**Do Ethnic Minority Audit Partners Face Discrimination? Evidence from the Australian Audit Market**

**Abstract**

The professional literature has provided evidence of discrimination against ethnic minority professionals in a number of research contexts, including law, architecture, construction, and healthcare. However, research on ethnicity-based discrimination in the accounting profession has been sparser and has generally relied on ethnic minorities’ *perceptions* of discrimination rather than *actual* discrimination. In this study, we complement and extend this research by investigating whether ethnic minority audit partners are associated with lower audit fees than non-ethnic minority audit partners. We also consider whether the association between ethnicity and audit fees depends on the status of the audit firm in which audit partners work. We find that ethnic minority audit partners are associated with lower audit fees and that this holds true only when they work in lower-status audit firms. Supplementary analyses carried out on our data suggest that discrimination is more likely to be performed by audit clients than by audit firms as we do not find evidence that audit firms systematically and selectively allocate ethnic minority audit partners to clients with specific characteristics (e.g., potentially less lucrative clients). Our study contributes to the literature on ethnicity-based discrimination in the accounting profession, to the literature on professional stereotypes, and to the audit pricing literature.

**Keywords**: Accounting profession; Audit partners; Discrimination; Ethnicity; Audit Fees; Professional Stereotypes; Big-N.

**JEL Classification**: C33, J71, M42.

**Do Ethnic Minority Audit Partners Face Discrimination? Evidence from the Australian Audit Market**

**Introduction**

The professional literature has provided ample evidence of discrimination against ethnic minority professionals in different research contexts, including law, architecture, construction, and healthcare (e.g., Payne-Pikus et al., 2010; Sander, 2006; Woodson, 2014). Research on ethnicity-based discrimination in the accounting profession (e.g., Annisette, 2003; Kim, 2004; Hammond et al., 2009) has, however, been sparser and has mainly relied on ethnic minorities’ *perceptions* of discrimination rather than *actual* discrimination.

In this study, we complement and extend this research by investigating whether ethnic minority audit partners are associated with lower audit fees than non-ethnic minority audit partners.[[1]](#endnote-1) We also consider whether the association between ethnicity and audit fees depends on the status of the audit firm for which audit partners work. Drawing from research on professional stereotypes in the accounting profession (Friedman & Lyne, 2001; Hobeika, 2021; Jones & Stanton, 2021; Willems, 2020), we argue that ethnic minority audit partners could be perceived as not fitting the professional stereotype and could therefore receive lower fees for the services that they offer. Professional stereotypes summarize the main characteristics of a given profession, help individuals categorize other individuals as members or non-members of a profession, and enable them to make inferences about the quality of the services that they offer (Bird, 2003; Fassiotto et al., 2018; Vescio & Biernat, 1999). As such, professionals who do not fit professional stereotypes could be perceived as offering lower quality services and be paid less than other professionals (Amin & Uyar, 2021; Woodhams et al., 2021).

Empirically, we select the Australian accounting profession as our research context and investigate whether ethnic minority audit partners are associated with lower audit fees than non-ethnic minority audit partners. We argue that, in this research context, the stereotype of the audit partner is that of a professional of Anglo-Saxon origins because the accounting profession in Australia was founded and has traditionally been dominated by this type of professionals (Carnegie & Parker, 1999; Chua & Poullaos, 1998; Parker, 1989) and, despite increasing commitment to inclusivity and diversity, most audit partners still fit this stereotype (Tadros & King, 2016). We speculate that, when audit partners have a surname that suggests that they are not of Anglo-Saxon origin, they could be seen as not fitting the professional stereotype and face discrimination. The use of surnames to infer individual roots has been validated in the accounting and auditing literature. For example, Pham et al. (2022) focused on audit partners, chief executive officers, and chief financial officers and, in line with our approach, inferred their individual cultural heritage through the country where their surnames originate.[[2]](#endnote-2)

Despite the specificities of the research context that we select, we believe that the results that we achieve in this study could be generalized to other research contexts as the under-representation of certain ethnic groups in professions such as law, medicine, and higher education has been well documented in both the academic and the practitioner literature (e.g., Coleman & Gulati, 2005; Davila, 1986; Sander, 2006; Wilkins & Gulati, 1996) and there is evidence of ethnicity-based discrimination in many professional settings around the world (e.g., Bowen et al., 2013; Payne-Pikus et al., 2010; Woodson, 2014). In addition, several studies have provided evidence of the underrepresentation of or discrimination against ethnic minority members of the accounting profession in countries other than Australia, suggesting that the results of this study are potentially relevant to these geographic contexts as well (e.g., Annisette & Trivedi, 2013; Duff, 2011; Hammond et al., 2009, 2012; Kim, 2004).

Ethnic minority audit partners could face discrimination in two main ways. On the one hand, they could be discriminated against by the clients whom they work for by being paid less than non-ethnic minority audit partners for the same quality of audit services. When offered an ethnic minority partner, clients could choose to hire another audit firm entirely or ask to be allocated another audit partner. While either of these options is possible, clients could also decide to accept the audit partner whom they are proposed but offer lower fees as this course of action is likely to be less visible outside and, therefore, less likely to be perceived as discriminatory. On the other hand, because of mounting societal pressures toward diversity and inclusion and the increasing commitment of accounting associations to these issues, audit firms could feel pressured to employ ethnic minority audit partners to be perceived as more ethnically diverse and inclusive. They could, however, allocate these partners to less lucrative audit engagements, as long as this differential treatment cannot easily be observed from the outside. In either case, no matter where discrimination originates— in the relationships that ethnic minority audit partners have with their clients or in the audit firms they work in —if ethnic minority audit partners face discrimination, we should observe a negative association between their ethnic background and audit fees.

Ethnic minority audit partners, however, may not encounter discrimination when they work in higher-status audit firms (i.e., the so-called “Big-N” audit firms). Higher-status audit firms are more diverse to start with and, therefore, less likely to allocate ethnic minority audit partners systematically and selectively to potentially “less lucrative” clients. This, in turn, should make ethnicity-based discrimination on the audit firm’s side less likely. Moreover, since Big-N clients tend to be large multinational firms with foreign transactions and a more diverse employee group, these clients are more open-minded, less reluctant to work with ethnic minority audit partners, and more likely to see them as an asset.[[3]](#endnote-3) In addition, the potentially negative associations linked to not fitting the professional stereotype could be counterbalanced by the positive associations linked to the status of the firms in which they work, making ethnicity-based discrimination on the client’s side less likely as well. In this respect, ethnic minority audit partners can benefit more than non-ethnic minority audit partners from working in higher-status audit firms as, by virtue of having been “made into partners” in these firms, they are perceived as being particularly “gifted and/or especially good at learning from and dealing with adversity” (Hill et al., 2015, p. 1119). Consequently, we propose that we do not observe a negative association between ethnicity and audit fees among higher-status audit firms.

Our empirical results support our hypotheses. We find that ethnic minority audit partners are associated with lower audit fees than non-ethnic minority audit partners and that this association holds true only for ethnic minority audit partners who work in lower-status audit firms. To further explore whether the observed discrimination is instigated by the clients whom audit partner work for or by the audit firms that they work in, we run additional analyses to test whether ethnic minority audit partners are systematically and selectively allocated to “less lucrative” clients. The results of these analyses suggest that this is not the case. We therefore conclude that it is more probable that clients, rather than audit firms, discriminate against ethnic minority audit partners.

Our study contributes to three main streams of literature. First, it contributes to the literature that has examined ethnicity-based discrimination in the accounting profession by providing evidence that ethnic minority audit partners who work in lower-status audit firms experience discrimination, most likely from their clients. Second, it contributes to the literature on professional stereotypes by showing that professional stereotypes have direct financial implications, as well as potentially indirect career implications, for the professionals involved. Third, it contributes to the audit pricing literature by showing that audit partner ethnicity affects audit fees. Our study has also implications for the accounting profession, and for society more broadly, as it reveals the existence of deep-seated ethnicity-based discrimination within the accounting profession, pointing to the need for an even more active role of professional associations and other relevant actors in addressing this issue.

**State of Research and Hypotheses**

**Research on Ethnicity-Based Discrimination in the Accounting Profession**

As already noted, research on ethnicity-based discrimination within the accounting profession has been rather sparse. Some studies have provided evidence that ethnic minority accountants are under-represented within the profession (Hammond, 1997; Hammond & Streeter, 1994). Other studies have documented different forms of discrimination against ethnic minority accountants in different geographic contexts. Hammond et al. (2009, 2012) showed how the first black chartered accountants in South Africa were heavily discriminated against between 1968 and 2000 and that their discrimination continued despite political and social opposition to apartheid. Similarly, Annisette and Trivedi (2013) provided evidence of ethnicity-based discrimination in the accounting profession in Canada, and Thompson and Jones (2016) showed that non-white, non-Western accountants in the same country experienced barriers to their professional development and had to mimic white, Western accountants to be accepted. Further, Kim (2004) provided evidence that Chinese accountants faced discrimination in New Zealand for a long period of time, and Duff (2011) showed that the Big Four accounting ﬁrms in the UK mainly provide pictures of white people in their annual reviews and that, when they provide pictures of people of color, they are much more likely to be depicted as other stakeholders rather than as partners, employees, or clients. The study concluded that “the job functions and locations in which people are portrayed evidence stereotyping and inequality” (p. 20). Interestingly, Annissette (2003, p. 639) showed that, even in a country like Trinidad and Tobago, where persons of African and East Indian descent constitute 80% of the country’s population, “Afro and Indo Trinidadians suffered the same fates of exclusion and under representation in professional accountancy as persons of similar ancestral backgrounds in the US and the UK”.

The above studies have the unquestionable merit of having brought the topic of ethnicity-based discrimination in the accounting profession into the open and shed significant light on this important issue. Nonetheless, in line with their intended goals and ontological and epistemological stance, these studies have tended to focus more on ethnic minorities’ *perceptions* of discrimination rather than on *actual* discrimination. Relying mainly on oral histories (e.g., Hammond et al., 2009, 2012) and accountants’ narratives (e.g., Thompson & Jones, 2016), these studies offer a unique and rather detailed account of the *lived experiences* and *perceptions* of ethnic minority accounting professionals but tell us relatively little about *actual* discrimination in the accounting profession.

The rather specific focus of these studies led Krishnan et al. (2023) to argue that there is still a paucity of empirical evidence on whether audit partners’ ethnicity plays a role in relevant audit phenomena, such as audit quality and engagement. Our study answers the call for more research in this important area of investigation by investigating whether ethnic minority audit partners are associated with lower audit fees than non-ethnic minority audit partners and whether this association holds true among both higher- and lower-status audit firms.

In the next sections, we introduce the concept of professional stereotypes and explain why we believe that this concept is linked to ethnicity-based discrimination in the Australian accounting profession. We then describe our research context and develop two hypotheses on how ethnicity-based discrimination could occur within this context.

**Research on Professional Stereotypes in the Accounting Profession**

Professional stereotypes—a form of stereotypes that encapsulates the main characteristics of a profession—have been examined in a number of different contexts, including healthcare (Carpenter, 1995), marketing (Fournier et al., 2014), banking (Hobeika, 2021), and the public sector (Willems, 2020). Several stereotypes have been identified with reference to the accounting profession. The most common and traditional is the “bean counter” stereotype (e.g., Caglio et al., 2019; Carnegie & Napier, 2010; Friedman & Lyne, 2001; Jeacle, 2008), which offers a view of accountants as dull and boring but also as trustworthy professionals. Another stereotype, that gained some traction in academic research in the aftermath of the accounting scandals that culminated in the collapse of Enron, is that of the “fraudster,” which presents accountants as rogues and self-interested professionals (Jones & Stanton, 2021). The third stereotype is that of the “business” accountant (Carnegie & Napier, 2010), also referred to as the “colorful” accountant (Jeacle, 2008), a stereotype mainly proposed by professional associations to counterbalance the negative connotations associated with the previous two stereotypes and to offer an image of the professional accountant “as a high ﬂyer, a ‘jet-setting’ advisor” (Anderson-Gough et al., 1998, p. 577).

While clearly distinct from each other, these stereotypes share three important features. First, they are all used by individuals within and outside the profession to make inferences about members of the profession. To begin with, they are used to distinguish members of the profession from non-members of the profession, for example to distinguish accountants from “everyone who is not an accountant” (Carnegie & Napier, 2010, p. 363). In addition, they are used to associate the stereotypical characteristics of a profession with those who have been identified as members of that profession (Carnegie & Napier, 2010). For example, in relation to the “bean counter” stereotype described above, individuals who have been identified as accountants are assumed to be “boring but trustworthy.”

Second, the professional stereotypes discussed above tend to be stable over time. In the absence of major disruptive events, such as those analyzed by Jones and Stanton (2021), professional stereotypes tend to reproduce and reinforce themselves over time (Carnegie & Napier, 2010). This is because individuals tend to pay more attention to those signals that are consistent with existing stereotypes and less attention to those that challenge them (Johnston, 1996). This explains why existing stereotypes endure over time despite several attempts to change them.

Third, the professional stereotypes described above are context specific; that is, they vary across countries (Fournier et al., 2014) and/or stakeholder groups (Caglio et al., 2019; Friedman & Lyne, 2001; Hobeika, 2021). Professional stereotypes are influenced by a number of factors, including movies, novels, the media, the business press, and job advertisements, just to name a few (Carnegie & Napier, 2010). Since individuals in different countries and/or stakeholder groups have different degrees of exposure to these factors, they form and use different professional stereotypes. This underlines the importance of studying professional stereotypes within the specific contexts in which they are born and used rather than relying on stereotypes that have previously been identified in other research contexts.

Following the characteristics of professional stereotypes that we have just discussed, in the next section, we introduce our empirical setting, describe the professional stereotype of accountants in this specific research context, and explain how reliance on this stereotype could lead to a negative association between ethnicity and audit fees.

**Empirical Setting**

The early history of the Australian accounting profession is inextricably tied to that of British imperialism as the British state and the British accounting profession played an important role in setting up local accounting associations (Cooper & Robson, 2006). At the end of the nineteenth century, British accounting associations started to extend their influence on several British colonies, including Australia (Chua & Poullaos, 2002). Rather than supporting the development of indigenous accountants in Australia, these associations mainly helped expatriate members to obtain the right to practice the profession in Australia (Chua & Poullaos, 2002). British expatriates were consequently involved in the establishment and management of the first Australian accounting associations, which were formed in South Australia, New South Wales, and Victoria in the 1880s (Chua & Poullaos,1998).

The consequence of this process was that the Australian accounting profession largely adopted British notions of professionalism (Carnegie & Parker, 1999; Parker, 1989). Access to the Australian accounting profession continued to be restricted mainly to individuals of Anglo-Saxon origin until the outbreak of World War I (Linn, 1996). Even after that, however, the presence of minorities of non-Anglo-Saxon origin within the profession was almost insignificant because immigrants to Australia had overwhelmingly Anglo-Saxon roots up to 1949 (Hayes & Jacobs, 2017). However, membership of the accounting profession has not changed substantially even after the increase in non-Anglo-Saxon immigration that Australia has experienced in recent years as professionals without Anglo-Saxon roots have found themselves in an environment where the social relationships were already deeply structured and, most of the time, have been forced to earn their main income by filling residual labor needs (Kim, 2004).

These factors have led to the development of the stereotype of the Australian accountant as a professional of Anglo-Saxon origin. Studies conducted in other former British colonies, such as Canada (Annisette & Trivedi, 2013), South Africa (Hammond et al., 2009, 2012), and New Zealand (Kim, 2004), have documented the scope and consequences of Anglo-Saxon influence on the local profession, although they have not necessarily framed this issue in terms of professional stereotypes. To the best of our knowledge, however, our study is the first to be conducted within the Australian accounting profession and, importantly, the first to investigate whether members of the profession who are not of Anglo-Saxon origin experience discrimination.

**Hypothesis Development**

Based on the arguments discussed above, one possibility is that clients do not consider ethnic minority audit partners as “proper” members of the profession and discriminate against them for not fitting into the professional stereotype. Discrimination on the client’s side could lead to ethnic minority audit partners being associated with lower audit fees than non-ethnic minority audit partners. During the process leading to the appointment of auditors, the prospective parties exchange and evaluate information about each other (Fiolleau et al., 2013). Prospective clients consider either a single provider or invite tenders, in which case selected audit firms are generally sent an audit request-for-proposal (RFP) that specifies the characteristics of the service required (Dhaliwal et al., 2015; Fiolleau et al., 2013). In either case, the selected audit firms provide the prospective clients with documents detailing their audit proposal, including the curricula vitae of the partners whom they would like to allocate to them. The curricula generally provide information about the proposed partners, including their names and surnames, professional qualifications, and experience (Fiolleau et al., 2013). When the proposed partners have a surname that suggests that they are not of Anglo-Saxon origin, they could be perceived as not fitting the professional stereotype. In this case, clients could choose to hire another audit firm or ask to be allocated another audit partner. While either of these options is possible, clients could also decide to accept the audit partner whom they are offered and negotiate lower fees as this course of action is less visible outside and, therefore, less likely to be perceived as discriminatory.

Another possibility is that audit firms do not fully recognize ethnic minority audit partners as “proper” members of the profession and discriminate against them. Discrimination, in this case, could result in ethnic minority audit partners being systematically and selectively assigned to clients with specific characteristics (e.g., less profitable or less attractive) who pay lower audit fees than other clients.

In either case, no matter whether it is the audit firm ethnic minority audit partners work in or the clients whom they work for that do not see them as fitting the professional stereotypes, ethnic minority audit partners could end up being associated with lower audit fees than non-ethnic minority audit partners. Therefore, we propose the following hypothesis:

**H1:** Ethnic minority audit partners are seen as not fitting the professional stereotype and are associated with lower audit fees than non-ethnic minority audit partners.

Ethnic minority audit partners who work in higher-status audit firms (i.e., the so-called “Big-N” audit firms), however, may not be discriminated against, or at least not to the same extent as those who work in lower-status audit firms. On the one hand, higher-status audit firms are more diverse to start with and less likely to allocate ethnic minority partners to “less lucrative” clients. This situation, in turn, would make ethnicity-based discrimination on the audit firm’s side less likely to occur. On the other hand, since Big-N clients tend to be large multi-national firms with foreign transactions and a more diverse employee group, these clients are more open minded, less reluctant to work with ethnic minority audit partners, and more likely to see them as an asset. In addition, the potentially negative associations linked to ethnic minority audit partners not fitting the professional stereotype could be counterbalanced by the positive associations linked to the status of the firms that they work in, making ethnicity-based discrimination on the client’s side less likely as well. In this respect, ethnic minority audit partners can benefit more than non-ethnic minority audit partners from working in higher-status audit firms as, by virtue of having been “made into partners” in these firms, they are perceived as being particularly “gifted and/or especially good at learning from and dealing with adversity” (Hill et al., 2015, p. 1119). Research on ethnicity-based discrimination by business organizations has provided evidence that ethnic minority employees find it more difficult than other employees to be promoted to top positions (e.g., Park & Westphal, 2013). Consequently, when they manage to achieve that, they are generally perceived as possessing “exceptional” qualities (Hill et al., 2015). Perceptions of ethnic minority audit partners who work in higher-status audit firms as “special individuals” can offset the negative associations arising from them not fitting the professional stereotype. Consequently, we propose that the negative association between ethnic minority audit partners and audit fees is only observed among lower-status audit firms. Thus, we propose the following hypothesis:

**H2:** The negative association between ethnic minority audit partners and audit fees is observed only among lower-status audit firms.

**Research Methodology**

**Research Sample and Data Collection**

To build our database, we use a sample of non-financial firms listed on the Australian Security Exchange between 1996 and 2017. We obtain and merge data from different sources. Data on audit firms, audit partners, and audit fees prior to 2004 are hand collected from firms’ annual reports. Data on audit fees after 2004 are obtained from the database Connect 4. Individual-level data on audit partners, such as age and education, are hand collected from publicly available sources, such as LinkedIn. Financial data are acquired using DataStream and ORBIS.

After excluding observations without the data necessary to run our analyses, we obtain a dataset comprising 2,489 unique audit clients—audited by 794 unique partners, 25.1% of whom are categorized as ethnic minority audit partners—and a total of 10,336 audit partner–client-year observations.[[4]](#endnote-4)

[Insert Table 1 here]

**Dependent Variable**

Our dependent variable is the natural logarithm of audit fees, which are the fees paid by clients to audit firms for services delivered by audit partners. Audit fees are discussed and agreed upon by clients and audit firms at the beginning of the mandate and then reviewed annually to introduce adjustments for possible changes in inflation rates and the cost of living or changes in the business model of clients. Previous literature has documented that audit fees vary across audit partners, once client-related and audit firm-related variables are considered (e.g., Taylor, 2011).

**Independent Variables**

Our first independent variable is audit partner ethnicity. To infer ethnicity, we use audit partners’ surnames. As already mentioned, the use of surnames to infer individual roots has been validated in the accounting and auditing literature. For example, Pham et al. (2022) focused on audit partners, chief executive officers, and chief financial officers and, using an approach similar to that used in this research, inferred their individual cultural heritage from the country where their surnames originate through the website ancestry.com. Auditor–client relations are generally managed by either relationship partners or local office managing partners, who provide clients with information about the audit partners whom audit firms would like to allocate to them (Dodgson et al., 2020, 2021). The information provided generally includes their name and surname, age, professional qualifications, and experience. By looking at audit partners’ surnames, prospective clients are able to categorize them as being (or not being) an ethnic minority audit partner and as not fitting (or fitting) the professional stereotype.

We use an ethnic-name database, *Family Search*, to identify the surnames that prospective clients could see as indications of ethnic minority audit partners. We enter the surname of each partner and obtain between one and three countries where the surname is most frequently found. For example, when we type the surname of one of the audit partners in our dataset, Jennifer Hayward (pseudonym used to maintain anonymity), we find that the surname “Hayward” is most commonly found in England (43,660 people with this surname), followed by the United States (17,646 people) and Canada (2,063 people).[[5]](#endnote-5) We then consider the country with the highest number of individuals with a given surname as our main country of origin. Thus, in the example above, we associate Hayward with England. Finally, we define audit partners as ethnic minority audit partners when their surname is not commonly observed in Australia, Ireland, the United Kingdom, and the United States and create a dummy variable (*NOANGLO*)that equals 1 if the audit partner’s surname is not commonly observed in Australia, Ireland, the United Kingdom, and the United States and 0 otherwise. Although several studies have validated the accuracy of inferring ethnicity from surnames (Hegde & Tumlinson, 2014; Liu et al., 2022; Pham et al., 2022; Webber, 2007), we recognize that our approach does not allow us to capture cases in which ethnic minority audit partners assumed Anglo-Saxon surnames (e.g., married audit partners assuming the Anglo-Saxon surname of their partners) or cases in which a surname of Anglo-Saxon origin is not commonly observed in one of the four countries listed above. Although we acknowledge these limitations, we believe that they do not substantially compromise the results of our study because our focus on professional stereotypes makes it less relevant to know whether audit partners are *actually* ethnic minority audit partners. Rather, we are interested in understanding whether audit partnerscould be *categorized* as being ethnic minority audit partners due to their surname and whether this affects the audit fees with which they are associated. In any case, to avoid potential measurement biases, we search the Web for audit partners’ pictures and use them as an alternative measure of our audit partner ethnicity variable in one of our robustness tests (Liu et al., 2022).

Our second independent variable is audit firm status. To measure this variable, we create a dummy variable (*BIG-N*) that takes the value of 1 if the audit partner works in one of the Big-N audit firms and 0 otherwise.[[6]](#endnote-6)

**Control Variables**

We control for client/task-related, audit firm-related, and audit partner-related heterogeneity by including task/client, audit firm, and audit partner controls in our models (e.g., De George et al., 2013; Stewart et al., 2016). Appendix A presents the definitions and measurements of these variables.[[7]](#endnote-7)

**Empirical Model**

We test our hypotheses using the following model (1):

*LAF = β0 + β1NOANGLOit + β2LTAit + β3RECit + β4INVit + β5QUICKit +β6OCFit + β7LOSSit +β8LEVit + β9ABSACCit + β10ROIit + β11SUBSit + β12FOREIGNit + β13AUDCHit + β14BIG-Nit +β15SYDNEYit + β16BUSYit + β17OPINIONit + β18GCit + β19INDSPECit + β20PGENDERit + β21PAGEit + β22PEDUit +β23PLOCit + βjYEAR + βkIND + εit* (1)

The model is estimated using OLS with year and industry fixed effects (Hardies et al., 2021) to control for time-invariant industry features. We estimate model (1) for the entire sample to test our first hypothesis and separately for Big-N and non-Big-N audit clients to test our second hypothesis.

Under our first hypothesis, we theorize that ethnic minority audit partners are associated with lower audit fees than non-ethnic minority audit partners. Accordingly, we expect *β1* to be negative and significant. Under our second hypothesis, we are interested in the significance and sign of *β1* for the groups of Big-N and non-Big-N audit clients. Moreover, to determine whether the association between audit fees and audit partner ethnicity differs significantly between Big-N and non-Big-N audit clients, we test whether the coefficient *β1* for the group of non-Big-N audit clients is also significantly different from the samecoefficient for the group of Big-N audit clients (Hardies et al., 2021).

**Research Findings**

**Descriptive Statistics and Univariate Analyses**

Table 2 presents the descriptive statistics for the variables used in the study. Panel A refers to the full sample, Panel B shows the analyses separately for Big-N and non-Big-N audit clients, and Panel C displays audit partners’ characteristics by audit firm type and ethnicity.

[Insert Table 2 here]

Panel A shows that, overall, 18% of the observations in the sample include an ethnic minority audit partner. The sample is balanced between Big-N and non-Big-N audit clients, allowing us to make a robust comparison between these two groups of audit firms. The descriptive statistics pertaining to audit fees and the main firm-level characteristics are consistent with those of previous studies conducted in the Australian setting (e.g., Bicudo de Castro et al., 2019; Ferguson et al., 2019; Shan et al., 2019).

The comparison between Big-N and non-Big-N audit clients (Panel B) reveals some interesting differences. As expected, on average, Big-N audit clients pay higher audit fees than non-Big-N audit clients, a finding that is in line with those of previous studies that have documented an audit fee premium for Big-N firms. Big-N firms’ clients are also larger, are less likely to exhibit losses, have lower levels of accruals, and are less likely to issue modified and going concern opinions. The percentage of observations with ethnic minority audit partners is higher among Big-N audit clients than among non-Big-N audit clients (21 percent versus 15 percent). Audit partners working in Big-N firms come from higher-quality universities and are more likely to have studied outside Australia.

Panel C shows that audit fees are not statistically different based on partner ethnicity for the group of Big-N audit clients, whereas they are statistically lower among ethnic minority audit partners for the group of non-Big-N audit clients. Among the Big-N clients, ethnic minority audit partners are also older than non-ethnic minority audit partners. Ethnic minority audit partners of both Big-N and non-Big-N audit firms studied in lower-ranked universities and are more likely to have studied outside Australia. To limit the potential impact of these characteristics on our results, we control for all these features in our models.

The Pearson correlation matrix is presented in Table 3. The correlations are generally low to moderate, suggesting that our empirical analyses do not suffer from multicollinearity. However, we perform a diagnostic test for multicollinearity by estimating the variance inflation factor (VIF) coefficients for our regression models. All the coefficients are below the threshold of five (Kalnins, 2018), which suggests that multicollinearity does not affect our analyses.

[Insert Table 3 here]

**Multivariate Analyses**

Table 4 shows the estimation of model (1).

[Insert Table 4 here]

Column (1) presents the results for the entire sample. The model is significant (p-value = 0.000), and the R-square is approximately 80 percent, in line with previous studies on audit fees in the Australian setting (e.g., Stewart et al., 2016). The coefficient *β1* associated with the variable *NOANGLO* is negative and significant at the 1 percent level (β = -0.063, p-value = 0.000), in accordance with our first hypothesis. This suggests that ethnic minority audit partners are associated with lower audit fees after controlling for client/task-related, audit firm-related, and audit partner-related characteristics.

Columns (2) and (3) report the results for the Big-N and non-Big-N audit client subsamples, respectively. The coefficient *β1* associated with the variable *NOANGLO* is not significant among Big-N audit clients (p-value = 0.145), while it is negative and significant at the 1 percent level (β = -0.141, p-value = 0.000) in column (3), which shows the result for non-Big-N audit clients. In line with our second hypothesis, this indicates that the negative association between ethnicity and audit fees is observed only among non-Big-N audit firms. A test of the difference of such coefficients (untabulated) shows that the coefficient *β1* estimated among non-Big-N audit clients is significantly more negative than the same coefficient estimated among Big-N audit clients at the 1% level (p-value = 0.001). The coefficients of the control variables are consistent with those of previous studies (e.g., De George et al., 2013; Stewart et al., 2016).

**Supplementary Analyses and Robustness Tests**

To gain insights into whether it is clients or audit firms that discriminate against ethnic minority audit partners, we divide our sample into two sub-samples: the first consists of clients audited by ethnic minority audit partners, and the second contains clients audited by non-ethnic minority audit partners. We then produce descriptive statistics for each group and perform a t-test to compare them. The results of this analysis, presented in Table 5, indicate that the clients audited by non-ethnic minority audit partners are, overall, not statistically different from those audited by ethnic minority audit partners.[[8]](#endnote-8) These findings are inconsistent with the idea that audit firms systematically and selectively assign ethnic minority audit partners to clients who are statistically different from other clients. They support instead the argument that clients rather than audit firms discriminate against ethnic minority audit partners.

[Insert Table 5 here]

A series of additional supplementary analyses and robustness tests are presented in Table 6.

[Insert Table 6 here]

Panel A of Table 6 re-estimates our main results under alternative econometrics approaches. First, in addition to the evidence provided in Table 5, to further minimize the possibility that our results are driven by significant differences between clients of non-ethnic minority audit partners and those of ethnic minority audit partners, we compare the clients belonging to these two groups using multivariate matching via entropy balancing (Hainmueller, 2012). Entropy balancing allows us to observe the estimation outcomes in which the weighted covariates are comparable between treatment and non-treatment observations. As Hainmueller (2012, p. 25) suggests, “entropy balancing relies on a maximum entropy reweighting scheme that calibrates unit weights so that the reweighted treatment and control group satisfy a potentially large set of prespecified balance conditions that incorporate information about known sample moments. Entropy balancing thereby exactly adjusts inequalities in representation with respect to the first, second, and possibly higher moments of the covariate distributions. These balance improvements can reduce the model dependence for the subsequent estimation of treatment effects. The method assures that balance improves on all covariate moments included in the reweighting”.[[9]](#endnote-9) We balance based on the mean, variance, and skewness of a vector of variables that can be associated with the probability of selecting an ethnic minority versus a non-ethnic minority audit partner in accordance with previous studies that have focused on the choice of auditors based on their reputation (DeFond et al., 2017; Lawrence et al., 2011). These variables are the natural logarithms of sales, the sales-to-asset ratio, the current ratio, companies’ leverage and profitability, and individual auditors’ characteristics. We estimate a weighted regression version of model (1) in which clients of ethnic minority audit partners (i.e., treated observations) have a weight of one and clients of non-ethnic minority audit partners (i.e., control observations) have a weight identified by the entropy-balancing algorithm based on the predictors listed above. The results, reported in columns (1) to (3) of Table 6, Panel A, are consistent with our main analyses and support both our hypotheses.[[10]](#endnote-10) This evidence, together with the results show in Table 5, suggests that ethnic minority audit partners are discriminated against by their clients rather than by the audit firms in which they work.

Second, to account for the possibility that clients do not randomly choose an ethnic minority versus a non-ethnic minority audit partner, we re-run our analyses using the Heckman (1979) two-stage approach, which corrects for selection bias (De George et al., 2016). This method allows us to consider firm-level characteristics associated with the choice of a given partner. In line with Heckman’s (1979) procedure, we run a first-stage probit regression to investigate the probability of selecting a non-ethnic minority audit partner versus an ethnic minority audit partner and use the same vector of variables that can be associated with such a choice as discussed above for the entropy balancing.[[11]](#endnote-11) We then run the same regressions as in our main analyses, including the inverse Mills ratio from our stage one regression, in our stage two regression as an additional explanatory variable to control for selection bias (Heckman, 1979). The results obtained using the Heckman’s procedure are displayed in columns (4) to (6) of Table 6, Panel A, and are in line with our main results.[[12]](#endnote-12)

Third, to account for any additional unobserved heterogeneity across clients, we re-estimate our model using client fixed effects. The results, reported in columns (7) to (9) of Table 6, Panel A, support our hypotheses.

Panel B of Table 6 re-estimate our main analyses using alternative proxies for both our dependent variable and our variable of interest. As far as the dependent variable is concerned, we employ a partner-specific fee premium and investigate whether this is consistently associated with the ethnicity of audit partners.[[13]](#endnote-13) Using the methodology proposed by Moon et al. (2019), we run our audit fee model including only client-level controls and a vector of indicator variables for the audit partners in our sample. The vector of coefficients for the audit partner indicators quantifies the fee premium for each partner (Moon et al., 2019). We then use the fee premium for each audit partner as our dependent variable. The results, reported in columns (1) to (3) of Table 6, Panel B, are consistent with our main findings.

As far as the alternative measure of ethnicity is concerned, we search online for each individual partner’s picture (Liu et al., 2022) and categorize these partners as White, Asian/Chinese, Black, or Arab.[[14]](#endnote-14) We then create another measure of ethnicity (*PHOTO*) that takes the value of one if the audit partner is Asian/Chinese, Black, or Arab as these groups are less likely to fit the stereotype of the audit partner in Australia. To reduce the potential impact of bias and subjectivity in the classification of pictures, the task is performed independently by two research assistants. Cases in which the classification differ are discussed further. We choose this additional measure of ethnicity for two main reasons. First, this measure does not suffer from some of the limitations of our main measure of ethnicity, including the possibility that ethnic minority audit partners assume Anglo-Saxon surnames or that a surname that should be of Anglo-Saxon origin is not commonly observed in one of the countries considered as Anglo-Saxon in our study. Second, as explained in the section on audit partners’ hiring process, prospective clients are normally provided with information about the audit partners whom audit firms would like to allocate to them through either relationship partners or local office managing partners (Dodgson et al., 2020, 2021). Since this information often includes a picture of the audit partner, we believe that, in our research context, it is appropriate to use the ethnic background inferred from the partner’s picture as an alternative measure of ethnicity. Because we could not find pictures of all the audit partners included in our sample, this test uses 8,804 observations (i.e., 85.18 percent of the total sample). The results of this analysis, presented in columns (4) to (6) of Table 6, Panel B, are consistent with our main evidence and indicate that ethnic minority audit partners are associated with lower audit fees when they work in non-Big-N audit firms.

In Panel C of Table 6, we take the same approach as Hardies et al. (2021) to rule out the possibility that the lower fees associated with ethnic minority partners are related to a lower audit quality associated with these partners. Although our model already controls for differences in terms of the personal and educational backgrounds of partners, we run the following model to assess the association between audit quality and partners’ ethnicity:

*AQit = α0 + β1NOANGLOit + β2LTAit + β7LOSSit +β8LEVit + β10ROIit + β11SUBSit + β12FOREIGNit + β13AUDCHit + β14BIG-Nit + β16BUSYit + β17OPINIONit + βjYEAR + βkIND + εit  (2)*

We estimate *AQ* using client-level accruals (columns 1-3), the presence of going concern opinions (columns 4-6), and the presence of restatements (columns 7-9) and control for factors commonly used in the audit quality literature.[[15]](#endnote-15) The results of this analysis provide no evidence of ethnic minority partners being associated with a lower level of audit quality given that we do not find the coefficient associated with partners’ ethnicity to be significant for any of our audit quality proxies, even when we split the sample between Big-N and non-Big-N audit firms.[[16]](#endnote-16)

Panel D of Table 6 reports a series of final robustness tests. We re-run our analyses considering only those clients who exhibit an audit partner change that also results in a change in the partner’s ethnicity.[[17]](#endnote-17) We run our audit partner change analysis separately for those clients that switch from a non-ethnic minority audit partner to an ethnic minority audit partner and vice versa. This approach significantly reduces our sample (645 observations for Big-N clients and 631 for non-Big-N clients in columns (2) and (3) and 624 for Big-N clients and 589 for non-Big-N clients in columns (5) and (6)). Nevertheless, the results reported in columns (1) to (6) of Table 6, Panel D, support our main evidence that ethnic minority audit partners are associated with lower audit fees only when they work in non-Big-N audit firms.

We also investigate whether our findings are affected by the ethnicity of clients’ top management. In particular, we test whether CEOs’ ethnic backgrounds have any effects on the relation between ethnic minority audit partners and audit fees. We collect the names of the CEOs of the firms included in our sample from Connect 4 and manually classify each CEO as either an ethnic minority CEO or a non-ethnic minority CEO using the same technique as that employed to assess the ethnicity of audit partners. We create a dummy variable, *NOANGLOCEO*, which equals 1 if the CEO’s surname does not have Anglo-Saxon origins and 0 otherwise. We interact this variable with our variable of interest, *NOANGLO*, to investigate any moderating effect of CEOs’ ethnicity.[[18]](#endnote-18) The results, shown in columns (7) to (9) of Table 6, Panel D, indicate that the ethnicity of CEOs does not have an impact on the association between audit partners’ ethnicity and audit fees. This is observed among both Big-N and non-Big-N clients. The sign and significance of the coefficient associated with *NOANGLO* are in line with our main analyses.

Finally, we run a series of untabulated additional robustness tests.[[19]](#endnote-19) We investigate whether the gender of audit partners has an effect on the association between partners’ ethnicity and audit fees by interacting *PGENDER* with our proxy for ethnicity. The coefficient associated with our ethnicity measure is consistent with our main analysis. The interaction term is, instead, not significant. This evidence suggests that gender does not have a significant impact on the association between audit fees and ethnicity. This finding is consistent across all our observations, irrespective of whether they relate to Big-N or non-Big-N clients. We repeat the same analysis with all the other individual partners’ characteristics included in our analyses, finding results similar to those discussed above.

To account for unobserved heterogeneity among Big-N audit firms, we re-estimate our models controlling for each single Big-N audit firm. The results of our analyses are in line with those of our main analyses.

Finally, in accordance with the recommendations of Hardies et al. (2021), we re-estimate our models using standard errors clustered by both clients and audit firms. The results that we obtain are consistent with those of our main analyses.

**Discussion and Conclusions**

Our results indicate that ethnic minority audit partners who work in lower-status audit firms are associated with lower audit fees. Supplementary analyses suggest that discrimination is performed by audit clients, rather than audit firms, as we do not find evidence that audit firms systematically and selectively allocate ethnic minority audit partners to clients with specific characteristics (e.g., less lucrative clients). Audit clients seem therefore to discriminate against ethnic minority audit partners who do not fit the professional stereotype and work in lower-status audit firms by paying lower audit fees. Our results hold in a battery of robustness tests and alternative measures of ethnicity.

These results are interesting for several reasons. First, although academic research has provided evidence of ethnicity-based discrimination in several professional contexts (e.g., Bowen et al., 2013; Payne-Pikus et al., 2010; Sander, 2006; Wilkins & Gulati, 1996; Woodson, 2014), research on ethnicity-based discrimination in the accounting profession (e.g., Annisette, 2003; Hammond & Steeter, 1994; Hammond et al., 2009; Kim, 2004; Thompson & Jones, 2016) has been sparser. In addition, existing studies have mainly relied on ethnic minorities’ *perceptions* of discrimination rather than *actual* discrimination, leaving the question of the role of ethnicity in relevant audit phenomena, such as audit quality and audit engagement, open (Krishnan et al., 2023).

Our study extends and integrates this research by first providing evidence that ethnic minority audit partners are *actually* discriminated against in the audit market. In addition, our study suggests that ethnicity-based discrimination does not affect this industry evenly, being mainly a feature of lower-status audit firms. This finding can be seen as a positive signal, prompting higher-status audit firms to take advantage of their privileged position within their respective fields and promote positive institutional change (Greenwood & Suddaby, 2006). Conversely, it can be interpreted in a less positive way as providing additional evidence of the gap that exists in the audit market between higher- and lower-status audit firms.

Second, the results of our supplementary analyses, which suggest that ethnicity-based discrimination in the audit industry is instigated by clients rather than audit firms, also speaks to a point that has been raised quite often in research on ethnicity-based discrimination in the accounting profession but has not been fully investigated empirically. This point is that ethnicity-based discrimination is instigated by audit clients, who seem less open and willing to work with ethnic minority audit partners (Duff, 2011; Hammond et al., 2009, 2012; Kim, 2004; Wilkins & Gulati, 1996). Our results suggest that this is actually the case, even if only for ethnic minority audit partners who work in lower-status audit firms.

 Third, in line with previous studies (Hay & Knechel, 2017; Hay et al., 2006), our results suggest that audit clients are willing to pay a premium to work with higher-status audit firms, but also that audit clients rely on professional stereotypes as well when negotiating audit fees. Existing research has examined professional stereotypes and documented their consequences in different professional settings, ranging from “newer” professions and occupations, such as social workers and salespeople, to more “traditional” ones, such as law and medicine (e.g., Bell & Allain, 2011; Carnegie & Napier, 2010; Carpenter, 1995; Fournier et al., 2014). Our results complement this research by suggesting that professional stereotypes have direct financial implications for audit firms as audit partners who do not fit the professional stereotype are associated with lower audit fees than partners who do fit this stereotype. Nevertheless, our results also highlight some potential indirect financial and career implications for ethnic minority audit partners as well since audit partners are normally remunerated based on the revenues that they generate (Knechel et al., 2013; Vandenhaute et al., 2020) and those who generate lower revenues are likely to accumulate less economic and social capital over time.

Our study contributes to three main streams of literature. First, it contributes to the literature that has examined ethnicity-based discrimination in the accounting profession by providing evidence of *actual* discrimination of ethnic minority audit partners, at least for those partners who work in lower-status firms. Another contribution to this literature is the suggestion that ethnicity-based discrimination is instigated by clients rather than audit firms, providing some evidence to support a common explanation that this literature has offered for ethnicity-based discrimination in the accounting profession—that is, that clients discriminate against ethnic minority members of the profession. However, our study also suggests that this explanation does not extend to all firms in the industry as ethnic minority members of the profession who work in higher-status firms do not seem to face discrimination.

Second, our study contributes to the literature on professional stereotypes by showing that they have direct financial implications for the firms in the industry as well as potential indirect financial and career implications for the members of the profession. Although several studies have analyzed the consequences of professional stereotypes for professional education and training (Carpenter, 1995), professional projects (Fournier et al., 2014), and even financial system resilience (Carnegie & Napier, 2010), far fewer studies have examined their potential financial and career implications for the members of the profession (Amin & Uyar, 2021; Woodhams et al., 2021). Moreover, to the best of our knowledge, our study is the first to examine these implications for members of the accounting profession.

Third, our study contributes to the audit pricing literature by documenting the impact on audit fees of a factor—specifically audit partner ethnicity—that has not been considered in prior studies. The vast literature on audit pricing has examined a number of factors that affect audit fees, including client-specific factors (e.g., Barua et al., 2019; Bronson et al., 2017; Carcello et al., 2002; Goodwin & Wu, 2014; Ittonen & Peni, 2012), audit firm-specific factors (e.g., Bills et al., 2017; DeFond et al., 2016; Fleischer & Goettsche, 2012; Riccardi et al., 2018), and engagement-specific factors (e.g., Gul et al., 2018; Hanlon et al., 2019; Hay et al., 2006; Huang et al., 2017; Mohrmann et al., 2019). More recently, a more restricted number of studies have examined the impact of audit partner factors on audit fees (e.g., Burke et al., 2019; Goodwin & Wu, 2016; Nekhili et al., 2018; Zerni, 2012). Our study complements and extends this research by considering the impact of a previously unexplored factor, namely audit partner ethnicity, on audit fees.

Our study also has important potential implications for the accounting profession and for society more broadly as it reveals the existence of deep-seated ethnicity-based discrimination within the accounting profession, pointing to the need for an even more active role of professional associations and other relevant actors in addressing this issue. The accounting profession, in particular, should play an even more active role in trying to change stereotypes of audit partners that undermine the diversity and inclusiveness efforts currently undertaken in the accounting industry. This could be achieved, for example, through training, industry events, and dissemination of research papers and reports and more generally by sensitizing clients to the importance of equality, diversity, and inclusion in the industry. Our study has also potential implications for audit firms and audit partners. Audit firms, in particular smaller, lower-status audit firms, should either introduce or implement more vigorously equality, diversity, and inclusion policies and programs to promote these ideals further among their employees. They should also closely monitor the audit fees associated with each of their partners to identify possible instances of discrimination against ethnic minority audit partners and take actions to offset them. Audit partners should act as equality, diversion, and inclusion champions within the industry and promote an inclusive culture within their respective firms, acting as role models for more junior colleagues.

Like other studies, our investigation has limitations that could pave the way for future research. First, we examine a specific geographic context (i.e., Australia), and while, as already noted, there are reasons to believe that the results achieved in this study could be applied to other research settings, this is clearly a possibility that deserves further investigation. In addition, although the two measures of ethnicity adopted in this study (i.e., surnames and pictures) are appropriate based on the research context that we analyze and the way in which clients appoint auditors, future studies could use different measures of ethnicity and determine whether the results achieved in this study hold in scenarios in which, for example, clients select auditors relying on different cues (e.g., accent and/or behavior) than those examined in this study or in a hypothetical scenario in which clients meet the perspective audit partners during engagement negotiations. Future studies could also examine clients more closely to establish whether certain types of clients are more likely to discriminate against than others are. Although we run several tests to rule out the possibility that audit firms assign ethnic minority audit partners to specific clients (e.g., less profitable, riskier, and more complex), we cannot completely exclude this possibility.

Notwithstanding these limitations, we believe that this study contributes to shedding light on ethnicity-based discrimination in the accounting profession, which is an important issue that has recently received increasing attention both within and outside academia and that, we would argue, has broader implications and ramifications for our society.

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**Appendix A.** Variable definitions and measurements

|  |
| --- |
| **Dependent variable** |
| **LAF** | Natural logarithm of audit fees |
| **Independent variables** |
| **NOANGLO** | Indicator variable equal to 1 when the audit partner’s surname does not have an Anglo-Saxon origin |
| **BIG-N** | Indicator variable equal to 1 if a client is audited by a Big-N audit firm |
| **Control variables** |
| ***Client-related and task-related control variables*** |
| **LTA** | Natural logarithm of total assets  |
| **INV** | Ratio of total inventories to ending total assets  |
| **REC** | Ratio of total receivables to ending total assets |
| **SUBS** | Square root of the total number of subsidiaries |
| **FOREIGN** | Ratio of number of foreign subsidiaries to total number of subsidiaries |
| **LEV** | Ratio of long-term debt to ending total assets |
| **LOSS** | Indicator variable equal to 1 if the firm reported a loss in the current year and a profit in the previous year |
| **ROI** | Ratio of net profit after tax to ending total assets |
| **QUICK** | Ratio of current assets less inventories to current liabilities |
| **OCF** | Ratio of cash flow from operations to ending total assets |
| **ABSACC**  | Absolute value of accruals (computed as difference between net income and cash flow from operations) scaled by ending total assets  |
| **OPINION** | Indicator variable equal to 1 if the firm was issued with a modified opinion |
| **GC** | Indicator variable equal to 1 if the firm was issued with a going concern opinion |
| ***Audit firm-related control variables*** |
| **AUDCH** | Indicator variable equal to 1 in the year a new audit firm is appointed |
| **BUSY**  | Indicator variable equal to 1 for firms with a June 30 year-end |
| **SYDNEY** | Indicator variable equal to 1 if the audit firm office is located in Sydney |
| ***Auditor-related control variables*** |
| **INDSPEC** | Indicator variable equal to 1 if the audit partner is an industry specialist (in terms of audit fees and based on firms included in our sample) |
| **PGENDER** | Indicator variable equal to 1 if the auditor is a female |
| **PAGE** | Natural logarithm of the audit partner age  |
| **PEDU** | Natural logarithm of the QS rank of the university attended by the audit partner, where lower ranks indicate more prestigious universities. To facilitate interpretation, we multiply the measure by minus 1 |
| **PLOC** | Indicator variable equal to 1 if the audit partner graduated in Australia |
| **Other variables used in the supplementary analyses and robustness tests** |
| **PHOTO**  | Indicator variable equal to 1 when the audit partner’s picture is categorized as Asian/Chinese, Black, and Arab  |
| **MILLS** | Inverse Mill’s ratio resulting from applying the Heckman (1979) procedure |
| **AUDPREMIUM** | Partner-specific fee premium based on Moon et al. (2019) methodology |
| **NOANGLOCEO** | Indicator variable equal to 1 when the CEO’s surname does not have an Anglo-Saxon origin |
| **RESTAT** | Indicator variable equal to 1 if the clients’ annual report has been restated |

**Table 1.** Sample selection

|  |  |
| --- | --- |
| Total firm-year observations | 26,433 |
| Firm-year observations from the financial industry (GICS 4010, 4020, 4030, 4040) | (4,097) |
| Firm-years with insufficient audit and financial data needed for the calculation of all the variables used in our empirical analyses | (9,503) |
| Missing hand-collected personal audit partner data | (2,497) |
| Final sample | 10,336 |

**Table 2.** Descriptive Statistics

|  |
| --- |
| **PANEL A – Full sample** |
|  | **N.** | **Mean** | **Median** | **St. Dev** | **1st Quartile** | **3rd Quartile** |
| LAF | 10,336 | 11.430 | 11.219 | 1.329 | 10.429 | 12.235 |
| AUDITFEES(in AUD) | 10,336 | 259,883.6 | 74,525.52 | 524,473.4 | 33,824.5 | 205,789.9 |
| NOANGLO | 10,336 | 0.179 | 0.000 | 0.384 | 0.000 | 0.000 |
| LTA | 10,336 | 16.369 | 16.605 | 3.168 | 15.140 | 18.407 |
| TOTASSETS(in millions AUD) | 10,336 | 243.799 | 16.278 | 714.884 | 3.760 | 98.622 |
| REC | 10,336 | 0.097 | 0.038 | 0.128 | 0.008 | 0.145 |
| INV | 10,336 | 0.051 | 0.000 | 0.101 | 0.000 | 0.048 |
| QUICK | 10,336 | 8.192 | 1.818 | 17.590 | 0.875 | 6.824 |
| OCF | 10,336 | -0.116 | -0.027 | 0.365 | -0.160 | 0.067 |
| LOSS | 10,336 | 0.172 | 0.000 | 0.377 | 0.000 | 0.000 |
| LEV | 10,336 | 0.065 | 0.000 | 0.135 | 0.000 | 0.057 |
| ABSACC | 10,336 | 0.281 | 0.076 | 0.780 | 0.029 | 0.194 |
| ROI | 10,336 | -0.257 | -0.041 | 0.673 | -0.257 | 0.049 |
| SUBS | 10,336 | 2.549 | 2.000 | 2.574 | 1.000 | 3.167 |
| FOREIGN | 10,336 | 0.223 | 0.000 | 0.321 | 0.000 | 0.400 |
| AUDCH | 10,336 | 0.237 | 0.000 | 0.425 | 0.000 | 0.000 |
| BIG-N | 10,336 | 0.481 | 0.000 | 0.500 | 0.000 | 1.000 |
| SYDNEY | 10,336 | 0.268 | 0.000 | 0.443 | 0.000 | 1.000 |
| BUSY | 10,336 | 0.846 | 1.000 | 0.361 | 1.000 | 1.000 |
| OPINION | 10,336 | 0.100 | 0.000 | 0.299 | 0.000 | 0.000 |
| GC | 10,336 | 0.143 | 0.000 | 0.350 | 0.000 | 0.000 |
| INDSPEC | 10,336 | 0.034 | 0.000 | 0.182 | 0.000 | 0.000 |
| PGENDER | 10,336 | 0.055 | 0.000 | 0.228 | 0.000 | 0.000 |
| PAGE | 10,336 | 3.741 | 3.738 | 0.162 | 3.638 | 3.850 |
| PEDU | 10,336 | -4.667 | -4.898 | 1.145 | -5.308 | -3.466 |
| PLOC | 10,336 | 0.794 | 1.000 | 0.404 | 1.000 | 1.000 |

|  |
| --- |
| **PANEL B – Big-N Clients vs Non-Big-N Clients** |
|  | **Big-N Clients** | **Non-Big-N Clients** |  |
|  | **N.** | **Mean** | **N.** | **Mean** | **T-stat on difference** |
| LAF | 4,974 | 12.090 | 5,362 | 10.814 | 55.735\*\*\* |
| AUDITFEES(in AUD) | 4,974 | 450,305.9 | 5,362 | 83,240.54 | 37.946\*\*\* |
| NOANGLO | 4,974 | 0.209 | 5,362 | 0.151 | 7.761\*\*\* |
| LTA | 4,974 | 17.456 | 5,362 | 15.361 | 35.581\*\*\* |
| TOTASSETS(in millions AUD) | 4,974 | 440.098 | 5,362 | 61.705 | 27.877\*\*\* |
| REC | 4,974 | 0.111 | 5,362 | 0.084 | 10.440\*\*\* |
| INV | 4,974 | 0.066 | 5,362 | 0.036 | 15.161\*\*\* |
| QUICK | 4,974 | 5.771 | 5,362 | 10.438 | 13.598\*\*\* |
| OCF | 4,974 | -0.036 | 5,362 | -0.190 | 21.943\*\*\* |
| LOSS | 4,974 | 0.159 | 5,362 | 0.184 | 3.299\*\*\* |
| LEV | 4,974 | 0.095 | 5,362 | 0.038 | 22.006\*\*\* |
| ABSACC | 4,974 | 0.208 | 5,362 | 0.348 | 9.111\*\*\* |
| ROI | 4,974 | -0.146 | 5,362 | -0.359 | 16.298\*\*\* |
| SUBS | 4,974 | 3.296 | 5,362 | 1.856 | 29.598\*\*\* |
| FOREIGN | 4,974 | 0.221 | 5,362 | 0.225 | 0.718 |
| AUDCH | 4,974 | 0.228 | 5,362 | 0.246 | 2.174\*\* |
| SYDNEY | 4,974 | 0.348 | 5,362 | 0.194 | 17.957\*\*\* |
| BUSY | 4,974 | 0.785 | 5,362 | 0.903 | 16.954\*\*\* |
| OPINION | 4,974 | 0.080 | 5,362 | 0.118 | 6.468\*\*\* |
| GC | 4,974 | 0.085 | 5,362 | 0.197 | 16.454\*\*\* |
| INDSPEC | 4,974 | 0.023 | 5,362 | 0.045 | 6.111\*\*\* |
| PGENDER | 4,974 | 0.062 | 5,362 | 0.048 | 3.124\*\*\* |
| PAGE | 4,974 | 3.754 | 5,362 | 3.729 | 7.790\*\*\* |
| PEDU | 4,974 | -4.490 | 5,362 | -4.831 | 15.265\*\*\* |
| PLOC | 4,974 | 0.731 | 5,362 | 0.853 | 15.517\*\*\* |

|  |
| --- |
| **PANEL C – Partners’ characteristics by ethnicity** |
|  | **Big-N Clients** | **Non-Big-N Clients** |
|  | **Non-Anglo-Saxon partners** | **Anglo-Saxon partners** | **T-stat on difference** | **Non-Anglo-Saxon partners** | **Anglo-Saxon partners** | **T-stat on** **difference** |
| LAF | 12.020 | 12.060 | 0.891 | 10.693 | 10.836 | 4.103\*\*\* |
| PAGE | 3.782 | 3.746 | 6.529\*\*\* | 3.734 | 3.728 | 1.069 |
| PEDU | -4.572 | -4.469 | 2.718\*\*\* | -5.035 | -4.795 | 5.401\*\*\* |
| PLOC | 0.684 | 0.744 | 3.849\*\*\* | 0.737 | 0.874 | 10.239\*\*\* |
| \*, \*\*, \*\*\* indicate that means are different at the 10%, 5%, 1%, level, respectively, two-tailed.Variables are defined in Appendix A. |

**Table 3.** Correlation Table



\*, \*\*, \*\*\* indicate that the p-value associated to the coefficient is lower than 10%, 5%, 1%, level, respectively, two-tailed.

Variables are defined in Appendix A.

**Table 4.** Audit fee and partners’ ethnicity

|  |  |  |  |
| --- | --- | --- | --- |
| **Dependent variable: LAF** | **(1)****Whole Sample** | **(2)****Big-N Clients** | **(3)****Non-Big-N Clients** |
| *INTERCEPTit* | 4.539\*\*\* | 3.449\*\*\* | 6.459\*\*\* |
|  | (0.000) | (0.000) | (0.000) |
| ***NOANGLOit***  | **-0.063\*\*\*** | **-0.034** | **-0.141\*\*\*** |
|  | **(0.000)** | **(0.145)** | **(0.000)** |
| *LTAit*  | 0.362\*\*\* | 0.427\*\*\* | 0.276\*\*\* |
|  | (0.000) | (0.000) | (0.000) |
| *RECit*  | 0.999\*\*\* | 1.060\*\*\* | 0.911\*\*\* |
|  | (0.000) | (0.000) | (0.000) |
| *INVit* | 0.432\*\*\* | 0.271\*\*\* | 0.569\*\*\* |
|  | (0.000) | (0.002) | (0.000) |
| *QUICKit* | -0.005\*\*\* | -0.006\*\*\* | -0.004\*\*\* |
|  | (0.000) | (0.000) | (0.000) |
| *OCFit* | -0.118\*\*\* | -0.130\*\* | -0.074\*\* |
|  | (0.000) | (0.012) | (0.017) |
| *LOSSit* | 0.0220 | 0.026 | 0.029 |
|  | (0.218) | (0.348) | (0.215) |
| *LEVit* | 0.398\*\*\* | 0.220\*\*\* | 0.534\*\*\* |
|  | (0.000) | (0.003) | (0.000) |
| *ABSACCit* | 0.045\*\*\* | 0.028 | 0.043\*\*\* |
|  | (0.000) | (0.251) | (0.002) |
| *ROIit*  | -0.100\*\*\* | -0.136\*\*\* | -0.068\*\*\* |
|  | (0.000) | (0.000) | (0.000) |
| *SUBSit* | 0.105\*\*\* | 0.083\*\*\* | 0.161\*\*\* |
|  | (0.000) | (0.000) | (0.000) |
| *FOREIGNit* | 0.311\*\*\* | 0.428\*\*\* | 0.213\*\*\* |
|  | (0.000) | (0.000) | (0.000) |
| *AUDCHit* | 0.004 | 0.005 | -0.003 |
|  | (0.813) | (0.864) | (0.893) |
| *BIG-Nit* | 0.389\*\*\* | N/A | N/A |
|  | (0.000) |  |  |
| *SYDNEYit* | 0.159\*\*\* | 0.076\*\*\* | 0.261\*\*\* |
|  | (0.000) | (0.001) | (0.000) |
| *BUSYit*  | -0.103\*\*\* | -0.087\*\*\* | -0.096\*\*\* |
|  | (0.000) | (0.000) | (0.001) |
| *OPINIONit* | 0.026 | 0.016 | 0.053\* |
|  | (0.258) | (0.670) | (0.063) |
| *GCit* | 0.076\*\*\* | 0.150\*\*\* | 0.009 |
|  | (0.000) | (0.000) | (0.686) |
| *INDSPECit* | -0.097\*\*\* | 0.039 | -0.091\*\* |
|  | (0.005) | (0.533) | (0.020) |
| *PGENDERit* | 0.003 | 0.032 | -0.029 |
|  | (0.898) | (0.396) | (0.367) |
| *PAGEit* | -0.046 | 0.071 | -0.186\*\*\* |
|  | (0.258) | (0.296) | (0.000) |
| *PEDUit* | 0.001 | 0.007 | -0.010 |
|  | (0.801) | (0.469) | (0.168) |
| *PLOCit* | -0.048\*\*\* | -0.003 | -0.093\*\*\* |
|  | (0.003) | (0.886) | (0.000) |
| Industry and year dummies | Yes | Yes | Yes |
| Observations | 10,336 | 4,974 | 5,362 |
| F-Stat | 437.47\*\*\* | 219.43\*\*\* | 134.66\*\*\* |
| R-squared | 0.792 | 0.780 | 0.662 |
| \*, \*\*, \*\*\* indicate that the p-value associated to the coefficient is significant at the 10%, 5%, 1% level, respectively, two-tailed. P-values are calculated from robust standard errors.Variables are defined in Appendix A. |

**Table 5.** Descriptive statistics and mean comparison for clients of Anglo-Saxon partners vs Non-Anglo-Saxon partners

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Non-Anglo-Saxon partners** | **Anglo-Saxon partners** |  |
|  | **N.** | **Mean** | **N.** | **Mean** | **T-stat on difference** |
| LTA | 1,852 | 16.345 | 8,484 | 16.367 | 0.292 |
| REC | 1,852 | 0.097 | 8,484 | 0.096 | 0.457 |
| INV | 1,852 | 0.047 | 8,484 | 0.046 | 0.143 |
| QUICK | 1,852 | 8.013 | 8,484 | 8.231 | 0.483 |
| OCF | 1,852 | -0.117 | 8,484 | -0.116 | 0.199 |
| LOSS | 1,852 | 0.154 | 8,484 | 0.176 | 2.247\*\* |
| LEV | 1,852 | 0.063 | 8,484 | 0.066 | 0.824 |
| ABSACC | 1,852 | 0.274 | 8,484 | 0.282 | 0.378 |
| ROI | 1,852 | -0.261 | 8,484 | -0.257 | 0.358 |
| SUBS | 1,852 | 13.701 | 8,484 | 12.999 | 0.597 |
| FOREIGN | 1,852 | 0.231 | 8,484 | 0.221 | 1.186 |
| \*, \*\*, \*\*\* indicate that means are different at the 10%, 5%, 1%, level, respectively, two-tailed.Variables are defined in Appendix A. |

**Table 6.** Additional supplementary analyses and robustness tests

|  |
| --- |
| **Panel A – Alternative econometric approaches** |
|  | **Entropy balancing** | **Heckman’s test** | **Including client fixed effects** |
| **Dependent variable: LAF** | **(1)****Whole Sample** | **(2)****Big-N Clients** | **(3)****Non-Big-N Clients** | **(4)****Whole Sample** | **(5)****Big-N Clients** | **(6)****Non-Big-N Clients** | **(7)****Whole Sample** | **(8)****Big-N Clients** | **(9)****Non-Big-N Clients** |
| ***NOANGLOit***  | **-0.060\*\*\*** | **-0.036** | **-0.148\*\*\*** | **-0.062\*\*\*** | **-0.030** | **-0.141\*\*\*** | **-0.053\*\*\*** | **0.004** | **-0.139\*\*\*** |
|  | **(0.001)** | **(0.201)** | **(0.000)** | **(0.000)** | **(0.203)** | **(0.000)** | **(0.009)** | **(0.906)** | **(0.000)** |
| *MILLSit* |  |  |  | 0.558\*\* | 1.693\*\*\* | 0.024 |  |  |  |
|  |  |  |  | (0.011) | (0.000) | (0.927) |  |  |  |
| Intercept, control variables, industry and year dummies | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Client fixed effect | N/A | N/A | N/A | N/A | N/A | N/A | Yes | Yes | Yes |
| Observations | 10,336 | 4,974 | 5,362 | 10,336 | 4,974 | 5,362 | 10,336 | 4,974 | 5,362 |
| F-Stat | 102.51\*\*\* | 48.38\*\*\* | 50.57\*\*\* | 598.95\*\*\* | 217.99\*\*\* | 132.90\*\*\* | 109.68\*\*\* | 46.43\*\*\* | 53.89\*\*\* |
| R-squared (R-squared within) | 0.930 | 0.937 | 0.876 | 0.771 | 0.781 | 0.662 | (0.448) | (0.421) | (0.443) |

|  |
| --- |
| **Panel B – Alternative dependent variable and alternative variable of interest** |
|  | **Alternative measure of dependent variable based on audit partners’ fee premium (*AUDPREMIUM*)** | **Alternative measure of partners’ ethnicity *(PHOTO)******Dependent variable: LAF*** |
|  | **(1)****Whole Sample** | **(2)****Big-N Clients** | **(3)****Non-Big-N Clients** | **(4)****Whole Sample** | **(5)****Big-N Clients** | **(6)****Non-Big-N Clients** |
| ***NOANGLOit***  | **-0.031\*\*\*** | **-0.007** | **-0.086\*\*\*** |  |  |  |
|  | **(0.000)** | **(0.299)** | **(0.000)** |  |  |  |
| ***PHOTOit*** |  |  |  | **-0.122\*\*\*** | **-0.078** | **-0.138\*\*\*** |
|  |  |  |  | **(0.000)** | **(0.289)** | **(0.000)** |
| Intercept, control variables, industry and year dummies | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 10,336 | 4,974 | 5,362 | 8,804 | 4,151 | 4,653 |
| F-Stat | 132.43\*\*\* | 17.52\*\*\* | 33.42\*\*\* | 357.02\*\*\* | 183.24\*\*\* | 113.24\*\*\* |
| R-squared | 0.535 | 0.135 | 0.327 | 0.785 | 0.781 | 0.656 |

|  |
| --- |
| **Panel C - Audit quality and partners’ ethnicity** |
|  | **Client-level accruals*****Dependent variable: ABSACC*** | **Issue of going concern*****Dependent variable: GC*** | **Presence of restatements*****Dependent variable: RESTAT*** |
| **Dependent variable: ABSACC** | **(1)****Whole Sample** | **(2)****Big-N Clients** | **(3)****Non-Big-N Clients** | **(4)****Whole Sample** | **(5)****Big-N Clients** | **(6)****Non-Big-N Clients** | **(7)****Whole Sample** | **(8)****Big-N Clients** | **(9)****Non-Big-N Clients** |
| ***NOANGLOit***  | **-0.002** | **-0.005** | **0.009** | **-0.063** | **-0.044** | **-0.117** | **0.020** | **-0.016** | **0.060** |
|  | **(0.905)** | **(0.745)** | **(0.741)** | **(0.282)** | **(0.656)** | **(0.116)** | **(0.719)** | **(0.840)** | **(0.466)** |
| Intercept, control variables, industry and year dummies | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 10,336 | 4,974 | 5,362 | 9,638 | 3,894 | 5,021 | 7,961 | 3,403 | 4,523 |
| F-Stat (Chi-squared) | 111.83\*\*\* | 71.45\*\*\* | 65.66\*\*\* | (1,367.88\*\*\*) | (598.20\*\*\*) | (863.82\*\*\*) | (165.93\*\*\*) | (103.52\*\*\*) | (100.61\*\*\*) |
| R-squared (Pseudo R-squared) | 0.456 | 0.494 | 0.446 | (0.441) | (0.489) | (0.392) | (0.040) | (0.053) | (0.048) |

|  |
| --- |
| **Panel D – Other robustness tests** |
|  | **Switch from an Anglo-Saxon partner to a non-Anglo-Saxon partner** | **Switch from a non-Anglo-Saxon partner to an Anglo-Saxon partner** | **Control for CEOs’ ethnicity** |
| **Dependent variable: LAF** | **(1)****Whole Sample** | **(2)****Big-N Clients** | **(3)****Non-Big-N Clients** | **(4)****Whole Sample** | **(5)****Big-N Clients** | **(6)****Non-Big-N Clients** | **(7)****Whole Sample** | **(8)****Big-N Clients** | **(9)****Non-Big-N Clients** |
| ***NOANGLOit***  | **-0.046** | **-0.010** | **-0.130\*\*** | **-0.063** | **0.068** | **-0.125\*\*** | **-0.048\*** | **0.012** | **-0.100\*\*\*** |
|  | **(0.217)** | **(0.849)** | **(0.029)** | **(0.135)** | **(0.258)** | **(0.044)** | **(0.054)** | **(0.729)** | **(0.003)** |
| *NOANGLOCEOit* |  |  |  |  |  |  | 0.045\* | 0.007 | 0.082\*\*\* |
|  |  |  |  |  |  |  | (0.069) | (0.853) | (0.008) |
| ***NOANGLO\*NOANGLOCEOit*** |  |  |  |  |  |  | **-0.007** | **-0.067** | **-0.043** |
|  |  |  |  |  |  |  | **(0.893)** | **(0.348)** | **(0.591)** |
| Intercept, control variables, industry and year dummies | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1,276 | 645 | 631 | 1,213 | 624 | 589 | 4,720 | 2,278 | 2,442 |
| F-Stat | 86.28\*\*\* | 54.50\*\*\* | 17.98\*\*\* | 84.99\*\*\* | 51.73\*\*\* | 19.06\*\*\* | 294.54\*\*\* | 126.85\*\*\* | 83.69\*\*\* |
| R-squared  | 0.807 | 0.833 | 0.637 | 0.807 | 0.831 | 0.658 | 0.824 | 0.786 | 0.696 |
| \*, \*\*, \*\*\* indicate that the p-value associated to the coefficient is significant at the 10%, 5%, 1% level, respectively, two-tailed. P-values are calculated from robust standard errors. Variables are defined in Appendix A. |

1. **NOTES**

 In this study, we use the term ethnic minority to indicate audit partners with a surname of non-Anglo-Saxon origin and the term non-ethnic minority to indicate audit partners with a surname of Anglo-Saxon origin. This approach is consistent with the way in which ethnicity is measured in our empirical analyses. We recognize, however, that there is little consistency in both the terminology used in academic research and the approach to categorizing the groups selected for research. We also acknowledge that this type of terminology can be problematic and that individuals who are categorized in this study as ethnic minority (or non-ethnic minority) audit partners could not see themselves as ethnic minority (or non-ethnic minority) audit partners. [↑](#endnote-ref-1)
2. In our robustness tests, we use an alternative measure of ethnicity based on audit partners’ pictures (Liu et al., 2022) and obtain consistent results. [↑](#endnote-ref-2)
3. We thank an anonymous reviewer for suggesting this additional interpretation to us. [↑](#endnote-ref-3)
4. The number of observations in our study is in line with those of previous studies conducted in the same research context. For example, the study by Ferguson et al. (2019), which focused on audit pricing in Australia in the years between 2007 and 2011, started with an initial sample of 8,878 firm-year observations, which is very close to the number of observations in our database for the same years (8,634 firm-year observations). Similarly, the distribution of observations by year and industry is consistent with Ferguson et al. (2019). [↑](#endnote-ref-4)
5. These data are based on a search made on November 13, 2023. [↑](#endnote-ref-5)
6. The number of firms included in the Big-N group has changed over our time series and ranged between four (i.e., Deloitte, PricewaterhouseCoopers (PwC), Ernst & Young (EY), and KPMG) and six (i.e., Deloitte, Price Waterhouse (PW), Coopers & Lybrand (CL), Ernst & Young (EY), KPMG, and Arthur Andersen (AA)). [↑](#endnote-ref-6)
7. All continuous variables are winsorized at the 1st and 99th percentiles. [↑](#endnote-ref-7)
8. The only statistical difference is observed for the variable *LOSS*, which is higher among clients with a non-ethnic minority audit partner. [↑](#endnote-ref-8)
9. For more details about the advantages and limitations of entropy balancing, please refer to McMullin and Schonberger (2020, pp. 93–94). [↑](#endnote-ref-9)
10. We use the same vector of variables that can be associated with the probability of selecting a non-ethnic minority audit partner versus an ethnic minority audit partner as discussed for the entropy balancing to create a propensity-score matched sample of clients of non-ethnic minority audit partners and clients of ethnic minority audit partners. This process leads to a sample of 3,674 firm-year observations: 1,837 firm-year observations related to clients of ethnic minority audit partners and 1,837 related to clients of non-ethnic minority audit partners. The results are qualitatively similar to those of our main analyses and support both our hypotheses. [↑](#endnote-ref-10)
11. The results of the first-stage probit model indicate that the choice of an ethnic minority audit partner is negatively associated with the current ratio of firms (p-value = 0.011), the rank of the university attended by a partner (p-value = 0.011), and whether the audit partner has studied in Australia (p-value = 0.000), and it is positively associated with whether the audit partner is female (p-value = 0.000). [↑](#endnote-ref-11)
12. We also apply the Heckman procedure at the audit firm status level. In particular, we use the first-stage probit model (2) to investigate the probability of selecting a Big-N versus a non-Big-N audit firm. We then run the same regressions as in our main analyses, including the inverse Mills ratio from this revised probit model. The results obtained are in line with our main findings. [↑](#endnote-ref-12)
13. We thank an anonymous reviewer for suggesting this test to us. [↑](#endnote-ref-13)
14. We acknowledge that this measure of ethnicity does not exactly map into our main measure of ethnicity because it does not allow us to distinguish between audit partners of Anglo-Saxon origin and audit partners from other White backgrounds. Nonetheless, we believe that using this additional measure of ethnicity could help to alleviate some of the concerns potentially associated with our main measure of ethnicity and therefore use it in our study as a robustness test. [↑](#endnote-ref-14)
15. We use OLS when the dependent variable is client-level accruals and a probit model when the dependent variable is based on the presence of going concern opinions and the presence of restatements. [↑](#endnote-ref-15)
16. The number of observations in column (4) and (7) of Table 6, Panel C, is lower than the number in the full sample because the probit model excludes observations related to industries that predict the outcome variable perfectly. For the same reason, the sum of the observations of columns (5) and (6) as well as the sum of the observations of columns (8) and (9) of Table 6, Panel C, are not equal to the number of observations in column (4) and (7), respectively, of the same panel. Moreover, untabulated analyses indicate that the audit partners’ fee premium, used in Table 6, Panel B, is not associated with our audit quality proxies. [↑](#endnote-ref-16)
17. We are aware that, in all cases, this switch is accompanied by a switch in the audit firm. We believe, however, that our change analysis captures the impact of partner ethnicity on audit fees since, at least in theory, there should be no particular reason for audit fees to change substantially when changing audit firm. For example, even if Big-N audit firms normally charge higher fees than non-Big-N audit firms and new auditors often charge slightly lower fees to clients to attract them (so-called “low-balling” behavior), our models control for both these situations. [↑](#endnote-ref-17)
18. This test is estimated on 4,720 firm-year observations because the name of firms’ CEO is only available for the years after 2001 and because we cannot find information on CEOs’ ethnicity for all available CEOs. [↑](#endnote-ref-18)
19. Untabulated tests are available upon request. [↑](#endnote-ref-19)