRAND and AU_SIZE could be a sign that CEOs prefer higher quality audits that are associated with brand name auditors and larger audit firms. However, it is also possible that corporate boards aim to mitigate agency risks associated with a CEO's increasing level of influence. In that regard, study results do not provide convincing support for either the stewardship and resource dependence perspectives or the agency view. However, the CEO's

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level of influence appears to mitigate the adverse impact of CFO influence on quality auditor selection because the associations between CFO and AU_BRAND as well as between CFO and AU_SIZE are only significant in the sample of companies at which the CEO is a member of the board but not in the sample of companies at which the CEO has greater influence as chairperson on the board of directors. Additionally, there is further evidence for the mitigating impact of CEO influence on diverging auditor preferences of managers. The negative association between INSIDERS and AU_SIZE is only significant in sampled companies with CEO board membership but not in sampled companies with CEO chairmanship on corporate boards. Thus, this study finds evidence that the CEO's level of influence is associated with high quality auditor selection and this association cannot solely be attributed to corporate boards aiming to mitigate agency risks associated with a CEO's increasing level of influence. Further, consistent with the agency view, the negative association between INSIDERS and AU_BRAND and between INSIDERS and AU_SIZE suggest an adverse impact on the selection higher quality auditors as the number of insiders serving on corporate boards increases. Similarly, the negative associations between CFO and AU_BRAND and between CFO and AU_SIZE suggest that managerial influence in form of a CFO's membership on corporate boards makes it less likely that companies select a higher quality auditor. Notably, the CEO's positive association with the selection of brand-name auditors and larger audit firms is opposite of those of CFOs and those of insiders serving on corporate boards, which may suggest that managerial preferences for high quality audits are not necessarily aligned.

In summary, these findings provide support that the CEO is positively associated with quality auditor selection while the influence of CFOs and increasing proportions of insiders (which comprise any member of management) serving on boards are negatively associated with

quality auditor selection. Additionally, findings show that the negative associations between quality auditor selection and managerial influence on corporate boards is only significant when the CEO serves as a board member but not when the CEO serves in a dual role. Therefore, managerial influence on corporate boards and high quality auditor selection appears to be different based on manager type.

### 4.2.2   Results for Testing H2

H2a through H2c examine whether the association between CEO influence on corporate boards and auditor change[10]. More specifically, H2a through H2c propose that the association between CEO influence and auditor turnover depends on the demand for monitoring in the previous year. The results of the logistic regression testing H2a through H2c are presented in Table 5, Panel A. Panel B reports the marginal effects to assess the economic significance of test results. H2d through H2f suggest that the association between CEO influence and auditor turnover depends on the level of audit fees in the previous year. Regression results testing H2d through H2f are documented in Table 5, Panel C. Panels A through C, Columns 1 present the regression results of the full sample (Equations (2a) and (2d)). Columns 2 and 3 report the regression results of the partitioned samples, consisting of companies at which CEOs serve as the chairperson (Equation (2b) and (2e)) or as a member (Equation (2c) and (2f)) on the board. The base group is the same in all samples and contains companies at which the CEO does not serve on corporate boards in either role. Overall test results indicate that all six models are significant at the 0.01 level.

The estimated results shown in Table 5, Panel A and Panel B, indicate that the

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[10] Variance Inflation Factors (VIFs) are calculated for each model and none exceed a value of 3, suggesting multicollinearity issues are unlikely to be a concern.

association between CEO influence and auditor turnover deviates among the level of CEO influence. Specifically, the association between CEO_INFLUENCE*PY_ABS_DACC and AU_CHANGE is negative and significant ($p < 0.05$). More specifically, each increase in category of CEO_INFLUENCE decreases the likelihood of auditor turnover by 0.2 percent in the context of prior year monitoring demand. Test results utilizing the partitioned samples show that CEO_DUAL*PY_ABS_DACC is negatively and significantly associated with AU_CHANGE ($p < 0.1$), suggesting that the likelihood of auditor turnover in the context of monitoring demand in the previous year is 0.5 percent lower for companies in which the CEO chairs the board compared to companies that do not have a CEO as a chairperson. There is no evidence that CEO_BOARD*PY_ABS_ DACC is significantly associated with AU_CHANGE. Therefore, the Null Hypotheses (2f) stating that in companies in which the CEO serves as a board member the association between CEO influence and auditor turnover does not depend on the level of monitoring demand in the previous year cannot be rejected.

Overall, these findings provide support that CEOs serving on corporate boards are negatively associated with auditor turnover when the demand for monitoring in the previous year is high. The negative associations between measures of CEO influence and auditor turnover could be a sign that CEOs oppose auditor changes when monitoring demand in the prior year is high. However, it is also possible that corporate boards aim to mitigate agency risks associated with a CEO's increasing level of influence. In that regard, study results do not provide convincing support for either the stewardship and resource dependence perspectives or the agency view. However, while the level of CEO influence on corporate boards appears to influence auditor turnover depending on monitoring demand in the prior year differently, the economic significance related to these differences is rather weak.

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Table 5, Panel C, reports the results of logistic regressions testing H2d through H2f. Test results show no evidence that any of the interactions terms CEO_INFLUENCE*PY_AU_FEES, CEO_DUAL*PY_AU_FEES, or CEO_BOARD*PY_AU_FEES is associated with auditor change. Thus, I find no evidence that the level of audit fees in the previous year are associated with a CEO's auditor change preferences. Therefore, the Null Hypotheses (2d), (2e), and (2f) stating that any form of CEO influence and auditor turnover do not depend on the level of audit fees in the previous year cannot be rejected.

### 4.2.3 Results for Testing H3

H3 investigates the association between managerial influence on corporate boards and auditor compensation as well as auditor compensation changes. Table 6, Panels A through C, Columns 1 present the regression results of the full sample (Equations (3a) and (3d)). Columns 2 and 3 report the regression results of the partitioned samples, consisting of companies at which CEOs serve as the chairperson (Equation (3b) and (3e)) or as a member (Equation (3c) and (3f)) on the board. The base group in all samples contains companies at which the CEO does not serve on corporate boards in either role.

Table 6, Panel A, reports the OLS regression results for models (3a), (3b), and (3c), which are testing the association between managerial influence and the level of auditor compensation.[11] Table 6, Panel A, Column 1, presents results from estimating Equation (3a). The overall results indicate that the model is significant at the 0.01 level (General F test = 279.33) and that it has an adjusted $R^2$ of 81.8 percent. As shown, there is no evidence that CEO_INFLUENCE is associated with the level of auditor compensation. Overall, the CFO's

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[11] Variance Inflation Factors (VIFs) are calculated for each model and none exceed a value of 3, suggesting multicollinearity issues are unlikely to be a concern.

membership on corporate boards is associated with lower auditor compensation. Specifically, when the CFO serves as a board member, companies pay on average 0.08 percent ($p < 0.10$) less auditor compensation compared to companies at which the CFO is not a board member. Similarly, INSIDERS is negatively and significantly ($p < 0.001$) associated with AU_COMP. The results indicate that for every percentage increase in the proportion of insiders on the board, auditor compensation decreases, on average, by 0.63 percent. I find no evidence that the level of co-option on boards and audit committees is associated with auditor compensation.

Column 2 presents results from estimating Equation (3b). The overall results indicate that the model is significant at the 0.01 level (General F test = 131.54) and that it has an adjusted $R^2$ of 81.3 percent. As shown, there is no evidence that CEO_DUAL is associated with the level of auditor compensation. In companies, at which the CEO serves in a dual role, the CFO's board membership is associated with 0.16 percent ($p < 0.05$) lower auditor compensation compared to companies at which the CFO is not a board member. Test results further indicate that for companies with CEO duality, for every percentage increase in the proportion of insiders on the board auditor compensation decreases about 0.53 percent ($p < 0.10$). I find no evidence that the level of co-option on either boards or audit committees is associated with auditor compensation.

Column 3 presents results from estimating Equation (3c). Test results show that the model is significant at the 0.01 level (General F test = 219.60) and the adjusted $R^2$ is 81.8 percent. As shown in Panel A, Table 6, there is no evidence that CEO_BOARD or CFO_BOARD is associated with AU_COMP. Test results document that for companies with CEO board membership, for every percentage increase in the proportion of insiders on the board auditor compensation decreases about 0.61 percent ($p < 0.001$). I find no evidence that auditor compensation is associated with the level of co-option on boards and audit committees.

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Overall, test results suggest that managerial influence is associated with lower auditor compensation. Particularly, CFOs and insiders serving on boards appear to be the primary drivers in keeping auditor compensation at lower levels for companies at which the CEO serves in a dual capacity compared to companies without CEO duality. At companies at which the CEO serves as a board member, but not as the chair, the proportion of insiders serving on corporate boards is the only source of significant managerial influence that is associated with lower auditor compensation.

Panel B, Table 6, presents the results of hypotheses tests using the auditor compensation change models (3d), (3e) and (3f). Table 6, Panel B, Column 1, presents results from estimating Equation (3d). The overall results indicate that the model is significant at the 0.01 level (General F test = 14.40) and that it has an adjusted $R^2$ of 6.6 percent. CEO_INFLUENCE is negatively and significantly ($p < 0.1$) associated with CH_COMP, suggesting that year-over-year changes in auditor compensation will decrease by 0.60 percent for every increase in category of CEO_INFLUENCE. The association between COOPT_BD and FEE_CHANGE is positive, suggesting an increase in auditor compensation changes which is opposite the hypothesized decrease in auditor compensation changes. There is no evidence that INSIDERS or COOPT_AC are associated with FEE_CHANGE.

Table 6, Panel B, Column 2, presents results from estimating Equation (3e). The model is significant at the 0.01 level (General F test = 7.32) and has an adjusted $R^2$ of 7.8 percent. For companies in which the CEO chairs the board of directors, there is no evidence that any of the managerial influence variables is associated with CH_COMP. Therefore, the null hypotheses (3e) stating that in companies in which the CEO serves as the chairperson of the board of directors, managerial influence on corporate boards and audit committees is not negatively

associated with the year-over-year change in auditor compensation cannot be rejected.

Table 6, Panel B, Column 3, presents results from estimating Equation (3f). Test results document that the model is significant at the 0.01 level (General F test = 11.06) and that it has an adjusted $R^2$ of 6.6 percent. There is no significant association between CEO_BOARD, CFO_BOARD, INSIDERS, as well as COOPT_AC and CH_COMP. The association between COOPT_BD and CH_COMP is positive, which is opposite the hypothesized outcome. Therefore, the null hypotheses (3f) stating that in companies in which the CEO serves as a member on the board of directors, managerial influence on corporate boards and audit committees is not negatively associated with the year-over-year change in auditor compensation cannot be rejected.

In summary, test results suggest that managerial influence is associated with lower auditor compensation. In companies with CEO duality, the CFO and insiders serving on boards appear to be the primary influence in keeping auditor compensation at lower levels while at companies with CEO board membership insiders appear to be the only significant influence that is associated with lower auditor compensation. Finally, this study finds marginal evidence that year-over-year changes in auditor compensation will be lower when the level of CEO influence is higher.

4.3    Additional Analyses

4.3.1    Additional Analyses Related to H1

H1 examines the association between managerial influence on corporate boards and the selection of quality auditors utilizing an audit firm's brand-name reputation and audit office size as proxies for audit quality. In this section, I utilize alternative proxies for audit quality frequently used in accounting research, specifically auditor tier (Boone, Khurana, and Raman

2010), an audit firm's industry expertise (Knechel et al. 2007; Zerni 2012) and an audit firm's level of independence (DeAngelo 1981; Lennox 1999). Prior research documented that the two second-tier auditors (Grant Thornton and BDO Seidman), represent the fifth and sixth largest audit firms in the US and worldwide, have significant national and international brand name reputation, and provide audit quality similar to Big 4 auditors (Carson 2009; Boone et al. 2010). Next, an auditor's industry expertise may provide greater assurance of financial statement accuracy because an audit firm has a greater amount of reputation at stake in the industry in which it specializes (Simunic and Stein 1990; DeFond 1992). Furthermore, an audit firm's perceived independence may be the strongest indicator of an auditor's willingness to report a breach (DeAngelo 1981; Dopuch and Simunic 1982). The argument is that the larger a specific client's fees are in relation to the total fees earned by an audit firm, the less willing the audit firm will be to report financial statement irregularities or modify an audit report in fear of losing the client.

In performing the additional analyses, I utilize the same models as in equations (1a), (1b), and (1c) but measure audit quality with the alternative proxies AU_TIER, IND_SPECIALIST and INDEPENDENCE. Auditor tier, AU_TIER, is equal to 2 if the auditor is a Big 4 audit firm, equal to 1 if the auditor is a second-tier firm (i.e. Grant Thornton and BDO Seidman), and equal to 0 for all other audit firms. An audit firm's office-level industry expertise, IND_SPECIALIST, is equal to 1 if an audit firm's industry share measured at the office level is ten percent or greater. The audit firm's level of independence measured at the office level, INDEPENDENCE, is measured as the ratio of an audit office's client-specific revenue divided by the office's total revenues. All other variables are the same as in equations (1a) through (1c) with the exception of AU_SMALL, which is an additional control variables utilized in the model testing

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INDEPENDENCE as a proxy for audit quality. AU_SMALL controls for the effects of small and niche auditors that derive all of their audit fee revenue from a single audit client.

### 4.3.1.1 Descriptive Statistics

Table 7 presents the descriptive statistics for various dependent and independent variables used in the regression analyses that predict the association between managerial influence and auditor quality. As shown in Table 7, AU_TIER indicates that the majority of sampled companies utilized to test the association between managerial influence and auditor quality are audited by Big 4 auditors. Further, the median of AU_SPECIALIST shows that about 83 percent of companies are audited by industry specialists. Next, auditor independence (INDEPENDENCE) ranges from zero to 99.6 percent with a mean of 82.4 percent, suggesting that the majority of audit firms are reasonably independent of their respective audit clients. Finally, about 5.5 percent of the sampled companies are audited by small or niche auditors (AU_SMALL) that derive their audit fee revenues from a single client.

Table 8 shows the correlation coefficients for variables included in the additional analyses related to H1. There is a significant positive correlation between AU_TIER and CEO_INFLUENCE, CEO_DUAL, CEO_BOARD, and COOPTED_BD. AU_TIER is negatively and significantly associated with CFO_BOARD, INSIDERS, and COOPTED_AC. IND_SPECIALIST is positively and significantly associated with all three measures of CEO influence and is negatively and significantly associated with CFO_BOARD and COOPTED_AC. Further, INDEPENDENCE shows no positive associations with any of the variables of interest but shows negative and significant associations with CFO_BOARD and COOPTED_BD. Finally, AU_SMALL is not negatively associated with any of the variables of interest but shows positive and significant associations with CFO_BOARD, INSIDERS, and COOPTED_AC.

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4.3.1.2    Results

The regression results utilizing three alternative auditor quality measures are reported in Table 9, Panel A through Panel E. Table 9, Panel A reports the regression results testing the association between managerial influence and auditor tier selection. Panel B shows the marginal effects that each managerial influence variable has on the response probability that companies select a higher tier audit firm. Table C documents the logistic regression results testing the association between managerial influence and auditor industry expertise. Panel D documents the marginal effects that each managerial influence variable has on the response probability that companies select audit firms specializing in their industry. Panel E reports the OLS regression results testing the association between managerial influence and auditor independence. Consistent with prior reporting of test results, Columns 1 in Panel A through Panel E presents the regression results of the full sample (Equation (1a)). Columns 2 and 3 report the regression results of the partitioned samples, consisting of companies at which CEOs serve as the chairperson (Equation (1b)) or as a member (Equation (1c)) on the board. The base group in all samples contains companies at which CEOs do not serve on corporate boards in either role.

Panel A and B, Table 9, report the logistic regression results utilizing auditor tier as a proxy for audit quality. General F tests indicate that all models are significant at the 0.01 level. Consistent with results in the main analysis, the estimated results indicate that the association between managerial influence and auditor selection deviates among manager types, particularly among the CEO, CFO, and insiders serving on the board. Specifically, each increase in category of CEO_INFLUENCE increases the likelihood of selecting a higher tier auditor by 2.3 percent ($p < 0.01$). CFO membership on the board of directors decreases the likelihood of a higher tier auditor selection by an average of 2.8 percent ($p < 0.5$). The probability of a company selecting a

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higher tier auditor decreases by 21.4 percent for every percentage point increase in the ratio of insiders serving on the board. There is no evidence that the level of co-option on corporate boards or audit committees is associated with brand-name auditor selection.

Test results utilizing the partitioned samples suggest that the likelihood of higher auditor tier selection is 5.9 percent higher for companies in which the CEO chairs the board compared to companies that do not have a CEO as a chairperson. In contrast, for every percentage point increase in the proportion of insiders serving on boards chaired by the CEO, the probability of higher auditor tier selection decreases by 10.9 percent compared to companies without a CEO serving in a dual role. Finally, for companies with CEO's serving as a chairperson on the board, there is no evidence that the CFO's board membership or the levels of co-option on either corporate boards or audit committees are associated with the selection of brand-name auditors.

CEO membership on corporate boards (but not the chairperson) increases the likelihood of selecting a higher tier auditor by 8.7 percent ($p < 0.01$) compared to companies at which the CEO does not serve on the board. In contrast, the CFO's board membership is associated with a 2.1 percent ($p < 0.1$) decreased likelihood higher auditor tier selection for companies with CEO board membership compared to those without. Further, every percentage point increase in the proportion of insiders serving on the board decreases the likelihood higher audit tier selection by 28.3 percent ($p < 0.001$) compared to companies without CEO board membership. The levels of co-option on either corporate boards or audit committees are not significantly associated with the selection of higher tier auditors.

Consistent with findings discussed in the main tests of H1, test results utilizing auditor tier as a proxy for auditor quality provide further support that CEOs serving on corporate boards positively influence higher quality auditor selection, independent of the CEO's role as a

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chairperson or a member on the board of directors. In contrast, CFO board membership negatively influences the selection of higher auditor tiers but only at companies at which the CEO serves as a member on corporate boards. This may suggest that CEOs in more influential positions as dual leaders can mitigate diverging auditor preferences among the CEO and CFO. Further, the proportion of insiders serving on boards is negatively associated with auditor tier. The effect of this negative association appears strongest at companies at which the CEO serves as a board member, which may provide further evidence of the mitigating influence of CEOs serving in dual roles. Taken together, managerial influence on corporate boards and auditor tier selection appears to be different based on manager type and CEOs serving in a dual role appear to mitigate the negative influences of CFOs and insiders on higher auditor tier selection.

Panel C and Panel D, Table 9 report test results utilizing an audit firm's classification as industry specialist to proxy for audit quality. General F-tests show that all models are significant ($p < 0.01$). CEO_INFLUENCE is positively and significantly ($p < 0.05$) associated with IND_SPECIALIST. Findings suggest that for every increase in category of CEO_INFLUENCE, the likelihood of a company selecting industry specialists to perform their financial audits increase by 2.3 percent. CFO_BOARD is negatively and significantly ($p < 0.1$) associated with IND_SPECIALIST, indicating that companies are about 3.3 percent less likely to select audit firms specializing in their industry when the CFO is a board member compared to companies in which the CFO does not serve as a member on the board. The negative association between INSIDERS and IND_SPECIALIST is more significant ($p < 0.001$). Specifically, as shown in Panel B, every percentage point increase in the proportion of insiders serving on corporate boards decreases the likelihood of a company's selection of industry specialists by 42 percent. The level of co-option on boards and audit committees is not significantly associated with the

selection of industry specialists.

Test results utilizing the partitioned samples suggest that when the CEO chairs the board, it is 11.6 percent ($p < 0.001$) more likely that companies choose an industry specialist audit firm compared to companies in which the CEO does not chair the board. INSIDERS is negatively and significantly ($p < 0.05$) associated with IND_SPECIALIST. The likelihood of companies selecting industry specialists decreases by 32.6 percent for every percentage point increase in the proportion of insiders serving on corporate boards. There are no significant associations between the other managerial influence variables (CFO_BOARD, COOPTED_BD and COOPTED_AC) and IND_SPECIALIST.

CEO board membership increases the likelihood of industry specialist selection by 13.7 percent compared to companies in which the CEO is not a board member. In contrast, the CFO's board membership decreases the likelihood of industry specialist selection by 5.2 percent ($p < 0.05$) compared to companies in which the CFO is not a board member. INSIDERS is negatively and significantly ($p < 0.001$) associated with IND_SPECIALIST. The probability of companies selecting industry specialists decreases by 49.9 percent for every percentage point increase in the proportion of insiders serving on corporate boards. Test results show no significant association between the level of co-option on corporate boards and audit committees and the selection of audit firms specializing in a company's industry.

In summary, CEO's positively influence industry specialist selection and this influence is opposite of those of CFOs and insiders. This provides further support that managerial preferences for high quality audits are not necessarily aligned. Additionally, in companies in which the CEO serves in a dual role, the negative association between CFO's and insiders' influence on corporate boards and industry specialist selection appears to be less significant

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compared to companies in which the CEO serves only as a board member. This further supports the idea that the CEO in a dual role may be able to mitigate conflicting preferences for quality audits among managers. There is no evidence that the level of cooption on boards or audit committees is associated with the selection of industry specialists. Overall, test results utilizing an audit firm's industry specialization as a proxy for audit quality provide additional support of the conclusions related to the main tests of H1.

Table 9, Panel E, shows the regression results testing the association between managerial influence and auditor independence. General F-tests document that all models are significant at the 0.1 level. As shown, the overall association between CEO_INFLUENCE and INDEPENDENCE is positive and marginally significant ($p = 0.1$). Test results provide evidence that every increase in category of CEO_INFLUENCE is associated with an increase of 0.3 percent in the level of auditor independence ($p = 0.1$). INSIDERS is negatively and significantly associated with INDEPENDENCE ($p < 0.05$), indicating that for every percentage increase in the proportion of insiders on corporate boards, the level of auditor independence decreases by 3.3 percent. Notably, COOPTED_BD is positively and significantly ($p < 0.1$) associated with INDEPENDENCE, suggesting an increase of 0.7 percent in the level of auditor independence for every percentage point increase in the proportion of co-opted board members. I find no evidence for an association between CFO_BOARD or COOPTED_AC and INDEPENDENCE.

For companies in which the CEO chairs the board of directors, I find no evidence that any measures of managerial influence utilized in this study are associated with auditor independence. In companies in which the CEO serves as a board member, CEO board membership is associated with a 1.2 percent increase in auditor independence ($p < 0.01$). Consistent with prior literature, insiders' influence on boards decreases the likelihood of

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independent auditor selection. Specifically, every percentage point increase in the proportion of insiders serving on corporate boards is associated with about 5.7 percent decreases in auditor independence ($p < 0.01$). For companies at which the CEO is a board member, every percentage point increase in the proportion of co-opted board members is associated with a 0.8 percent increase in the level of auditor independence ($p < 0.1$). Although this effect is weak, it may support the view that co-opted boards are likely to vote with the CEO on important matters, including auditor selection, but contradicts the negative association between co-option and board effectiveness. I find no evidence that the CFO or the level of co-option on audit committees is associated with the selection of independent auditors at companies with CEO board membership.

Overall, these findings provide support that the CEO and the level of co-option on corporate boards positively influence high quality auditor selection while insiders serving on boards negatively influence high quality auditor selection. Therefore, managerial influence on corporate boards and high-quality auditor selection appears to be different based on manager type. Additionally, test results show that the negative associations between quality auditor selection and insiders serving on corporate boards is only significant when the CEO serves as a board member but not when the CEO serves in a dual role. This suggests that CEOs serving on corporate boards can mitigate negative influences of other managers on independent auditor selection and that CEOs are more successful doing so if they serve in a more authoritative and influential position as chairs on corporate boards. Overall, test results utilizing auditor independence as a proxy for audit quality provide additional support for the conclusions in the main tests of H1.

### 4.3.2    Additional Analyses related to H2

As previously discussed, audit fees may be more useful to investigate whether diverging

incentives among managers and directors impact auditor selection. Prior research suggests that higher audit fees are frequently perceived as an indicator for higher audit effort desired by directors to mitigate agency conflicts (Carcello et al. 1992; DeFond 1992; DeZoort et al. 2002; Dao et al. 2012). Alternatively, audit effort can be measured as the level of abnormal audit fees paid by audit clients. Abnormal audit fees are audit fees that cannot be explained by the size, complexity, or risk of the audit client. As such, I obtain abnormal audit fees as the residuals from the following audit fee model modified from recent prior studies (Francis, Reichelt, and Wang 2005; Blankley, Hurtt, and MacGregor 2012; Eshleman and Guo 2014):

$$AUDIT\_FEES_{i,t} = \beta_0 + \beta_1 SIZE\_AT_{i,t} + \beta_2 ROA_{i,t} + \beta_3 ASSET\_TURN_{i,t} + \beta_4 INVENTORY_{i,t} + \beta_5 LEVERAGE_{i,t} + \beta_6 QUICK_{i,t} + \beta_7 ABS\_DACC_{i,t} + \beta_8 LOSS_{i,t} + \beta_9 FOREIGN_{i,t} + \beta_{10} SPECIAL_{i,t} + \beta_{11} BUSY_{i,t} + \beta_{12} IC\_WEAK_{i,t} + \beta_{13} MODIFIED_{i,t} + \beta_{14} AU\_TENURE_{i,t} + \beta_{15} BIG\_4_{i,t} + \beta_{16} IND\_SPECIALIST_{i,t} + Fixed\ Effects + \varepsilon_{i,t} \quad (4)$$

The model controls for factors that affect the level of audit fees charged to the client, such as client size, risk, complexity, as well as auditor attributes. As larger clients frequently pay higher audit fees, the model includes the natural logarithm of total assets (SIZE_AT) to control for client size. Similarly, riskier clients are generally charged higher audit fees to compensate for the higher risk (Simunic and Stein 1990). Therefore, the model includes performance and liquidity measures to capture risk, such as return on asset (ROA), asset-turnover (ASSET_TURN), inventory (INVENTORY),  leverage (LEVERAGE), quick (QUICK), discretionary accruals (ABS_DACC), whether the company reported a loss (LOSS), internal control weaknesses (IC_WEAK), or received a modified opinion (MODIFIED). To capture the complexity of the audit, the model captures whether the company pays foreign income taxes (FOREIGN) or reports special items (SPECIAL). Finally, auditor attributes and timing of the audit can influence the level of audit fees charged, including auditor tenure (AU_TENURE), whether the audit firm is a Big 4 firm (BIG_4), an industry specialist (IND_SPECIALIST) and

whether the audit client's fiscal year ends in December, prompting an audit during the busy audit season (BUSY). The model controls for year fixed effects and industry fixed effects. Standard errors are clustered at the company level.

Table 10 reports the results from estimating the audit fee model[12]. The model explains approximately 82.6 percent of the variation in audit fees, which is consistent with prior literature (Francis et al. 2005; Blankley et al. 2012; Eshleman and Guo 2014).The coefficient on SIZE_AT is significantly positive, consistent with larger clients being charged higher audit fees. Additionally, Big 4 and industry specialist auditors (BIG_4, IND_SPECIALIST) are significantly positive, reflecting the ability of these audit firms to charge premiums to their clients. Further, the coefficient on BUSY is positive and significant, indicating higher audit fees for clients whose fiscal year ends in during the busy audit season. Clients with higher return on assets (ROA) and higher liquidity (QUICK) are charged significantly lower audit fees, consistent with auditors charging lower fees to less risky clients. Negative and significant coefficients are consistent with companies that hold higher levels of inventory (INVENTORY), have higher discretionary accruals (ABS_DACC), are more complex (FOREIGN, SPECIAL), report a loss (LOSS) or weaknesses in internal controls (IC_WEAK).

To perform the additional analysis related to testing H2d through H2f, Equations (2d) through (2f) are modified to include prior year abnormal audit fees (ABN_FEES) rather than the level of audit fees in the previous year. All other variables in the models remain the same:

$$AU\_CHANGE_{i,t} = \beta_0 + \beta_1 CEO\_INFLUENCE_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} + \beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \beta_6 ABN\_FEES_{i,t-1} + \boldsymbol{\beta_7 CEO\_INFLUENCE_{i,t}*ABN\_FEES_{i,t-1}} + \gamma CONTROLS_{i,t} + \varepsilon_{i,t} \qquad (5a)$$

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$$AU\_CHANGE_{i,t} = \beta_0 + \beta_1 CEO\_DUAL_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} +$$
$$\beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \beta_6 ABN\_FEES_{i,t-1} +$$
$$\boldsymbol{\beta_7 CEO\_DUAL_{i,t}*ABN\_FEES_{i,t-1}} + \gamma CONTROLS_{i,t} + \varepsilon_{,i,t} \qquad (5b)$$

$$AU\_CHANGE_{i,t} = \beta_0 + \beta_1 CEO\_BOARD_{i,t} + \beta_2 CFO\_BOARD_{i,t} + \beta_3 INSIDERS_{i,t} +$$
$$\beta_4 COOPTED\_BD_{i,t} + \beta_5 COOPTED\_AC_{i,t} + \beta_6 ABN\_FEES_{i,t-1} +$$
$$\boldsymbol{\beta_7 CEO\_BOARD_{i,t}*ABN\_FEES_{i,t-1}} + \gamma CONTROLS_{i,t} + \varepsilon_{,i,t} \qquad (5c)$$

To address H2d through H2f, $\beta_7$ is the coefficient estimates of interest in equations (5a) through (5c). Significant positive $\beta_7$ would suggest that CEOs support auditor turnover when prior year abnormal audit fees are high.

### 4.3.2.1    Descriptive Statistics

Table 11 shows the descriptive statistics for PY_ABN_FEES, which are prior year abnormal audit fees, calculated as the residual from estimating Equation (4). PY_ABN_FEES range from -2.456 to 1.990, with a mean of -0.001. Table 12 documents that PY_ABN_FEES significantly and negatively correlated with CFO_BOARD, INSIDERS, and marginally negatively correlated with COOPTED_BD. There are no other significant correlations between PY_ABN_FEES and the other variables of interest.

### 4.3.2.2    Results

Table 13 reports the results of logistic regressions testing H2d through H2f. General F-tests indicate that all three models are significant at the 0.1 level. Consistent with results reported in the main analysis, test results documented in Table 13 show no evidence that any of the interactions terms CEO_INFLUENCE*PY_ABN_FEES, CEO_DUAL*PY_ABN_FEES, or CEO_BOARD*PY_ABN_FEES is associated with auditor change. Thus, I find no evidence that the level of abnormal audit fees in the previous year are associated with a CEO's auditor change preferences. Therefore, I cannot reject the Null Hypotheses (2d), (2e), and (2f) stating that any

form of CEO influence and auditor turnover do not depend on the level of audit fees in the previous year.

CHAPTER 5

CONCLUSION

Recent surveys and interviews report that management continues to provide input into the auditor selection process post SOX, raising concerns that SOX regulations are not effective in eliminating managerial influence over the external auditor and may provide a false sense of security to investors. These concerns are largely based on the predominant use of agency theory in the accounting literature. According to the agency view, managerial influence on boards is thought to decrease board independence and effectiveness. In order to examine the effect of managerial influence on corporate boards and auditor engagement decisions more fully, I utilized agency theory, but I also turned to stewardship and resource dependence perspectives. These two theories suggest that managerial influence on corporate boards is linked to improved decision-making by boards as well as financial reporting quality.

Utilizing these three theories, I show that managerial influence is associated with auditor selection and compensation. I examine the effect of managerial influence on corporate boards and auditor selection, change, and compensation decisions. CEO's influence is positively associated with higher quality auditor selection. This association could be a sign that CEOs prefer higher quality audits that are associated with Big 4 firms, larger audit firms, industry experts, and independent auditors. However, it is also possible that corporate boards aim to mitigate agency risks associated with a CEO's increasing level of influence. In that regard, study results do not provide convincing support for either the stewardship and resource dependence perspectives or the agency view. This limitation provides opportunities for further research. In contrast to the CEO's preference for higher audit quality, CFOs and insiders serving on corporate boards favor the opposite. This may suggest that managerial likings for high quality audits are

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not aligned. Further, the CEO's influence appears to mitigate the negative association between audit quality and both, CFOs and insiders. Yet, the negative associations between audit quality and CFO, as well as between audit quality and insiders, are only significant when the CEO is a member of the board but not when the CEO has greater influence as chair on the board of directors. This evidence contradicts the agency view that associates managerial influence on corporate boards with a decreased likelihood of high quality auditor selection. Further, I document that managers' functional roles are a key determinant in influencing auditor selection. CEOs positively influence audit quality, whereas CFOs and insiders serving on corporate boards have the opposite effect. Taken together, managerial influence on corporate boards and high-quality auditor selection appears to be different based on manager role and whether the CEO serves as the chairperson or as a member on the board of directors.

Additionally, I show that managerial influence is related to downward pressures on audit compensation, suggesting that management continues to be a force in audit fee negotiations despite SOX regulations. While management's bargaining power in audit fee negotiations reflect its ability to select, dismiss, and compensate the external auditor (Moore et al. 2006), I find evidence that powerful CEOs serving in dual roles oppose auditor changes when concerns of earnings quality result in higher demand for monitoring. Finally, consistent with Lisic et al. (2016), I find no evidence to support interpretations from prior literature which suggest that board effectiveness decreases as the level of co-option increases (Hermalin and Weisbach 1988; Shivdasani and Yermack 1999; Cohen et al 2012; Coles et al. 2014).

While my results are consistent with and reflective of conflicting evidence of management and board/audit committee goals related to auditor selection and compensation, there are limitations to my study. I document an association between managerial influence and

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auditor selection, as well as between managerial influence and auditor compensation, but I cannot infer causality from these results. The various measures for managerial influence and company characteristics chosen for this study are limited and there could be other unobservable company characteristics that determine both managerial influence and auditor selection that are not addressed in this study. Further, the results of this study are specific to publicly traded companies and may not generalize to all companies.

Despite these limitations, the study raises questions about the widespread use of agency theory in auditing and governance research despite the lack of evidence that the agency view is the most effective model for explaining organizational behavior. Additionally, this dissertation indicates that managerial incentives are not always aligned, specifically in the context of auditor selection and compensation. Future research could investigate company characteristics or managerial attributes that help explain a CEO's influence as chairperson versus member on corporate boards. Finally, future research could shed additional insights into the power play between managers and among managers, corporate boards, and the audit committee by utilizing other variables related to managerial influence.

| Sample Period 2006-2018 | TOTAL |
|---|---|
| BoardEx data merged with ExecuComp data | 106,686 |
| CompuStat data merged with Audit Analytics data, excluding financial industry | 84,393 |
| Initial Firm Years 2006 – 2018 (Merge of BoardEx, ExecuComp, CompuStat and Audit Analytics) | 28,410 |
| Firm Years *Without* Required Governance Information | (11,523) |
| Firm Years *Without* Required Financial Information | (3,072) |
| **Total Available Firm Years** | **14,595** |
| | |
| Firm Years *Without* Auditor and Auditor Location Information | (1,973) |
| **Total Available Firm Years, H1** | **12,622** |
| | |
| Firm Years *With* Treatment Effect, H2 | 1,486 |
| Firm Years *Randomly Sampled* for Control Group, H2 | 5,937 |
| **Total Available Firm Years, H2** | **7,423** |
| | |
| Firm Years *Without* Auditor Change | 10,596 |
| Firm Years *Without* Required Auditor and Audit Fee Information | (2,656) |
| **Total Available Firm Years, H3** | **7,519** |

**Panel B: Sample Composition by Industry**

| Industry (One-Digit SIC) | All Available Firm Years | | H1 (N = 12,622) | H2 (N = 7,423) | H3 (N = 7,519) |
|---|---|---|---|---|---|
| | Frequency | Percent | Percent | Percent | Percent |
| 0-1 (Agriculture, mining, oil, and construction) | 1,032 | 7.1 | 7.4 | 7.0 | 8.3 |
| 2 (Food, tobacco, textiles, paper, and chemicals) | 2,772 | 19.0 | 19.1 | 19.2 | 18.8 |
| 3 (Manufacturing, machinery, and electronics) | 4,673 | 32.0 | 31.4 | 33.0 | 26.4 |
| 4 (Transportation and communications) | 1,396 | 9.6 | 9.6 | 9.2 | 11.6 |
| 5 (Wholesale and retail) | 1,464 | 10.0 | 10.7 | 9.8 | 12.4 |
| 7 (Services) | 2,472 | 16.9 | 16.2 | 15.9 | 16.5 |
| 8-9 (Health, legal and educational services, and other) | 786 | 5.4 | 5.6 | 5.9 | 6.1 |
| **TOTAL** | **14,595** | **100.0** | **100.0** | **100.0** | **100.0** |

**Panel C: Sample Composition by Year**

| Year | All Available Firm Years | | H1 (N=12,622) | H2 (N=7,423) | H3 (N=7,519) |
|---|---|---|---|---|---|
| | Frequency | Percent | Percent | Percent | Percent |
| 2006 | 1,349 | 9.2 | 9.0 | 9.4 | 8.9 |
| 2007 | 1,299 | 8.9 | 8.8 | 8.8 | 9.0 |
| 2008 | 1,243 | 8.5 | 8.6 | 8.7 | 9.0 |
| 2009 | 1,136 | 7.8 | 7.9 | 8.2 | 8.0 |
| 2010 | 1,089 | 7.5 | 7.6 | 8.1 | 8.3 |
| 2011 | 1,103 | 7.6 | 7.6 | 6.9 | 8.1 |
| 2012 | 1,056 | 7.2 | 7.6 | 6.8 | 7.4 |
| 2013 | 1,077 | 7.4 | 7.3 | 7.3 | 7.4 |
| 2014 | 1,101 | 7.5 | 7.6 | 7.1 | 7.8 |
| 2015 | 1,122 | 7.7 | 7.5 | 7.6 | 6.6 |
| 2016 | 1,042 | 7.1 | 6.8 | 7.4 | 6.3 |
| 2017 | 1,011 | 6.9 | 7.0 | 6.7 | 6.8 |
| 2018 | 967 | 6.6 | 6.7 | 7.0 | 6.5 |
| **TOTAL** | **14,595** | **100.0** | **100.0** | **100.0** | **100.0** |

## TABLE 2: Descriptive Statistics for Observations Testing

### Panel A: H1

| Variable | N | Mean | Std Dev | Min. | 25th Pctl | Median | 75th Pctl | Max. |
|---|---|---|---|---|---|---|---|---|
| AU_BRAND | 12622 | 0.728 | 0.448 | 0 | 0 | 1 | 1 | 1 |
| AU_SIZE | 12622 | 16.534 | 1.752 | 9.657 | 15.394 | 16.916 | 17.881 | 19.310 |
| CEO_INFLUENCE | 12622 | 1.188 | 0.512 | 0 | 1 | 1 | 1 | 2 |
| CEO_DUAL | 3751 | 0.812 | 0.392 | 0 | 1 | 1 | 1 | 1 |
| CEO_BOARD | 9580 | 0.925 | 0.262 | 0 | 1 | 1 | 1 | 1 |
| CFO_BOARD | 12622 | 0.109 | 0.314 | 0 | 0 | 0 | 0 | 1 |
| INSIDERS | 12622 | 0.173 | 0.095 | 0 | 0.111 | 0.143 | 0.214 | 0.600 |
| COOPTED_BD | 12622 | 0.390 | 0.292 | 0 | 0.125 | 0.375 | 0.667 | 1 |
| COOPTED_AC | 12622 | 0.696 | 0.389 | 0 | 0.333 | 1 | 1 | 1 |
| SIZE_AT | 12622 | 6.376 | 2.073 | 0.508 | 4.852 | 6.292 | 7.775 | 13.184 |
| ASSET_TURN | 12622 | 1.043 | 0.755 | 0.043 | 0.506 | 0.864 | 1.378 | 3.907 |
| CURR_RATIO | 12622 | 2.763 | 2.395 | 0.377 | 1.329 | 2.039 | 3.249 | 14.617 |
| LEVERAGE | 12622 | 0.510 | 0.262 | 0.068 | 0.313 | 0.495 | 0.666 | 1.447 |
| ROA | 12622 | -0.033 | 0.219 | -1.039 | -0.049 | 0.030 | 0.074 | 0.290 |
| SALE_GROWTH | 12622 | 0.168 | 0.513 | -0.563 | -0.023 | 0.069 | 0.200 | 3.711 |
| ALTMAN | 12622 | 3.736 | 6.016 | -16.742 | 1.378 | 3.019 | 5.123 | 26.512 |
| LOSS | 12622 | 0.351 | 0.478 | 0 | 0 | 0 | 1 | 1 |

**Panel B: H2**

| Variable | N | Mean | Std Dev | Min. | 25th Pctl | Median | 75th Pctl | Max. |
|----------|---|------|---------|------|-----------|--------|-----------|------|
| AU_CHANGE | 7423 | 0.200 | 0.400 | 0 | 0 | 0 | 0 | 1 |
| CEO_INFLUENCE | 7423 | 1.209 | 0.476 | 0 | 1 | 1 | 1 | 2 |
| CEO_DUAL | 2007 | 0.887 | 0.317 | 0 | 1 | 1 | 1 | 1 |
| CEO_BOARD | 5643 | 0.960 | 0.197 | 0 | 1 | 1 | 1 | 1 |
| CFO_BOARD | 7423 | 0.087 | 0.282 | 0 | 0 | 0 | 0 | 1 |
| INSIDERS | 7423 | 0.174 | 0.091 | 0 | 0.111 | 0.143 | 0.200 | 0.600 |
| COOPTED_BD | 7423 | 0.391 | 0.289 | 0 | 0.143 | 0.375 | 0.667 | 1 |
| COOPTED_AC | 7423 | 0.704 | 0.384 | 0 | 0.333 | 1 | 1 | 1 |
| PY_ABS_DACC | 7423 | 0.782 | 1.411 | 0.001 | 0.051 | 0.187 | 0.672 | 9.982 |
| PY_AUDIT_FEES | 7423 | 13.739 | 1.241 | 9.210 | 12.890 | 13.741 | 14.545 | 18.001 |
| SIZE_AT | 7423 | 6.174 | 2.087 | 0.484 | 4.625 | 6.071 | 7.592 | 13.004 |
| ASSET_TURN | 7423 | 1.037 | 0.732 | 0.043 | 0.521 | 0.869 | 1.373 | 3.733 |
| CURR_RATIO | 7423 | 2.831 | 2.456 | 0.401 | 1.335 | 2.065 | 3.360 | 15.126 |
| LEVERAGE | 7423 | 0.504 | 0.262 | 0.066 | 0.307 | 0.487 | 0.664 | 1.420 |
| ROA | 7423 | -0.043 | 0.230 | -1.163 | -0.061 | 0.026 | 0.071 | 0.291 |
| SALE_GROWTH | 7423 | 0.171 | 0.560 | -0.584 | -0.033 | 0.067 | 0.203 | 4.003 |
| ALTMAN | 7423 | 3.602 | 6.097 | -16.717 | 1.313 | 2.953 | 4.956 | 28.229 |
| LOSS | 7423 | 0.374 | 0.484 | 0 | 0 | 0 | 1 | 1 |

**Panel C: H3**

| Variable | N | Mean | Std Dev | Min. | 25th Pctl | Median | 75th Pctl | Max. |
|---|---|---|---|---|---|---|---|---|
| AU_COMP | 7519 | 13.653 | 1.130 | 9.621 | 12.901 | 13.674 | 14.349 | 17.362 |
| CH_COMP | 6198 | 3.323 | 12.432 | -25.962 | -4.239 | 2.884 | 10.539 | 33.004 |
| CEO_INFLUENCE | 7519 | 1.194 | 0.506 | 0 | 1 | 1 | 1 | 2 |
| CEO_DUAL | 2208 | 0.830 | 0.376 | 0 | 1 | 1 | 1 | 1 |
| CEO_BOARD | 5687 | 0.934 | 0.249 | 0 | 1 | 1 | 1 | 1 |
| CFO_BOARD | 7519 | 0.107 | 0.309 | 0 | 0 | 0 | 0 | 1 |
| INSIDERS | 7519 | 0.181 | 0.096 | 0 | 0.111 | 0.143 | 0.222 | 0.571 |
| COOPTED_BD | 7519 | 0.419 | 0.289 | 0 | 0.167 | 0.429 | 0.667 | 1 |
| COOPTED_AC | 7519 | 0.736 | 0.374 | 0 | 0.5 | 1 | 1 | 1 |
| SIZE_AT | 7519 | 6.170 | 2.066 | 0.508 | 4.691 | 6.047 | 7.525 | 12.708 |
| ASSET_TURN | 7519 | 1.046 | 0.774 | 0.042 | 0.475 | 0.850 | 1.430 | 3.873 |
| CURR_RATIO | 7519 | 2.964 | 2.633 | 0.359 | 1.325 | 2.123 | 3.572 | 15.325 |
| LEVERAGE | 7519 | 0.481 | 0.260 | 0.061 | 0.280 | 0.457 | 0.646 | 1.428 |
| ROA | 7519 | 0.022 | 0.216 | -1.025 | -0.034 | 0.036 | 0.083 | 0.298 |
| SALE_GROWTH | 7519 | 0.158 | 0.431 | -0.552 | -0.006 | 0.081 | 0.208 | 2.949 |
| ALTMAN | 7519 | 4.347 | 6.502 | -15.511 | 1.457 | 3.391 | 5.997 | 32.995 |
| LOSS | 7519 | 0.316 | 0.465 | 0 | 0 | 0 | 1 | 1 |
| RESTATE | 7519 | 0.099 | 0.299 | 0 | 0 | 0 | 0 | 1 |
| G_CONCERN | 7519 | 0.027 | 0.161 | 0 | 0 | 0 | 0 | 1 |

Financial variables in Table 2, Panel A, B, and C are winsorized at 1 percent and 99 percent. (See Appendix for variable definitions.)

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**TABLE 3: Correlation Matrix**

**Panel A: H1**

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | AU_BRAND | | 0.8693 | 0.1047 | 0.2406 | 0.1363 | -0.0979 | -0.2645 | 0.0447 | -0.0159 | 0.5404 | -0.0696 | -0.0762 | 0.1176 | 0.1397 | -0.0086 | 0.0378 | -0.1713 |
| | | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0727 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.3310 | <.0001 | <.0001 |
| 2 | AU_SIZE | 0.8693 | | 0.0967 | 0.2242 | 0.1244 | -0.1241 | -0.2888 | 0.0431 | -0.0238 | 0.5492 | -0.0646 | -0.0948 | 0.1030 | 0.1508 | -0.0186 | 0.0567 | -0.1563 |
| | | <.0001 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0075 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0366 | <.0001 | <.0001 |
| 3 | CEO_INFLUENCE | **0.1047** | **0.0967** | | 1 | 1 | 0.1352 | 0.2834 | 0.1891 | 0.2178 | 0.1808 | -0.0030 | -0.0325 | 0.0145 | 0.0760 | 0.0001 | 0.0405 | -0.1026 |
| | | <.0001 | <.0001 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.7385 | 0.0003 | 0.1020 | <.0001 | 0.9884 | <.0001 | <.0001 |
| 4 | CEO_DUAL | **0.2406** | **0.2242** | 1 | | . | 0.1474 | 0.4117 | 0.3266 | 0.4214 | 0.2763 | -0.0629 | 0.0023 | 0.0247 | 0.1298 | 0.0036 | 0.1143 | -0.1635 |
| | | <.0001 | <.0001 | <.0001 | | . | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0001 | 0.8867 | 0.1269 | <.0001 | 0.8236 | <.0001 | <.0001 |
| 5 | CEO_BOARD | **0.1363** | **0.1244** | 1 | . | | 0.0398 | 0.2314 | 0.1493 | 0.2127 | 0.1092 | -0.0693 | 0.0347 | 0.0076 | 0.0387 | 0.0031 | 0.0510 | -0.0546 |
| | | <.0001 | <.0001 | <.0001 | . | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0007 | 0.4585 | 0.0002 | 0.7606 | <.0001 | <.0001 |
| 6 | CFO_BOARD | **-0.0979** | **-0.1241** | 0.1352 | 0.1474 | 0.0398 | | 0.5750 | 0.0187 | 0.0943 | -0.0238 | 0.0578 | 0.0062 | -0.0326 | 0.0287 | -0.0070 | 0.0556 | -0.0507 |
| | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | | <.0001 | 0.0355 | <.0001 | 0.0073 | <.0001 | 0.4854 | 0.0002 | 0.0012 | 0.4288 | <.0001 | <.0001 |
| 7 | INSIDERS | **-0.2645** | **-0.2888** | 0.2834 | 0.4117 | 0.2314 | 0.5750 | | 0.0737 | 0.2160 | -0.2931 | 0.0642 | 0.1060 | -0.1249 | -0.0171 | 0.0152 | 0.0954 | 0.0345 |
| | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0540 | 0.0867 | <.0001 | 0.0001 |
| 8 | COOPTED_BD | **0.0447** | **0.0431** | 0.1891 | 0.3266 | 0.1493 | 0.0187 | 0.0737 | | 0.6992 | 0.0393 | -0.0105 | 0.0256 | -0.0400 | 0.0823 | -0.0054 | 0.0640 | -0.0914 |
| | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0355 | <.0001 | | <.0001 | <.0001 | 0.2362 | 0.0039 | <.0001 | <.0001 | 0.5401 | <.0001 | <.0001 |
| 9 | COOPTED_AC | **-0.0159** | **-0.0238** | 0.2178 | 0.4214 | 0.2127 | 0.0943 | 0.2160 | 0.6992 | | -0.0200 | -0.0044 | 0.0453 | -0.0505 | 0.0714 | 0.0030 | 0.1009 | -0.0641 |
| | | 0.0727 | 0.0075 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | | 0.0243 | 0.6236 | <.0001 | <.0001 | <.0001 | 0.7320 | <.0001 | <.0001 |
| 10 | SIZE_AT | **0.5404** | **0.5492** | 0.1808 | 0.2763 | 0.1092 | -0.0238 | -0.2931 | 0.0393 | -0.0200 | | -0.1235 | -0.2574 | 0.2151 | 0.3336 | -0.0516 | 0.0419 | -0.3693 |
| | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0073 | <.0001 | <.0001 | 0.0243 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 |
| 11 | ASSET_TURN | **-0.0696** | **-0.0646** | -0.0030 | -0.0629 | -0.0693 | 0.0578 | 0.0642 | -0.0105 | -0.0044 | -0.1235 | | -0.1953 | 0.0921 | 0.0919 | -0.0517 | 0.0558 | -0.1317 |
| | | <.0001 | <.0001 | 0.7385 | 0.0001 | <.0001 | <.0001 | <.0001 | 0.2362 | 0.6236 | <.0001 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 |
| 12 | CURR_RATIO | **-0.0762** | **-0.0948** | -0.0325 | 0.0023 | 0.0347 | 0.0062 | 0.1060 | 0.0256 | 0.0453 | -0.2574 | -0.1953 | | -0.4183 | -0.0175 | 0.0639 | 0.4466 | 0.0717 |
| | | <.0001 | <.0001 | 0.0003 | 0.8867 | 0.0007 | 0.4854 | <.0001 | 0.0039 | <.0001 | <.0001 | <.0001 | | <.0001 | 0.0488 | <.0001 | <.0001 | <.0001 |
| 13 | LEVERAGE | **0.1176** | **0.1030** | 0.0145 | 0.0247 | 0.0076 | -0.0326 | -0.1249 | -0.0400 | -0.0505 | 0.2151 | 0.0921 | -0.4183 | | -0.2029 | -0.0157 | -0.4503 | 0.0884 |
| | | <.0001 | <.0001 | 0.1020 | 0.1269 | 0.4585 | 0.0002 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | | <.0001 | 0.0770 | <.0001 | <.0001 |
| 14 | ROA | **0.1397** | **0.1508** | 0.0760 | 0.1298 | 0.0387 | 0.0287 | -0.0171 | 0.0823 | 0.0714 | 0.3336 | 0.0919 | -0.0175 | -0.2029 | | -0.0740 | 0.3870 | -0.5161 |
| | | <.0001 | <.0001 | <.0001 | <.0001 | 0.0002 | 0.0012 | 0.0540 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0488 | <.0001 | | <.0001 | <.0001 | <.0001 |
| 15 | SALE_GROWTH | -0.0086 | **-0.0186** | 0.0001 | 0.0036 | 0.0031 | -0.0070 | 0.0152 | -0.0054 | 0.0030 | -0.0516 | -0.0517 | 0.0639 | -0.0157 | -0.0740 | | -0.0028 | 0.0524 |
| | | 0.3310 | 0.0366 | 0.9884 | 0.8236 | 0.7606 | 0.4288 | 0.0867 | 0.5401 | 0.7320 | <.0001 | <.0001 | <.0001 | 0.0770 | <.0001 | | 0.7563 | <.0001 |
| 16 | ALTMAN | **0.0378** | **0.0567** | 0.0405 | 0.1143 | 0.0510 | 0.0556 | 0.0954 | 0.0640 | 0.1009 | 0.0419 | 0.0558 | 0.4466 | -0.4503 | 0.3870 | -0.0028 | | -0.2443 |
| | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.7563 | | <.0001 |
| 17 | LOSS | **-0.1713** | **-0.1563** | -0.1026 | -0.1635 | -0.0546 | -0.0507 | 0.0345 | -0.0914 | -0.0641 | -0.3693 | -0.1317 | 0.0717 | 0.0884 | -0.5161 | 0.0524 | -0.2443 | |
| | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | |

Pearson (Spearman) correlations are presented above. N consists of 12,622 firm observations with the exception of CEO_DUAL (3,751 observations) and CEO_BOARD (9,580) observations. Correlation coefficients are shown on the first row and probabilities on the second row for each variable. Missing correlation coefficients are due to sample partition. Bolded values (column 1 and column 2) represent significance at the 10 percent level. (See Appendix for variable definitions.)

**Panel B: H2**

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | AU_CHANGE | | -0.0322 | -0.1034 | -0.0603 | 0.0300 | 0.1261 | -0.0156 | 0.0104 | 0.0112 | -0.2490 | -0.2761 | 0.0626 | 0.0339 | -0.0365 | -0.1022 | 0.0487 | -0.0471 | 0.1234 |
| | | | 0.0056 | <.0001 | <.0001 | 0.0098 | <.0001 | 0.1802 | 0.3709 | 0.3364 | <.0001 | <.0001 | <.0001 | 0.0035 | 0.0017 | <.0001 | <.0001 | <.0001 | <.0001 |
| 2 | CEO_INFLUENCE | **-0.0322** | | 1 | 1 | 0.0865 | 0.2397 | 0.1651 | 0.1767 | -0.0196 | 0.1236 | 0.1553 | -0.0012 | -0.0444 | 0.0227 | 0.0875 | 0.0115 | 0.0325 | -0.0711 |
| | | 0.0056 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0922 | <.0001 | <.0001 | 0.9154 | 0.0001 | 0.0509 | <.0001 | 0.3235 | 0.0052 | <.0001 |
| 3 | CEO_DUAL | **-0.1034** | 1 | | . | 0.0598 | 0.3577 | 0.3036 | 0.3804 | -0.0245 | 0.1704 | 0.2072 | -0.0817 | 0.0066 | 0.0112 | 0.1422 | 0.0111 | 0.0692 | -0.1054 |
| | | <.0001 | <.0001 | | . | 0.0074 | <.0001 | <.0001 | <.0001 | 0.2719 | <.0001 | <.0001 | 0.0002 | 0.7662 | 0.6178 | <.0001 | 0.6207 | 0.0019 | <.0001 |
| 4 | CEO_BOARD | **-0.0603** | 1 | . | | 0.0014 | 0.1942 | 0.1391 | 0.1824 | -0.0069 | 0.0609 | 0.0723 | -0.0637 | 0.0305 | -0.0055 | 0.0446 | 0.0016 | 0.0257 | -0.0354 |
| | | <.0001 | <.0001 | . | | 0.9141 | <.0001 | <.0001 | <.0001 | 0.6054 | <.0001 | <.0001 | <.0001 | 0.0219 | 0.6780 | 0.0008 | 0.9018 | 0.0535 | 0.0078 |
| 5 | CFO_BOARD | **0.0300** | 0.0865 | 0.0598 | 0.0014 | | 0.5540 | -0.0126 | 0.0579 | -0.0045 | -0.0814 | -0.0332 | 0.0516 | -0.0012 | -0.0164 | 0.0347 | 0.0088 | 0.0628 | -0.0357 |
| | | 0.0098 | <.0001 | 0.0074 | 0.9141 | | <.0001 | 0.2776 | <.0001 | 0.6971 | <.0001 | 0.0042 | <.0001 | 0.9166 | 0.1578 | 0.0028 | 0.4493 | <.0001 | 0.0021 |
| 6 | INSIDERS | **0.1261** | 0.2397 | 0.3577 | 0.1942 | 0.5540 | | 0.0412 | 0.1815 | 0.0381 | -0.3707 | -0.3320 | 0.0624 | 0.1133 | -0.1560 | -0.0358 | 0.0499 | 0.0907 | 0.0665 |
| | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | | 0.0004 | <.0001 | 0.0010 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0021 | <.0001 | <.0001 | <.0001 |
| 7 | COOPTED_BD | -0.0156 | 0.1651 | 0.3036 | 0.1391 | -0.0126 | 0.0412 | | 0.6837 | -0.0006 | 0.0055 | 0.0232 | -0.0067 | 0.0277 | -0.0662 | 0.0816 | -0.0147 | 0.0629 | -0.0744 |
| | | 0.1802 | <.0001 | <.0001 | <.0001 | 0.2776 | 0.0004 | | <.0001 | 0.9565 | 0.6370 | 0.0457 | 0.5632 | 0.0169 | <.0001 | <.0001 | 0.2050 | <.0001 | <.0001 |
| 8 | COOPTED_AC | 0.0104 | 0.1767 | 0.3804 | 0.1824 | 0.0579 | 0.1815 | 0.6837 | | 0.0062 | -0.0759 | -0.0489 | 0.0176 | 0.0471 | -0.0649 | 0.0662 | 0.0241 | 0.0965 | -0.0441 |
| | | 0.3709 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | | 0.5923 | <.0001 | <.0001 | 0.1304 | <.0001 | <.0001 | <.0001 | 0.0378 | <.0001 | 0.0001 |
| 9 | PY_ABS_DACC | 0.0112 | -0.0196 | -0.0245 | -0.0069 | -0.0045 | 0.0381 | -0.0006 | 0.0062 | | -0.0372 | -0.0759 | -0.0310 | 0.0576 | -0.0276 | -0.0574 | 0.0387 | -0.0211 | 0.0500 |
| | | 0.3364 | 0.0922 | 0.2719 | 0.6054 | 0.6971 | 0.0010 | 0.9565 | 0.5923 | | 0.0014 | <.0001 | 0.0076 | <.0001 | 0.0173 | <.0001 | 0.0009 | 0.0698 | <.0001 |
| 10 | PY_AUDIT_FEES | **-0.2490** | 0.1236 | 0.1704 | 0.0609 | -0.0814 | -0.3707 | 0.0055 | -0.0759 | -0.0372 | | 0.8557 | -0.0764 | -0.2693 | 0.2929 | 0.2609 | -0.1588 | -0.0381 | -0.2533 |
| | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.6370 | <.0001 | 0.0014 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0010 | <.0001 |
| 11 | SIZE_AT | **-0.2761** | 0.1553 | 0.2072 | 0.0723 | -0.0332 | -0.3320 | 0.0232 | -0.0489 | -0.0759 | 0.8557 | | -0.1616 | -0.2725 | 0.2752 | 0.3980 | -0.0925 | 0.0597 | -0.3801 |
| | | <.0001 | <.0001 | <.0001 | <.0001 | 0.0042 | <.0001 | 0.0457 | <.0001 | <.0001 | <.0001 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 |
| 12 | ASSET_TURN | **0.0626** | -0.0012 | -0.0817 | -0.0637 | 0.0516 | 0.0624 | -0.0067 | 0.0176 | -0.0310 | -0.0764 | -0.1616 | | -0.2219 | 0.1178 | 0.1446 | -0.1321 | 0.0613 | -0.1076 |
| | | <.0001 | 0.9154 | 0.0002 | <.0001 | <.0001 | <.0001 | 0.5632 | 0.1304 | 0.0076 | <.0001 | <.0001 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 |
| 13 | CURR_RATIO | **0.0339** | -0.0444 | 0.0066 | 0.0305 | -0.0012 | 0.1133 | 0.0277 | 0.0471 | 0.0576 | -0.2693 | -0.2725 | -0.2219 | | -0.5378 | -0.0498 | 0.0666 | 0.4573 | 0.0672 |
| | | 0.0035 | 0.0001 | 0.7662 | 0.0219 | 0.9166 | <.0001 | 0.0169 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 |
| 14 | LEVERAGE | **-0.0365** | 0.0227 | 0.0112 | -0.0055 | -0.0164 | -0.1560 | -0.0662 | -0.0649 | -0.0276 | 0.2929 | 0.2752 | 0.1178 | -0.5378 | | -0.1443 | -0.0176 | -0.4974 | 0.0864 |
| | | 0.0017 | 0.0509 | 0.6178 | 0.6780 | 0.1578 | <.0001 | <.0001 | <.0001 | 0.0173 | <.0001 | <.0001 | <.0001 | <.0001 | | <.0001 | 0.1298 | <.0001 | <.0001 |
| 15 | ROA | **-0.1022** | 0.0875 | 0.1422 | 0.0446 | 0.0347 | -0.0358 | 0.0816 | 0.0662 | -0.0574 | 0.2609 | 0.3980 | 0.1446 | -0.0498 | -0.1443 | | -0.1155 | 0.4337 | -0.6500 |
| | | <.0001 | <.0001 | <.0001 | 0.0008 | 0.0028 | 0.0021 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | | <.0001 | <.0001 | <.0001 |
| 16 | SALE_GROWTH | **0.0487** | 0.0115 | 0.0111 | 0.0016 | 0.0088 | 0.0499 | -0.0147 | 0.0241 | 0.0387 | -0.1588 | -0.0925 | -0.1321 | 0.0666 | -0.0176 | -0.1155 | | 0.0171 | 0.0735 |
| | | <.0001 | 0.3235 | 0.6207 | 0.9018 | 0.4493 | <.0001 | 0.2050 | 0.0378 | 0.0009 | <.0001 | <.0001 | <.0001 | <.0001 | 0.1298 | <.0001 | | 0.1415 | <.0001 |
| 17 | ALTMAN | **-0.0471** | 0.0325 | 0.0692 | 0.0257 | 0.0628 | 0.0907 | 0.0629 | 0.0965 | -0.0211 | -0.0381 | 0.0597 | 0.0613 | 0.4573 | -0.4974 | 0.4337 | 0.0171 | | -0.3026 |
| | | <.0001 | 0.0052 | 0.0019 | 0.0535 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0698 | 0.0010 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.1415 | | <.0001 |
| 18 | LOSS | **0.1234** | -0.0711 | -0.1054 | -0.0354 | -0.0357 | 0.0665 | -0.0744 | -0.0441 | 0.0500 | -0.2533 | -0.3801 | -0.1076 | 0.0672 | 0.0864 | -0.6500 | 0.0735 | -0.3026 | |
| | | <.0001 | <.0001 | <.0001 | 0.0078 | 0.0021 | <.0001 | <.0001 | 0.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | |

Pearson (Spearman) correlations are presented above. N consists of 7,423 firm observations with the exception of CEO_DUAL (2,007 observations) and CEO_BOARD (5,463 observations). Correlation coefficients are shown on the first row and probabilities on the second row for each variable. Missing correlations coefficients are due to sample partition. Bolded values (column 1) represent significance at the 10 percent level. (See Appendix for variable definitions.)

**Panel C: H3**

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | AU_COMP | | 0.0326 | 0.1410 | 0.2209 | 0.0866 | -0.0707 | -0.3287 | -0.0031 | -0.0715 | 0.8693 | -0.0517 | -0.2802 | 0.2876 | 0.2560 | -0.0602 | -0.0155 | -0.2670 | -0.0165 | -0.1494 |
| | | | 0.0047 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.7900 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.1780 | <.0001 | 0.1517 | <.0001 |
| 2 | CH_COMP | 0.0326 | | 0.0127 | 0.0211 | 0.0080 | 0.0069 | 0.0069 | 0.0485 | 0.0156 | 0.0427 | 0.0142 | -0.0145 | -0.0046 | 0.0733 | 0.0256 | 0.0445 | -0.0687 | -0.0096 | -0.0336 |
| | | 0.0047 | | 0.2720 | 0.3226 | 0.5458 | 0.5503 | 0.5495 | <.0001 | 0.1767 | 0.0002 | 0.2195 | 0.2098 | 0.6911 | <.0001 | 0.0265 | 0.0001 | <.0001 | 0.4075 | 0.0036 |
| 3 | CEO_INFLUENCE | **0.1410** | 0.0127 | | 1.0000 | 1.0000 | 0.1123 | 0.2467 | 0.1670 | 0.2110 | 0.1680 | 0.0042 | -0.0417 | 0.0124 | 0.0960 | 0.0054 | 0.0388 | -0.0848 | 0.0061 | -0.0520 |
| | | <.0001 | 0.2720 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.7190 | 0.0003 | 0.2813 | <.0001 | 0.6399 | 0.0008 | <.0001 | 0.5970 | <.0001 |
| 4 | CEO_DUAL | **0.2209** | 0.0211 | 1.0000 | | . | 0.1189 | 0.3583 | 0.3228 | 0.4293 | 0.2533 | -0.0768 | 0.0281 | -0.0041 | 0.1482 | 0.0324 | 0.1160 | -0.1226 | 0.0328 | -0.1100 |
| | | <.0001 | 0.3226 | <.0001 | | . | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0003 | 0.1875 | 0.8467 | <.0001 | 0.1279 | <.0001 | <.0001 | 0.1229 | <.0001 |
| 5 | CEO_BOARD | **0.0866** | 0.0080 | 1.0000 | . | | 0.0296 | 0.1772 | 0.1605 | 0.2210 | 0.0930 | -0.0802 | 0.0584 | -0.0151 | 0.0390 | 0.0239 | 0.0570 | -0.0333 | 0.0246 | -0.0485 |
| | | <.0001 | 0.5458 | <.0001 | . | | 0.0257 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.2559 | 0.0033 | 0.0717 | <.0001 | 0.0120 | 0.0632 | 0.0003 |
| 6 | CFO_BOARD | **-0.0707** | 0.0069 | 0.1123 | 0.1189 | 0.0296 | | 0.5564 | 0.0003 | 0.0778 | -0.0182 | 0.0783 | 0.0034 | -0.0397 | 0.0755 | -0.0256 | 0.0611 | -0.0577 | 0.0178 | -0.0227 |
| | | <.0001 | 0.5503 | <.0001 | <.0001 | 0.0257 | | <.0001 | 0.9790 | <.0001 | 0.1152 | <.0001 | 0.7682 | 0.0006 | <.0001 | 0.0264 | <.0001 | <.0001 | 0.1231 | 0.0488 |
| 7 | INSIDERS | **-0.3287** | 0.0069 | 0.2467 | 0.3583 | 0.1772 | 0.5564 | | 0.0585 | 0.2101 | -0.2931 | 0.0705 | 0.1153 | -0.1613 | 0.0074 | 0.0145 | 0.0913 | 0.0328 | 0.0316 | 0.0078 |
| | | <.0001 | 0.5495 | <.0001 | <.0001 | <.0001 | <.0001 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.5195 | 0.2087 | <.0001 | 0.0045 | 0.0062 | 0.4977 |
| 8 | COOPTED_BD | -0.0031 | **0.0485** | 0.1670 | 0.3228 | 0.1605 | 0.0003 | 0.0585 | | 0.6989 | 0.0068 | 0.0005 | 0.0418 | -0.0574 | 0.0821 | -0.0137 | 0.0657 | -0.0652 | 0.0201 | -0.0437 |
| | | 0.7900 | <.0001 | <.0001 | <.0001 | <.0001 | 0.9790 | <.0001 | | <.0001 | 0.5551 | 0.9640 | 0.0003 | <.0001 | <.0001 | 0.2354 | <.0001 | <.0001 | 0.0811 | 0.0002 |
| 9 | COOPTED_AC | **-0.0715** | 0.0156 | 0.2110 | 0.4293 | 0.2210 | 0.0778 | 0.2101 | 0.6989 | | -0.0543 | 0.0072 | 0.0661 | -0.0751 | 0.0727 | 0.0143 | 0.1063 | -0.0450 | 0.0315 | -0.0459 |
| | | <.0001 | 0.1767 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | | <.0001 | 0.5354 | <.0001 | <.0001 | <.0001 | 0.2150 | <.0001 | <.0001 | 0.0064 | <.0001 |
| 10 | SIZE_AT | **0.8693** | **0.0427** | 0.1680 | 0.2533 | 0.0930 | -0.0182 | -0.2931 | 0.0068 | -0.0543 | | -0.1106 | -0.2919 | 0.2960 | 0.3759 | -0.0696 | 0.0316 | -0.3832 | -0.0184 | -0.2116 |
| | | <.0001 | 0.0002 | <.0001 | <.0001 | <.0001 | 0.1152 | <.0001 | 0.5551 | <.0001 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0061 | <.0001 | 0.1107 | <.0001 |
| 11 | ASSET_TURN | **-0.0517** | 0.0142 | 0.0042 | -0.0768 | -0.0802 | 0.0783 | 0.0705 | 0.0005 | 0.0072 | -0.1106 | | -0.2147 | 0.0724 | 0.2287 | -0.1152 | 0.0884 | -0.1847 | 0.0100 | -0.0387 |
| | | <.0001 | 0.2195 | 0.7190 | 0.0003 | <.0001 | <.0001 | <.0001 | 0.9640 | 0.5354 | <.0001 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.3868 | 0.0008 |
| 12 | CURR_RATIO | **-0.2802** | -0.0145 | -0.0417 | 0.0281 | 0.0584 | 0.0034 | 0.1153 | 0.0418 | 0.0661 | -0.2919 | -0.2147 | | -0.5430 | -0.0584 | 0.0802 | 0.4967 | 0.1003 | -0.0329 | -0.0654 |
| | | <.0001 | 0.2098 | 0.0003 | 0.1875 | <.0001 | 0.7682 | <.0001 | 0.0003 | <.0001 | <.0001 | <.0001 | | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0044 | <.0001 |
| 13 | LEVERAGE | **0.2876** | -0.0046 | 0.0124 | -0.0041 | -0.0151 | -0.0397 | -0.1613 | -0.0574 | -0.0751 | 0.2960 | 0.0724 | -0.5430 | | -0.1433 | -0.0304 | -0.5253 | 0.0704 | 0.0128 | 0.1467 |
| | | <.0001 | 0.6911 | 0.2813 | 0.8467 | 0.2559 | 0.0006 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | | <.0001 | 0.0084 | <.0001 | <.0001 | 0.2660 | <.0001 |
| 14 | ROA | **0.2560** | **0.0733** | 0.0960 | 0.1482 | 0.0390 | 0.0755 | 0.0074 | 0.0821 | 0.0727 | 0.3759 | 0.2287 | -0.0584 | -0.1433 | | -0.0980 | 0.4318 | -0.6868 | 0.0010 | -0.4224 |
| | | <.0001 | <.0001 | <.0001 | <.0001 | 0.0033 | <.0001 | 0.5195 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | | <.0001 | <.0001 | <.0001 | 0.9325 | <.0001 |
| 15 | SALE_GROWTH | **-0.0602** | 0.0256 | 0.0054 | 0.0324 | 0.0239 | -0.0256 | 0.0145 | -0.0137 | 0.0143 | -0.0696 | -0.1152 | 0.0802 | -0.0304 | -0.0980 | | 0.0345 | 0.0647 | -0.0003 | 0.0248 |
| | | <.0001 | 0.0265 | 0.6399 | 0.1279 | 0.0717 | 0.0264 | 0.2087 | 0.2354 | 0.2150 | <.0001 | <.0001 | <.0001 | 0.0084 | <.0001 | | 0.0028 | <.0001 | 0.9783 | 0.0313 |
| 16 | ALTMAN | -0.0155 | **0.0445** | 0.0388 | 0.1160 | 0.0570 | 0.0611 | 0.0913 | 0.0657 | 0.1063 | 0.0316 | 0.0884 | 0.4967 | -0.5253 | 0.4318 | 0.0345 | | -0.2880 | -0.0201 | -0.2598 |
| | | 0.1780 | 0.0001 | 0.0008 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0061 | <.0001 | <.0001 | <.0001 | <.0001 | 0.0028 | | <.0001 | 0.0812 | <.0001 |
| 17 | LOSS | **-0.2670** | **-0.0687** | -0.0848 | -0.1226 | -0.0333 | -0.0577 | 0.0328 | -0.0652 | -0.0450 | -0.3832 | -0.1847 | 0.1003 | 0.0704 | -0.6868 | 0.0647 | -0.2880 | | 0.0018 | 0.2314 |
| | | <.0001 | <.0001 | <.0001 | <.0001 | 0.0120 | <.0001 | 0.0045 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | <.0001 | | 0.8748 | <.0001 |
| 18 | RESTATE | -0.0165 | -0.0096 | 0.0061 | 0.0328 | 0.0246 | 0.0178 | 0.0316 | 0.0201 | 0.0315 | -0.0184 | 0.0100 | -0.0329 | 0.0128 | 0.0010 | -0.0003 | -0.0201 | 0.0018 | | 0.0031 |
| | | 0.1517 | 0.4075 | 0.5970 | 0.1229 | 0.0632 | 0.1231 | 0.0062 | 0.0811 | 0.0064 | 0.1107 | 0.3868 | 0.0044 | 0.2660 | 0.9325 | 0.9783 | 0.0812 | 0.8748 | | 0.7902 |
| 19 | G_CONCERN | **-0.1494** | **-0.0336** | -0.0520 | -0.1100 | -0.0485 | -0.0227 | 0.0078 | -0.0437 | -0.0459 | -0.2116 | -0.0387 | -0.0654 | 0.1467 | -0.4224 | 0.0248 | -0.2598 | 0.2314 | 0.0031 | |
| | | <.0001 | 0.0036 | <.0001 | <.0001 | 0.0003 | 0.0488 | 0.4977 | 0.0002 | <.0001 | <.0001 | 0.0008 | <.0001 | <.0001 | <.0001 | 0.0313 | <.0001 | <.0001 | 0.7902 | |

Pearson (Spearman) correlations are presented above. N consists of 7,519 (6,198) firm observations for the full (change) sample with the exception of CEO_DUAL with 2,20 (1,766) observations and CEO_BOARD with 5,687 (4,738) observations. Correlation coefficients are shown on the first row and probabilities on the second row for each variable. Missing correlations coefficients are due to sample partition. Bolded values (column 1 and column 2) represent significance at the 10 percent level. (See Appendix for variable definitions.)

| | H1a | | H1b | | H1c | |
|---|---|---|---|---|---|---|
| | Coeff. | t-stat | Coeff. | t-stat | Coeff. | t-stat |
| CEO_INFLUENCE | 0.224 | 2.19** | | | | |
| CEO_DUAL | | | 0.840 | 3.90*** | | |
| CEO_BOARD | | | | | 1.051 | 5.38*** |
| CFO_BOARD | -0.376 | -1.99** | -0.232 | -0.81 | -0.445 | -1.96** |
| INSIDERS | -3.252 | -5.15*** | -2.304 | -2.74*** | -3.580 | -4.87*** |
| COOPTED_BD | 0.118 | 0.59 | 0.127 | 0.32 | 0.228 | 1.02 |
| COOPTED_AC | -0.033 | -0.23 | -0.255 | -0.88 | -0.066 | -0.42 |
| SIZE_AT | 1.123 | 23.70*** | 1.088 | 13.75*** | 1.137 | 21.66*** |
| ASSET_TURN | 0.051 | 0.80 | 0.107 | 1.07 | 0.077 | 1.02 |
| CURR_RATIO | 0.080 | 4.38*** | 0.045 | 1.48 | 0.087 | 4.57*** |
| LEVERAGE | 0.021 | 0.14 | -0.331 | -1.22 | 0.104 | 0.65 |
| ROA | -0.714 | -4.98*** | -0.608 | -2.67*** | -0.652 | -4.29*** |
| SALE_GROWTH | 0.007 | 1.51 | 0.023 | 1.51 | 0.005 | 1.09 |
| ALTMAN | -0.011 | -1.56 | -0.022 | -1.54 | -0.009 | -1.31 |
| LOSS | 0.164 | 1.82* | 0.019 | 0.11 | 0.195 | 1.96** |
| Intercept | -5.541 | -16.33*** | -5.739 | -11.10*** | -6.345 | -16.16*** |
| # of Company Clusters | 3,174 | | 1,406 | | 2,750 | |
| Fiscal Year FE | Included | | Included | | Included | |
| Industry FE | Included | | Included | | Included | |
| Pseudo F test: | | | | | | |
| Likelihood Ratio | 81.18*** | | 28.50*** | | 69.77*** | |
| Score | 42.48*** | | 16.98*** | | 36.79*** | |
| Wald | 23.36*** | | 9.18*** | | 20.98*** | |
| Observations | 12,622 | | 3,751 | | 9,580 | |

This table presents logistic regression results of managerial influence types on corporate boards and audit committees and Big 4 auditor selection. The independent variables capturing managerial influence take on seven forms: CEO_INFLUENCE, CEO_DUAL, CEO_BOARD, CFO_BOARD, INSIDERS, COOPTED_BD, and COOPTED_AC. Managerial influence is tested on the full sample with CEO_INFLUENCE capturing the level of influence of the CEO as a leader of and member on boards (H1a). The sample is divided to examine managerial influence on corporate boards at companies in which the CEO serves as a chair on the board (H1b), and at companies in which the CEO serves as a member on the board but not as the chair (H1c). Data is at the company-year level. Standard errors are clustered at the company level. Two-tailed statistical significance at 1%, 5%, and 10% levels is denoted ***, **, and *, respectively. (See Appendix for variable definitions.)

## Panel B: Marginal Effects Results (DV = AU_BRAND)

|  | H1a | H1b | H1c |
|---|---|---|---|
| CEO_INFLUENCE | 0.022** |  |  |
| CEO_DUAL |  | 0.110*** |  |
| CEO_BOARD |  |  | 0.141*** |
| CFO_BOARD | -0.040** | -0.029 | -0.050** |
| INSIDERS | -0.377*** | -0.287*** | -0.471*** |
| COOPTED_BD | 0.014 | 0.002 | 0.027 |
| COOPTED_AC | -0.000 | -0.033 | -0.001 |

This table presents the marginal effect that each managerial influence variable has on the response probability of companies selecting higher audit quality measured as AU_BRAND. Managerial influence variables take on seven forms: CEO_INFLUENCE, CEO_DUAL, CEO_BOARD, CFO_BOARD, INSIDERS, COOPTED_BD, and COOPTED_AC. Marginal effects of managerial influence is tested on the full sample with CEO_INFLUENCE capturing the categories of CEO influence (H1a). The sample is divided to test managerial influence on corporate boards among companies in which the CEO serves as a chair on the board (H1b), and among companies in which the CEO serves as a member on the board but not as the chair (H1c). See Appendix for variable definitions.

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**Panel C: OLS Regression Results (DV = AU_SIZE)**

| | H1a | | H1b | | H1c | |
|---|---|---|---|---|---|---|
| | Coeff. | t-stat | Coeff. | t-stat | Coeff. | t-stat |
| CEO_INFLUENCE | 0.137 | 2.76*** | 0.322 | 2.40** | 0.434 | 4.13*** |
| CEO_DUAL | | | | | -0.227 | -1.77* |
| CEO_BOARD | | | -0.131 | -0.95 | -2.184 | -4.72*** |
| CFO_BOARD | -0.182 | -1.81* | -0.662 | -1.25 | 0.136 | 1.18 |
| INSIDERS | -1.765 | -4.60*** | 0.162 | 0.86 | -0.063 | -0.75 |
| COOPTED_BD | 0.082 | 0.79 | -0.096 | -0.70 | 0.495 | 24.97*** |
| COOPTED_AC | -0.054 | -0.72 | 0.457 | 17.13*** | -0.006 | -0.12 |
| SIZE_AT | 0.478 | 26.96*** | 0.048 | 0.69 | 0.050 | 3.67*** |
| ASSET_TURN | -0.007 | -0.16 | 0.061 | 2.97*** | 0.006 | 0.06 |
| CURR_RATIO | 0.052 | 4.05*** | 0.187 | 1.22 | -0.218 | -2.35** |
| LEVERAGE | 0.029 | 0.32 | -0.294 | -2.19** | 0.000 | 0.40 |
| ROA | -0.256 | -2.83*** | 0.001 | 0.13 | 0.000 | 0.08 |
| SALE_GROWTH | 0.000 | 0.48 | -0.002 | -0.21 | 0.319 | 5.81*** |
| ALTMAN | 0.001 | 0.18 | 0.103 | 1.28 | 12.939 | 58.80*** |
| LOSS | 0.272 | 5.51*** | 12.952 | 46.95*** | | |
| Intercept | 13.227 | 65.56*** | | | | |
| # of Company Clusters | 3,174 | | 1,406 | | 2,750 | |
| Fiscal Year FE | Included | | Included | | Included | |
| Industry FE | Included | | Included | | Included | |
| Pseudo F test: | 41.03*** | | 18.46*** | | 38.26*** | |
| Adj. R-squared | 0.299 | | 0.309 | | 0.312 | |
| Observations | 12,622 | | 3,751 | | 9,580 | |

This table presents OLS regression results of managerial influence types on corporate boards and audit committees and the selection of large audit firms. The independent variables capturing managerial influence take on seven forms: CEO_INFLUENCE, CEO_DUAL, CEO_BOARD, CFO_BOARD, INSIDERS, COOPTED_BD, and COOPTED_AC. Managerial influence is tested on the full sample with CEO_INFLUENCE capturing the level of influence of the CEO as a leader of and member on boards (H1a). The sample is divided to test managerial influence on corporate boards among companies in which the CEO serves as a chair on the board (H1b), and among companies in which the CEO serves as a member on the board but not as the chair (H1c). Data is at the company-year level. Standard errors are clustered at the company level. Two-tailed statistical significance at 1%, 5%, and 10% levels is denoted ***, **, and *, respectively. (See Appendix for variable definitions.)

# TABLE 5: Results for H2 (Managerial Influence and Auditor Turnover Due to Monitoring Demand/Audit Fees)

## Panel A: Logistic Regression Results (DV = AU_CHANGE)

| | H2a | | H2b | | H2c | |
|---|---|---|---|---|---|---|
| | Coeff. | t-stat | Coeff. | t-stat | Coeff. | t-stat |
| CEO_INFLUENCE | -0.037 | -0.50 | | | | |
| CEO_DUAL | | | -0.472 | -2.42** | | |
| CEO_BOARD | | | | | -0.523 | -3.14*** |
| CFO_BOARD | 0.010 | 0.07 | 0.027 | 0.13 | 0.119 | 0.73 |
| INSIDERS | 0.888 | 1.89* | 1.103 | 1.52 | 1.230 | 2.43** |
| COOPTED_BD | -0.025 | -0.18 | 0.225 | 0.76 | -0.172 | -1.06 |
| COOPTED_AC | -0.004 | -0.04 | -0.013 | -0.05 | 0.063 | 0.51 |
| PY_ABS_DACC | 0.011 | 1.51 | 0.005 | 0.64 | 0.004 | 0.63 |
| CEO_INFLUENCE*PY_ABS_DACC | -0.013 | -2.02** | | | | |
| CEO_DUAL*PY_ABS_DACC | | | -0.034 | -1.61* | | |
| CEO_BOARD*PY_ABS_DACC | | | | | -0.004 | -0.51 |
| SIZE_AT | -0.415 | -16.89*** | -0.356 | -8.94*** | -0.426 | -15.17*** |
| ASSET_TURN | 0.036 | 0.65 | 0.001 | 0.01 | 0.037 | 0.66 |
| CURR_RATIO | -0.010 | -0.60 | -0.010 | -0.30 | 0.009 | 0.72 |
| LEVERAGE | 0.314 | 2.04** | 0.443 | 1.46 | 0.207 | 1.41 |
| ROA | 0.566 | 3.07*** | 0.161 | 0.41 | 0.503 | 3.38*** |
| SALE_GROWTH | 0.133 | 2.68*** | 0.185 | 1.85* | -0.009 | -1.18 |
| ALTMAN | -0.001 | -0.14 | 0.011 | 0.79 | -0.006 | -1.05 |
| LOSS | 0.236 | 2.89*** | 0.114 | 0.72 | 0.241 | 2.78*** |
| Intercept | 0.575 | 2.40** | 0.614 | 1.51 | 1.151 | 4.24*** |
| # of Company Clusters | 2,767 | | 1,006 | | 2,342 | |
| Fiscal Year FE | Included | | Included | | Included | |
| Industry FE | Included | | Included | | Included | |
| Pseudo F test: | | | | | | |
| Likelihood Ratio | 23.44*** | | 6.65*** | | 19.30*** | |
| Score | 21.45*** | | 7.34*** | | 17.29*** | |
| Wald | 19.04*** | | 6.29*** | | 15.23*** | |
| Observations | 7,423 | | 2,007 | | 5,643 | |

This table presents logistic regressions results of the types of managerial influence on corporate boards and audit committees and auditor change. The independent variables of interest take on several types of managerial influence and demand for monitoring in the previous year, plus an interaction term (H2a). Managerial influence is tested on the full sample with CEO_INFLUENCE and partitioned samples with CEO_DUAL and CEO_BOARD. Data is at the company-year level. Standard errors are clustered at the company level. Two-tailed statistical significance at 1%, 5%, and 10% levels is denoted ***, **, and *, respectively. (See Appendix for variable definitions.)

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**Panel B: Marginal Effects Results (Panel B: DV = AU_CHANGE)**

|  | H2a | H2b | H2c |
|---|---|---|---|
| CEO_INFLUENCE | -0.006 |  |  |
| CEO_DUAL |  | -0.060** |  |
| CEO_BOARD |  |  | -0.077*** |
| CFO_BOARD | 0.009 | 0.021 | 0.021 |
| INSIDERS | 0.158* | 0.230 | 0.178** |
| COOPTED_BD | -0.010 | 0.013 | -0.026 |
| COOPTED_AC | -0.009 | -0.004 | 0.021 |
| PY_ABS_DACC | 0.001 | 0.001 | 0.001 |
| CEO_INFLUENCE*PY_ABS_DACC | -0.002** |  |  |
| CEO_DUAL*PY_ABS_DACC |  | -0.005* |  |
| CEO_BOARD*PY_ABS_DACC |  |  | -0.001 |

This table presents the marginal effect that each variable of interest has on the response probability of companies changing auditors. Of particular interest are the interaction terms between the three CEO influence measures and prior year monitoring demand, CEO_INFLUENCE*PY_ABS_DACC, CEO_DUAL*PY_ABS_DACC, and CEO_BOARD*PY_ABS_DACC. The marginal effect of CEO influence is tested on the full sample, capturing the categories of CEO influence (H1a). The sample is divided to test the marginal effect of CEO influence on corporate boards among companies in which the CEO serves as a chair on the board (H1b), and among companies in which the CEO serves as a member on the board but not as the chair (H1c). See Appendix for variable definitions.

**Panel C: Logistic Regression Results (Auditor Turnover due to Audit Fees; DV = AU_CHANGE)**

| | H2a | | H2b | | H2c | |
|---|---|---|---|---|---|---|
| | Coeff. | t-stat | Coeff. | t-stat | Coeff. | t-stat |
| CEO_INFLUENCE | -1.085 | -1.34 | | | | |
| CEO_DUAL | | | 0.737 | 0.37 | | |
| CEO_BOARD | | | | | 1.856 | 0.95 |
| CFO_BOARD | -0.001 | -0.01 | 0.043 | 0.21 | -0.116 | -0.71 |
| INSIDERS | 0.910 | 1.94* | 1.020 | 1.40 | 1.150 | 2.24** |
| COOPTED_BD | -0.023 | -0.16 | 0.222 | 0.75 | -0.160 | -0.99 |
| COOPTED_AC | -0.003 | -0.02 | -0.009 | -0.04 | 0.055 | 0.45 |
| PY_AU_FEES | -0.117 | -1.30 | 0.089 | 0.51 | 0.173 | 1.09 |
| CEO_INFLUENCE*PY_AU_FEES | 0.082 | 1.37 | | | | |
| CEO_DUAL*PY_AU_FEES | | | -0.095 | -0.63 | | |
| CEO_BOARD*PY_AU_FEES | | | | | -0.183 | -1.22 |
| SIZE_AT | -0.406 | -10.13*** | -0.361 | -4.81*** | -0.433 | -9.31*** |
| ASSET_TURN | 0.039 | 0.71 | -0.001 | -0.01 | 0.012 | 0.18 |
| CURR_RATIO | -0.011 | -0.65 | -0.014 | -0.42 | 0.001 | 0.05 |
| LEVERAGE | 0.311 | 2.03** | 0.437 | 1.45 | 0.268 | 1.53 |
| ROA | 0.572 | 3.09*** | 0.170 | 0.44 | 0.697 | 3.39*** |
| SALE_GROWTH | 0.130 | 2.63*** | 0.183 | 1.85* | 0.110 | 1.98** |
| ALTMAN | -0.001 | -0.17 | 0.011 | 0.83 | -0.005 | -0.68 |
| LOSS | 0.242 | 2.95*** | 0.119 | 0.75 | 0.272 | 2.91*** |
| Intercept | 2.086 | 1.87* | -0.486 | -0.24 | -1.056 | -0.53 |
| # of Company Clusters | 2,767 | | 1,006 | | 2,342 | |
| Fiscal Year FE | Included | | Included | | Included | |
| Industry FE | Included | | Included | | Included | |
| **Pseudo F test:** | | | | | | |
| Likelihood Ratio | 23.47*** | | 6.54*** | | 19.31*** | |
| Score | 21.11*** | | 7.17*** | | 17.31*** | |
| Wald | 18.91*** | | 6.21*** | | 14.98*** | |
| Observations | 7,423 | | 2,007 | | 5,643 | |

This table presents logistic regression results of managerial influence on corporate boards and audit committees and auditor change. The independent variables of interest take on several types of managerial influence and the level of audit fees in the previous year, plus an interaction term. Managerial influence is tested on the full sample (H2a) and partitioned samples (H2b) and (H2c). Data is at the company-year level. Standard errors are clustered at the company level. Two-tailed statistical significance at 1%, 5%, and 10% levels is denoted ***, **, and *, respectively. (See Appendix for variable definitions.)

**TABLE 6: Results for H3 (Managerial Influence and Auditor Compensation)**

**Panel A: OLS Regression Results (DV = AU_COMP)**

| | H3a | | H3b | | H3c | |
|---|---|---|---|---|---|---|
| | Coeff. | t-stat | Coeff. | t-stat | Coeff. | t-stat |
| CEO_INFLUENCE | 0.036 | 1.46 | | | | |
| CEO_DUAL | | | 0.105 | 1.47 | | |
| CEO_BOARD | | | | | 0.083 | 1.37 |
| CFO_BOARD | -0.077 | -1.80* | -0.159 | -2.52** | -0.040 | -0.73 |
| INSIDERS | -0.627 | -3.48*** | -0.530 | -1.95* | -0.610 | -2.78*** |
| COOPT_BD | 0.034 | 0.71 | 0.049 | 0.52 | 0.045 | 0.84 |
| COOPT_AC | -0.038 | -1.10 | -0.020 | -0.29 | -0.042 | -1.14 |
| SIZE_AT | 0.528 | 69.15*** | 0.510 | 42.71*** | 0.534 | 60.70*** |
| ASSET_TURN | 0.082 | 4.79*** | 0.086 | 3.83*** | 0.087 | 3.98*** |
| CURR_RATIO | -0.013 | -3.26*** | -0.020 | -2.43** | -0.013 | -2.91*** |
| LEVERAGE | -0.009 | -0.24 | 0.172 | 1.64* | -0.039 | -1.13 |
| ROA | -0.198 | -4.23*** | -0.155 | -1.45 | -0.191 | -3.96*** |
| SALE_GROWTH | -0.001 | -0.82 | 0.003 | 1.20 | -0.003 | -2.36** |
| ALTMAN | -0.003 | -2.88*** | -0.004 | -1.12 | -0.003 | -2.68*** |
| LOSS | 0.164 | 6.82*** | 0.077 | 1.73* | 0.185 | 6.96*** |
| RESTATE | 0.003 | 0.14 | -0.041 | -0.87 | 0.017 | 0.66 |
| G_CONCERN | 0.065 | 1.33 | -0.050 | -0.47 | 0.089 | 1.77* |
| Intercept | 10.509 | 133.32*** | 10.529 | 79.12*** | 10.413 | 108.61*** |
| # of Company Clusters | 2,458 | | 960 | | 2,057 | |
| Fiscal Year FE | Included | | Included | | Included | |
| Industry FE | Included | | Included | | Included | |
| Pseudo F test: | 279.33*** | | 131.54*** | | 219.60*** | |
| Adj. R-squared | 0.818 | | 0.813 | | 0.818 | |
| Observations | 7,519 | | 2,208 | | 5,687 | |

This table presents OLS regression results of managerial influence on corporate boards and audit committees on audit fees. The independent variables capturing managerial influence take on seven forms: CEO_INFLUENCE, CEO_DUAL, CEO_BOARD, CFO_BOARD, INSIDERS, COOPTED_BD, and COOPTED_AC. Managerial influence is tested on the full sample with CEO_INFLUENCE capturing incremental differences in the level of influence of the CEO as a leader and member on boards. The sample is divided to test managerial influence depending on the CEO's role as a leader (chair) on the board, CEO_DUAL and as a member on the board, CEO_BOARD. Data is at the company-year level. Standard errors are clustered at the company level. Two-tailed statistical significance at 1%, 5%, and 10% levels is denoted ***, **, and *, respectively. (See Appendix for variable definitions.)

**Panel B: OLS Regression Results (DV = CH_COMP)**

| | H3d | | H3e | | H3f | |
|---|---|---|---|---|---|---|
| | Coeff. | t-stat | Coeff. | t-stat | Coeff. | t-stat |
| CEO_INFLUENCE | -0.597 | -1.64* | | | | |
| CEO_DUAL | | | -0.954 | -1.15 | | |
| CEO_BOARD | | | | | -0.056 | -0.08 |
| CFO_BOARD | 1.351 | 1.43 | 1.041 | 0.98 | 1.362 | 1.56 |
| INSIDERS | -1.211 | -0.60 | 0.089 | 0.03 | -2.351 | -0.98 |
| COOPT_BD | 3.795 | 3.99*** | 1.409 | 0.79 | 3.849 | 3.53*** |
| COOPT_AC | 0.026 | 0.03 | 1.771 | 1.20 | -0.166 | -0.19 |
| CH_SIZE_AT | 10.970 | 9.42*** | 11.117 | 4.68*** | 10.986 | 8.60*** |
| CH_ASSET_TURN | 0.680 | 0.89 | -0.127 | -0.08 | 0.857 | 1.01 |
| CH_CURR_RATIO | -0.263 | -1.93* | 0.224 | 0.77 | -0.406 | -2.77*** |
| CH_LEVERAGE | 4.233 | 2.81*** | 10.714 | 2.65*** | 3.344 | 2.11** |
| CH_ROA | -2.136 | -1.60* | -1.290 | -0.42 | -3.078 | -2.21** |
| CH_SALE_GROWTH | -0.008 | -2.43** | 0.030 | 0.44 | -0.008 | -2.53** |
| CH_ALTMAN | 0.006 | 0.22 | -0.100 | -2.07** | 0.041 | 1.33 |
| CH_LOSS | -1.335 | -2.37** | -2.585 | -2.44** | 0.939 | 1.48 |
| CH_RESTATE | -0.754 | -1.17 | -1.533 | -1.27 | -0.741 | -1.00 |
| CH_G_CONCERN | -1.971 | -1.41 | -4.993 | -1.93* | -1.603 | -1.05 |
| Intercept | 1.788 | 1.81* | 1.740 | 0.98 | 1.683 | 1.40 |
| # of Company Clusters | 2,041 | | 777 | | 1,716 | |
| Fiscal Year FE | Included | | Included | | Included | |
| Industry FE | Included | | Included | | Included | |
| Pseudo F test: | 14.40*** | | 7.32*** | | 11.06*** | |
| Adj. R-squared | 0.066 | | 0.078 | | 0.066 | |
| Observations | 6,198 | | 1,766 | | 4,738 | |

This table presents the results of OLS regressions of managerial influence types on corporate boards and audit committees on audit fee changes. The independent variables capturing managerial influence take on seven forms: CEO_INFLUENCE, CEO_DUAL, CEO_BOARD, CFO_BOARD, INSIDERS, COOPTED_BD, and COOPTED_AC. Managerial influence is tested on the full sample with CEO_INFLUENCE capturing incremental differences in the level of influence of the CEO as a leader and member on boards (H3a). The sample is divided to test managerial influence depending on the CEO's role as a leader (chair) on the board, CEO_DUAL, (H3b) and as a member on the board, CEO_BOARD, (H3c). Data is at the company-year level. Standard errors are clustered at the company level. Two-tailed statistical significance at 1%, 5%, and 10% levels is denoted ***, **, and *, respectively. (See Appendix for variable definitions.)

| Variable | N | Mean | Std Dev | Min. | 25th Pctl | Median | 75th Pctl | Max. |
|---|---|---|---|---|---|---|---|---|
| AU_TIER | 12622 | 1.515 | 0.812 | 0 | 1 | 2 | 2 | 2 |
| IND_SPECIALIST | 12622 | 0.832 | 0.374 | 0 | 1 | 1 | 1 | 1 |
| INDEPENDENCE | 12622 | 0.824 | 0.256 | 0 | 0.809 | 0.931 | 0.975 | 0.996 |
| AU_SMALL | 12622 | 0.055 | 0.228 | 0 | 0 | 0 | 0 | 1 |

See Appendix for variable definitions.

### TABLE 8: Correlation Matrix for Additional Analysis Related to H1

| | AU_TIER | IND_SPECIALIST | INDEPENDENCE | AU_SMALL |
|---|---|---|---|---|
| CEO_INFLUENCE | **0.1146** | **0.0677** | -0.0044 | -0.0110 |
| | <.0001 | <.0001 | 0.6213 | 0.2142 |
| CEO_DUAL | **0.2538** | **0.1338** | 0.0095 | -0.0106 |
| | <.0001 | <.0001 | 0.5601 | 0.5164 |
| CEO_BOARD | **0.1366** | **0.0611** | 0.0140 | 0.0011 |
| | <.0001 | <.0001 | 0.1687 | 0.9152 |
| CFO_BOARD | **-0.1010** | **-0.0277** | **-0.0748** | **0.0740** |
| | <.0001 | 0.0018 | <.0001 | <.0001 |
| INSIDER | **-0.2568** | **-0.1170** | **-0.0797** | **0.1035** |
| | <.0001 | <.0001 | <.0001 | <.0001 |
| COOPTED_BD | **0.0272** | 0.0002 | 0.0016 | 0.0127 |
| | 0.0021 | 0.9851 | 0.8613 | 0.1532 |
| COOPTED_AC | **-0.0288** | **-0.0239** | -0.0142 | **0.0357** |
| | 0.0012 | 0.0070 | 0.1086 | <.0001 |
| SIZE_AT | **0.5476** | **0.3168** | **0.0248** | **-0.1246** |
| | <.0001 | <.0001 | 0.0052 | <.0001 |
| ASSET_TURN | **-0.0746** | **0.0255** | **-0.0580** | **0.0329** |
| | <.0001 | 0.0040 | <.0001 | 0.0002 |
| CURR_RATIO | **-0.0884** | **-0.0691** | **0.0604** | 0.0029 |
| | <.0001 | <.0001 | <.0001 | 0.7441 |
| LEVERAGE | **0.1079** | **0.0651** | **-0.0204** | **-0.0258** |
| | <.0001 | <.0001 | 0.0212 | 0.0037 |
| ROA | **0.1437** | **0.0919** | **-0.0146** | 0.0023 |
| | <.0001 | <.0001 | 0.0988 | 0.7974 |
| SALE_GROWTH | -0.0045 | 0.0048 | 0.0004 | -0.0030 |
| | 0.6102 | 0.5876 | 0.9689 | 0.7371 |
| ALTMAN | **0.0532** | **0.0184** | **0.0250** | 0.0083 |
| | <.0001 | 0.0379 | 0.0048 | 0.3499 |
| LOSS | **-0.1726** | **-0.1264** | **0.0164** | **0.0157** |
| | <.0001 | <.0001 | 0.0645 | 0.0774 |

Pearson correlations are presented above. N consists of 12,622 firms with the exception of CEO_DUAL (3,751 observations) and CEO_BOARD (9,580 observations). Correlation coefficients are shown on the first row and probabilities on the second row for each variable. Bolded values (column 1 through column 3) represent significance at the 10 percent level. (See Appendix for variable definitions.)

**TABLE 9: Additional Analysis Related to H1 (Managerial Influence and Quality Auditor Selection)**

**Panel A: Logistic Regression Results (DV = AU_TIER)**

| | H1a | | H1b | | H1c | |
|---|---|---|---|---|---|---|
| | Coeff. | t-stat | Coeff. | t-stat | Coeff. | t-stat |
| CEO_INFLUENCE | 0.290 | 2.99*** | | | | |
| CEO_DUAL | | | 0.774 | 3.66*** | | |
| CEO_BOARD | | | | | 1.004 | 5.34*** |
| CFO_BOARD | -0.345 | -1.99** | -0.350 | -1.39 | -0.352 | -1.64* |
| INSIDERS | -3.202 | -5.44*** | -1.901 | -2.37** | -3.633 | -5.06*** |
| COOPTED_BD | 0.066 | 0.35 | 0.058 | 0.17 | 0.030 | 0.14 |
| COOPTED_AC | -0.018 | -0.13 | -0.110 | -0.42 | -0.026 | -0.17 |
| SIZE_AT | 1.111 | 24.61*** | 1.058 | 13.46*** | 1.126 | 23.36*** |
| ASSET_TURN | 0.060 | 0.95 | 0.135 | 1.30 | 0.063 | 0.83 |
| CURR_RATIO | 0.055 | 3.45*** | 0.073 | 2.20** | 0.046 | 2.76*** |
| LEVERAGE | -0.030 | -0.23 | 0.102 | 0.39 | -0.050 | -0.36 |
| ROA | -0.731 | -5.16*** | -0.625 | -2.70*** | -0.679 | -4.52*** |
| SALE_GROWTH | 0.004 | 0.75 | 0.006 | 0.56 | 0.002 | 0.40 |
| ALTMAN | 0.001 | 0.11 | -0.005 | -0.36 | 0.002 | 0.33 |
| LOSS | 0.179 | 2.07** | 0.061 | 0.40 | 0.194 | 2.03** |
| Intercept | -5.545 | -17.22*** | -6.018 | -11.60*** | -6.117 | -16.93*** |
| Intercept | -4.859 | -15.20*** | -5.347 | -10.45*** | -5.423 | -15.07*** |
| # of Company Clusters | 3,174 | | 1,406 | | 2,750 | |
| Fiscal Year FE | Included | | Included | | Included | |
| Industry FE | Included | | Included | | Included | |
| Pseudo F test: | | | | | | |
| Likelihood Ratio | 85.59*** | | 29.84*** | | 72.20*** | |
| Score | 47.86*** | | 17.82*** | | 40.59*** | |
| Wald | 26.37*** | | 9.98*** | | 24.22*** | |
| Observations | 12,622 | | 3,751 | | 9,580 | |

This table presents logistic regression results of managerial influence types on corporate boards and audit committees and the selection of an audit firm with industry expertise. The independent variables capturing managerial influence take on seven forms: CEO_INFLUENCE, CEO_DUAL, CEO_BOARD, CFO_BOARD, INSIDERS, COOPTED_BD, and COOPTED_AC. Managerial influence is tested on the full sample with CEO_INFLUENCE capturing the level of influence of the CEO as a leader of and member on boards (H1a). The sample is divided to test managerial influence depending on the CEO's role as a leader (chair) on the board, CEO_DUAL, (H1b) and as a member on the board, CEO_BOARD, (H1c). Data is at the company level. Standard errors are clustered at the company level. Two-tailed statistical significance at 1%, 5%, and 10% levels is denoted ***, **, and *, respectively. (See Appendix for variable definitions.)

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<div align="center">**Panel B: Marginal Effects Results (DV = AU_TIER)**</div>

| | (1) | (2) | (3) |
|---|---|---|---|
| CEO_INFLUENCE | 0.023*** | | |
| CEO_DUAL | | 0.059*** | |
| CEO_BOARD | | | 0.087*** |
| CFO_BOARD | -0.028** | -0.047 | -0.021* |
| INSIDERS | -0.214*** | -0.109** | -0.283*** |
| COOPTED_BD | 0.011 | 0.022 | 0.011 |
| COOPTED_AC | -0.007 | -0.013 | -0.007 |

This table presents the marginal effect that each managerial influence variable has on the response probability of companies selecting higher audit quality measured as AU_TIER. Managerial influence variables take on seven forms: CEO_INFLUENCE, CEO_DUAL, CEO_BOARD, CFO_BOARD, INSIDERS, COOPTED_BD, and COOPTED_AC. Marginal effects of managerial influence is tested on the full sample with CEO_INFLUENCE capturing the categories of CEO influence (column 1). The sample is divided to test managerial influence on corporate boards among companies in which the CEO serves as a chair on the board (column 2), and among companies in which the CEO serves as a member on the board but not as the chair (column 3). (See Appendix for variable definitions.)

**Panel C: Logistic Regression Results (DV = IND_SPECIALIST)**

| | H1a | | H1b | | H1c | |
|---|---|---|---|---|---|---|
| | Coeff. | t-stat | Coeff. | t-stat | Coeff. | t-stat |
| CEO_INFLUENCE | 0.183 | 2.07** | | | | |
| CEO_DUAL | | | 0.714 | 3.60*** | | |
| CEO_BOARD | | | | | 0.871 | 4.88*** |
| CFO_BOARD | -0.309 | -1.85* | -0.088 | -0.34 | -0.433 | -2.18** |
| INSIDERS | -2.536 | -4.42*** | -1.892 | -2.54** | -2.722 | -4.08*** |
| COOPTED_BD | 0.100 | 0.56 | 0.000 | 0.01 | 0.238 | 1.21 |
| COOPTED_AC | -0.023 | -0.18 | -0.146 | -0.58 | -0.064 | -0.46 |
| SIZE_AT | 0.957 | 23.11*** | 0.959 | 14.36*** | 0.953 | 20.55*** |
| ASSET_TURN | -0.029 | -0.48 | 0.061 | 0.71 | -0.034 | -0.48 |
| CURR_RATIO | 0.067 | 4.02*** | 0.035 | 1.28 | 0.072 | 4.17*** |
| LEVERAGE | -0.145 | -0.91 | -0.574 | -2.22** | -0.019 | -0.12 |
| ROA | -0.541 | -3.39*** | -0.593 | -2.68*** | -0.434 | -2.63*** |
| SALE_GROWTH | 0.008 | 1.64* | 0.024 | 1.68* | 0.006 | 1.15 |
| ALTMAN | -0.009 | -1.39 | -0.023 | -1.76* | -0.006 | -0.97 |
| LOSS | 0.210 | 2.47** | 0.005 | 0.03 | 0.241 | 2.60*** |
| Intercept | -4.753 | -15.55*** | -5.011 | -11.05*** | -5.359 | -15.07*** |
| # of Company Clusters | 3,174 | | 1,406 | | 2,750 | |
| Fiscal Year FE | Included | | Included | | Included | |
| Industry FE | Included | | Included | | Included | |
| Pseudo F test: | | | | | | |
| Likelihood Ratio | 74.64*** | | 27.99*** | | 62.91*** | |
| Score | 37.41*** | | 14.85*** | | 31.76*** | |
| Wald | 23.94*** | | 10.01*** | | 19.91*** | |
| Observations | 12,622 | | 3,751 | | 9,580 | |

This table presents logistic regression results of managerial influence types on corporate boards and audit committees and the selection of an audit firm with industry expertise. The independent variables capturing managerial influence take on seven forms: CEO_INFLUENCE, CEO_DUAL, CEO_BOARD, CFO_BOARD, INSIDERS, COOPTED_BD, and COOPTED_AC. Managerial influence is tested on the full sample with CEO_INFLUENCE capturing the level of influence of the CEO as a leader of and member on boards (H1a). The sample is divided to test managerial influence on corporate boards among companies in which the CEO serves as a chair on the board (H1b), and among companies in which the CEO serves as a member on the board but not as the chair (H1c). Data is at the company-year level. Standard errors are clustered at the company level. Two-tailed statistical significance at 1%, 5%, and 10% levels is denoted ***, **, and *, respectively. (See Appendix for variable definitions.)

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**Panel D: Marginal Effects Results (DV = IND_SPECIALIST)**

|  | (1) | (2) | (3) |
|---|---|---|---|
| CEO_INFLUENCE | 0.023** | | |
| CEO_DUAL | | 0.116*** | 0.137*** |
| CEO_BOARD | | | -0.052** |
| CFO_BOARD | -0.033* | -0.012** | -0.499*** |
| INSIDERS | -0.420*** | -0.326*** | 0.035 |
| COOPTED_BD | 0.010 | 0.000 | -0.003 |
| COOPTED_AC | -0.003 | -0.019 | |

This table presents the marginal effect that each managerial influence variable has on the response probability of companies selecting higher audit quality measured as AU_BRAND. Managerial influence variables take on seven forms: CEO_INFLUENCE, CEO_DUAL, CEO_BOARD, CFO_BOARD, INSIDERS, COOPTED_BD, and COOPTED_AC. Marginal effects of managerial influence is tested on the full sample with CEO_INFLUENCE capturing the categories of CEO influence (column 1). The sample is divided to test managerial influence on corporate boards among companies in which the CEO serves as a chair on the board (column 2), and among companies in which the CEO serves as a member on the board but not as the chair (column 3). (See Appendix for variable definitions.)

**Panel E: Logistic Regression Results (DV = INDEPENDENCE)**

| | H1a | | H1b | | H1c | |
|---|---|---|---|---|---|---|
| | Coeff. | t-stat | Coeff. | t-stat | Coeff. | t-stat |
| CEO_INFLUENCE | 0.003 | 1.64* | | | | |
| CEO_DUAL | | | 0.006 | 1.07 | | |
| CEO_BOARD | | | | | 0.012 | 2.87*** |
| CFO_BOARD | -0.003 | -0.78 | -0.001 | -0.28 | -0.003 | -0.58 |
| INSIDERS | -0.033 | -2.37** | 0.011 | 0.57 | -0.057 | -3.37*** |
| COOPTED_BD | 0.007 | 1.66* | 0.008 | 1.12 | 0.008 | 1.72* |
| COOPTED_AC | -0.001 | -0.22 | -0.006 | -1.05 | 0.000 | 0.08 |
| AU_SMALL | -0.165 | -73.54*** | -0.155 | -36.68*** | -0.168 | -73.76*** |
| SIZE_AT | -0.009 | -12.82*** | -0.008 | -8.07*** | -0.008 | -11.43*** |
| ASSET_TURN | -0.005 | -2.38** | -0.002 | -0.77 | -0.006 | -3.22*** |
| CURR_RATIO | 0.002 | 4.80*** | 0.003 | 4.46*** | 0.002 | 4.10*** |
| LEVERAGE | -0.001 | -0.22 | 0.006 | 0.92 | -0.001 | -0.39 |
| ROA | 0.001 | 0.27 | -0.002 | -0.44 | 0.002 | 0.55 |
| SALE_GROWTH | 0.000 | -0.36 | 0.000 | -0.77 | 0.000 | -0.41 |
| ALTMAN | 0.000 | 1.87* | 0.001 | 1.68* | 0.000 | 1.48 |
| LOSS | 0.003 | 1.87* | -0.001 | -0.17 | 0.004 | 1.92* |
| Intercept | 0.211 | 4.27*** | 0.141 | 7.50*** | 0.242 | 5.83*** |
| # of Company Clusters | 3,174 | | 1,406 | | 2,750 | |
| Fiscal Year FE | Included | | Included | | Included | |
| Industry FE | Included | | Included | | Included | |
| Pseudo General F test: | 41.03*** | | 18.46*** | | 38.26*** | |
| Adj. R-squared | 0.3778 | | 0.3141 | | 0.3409 | |
| Observations | 12,622 | | 3,751 | | 9,580 | |

This table presents OLS regression results of managerial influence types on corporate boards and audit committees and the selection of independent auditors. The independent variables capturing managerial influence take on seven forms: CEO_INFLUENCE, CEO_DUAL, CEO_BOARD, CFO_BOARD, INSIDERS, COOPTED_BD, and COOPTED_AC. Managerial influence is tested on the full sample with CEO_INFLUENCE capturing the level of influence of the CEO as a leader of and member on boards (H1a). The sample is divided to test managerial influence on corporate boards among companies in which the CEO serves as a chair on the board (H1b), and among companies in which the CEO serves as a member on the board but not as the chair (H1c). Data is at the company-year level. Standard errors are clustered at the company level. Two-tailed statistical significance at 1%, 5%, and 10% levels is denoted ***, **, and *, respectively. (See Appendix for variable definitions.)

## TABLE 10: Audit Fee Model (DV = AU_FEES)

|  | Coeff. | t-stat |
|---|---|---|
| SIZE_AT | 0.478 | 86.90*** |
| ROA | -0.130 | -9.20*** |
| ASSET_TURN | 0.055 | 12.23*** |
| INVENTORY | 0.517 | 24.66*** |
| LEVERAGE | 0.019 | 1.51 |
| QUICK | -0.033 | -20.21*** |
| ABS_DACC | 0.001 | 2.35** |
| LOSS | 0.114 | 12.59*** |
| FOREIGN | -0.012 | -0.28 |
| SPECIAL | 0.244 | 29.61*** |
| BUSY | 0.023 | 2.89*** |
| IC_WEAK | 0.438 | 22.66*** |
| MODIFIED_OPN | 0.321 | 1.42 |
| AU_TENURE | -0.003 | -3.81*** |
| BIG_4 | 0.421 | 40.09*** |
| IND_SPECIALIST | 0.028 | 3.16*** |
| Intercept | 0.164 | 0.08 |
| Clustered SE | Included | |
| Fiscal Year FE | Included | |
| Industry FE | Included | |
| Pseudo General F test: | 5398.6*** | |
| Adj. R-squared | 0.826 | |
| Observations | 21,666 | |

This table presents OLS regression results from estimating the audit fee model in Equation (4). Data is at the company-year level. Standard errors are clustered at the company level. Two-tailed statistical significance at 1%, 5%, and 10% levels is denoted ***, **, and *, respectively. (See Appendix for variable definitions.)

**TABLE 11: Descriptive Statistics for Additional Analysis Related to H2**

| Variable | N | Mean | Std Dev | Min. | 25th Pctl | Median | 75th Pctl | Max. |
|---|---|---|---|---|---|---|---|---|
| PY_ABN_FEES | 5,498 | -0.001 | 0.505 | -2.456 | -0.334 | 0.009 | 0.337 | 1.990 |

See Appendix for variable definitions.

**TABLE 12: Correlation Matrix for Additional Analysis Related to H2**

| | PY_ABN_FEES |
|---|---|
| AU_CHANGE | 0.0200 |
| | 0.1374 |
| CEO_INFLUENCE | 0.0016 |
| | 0.9042 |
| CEO_DUAL | -0.0263 |
| | 0.3162 |
| CEO_BOARD | -0.0223 |
| | 0.1473 |
| CFO_BOARD | **-0.0492** |
| | 0.0003 |
| INSIDER | **-0.0702** |
| | <.0001 |
| COOPTED_BD | **-0.0221** |
| | 0.1014 |
| COOPTED_AC | -0.0190 |
| | 0.1600 |
| SIZE_AT | 0.0082 |
| | 0.5452 |
| ASSET_TURN | 0.0129 |
| | 0.3409 |
| CURR_RATIO | **-0.0285** |
| | 0.0349 |
| LEVERAGE | 0.0008 |
| | 0.9522 |
| ROA | -0.0101 |
| | 0.4535 |
| SALE_GROWTH | **-0.0532** |
| | <.0001 |
| ALTMAN | **-0.0359** |
| | 0.0078 |
| LOSS | **0.0306** |
| | 0.0231 |

Pearson correlations are presented above. N consists of 5,498 firms with the exception of CEO_DUAL (1,452 observations) and CEO_BOARD (4,218 observations). Correlation coefficients are shown on the first row and probabilities on the second row for each variable. Bolded values represent significance at the 10 percent level. (See Appendix for variable definitions.)

**TABLE 13: Additional Analysis Related to H2 (Managerial Influence and Auditor Turnover due to Abnormal Audit Fees); DV = AU_CHANGE**

| | Logit (H2d) | | Logit (H2e) | | Logit (H2f) | |
|---|---|---|---|---|---|---|
| | Coeff. | t-stat | Coeff. | t-stat | Coeff. | t-stat |
| CEO_INFLUENCE | 1.279 | 1.03 | | | | |
| CEO_DUAL | | | 3.534 | 1.05 | | |
| CEO_BOARD | | | | | 4.304 | 1.29 |
| CFO_BOARD | -0.125 | -0.74 | -0.119 | 0.13 | -0.212 | -1.05 |
| INSIDERS | 1.227 | 2.21** | 1.114 | 1.52 | 1.620 | 2.59*** |
| COOPTED_BD | -0.233 | -1.30 | 0.079 | 0.76 | -0.396 | -1.96** |
| COOPTED_AC | 0.193 | 1.45 | 0.157 | -0.05 | 0.254 | 1.73 |
| PY_ABS_DACC | 0.178 | 1.08 | 0.320 | 0.64 | 0.514 | 1.58 |
| CEO_INFLUENCE*PY_ABN_FEES | -0.129 | -1.04 | | | | |
| CEO_DUAL*PY_ABN_FEES | | | -0.392 | -1.17 | | |
| CEO_BOARD*PY_ABN_FEES | | | | | -0.475 | -1.43 |
| SIZE_AT | -0.413 | -14.18*** | -0.356 | -7.42*** | -0.426 | -12.44*** |
| ASSET_TURN | 0.012 | 0.18 | 0.056 | 0.49 | -0.046 | -0.59 |
| CURR_RATIO | -0.010 | -0.52 | 0.015 | 0.39 | -0.001 | -0.06 |
| LEVERAGE | 0.405 | 2.18** | 0.736 | 2.04** | 0.286 | 1.35 |
| ROA | 0.530 | 2.29** | -0.131 | -0.26 | 0.721 | 2.80*** |
| SALE_GROWTH | 0.122 | 1.69 | 0.107 | 0.67 | 0.116 | 1.48 |
| ALTMAN | 0.006 | 0.76 | 0.023 | 1.29 | -0.001 | -0.09 |
| LOSS | 0.315 | 3.28*** | 0.231 | 1.22 | 0.334 | 3.06*** |
| Intercept | -1.427 | -0.86 | -3.173 | -0.98 | -4.220 | -1.28 |
| # of Company Clusters | 2,145 | | 750 | | 1,801 | |
| Fiscal Year FE | Included | | Included | | Included | |
| Industry FE | Included | | Included | | Included | |
| Pseudo F test: | | | | | | |
| Likelihood Ratio | 20.02*** | | 5.37*** | | 16.12*** | |
| Score | 17.98*** | | 6.10*** | | 14.44*** | |
| Wald | 16.16*** | | 5.29*** | | 12.71*** | |
| Observations | 5,498 | | 1,452 | | 4,218 | |

This table presents logistic regression results of managerial influence on corporate boards and audit committees and auditor change. The independent variables of interest take on several types of managerial influence and the level of abnormal audit fees in the previous year, plus an interaction term. Managerial influence is tested on the full sample (H2a) and partitioned samples (H2b) and (H2c). Data is at the company-year level. Standard errors are clustered at the company level. Two-tailed statistical significance at 1%, 5%, and 10% levels is denoted ***, **, and *, respectively. (See Appendix for variable definitions.)

APPENDIX

VARIABLE DEFINITIONS

| Variables | Measure |
|---|---|
| | **Dependent Variables** |
| AU_BRAND | Equal to 1 if the auditor of a company is a Big 4 auditor; 0 otherwise. |
| AU_SIZE | Natural logarithm of total audit fees earned by an audit firm's office. |
| AU_CHANGE | Equal to 1 if a company changed its auditor in the current year; 0 otherwise. |
| AU_COMP | Natural logarithm of audit fees. |
| CH_COMP | Percent change in audit fees from the previous year to the current year. |
| | **Variables of Interest** |
| CEO_INFLUENCE | Equal to 2 if the CEO serves as the chair on the board of directors, equal to 1 if the CEO serves as a director on the board (but not as the chair); 0 otherwise. |
| CEO_DUAL | Equal to 1 if the CEO serves as the chair on the board of directors; 0 otherwise. |
| CEO_BOARD | Equal to 1 if the CEO serves as a member on the board (but not as the chair); 0 otherwise. |
| CFO_BOARD | Equal to 1 if the CFO serves as a member on the board; 0 otherwise. |
| INSIDERS | Proportion of inside directors; calculated as the number of management members serving on board divided by board size; |
| COOPTED_BD | Proportion of co-opted directors; calculated as the number of non-management directors appointed to the board of directors after the current CEO assumes office divided by board size. |
| COOPTED_AC | Proportion of co-opted directors; calculated as the number of directors appointed to the audit committee after the current CEO assumes office divided by audit committee size. |
| | **Control Variables** |
| ABS_DACC | The absolute value of abnormal accruals based on the cross-sectional modified Jones (1991) model where expected accruals are estimated from the change in revenue, adjusted by the change in account receivable, the level of property, plant, and equipment, and the prior year's operating performance by industry at the two-digit SIC code level. |
| PY_ABS_DACC | ABS_DACC in the previous year. |
| PY_AU_FEES | AU_FEES in the previous year. |
| ASSET_TURN | Sales divided by total assets. |
| CURR_RATIO | Current assets divided by current liabilities. |
| LEVERAGE | Total liabilities divided by total assets. |
| ROA | Net income divided by total assets. |
| SIZE_AT | Natural logarithm of total assets. |

| Variables | Measure |
|---|---|
| ALTMAN | Altman's (1968) z-score. |
| SALES_GROWTH | Percentage change in total sales from the previous to the current year. |
| LOSS | Equal to 1 if earnings before extraordinary items is less than zero; 0 otherwise. |
| RESTATE | Equal to 1 if a company restated its financial statements; 0 otherwise. |
| G_CONCERN | Equal to 1 if a company received a going-concern opinion; 0 otherwise. |
| Additional Analysis Variables | |
| AU_TIER | Equal to 2 if an audit firm is a Big 4 auditor, equal to 1 if the firm is a Second Tier auditor (Grant Thornton, BDO Seidman); 0 otherwise. |
| IND_SPECIALIST | Equal to 1 if an audit firm's market share in the client's industry is ten percent or greater; 0 otherwise (DeFond 1992). |
| INDEPENDENCE | Ratio of audit office total revenue minus client revenue divided by audit office total revenue. |
| AU_SMALL | Equal to 1 if an audit office's total revenue is derived from a single client; 0 otherwise. |
| ABN_FEES | Abnormal audit fees. Abnormal audit fees are calculated as the residual from estimating audit fees in Equation (4). |
| PY_ABN_FEES | ABN_FEES in the previous year. |
| Additional Audit Fee Model Variables | |
| INVENTORY | Inventory divided by total assets. |
| QUICK | Current assets minus inventories divided by current liabilities. |
| FOREIGN | Equal to 1 if a company reported foreign operations; 0 otherwise. |
| SPECIAL | Equal to 1 if a company reported special items; 0 otherwise. |
| BUSY | Equal to 1 if a company's fiscal year end on December 31st; 0 otherwise. |
| IC_WEAK | Equal to 1 if a company reported internal control weaknesses; 0 otherwise. |
| MODIFIED | Equal to 1 if a company received a modified audit opinion; 0 otherwise. |

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