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公司治理制度是否影响上市公司对审计员的选择？来自泰国的论证

Does corporate governance affect listed firms on their auditor choice decisions? Evidence from Thailand

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摘 要

泰国是最早意识到提高公司治理重要性的发展中国家之一。泰国市场监管机构，比如泰国证券交易委员会，很早就认识到一个完善的公司治理机制能够增加公司信誉，吸引更多投资者，从而进一步促进经济发展。大量文献发现，外部审计师在公司治理机制中扮演了一个非常重要的角色，本文因此主要探讨了泰国上市公司如何选择其外部审计师。利用 2010 - 2014 年间泰国证券交易所上市公司的数据，采用 Logit 回归模型，我们研究了不同的公司治理机制下泰国公司对外部审计师的选择。我们实证结果可以总结如下：首先，我们发现拥有公司治理等级等于或高于“好”的公司更倾向于聘请 BIG4 公司的审计人员，表明这些公司倾向于使用高质量的审计公司来保证财务报告的权威性，从而增加投资者的信心。其次，公司首席执行官和董事长分开的公司，以及股权更为集中的公司，更倾向于雇佣 BIG4 的审计师。一个可能的原因是大多数泰国公司都是家族企业，从而需要有效的监督机制来减轻公司委托代理冲突的问题。

我们的研究为以下观点提供了进一步的经验证据，即公司治理机制对公司选择外部审计师具有重要影响，其主要的影响渠道是由于外部审计师在公司治理中发挥了一个重要监督作用的角色，因此具有好的公司治理结构的公司更倾向聘请高质量的审计师。

关键词: 公司治理; 审计师选择; 审计质量; 代理理论

ABSTRACT

Thailand is one of the emerging markets that realized the importance of improving the corporate governance of firms as suggested by the World Bank. The market regulators, including the Securities and Exchange Commission of Thailand, have admitted that good corporate governance could improve the credibility of firms, and attract more investment from both domestic and foreign investors. Apart from that, it sustains companies to survive in the capital market as well as increases the competitiveness and then benefits the economic growth. It is well known that external auditors play a significant role in the corporate governance mechanism. Hence, this study investigates what factors affect the decision of public listed firms' auditor choices. We conduct a logit regression to examine the relationship between the firms' corporate governance mechanisms (such as the percentage of the largest shareholders, CEO duality, and corporate governance (CG) rating) and the external auditor choice decisions using the data of Thai listed firms on the Stock Exchange of Thailand (SET) during a period of 2010-2014.

Similar to previous studies, we assume that external auditors from BIG 4 audit firms provide more effective audit works than those from Non-BIG 4 audit firms. Our empirical results can be summarized as follows. First, we find that firms with corporate governance (CG) rating equal or above than "Good" are more likely to hire BIG 4 auditors, which suggests that these companies have incentive to employ high-quality auditors to guarantee the credibility of financial reports in order to gain investors' trust. Secondly, we find that firms with a separating CEO and the Chairman of the board, or with a more concentrated ownership, are more likely to hire BIG 4 auditors. The reason could be that most of Thai firms are family firms and they want to mitigate the principal-agency conflicts through high-quality external auditors.

Taking into account of all factors, the empirical results may contribute to our understanding that the quality of Thai public listed firms' corporate governance practices has an optimistic impact on their auditor choice decisions, and signal the effectiveness of audit monitoring. In other words, firms with a good practice of corporate governance tend to be audited by high-quality external auditors.

Key Words: Corporate Governance; Auditor Choice; Audit Quality; Agency Theory

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Chapter 1 Introduction

1.1 Background and Motivation

The goal of this study is to examine the relationship between Thai listed firms' corporate governance mechanisms and their auditor choice decisions. Studies on auditor choice have been conducted mostly in developed countries such as U.S. (Copley & Douthett, 2002; Hudaib & Cooke, 2005) and the UK (Chaney, Jeter, & Shivakumar, 2004) where the auditing environments are relatively similar (Lin & Liu, 2009).

At present, there are some empirical studies that investigate auditor choice decisions in the emerging markets such as China (Lin & Liu, 2009; Liu, Yuen, & Chen, 2009; Leung & Cheng, 2014), Malaysia (Abdullah, Ismail, & Jamaruddin, 2008), Egypt (Soliman & Elsalam, 2012), and Iran (Mahdavi, Maharlouie, Ebrahimi, & Sarikhani, 2011). However, there are occasional studies on this issue though the credibility of companies financial reporting and the operation of capital market are crucial affected by the auditor choice of firms in Thailand. It is therefore a great opportunity to study the relationship between corporate governance mechanisms and firms' auditor choice decisions in Thai capital market.

The meaning of corporate governance is defined as the practices, processes and system for firms to ensure that they operate efficiently, transparently and auditable. It also involves equalizing the rights and interests of firms' stakeholders including their management, shareholders, investors, suppliers, account payables, customers, government and the community. Corporate governance mechanisms can divide into two groups, internal mechanisms and external mechanisms. For internal mechanisms, they include oversight of management, independent internal audits, structure of the board of directors into levels of responsibility, segregation of duty and policy development. For external mechanisms, there are regulators, governments, trade unions and financial institutions.

Thai government has focused its effort on enhancing a high standard of listed firms' corporate governance especially after the 1997 financial crisis in Asian countries. Thai economy also suffered from the significance fell down of Thai baht currency because of Thai government's policy to float Thai baht against US dollar. Many companies faced with financial problems, suffered loss and needed to restructure due to they over borrowed foreign short loans, resulting in the failure of 56 financial institutions and many non-financial companies (Limpaphayom and Connelly, 2004). In addition, both domestic and foreign investors disappeared because of the uncertainty economic situations. More importantly, Thailand had a burden of public debt. However, this paper will focus only on firms' level.

The main reasons for this crisis were declared by the World Bank (1998: 67-68) that "At firm level, there were weak corporate governance mechanisms in East Asian countries including Thailand which are ineffective of board of directors, weak internal control, unreliable financial reporting, lack of transparent disclosure, careless enforcement to ensure compliance, and poor audits." It is the World Bank responsibility to improve corporate governance of emerging markets. This caused Thai government, including market regulators such as the Securities and Exchange Commission of Thailand (SECT) to revise a practice of corporate governance, as a crucial element to regain prosperity, economic growth and investor confidence in capital market. SECT played a vital role by adopting the international principles of good corporate governance based on the Organization for Economic Cooperation and Development (OECD). At present, OECD Principles of Corporate Governance are widely used as international benchmark of good practices in corporate governance by many countries all over the world including Thai listed firms under the control of the Stock Exchange of Thailand (SET).

The Thai Institute of Directors Association [IOD] (2010) informed that the scoring criteria following the OECD Principles of Corporate Governance and SET are mainly divided into 5 categories (Rights of shareholders; The Equitable treatment of shareholders; Roles of stakeholders; Disclosure and transparency; and Board responsibilities). Each category has the list of criteria under the review and comment of a Steering Committee. Corporate governance (CG) assessment criteria have been continuously improved to be in line with the internationally-accepted standards.

Since 2001, IOD in co-operate with SET and the office of the Securities and Exchange Commission Thailand (SECT) are responsible for Thai listed firms' corporate governance practices evaluation. The results are published in Corporate Governance Report of Thai Listed Companies (CGR report) by annually. The source information for assessment is company annual report, annual information filing (Form 56-1), notice and minutes of companies' shareholders meeting, company website, information on SET/SEC database, and other publicly available information. There are six ranks of score and each rank gets a different level of recognition denoted by the number of the National Corporate Governance Committee logo. However, only firms receiving Excellent, Very Good, and Good results will be publicized (IOD, 2010). Table 1 presents the corporate governance rating of Thai listed firms.

As Disclosure and transparency is one of the OECD Principles of Corporate Governance, suggesting that Accounting and auditing standards and practitioners (external auditors) play an important role in the development of corporate governance by improving the quality of financial reporting, which in turn reduces the gap of information between managers, dominant shareholders and other shareholders (Boonyawat, 2013). The responsibility of external auditors is to audit and express the opinion to firms' financial reports whether they are in line with generally accepted accounting policy (GAAP). In Thailand, listed firms must submit their financial reports with "clean auditor's opinion" to SECT and the financial statements must be reviewed in quarterly basis by external auditors who conducted their works in accordance with Thai Accounting Standard (TASs) (Boonyawat, 2013). TASs is developed based on international standard but are adjusted for Thai business environment to be suitable. This enforcement of SECT can be expected the reliability and transparency of financial reporting and accounting information.

Many previous studies use BIG 4 auditors[1] and Non-Big 4 auditors to define external audit quality, assuming that the brand of the Big 4 audit firms is known as an indication of higher quality audit in market participants in comparison to the audit services provided by external auditors from non-Big 4 firms.

Leung & Cheng (2014) said that most foreign scholars adopt BIG 4 auditors as the proxy for high-quality audit works so the firms' auditor choice directly affects their corporate governance and operations. We use BIG 4 audit firms to proxy for high-quality auditors as well to be in line with most literature.

As we aim to investigate, whether the corporate governance mechanisms have influenced the decisions of listed firms' auditor choice, it seeks to the contribution of literature on the agency theory, the corporate governance theory, the role of external auditors, the audit quality, and their impacts on auditor choices. We discuss these in the next section.

[1] BIG 4 audit firms are multinational accounting firms in the world referred to PricewaterhouseCoopers (PwC), Deloitte Touche Tohmatsu, Ernst & Young (EY), and Klynveld Peat Marwick Goerdeler (KPMG).

Table 1: Corporate governance rating of Thai listed firms

Score range	Number of logo	Description
90-100		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
Below 50	No logo given	N/A

Source: The Thai Institute of Directors Association (IOD) refers to (http://www.thai-iod.com/)

1.2 Literature Review

1.2.1 Agency Theory and audit quality

The utility of external audit works can explain by using agency theory in previous auditing research (DeAngelo, 1981; Watts & Zimmerman, 1986; Dye, 1993; Chaney et al., 2004). Agency theory assumes that there is a contractual relationship and therefore the two contracting parties, one party can describe as principal, director, supervisor, and then the other side an agent thus subordinate (Boučková, 2015). The agent (managers) supposed to work for the principal (owner). Kim & Nofsinger (2007) said that if shareholders cannot effectively monitor the managers' behavior, then managers might be tempted to use the firm's assets for their own ends, all at the expense of shareholders. This situation is known as the agency problem. To solve this problem, firms need to ensure that management will act in the best interest of the owner therefore contractual agreement must be set between owner (principal) and management (agent) which includes the external monitoring carried out by independent auditors (Lin & Liu, 2009).

Because external auditors are supposed to be independent from the firms being audited and because their explicit job is to check for financial misstatements and adherence to GAAP, it is they who must ensure the accuracy of the firm's financial information for shareholders (Kim & Nofsinger, 2007), suggesting that the work quality of external auditors are very essential. Public Company Accounting Oversight Board [PCAOB] (2013) defines audit quality as meeting investors' needs for independent and reliable audits and robust audit committee communication on financial statements, including related disclosures, assurance about internal control and going concern warnings. Lee, Stokes, Taylor & Walter (2003) referred the audit quality to two components: "technical aspect – the ability to detect misstatements" and "independent aspect – willing to report the misstatements uncovered in an audit work". Francis (2004) said that external auditors from BIG 4 audit firms, on average, are of higher audit-quality than Non-BIG 4 auditors because BIG 4 auditors can charge higher audit fee which implies higher audit quality through more audit efforts (more hours) or greater expertise of the auditors. Audit firms' size can be a surrogate for audit quality (Watt and Zimmermand, 1981). DeAngelo (1981) explained that larger audit firms are more likely to produce high quality work in order to retain their reputation and their independence because normally they have many clients and have "more to lose". However, there were some study argued that all auditors are controlled by the same professional standard so audit firms' size alone should not make any difference to their quality of work (Lawrence et al., 2011). In Thailand, Thai laws restricted accounting professionals to Thai nationals so BIG 4 audit firms have merged with large and famous Thai audit firms (Boonyawat, 2013). Moreover, there is research about earnings quality in Thailand suggesting that BIG 4 auditors are higher audit quality than Non-BIG 4 auditors because they found that clients from BIG 4 audit firms reported more conservative earnings than those from Non-BIG 4 audit firms

(Herrmann et al., 2008). According to large size of BIG 4 audit firms and their reputation, this study hypothesizes that external auditors from BIG 4 audit firms are proxy of high auditing quality.

1.2.2 Corporate governance, the monitoring role of audits and auditor's choice

Todorovic (2013) indicates that corporate governance is a key element for improvement of investors' confidence, increase of competitiveness and improvement of economic growth. Good corporate governance can help to prevent corporate scandals, fraud, and potential civil and criminal liability of companies. It also enhances image and reputation of a company and makes it more attractive to investors, suppliers, customers and other stakeholders of the company and there is evidence from many researches that good corporate governance produces direct economic benefit to the company, making it more profitable and competitive. Ashbaugh and Warfield (2003) suggest that external auditors play a corporate governance role as an important monitoring device in financial reporting process so stakeholders expect the reliable financial information from their works. This also suggests that the independent audits are a significant component in corporate governance (Defond et al., 2000; Allen et al., 2005) so the association between the quality of governance mechanisms and the credibility of financial reporting is optimistic (Cohen et al., 2002; Farbar, 2005). Normally firms have to take a trade-off in their auditor choice decisions: to hire high-quality auditors to signal effective audit monitoring and good corporate governance to lower their capital raising costs, or to select low-quality auditors with less effective audit monitoring in order to reap private benefits derived from weak corporate governance and less-transparent disclosure (Lin & Liu, 2009).

There were some studies about the effect of internal corporate mechanisms such as the ownership concentration, the duality of CEO and Chairman of board of directors (BoDs) on the feasibility of choosing BIG 4 auditors.

Ownership Concentration: Many studies found that large shareholders may concern only with their own interests, they may put pressure on managers to act for their private benefit so they expropriate other shareholders and related parties (LaPorta, Lopez-De-Silanes, Shleifer, & Vishny, 2002; Anderson et al., 2004). This characteristic of ownership can create serious agency problem, arising because of conflict of interests between two groups of principals (dominant and minority shareholders) (Boonyawat, 2013) so firms with this characteristic of large shareholders are less likely to choose BIG 4 auditors (Ashbaugh & Warfield, 2003; Lin & Liu, 2009).

CEO duality: For good corporate governance, it is believed that firms should separate the role of Chief Executives Officer (CEO) and the chairman of Board of Directors (BoDs) so CEO duality also affect the plausibility of choosing larger audit firms. Firms are less likely to choose BIG 4 auditors for the situation in which CEO and BoDs are the same person (Lin & Liu, 2009; Soliman & Elsalam, 2012; Leung & Cheng, 2014).

In this paper, we further examine the effect of other corporate governance mechanisms on the decision of Thai listed firms' external auditor choices by adding more internal and external corporate governance mechanisms variables in the model. Those variables are the proportion of share difference between the first largest shareholders and the second largest shareholders, and firms' corporate governance (CG) rating evaluated by Thai organization (IOD). We discuss about these in Chapter 2.

1.3 Thesis Structure

The structure of this paper is divided into the following chapters:

Chapter 1 Introduction
The chapter describes the background and motivation of the thesis, review of related literatures, and the thesis's organization.

Chapter 2 Hypotheses development
The chapter develops the main and secondary hypotheses based on the each variable of corporate governance mechanisms of the regression model.

Chapter 3 Methodology
The chapter outlines the data and methodology of the empirical study. We first discuss the selection of financial data, corporate governance (CG) rating, and corporate governance mechanisms data for the empirical investigation. Then we explain the estimation method and criteria used for hypotheses test.

Chapter 4 Empirical Evidence
The chapter presents the results of the empirical study. We develop the logit regression model to examine the impact of corporate governance mechanisms on the auditor choices of Thai listed firms. We consider the robustness check and endogeneity issue in this study as well.

Chapter 5 Conclusion
The final chapter reports the main findings, addresses some limitations, and the conclusion.

Chapter 2: Hypotheses development

This chapter develops the hypotheses based on each corporate governance mechanisms. The hypotheses are divided into two parts: the main hypothesis and the secondary hypotheses.

Main hypothesis:

Firms with corporate governance (CG) rating equal or above "Good" tend to choose external auditors from BIG 4 audit firms.

The Thai Institute of Directors Association (IOD) in co-operation with SET and the office of the Securities and Exchange Commission Thailand (SECT) are responsible for corporate governance practices of Thai listed firms' evaluation by giving the corporate (CG) rating publishing as score logo of the National Corporate Governance Committee in Corporate Governance Report of Thai Listed Companies (CGR report). However, only firms receiving Excellent, Very Good, and Good results will be publicized. This implies that CG rating (Excellent, Very Good, and Good) is the proxy of corporate governance external mechanisms as given by the external regulators.

Cohen et al. (2002) found that firms' corporate governance and operations are affected by the quality of external auditors and some studies documented that firms with good corporate governance mechanisms require a high audit quality so they are willing to pay higher fee (Carcello et al., 2002). Lin & Liu (2009) found that hiring high-quality auditors signals the effective audit monitoring and good corporate governance. Moreover, Abdullah, Ismail, & Jamaruddin (2008) documented that good corporate governance mechanisms are attempted to acquire high quality of audit services for the company. In other words, companies expect a high quality of external auditor works to improve their corporate governance practices. As a result, firms with corporate governance (CG) rating equal or above "Good" are more likely to choose auditors from BIG 4 audit firms, as it is the proxy of high quality of audit.

Secondary hypotheses:

Hypothesis 1. (H1): *The higher the percentage of total shares held by the largest shareholders, the more likely external auditors of BIG 4 audit firms will be chosen.*

Leung & Cheung (2014) documented that there are two controversial issues about the impact of the concentrated ownership on the auditor choice. Some studies found that with high ownership concentrate, largest shareholders may concern only their own interests and try to maximize their private benefits through tunneling or expropriation of other shareholders

(Anderson et al., 2004; LaPorta, Lopez-De-Silanes, Shleifer, & Vishny, 2002). This could be the reason for them to choose low-quality auditors with less effective audit monitoring in order to reap private benefits derived from weak corporate governance and less-transparent disclosure (the opaqueness gains) (Lin & Liu, 2009).

On the contrary, some studies found that effective monitoring mechanisms could be introduced by controlling shareholders so the agency conflict will be mitigated (Ang, Cole & Lin, 2000). Consequently, firms with such agency problems are more likely to hire BIG 4 (previously BIG 5) auditors (Fan & Wong, 2005).

In Thailand, concentration of ownership is an important feature of Thai businesses because groups of families operated most of Thai firms, both as private and as public companies known as "Thai business groups". Ownership and control of the family businesses are not separated but concentrated within the family groups, and management positions. They are traditionally assigned to family members; even if founders retire from a group, most of them become honorary advisors (Pananond, 2007; Boonyawat, 2013). This implies that the member of families holds management positions and owns the higher the percentage of total shares. As the group of businesses created and run by families, this means they must do their best to monitor businesses very well and consider the importance of hiring high quality of external auditors to help mitigating the agency conflict. As a result, the higher the percentage of total shares held by the largest shareholders, the more likely external auditors of BIG 4 audit firms will be chosen.

Hypothesis 2. (H2): *Firms with the separation of Chief Executive Officer (CEO) and Board of Directors (BoDs) Chairman are more likely to hire BIG 4 external auditors.*

CEO duality is the situation in which a Chairman of the board of directors and the CEO share the same position. The responsibilities of CEO are to develop, lead and execute firms' strategy and business plans including short and long term and ensure that firms maintain high standard of internal control system and social responsibility. He leads the management in the day-to-day running of business in accordance with business strategies and acts as management and the board coordinator. It can be said that CEO is a key person for company to succeed or fail from the strategies they create.

The Chairman is firms' leadership and governance of BoDs. He is in charge of the process of leading board meeting, hiring, firing, evaluating and compensating the CEO. In general, the Chairman is non-executive and not involved in routine operations. He is responsible for monitoring the administration of the BoDs as well as providing advices and support business management.