

The Effect of Corporate Governance Characteristics of Founders on Auditors' Pricing Decision

Hwa-Hsien Hsu*

Durham University Business School, Durham University, Durham, UK

Chloe Yu-Hsuan Wu

Leeds University Business School, University of Leeds, Leeds, UK

SUMMARY: We examine the association between founders and audit pricing at the time of initial public offerings (IPOs). Particularly, we address how variations in the corporate governance characteristics of founders affect audit fees. We find that auditors charge lower audit fees when founders are present on the board. However, there is a non-linear relationship between founders' ownership and audit fees. We further find that although the presence of a founder CEO is not significantly related to audit fees, auditors are more likely to charge higher fees when the founder holds dual positions of CEO and chairman. Auditors charge lower audit fees when founders act as non-executive directors or there is a presence of multiple founders on the board. Collectively, the findings suggest that auditors view the risk associated with founders differently according to their governance features.

Keywords: founders; audit fees; corporate governance; ownership structure; board;

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*Corresponding Author. Durham University Business School, Durham University, Durham, UK, DH1 3LB. Tel: +44 (0)1913340472; Email: hwa-hsien.hsu@durham.ac.uk.

INTRODUCTION

This study investigates whether founders are systematically related to audit pricing among firms undergoing initial public offerings (IPOs). Founders are not a homogenous group: differences in their ownership and control features may create varied incentives for them, and may consequently influence the agency environment within a firm (Anderson, Duru & Reeb, 2009). Therefore, we further address such potential heterogeneity among founders, and examine how audit fees are affected by shareholdings owned by founders, different types of board positions held by founders, and the involvement of multiple founders.

Firms at the IPO stage exhibit significant information asymmetry between insiders and outside investors (e.g. Baker & Gompers, 2003). The external demand for the quality of their financial statements is intensive, because outside stakeholders are more likely to rely on the reported accounting information when maintaining efficient monitoring and contracting activities with the firms in the market (Ball & Shivakumar, 2005). Furthermore, IPO firms are often involved in earnings manipulation in order to pursue higher share prices (e.g., Aharony, Lin & Loeb, 1993; Alhadab, Clacher & Keasey, 2016; DuCharme, Malatesta & Sefcik, 2001; Friedlan, 1994; Roosenboom, van der Goot & Mertens, 2003; Teoh, Welch & Wong, 1998; Wongsunwai, 2013). Because of these circumstances, auditors play a critical role in safeguarding the quality of the accounting information, thereby alleviating the agency conflict between

insiders and outsiders at the time of the IPO.

Given the importance of financial reporting for firms at the IPO stage, the quality of audit services provided to these firms usually receives much attention from the public and regulators (Willenborg, 1999). Auditors therefore face greater litigation risk and legal liability for their audit engagements with IPO firms (Ball & Shivakumar, 2005). They are sensitive to any factors which may potentially increase or decrease the perceived audit risk of services offered to an IPO firm, and will hence charge the firm at a rate that appropriately reflects the costs of audit efforts associated with such risk (Bédard & Johnstone, 2004; Venkataraman, Weber & Willenborg, 2008).

Auditors are expected to assess the governance structure of a firm, because this relates to the firm's inherent and control risk, and thus to the overall audit risk (Ghosh & Tang, 2015; Krishnan & Visvanathan, 2009). The consequence of auditors' evaluation of their clients' agency conflicts and governance quality is an important element in forming their audit pricing decisions (Bédard & Johnstone, 2004). However, the existing literature has paid little attention to the effects of corporate governance features on audit pricing (Hay, 2013; Hay, Knechel & Wong, 2006). Founders represent a distinctive governance regime: they generally hold block shareholdings of their founded firms and key positions on the board (He, 2008; Nelson, 2003). Their presence is often characterized by a combination of ownership

with control and active participation in the governance of the firm, and they are thereby likely to shape auditors' perception of the firm's inherent and control risk.

Founders influence agency conflicts within a firm in two contrasting ways: the alignment effect and the entrenchment effect. The alignment effect predicts that, due to the stronger economic and psychological ties between founders and their founded firms, the founders have less incentive to behave opportunistically at the expense of shareholders, and are committed to serve a better supervisory function in the firms. Hence, the presence of founders can mitigate conflicts of interest between managers and shareholders (Type I agency problem) (Jensen & Meckling, 1976). Conversely, the entrenchment effect recognizes that founders are empowered by their concentrated ownership and/or controlling position in their founded firms, which may allow them greater power and opportunity to promote their own private interests. This will induce a severe agency conflict between controlling shareholders (founders) and other shareholders (Type II agency problem). A few prior studies have examined the potential agency effects of founder directors on firms' financial reporting quality and information transparency, but their findings have been mixed (Ali, Chen & Radhakrishnan, 2007; Anderson, et al., 2009; Wang, 2006). However, how the presence of founder directors affects auditors' pricing decisions remains an unexplored issue in the existing studies. Hence, the present study addresses this

significant gap in the literature.

By examining UK non-financial companies that went public on the main market of the London Stock Exchange between 1998 and 2011, we find that auditors charge lower audit fees when the founders serve on the board of an IPO firm. However, the results document a non-linear relationship between founder ownership and audit fees. We further find that although the presence of a founder CEO is not significantly associated with audit fees, auditors are more likely to charge higher fees when a founder simultaneously occupies CEO and chairman positions. However, auditors tend to offer their audit service at a lower price when the founders act as non-executive directors (NEDs). This result also shows that audit fees are negatively related to the number of founders serving on the board. Collectively, the findings suggest that auditors view the risk associated with founders differently in terms of their governance features.

This study seeks to contribute to the existing literature in three ways. First, as noted above, we contribute to the corporate governance and auditing literature by systematically examining the impact of the corporate governance characteristics of founder directors on audit fees, an aspect which remains under-researched. We address this issue by focusing on firms undergoing IPOs, specifically those in which

founder directors are a common feature (Gao & Jain, 2011; Wang & Song, 2016),¹ and in which audit risk is higher (Venkataraman, et al., 2008). Second, prior studies have mainly examined the impacts of founders at an aggregate level (He, 2008; Ho & Kang, 2013). However, variations in the governance characteristics of founders may influence their incentives, controlling power, and relationship with the founded firms. We distinguish different agency effects of founders in terms of their ownership, board positions, and the presence of other founding peers. The results advance our understanding of the agency costs and benefits associated with these different corporate governance features. Third, non-independent NEDs are NEDs who have close economic or non-economic bonds with the firms. Although corporate governance regulators typically treat non-independent NEDs as a threat to the monitoring function of a board, there is a growing attention paid to the agency benefits of such directors (Andres, Fernau & Theissen, 2014; Borokhovich, Boulton, Brunarski & Harman, 2014; Hsu & Wu, 2014). Due to the close link between founders and their founded firms, this research shed further light on the agency effect of non-independent NEDs by studying founders serving as NEDs and their impacts on audit pricing.

The remainder of this study is structured as follows. In the following section, we

¹ According to our data, 55% of UK IPO firms on the main market have founder director(s) on the board.

outline the literature concerning the role of founders and develop research hypotheses.

The sample selection procedure and research design are described in the third section.

The results are then presented and discussed. The final section draws conclusions.

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

Founders play a unique role within the founded firm because they contribute critical human capital for initiating the new venture; they have more firm-specific knowledge to lead the firm; they imprint their values on the strategy, culture, and governance of the firm; they generally own a higher proportion of their firm's equity than other managers (Anderson & Reeb, 2003; He, 2008; Nelson, 2003); and lastly, they are the longest-tenured members of the founded firm. These features enable founders to be influential insiders and reinforce their inherent legitimacy in an organization (Cable & Shane, 1997). In addition, they are more likely to occupy the key managerial position of the firm (Certo, Covin, Daily & Dalton, 2001; He, 2008).

Previous literature has argued that the presence of founders on the board is a double-edged sword (Gedajlovic, Lubatkin & Schulze, 2004; He, 2008; Wang, 2006).

On one hand, founders are more likely to commit to the founded firm because they have a stronger psychological attachment to it, and their achievements are strongly identified with the success of the founded firm in the job market (He, 2008; Nelson, 2003). In addition, founders generally have greater interests in the founding firm

because they intend to pass it on to the next generation (Andres, 2008; Wang, 2006).

As a result, founders tend to pursue long-term growth and seek sustainable strategies when making decisions. These psychological links with the firm and intrinsic economic motivations enable founders to align their personal interests with the firm, which reduces agency costs between insiders and outsiders (Gao & Jain, 2011; Jensen & Meckling, 1976; Shleifer & Vishny, 1997).

On the other hand, given that founders generally have a significant controlling power over the new venture (He, 2008; Nelson, 2003), some studies have argued that agency problems may be intensified due to founders expropriating the private benefits of minority shareholders (Block, 2012; Shleifer & Vishny, 1986; Villalonga & Amit, 2006). In addition, previous studies have also claimed that the innovative capabilities and firm-specific knowledge of founders are critical for setting up a new venture. However, founders may lack sufficient abilities to manage the uncertainties and challenges of leading a firm during an IPO, especially this is a critical transitional stage for a firm, involving significant changes of ownership structure and governance structure (Busenitz & Barney, 1997; Certo, et al., 2001). Other literature has also argued that the excessive control by founder directors may deprive IPO firms of decision alternatives and knowledge diversity (Wang & Song, 2016); and therefore, IPO firms led by founders are less likely to seek the best solution when facing

problems.

Overall, given that existing arguments propose alternative effects of founders on the firm, auditors' perception of inherent firm risk may be affected by the presence of founder directors on the board. This study does not predict a particular direction for the first hypothesis, which states that:

Hypothesis 1: Audit fees are systematically related to the presence of the founder
on the board.

Founders' ownership can reflect a close relationship between founders and the founded firm. In addition, the literature has identified that founders' ownership represents an important aspect of ownership structure, as founders generally control undiversified shareholdings (Anderson & Reeb, 2003; Wang, 2006). This feature may influence external auditors' perception of firm risk according to one of two competing agency perspectives: the alignment effect and the entrenchment effect.

On the one hand, according to the agency theory, a stronger alignment of ownership and management within a firm suggests lower agency costs (Jensen & Meckling, 1976). Due to the fact that founders generally hold significant levels of ownership, firms managed by founders are argued to have fewer Type I agency problems (arising from the separation of ownership from control), as the interests of managers and shareholders are better aligned (Jensen & Meckling, 1976; Morck,

Shlifer & Vishny, 1988). Prior studies suggest that founders' ownership differs from other concentrated ownership in terms of two features: founders' interests in the firm's long-term sustainability, and founders' concern for the firm's reputation (Anderson, Mansi & Reeb, 2003). Therefore, founders would effectively monitor the firm and forgo short-term benefits by managing accounting information, thus ensuring that the inherent risk of poor financial reporting quality is relatively low (Wang, 2006). Accordingly, the alignment effect implies that founders are motivated to effectively control the firm and report a higher quality of financial information. A number of prior studies have found that firms with founders and heirs on the board have stronger corporate governance, better performance, lower cost of debt, and higher earnings quality (e.g., Anderson, et al., 2003; Anderson & Reeb, 2003; Villalonga & Amit, 2006; Wang, 2006). Hence, auditors may perceive lower audit risk when founder directors have greater control of the firm through ownership.

On the other hand, the entrenchment effect may appear when controlling shareholders use their controlling power to expropriate private benefits at the expense of minority shareholders (Fama & Jensen, 1983; Shleifer & Vishny, 1997; Shleifer & Vishny, 1986). This is also known as Type II agency problem (arising from conflicts between majority and minority shareholders). Therefore, founders with controlling ownership may act to reduce effective monitoring and weaken corporate governance

in the firm in order to conceal their opportunistic behavior. In addition, as founders at the IPO stage would face an increasingly dispersed ownership structure, the increasing divergence of interests and agency conflicts between founders and other shareholders may intensify their entrenched behavior of safeguarding their self-interest. As the IPO is a stage that produces higher information asymmetry between insiders and outsiders, founders, who hold superior firm-specific knowledge, may be unwilling to enhance information flows in order to avoid strict monitoring by external parties. Thus, the IPO context gives founders incentives and opportunities to maximize their own interests at the expense of other shareholders (Jensen & Meckling, 1976; La Porta, Lopez-de-Silanes & Shleifer, 1999).

Previous studies have found that controlling shareholders tend to limit information transparency, in order to enable their plans to be executed without the intervention of other shareholders (Attig, Fong, Gadhoun & Lang, 2006; Fan & Wong, 2002). Additionally, controlling shareholders may opportunistically manage financial reports regarding private rents (Fan & Wong, 2002; Wang, 2006). Accordingly, Type II agency problems would lead auditors to charge higher audit fees, due to the expectation of higher audit risk and greater audit efforts when founder directors significantly control ownership.

Given that existing theories and literature provide competing arguments and mixed

empirical evidence regarding the effects of founders' ownership, this study expects that the relationship between founder directors' ownership and audit fees will exhibit a non-linear relationship. Therefore, this study hypothesizes that:

Hypothesis 2: There is a non-linear relationship between audit fees and the founder director's ownership.

This study further examines how different positions held by founders on the board during the IPO stage affects auditors' risk perception when charging audit fees. As mentioned above, founders are more likely to occupy the key position of the top management team. In addition, firms managed by founder CEOs represent a governance regime that is distinct from those with professional CEOs (Gao & Jain, 2011; Gao & Jain, 2012), because founder managers generally have higher psychological attachment to the firm, pursue long-term investment horizons, and have greater incentives to pass the business on to their heirs (Anderson & Reeb, 2003). The differences in primary motivation between founder CEOs and professional CEOs may affect auditors' perception of firm risk when planning audit works and charging audit fees.

Due to the unique features of founder CEOs, there is considerable debate in the literature as to their agency behaviors (He, 2008; Wasserman, 2006). On the one hand, the presence of founder CEO may result in the alignment effect between managers

and shareholders. The emotional and economic ties between founders and their founded firms may motivate them to pursue organizational goals and interests rather than private interests. Founder CEOs, compared with professional CEOs, are more likely to possess a sense of accountability to perpetuate the business on the capital market and contribute abundant efforts to ensure the sustainability of the firm (Gómez-Mejía, Haynes, Núñez-Nickel, Jacobson & Moyano-Fuentes, 2007). The alignment of interests between founder CEOs and organizational goals would bring positive effects to the firm. Some existing empirical evidence shows that firms led by founder CEOs perform better (e.g., Anderson & Reeb, 2003; Villalonga & Amit, 2006), earn higher long-run investment returns at the IPO stage (Gao & Jain, 2011), and provide better financial disclosures (Ali, et al., 2007).

On the other hand, when a founder serves as CEO, ownership and controlling power are usually centralized in one person (Stockmans, Lybaert & Voordeckers, 2010). Therefore, founder CEOs may have incentives and opportunities to expropriate private benefits in order to secure personal interests at the cost of other shareholders, which exacerbates agency conflicts. As firms at the IPO stage are shifting from concentrated ownership to a more dispersed ownership structure, there is an increasing divergence of interests between managers and shareholders (Fama, 1980; Jensen & Meckling, 1976). This event gives the existing dominant insiders such as

founder CEOs greater incentives to seek to retain their authority and legitimacy in the firms (Anderson & Reeb, 2004; Hermalin & Weisbach, 1998; Shleifer & Vishny, 1986). Prior literature has argued that they tend to form a governance structure with less effective monitoring to avoid their decisions being challenged (Jaggi & Leung, 2007; Shivdasani & Yermack, 1999). Dechow et al. (1996) found that firms are more likely have lower financial reporting quality in the presence of founder CEO. At the IPO stage, founder CEOs would be even reluctant to share their superior knowledge about their founded firms to other stakeholders (Gao & Jain, 2012; Kaplan & Strömberg, 2004) in order to preserve their economic and non-economic wealth associated with the firms (Gómez-Mejía, Cruz & Imperatore, 2014).

Since IPO firms typically have greater information asymmetry, we argue that auditors may plan more audit works and charge higher audit fees when they provide audit services to the firms with a founder CEO in order to reduce the audit risk arising from the potential entrenchment behaviors of the CEO. Thus, we hypothesize that:

Hypothesis 3a: Auditors charge higher audit fees when the founder holds the CEO position.

CEO duality is an indicator of the CEO's power within corporate governance; previous studies have found it is a source of conflicts of interest and has a negative impact on board independence (Coles & Hesterly, 2000; Daily & Dalton, 1994; Daily

& Johnson, 1997). When a founder simultaneously holds both the CEO and the chairman position of an IPO firm, the controlling power is ultimately centralized and dominated by the founder. The combination of management function and control function in the same person implies that the founder may be overseeing his own decisions and activities (Tsui, Jaggi & Gul, 2001). In addition, the founder in such a case would create an unchallenged regime, which may intensify agency costs and information asymmetry between the founder and other stakeholders (Brickley, Coles & Jarrell, 1997; Fama & Jensen, 1983).

Since IPO is a stage that requires a firm to undergo changes in governance structure, founders, as original and powerful shareholders, may have incentives not to reveal complete information, in order to retain their controlling power and authority. Additionally, due to the fact that founders have firm-specific knowledge, and because the IPO stage inherently involves a greater degree of information asymmetry, it is costly for external parties to detect the entrenchment behavior of founders who misuse their power (Gul & Leung, 2004).

Prior studies have also argued that a board with a dominant director is more likely to be associated with poor internal control mechanisms, reporting manipulation, and financial fraud (Beasley, 1996; Dechow, et al., 1996; Jensen, 1993). Empirically, CEO duality has been found to be positively related to fraudulent financial statement

(O'Connor, Priem, Coombs & Gilley, 2006), the likelihood of corporate failure (Daily & Dalton, 1994), and earnings management (Davidson III, Jiraporn, Kim & Nemeč, 2004; Dechow, et al., 1996). Furthermore, CEO duality is negatively associated with voluntary corporate disclosure (Gul & Leung, 2004). Therefore, auditors' perception of the inherent and control risk of a firm may increase when both the CEO and the chairman position are consolidated in a founder, because the founder in such a case is too powerful to be counterbalanced. If this powerful founder employs entrenched behavior regarding internal control and reporting quality, it would be difficult for outsiders to detect. To reduce the audit risk caused by possibly insufficient information being available to auditors and the potential entrenchment behavior of an extremely dominant founder, auditors may plan more audit works when a founder simultaneously holds both the CEO and the chairman position of the board in an IPO firm. Accordingly, this study hypothesizes that:

Hypothesis 3b: Auditors charge higher audit fees when the founder simultaneously holds both the CEO and the chairman position.

An IPO firm can be managed by a professional CEO. In addition, a professional CEO may lead an IPO firm if the founder has relinquished the executive position but occupies a supervisory position on the board. The presence of a professional CEO may intensify the Type I agency conflicts that arise from the separation of ownership

from control. When a founder sits on the board without holding the CEO position, he/she may confront the fact that a professional CEO governs the founded firm according to different management approaches and philosophies. This is because professional CEOs, compared to founders, possess fewer controlling rights and face a different governance regime (Mullins & Schoar, 2016). In addition, professional CEOs and founders may have different levels of risk tolerance (Block, 2012). Therefore, professional CEOs are more likely to emphasize short-term performance, pursue job security, and promote their personal reputation in the external labor market; whereas founders prefer to focus on long-term performance (Anderson & Reeb, 2003; Block, 2012). Previous literature finds that a professional CEO with a consistent organizational goal with the founder is more likely to be appointed as a successor by the founder, because this professional CEO would pursue the best interests of the firm, which also aligns with the founder's interests (Chen, Liu, Yang & Chen, 2016).

NEDs are expected to effectively oversee the management decisions. As mentioned above, founders generally own a significant stake of the founded firm and intend to pass the business on to other family members or descendents (Wang, 2006). To protect the firm's reputation and ensure its long-term sustainability, founders have greater incentives to effectively monitor the management team when they occupy a NED position. In addition, as founders have firm-specific knowledge and are the

longest-tenured members of the firm, it is less costly for them to obtain the necessary information to oversee the management team (Li & Srinivasan, 2011; Linck, Netter & Yang, 2008). As a result, their monitoring activities are less likely to be hindered by information asymmetry. Although the agency perspective argues that NEDs who have an economic or personal relationship with the firm may compromise their independence when monitoring the executives' decisions (Fama & Jensen, 1983), previous studies have suggested that the unique features of founders paradoxically give them incentives and abilities to effectively oversee executives when they retire from executive roles and hold supervisory positions (Andres, et al., 2014; Barontini & Caprio, 2006). Empirically, Wang (2006) found that family firms led by professional CEOs provide better-quality financial reports, which implies that monitoring roles played by founders would mitigate Type I agency problems.

Due to the reasons discussed above, we therefore argue that auditors perceive lower control risk when founders serve as NEDs on the board. As a result, this study hypothesizes that:

Hypothesis 3c: Auditors charge lower audit fees when the founder acts as a NED on the board.

As discussed above, founders' involvement in the business operation may bring benefits or/and costs to shareholders. However, there is limited evidence that indicates

whether multiple founders serving on the board would bring incremental benefits or costs to the founded firm. Due to the fact that each founder contributes their own specific human capital to the founded firm, the presence of multiple founders could increase the diversity of expertise, skills, and experiences of the top management team, which would further enhance the scope of business capabilities (Jain & Tabak, 2008; Link & Ruhm, 2011). As the IPO stage enables an entrepreneurial firm to progress from a private to a public firm, firms experience higher market competition, and more challenges and uncertainties during this stage. As a result, when the size of the founding team is larger, an IPO firm would have more diversified resources available to cope with challenges and uncertainties, which may further reduce the operating risk during the IPO stage (Pfeffer & Scalancik, 1978).

In addition, a larger founding team can balance the power structure within the top management team, and therefore the firm is less likely to be dominated by one particular person (Jain & Tabak, 2008). As founders generally have a profound understanding of the business and control significant ownership (He, 2008; Nelson, 2003), these features and incentives enable founders to have significant influence in the decision-making process and the ability to oversee each other. Sah and Stiglitz (1986) suggested that decisions made by a larger group are less likely to be unsuccessful because the project needs to be good enough to convince, and therefore

be accepted by, each decision maker. In particular, founders are generally block shareholders of the firm; thus, in order to safeguard their own interests, they would be more cautious when making decisions. As a result, bad projects are more likely to be rejected and good ones accepted when the decision is made by a group of people. Additionally, Sah and Stiglitz (1991) further suggested that an increase in the size of the decision-making group would decrease the power of a particular decision maker, thus helping to avoid making extremely bad decisions. Accordingly, the operating risk of a firm is better controlled when there are more founders involved in the decision-making process (Adams, Almeida & Ferreira, 2005).

Previous literature also suggests that multiple founders on the board could promote the group consensus of the top management team to external investors, which is beneficial for firm growth (Kroll, Walters & Le, 2007; Wang & Song, 2016). As founders share common goals and strategic directions when founding the new venture together, the presence of multiple founders on the board would enhance efficiency and reduce internal conflicts when making decisions (Kroll, et al., 2007). Moreover, directors with consistent objectives for the founded firm are more effective in implementing decisions and strategies (Ensley, Pearson & Amason, 2002). Therefore, the perception of group consensus created by the presence of multiple founders on the board could increase investors' confidence and raise more funding for the IPO growth

(Jain & Tabak, 2008).

Contrarily, previous literature documents that large controlling shareholders may collude to consume private benefits at the expenses of other shareholders (Shleifer & Vishny, 1997; Shleifer & Vishny, 1986). As a result, multiple founders, who generally own significant shareholdings of the founded firm, may collude together to consume private benefits of control. This would increase agency costs between controlling shareholders and minority shareholders. However, prior empirical evidence shows that multiple large shareholders in Europe are more likely to monitor each other rather than collude (Faccio, Lang & Young, 2001; Maury & Pajuste, 2005). To summarize, according to the theories discussed above, auditors perceive lower inherent risk when the board contains multiple founders, and therefore charge lower audit fees. Thus, this study hypothesizes that:

Hypothesis 4: Audit fees are negatively associated with the number of founders on the board.

RESEARCH METHODOLOGY

Model Specification

To investigate our hypotheses, a cross-sectional regression is employed. The dependent variable is audit fee ($LnAFEE$) measured by the natural log of total audit fees in thousands. The general models are developed as follows:

$$\begin{aligned}
LnAFEE = & \beta_0 + \beta_1 FOUNDER_i + \beta_2 F_OWN_i + \beta_3 F_OWN_SQ_i + \beta_4 F_CEO_i + \\
& \beta_5 F_DUALITY_i + \beta_6 F_NED_i + \beta_7 F_NUM_i + \beta_8 BIGN_i + \beta_9 B_SIZE_i + \\
& \beta_{10} DUALITY_i + \beta_{11} AC_INED_i + \beta_{12} AC_EXPERT_i + \beta_{13} UNDERWRITER_i \\
& + \beta_{14} VC_BACKED_i + \beta_{15} BIGN_i + \beta_{16} LnNAFEE_i + \beta_{17} ROA_i + \beta_{18} LOSS_i \\
& + \beta_{19} LEV_i + \beta_{20} LnASSET_i + \beta_{21} INVENTORY_i + \beta_{22} FOREIGN_i + e_i
\end{aligned}$$

Test Variables

To test our hypotheses, we employ a dummy variable *FOUNDER*, which equals 1 if the founder is present on the company's board and 0 otherwise. Founders' ownership (*F_OWN*) is measured by the proportion of common shares owned by founders. The squared *F_OWN* (*F_OWN_SQ*) is used to examine the non-linear effect of founders' ownership. Three dummy variables are adopted to capture the effect of founders in terms their different board positions: *F_CEO*, *F_DUALITY* and *F_NED*. *F_CEO* is given a value of 1 if the CEO position is held by a founder and 0 otherwise. *F_DUALITY* equals 1 if a founder simultaneously controls both the CEO and the chairman positions, 0 otherwise. *F_NED* is given a value of one if the presence of founders serving as a NED, 0 otherwise. The effect of multiple founders (*F_NUM*) is measured by the number of founders on board.

Control Variables

The control variables are drawn from the previous literature. We employ five groups of variables to control for factors that may affect audit fees. First, board size (*B_SIZE*), presence of CEO duality (*DUALITY*), audit committee independence (*AC_INED*) and financial expertise of audit committee (*AC_EXPERT*) are controlled

for internal corporate governance characteristics of the firms (e.g., Bédard, Chtourou & Courteau, 2004; Bédard & Johnstone, 2004). *B_SIZE* is measured by the number of directors on board. *DUALITY* is a dummy variable, which equals to 1 if both the CEO and chairman positions held by one person and 0 otherwise. *AC_INED* is measured by the ratio of the number of independent directors to audit committee size. We use the ratio of the number of financial experts to audit committee size to measure *AC_EXPERT*.

Second, the reputation of the underwriter (*UNDERWRITER*) and the presence of venture capital investors (*VC_BACKED*) are controlled for the monitoring by the active financial intermediaries at IPO stage (Beatty & Ritter, 1986; Wongsunwai, 2013). *UNDERWRITER* is measured by the market share of the underwriter across the sample period. *VC_BACKED* is a dummy variable with a value of 1 if the company is backed by venture capital and 0 otherwise. Third, we use auditor size (*BIGN*) and non-audit services by the auditors (*LnNAFEE*) to capture the reputation of audit firms and audit-client relationship, respectively (Hay, et al., 2006; Simunic, 1984). *BIGN* is a dummy variable, which is given a value of 1 if the auditor is a Big 4/5 audit firm and 0 otherwise. *LnNAFEE* is the natural log of total non-audit service fees paid to the auditor.

Fourth, return on asset (*ROA*), the presence of loss (*LOSS*) and leverage (*LEV*),

are used to capture firm risk (Simunic, 1980). *ROA* is measured by ratio of earnings before interests and tax to total assets. *LOSS* is a dummy variable, which is given a value of 1 if the firm with a net loss and 0 otherwise. *LEV* is measured by the ratio of total debt to total assets. Finally, company size (*LnASSET*) measured by the natural log of total assets, the ratio of total inventory to total assets (*INVENTORY*) and the number of foreign subsidiaries (*FOREIGN*) are used to capture firm complexity (Simunic, 1980; Simunic & Stein, 1996).

Sample Selection

The empirical tests are based on UK non-financial companies which went public on the main market of London Stock Exchange (LSE) between 1998 and 2011.² An initial sample of 210 firms is drawn from the LSE New Issues files. Corporate governance and accounting data of each sample firm are manually collected from IPO prospectuses. Firms without a complete set of corporate governance and financial data are excluded from our initial sample. The final sample is composed of 203 IPO firms.

EMPIRICAL RESULTS

Descriptive Statistics

Table 1 presents the characteristics of IPO sample firms. Table 2 presents the descriptive statistics for all the sample firms. In addition, it shows the statistics for the

² Companies in the financial sector were excluded because their financial structure is distinct from other companies and they are often subject to special rules and recommendations.

founder-engaged IPOs compared to the non-founder-engaged IPOs and provides the results of the t-test for each relevant variable. Of the sample firms, 56% are founder-engaged IPOs and 44% are non-founder-engaged IPOs (*FOUNDER*). On average, auditors charge significantly higher audit fees (*LnAFEE*) for founder-engaged IPO firms than their non-founder-engaged counterparts.

Our results show that, on average, founders own 26% of shares (*F_OWN*) in the founder-engaged firms. About 57% of the founder-engaged firms run by a founder CEO (*F_CEO*). 11% of the founder-engaged firms have both the CEO and chairman positions simultaneously held by a founder (*F_DUALITY*). Founders act as NEDs on the boards of 26% of the founder-engaged firms (*F_NED*). On Average, there are 1.68 founders are on the boards of the founder-engaged firms (*F_NUM*).

Table 2 also presents that founder-engaged IPO firms have significantly fewer financial experts on their audit committees (*AC_EXPERT*). The founder-engaged firms, compared to non-founder-engaged counterparts, are less likely to appoint Big 4/5 auditors (*BIGN*) and pay less non-audit service fees to their auditors (*LnNAFEE*). Founder-engaged IPO firms tend to have lower return on assets (*ROA*) and are more likely to have net loss (*LOSS*) than non-founder-engaged IPO firms. Conversely, founder-engaged IPO firms have lower leverage ratios (*LEV*). They tend to be smaller in terms of total assets (*LnASSET*) than their non-founder-engaged counterparts.

[Insert Table 1 Here]

[Insert Table 2 Here]

Regression Results

Table 3 presents the Pearson correlation matrix of the main variables. The relations among all independent variables included in each regression analysis in this study are less than 0.5, except the correlation between LnNAFEE and LnASSET. In addition, we also perform diagnostic tests for multicollinearity and find that the variance inflation factors (VIFs) on all of the cases shown in Tables 4 to 6 are below 3.5, far lower than the standard cutoff of 10 (Tabachnick & Fidell, 2007).

[Insert Table 3 Here]

Our regression results for examining Hypotheses 1 and 2 are shown in Table 4. Model 1 of Table 4 is presented to capture the aggregate effect of the presence of founders (*FOUNDER*) on audit fees (*LnAFEE*). We find a significant and negative relationship between them, suggesting that auditors are more likely to charge lower

audit fees to founder-engaged firms than non-founder-engaged firms at the time of IPO. This result shows that, overall, the benefit of reduction in Type I agency problems outweighs the cost of Type II agency problem on IPO firms' auditor choice when founders are present.

We further test the effect founders' ownership (F_OWN) on audit fees. The coefficient for F_OWN is not significant in Model 2 of Table 4. Consistent with Hypothesis 2, Model 3 of Table 4 presents that the coefficient for F_OWN is significant and negative, but the coefficient for F_OWN_SQ is significant and positive, indicating that there is an inverse U-shape relationship between founders' ownership and audit fees. Auditors charge lower fees as an increase in founders' ownership when such ownership is at a lower level, whereas auditors increase audit fees along with greater founders' ownership when the ownership is at a higher level. The findings suggest that different level of founders' ownership lead to two distinct agency effects perceived by auditors in IPO firms. The alignment effect of increased founders' ownership is apparent in IPO firms with lower such ownership. However, the entrenchment effect is prevailing when the founders' ownership in those firms has been high.

[Insert Table 4 Here]

Subsequent to analyzing the effect of founders' ownership, Table 5 presents the results in relation to how the types of board position and the presence of multiple founders on board affects audit fees. Model 1 of Table 5 documents that the presence of founder CEO (*F_CEO*) is not significantly associated with audit fees. Model 2 of Table 5 shows that auditors are more likely to charge higher audit fees to IPO firms when a founder hold both the positions of CEO and chairman in these firms (*F_DUALITY*), in line with Hypothesis 3b. These findings suggest that auditors perceive higher audit risk in IPO firms when the controlling power of their CEOs is enhanced by dominating the two most important executive positions on board simultaneously.

Model 3 of Table 5 further investigates the effect of founders when they hold non-executive positions on board. Consistent with Hypothesis 3c, it is documented that the presence of NEDs held by founders (*F_NED*) is negatively related to audit fees. This suggests that the monitoring effect of founder NEDs on board can effectively reduce auditors' perception of audit risk about an IPO firm, and thus audit fees.

In addition, Model 4 of Table 5 tests the relationship between the presence of multiple founders on board and audit fees. The result shows that IPO firms with greater number of founders (*F_NUM*) serving as directors on board are more likely to

pay lower audit fees. In line with Hypothesis 4, this finding reflects that the monitoring and advisory benefits arising from the presence of multiple founders is associated with lower inherent and control risk faced by auditors, and consequently lower audit fees.

In regard to the control variables, our results document that IPO firms with greater board size (*B_SIZE*), non-audit service fees (*LnNAFEE*), company size (*LnASSET*) and the number of foreign subsidiaries (*FOREIGN*) are more likely to pay higher audit fees. Generally, these findings suggest that auditors tend to charge higher fees to larger and complex firms.

[Insert Table 5 Here]

Additional Analysis

Table 6 reports three additional tests. Closeness between founders and their founded firms is implicated in the founders' shareholdings in the firm. A greater shareholding by the founders usually implies both greater economic and emotional ownership of the firm given that founders tend to be heavily engaged in the firm's affairs (Gómez-Mejía, et al., 2014). The influence of founders in their founded firms is also empowered by their shareholdings in the firms. We add interaction terms between founder CEO and founders' ownership (*F_CEO*F_OWN*) and between

founder NEDs and founders' ownership ($F_NED * F_OWN$) to examine whether the effects of founder CEO and founder NEDs on audit fees are enhanced by founders' ownership. Model 1 of Table 6 presents that $F_CEO * F_OWN$ is positively related to audit fees. Similar to the effect of $F_DUALITY$ reported in Table 5, this result reflect that the controlling power of founder CEO enhanced by their ownership is not viewed favorable by auditors in terms of their audit risk.

On the contrary, Model 2 of Table 6 shows that $F_NED * F_OWN$ is negatively associated with audit fees. This reflects that the monitoring benefit of founder NEDs perceived by auditors is reinforced when they hold greater ownership in their founded firms.

Audit committee is an important corporate governance mechanism on board. It is responsible for overseeing a firm's financial reporting quality (e.g., Abbott, Parker & Peters, 2004; Bédard, et al., 2004). We therefore examine how the presence of founder NEDs serving on audit committee (AC_FNED) affects audit fees. AC_FNED is a dummy variable, which is given a value of 1 if the firm with a founder NEDs on audit committee, 0 otherwise. Model 3 of Table 6 shows that AC_FNED is negatively related to audit fees. Consistent with the effect of F_NED documented in Table 5, this finding also suggests the agency benefit of founder NEDs perceived by auditors.

[Insert Table 6 Here]

CONCLUSION

A client firm's corporate governance is one of the most important elements that affect inherent and control risks encountered in the performance of audit. Auditors' assessment of their clients' corporate governance characteristics affect their audit planning, and thus audit price decisions (Bédard & Johnstone, 2004). Despite a long stream of research on audit fees, the effect of corporate governance on such fees remains an under-researched issue (Hay, 2013; Hay, et al., 2006). Drawing from agency perspectives, this research emphasizes distinctive agency effects arising from various ownership and control features of founder directors, and the impacts of these features on audit fees. Our analysis is based on IPO firms where the presence of founders is a common feature in these firms (Wang & Song, 2016). These firms are characterized by greater information asymmetry, and auditors face greater audit risk for providing assurance services to the firms (Venkataraman, et al., 2008).

We find that auditors charge a lower audit fee to an IPO firms when their founders serve on board. However, our results show a non-linear relationship between founder ownership and audit fees in these firms. The findings further document that although the presence of a founder CEO is not significantly associated with audit fees, auditors are more likely to charge higher fees when a founder simultaneously holds CEO and

chairman positions. However, auditors tend to provide their audit service at a lower price when the founders act as NEDs on board or the board is constituted with more founder directors.

This research provides a number of theoretical and practical implications. First, as noted previously, the study advances our understanding about how a client's corporate governance characteristics shape auditors' pricing decisions. Second, we highlight heterogeneous features of founder directors. While founders share common inherent nature in terms of their psychological and economic link with their founded firms, our findings reveal varied agency scenarios of founders when their shareholdings are at different levels and/or hold different board positions, and suggest that these ownership and control features constitute an important determinant of audit fees. Finally, there has been heightened interest among researchers and regulators on the corporate governance function played by non-independent NEDs (Andres, et al., 2014; Borokhovich, et al., 2014). This type of directors is featured with having close economic and non-economic ties with the firms, and often viewed as a threat to a board's monitoring function by corporate governance regulators. Our study offers practical insights into this debate in terms of founders serving as NEDs in their founded firms. Our findings shed light on how auditors value the monitoring effect of founder NEDs.

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TABLE 1
The Characteristics of IPO Sample Firms

Panel A: Number of the sample companies			Panel B: Distribution of the FTSE industrial classification of the sample companies		
IPO year	Frequency	%	Industrial Classifications	Frequency	%
1998	31	15%	Oil & Gas	14	7%
1999	19	9%	Basic Resources	13	7%
2000	56	28%	Construction & Materials	3	1%
2001	6	3%	Industrial Goods & Services	31	15%
2002	11	5%	Food & Beverage	6	3%
2003	5	2%	Personal & Household Goods	3	1%
2004	16	8%	Health Care	20	10%
2005	14	7%	Retail	17	8%
2006	16	8%	Media	17	8%
2007	15	7%	Travel & Leisure	13	7%
2008	2	1%	Telecommunications	7	4%
2009	1	1%	Technology	58	29%
2010	7	4%			
2011	4	2%			
Total	203	100%	Total	203	100%

TABLE 2
Descriptive Statistics

Variables	Full Sample (n=203)		Founder-Engaged (n = 113)		Non-Founder-Engaged (n = 90)		Difference in Mean
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	
LnAFEE	4.05	1.50	3.30	1.18	4.87	1.45	-1.57***
FOUNDER	0.56	0.50					
F_OWN	0.14	0.20	0.26	0.21			
F_CEO	0.32	0.47	0.57	0.50			
F_DUALITY	0.06	0.24	0.11	0.31			
F_NED	0.14	0.35	0.26	0.44			
F_NUM	0.94	1.10	1.68	0.96			
B_SIZE	7.12	2.12	6.94	1.73	7.36	2.51	-0.42
DUALITY	0.11	0.31	0.11	0.31	0.11	0.32	-0.01
AC_INED	0.78	0.30	0.78	0.32	0.79	0.30	-0.01
AC_EXPERT	0.27	0.28	0.24	0.25	0.31	0.30	-0.07*
UNDERWRITER	0.03	0.03	0.03	0.04	0.04	0.03	-0.01
VC_BACKED	0.29	0.45	0.29	0.46	0.28	0.45	0.01
BIGN	0.87	0.34	0.82	0.38	0.93	0.25	-0.11**
LnNAFEE	10.70	2.09	3.15	1.84	4.53	1.92	-1.38***
ROA	-0.08	0.56	-0.17	0.66	0.05	0.37	-0.22***
LOSS	0.38	0.49	0.47	0.50	0.28	0.45	0.19***
LEV	0.33	0.53	0.18	0.34	0.52	0.66	-0.33***
LnASSET	10.70	2.09	9.79	1.66	11.84	2.02	-2.06***
INVENTORY	0.08	0.11	0.08	0.13	0.08	0.09	-0.00
FOREIGN	2.60	1.63	2.56	1.71	2.66	1.53	-0.10

***, ** and * Denotes significance at the 0.01, 0.5 and 0.1 levels, respectively.
Statistical test for differences in mean is based on a two-tailed t-test.

TABLE 3
Pearson Correlation Matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
1 LnAFEE	1.00																				
2 FOUNDER	-0.49	1.00																			
3 F_OWN	-0.34	0.62	1.00																		
4 F_CEO	-0.26	0.61	0.44	1.00																	
5 F_DUALITY	-0.05	0.22	0.19	0.37	1.00																
6 F_NED	-0.31	0.36	0.12	0.03	-0.04	1.00															
7 F_NUM	-0.46	0.76	0.48	0.63	0.24	0.41	1.00														
8 B_SIZE	0.37	-0.10	-0.21	-0.09	-0.10	-0.07	-0.06	1.00													
9 DUALITY	0.01	-0.01	0.03	0.17	0.72	-0.10	0.05	-0.01	1.00												
10 AC_INED	0.13	-0.02	-0.01	0.05	0.15	-0.08	0.04	0.16	0.10	1.00											
11 AC_EXPERT	0.17	-0.13	-0.07	-0.02	-0.03	-0.12	-0.07	0.17	0.03	0.20	1.00										
12 UNDERWRITER	0.31	-0.07	-0.13	-0.06	0.10	-0.02	-0.04	0.17	0.07	0.14	0.07	1.00									
13 VC_BACKED	-0.03	0.02	-0.20	-0.10	-0.02	0.15	0.05	-0.02	-0.08	-0.06	-0.03	0.22	1.00								
14 BING	0.20	-0.16	-0.12	-0.06	-0.03	-0.01	-0.16	0.19	0.04	-0.06	0.08	0.08	0.05	1.00							
15 LnNAFEE	0.61	-0.34	-0.27	-0.18	-0.06	-0.10	-0.30	0.24	-0.05	0.17	0.14	0.29	0.13	0.13	1.00						
16 ROA	0.32	-0.20	-0.03	-0.09	0.02	-0.22	-0.18	0.01	0.04	0.21	0.13	0.05	-0.09	-0.03	0.24	1.00					
17 LOSS	-0.29	0.20	-0.01	0.01	0.02	0.23	0.19	-0.01	-0.01	-0.27	-0.17	0.00	0.20	0.03	-0.27	-0.58	1.00				
18 LEV	0.10	-0.31	-0.21	-0.26	-0.11	-0.01	-0.25	-0.05	-0.09	0.10	0.08	0.01	0.10	-0.08	0.16	0.15	-0.02	1.00			
19 LnASSET	0.80	-0.49	-0.29	-0.33	-0.12	-0.19	-0.46	0.37	-0.03	0.20	0.19	0.37	-0.05	0.26	0.62	0.46	-0.37	0.08	1.00		
20 INVENTORY	0.06	0.00	0.01	-0.10	-0.04	0.06	-0.08	-0.11	-0.08	0.00	-0.06	-0.09	0.00	-0.15	0.05	0.19	-0.21	0.01	0.10	1.00	
21 FOREIGN	0.17	-0.03	-0.06	-0.04	0.10	0.00	-0.02	0.06	0.12	0.00	0.01	0.15	0.01	-0.09	0.03	0.08	-0.07	0.00	0.05	0.02	1.00

Coefficients in bold are significant at the 0.1 level

TABLE 4

The Effect of the Presence of Founders and Founder Ownership on Audit Fees

VARIABLES	(1) LnAFEE	(2) LnAFEE	(3) LnAFEE
FOUNDER	-0.385** (0.165)		
F_OWN		-0.617 (0.412)	-2.666** (1.216)
F_OWN_SQ			3.533* (1.884)
B_SIZE	0.070** (0.034)	0.056* (0.032)	0.061* (0.033)
DUALITY	0.137 (0.154)	0.169 (0.150)	0.184 (0.157)
AC_INED	-0.198 (0.227)	-0.243 (0.224)	-0.183 (0.229)
AC_EXPERT	0.013 (0.216)	0.031 (0.217)	0.027 (0.214)
UNDERWRITER	0.404 (1.989)	-0.128 (2.006)	-0.057 (1.971)
VC_BACKED	-0.091 (0.132)	-0.138 (0.129)	-0.120 (0.132)
BIGN	-0.084 (0.162)	-0.071 (0.162)	-0.095 (0.159)
LnNAFEE	0.135*** (0.047)	0.133*** (0.048)	0.133*** (0.048)
ROA	-0.111 (0.103)	-0.128 (0.107)	-0.163 (0.101)
LOSS	-0.006 (0.149)	-0.044 (0.147)	-0.045 (0.147)
LEV	0.019 (0.179)	0.077 (0.172)	0.047 (0.176)
LnASSET	0.436*** (0.048)	0.471*** (0.045)	0.450*** (0.048)
INVENTORY	0.131 (0.631)	0.028 (0.644)	0.172 (0.675)
FOREIGN	0.112** (0.045)	0.111** (0.046)	0.113** (0.044)
CONSTANT	-1.505*** (0.491)	-1.851*** (0.454)	-1.623*** (0.483)
Observations	203	203	203
R-squared	0.704	0.699	0.705
F	40.42***	39.14***	38.91***

***, ** and * Denotes significance at the 0.01, 0.5 and 0.1 levels, respectively.

Robust standard errors in parentheses.

TABLE 5
The Effect of Board Positions of Founders on Audit Fees

VARIABLES	(1) LnAFEE	(2) LnAFEE	(3) LnAFEE	(4) LnAFEE
F_CEO	0.015 (0.134)			
F_DUALITY		0.391** (0.160)		
F_NED			-0.755*** (0.239)	
F_NUM				-0.163*** (0.059)
B_SIZE	0.063* (0.033)	0.066** (0.033)	0.060* (0.032)	0.071** (0.034)
DUALITY	0.174 (0.146)		0.105 (0.147)	0.171 (0.154)
AC_INED	-0.263 (0.230)	-0.301 (0.229)	-0.234 (0.211)	-0.181 (0.229)
AC_EXPERT	0.032 (0.222)	0.043 (0.219)	-0.027 (0.216)	0.040 (0.215)
UNDERWRITER	-0.322 (2.034)	-0.586 (2.048)	-0.181 (2.040)	0.324 (2.010)
VC_BACKED	-0.086 (0.136)	-0.087 (0.132)	-0.032 (0.134)	-0.078 (0.129)
BIGN	-0.062 (0.159)	-0.063 (0.156)	-0.034 (0.161)	-0.089 (0.163)
LnNAFEE	0.138*** (0.050)	0.135*** (0.049)	0.138*** (0.047)	0.138*** (0.048)
ROA	-0.151 (0.110)	-0.161 (0.109)	-0.205* (0.110)	-0.108 (0.101)
LOSS	-0.035 (0.146)	-0.044 (0.147)	0.033 (0.144)	-0.003 (0.147)
LEV	0.126 (0.168)	0.135 (0.162)	0.123 (0.148)	0.041 (0.171)
LnASSET	0.489*** (0.045)	0.496*** (0.046)	0.475*** (0.044)	0.440*** (0.047)
INVENTORY	0.030 (0.657)	0.014 (0.660)	0.297 (0.545)	0.006 (0.656)
FOREIGN	0.115** (0.047)	0.114** (0.046)	0.120** (0.047)	0.112** (0.047)
CONSTANT	-2.232*** (0.443)	-2.276*** (0.439)	-2.053*** (0.440)	0.071** (0.034)
Observations	203	203	203	203
R-squared	0.694	0.696	0.721	0.703
F	39.35***	42.43***	42.55***	39.78***

***, ** and * Denotes significance at the 0.01, 0.5 and 0.1 levels, respectively.
Robust standard errors in parentheses.

TABLE 6
The Effect of Founder CEO and Non-executive Founder Director on Audit Fees

VARIABLES	(1) LnAFEE	(2) LnAFEE	(3) LnAFEE
F_CEO	-0.187 (0.177)		
F_NED		-0.302 (0.223)	
F_OWN	-1.261* (0.652)	-0.069 (0.343)	
F_CEO*F_OWN	1.532* (0.858)		
F_NED*F_OWN		-2.096* (1.249)	
AC_FNED			-0.469** (0.226)
B_SIZE	0.062* (0.033)	0.059* (0.033)	0.057* (0.032)
DUALITY	0.111 (0.147)	0.120 (0.156)	0.162 (0.146)
AC_INED	-0.232 (0.229)	-0.247 (0.208)	-0.353 (0.221)
AC_EXPERT	-0.007 (0.218)	-0.028 (0.215)	-0.032 (0.214)
UNDERWRITER	-0.329 (2.004)	-0.108 (1.992)	-0.309 (2.069)
VC_BACKED	-0.101 (0.133)	-0.074 (0.132)	-0.044 (0.134)
BIGN	-0.090 (0.171)	0.019 (0.150)	-0.073 (0.162)
LnNAFEE	0.126*** (0.047)	0.130*** (0.046)	0.132*** (0.048)
ROA	-0.098 (0.107)	-0.180* (0.105)	-0.184* (0.109)
LOSS	-0.023 (0.144)	0.018 (0.140)	-0.061 (0.143)
LEV	0.072 (0.174)	0.108 (0.163)	0.123 (0.154)
LnASSET	0.482*** (0.044)	0.478*** (0.044)	0.483*** (0.044)
INVENTORY	0.147 (0.603)	0.344 (0.512)	0.047 (0.647)
FOREIGN	0.112** (0.046)	0.117** (0.045)	0.115** (0.047)
CONSTANT	-1.948*** (0.447)	-2.057*** (0.434)	-1.963*** (0.432)
Observations	203	203	203
R-squared	0.708	0.734	0.701
F	36.49***	38.73***	40.50***

***, ** and * Denotes significance at the 0.01, 0.5 and 0.1 levels, respectively.
Robust standard errors in parentheses.