



Essay 1

An empirical test of spatial competition in the audit market

Abstract

This study empirically examines the effects of competition through differentiation on audit pricing. Based on prior economic theory on differentiated-product markets (e.g., Hotelling, 1929; Tirole, 1988), we hypothesize that audit fees are affected by an auditor's relative location in a market segment. We define audit markets per industry segment and U.S. Metropolitan Statistical Area and specify an auditor's industry location relative to the client (auditor-client industry alignment) and relative to the closest competitor (industry market share distance to closest competitor). We find that audit fees increase in both auditor-client industry alignment and industry market share distance to the closest competitor.

Why?

- Regulators are worried by the high levels of concentration ('Big 4 dominance')
- The audit market has a given demand for audit services due to legal requirements
- The audit market is characterized by high levels of specialized knowledge

Competition in the audit market

3 essays

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Essay 2

Competitive pressure, audit quality and industry specialization

Abstract

This study examines whether pressure from close competitors affects the quality level delivered by the incumbent auditor. We argue that audit firms compete by means of industry specialization and earn fee premiums by specializing into certain industries which enables them to create a competitive advantage over other close competitors in the market. This study aims at disentangling the effect of industry expertise and related competition effects on audit quality. Using U.S. office level data, we find that both the likelihood of issuing a going concern opinion to a financially distressed firm and accrual-based earnings quality decrease as competitive pressure from the closest competitor in the industry increases. In addition, our results suggest that audit quality is affected by the auditor's relative dominance over its closest competitor rather than by the auditor's industry specialization *per se*. Overall, our results suggest that competitive pressure from the closest (i.e. most similar) competitor has a negative effect on audit quality.

Essay 3

Competition between Big 4 and non-Big 4 firms

- Work in progress
- Aims at examining the interaction between competition of Big 4 and non-Big 4 firms
- Focus on the private client market in Belgium
- Looks at competition effects on fees and quality

