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Lower audit fees for women audit partners in Taiwan and why

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ABSTRACT

We investigate whether women audit partners earn lower audit fees than their men colleagues. By examining 2002–2011 fee data for audit engagements in Taiwan, where the names of signing audit partners are disclosed, we find that audit engagements with women audit partners are related to significantly lower audit fees than those with men counterparts. Furthermore, we document that such fee difference is aggravated in the industries with fewer women audit partners, cannot be explained by the differences in audit quality and audit reporting lags, and is robust to controlling for firm fixed effects. Our finding provides evidence to support the existence of fee discrimination against women audit partners in Taiwan's auditing industry. Our results should be of interests to audit firms with regard to human resource decisions.

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1. Introduction

The auditing profession around the world came under intense public scrutiny after the collapse of Enron and the subsequent demise of its auditor, Arthur Andersen. In the United States, the government and the regulator have taken unprecedented steps to restore stability and investors' confidence in the capital markets. For example, the U.S. Congress enacted the Sarbanes-Oxley Act of 2002, a stringent rules-based system widely considered to be the most comprehensive economic regulation since the New Deal.

Yet it would be wrong to think that the auditing industry has had its day, or to underplay its importance to the capital markets. The audit firms still need to provide independent and objective tests of the accounting policies, procedures, and subjective judgment used by management in preparing the financial reports and to issue audit opinions for the companies. Without the opinions provided by the audit firms, creditors, bankers, investors, and others cannot use the financial reports with sufficient confidence. In addition to auditing services, the audit firms also provide a wide range of tax, advisory, and other professional services. In 2012, revenues for the four largest global audit firms rose to a record historic high level of $110 billion, up 6% from 2011. By service line, auditing services accounted for 45% of total revenues and grew by 2.9% between 2011 and 2012. Tax-related services represented 23% of total revenues and also rose by 5.6% between 2011 and 2012. Advisory services have been the fastest growing service line, however, and grew strongly by 12.2% between 2011 and 2012.

Because of the great demand for auditing services, the profession continues to attract talent from around the world, and has the potential to continuously play an important role in the capital markets. However, if that potential is to be realized, reform is crucial. Regulators are debating new methods of oversight to stop a second audit failure, and to allow the auditing industry to develop and prosper sustainably.

However, some believe that the process of reform in the auditing industry will be a wasted opportunity if it does not largely address the persistent and marked discrimination against women that seems to permeate this industry. According to the survey conducted by Schaefer and Zimmer (1995), the average income of men accountants and auditors exceeds that of their women counterparts by approximately 49%. In addition, the American Institute of Certified Public Accountants (AICPA) reports that managing directors are also predominately men, despite the fact that women have entered the auditing profession in record numbers in recent decades. In 2009, women made up 55% of newly-hired graduates and 61.8% of all accountants and auditors. Despite comprising half the workforce at audit firms, women account for only 23% of all

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audit partners industry-wide. The statistics suggest that, across the auditing industry, women are still facing the trials of discrimination that take the form of unequal pay and lack of advancement in the job place.

Likewise, the presence of women audit partners in audit engagement is low in Taiwan. Within our sample, only 30% of the leading auditors and 30% of the accompanying auditors are women. This low presence of women audit partners is more severe in the early period. For example, only 14% of the leading auditors are women in 2002, and the number increases to 36% in 2011. Based on the statistics provided by the Taiwan Financial Supervisory Commission, the average salaries of the top 30 audit firms in Taiwan are $904,769 NTD for women signing auditors and $1,156,658 NTD for men signing auditors in self-owned audit firms, and are $510,353 NTD for employed women auditors and $550,680 for employed men auditors. Overall, these statistics suggest that both the presence and the salaries of women are low in Taiwan's audit market.

Relatedly, Yang, Chen, and Yang (2013) show that in Taiwan man-owned audit firms outperform woman-owned audit firms in financial performance, and even the formers without professional trainings on auditors have higher financial performance than the latters with professional trainings. The authors interpret these findings as suggesting "the Chinese cultural values in social roles against women". Their results further reinforce that Taiwan's audit industry is masculine and there exists discrimination against women.

In this study, we try to extend prior research by further investigating whether the audited client pays lower audit fees to its women audit partners. This issue is important because if women audit partners cannot charge more for the quality services they provide to a client, it would be hard for a woman to become a partner or to be promoted. Similarly, if women partners cannot make more profits for the audit firm, they will have less negotiation flexibility or room to maneuver in regard to salaries. Therefore, the discrimination against women in relation to audit fees may partially explain why women face unequal pay or opportunities for promotion in an audit firm. Moreover, if the audited client pays lower audit fees to its women audit partners, women would have fewer resources that can be devoted to audit procedures, which may in turn influence audit quality.

To address this issue, we employ a sample of publicly-listed firms in Taiwan to examine our research questions. The audit report in Taiwan contains the names of two signing audit partners as well as the name of the audit firm, in contrast to the U.S., where the audit report only contains the audit firm's name. This provides an opportunity to investigate the difference in audit fees between men and women partners. By using a sample for the 2002–2011 period in which audit fees and audit partners' names were observable, we find that audit engagements with women signing audit partners are related to significantly lower audit fees than those with men counterparts, suggesting the existence of discrimination against women on audit fees in Taiwan's auditing industry. Furthermore, we document evidence that such discrimination is more severe in the industries where the presence of women audit partners is low. Further analyses suggest that the difference in audit fees cannot be explained by the superior audit quality of men auditors or by fewer audit hours of women audit partners. In contrast, we find that women audit partners are associated with better client earnings quality and longer audit reporting lags. The relation between women audit partners and audit fees continues to be significantly negative when we control for client earnings quality and audit reporting lags. Finally, the documented lower audit fees for women in this paper are robust to controlling for firm fixed effects.

In 2011, the PCAOB proposed an auditing standard about the disclosure of the audit engagement partner (PCAOB, 2005). The underlying reason would be the belief in that this would enhance auditor accountability and audit quality. Since auditor sex is a significant auditor characteristic, this paper provides insightful information about the association between auditor sex and audit fees (audit quality) to global regulators. We also contribute to the literature examining the sex effects such as CEO, CFO, director, and auditor sex. Finally, the results in the current study should be of interest to audit firms in human resource decisions.

2. Related research

Sex discrimination has caught the eye of researchers in recent decades. Many studies have emphasized the impact of sex discrimination on pay, which is traditionally a vital social welfare and equality issue (Berik, Rodgers, & Zveglich, 2004; Blinder, 1973; Corcoran & Duncan, 1979; Goldin, 1990; Jarrell & Stanley, 2004; Stanley & Jarrell, 1998). To reduce sex discrimination, the Civil Rights Act of 1964 was enacted by the U.S. Senate and House of Representatives to eliminate employment discrimination, including discrimination according to sex, color, and race. Moreover, the Equal Pay Act of 1963 was also enacted with a view to prohibiting sex differences in wages. However, the 2004 salary survey conducted by the Institute of Management Accountants shows that women earn lower wages than men regardless of work experience. Although Adams and Harte (2000) posited that the field of accounting has the potential by which to discover sex discrimination, many studies have argued that the accounting profession itself also has the same concern (Anderson-Gough, Grey, & Robson, 2005; Marlow & Carter, 2004; Tinker & Fearfull, 2007; Whiting & Wright, 2001). White and White (2006) also suggested that women auditors are more likely to be devalued by their clients.

Researchers have indicated that sex influences auditors' job satisfaction and employment, and that the *glass ceiling* prevents women from moving higher up the hierarchy in audit firms. For instance, while around 35%–50% of entrants into the field are women (Lehman, 1992), only 5% of partners in Big 6 accounting firms are women (Telberg, 1993). Likewise, 96% of the partners and management in Australian accounting firms are men (Perera, Fatseas, & Luckett, 1997), and only 3% of partners in the largest accounting firms were found to be women in the 1980s (Hooks & Cheramy, 1989). Although women entrants exceed men ones (AICPA, 2008), sex discrimination may still be present in accounting firms. Examining Swedish audit industry, Måsson, Elg, and Jonnergård (2013) indicate that women auditors are less likely to be promoted. Moreover, they find that having children increases the likelihood for men auditors to be promoted but decreases the likelihood for women auditors. Similarly, Jonnergård, Stafsudd, and Elg (2010) show that in the Swedish audit industry, 50% of the new employees and 92% of the audit partners are men, and that women auditors have greater intentions to leave the audit firm.

Outside the auditing profession, researchers have also showed that women executives are likely under-paid. For example, Lam, McGuinness, and Vieito (2013) suggest that women CEOs receive less favorable compensation terms than their men colleagues, and Mohan and Ruggiero (2007) conclude that women CEOs are underpaid even after controlling for performance. Kulich, Trojanowski, Ryan, Haslam, and Renneboog (2011) examine the sex effect on the compensation portfolio, and find that men managers receive more bonus and performance-sensitive compensation than women. They interpret these findings as suggesting that compared to women, men would be more risk-taking. In contrast, Bugeja, Matolcsy, and Spiropoulos (2012) find insignificant relation between CEO sex and compensation.

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