

Does Common Ownership Impact Auditor Incentives?

ABSTRACT Prior research suggests that common ownership (i.e., institutional investors owning significant equity stakes in companies within the same industry) impairs companies' incentives to compete since owners are less likely to support an aggressive competitive strategy. In this paper, we examine whether common ownership impacts auditor incentives. Using a sample of US firms during the 2003–2017 period, we find that common ownership lowers audit fees and audit effort without impairing audit quality. We perform cross-sectional tests as well as a quasi-natural experiment based on institutional owner mergers to help mitigate concerns about omitted variable bias or reverse causality. Overall, our findings are consistent with the view that common-owners internalize governance externalities and have accumulated more industry-specific monitoring experience, which in turn decreases audit risk.