

Do Clawback Provisions Increase the Demand for Audit Service?

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Abstract : This study examines whether the adoption of clawback provisions increases the demand for audit service. We use abnormal audit fees to proxy for the demand for audit service. Because firms' voluntary adoption of the clawback provisions is endogenously determined, this study controls for this bias using the propensity-score matching technique. Based on 1,247 U.S. firms that voluntarily adopt clawback provisions during 2003-2013 and a matched sample, the empirical results show that clawback provisions adoption is associated with abnormal audit fees, especially by firms with higher likelihood of misstatements. When firm executives are overconfident, abnormal audit fees increase subsequent to clawback provisions adoption. Since regulators require listed firms to adopt recoupment policy after 2015 in U.S., the evidence about higher demand for audit service might provide political implications for mandatory clawback provisions.

Keywords : clawback provisions, audit service, audit fees, overconfidence

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