



# Main drivers of consultancy services: A meta-analytic approach<sup>☆</sup>



Cristina De Fuentes<sup>\*</sup>, Rubén Porcuna

Facultat d'Economia, Universitat de València, Avda. Tarongers s/n, 46021 Valencia, Spain

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## ABSTRACT

This meta-analysis incorporates the results from 34 separate studies examining fee models for consultancy services whereby the consulting firm provides both audit and advisory services to its customers. The findings indicate a number of key determinants of consultancy bills: client size, audit fees, auditors being from a “Big Audit Firm,” client’s financial difficulties, and prior experience with the legal auditors. Conversely, the meta-results fail to correlate the variable of interest with several constructs commonly used in consultancy models such as the auditee’s inherent risk, the client’s financial debt, or the audit opinion. The study also explores the influence of three moderators: the Sarbanes–Oxley Act, the legal environment, and the type of statutory auditor. The overall moderator results are robust but fail to group prior data into homogeneous sets. The findings are relevant for policy makers, audit scholars, and stakeholders.

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## 1. Introduction

This study examines the research on consultancy services models, in particular research that captures when the same company provides both the statutory audit of the financial statements and consultancy services, also known as non-audit services (NAS), to the customer.

Archival literature addressing NAS (e.g., tax, legal, information technologies, financial, or human resources) models does not look at them as a separate area of study but rather as an additional aspect of core legal auditing topics (Hay, Knechel, & Li, 2006; Krishnan & Yu, 2011; Stein, 2006; Ye, Carson, & Simnett, 2011; Zerni, 2012).

Hence, to date, the NAS fee model studied in prior research resembles the Simunic (1980) model for audit fees, incorporating factors such as client size, audit complexity, auditor attributes, and engagement characteristics, among others. However, while audit fee models perform well, with an explanatory power around 75% (Hay, Knechel, & Li, 2006), the adjusted R-squared of the NAS fee model is, on average, around 35% (Abbott, Parker, & Peters, 2011; Ghosh & Pawlewicz, 2009; Griffin, Lont, & Sun, 2009) despite the high number of independent variables tested so far, which frequently show a lack of significant association. Thus, the main drivers of consultancy fees represent a research issue that deserves further investigation.

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<sup>\*</sup> Corresponding author.

E-mail addresses: [cristina.de-fuentes@uv.es](mailto:cristina.de-fuentes@uv.es) (C. De Fuentes), [ruben.porcuna@uv.es](mailto:ruben.porcuna@uv.es) (R. Porcuna).

The present study aims to contribute to the extant literature in several ways. First, the study sheds light on the main determinants of NAS fees through meta-analysis (MA) techniques. Although prior research offers several meta-analyses conducted on audit fees (De Fuentes & Sierra, 2015; Hay, 2013; Hay, Knechel, & Wong, 2006a), this may be the first attempt to apply MA to the vast empirical literature on NAS fees. MA presents several advantages over: a) a narrative review or a mere recounting of prior findings, which can be misleading or inconclusive, whereas MA provides the objectivity of a statistical technique (Rosenthal, 1991); and, b) the results of individual studies, because MA increases sample sizes and statistical power (Cooper, 2010).

Second, this study draws on the influence of three moderating variables that might impact consultancy fee drivers: a) the 2002 Sarbanes–Oxley Act (SOX) that drives up audit fees and reduces NAS fees (Ghosh & Pawlewicz, 2009; Griffin et al., 2009) and changes audit fee drivers (Huang, Raghunandan, & Rama, 2009); b) the legal environment, since the geographical scope of SOX is limited to the US environment, while the remaining countries offer a map of miscellaneous audit regulations; and c) the auditor’s reputation, because the Big Auditing Firms<sup>1</sup> charge a premium related to the high quality of their services (Hay et al., 2006a; McMeeking, Peasnell, & Pope, 2006; Clatworthy, Makepeace, & Peel, 2009; Campa, 2013) and this premium might also be applied to consultancy services. Analysis of these moderating variables may reveal whether or not the NAS drivers are robust across different grouping criteria and enable archival data to be bundled into homogeneous sets.

The ongoing concerns of regulators and policy makers about the joint provisioning of auditing and NAS, and whether this jeopardizes auditor independence, justify the importance of identifying the main

determinants of consultancy services. Those concerns eventually triggered recent audit regulatory changes (European Directive 2014, or the European Regulation 2014, on public-interest entities) that heavily constrain the provision of NAS.

## 2. Literature review and research questions

### 2.1. Main drivers of consultancy services and the audit literature

Research on NAS remains closely tied to legal auditing topics. To date, researchers have devoted great effort to investigating economies of scope, that is, when the joint provision of both auditing and advisory services to a customer generates shared knowledge among consultants and auditors, resulting in a reduction in the average cost (Stein, 2006). However, researchers face great difficulty in predicting the impact of such knowledge spillover on the total audit-consultancy bill. For example, companies seeking better financial information may engage more consultancy services such as IT advisory services and internal audits. In such cases, the association between audit and NAS fees is positive (Houghton & Jubb, 1999; Koh, Rajgopal, & Srinivasan, 2013). Conversely, the association between the two services is negative if, for instance, delivering NAS enhances the knowledge of the client's IT system and lowers audit costs (Antle, Gordon, Narayanamoorthy, & Zhou, 2006). Notably, O'Keefe, Simunic, and Stein (1994) report a non-significant association.

Empirical testing of the economies of scope through the application of simultaneous equation methods also fails to produce consistent results, that is, a mix of positive (Antle et al., 2006; McMeeking et al., 2006), negative (Krishnan & Yu, 2011; Svanström & Sundgren, 2012) and non-significant associations (Whisenant, Sankaraguruswamy, & Raghunandan, 2003; Hay, Knechel, & Li, 2006b; De Fuentes & Pucheta-Martinez, 2009).

Regarding the market for consultancy services, Svanström and Sundgren (2012) document that small- and medium-sized companies are more likely to hire other consultancy services from their incumbent auditor than are listed companies as the relationship evolves.

In sum, researchers commonly test NAS fee models when exploring auditing issues and these typically incorporate the same constructs and/or are operationalized through the same variables as the audit models. However, general conclusions remain elusive. Hence, the present research investigates the following research question:

*RQ1: Does the overall published evidence about the most commonly applied NAS explanatory variables support a statistically significant association with NAS fees?*

### 2.2. Auditing services regulatory changes

A recurring audit issue is whether or not the joint provision of auditing and NAS increases the economic bond between client and auditor and, eventually, jeopardizes auditor independence.

The Enron scandal and the subsequent implementation of SOX (2002), requiring the disclosure of NAS fees and banning the provision of most NAS by the same auditing firm, were followed by an international wave of auditor independence regulation, despite the lack of conclusive empirical support (Schneider, Church, & Kirsten, 2006; De Fuentes & Pucheta-Martinez, 2009). Thus, post SOX audit literature reveals a decrease in the consultancy services performed by either the auditor or the groups the audit firm belongs to (Griffin et al., 2009; Ghosh & Pawlewicz, 2009) as a consequence of the international political pressure (GAO reports, 2003, 2008). Audit fee drivers also seem to have changed after the implementation of SOX (Huang et al., 2009). Accordingly, the present study explores the following research question:

*RQ2: Does the regulatory change (i.e., SOX 2002) moderate the association of NAS fees with their explanatory variables?*

### 2.3. Legal environment

The US audit regulation (SOX 2002) triggered legislative reforms in many countries, launching a wide variety both in terms of when these reforms were implemented as well as the measures adopted. For example, in Europe, the Statutory Audit Directive was approved in 2006, but its transposition by each Member State took place in different years. Hence, geographic scope might also explain the heterogeneity in prior findings. In fact, prior meta-analysis results on the auditor's specialization premium reveal some differences between US-based studies and those carried out in other countries (De Fuentes & Sierra, 2015). Thus, the following research question is explored in this paper:

*RQ3: Does the legal environment (US vs. non-US countries) moderate the association of NAS fees with their explanatory variables?*

### 2.4. Auditor's reputation

Audit researchers differentiate between Big Auditing Firms and Non-Big Auditing firms, due to differences in reputation and/or perceived audit quality (Aguar-Diaz & Diaz-Diaz, 2015; Hay et al., 2006a; McMeeking et al., 2006). The Big Auditing Firms charge higher fees to offset the higher costs of performing high-quality audits (Campa, 2013; Clatworthy et al., 2009). This fee premium might also apply to consultancy services. Therefore, this analysis aims to explore the following research issue:

*RQ4: Does the auditor's reputation moderate the association of NAS fees with their explanatory variables?*

## 3. Sample and methodology

### 3.1. Meta-analysis procedures

The present study applies the following MA statistical procedures to the empirical results obtained from individual studies:

- To compute the effect size estimate by means of the Pearson correlation coefficient normalized by Fisher's Transformation ( $Z_r$ ). This is to avoid the problems generated by, in this case, high standard deviation in the  $p$  values reported in prior results.
- To carry out a homogeneity analysis and find evidence of moderating variables that could help in clustering the results. This is to first estimate whether 75% or more of the observed variance is explained by the sampling error, in which case, the results could be assumed homogeneous. Then, to increase the robustness of the analyses, a  $Q$  test is performed, which follows an  $X^2$  distribution.
- To explore publication bias, that is, the possibility of finding a type I publication bias error in the published results due to the fact that

**Table 1**  
Sample of study.

	Number
Articles from the initial search	559
Web of Science	134
Scopus	425
(Duplicates)	(69)
(Articles from different areas)	(288)
Initial sample	202
Criteria leading to exclusion of articles	
- Different model/operationalization of NAF	(55)
- Studies on specific events and firms	(10)
- Different topic and purpose	(62)
- Theoretical Studies	(10)
- Other studies	(30)
- Untabulated results	(5)
Final sample of articles	30
Separated studies	4
Final sample of studies	34

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