Do weakened fiduciary duties increase audit risk? Evidence from corporate opportunity waivers*

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Abstract

We examine whether corporate opportunity waivers affect audit pricing. Corporate opportunity waivers relax the traditional duty of loyalty by allowing firms to waive claims over business opportunities that would otherwise belong to the corporation. We argue that this legal flexibility increases auditor-assessed client risk by weakening fiduciary constraints, heightening agency conflicts, and creating uncertainty about whether valuable opportunities remain within the firm. Using a stacked difference-in-differences design around the staggered adoption of corporate opportunity waiver laws across U.S. states, and an entropy-balanced sample of treated and control firms, we find that audit fees increase significantly following the adoption of these laws. Cross-sectional evidence suggests that the effect is concentrated among firms with weaker internal and external governance, consistent with auditors pricing the incremental agency risk created by fiduciary waivers. Overall, our findings document an important accounting consequence of changes in corporate law and show that greater fiduciary flexibility can increase the cost of financial statement auditing.

JEL codes: G34; K22; M42

Keywords: Corporate opportunity waivers; fiduciary duties; audit pricing; agency risk; corporate governance

1 Introduction

For most of its history, corporate law has treated the duty of loyalty as a mandatory pillar of fiduciary governance, barring directors, officers, and other fiduciaries from appropriating business opportunities that properly belong to the corporation. Delaware departed from this default in 2000 by enacting Section §122(17) of the Delaware General Corporation Law, a provision that allows a corporation to renounce, through its certificate of incorporation or by board action, any interest or expectancy in specified business opportunities. Twenty-one additional states adopted comparable provisions between 2000 and 2023, producing a staggered wave of statutes that explicitly authorize corporate opportunity waivers (COWs). Firms deploy these waivers most heavily in private equity and venture capital settings, where they accommodate sponsor-affiliated directors and overlapping investment mandates (Rauterberg & Talley, 2017). The same flexibility, however, removes a long-standing constraint on insider conduct and raises the prospect that opportunities cultivated inside the firm are diverted to insiders or their affiliates.

A growing literature has begun to document the real consequences of COW adoption. The available evidence indicates that these statutes depress innovation and inventor retention (Fich et al., 2023), shift executive compensation toward higher-powered performance pay (Babenko et al., 2025), reduce corporate payouts (Zhang, 2024), and weaken socially oriented investment (Boyd et al., 2023). One important external monitoring market has so far been left out of this account, namely the market for external audits. The audit fee is a market-determined price that impounds the auditor's assessment of engagement risk, expected effort, and litigation exposure (Hay et al., 2006; Simunic, 1980). When a governance change alters the agency conflicts within a client, the fee can rise because the auditor expands procedures over related-party transactions, conflicts of interest, disclosure completeness, and the reporting implications of opportunities that may have been diverted. Where additional procedures cannot fully resolve the underlying agency risk, the auditor may also embed a larger residual premium for litigation and

reputation exposure, often well before any misstatement or lawsuit materializes (Carcello et al., 2002; DeFond & Zhang, 2014). How the audit market reprices client risk after a discrete statutory loosening of fiduciary constraints remains an open empirical question.

The direction of this repricing is theoretically ambiguous, and two opposing channels frame the tension. Under an agency-risk channel, the duty of loyalty is one of the principal legal instruments that align insider behavior with the interests of outside shareholders (Jensen & Meckling, 1976). Relaxing the duty widens the latitude for self-dealing, deepens the opacity surrounding whether opportunities have been appropriated, and draws additional related-party considerations into the reporting process. Anticipating greater misstatement risk, more extensive substantive testing, and heavier litigation exposure, auditors respond by raising fees. Under a competing contracting-efficiency channel, COW provisions are negotiated as one element of sophisticated investment structures, typically alongside active sponsor monitoring, concentrated equity ownership, and directors with substantial outside expertise. If adoption signals selection into a higher-quality contracting environment, or if alternative monitoring substitutes for the relaxed fiduciary constraint, the fee response could be muted or even reverse sign. The net effect cannot be settled on a priori grounds, and which channel dominates is a question for evidence rather than theory.

To address this question, we exploit the staggered adoption of state-level COW statutes between 2000 and 2023 within a stacked difference-in-differences design. The sample consists of U.S. publicly listed firms assembled from Audit Analytics, Compustat, and CRSP, with treatment assigned at the firm-year level on the basis of the state of incorporation. Consistent with recent guidance on staggered treatment timing (Baker et al., 2022; Goodman-Bacon, 2021), each cohort-specific comparison is estimated against firms incorporated in states that never adopt a statute, and cohort-by-firm and cohort-by-event-time fixed effects are absorbed throughout. To limit the influence of non-random differences between treated and never-treated firms, the pre-treatment sample is reweighted through entropy balancing on the standard audit pricing covariates (Hainmueller, 2012),

so that the first and second moments of the comparison group coincide with those of the treated firms. The parallel-trends assumption that underpins the design is examined in a dynamic event-study specification.

We find that audit fees rise significantly after COW adoption. In the benchmark specification, which combines the full set of audit pricing controls with entropy balancing, the coefficient on the *Treatment* × *Post* interaction is 0.065 (t-statistic = 3.21). The estimate implies that treated firms pay audit fees roughly 6.7 percent above those of matched control firms once their state of incorporation enacts a statute, and the premium ranges from 4.5 to 8.4 percent across alternative specifications, a magnitude that is economically meaningful yet comparable to fee effects reported in prior governance-related work. The dynamic event-study estimates reinforce this reading. Pre-adoption coefficients are statistically indistinguishable from zero and display no discernible trend, whereas post-adoption coefficients rise and settle at positive values. The pattern is consistent with auditors repricing the additional client risk that statutory fiduciary flexibility creates.

Cross-sectional tests sharpen the interpretation by isolating the conditions under which the fee response appears. The effect is concentrated in firms with weaker complementary governance. When the sample is split at the median of institutional ownership concentration, the *Treatment* × *Post* coefficient is positive and significant for firms with low top-five ownership ($0.068, t$-statistic = 2.58) but indistinguishable from zero for firms with high ownership concentration ($0.003, t$-statistic = 0.12). Partitions on management-quality and governance-quality scores yield the same contrast. COW adoption raises audit fees in firms with below-median scores ($0.111, t$-statistic = 2.48, and $0.128, t$-statistic = 2.74, respectively), while leaving fees unchanged in firms whose governance attributes lie above the median. This heterogeneity matches the prediction that auditors price the agency risk created by fiduciary waivers only where other monitoring mechanisms cannot substitute for the duty that has been relaxed, and it lends further support to the agency-risk interpretation of the main result.

This study makes three contributions to the literature. First, it extends the emerg-

ing literature on the real effects of COW laws by documenting a response from the external monitoring market that prior work has not examined. Existing studies center on firm-level decisions such as innovation, payouts, executive compensation, and corporate social responsibility (Babenko et al., 2025; Boyd et al., 2023; Fich et al., 2023; Zhang, 2024). The audit market differs from these settings in that it is staffed by sophisticated independent monitors whose pricing decisions impound new information about client risk in close to real time. Evidence that audit fees rise after adoption indicates that statutory experimentation with the duty of loyalty generates governance externalities that propagate into the financial reporting and assurance system, complementing the firm-level outcomes already on record.

Second, this study contributes to the audit pricing literature by identifying a determinant of audit fees that has not previously been isolated, namely legal flexibility in fiduciary contracting. Prior research establishes that auditors price governance attributes (Carcello et al., 2002; DeFond & Zhang, 2014; Hay et al., 2006; Simunic, 1980), but most of this evidence relies on cross-sectional variation in governance proxies that are themselves endogenous to a firm's broader risk profile. By treating state-level legal reforms as plausibly exogenous shocks to the fiduciary environment, we provide quasi-experimental evidence on how the audit market reprices client risk following a discrete weakening of insider accountability.

Third, it informs the policy debate over the appropriate scope of contractual flexibility in fiduciary law. The finding that audit fees rise meaningfully after adoption, and do so disproportionately at firms with weaker complementary governance, indicates that fiduciary flexibility imposes a tangible cost on the financial reporting and assurance system. That cost has been largely absent from a policy discussion traditionally organized around capital formation and director recruitment. Collectively, these contributions connect the economics of corporate fiduciary law to the pricing of external assurance.

The rest of the paper proceeds as follows. Section 2 reviews the related literature and develops the hypothesis. Section 3 describes the institutional setting, data sources,

sample construction, and research design. Section 4 presents the main empirical findings, while Section 5 reports additional analyses. Section 6 concludes the paper.

2 Literature Review and Hypothesis Development

2.1 Literature Review

2.1.1 Corporate Opportunity Waivers and Their Real Effects

The legal and economic scholarship on corporate opportunity waivers engages a long-running question, namely whether the duty of loyalty is best understood as a mandatory feature of corporate law or as a default rule that sophisticated parties should be free to contract around. Rauterberg and Talley (2017) provide the foundational empirical treatment. Drawing on the population of public-firm adoptions through 2014, their study characterizes the contracting environment in which waivers are deployed and reports that adopters are disproportionately Delaware-incorporated firms with overlapping ownership structures, private equity or venture capital sponsors, and directors who hold board seats at related entities. The economic case for permitting waivers rests on several frictions: the difficulty of specifying ex-ante which opportunities belong to which entity in complex ownership networks, the cost of recruiting capable directors who would otherwise face liability for parallel investment activity, and the bargaining problems that arise when fiduciary duties cannot be waived. Set against these benefits is the agency cost of reintroducing the very insider-shareholder conflict that the duty of loyalty was historically constructed to contain (Jensen & Meckling, 1976).

A series of recent quasi-experimental studies estimates the firm-level consequences of adoption and uncovers a coherent pattern: firms operating under relaxed fiduciary constraints behave in ways consistent with intensified agency conflict. Innovation deteriorates, as affected firms cut research and development spending, generate fewer and less valuable patents, and lose inventors at abnormally high rates (Fich et al., 2023). Compensation contracts move toward higher-powered performance pay, which is consistent

with boards substituting incentive alignment for the legal alignment that has weakened (Babenko et al., 2025). Payout policy contracts, as treated firms reduce dividends and repurchases (Zhang, 2024). Socially oriented investment likewise declines, particularly at firms with weaker governance and less incentivized chief executives (Boyd et al., 2023). Read together, this evidence establishes that statutory experimentation with the duty of loyalty produces measurable shifts in firm behavior across investment, financing, and contracting margins.

Accounting research on COW adoption remains thin relative to the parallel literature in finance. The most directly relevant accounting evidence to date shows that affected firms increase the conditional conservatism of their financial reporting after adoption, plausibly as a partial substitute for the fiduciary constraints that have been weakened (Zhang, 2024). A conservatism response of this kind aligns with the broader view that accounting conservatism operates as a contracting mechanism that disciplines insiders by accelerating the recognition of bad news (Khan & Watts, 2009; Watts, 2003). What this nascent literature has not addressed is whether external monitors who operate outside the firm's reporting function, and auditors in particular, also reprice their services after adoption. Auditors are sophisticated independent third parties whose pricing decisions impound information about engagement risk in ways that boards, creditors, and shareholders cannot directly produce or observe (DeFond & Zhang, 2014). Evidence on the audit market response would therefore extend the real-effects literature into the domain of external assurance and complement the existing firm-level evidence on insider behavior.

2.1.2 Audit Pricing and Client Risk

The audit pricing literature originates in the framework of Simunic (1980), which models the audit fee as the sum of two components: a resource-cost component that reflects the effort needed to obtain reasonable assurance, and a risk premium that reflects the auditor's expected loss from undetected misstatement and subsequent litigation. The framework predicts that fees rise with client complexity, such as asset size, segment count, and foreign operations, and with client risk, such as litigation exposure, loss prospects,

and weak internal control. A meta-analytic synthesis of two decades of evidence confirms that these predictions hold across hundreds of cross-sectional studies and that auditor-side and engagement-specific characteristics, including office size and industry expertise, further moderate the fee (Hay et al., 2006). Later work refines the risk-pricing component by linking specific, identifiable risk factors to measurable fee adjustments, among them disclosed material internal control weaknesses (Hogan & Wilkins, 2008; Hoitash et al., 2008), elevated litigation exposure (Seetharaman et al., 2002), and going-concern uncertainty (Geiger & Rama, 2003). The consensus reading is that the audit fee functions as a sensitive, market-determined gauge of the risk an auditor assigns to a client.

A substantial strand within this literature examines how auditors price client governance attributes. Board independence, audit committee expertise, and ownership structure all enter the fee equation in ways consistent with the demand-and-supply framework of Hay et al. (2006). Stronger boards and more financially expert audit committees are associated with higher fees, a relation interpreted as evidence that well-governed firms demand more assurance rather than less (Carcello et al., 2002). At the same time, weaker governance attributes that signal elevated misstatement or litigation risk are also associated with higher fees, this time through the supply-side risk-pricing channel. Because the fee can rise under either interpretation, researchers have sought empirical settings in which one channel can be cleanly separated from the other. Quasi-experimental shocks to client governance offer one such strategy, since a governance change imposed on firms by external statutory action is unlikely to coincide with a contemporaneous shift in the firm's own demand for assurance.

A number of studies in finance and accounting treat state-level legal changes as quasi-experimental shocks to client governance and trace the resulting responses across firm-level and market-level outcomes, including the COW outcomes reviewed above. The methodological literature on these designs cautions that the political and economic conditions surrounding statutory adoption matter for interpretation, that staggered treatment timing requires modern estimators to avoid bias from heterogeneous treatment effects,

and that pre-trend testing is essential for credibility (Baker et al., 2022; Karpoff & Wittry, 2018). Within this tradition, COW adoption probes a dimension of the governance environment that earlier shocks leave untouched. Rather than altering external discipline, shareholder litigation rights, or stakeholder breadth, COW adoption relaxes the central fiduciary duty that insiders owe the corporation, a constraint that is both more fundamental to the agency framework and harder for firms to replicate contractually after the fact. Whether the audit market responds to a fiduciary-flexibility shock as it does to other governance shocks, and whether the response varies with the strength of complementary internal and external monitoring, are the questions that motivate the formal hypothesis.

2.2 Hypothesis Development

The audit pricing framework of Simunic (1980), refined and synthesized over subsequent decades (DeFond & Zhang, 2014; Hay et al., 2006), implies that any statutory change which alters the agency environment of an audit client should translate into a measurable fee adjustment, provided the change shifts the auditor's assessment of misstatement risk, expected effort, or expected litigation losses. COW adoption is precisely such a change. The duty of loyalty is the central legal mechanism aligning the actions of directors and officers with the interests of the residual claimants who supply equity capital (Jensen & Meckling, 1976). Relaxing the duty does more than remove a backstop against self-dealing in an isolated transaction. It reshapes the broader set of incentives that govern how insiders identify, develop, and disclose business opportunities, how they price related-party transactions, and how they characterize those transactions for financial reporting purposes. Whether this shift propagates into the audit fee, and in which direction, is the question this part develops.

2.2.1 The Agency-Risk Channel

The first channel begins from a simple observation: fiduciary flexibility widens the range of insider actions that auditors are obliged to scrutinize. Three mechanisms operate

within it. First, COW adoption expands the scope of permissible related-party arrangements, because insiders may now lawfully pursue opportunities that overlap or compete with the corporation's own business. Related-party transactions are a long-recognized source of misstatement risk and have been linked to elevated audit effort, fee premia, and modified opinions (Gordon & Henry, 2005; Kohlbeck & Mayhew, 2010). To the extent that adoption raises both the volume and the complexity of such transactions, the auditor confronts an enlarged scope at the planning stage and a higher probability of detected exceptions at the execution stage. Second, the relaxation of the duty introduces uncertainty about whether opportunities developed inside the firm have been appropriately recognized, valued, and disclosed. Accounting estimates that depend on management's characterization of internal opportunities, including goodwill impairment, intangible-asset valuation, and the disclosure of material related-party arrangements, become harder to corroborate once the legal default no longer requires opportunities to be presented to the corporation in the first instance. The resulting opacity raises inherent risk and, under the audit risk model, calls for a compensating increase in substantive testing.

Third, the litigation environment surrounding affected firms turns more hostile to the auditor. The empirical record shows that COW adoption is followed by elevated inventor departures, weaker innovation, contracting payouts, and declining firm value (Fich et al., 2023; Zhang, 2024). These outcomes raise the unconditional probability of subsequent shareholder litigation, and shareholder suits in which financial reporting carries evidentiary weight routinely name the auditor as a co-defendant (Palmrose, 1988). The deep-pocket exposure that auditors face in such suits enters the engagement-risk component of the fee as a premium that compensates the firm for expected litigation losses (Choi et al., 2008; Seetharaman et al., 2002). Auditors therefore have a direct incentive to raise fees on engagements where the underlying legal environment has become more permissive of conduct that later invites shareholder challenge.

These three mechanisms operate concurrently and reinforce one another. Their

combined prediction is that COW adoption raises audit fees by heightening the risk the auditor assigns to the client. This channel is consistent with the broader evidence that auditors price agency-related governance attributes (Carcello et al., 2002; Hay et al., 2006) and with the principle that a legal change shifting the agency environment of a client should propagate into fees through both the effort and the risk-premium components (DeFond & Zhang, 2014).

2.2.2 The Contracting-Efficiency Channel

A competing channel suggests that the fee response could be muted or even reversed. COW provisions are not adopted uniformly across the population of public firms. They cluster at firms whose contracting environment features overlapping ownership structures, private equity or venture capital sponsors, and directors with substantial outside expertise (Rauterberg & Talley, 2017). For such firms, the duty of loyalty as historically applied imposes friction on board recruitment and capital formation that would otherwise be efficient. A waiver functions as a contractual instrument that resolves this friction, allowing sophisticated parties to allocate property rights over opportunities ex ante. Three mechanisms operate within this channel, each running opposite to the agency-risk channel.

First, sponsor-affiliated directors and concentrated equity holders bring private incentives to monitor management that may substitute for the fiduciary backstop. Concentrated institutional ownership has been associated with stronger external discipline and lower information risk (Boone & White, 2015; Bushee, 1998), and the holders who adopt COW provisions are often the parties best positioned to constrain insider behavior outside the courtroom. Second, the sophistication of the contracting environment in which adoption occurs is itself a signal that auditors observe at the engagement-acceptance stage. To the extent that this signal correlates with stronger internal control, more capable boards, or more transparent disclosure, the auditor revises its assessment of inherent risk downward. Third, the legal predictability that an explicit waiver creates may reduce, rather than raise, the auditor's litigation exposure. Before the statutes, fiduciary disputes over corporate opportunity claims were governed by judicially developed common-law tests

whose application was notoriously fact-intensive (Rauterberg & Talley, 2017). Ex-ante statutory authorization narrows the residual ambiguity over which opportunities belong to the corporation and may therefore lower the probability of subsequent litigation.

Taken together, the three mechanisms in this channel predict that COW adoption leaves audit fees unchanged or lowers them, a prediction that inverts the one derived from the agency-risk channel.

2.2.3 Hypothesis

The two channels generate opposing predictions, and the sign of the net effect cannot be determined from theory alone. The agency-risk channel points to higher audit fees, working through greater related-party complexity, more opacity in accounting estimates, and heavier litigation exposure. The contracting-efficiency channel points to lower or unchanged fees, working through substitute monitoring by sophisticated equity holders, signaling about the contracting environment, and reduced common-law ambiguity. Which of the two dominates is an empirical question. The discussion above therefore motivates the first hypothesis, stated in null form:

> **H1:** The adoption of corporate opportunity waiver laws is not associated with audit fees.

Rejection of the null in either direction is informative. A positive coefficient on the treatment indicator would be consistent with the agency-risk channel and would imply that auditors price the additional client risk created by fiduciary waivers. A negative coefficient would be consistent with the contracting-efficiency channel and would imply that auditors recognize the substitute monitoring and signaling features of the environment in which waivers are adopted. A coefficient indistinguishable from zero would indicate that the two channels offset one another in the average treated firm. The remainder of the paper tests this prediction in a panel of U.S. publicly listed firms exposed to the staggered adoption of state-level COW statutes between 2000 and 2023 within a stacked difference-in-differences design.

3 Data, Sample, and Methodology

3.1 Data Sources

3.1.1 COW Statutes

The legal variation that the design exploits comes from the staggered adoption of state COW statutes. Enactment and effective dates are collected from Rauterberg and Talley (2017), the foundational empirical treatment of corporate opportunity waivers, and are extended with subsequent state legislative records for statutes that postdate their sample period. A corporate opportunity waiver is a statutory provision that permits a corporation to renounce, through its certificate of incorporation or by board action, any interest or expectancy in specified business opportunities or classes of opportunities that would otherwise belong to the firm. The provision relaxes the corporate opportunity doctrine, the component of the duty of loyalty that prohibits directors and officers from appropriating opportunities that properly belong to the corporation. Delaware enacted the first such statute, Section §122(17) of the Delaware General Corporation Law, effective July 1, 2000, and 21 additional states adopted comparable provisions through 2023. Table 1 reports the adopting state, the implementing statute, the enactment date, and the effective date for each of the 22 states.

[Table 1 around here]

Treatment timing is coded from the effective date rather than the enactment date, because the effective date determines when a firm chartered in the adopting state first becomes able to renounce corporate opportunities under the statute. A firm is classified as treated within a given cohort when its state of incorporation matches the cohort state, and the post-adoption period is defined relative to the fiscal year in which the statute takes effect. Treatment is assigned by state of incorporation rather than state of headquarters, consistent with the internal-affairs doctrine under which COW statutes govern the internal affairs of firms chartered in the adopting state and reach those firms

regardless of where they are physically located. A firm headquartered in a non-adopting state is therefore treated when it is chartered in an adopting state.

The staggered structure of adoption is central to identification. The first cohort, Delaware, takes effect in 2000, the final cohort, Pennsylvania, takes effect in 2023, and the intervening states are spread across more than two decades. This dispersion in treatment timing allows the design to separate the effect of COW adoption from contemporaneous macroeconomic shocks and secular trends in audit pricing, because firms in later-adopting cohorts serve as not-yet-treated comparison observations for firms in earlier-adopting cohorts, alongside firms incorporated in states that never adopt a statute. The same staggered structure, however, raises the well-documented concern that a conventional two-way fixed-effects estimator returns biased estimates when treatment effects are heterogeneous across cohorts or evolve over event time (Baker et al., 2022; Goodman-Bacon, 2021).

3.1.2 Other Firm-Level Data

The remaining variables are assembled from five archival sources. Audit fees, the identity of the principal auditor, going-concern opinions, disclosed internal control weaknesses, and audit report lag are drawn from Audit Analytics. Financial statement data come from Compustat for fiscal years 2000 through 2024, with the number of business segments from the Compustat Segments file and the identifiers used to link the two databases from the CRSP-Compustat Merged file. The cross-sectional analyses draw on two further sources, namely Thomson Reuters 13F filings for institutional ownership concentration and LSEG Workspace for the management-quality and governance-quality scores. Each of these sources is widely used in prior audit and governance research, and the variables constructed from them follow the standard audit fee model (Choi et al., 2010; DeFond & Zhang, 2014; Simunic, 1980).

3.2 Sample Construction

The estimation sample is assembled in two stages, and the screening procedure is reported in Table 2. The first stage constructs the firm-year base sample. The procedure

begins with 241,250 Compustat firm-years over 2000 through 2024. It then removes 61,581 firm-years with missing total assets or total assets below USD 1 million, 38,300 financial-industry firm-years (SIC codes 6000 through 6999), 46,091 firm-years with missing data on the dependent variable or any covariate, and 15,611 firm-years incorporated outside the 50 U.S. states. These screens leave 79,667 firm-years, as reported in Panel A.

[Table 2 around here]

The second stage assembles the stacked cohort sample. For each adopting state, a cohort dataset combines firm-years incorporated in that state, the treatment group, with firm-years incorporated in never-adopting states, the clean control group, restricted to a symmetric window of five fiscal years before through five fiscal years after the statute's effective year. Stacking the 22 cohorts produces an initial sample of 341,768 cohort-firm-years. Three restrictions then refine this sample. Observations outside the event window are removed, each firm is required to contribute at least two pre-adoption and two post-adoption firm-years, and cohorts that lack either treatment or control firms are dropped. A final restriction removes cohorts with fewer than five treatment firms, because sparse cohorts provide little identifying variation and destabilize the cohort-specific entropy balancing.

These restrictions reduce the 22 adopting states to the 13 cohorts that enter estimation. Nine adopting states are excluded as a result. Delaware is excluded despite being the largest state of incorporation among U.S. public firms, because its statute takes effect in 2000, at the very start of the sample period, which leaves too short a pre-adoption window to estimate firm-specific baselines and to test the parallel-trends assumption. The remaining eight excluded states, namely Maine, Alabama, Pennsylvania, Iowa, Idaho, Louisiana, Montana, and Nebraska, are dropped because the number of treatment firm-years available within the required event window falls below the threshold the stacked design imposes. The final stacked sample comprises 53,957 cohort-firm-years, made up of 3,446 treatment firm-years and 50,511 control firm-years drawn from 366 treatment firms and 5,399 control firms. Panel B reports the cohort composition.

To improve comparability within each cohort, we apply entropy balancing to the pre-adoption observations, reweighting control firms so that the mean and variance of every covariate in the audit fee model match those of the treatment firms (Hainmueller, 2012). The reweighting operates within cohort, so that each treated group is compared against a control group that resembles it on observable characteristics before the statutory change.

3.3 Empirical Strategy

The baseline specification estimates the effect of corporate opportunity waiver adoption on audit fees within the stacked cohort sample. The unit of analysis is the cohort-firm-year, a structure that allows a firm incorporated in a never-adopting state to enter as a clean control in multiple cohorts while a firm incorporated in an adopting state enters as a treated observation only in its own cohort. This design is well suited to a setting with staggered statutory shocks, because it estimates each cohort against a clean control group and recovers the treatment effect from within-firm changes around each event. The estimating equation is:

$$ln(AuditFees)_{i,c,t} = \alpha + \beta_1(Treatment_{i,c} \times Post_{c,t}) + \gamma Controls_{i,c,t} + \mu + \theta + \varepsilon_{i,c,t}, \tag{1}$$

where i indexes firms, c indexes cohorts, and t indexes fiscal years. The dependent variable, $ln(AuditFees)$, is the natural logarithm of total audit fees paid to the principal auditor in firm-year t. When a firm-year contains multiple auditor records, fees are aggregated to the firm-year level before the logarithmic transformation. The audit fee is a market-determined price that impounds both the resource cost of obtaining reasonable assurance and the risk premium that the auditor charges for expected misstatement and litigation losses. The logarithmic specification follows standard practice in the audit pricing literature (DeFond & Zhang, 2014; Simunic, 1980). $Treatment_{i,c}$ equals one if firm

i is incorporated in the adopting state of cohort c, and $Post_{c,t}$ equals one for fiscal years after the statute's effective year in that cohort. The term μ denotes cohort-by-firm fixed effects, which absorb time-invariant firm characteristics within each cohort, and θ denotes cohort-by-year fixed effects, which absorb shocks common to a cohort in a given year. The constituent *Treatment* and *Post* indicators are subsumed by these fixed effects. Standard errors are clustered at the cohort-by-firm level, and the preferred specification weights the regression by entropy balancing weights. The coefficient of interest, β_1, captures the differential change in audit fees for treated firms relative to control firms following COW adoption.

The vector $Controls_{i,c,t}$ follows the standard audit fee model and captures client size, complexity, and risk attributes that prior research establishes as determinants of audit fees. Size and complexity are measured by $\ln(Assets)$, an indicator for Big 4 auditor affiliation, the number of business *Segments*, and an indicator for *Foreign* operations, because larger and more complex clients require broader audit scope. Financial condition and client risk are captured by *Loss*, the book-to-market ratio *BTM*, return on assets *ROA*, *SalesGrowth*, *Leverage*, and the ratio of inventory and receivables to total assets *InvRec*, since distressed and high-risk clients increase the auditor's expected loss. Engagement-specific risk and reporting attributes are captured by indicators for new financing activity *NewFinance*, the presence of extraordinary or discontinued items *ExtDis*, a going-concern opinion *GConcern*, a disclosed internal control weakness *ICWeak*, a December fiscal year-end *BusySeason*, audit report lag *AuditDelay*, accelerated filer status *AccFiler*, and an auditor change *AuditorChange*. Prior work links each of these variables to audit effort or to the audit risk premium. All continuous variables are winsorized at the 1st and 99th percentiles to limit the influence of outliers. The full set of controls is drawn from the audit pricing literature (Choi et al., 2010; DeFond & Zhang, 2014). The cross-sectional analyses additionally use two sets of governance variables that do not enter the baseline specification. External governance is proxied by institutional ownership concentration, measured as the fraction of shares held by the five largest institutional owners, *Top5InstOwn*, and by the ten largest institutional owners, *Top10InstOwn*. In-

ternal governance is proxied by the management-quality and governance-quality scores, *MgmtScore* and *GovScore*. Both sets of variables are available for a smaller cross-section of firm-years than the audit and financial statement data, so the partitioning analyses that rely on them are estimated on the subsamples for which the relevant scores are non-missing.

The stacked cohort structure addresses the bias that arises when a conventional two-way fixed-effects estimator is applied to staggered treatment timing. Because each cohort is estimated against firms incorporated in never-adopting states, an already-treated firm is never used as a control for a later-treated firm. This design removes the contaminated comparisons that generate bias under treatment-effect heterogeneity (Baker et al., 2022; Goodman-Bacon, 2021). Identification therefore comes from within-firm changes around each statutory event rather than from cross-sectional differences across firms or cohorts.

Identification further rests on the parallel-trends assumption that, absent COW adoption, treated and control firms within a cohort would have followed the same audit-fee trajectory. Entropy balancing aligns the pre-adoption covariate distributions of the two groups but does not by itself establish parallel trends, since the assumption concerns the unobserved counterfactual path rather than the observable pre-period levels. The assumption is therefore examined in a dynamic event-study specification, which replaces the single interaction with a full set of interactions between Treatment and event-time indicators spanning five years before through five years after adoption, using the year immediately before adoption as the omitted benchmark.

3.4 Summary Statistics

Table 3 reports descriptive statistics for the variables used in the empirical analysis. The sample consists of 53,957 cohort-firm-year observations. The mean of *Treatment* is 0.064, indicating that treated firm-years make up approximately 6 percent of the stacked sample. This proportion is consistent with a cohort structure in which each adopting state is compared against a much larger pool of never-adopting control firms. The mean

of *Post* is 0.468, indicating that post-adoption observations are spread roughly evenly across the event window.

The dependent variable, $ln(AuditFees)$, has a mean of 6.463 and a median of 6.496, with an interquartile range from 5.296 to 7.551. This distribution reflects substantial dispersion in audit fees across the sample. Firm size, measured by $ln(Assets)$, has a mean of 5.932. Big 4 auditors are engaged in 63.4 percent of firm-years, and 27.1 percent of firm-years report a loss. The financial and risk characteristics of the sample are broadly typical of the audit pricing literature: mean *Leverage* is 0.510, mean *ROA* is 0.022, and inventory and receivables account for 29.8 percent of total assets on average. Going-concern opinions and internal control weaknesses are relatively infrequent, appearing in 3.9 percent and 3.0 percent of firm-years, respectively. The mean audit report lag is 63.7 days, and 65.9 percent of firm-years are accelerated filers, consistent with prior auditing research (Choi et al., 2010).

The governance variables used in the cross-sectional analyses are available for smaller subsamples. *Top5InstOwn* and *Top10InstOwn* are observed for 47,302 firm-years, with means of 0.283 and 0.368, respectively. These values indicate that the five and ten largest institutional owners together hold a substantial fraction of the typical firm's shares. *MgmtScore* and *GovScore* are observed for 13,305 firm-years, with means of 59.097 and 55.102, respectively.

[Table 3 around here]

Table 4 reports covariate balance between treated and control firms before and after entropy balancing. In the raw sample, the two groups differ on a range of audit-relevant characteristics, with standardized mean differences that are economically meaningful for firm size, loss incidence, going-concern status, and accelerated filer status, and with variance ratios that depart substantially from one for several covariates. Once entropy balancing is applied to the pre-adoption observations of each cohort, the standardized mean differences fall to roughly 0.001 across all covariates, and the variance ratios con-

verge to values near one. The reweighted control group therefore matches the treated group on the first and second moments of every covariate in the audit fee model. This balance mitigates the concern that any estimated treatment effect reflects pre-existing differences between the groups rather than the effect of COW adoption.

[Table 4 around here]

4 Results

4.1 Main Results

Table 5 reports the estimates for the baseline model. Column (1) includes only the cohort-by-firm and cohort-by-year fixed effects. Column (2) adds firm size, Column (3) adds the full set of audit fee controls, and Column (4) further applies the entropy balancing weights and constitutes the preferred specification, because it combines the complete control set with a comparison group balanced on observable characteristics. The coefficient on *Treatment* $\times$ *Post* is positive and statistically significant at the 1 percent level in the preferred specification ($0.065, t$-statistic $= 3.21$). The magnitude implies that treated firms pay audit fees approximately 6.7 percent higher than matched control firms after their state of incorporation enacts a COW statute. The effect is economically meaningful and consistent with auditors revising the risk premium embedded in the fee upward once the fiduciary environment of the client is relaxed.

The estimate is stable across specifications. The coefficient on *Treatment* $\times$ *Post* is 0.084 in Column (1), 0.063 in Column (2), 0.045 in Column (3), and 0.065 in Column (4), and it remains significant at the 1 or 5 percent level throughout. That a positive and significant coefficient persists as controls are progressively added, and as the sample is reweighted to balance treated and control firms, indicates that the result is not an artifact of a particular covariate set or of observable differences between the two groups. The control variables load with the signs documented in the audit pricing literature. Audit fees increase with firm size, Big 4 affiliation, leverage, the proportion of inventory and receivables, loss incidence, internal control weakness, going-concern status, and audit

report lag, confirming that the specification recovers the standard determinants of audit fees and lending additional credibility to the estimate on the variable of interest.

These results reject the null hypothesis of no association between COW adoption and audit fees. The direction of the rejection is positive, consistent with the agency-risk channel developed in Section 2.2.1, under which relaxing the fiduciary duty of loyalty heightens the risk auditors assign to the client through expanded related-party complexity, greater opacity in accounting estimates, and elevated litigation exposure. The remaining parts examine the dynamic structure of this effect and the conditions under which it concentrates.

[Table 5 around here]

4.2 Parallel Trends and Dynamic Effects

The validity of the difference-in-differences estimate rests on the assumption that, absent COW adoption, the audit fees of treated firms would have evolved in parallel with those of control firms in the same cohort. Figure 1 examines this assumption using the dynamic event-study specification, which replaces the single $Treatment \times Post$ interaction with a full set of interactions between *Treatment* and event-time indicators spanning five fiscal years before through five fiscal years after the statute's effective year, with the year immediately preceding adoption as the omitted benchmark.

The pre-adoption coefficients are consistent with the parallel-trends assumption. The estimates for event years $t-5$ through $t-1$ are statistically indistinguishable from zero at conventional levels and fluctuate around zero without a discernible trend in either direction. The absence of a systematic pre-adoption divergence indicates that treated and control firms followed comparable audit-fee trajectories before the statutory change, which supports the interpretation that the post-adoption divergence reflects COW adoption rather than a pre-existing difference between the groups.

The post-adoption coefficients reveal a clear and persistent increase in audit fees. The coefficient in the adoption year itself remains close to zero, consistent with statutes

that take effect partway through a fiscal year and with audit fees that are negotiated and recognized with a lag. From event year $t+1$ onward, the coefficient rises sharply and becomes statistically significant, and it stays positive and significant through event year $t+5$, settling in the range of roughly 0.07 to 0.085 in the later event years. The dynamic pattern is informative in two respects. First, the effect emerges only after adoption, which reinforces the inference that the statutory change, rather than a confounding trend, drives the result. Second, the effect does not dissipate over the post-adoption window but instead stabilizes at an elevated level, which indicates that auditors incorporate the relaxed fiduciary environment into a durable repricing of engagement risk rather than a transitory adjustment.

The evidence supports both the identifying assumption and the substantive interpretation of the main result. The flat pre-adoption path validates the parallel-trends assumption underlying the design, and the gradual, persistent post-adoption increase is consistent with the agency-risk channel, under which COW adoption raises the risk auditors assign to the client over a sustained horizon.

[Figure 1 around here]

4.3 Mechanism Analysis

4.3.1 The Role of Internal and External Governance

The baseline and dynamic results establish that audit fees rise after COW adoption, a pattern that this study interprets through the agency-risk channel developed in Section 2.2.1. That interpretation carries a sharper, testable implication. If the fee response reflects auditors pricing the incremental agency risk created by the relaxation of the duty of loyalty, the response should concentrate in firms whose other monitoring mechanisms are weaker and are therefore less able to contain insider behavior once the fiduciary constraint is loosened. A purely demand-side adjustment, in which treated firms uniformly seek more assurance after the statutory change, would not generate this heterogeneity. This part develops the prediction along two dimensions of the governance environment:

external monitoring by institutional owners and internal monitoring through management and governance quality. It then tests the prediction by partitioning the sample.

The logic of the prediction rests on the long-standing view that the governance mechanisms surrounding a firm operate, at least in part, as substitutes. The duty of loyalty is one element of the broader set of arrangements that align insider conduct with the interests of outside shareholders (Jensen & Meckling, 1976). When a COW statute relaxes that element, the consequences for an auditor's risk assessment depend on what remains. Where other monitors continue to constrain self-dealing, the marginal risk introduced by the waiver is small, and the auditor has little reason to revise the fee. Where complementary monitoring is weak, the waiver removes a constraint that was doing real work, the residual agency risk borne by the auditor rises, and the fee adjusts accordingly. The audit fee, in this account, prices the agency risk that other mechanisms fail to absorb (Carcello et al., 2002; DeFond & Zhang, 2014).

Concentrated institutional owners are among the most extensively studied external monitors of management. The foundational argument is that large shareholders have both the incentive and the capacity to monitor, because the costs of oversight are justified by the size of their stake and the free-rider problem that weakens dispersed shareholders is attenuated (Shleifer & Vishny, 1986). A substantial body of evidence confirms that institutional investors translate this capacity into active discipline. Institutional ownership is associated with stronger oversight of executive compensation (Hartzell & Starks, 2003), with monitoring intensity that varies in the predicted way across investor types (Chen et al., 2007), and with governance improvements that follow increases in ownership by investors with monitoring incentives (Appel et al., 2016). Concentrated institutional ownership has also been linked to a richer firm information environment and to lower information risk (Boone & White, 2015; Bushee, 1998; Edmans, 2014).

For the present setting, the implication is that institutional owners supply a form of external discipline that can substitute for the fiduciary constraint a COW statute relaxes. In firms where the largest institutional owners already hold concentrated stakes,

the latitude for insiders to divert opportunities is narrowed by the prospect of investor scrutiny, engagement, and the credible threat of exit, regardless of the statutory change. An auditor assessing such a client has little reason to raise the risk premium, because the agency risk introduced by the waiver is largely contained by the monitoring already in place. In firms where institutional ownership is diffuse, by contrast, the waiver removes a binding constraint without an offsetting monitor, and the auditor prices the resulting increase in residual agency risk. The agency-risk channel therefore predicts that the audit-fee response to COW adoption is concentrated in firms with low institutional ownership concentration and muted in firms with high concentration.

Table 6 tests this prediction by partitioning the sample at the median of institutional ownership concentration, measured by *Top5InstOwn* in Columns (1) and (2) and by *Top10InstOwn* in Columns (3) and (4). The pattern is consistent with the prediction. The coefficient on *Treatment* × *Post* is positive and statistically significant in the low-ownership subsamples, with coefficients of 0.068 and 0.063 and t-statistics of 2.58 and 2.29, respectively. By contrast, the coefficient is economically small and statistically indistinguishable from zero in the high-ownership subsamples, with coefficients of 0.003 and 0.006 and t-statistics of 0.12 and 0.24, respectively. Where concentrated institutional owners already supply external discipline, auditors charge no incremental premium after the statutory change. The fee response is borne entirely by firms in which that external monitor is weak.

[Table 6 around here]

The second dimension concerns the monitoring and control mechanisms internal to the firm, including the board, the control environment, and the broader set of management practices that govern how insiders identify and act on business opportunities. Prior research treats the quality of these internal arrangements as a determinant of the reliability of financial reporting and of the latitude available to insiders. Stronger internal governance is associated with more reliable accounting outcomes and better organizational performance (Larcker et al., 2007), and the financial reporting and control environment

is itself a governance mechanism that disciplines managerial behavior (Armstrong et al., 2010). From the auditor's perspective, a client with strong internal governance presents lower inherent and control risk, because the firm's own structures constrain the conduct that would otherwise have to be detected through expanded substantive testing (DeFond & Zhang, 2014).

The substitution logic applies here as it does for external monitoring. In firms with high-quality management and governance, the internal arrangements that constrain insider self-dealing remain in place after a COW statute takes effect, so the waiver adds little to the agency risk the auditor must price. In firms with weak internal governance, the statutory change compounds an environment that was already permissive of insider discretion, and the auditor responds by raising the fee. The agency-risk channel therefore predicts that the audit-fee response to COW adoption is concentrated in firms with weak internal governance and muted in firms whose internal governance is strong.

Table 7 shows this prediction by partitioning the sample on internal governance, proxied by the management-quality score in Columns (1) and (2) and the governance-quality score in Columns (3) and (4), each split at its sample median. The pattern mirrors Table 6. The coefficient on *Treatment* × *Post* is positive and statistically significant for firms with below-median scores ($0.111, t$-statistic $= 2.48$; $0.128, t$-statistic $= 2.74$) and statistically insignificant for firms with above-median scores ($0.046, t$-statistic $= 1.25$; $0.008, t$-statistic $= 0.24$). The audit-fee response again concentrates where the complementary monitoring mechanism is weak.

[Table 7 around here]

The two partitions point to the same conclusion. The audit-fee response to COW adoption is borne almost entirely by firms with weaker external and internal governance and is absent where institutional ownership concentration or governance quality is high. This heterogeneity is difficult to reconcile with a demand-side explanation, under which treated firms would seek more assurance regardless of their governance environment,

and it would not arise if the baseline result reflected a mechanical correlation between COW adoption and some omitted determinant of audit fees. It is, however, precisely the pattern the agency-risk channel predicts. The cross-sectional evidence therefore indicates that the repricing documented in the baseline analysis operates, at least in part, through auditors' assessment of the agency risk that a relaxed duty of loyalty creates and that complementary monitoring mechanisms, where they are strong, continue to contain.

4.3.2 Firm-Level COW Adoption

The main analysis exploits the staggered adoption of state-level COW statutes as the identifying source of variation and asks whether auditors reassess client agency risk after the legal environment surrounding fiduciary duties is loosened. The passage of a state COW statute, however, does not by itself mean that every firm incorporated in the adopting state immediately uses the new flexibility. The statute creates the legal possibility for a corporation to renounce business opportunities, while firm-level adoption captures whether the firm has actually translated that possibility into its own governance documents. The two layers of variation are conceptually distinct and have different informational content for the auditor (Rauterberg & Talley, 2017).

The purpose of the analysis is not to displace the state-level identification strategy but to provide more direct mechanism evidence in support of it. Firm-level COW adoption is unlikely to occur at random. Firms that elect to adopt COW provisions are likely to differ systematically from non-adopters along observable and unobservable dimensions, including ownership structure, the presence of sponsor-affiliated directors, exposure to insider conflicts, growth opportunities, and the broader set of contractual arrangements that govern relations between the corporation and its insiders (Rauterberg & Talley, 2017). The standard concerns about endogeneity in voluntary governance choices apply with full force, since unobservable determinants of adoption may also influence audit fees through channels unrelated to the relaxation of the duty of loyalty (Karpoff & Wittry, 2018; Larcker et al., 2007). For this reason, the firm-level analysis is treated as supplementary evidence on the mechanism through which the state-level statutes operate,

rather than as an independent source of causal identification.

If the cost response observed in the main analysis indeed reflects auditors repricing the residual agency risk arising from weakened fiduciary constraints, this response should be concentrated primarily among firms that not only operate under the relevant statutory regime but also incorporate the relaxed obligations into their own governance arrangements. Such firms are more likely to use the flexibility afforded by the statutes and to explicitly relax constraints requiring insiders or affiliated directors to forgo corporate opportunities by amending their charters or other governance documents (Rauterberg & Talley, 2017). When auditors observe that a client has taken this step, the client's residual agency risk no longer depends merely on the legal possibility created by the statute, but on the governance arrangement actually implemented by the firm. Consequently, the audit-fee response should be correspondingly more pronounced (DeFond & Zhang, 2014; Jensen & Meckling, 1976).

5 Additional Analyses

5.1 Audit Effort and Risk Premium

The classic theoretical framework for audit fees divides audit fees into two components, audit effort and risk premium (Bell et al., 2001; DeFond & Zhang, 2014; Hay et al., 2006; Simunic, 1980). An observed fee increase therefore admits two distinct interpretations: the auditor expands the scope of substantive testing in response to heightened inherent or control risk, or the auditor adds a residual premium for risks that further testing cannot fully resolve. Distinguishing the two has substantive content, because each implies a different account of how a relaxation of the duty of loyalty propagates into the audit market.

The two interpretations carry different implications for the work the auditor actually performs. Under the effort interpretation, additional procedures over related-party transactions, accounting estimates that depend on management's characterization of in-

ternal opportunities, and disclosures linked to the relaxed duty raise the resource cost of the engagement, and the fee adjustment is largely a pass-through of that incremental effort. Under the risk-premium interpretation, the auditor anticipates greater litigation and reputation exposure for residual risk that the planned procedures cannot eliminate, and the fee adjustment compensates for that expected loss rather than for measurable additional work (Choi et al., 2008; Palmrose, 1988; Seetharaman et al., 2002). The two responses can occur together, but their relative weight is informative about whether COW adoption operates primarily through the technical demands of the engagement or through the auditor's exposure to downstream legal and reputational costs.

The audit pricing literature approaches this decomposition by combining the audit fee with separate proxies for effort and for risk pricing. Audit report lag, billed audit hours where available, and the scope of substantive procedures are commonly used as proxies for effort, on the view that engagements requiring more work take longer to complete and absorb more billable hours (Bedard & Johnstone, 2004; Ettredge et al., 2006; Knechel & Payne, 2001). Going-concern opinions, modified opinions, and the abnormal component of the audit fee, by contrast, capture variation in risk pricing that is largely independent of the resource intensity of the engagement (DeFond et al., 2002; Hribar et al., 2014). If COW adoption operates through the effort channel, audit report lag and related proxies should rise alongside fees in treated firms. If it operates through the risk-premium channel, the fee response should be accompanied by changes in audit reporting outcomes and in the abnormal fee component, while the effort proxies remain comparatively flat. This decomposition therefore offers a direct test of the channel through which the documented audit-fee response operates.

5.2 Demand for Assurance and Supply-Side Risk Pricing

A separate identification question concerns whether the fee response reflects auditor-side risk pricing or client-side demand for additional assurance. Audit fees are equilibrium prices, and the same observed increase can arise from either side of the market. The supply-side interpretation, developed in the main analysis, holds that auditors raise the

price in response to heightened engagement risk created by the relaxation of the duty of loyalty. An alternative demand-side interpretation holds that the client itself, after a salient governance change that may be perceived as weakening insider accountability, voluntarily purchases more assurance to signal its commitment to credible financial reporting (Carcello et al., 2002; DeFond & Zhang, 2014; Knechel & Willekens, 2006). The two interpretations are observationally similar in the unconditional fee regression but generate different predictions across firms.

The demand-side interpretation rests on a substantial body of evidence that firms with stronger governance, and particularly those with more independent and financially expert audit committees, voluntarily contract for higher audit quality and pay correspondingly higher fees. Carcello et al. (2002) document that more independent and active boards are associated with higher audit fees, a relation they attribute to demand for greater assurance rather than to elevated client risk. Abbott et al. (2003) and DeFond et al. (2005) extend this evidence to audit committee independence and to the market valuation of audit committee financial expertise, while the broader literature on audit committee effectiveness reaches similar conclusions about the role of these bodies in shaping the firm's demand for external assurance (Bedard & Gendron, 2010; Klein, 2002). Under this view, audit committees of treated firms may respond to COW adoption by expanding the scope of the engagement in order to signal continued commitment to monitoring, independent of any change in the auditor's own risk assessment.

The two interpretations generate distinct cross-sectional predictions when the sample is partitioned on audit committee attributes that proxy for the strength of the demand-side mechanism. If demand-side signaling drives the fee response, the increase should concentrate in firms with stronger, more independent, and more financially expert audit committees, the parties best positioned to translate a governance shock into additional assurance purchases. If supply-side risk pricing drives the response, the increase should concentrate in firms with weaker audit committees, where residual agency risk is larger and the auditor's compensating premium is correspondingly higher. The latter predic-

tion is broadly consistent with the heterogeneity documented in the main analysis, but a partition on audit committee characteristics offers a more targeted separation of the two channels than the broader governance scores used in Section 4.3 and therefore tightens the interpretation of the documented fee response.

5.3 Auditor Reputation and Litigation Sensitivity

The third channel turns from client attributes to auditor attributes and asks whether the fee response varies with the auditor's exposure to reputational and litigation costs. Auditors are not homogeneous providers of assurance. Big 4 firms, larger audit offices, and industry specialists hold greater reputational capital, face deeper litigation exposure, and have been shown to invest more heavily in audit quality and to charge fee premia that reflect both higher input quality and greater expected losses (Choi et al., 2008; Francis & Yu, 2009; Reynolds & Francis, 2000). If COW adoption raises the auditor's expected loss on the engagement, the auditors most exposed to reputation and litigation costs should be the most sensitive to the statutory change and should price it the most aggressively. The reverse pattern, namely a fee response concentrated among smaller and less reputationally exposed auditors, would be difficult to reconcile with a litigation-and-reputation interpretation.

The reputation channel is supported by evidence that auditor brand and office size are associated with both higher fees and stronger reporting incentives. Francis and Yu (2009) document that larger Big 4 offices deliver higher-quality audits than smaller offices within the same firm, and Reynolds and Francis (2000) show that office-level client importance shapes auditor reporting decisions in ways consistent with reputational concerns dominating economic dependence. The litigation channel is supported by evidence that audit fees respond directly to changes in the legal exposure auditors face, with cross-country and cross-regime studies showing systematic variation in Big 4 fee premia with the strictness of the liability environment (Choi et al., 2008; Seetharaman et al., 2002). Industry expertise compounds both channels, since specialist auditors have more reputational capital at stake within an industry and have been shown to price client risk

differently from non-specialists (Krishnan, 2003; Numan & Willekens, 2012).

The implication for COW adoption is direct. Partitioning the sample on auditor identity should reveal a fee response concentrated among clients of Big 4 firms, large audit offices, and industry specialists if the documented increase reflects auditor-side pricing of residual reputation and litigation risk. A muted or absent response in this partition would be difficult to reconcile with a reputation-and-litigation interpretation and would point toward channels that do not turn on the auditor's expected loss. The partition therefore provides a sharp test of whether the fee response captures auditor-specific sensitivity to the legal environment, complementing the client-side heterogeneity documented in the main analysis.

6 Conclusions

This study examines whether and how the relaxation of fiduciary constraints under state corporate opportunity waiver statutes affects audit pricing. Drawing on the staggered adoption of COW statutes across U.S. states between 2000 and 2023 within a stacked difference-in-differences design, the evidence shows that audit fees rise by roughly 6.7 percent at treated firms following adoption, with the increase emerging only after the statute takes effect and persisting through the post-adoption window. The fee response is concentrated in firms with weaker external and internal governance, consistent with auditors repricing the residual agency risk that complementary monitoring mechanisms fail to absorb. Overall, the findings identify an accounting consequence of contractual flexibility in corporate law and show that loosening the duty of loyalty raises the cost of external assurance.

These findings carry implications for the ongoing policy debate over the appropriate scope of contractual flexibility in fiduciary law. Proponents of COW statutes have emphasized their benefits for capital formation and for the recruitment of sponsor-affiliated directors, while the cost side of the debate has centered on the weakening of insider accountability. The evidence in this study identifies an additional cost that has been

largely absent from that discussion, namely a measurable increase in the price of external assurance, and indicates that this cost is borne disproportionately by firms whose complementary governance mechanisms are weak. As further states consider whether to join the existing 22 jurisdictions in authorizing corporate opportunity waivers, policymakers may benefit from incorporating these audit market consequences into a more complete assessment of the trade-offs that statutory fiduciary flexibility entails.

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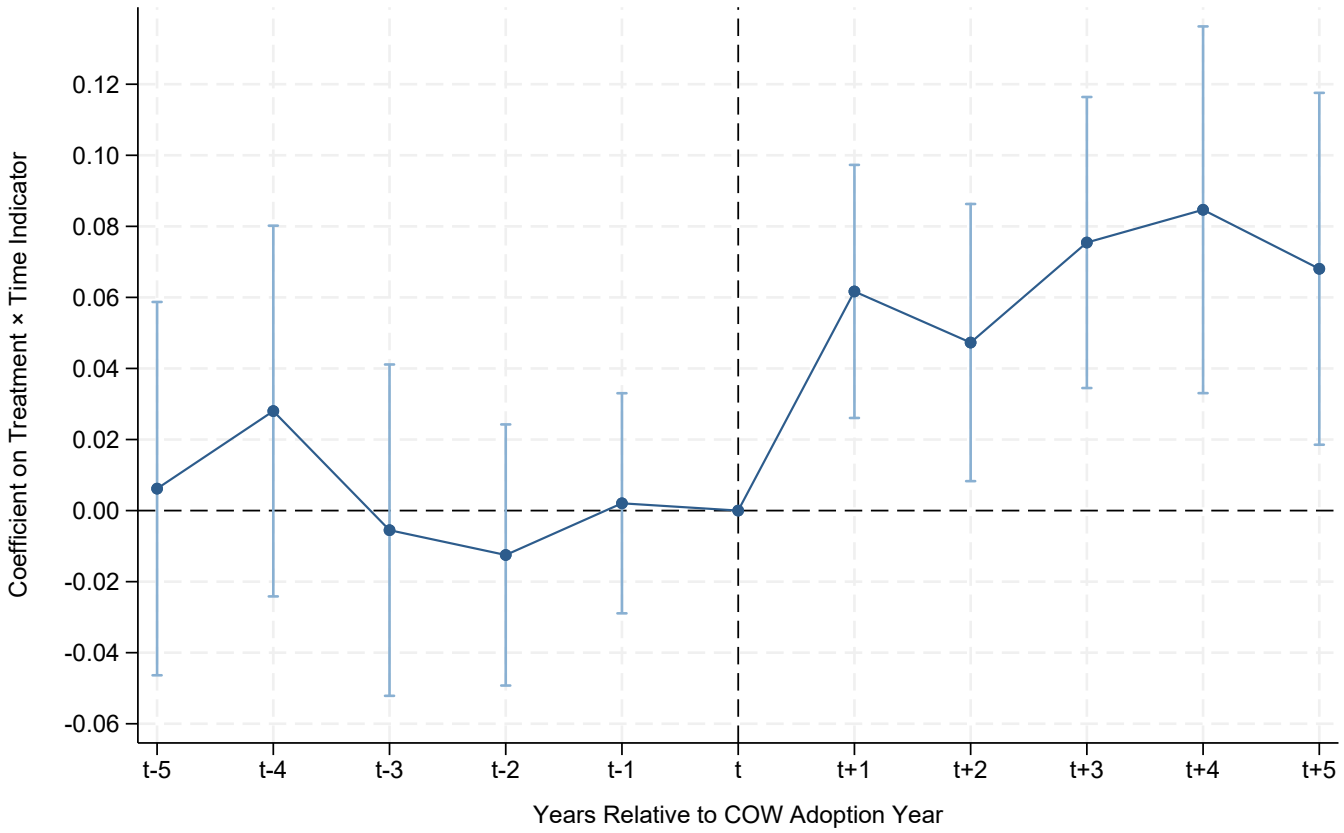
Figure 1: Audit Fees around the State Adoption of Corporate Opportunity Waiver Statutes



Notes: This figure plots the dynamic effect of state adoption of COW statutes on audit fees using an event study framework. The dots represent point estimates of the coefficient on *Treatment* interacted with event-year indicators, and the vertical bars represent 90% confidence intervals. *Treatment* is an indicator equal to 1 for firms incorporated in the state adopting a COW statute in the relevant cohort, and 0 for control firms incorporated in states that have not adopted a COW statute. The horizontal axis represents years relative to the effective date of the statute, with the omitted year serving as the base period.

Table 1: State Adoption of Corporate Opportunity Waiver Statutes

State	Implementing statute	Enactment date	Effective date
Delaware	*Del. Code Ann. Tit. 8, §122(17)*	Jun 23, 2000	Jul 1, 2000
Oklahoma	*Okla. Stat. Ann. Tit. 18, §1016(17)*	Jun 4, 2001	Nov 1, 2001
Missouri	*Mo. Ann. Stat. §351.385(16)*	Jul 3, 2003	Oct 1, 2003
Kansas	*Kan. Stat. Ann. §17-6102(17)*	May 17, 2004	Jan 1, 2005
Texas	*Tex. Bus. Orgs. Code Ann. §2.101(21)*	May 17, 2005	Jan 1, 2006
Nevada	*Nev. Rev. Stat. Ann. §78.070(8)*	Jun 13, 2007	Oct 1, 2007
New Jersey	*NJ Stat. Ann. 14A:3-1(q)*	Mar 1, 2011	Mar 1, 2011
Maryland	*Md. Code Ann., Corps. & Ass'ns §2-103(15)*	May 15, 2014	Oct 1, 2014
Washington	*Wash. Rev. Code Ann. §23B.02.020(5)(k)*	May 6, 2015	Jan 1, 2016
Maine	*LD 1136, Public Law 2015, ch. 259; 13-C M.R.S. §202(2)(F)*	Jun. 23, 2015	Oct. 15, 2015
Georgia	*SB 128, Act 364; O.C.G.A. §14-2-870*	Apr. 26, 2016	Jul. 1, 2016
Louisiana	*HB 714, Act 442; La. R.S. §12:1-202(B)(6)*	Jun. 9, 2016	Aug. 1, 2016
Nebraska	*LB 35, §4; Neb. Rev. Stat. §21-220(6)*	Apr. 27, 2017	Aug. 24, 2017
Connecticut	*Public Act 17-108, HB 7311; Conn. Gen. Stat. §33-636(b)(6)*	Jul. 5, 2017	Oct. 1, 2017
North Carolina	*Session Law 2018-45, SB 622; G.S. §55-2-02(b)(4)*	Jun. 22, 2018	Oct. 1, 2018
Idaho	*House Bill 84; Idaho Code §30-29-202(b)(6)*	Mar. 18, 2019	Jul. 1, 2019
Virginia	*HB 2478, Ch. 734; Va. Code §13.1-619(B)(5)*	Mar. 21, 2019	Jul. 1, 2020
Alabama	*Act 2019-94, HB 250; Ala. Code §10A-2A-2.02(b)(6)*	Apr. 23, 2019	Jan. 1, 2020
Montana	*SB 325, Ch. 271; Mont. Code Ann. §35-14-202(2)(f)*	May 7, 2019	Jun. 1, 2020
Colorado	*SB 19-086; Colo. Rev. Stat. §7-102-102(2)(e)*	May 13, 2019	Jul. 1, 2020
Iowa	*HF 844, 2021 Iowa Acts ch. 165; Iowa Code §490.202(2)(f)*	Jun. 8, 2021	Jan. 1, 2022
Pennsylvania	*Act 122 of 2022; 15 Pa.C.S. §1719*	Nov. 3, 2022	Jan. 2, 2023

Notes. This table reports U.S. state adoptions of corporate opportunity waiver statutes. Delaware, Maine, Alabama, Pennsylvania, Iowa, Idaho, Louisiana, Montana, and Nebraska are excluded from the empirical analysis because they do not have sufficient data to satisfy our sample construction requirements.

Table 2: Sample Selection Procedure and Sample Composition

Panel A: Sample selection procedure

Initial sample of firm-years from Compustat/CRSP/related databases (2000–2024)	241,250
Less: firm-years with missing total assets or total assets below $1 million	(61,581)
Less: firm-years in the financial industry (SIC 6000–6999)	(38,300)
Less: firm-years with missing data to calculate all relevant variables	(46,091)
Less: firm-years incorporated outside the 50 U.S. states	(15,611)
Final firm-year sample used to construct cohorts	79,667
Initial stacked sample of cohort-firm-years	341,768
Less: cohort-firm-years outside the $[-5, +5]$ event-year window	(222,666)
Less: firms with fewer than two pre- or post-COW years	(43,838)
Less: cohorts with missing treatment or control firms	(6,384)
Less: observations from cohorts with fewer than five treatment firms	(14,923)
Final cohort-firm-year sample	53,957

Panel B: Sample composition by COW cohort

State	Treatment firms	Control firms	Total firms	Treatment firm-years	Control firm-years	Total firm-years
Colorado	18	300	318	166	2,820	2,986
Connecticut	6	322	328	60	3,300	3,360
Georgia	16	337	353	170	3,424	3,594
Kansas	7	589	596	72	5,506	5,578
Maryland	27	371	398	276	3,733	4,009
Missouri	19	650	669	142	4,948	5,090
North Carolina	7	321	328	76	3,277	3,353
New Jersey	28	422	450	281	4,259	4,540
Nevada	132	534	666	1,183	5,254	6,437
Oklahoma	8	361	369	51	2,304	2,355
Texas	46	555	601	456	5,442	5,898
Virginia	30	300	330	279	2,820	3,099
Washington	22	337	359	234	3,424	3,658
Total	366	5,399	5,765	3,446	50,511	53,957

This table reports the sample selection procedure and sample composition by COW cohort. Each cohort is centered around the effective date of a corporate opportunity waiver statute. Treatment firm-years are observations from firms incorporated in the COW-adopting state for that cohort, while control firm-years are observations from firms incorporated in other U.S. states that have not adopted a COW statute. The final stacked sample retains observations within the $[-5, +5]$ event-year window, subject to minimum pre- and post-treatment data availability, the presence of both treatment and control firms within each cohort, and at least five treatment firms in each cohort.

Table 3: Descriptive statistics

Variable	Obs.	Mean	Std. Dev.	P25	Median	P75
Treatment	53,957	0.064	0.245	0.000	0.000	0.000
Post	53,957	0.468	0.499	0.000	0.000	1.000
ln(AuditFees)	53,957	6.463	1.482	5.296	6.496	7.551
ln(Assets)	53,957	5.932	2.438	4.108	5.939	7.640
Big4	53,957	0.634	0.482	0.000	1.000	1.000
Loss	53,957	0.271	0.445	0.000	0.000	1.000
BTM	53,957	0.558	0.804	0.279	0.490	0.772
ROA	53,957	0.022	0.250	0.017	0.067	0.115
SalesGrowth	53,957	0.116	0.595	−0.039	0.051	0.152
Leverage	53,957	0.510	0.344	0.293	0.487	0.664
InvRec	53,957	0.298	0.198	0.128	0.271	0.429
Foreign	53,957	0.582	0.493	0.000	1.000	1.000
Segments	53,957	1.124	0.601	1.000	1.000	1.000
NewFinance	53,957	0.430	0.495	0.000	0.000	1.000
ExtDis	53,957	0.172	0.378	0.000	0.000	0.000
GConcern	53,957	0.039	0.193	0.000	0.000	0.000
ICWeak	53,957	0.030	0.172	0.000	0.000	0.000
BusySeason	53,957	0.595	0.491	0.000	1.000	1.000
AuditDelay	53,957	63.738	21.846	52.000	60.000	74.000
AccFiler	53,957	0.659	0.474	0.000	1.000	1.000
AuditorChange	53,957	0.068	0.252	0.000	0.000	0.000
Top5InstOwn	47,302	0.283	0.195	0.151	0.274	0.362
Top10InstOwn	47,302	0.368	0.224	0.194	0.376	0.497
MgmtScore	13,305	59.097	25.888	39.248	62.794	80.696
GovScore	13,305	55.102	20.390	40.111	56.597	71.294

Notes. This table reports descriptive statistics for the main variables used in the empirical analysis. The sample consists of 53,957 firm-year observations. Variable definitions are provided in Appendix A.

Table 4: Covariate Balance Before and After Matching

	Raw Sample			Matched (Entropy Balanced)		
Means	Treated	Untreated	Std. Diff.	Treated	Untreated	Std. Diff.
LnTA	4.907	5.620	−0.279	4.907	4.903	0.001
Big4	0.527	0.656	−0.263	0.527	0.527	0.001
Loss	0.385	0.283	0.218	0.385	0.385	0.000
BTM	0.463	0.615	−0.146	0.463	0.462	0.000
ROA	−0.053	0.020	−0.216	−0.053	−0.053	−0.000
SalesGrowth	0.441	0.191	0.215	0.441	0.440	0.000
Leverage	0.585	0.492	0.235	0.585	0.585	0.001
InvRec	0.257	0.314	−0.279	0.257	0.257	0.001
Foreign	0.478	0.540	−0.124	0.478	0.478	0.001
NewFinance	0.506	0.440	0.132	0.506	0.505	0.001
ExtDis	0.189	0.192	−0.010	0.189	0.189	0.000
GoingConcern	0.109	0.033	0.301	0.109	0.110	−0.001
ICWeak	0.022	0.015	0.052	0.022	0.022	−0.000
Busy	0.653	0.591	0.127	0.653	0.652	0.001
Delay	64.540	58.320	0.249	64.540	64.490	0.002
AccelFiler	0.530	0.653	−0.251	0.530	0.530	0.001
AuditorChange	0.096	0.084	0.040	0.096	0.096	−0.000
	Raw Sample			Matched (Entropy Balanced)		
Variances	Treated	Untreated	Ratio	Treated	Untreated	Ratio
LnTA	7.414	5.664	1.309	7.414	7.409	1.001
Big4	0.250	0.226	1.107	0.250	0.249	1.002
Loss	0.238	0.203	1.171	0.238	0.237	1.003
BTM	1.473	0.697	2.114	1.473	1.472	1.001
ROA	0.160	0.070	2.276	0.160	0.160	1.001
SalesGrowth	1.981	0.717	2.764	1.981	1.979	1.001
Leverage	0.211	0.106	1.998	0.211	0.211	1.001
InvRec	0.042	0.041	1.022	0.042	0.042	1.001
Foreign	0.250	0.249	1.007	0.250	0.250	1.002
NewFinance	0.251	0.246	1.017	0.251	0.250	1.003
ExtDis	0.153	0.155	0.988	0.153	0.153	1.003
GoingConcern	0.098	0.032	3.078	0.098	0.098	1.001
ICWeak	0.021	0.015	1.468	0.021	0.021	1.002
Busy	0.227	0.242	0.940	0.227	0.227	1.002
Delay	680.300	566.100	1.202	680.300	679.800	1.001
AccelFiler	0.250	0.227	1.101	0.250	0.249	1.002
AuditorChange	0.087	0.077	1.123	0.087	0.087	1.002

Notes. This table evaluates the balance of covariates between treated and control firms before and after entropy balancing. The first three columns report means and standardized differences for the raw sample within the event cohorts. The final three columns report the same statistics after applying entropy balancing weights. The variance panel reports treated and untreated variances and the treated-to-untreated variance ratio. Variable definitions are provided in Appendix A.

Table 5: Corporate Opportunity Waivers and Audit Fees

	Dependent variable: *ln(AuditFees)*			
	Unmatched			Entropy Balanced
	(1)	(2)	(3)	(4)
Treatment × *Post*	0.084***	0.063***	0.045**	0.065***
	(3.53)	(3.13)	(2.46)	(3.21)
ln(Assets)		0.294***	0.345***	0.322***
		(33.52)	(39.90)	(18.49)
Big4			0.273***	0.306***
			(22.67)	(11.06)
Loss			0.048***	0.062***
			(9.42)	(5.15)
BTM			0.012***	0.020**
			(2.95)	(2.54)
ROA			−0.226***	−0.171***
			(−12.86)	(−6.37)
SalesGrowth			−0.001	−0.004
			(−0.34)	(−0.51)
Leverage			0.115***	0.113***
			(8.14)	(4.57)
InvRec			0.294***	0.274***
			(7.34)	(3.61)
Foreign			0.056***	0.022
			(6.79)	(1.21)
Segments			0.004	0.002
			(1.07)	(0.21)
NewFinance			0.014***	0.012
			(3.72)	(1.31)
ExtDis			0.049***	0.060***
			(9.08)	(4.52)
GConcern			0.068***	0.066**
			(3.63)	(2.01)
ICWeak			0.213***	0.235***
			(14.72)	(6.94)
BusySeason			−0.056	−0.012
			(−0.96)	(−0.15)
AuditDelay			0.004***	0.003***
			(23.53)	(7.37)
AccFiler			0.358***	0.313***
			(4.42)	(3.07)
AuditorChange			0.001	0.010
			(0.10)	(0.62)
Constant	6.461***	4.719***	3.563***	3.668***
	(9294.65)	(90.83)	(41.05)	(29.77)
Cohort-Firm Fixed Effects	Yes	Yes	Yes	Yes
Cohort-Year Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R^2	0.953	0.959	0.965	0.963
Observations	53,957	53,957	53,957	53,957

Notes. This table reports regressions examining the effect of corporate opportunity waiver statutes on audit fees. The dependent variable is *ln(AuditFees)*. *Treatment* is an indicator equal to 1 for firms incorporated in a state that adopts a corporate opportunity waiver statute, and 0 otherwise. *Post* equals 1 for years following the effective date of the statute in the relevant cohort. Robust t-statistics are reported in parentheses, with ***, **, and * denoting significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Table 6: The Role of External Governance

	Dependent variable: *ln(AuditFees)*			
	Top-5 Ownership		Top-10 Ownership	
	Below Median	Above Median	Below Median	Above Median
	(1)	(2)	(3)	(4)
Treatment × *Post*	0.068***	0.003	0.063**	0.006
	(2.58)	(0.12)	(2.29)	(0.24)
ln(Assets)	0.348***	0.382***	0.356***	0.381***
	(28.84)	(35.21)	(30.42)	(34.64)
Big4	0.254***	0.195***	0.259***	0.152***
	(15.64)	(10.67)	(16.39)	(8.17)
Loss	0.026***	0.046***	0.017*	0.049***
	(2.91)	(6.88)	(1.91)	(7.35)
BTM	0.002	0.031***	0.001	0.027***
	(0.23)	(5.13)	(0.10)	(4.33)
ROA	−0.184***	−0.236***	−0.205***	−0.257***
	(−6.99)	(−6.34)	(−7.93)	(−6.65)
SalesGrowth	−0.005	0.001	0.001	−0.000
	(−1.10)	(0.19)	(0.13)	(−0.01)
Leverage	0.204***	0.166***	0.211***	0.149***
	(7.61)	(7.02)	(7.88)	(6.21)
InvRec	0.351***	0.295***	0.356***	0.295***
	(6.71)	(5.17)	(6.79)	(5.28)
Foreign	0.034***	0.074***	0.022**	0.082***
	(3.07)	(6.45)	(1.98)	(7.24)
Segments	0.004	0.006	0.012	0.001
	(0.42)	(1.00)	(1.44)	(0.21)
NewFinance	0.014***	0.001	0.010**	0.006
	(2.73)	(0.30)	(1.99)	(1.21)
ExtDis	0.044***	0.040***	0.043***	0.034***
	(5.38)	(5.55)	(5.16)	(4.86)
Constant	3.594***	3.239***	3.543***	3.316***
	(29.79)	(35.82)	(31.38)	(35.99)
Other Control Variables	Yes	Yes	Yes	Yes
Cohort-Firm Fixed Effects	Yes	Yes	Yes	Yes
Cohort-Year Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R^2	0.965	0.964	0.965	0.962
Observations	23,124	23,372	23,178	23,383

Notes. This table examines whether the effect of corporate opportunity waiver statutes on audit fees varies with external governance. The dependent variable is *ln(AuditFees)*. Columns (1) and (2) split the sample based on whether ownership by the five largest institutional investors is below or above the sample median. Columns (3) and (4) split the sample based on whether ownership by the ten largest institutional investors is below or above the sample median. *Treatment* equals 1 for firms incorporated in a state that adopts a corporate opportunity waiver statute, and 0 otherwise. *Post* equals 1 for years following the effective date of the statute in the relevant cohort. Robust t-statistics are reported in parentheses, with ***, **, and * denoting significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Table 7: The Role of Internal Governance

	Dependent variable: *ln(AuditFees)*			
	Management Score		Governance Score	
	Below Median	Above Median	Below Median	Above Median
	(1)	(2)	(3)	(4)
Treatment × *Post*	0.111**	0.046	0.128***	0.008
	(2.48)	(1.25)	(2.74)	(0.24)
ln(Assets)	0.414***	0.376***	0.411***	0.395***
	(17.66)	(24.73)	(16.91)	(27.15)
Big4	0.411***	0.067	0.381***	0.139***
	(11.36)	(1.43)	(9.63)	(3.28)
Loss	0.001	0.022**	0.006	0.025**
	(0.09)	(2.30)	(0.60)	(2.31)
BTM	−0.023	0.014	0.001	0.005
	(−1.16)	(1.63)	(0.06)	(0.63)
ROA	−0.250***	−0.523***	−0.276***	−0.249***
	(−3.30)	(−8.57)	(−4.00)	(−7.47)
SalesGrowth	0.010	0.055***	0.010	0.051***
	(1.24)	(3.96)	(1.29)	(4.54)
Leverage	0.127***	0.150***	0.098**	0.175***
	(3.06)	(4.04)	(2.32)	(4.43)
InvRec	0.297***	0.295***	0.314***	0.264***
	(4.03)	(3.84)	(4.11)	(3.45)
Foreign	0.048***	−0.027*	0.048***	−0.029*
	(3.94)	(−1.74)	(3.56)	(−1.88)
Segments	0.026***	−0.002	0.016***	−0.006
	(4.21)	(−0.39)	(2.61)	(−1.14)
NewFinance	0.013*	−0.001	0.015*	−0.001
	(1.68)	(−0.18)	(1.85)	(−0.22)
ExtDis	0.011	0.031***	0.020**	0.041***
	(1.19)	(2.87)	(2.03)	(3.67)
Constant	3.086***	3.914***	3.363***	3.651***
	(17.32)	(26.90)	(18.97)	(25.11)
Other Control Variables	Yes	Yes	Yes	Yes
Cohort-Firm Fixed Effects	Yes	Yes	Yes	Yes
Cohort-Year Fixed Effects	Yes	Yes	Yes	Yes
Adjusted R^2	0.979	0.982	0.976	0.984
Observations	6,348	6,411	6,329	6,400

Notes. This table examines whether the effect of corporate opportunity waiver statutes on audit fees varies with internal governance. The dependent variable is *ln(AuditFees)*. Columns (1) and (2) split the sample based on whether the firm's management score is below or above the sample median. Columns (3) and (4) split the sample based on whether the firm's governance score is below or above the sample median. *Treatment* equals 1 for firms incorporated in a state that adopts a corporate opportunity waiver statute, and 0 otherwise. *Post* equals 1 for years following the effective date of the statute in the relevant cohort. Robust t-statistics are reported in parentheses, with ***, **, and * denoting significance at the 1%, 5%, and 10% levels, respectively. Variable definitions are provided in Appendix A.

Appendix A
Variable Definitions

Variable	Definition	Source
Treatment	Equals 1 for firms incorporated in a state that adopts a corporate opportunity waiver statute, and 0 otherwise.	Authors' calculations
Post	Equals 1 for firm-year observations after the effective date of the corporate opportunity waiver statute in the relevant cohort, and 0 otherwise.	Authors' calculations
AuditFees	Audit fees, measured in thousands of dollars. Specifically, audit fees are divided by 1,000.	Audit Analytics
ln(AuditFees)	Natural logarithm of audit fees measured in thousands of dollars.	Audit Analytics / Authors' calculations
Assets	Total assets in millions of dollars.	Compustat
ln(Assets)	Natural logarithm of total assets.	Compustat
Big4	Equals 1 if the firm is audited by a Big 4 audit firm, and 0 otherwise.	Audit Analytics
Loss	Equals 1 if net income is negative, and 0 otherwise.	Compustat
BTM	Book-to-market ratio, defined as common equity divided by the market value of equity, where market value of equity equals common shares outstanding multiplied by fiscal-year-end share price.	Compustat
ROA	Return on assets, defined as operating income after depreciation divided by total assets.	Compustat
SalesGrowth	Sales growth, defined as the change in sales from the prior year divided by prior-year sales.	Compustat
Leverage	Total liabilities divided by total assets.	Compustat
InvRec	Inventory and receivables divided by total assets.	Compustat
Foreign	Equals 1 if the firm reports positive foreign income taxes, and 0 otherwise.	Compustat
NewFinance	Equals 1 if new financing exceeds 5% of total assets, and 0 otherwise. New financing is defined as the sum of sale of common and preferred stock and long-term debt issuance, divided by total assets.	Compustat
ExtDis	Equals 1 if the firm reports nonzero extraordinary items and discontinued operations, and 0 otherwise.	Compustat
BusySeason	Equals 1 if the firm's fiscal year ends in December, and 0 otherwise.	Compustat
AuditDelay	Number of days between the fiscal year-end date and the audit report date.	Audit Analytics / Authors' calculations
AccFiler	Equals 1 if the firm is classified as an accelerated filer, and 0 otherwise.	Audit Analytics
AuditorChange	Equals 1 if the firm changes its auditor during the year, and 0 otherwise.	Audit Analytics
GConcern	Equals 1 if the auditor issues a going-concern opinion, and 0 otherwise.	Audit Analytics
ICWeak	Equals 1 if the firm reports an internal control weakness, and 0 otherwise.	Audit Analytics
Segments	Number of business segments reported by the firm.	Compustat Segments

Variable	Definition	Source
Top5InstOwn	Fraction of shares held by the five largest institutional investors.	Thomson Reuters 13-F filings / Authors' calculations
Top10InstOwn	Fraction of shares held by the ten largest institutional investors.	Thomson Reuters 13-F filings / Authors' calculations
MgmtScore	Management score capturing the quality of the firm's management-related governance practices.	LSEG Workspace
GovScore	Governance score capturing the quality of the firm's overall corporate governance practices.	LSEG Workspace