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Chairman's Cultural Background Characteristics and Audit Fees: Based on Chinese Listed Companies

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Abstract

Based on the panel data of Chinese listed companies spanning the period 1999-2015, this paper investigates the effects of Chairman's cultural background characteristics on audit fees. The results show that Chairman's cultural background characteristics significantly affect the company's audit fees, the Chairman with the nomadic culture background compared with who with cultivation culture background tends to pay lower audit fees, and the relationship above is enhanced when the company's Chairman and CEO is the same person. Furthermore, this paper finds that the bigger the board size, or the longer the Chairman's tenure, the lower the audit fees the company whose Chairman has the nomadic culture background will pay.

Keywords

Cultural Background Characteristics, Audit Fees, Chairman and CEO Duality, Board size, Tenure

1. Introduction

The audit fees depend on the outcome of the final negotiation between the audit service provider and the company, which is subject to the bargaining power of both parties. The senior echelon theory believes that the executive characteristics influence the company's choice of strategy, which further affect the company's other behaviors (Hambrick and Mason, 1984) [1], and a large number of empirical researches such as Malmendier and Tate (2005) [2] have proved the conclusion. Therefore, the Chairman, leader of the company's senior executives, as one side of the negotiators, his or her background characteristics are also likely to affect company's financial decisions, such as auditing fees. Previous researches

studying the relationship between CEO background characteristics and audit fees, however, nearly work from company executives' features such as age, gender, tenure and the heterogeneity of these (Chen jiaojiao and Zhou Fangzhu, 2016) [3], there are few literatures research how Chairman's cultural background characteristics affect audit fees. Although there exist literatures discuss the influence of culture on the company's financial decision-making, corporate governance etc., these multinational studies are hard to control factors such as national accounting standard, taxation system and bankruptcy legislation and law enforcement, the conclusions are also not stable.

After Simunic (1980) [4], the researchers have studied the influence of accounting firms, companies and business characteristics, the characteristics of specific objective environment and audit contract on audit fees, but the related researches are established on the assumption of the rational hypothesis of people, especially CEO and Chairman. While, psychology studies suggested that people were not completely rational. Researches have shown that senior executives or the Chairman of different ages, genders and tenures may have significant differences in risk appetite and risk-taking (Bertrand and Schoar, 2003) [5], thus affecting corporate behavior. Culture, like age or tenure, can also affects the risk appetite and risk-taking of the Chairman and affect corporate behaviors further. Culture, on the one side, is gradually implanted into people's thinking in the early socialization process, stimulates and adjusts people's actions and choices to make them conform to certain social values, on the other hand, forms the subjective psychological structure of people to explain the problem by influencing the way people deal with information (North, 1990) [6], which means that the individual's perception of the same information varies from the type of culture in which the people live. A large number of empirical studies have shown that culture significantly affects company decision making, such as Sekely and Collins (1988) [7]. Aggarwal and Goodell (2009) also pointed out that the effectiveness of contract fulfillment and transaction cost would not only be influenced by formal constraint mechanism, but also be influenced by national culture [8]. North (1990) found that the influence of the informal constraint mechanism on corporate behaviors may be far beyond the formal constraint mechanism [6], in fact, people in different countries are very different in their living habits, customs, mental state and thinking structure. Since culture can affect executive and Chairman's decisions and influence corporate behavior further, how does the company's Chairman's cultural background characteristics affect the company's audit fees?

This paper uses the panel data of China's listed companies for 1999-2015 as the sample, and uses the native place of the Chairman to measure his or her cultural background. The results show that Chairman's cultural background characteristics significantly affect the company's audit fees, the Chairman with the nomadic culture background compared with those with cultivation culture background tend to pay lower audit fees, and the relationship above is enhanced when Chairman and CEO is the same person. Furthermore, the bigger the board

size, the longer the Chairman's tenure, the lower the audit fees paid by the company whose Chairman has the nomadic culture back-ground.

The main innovation of this paper is providing a new perspective to explain how audit fees are formed. The existing researches only suggest that the following aspects may affect audit fees. 1) The characteristics of company, including the size, debt ratio, return on assets, inventory to total assets ratio, loss, listing years, Ownership. 2) The characteristics of auditor's office, including auditor reputation, audit tenure, audit opinion. 3) Personal characteristics of Chairman and CEO, including Chairman and CEO's age, tenure, etc. Yet, there don't exit discussions about how culture affect audit fees through the Chairman, this paper's results show that culture do affect the behavior of company as well as audit fees, and the mechanism is that culture can affect the risk preference of the Chairman and affect the audit fees further. In addition, this paper is one of the earliest literatures in China to study the relationship between culture and company behaviors, which, of course, can expand the literatures in the field of culture and finance.

2. Theoretical Analysis and Research Hypothesis

One of the ways in which culture affects corporate decision-making is to influence Chairman's behavior and cognition and then to influence corporate decision-making. Studies have showed that individual decisions under different cultures have systematic differences (Ji *et al.*, 2001) [9]. For example, Ferris *et al.* (2013) [10] and Kanagaretnam *et al.* (2014) [11] believe that because executives under different cultures have different risk preference and risk taking, they will choose different acquisition strategies and accounting conservatism. Similarly, culture and mergers and acquisitions, cash holdings, capital structure and enterprise innovation are also closely related. Therefore, culture affects the risk attitude and risk taking of company executives and Chairman, and then affects the company's audit fees. He weifeng and Liu Wei (2015) [12] believes that the enterprise managers have heterogeneity, the ability to build control environment and risk control varies from person to person, so the heterogeneity of managers will have an impact on audit fees. Chen Jiaojiao and Zhou Fangzhu (2016) [3] also find that managers' personal background characteristics have a significant impact on audit fees.

As the saying goes, "A side water and soil raises a side people", different environments have created different personalities. Though different cultural elements form Chinese culture together, it cannot be ignored that there has been a parallel development of nomadic culture and farming culture in China since ancient times. Historically, nomadic culture and farming culture impact and blend with each other, but people from two cultures still maintain different patterns of behavior and behavior characteristics. Specifically, most of the nomadic people of our country live on the Qinghai Tibet Plateau, the northwest region and the Mongolia plateau, which have a bad natural environment. People there live by

grazing and hunting, even go to wars owing to plundering materials and properties, power struggles between the tribes, etc. The cruelty of the natural environment, the unique way of life, and the continuous wars make the life of the nomadic people full of risk, as a result, the nomadic nations are more able to take risks and more of risk awareness. While, people in farming areas have cultivated land, unless there are large natural disasters and social unrest, they are generally able to be self-sufficient and live in peace and happiness. Therefore, people living in nomadic areas tend to take more risk than people in farming areas (Næss, 2003) [13], which led to the people in nomadic areas be more willing to take risks, but also more risk awareness (Zhang Yuan, 2014) [14]. So, Chairman with nomadic culture background tend to make higher risk decisions, or underestimate the potential risks of internal control deficiencies, and thus paying lower audit fees. Based on the above analysis, the hypothesis 1 is proposed.

Hypothesis 1: Chairman with nomadic cultural background will pay lower audit fees than Chairman with farming culture background.

Chairman and CEO duality generally exists in the listed companies at home and abroad. The influence of Chairman and CEO duality on the behavior of the company has not yet formed a more consistent conclusion. The agency theory holds that Chairman and CEO duality is not conducive to mitigating agency problems and also not conducive to the promotion of corporate value (Fama and Jensen, 1983; Hoitash, 2009) [15] [16]. The agency theory emphasizes that there is a conflict of interests between the executive team and the shareholders of the company in order to pursue the maximization of their own interests, executives must have certain moral risks and adverse selection. Therefore, in order to establish a reasonable and perfect corporate governance system, the supervision and restriction of top management team must be strengthened, and the board of directors is a permanent organization of shareholders' meeting, representing shareholders to supervise executives. When the Chairman and CEO duality is present, the Chairman's power will be magnified and the constraints will be reduced. Therefore, the Chairman can make decisions more freely according to his personal judgment, and even affect the formulation of company strategy to a large extent. Therefore, Chairman and CEO duality will aggravate the existence of agency problems. Chairman and CEO duality can more easily leads to Chairman's irrational decision behavior. At the same time, Chairman and CEO duality will also weaken the supervision of the board of directors on non-rational decision-making of the Chairman. Goyal and Park (2002) [17] found that Chairman and CEO duality reduced the possibility of CEO replacement, which meant that Chairman and CEO duality could extend CEO's tenure to strengthen personal authority in corporate decision making, and it also aggravates the irrational decision-making behavior of individuals. Li and Tang (2010) [18] also found that Chairman and CEO duality made CEO willing to take greater risks. Zhang Yao (2007) [19] tested China's listed companies and found that Chairman and

CEO duality reduced the demand for high-quality audit services, and further reduced audit fees. Based on the above analysis, the hypothesis 2 is proposed.

The hypothesis 2: Chairman and CEO duality will strengthen the negative relationship between the Chairman's nomadic culture background and the audit fees.

The effectiveness of the board directly determines the extent of the board's function, and the size of the board is one of the important factors that affect the effectiveness of the board. Jensen (1993) [20] put forward that maintaining a smaller board size is conducive to the function of the board and further improving corporate performance, and the greater the size of the board, the more its power may be manipulated. The Company Law of China stipulates that the chairman has the right to convene and preside the shareholders' meeting and board meeting, and in practice, the board of directors entrusts a lot of authority to the board of directors, therefore, in many enterprises, especially the state-owned enterprises, the Chairman is often the center of power. Oversized board of directors will cause board dysfunction and ultimately lead to the Chairman's manipulation of the board. The main reasons can be summed up as follows. First, when the board size is too large, the disagreement between directors is not easy to be unified, and the decision-making power of a single director is weakened, then the Chairman's personal suggestion has greater influence on the decisions of the board of directors (Albuquerque *et al.*, 2007; Morse *et al.*, 2011) [21] [22]. Second, large scale of board may cause the "free ride" behavior. When the board of directors is dysfunctional and then loses its own decision-making role, it can't form an effective balance with the Chairman's individual behavior. Therefore, in the larger board of directors, the collective nonfeasance of other members of the board will strengthen the authority and influence of the Chairman, so that the influence of the Chairman's personal cultural characteristics on corporate behavior will also be more obvious. Cronqvist (2012) [23] shows that the lower the board efficiency, the relationship between the personal characteristics of CEO and the financial leverage of the enterprise is more significant. Based on the above analysis, the hypothesis 3 is proposed.

Hypothesis 3: the negative relationship between the nomadic cultural background of the Chairman and the audit fees will be enhanced in the larger scale of the board.

The research shows that Chairman's characteristics can significantly affect the company's decision-making. Chairman's tenure is an important aspect of the chairman's personal characteristics (Liu Yawei and Zhang Zhaoguo, 2016) [24]. The longer the tenure is, the greater the company's personal authority is, and the impact on the company will also be more profound. Then the Chairman's personal preferences and inherent characteristics can also be more reflected in the company's decision making (Jiang Wei, 2011) [25]. Therefore, the longer the Chairman's tenure, the Chairman's cultural background characteristics can also be more reflected in the Chairman's audit fees decisions, so that the negative re-

lationship between the Chairman's nomadic cultural background and audit fees will be strengthened. Based on the above analysis, the hypothesis 4 is proposed.

Hypothesis 4: the longer the Chairman's tenure is, the more negative the relationship between the chairman's nomadic cultural background and the audit fees.

3. Research Design

This is an empirical research, in which we use the regression model based on the least square method and data to test the 4 hypotheses suggested above. The empirical model and its variables introduced in detail in Section 3.2 and 3.3 of the paperare based on the exiting literatures about audit fees and have been well verified, and the data this paper uses are coming from databases and websites of finance and economics which are introduced in Section 3.1. To run the regression model and do the data analysis, this paper uses Stata as the software tool. Next, this paper will introduce the data sources and data filtering, variables definition, empirical model and the descriptive statistics of the data.

3.1. Data Sources and Data Filtering

This paper uses the data of listed companies in Shanghai and Shenzhen Stock Exchange from 1999 to 2015 as the sample, the number of observations of which are 6958. When selecting the sample, the following companies were excluded: 1) Financial companies. 2) Companies that are categorized as ST, *ST in a certain year or continuous years. 3) Companies with abnormal indicators. The financial data and the Chairman's native place data of Chinese listed companies all come from CSMAR Database, CCER Database and RSSET Database, as well as the major financial websites. CSMAR Database is developed by Shenzhen GTA Education Tech Ltd., its design concept, based on the Chinese corporations, draws lessons from the successful experiences of CRSP, Compustat, Thomson, etc. The database is the largest and most accurate financial and economic database in China. It is composed of 8 major series, namely, stocks, funds, bonds, financial derivatives, listed companies, economy, industry and high frequency data. CCER China Economic and financial Database is a research database launched by Sinofin Information Services cor., Ltd. and the National Development Research Institute of Peking University, and RESSET database is a data platform providing professional services for model testing and investment research, developed by experts coming from Tsinghua University and Peking University, more than 560 well-known domestic and foreign universities and research institutions have used RESSET Database products by 2016. The websites for each of the three databases are as follows: http://www.gtarsc.com, http://www.ccerdata.cn/Home/Login.aspx and http://www.resset.cn, repectively. Also, there are a few data coming from websites such as Sina finance and economics, Hexun Network, and their websites are http://finance.sina.com.cn and http://renwu.hexun.com.

3.2. Variables Definition

This paper's explained variable is audit fees. On the basis of the existing literature, such as Xing Liquan and Chen Hanwen (2013) [26], etc., this paper takes the logarithm of the company's actual audit fees, then takes it into the model regression, the explanatory variable is culture (the value of 1 represents the nomadic culture). Referring to the domestic scholars, such as Wu Bihu (1996) [27], this paper divides China into farming culture areas and the nomadic cultural areas according to 400 millimeters precipitation line and Hu Huanyong population distribution line, so this paper takes Tibet, Qinghai, Xinjiang, Gansu, Ningxia and Inner Mongolia as nomadic culture areas, and the rest as farming culture areas.

According to the research of Simunic (1980) [4], Zhang Tianshu and Huang Jun (2013) [28], this paper controls following variables: 1) The company characteristic variables, including size (Size), debt ratio (Debt), return on assets (Roa), inventory to total assets ratio (Casset), loss (Loss), listed years (Listyear), ownership (Ownsh). 2) Characteristics of auditor variables, including auditor reputation (Big 4/Big 5), audit tenure (Autenure), audit opinion (Autype). 3) Personal characteristics of Chairman, including Chairman's age (Age) and tenure (Tenure). 4) Other controlling variables, such as year (Year) and industry (Ind). Specific details are shown in Table 1. Especially, this paper deal with audit fees, corporate size, listing time, age and tenure of Chairman by natural logarithm to narrow the heteroscedasticity of the sample.

3.3. Empirical Model

We use the following regression model to test the hypothesis 1 to hypothesis 4.

$$
\begin{aligned}
Fee_{it} = {} & \beta_0 + \beta_1 Culture_{it} + \beta_2 Ownsh_{it} + \beta_3 Debt_{it} + \beta_4 Roa_{it} + \beta_5 Size_{it} + \beta_6 Csset_{it} \\
& + \beta_7 Loss_{it} + \beta_8 Listyear_{it} + \beta_9 Big4_{it} \left(or\ big5_{it} \right) + \beta_{10} Autenure_{it} \qquad (1) \\
& + \beta_{11} Autype_{it} + \beta_{12} Age_{it} + \beta_{13} Tenure_{it} + \sum_{14}^{30} Year + \sum_{31}^{40} Ind + \varepsilon_{it}
\end{aligned}
$$

In the regression model, β_0 represents the constant, $\beta_1 - \beta_{40}$ represent the coefficients of Culture, and ε_{it} represents the residual.

3.4. Descriptive Statistical Analysis

Table 2 presents the statistical description of the sample. The audit fees with logarithmic of listed companies is 13.380, the size with logarithmic of the company is 21.940, the time to go public with logarithmic is 2.185, the age and tenure with logarithmic of the Chairman are 3.807 and 1.822. Because of the unbalanced regional economic development in China, 96.5% of the chairman of the sample are in the farming culture area. At the same time, 51.5% of the samples are state-owned enterprises, 19.1% companies of the sample exit Chairman and CEO duality, 7.8% of the observations have a loss. In the sample, an average of 4.1% of the company's audit reports are issued by the four largest (five) international firms, and 96.8% of the audit reports were standard opinions. Other

Table 1. Variables definition.

Variables	Definition
Dependent variable	
Fee	Natural log of year-end audit fees
Independent variable	
Culture	If Chairman belongs to nomadic culture areas, 1, otherwise, 0
Control variables	
Duality	If Chairman and CEO is the same person, 1, otherwise, 0
Ownsh (ownersh)	If corporate belongs to state-owned business, 1, otherwise, 0
Debt	Year-end long-term debt/year-end total asset
Roa	Net income/year-end total asset
Size	Natural log of year-end total asset
Casset	Year-end inventory/year-end total asset
Loss	If net income less than 0, 1, otherwise, 1
Listyear	Natural log of listing time
Big 4/big 5	If accounting firm is big 4 or big 5, 1, otherwise, 0
Autenure	The duration of continuous audit of the accounting firm
Autype	If audit opinion is standard audit opinion, 1, otherwise, 0
Age	Natural log of Chairman's age
Tenure	Natural log of Chairman's tenure

Table 2. Descriptive statistical analysis.

Variables	Min	Max	Mean	Med	Std
Fee	9.210	17.520	13.380	13.310	0.676
Culture	0.000	1.000	0.965	1.000	0.184
Duality	0.000	1.000	0.191	0.000	0.393
Size	17.920	27.550	21.940	21.750	1.258
Debt	0.026	0.996	0.498	0.502	0.188
Roa	−0.691	0.496	0.037	0.035	0.053
Casset	0.000	0.943	0.182	0.139	0.165
Loss	0.000	1.000	0.078	0.000	0.269
Listyear	0.511	3.219	2.185	2.335	0.617
Ownsh	0.000	1.000	0.515	1.000	0.500
Big4/Big5	0.000	1.000	0.041	0.000	0.199
Autenure	0.000	2.708	1.326	1.386	0.647
Age	3.573	3.907	3.807	3.822	0.084
Tenure	−0.543	3.219	1.822	1.873	0.554
Autype	0.000	1.000	0.968	1.000	0.176

control variables, such as company profitability and debt ratio, are similar to the statistical results of existing studies. For example, the asset liability ratio is 49.8%, close to 50%, and the total assets earnings rate is 3.75%, which indicates that the statistical results of the sample are reliable.

4. Empirical Results and Analysis

4.1. Empirical Tests for H1 to H4

In Table 3, column (1) and column (2) are the results of regression of the audit fees to the cultural background, respectively. The results show that in the two regressions, both of the coefficients of Culture are negative(the Culture's coefficient is −0.098 in column (1) and −0.108 in column (2), and are significant at the level of 1%, the adjusted R^2 reaches 18.7% and 64.5%, respectively, which means that the model has a good fitting results. The results are similar to those of Zhang Yuan *et al.* (2014) [14]. By studying the relationship between culture and M&A, Zhang Yuan found that executives with nomadic culture background had more motivation of M&A, which is similar to the characteristics of nomadic people's favor in expanding territory abroad [14]. The results above show that the Chairman of nomadic culture background tends to pay lower audit fees than the chairman with a farming culture background, so the hypothesis 1 is verified. Column (3) and column (4) show the results of the group where there don't exist Chairman and CEO duality and the group where there exist Chairman and CEO duality. β_1, the coefficient of Culturein column (3) is −0.063, significant at the level of 5%, and −0.296 in column (4), which is significant at the level of 1%. β_1 in column (4) is smaller than in that in column (3), and Chi^2 of Chow test is 11.2, significant at the level of 1%.

Table 4 shows the results of hypothesis 3 and hypothesis 4. Column (1) and column (2) show the results of small board size group and big board size group, respectively. For the small board size group, the coefficient of Culture is −0.065, significant at the level of 10%, for the big board size group, the culture's coefficient is −0.225 and significant at the level of 1%. The coefficient of culture for the big board size group is smaller than that of the small board size group and the difference of the two coefficients is significant at the level of 1%, the Chi^2 is 8.27. Column (3) and column (4) show the results of short tenure group and long tenure group, respectively. For the short tenure group, the coefficient of Culture is −0.039, but not significant, for the long tenure group, the culture's coefficient is −0.188 and significant at the level of 1%. The coefficient of culture for the long tenure group is smaller than that of the short tenure group and the difference of the two coefficients is significant at the level of 1%, the Chi^2 is 7.48. Therefore, H3 and H4 are supported. When the board size is bigger, the board of directors' supervision on the Chairman is limited owning to the dysfunction of the board of directors, so the personality of the chairman will be more reflected in the behavior of the company, and with Chairman's tenure become longer, the personality of the chairman can also has a stronger impact on corporate

Table 3. Empirical results of hypothesis 1 and hypothesis 2.

Variables	(1) Total sample	(2) Total sample	(3) No duality	(4) Duality
Culture	−0.098**	−0.108***	−0.063**	−0.296***
	(−2.374)	(−3.958)	(−2.071)	(−4.248)
size		0.384***	0.390***	0.355***
		(57.379)	(66.092)	(29.199)
debt		−0.054*	−0.036	−0.100
		(−1.648)	(−0.875)	(−1.400)
roa		0.061	−0.046	0.277
		(0.513)	(−0.321)	(1.083)
caset2		−0.115***	−0.111**	−0.200**
		(−2.753)	(−2.311)	(−2.187)
loss		0.061***	0.051*	0.087*
		(2.709)	(1.947)	(1.793)
listtime		−0.029***	−0.040***	−0.002
		(−2.704)	(−3.494)	(−0.106)
ownership		−0.063***	−0.069***	−0.013
		(−5.600)	(−5.445)	(−0.453)
Big4/big5		0.640***	0.593***	0.792***
		(17.634)	(20.504)	(12.895)
audittenure		0.011	0.017*	−0.022
		(1.400)	(1.853)	(−1.151)
autype		−0.143***	−0.156***	−0.107*
		(−5.593)	(−4.542)	(−1.946)
age		4.575	0.520	21.044
		(0.388)	(0.037)	(0.797)
tenure		0.007	0.000	0.042*
		(0.659)	(0.014)	(1.770)
Constant	12.487***	−11.336	3.215	−76.300
	(165.466)	(−0.269)	(0.059)	(−0.740)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Adj.-R2	0.187	0.645	0.653	0.642
N	7744	6958	5508	1304
Chi2			11.02***	

Notes: Significance level at: *10, **5 and ***1 percent; numbers in parenthesis are t-statistics for t tests, Chi^2-statistic for Chow test.

Table 4. Empirical results of hypothesis 3 and hypothesis 4.

Variables	(1) Small board size	(2) Big board size	(3) Short tenure	(4) Long tenure
Culture	−0.065*	−0.225***	−0.039	−0.188***
	(−1.882)	(−4.894)	(−1.007)	(−4.981)
size	0.373***	0.399***	0.383***	0.385***
	(56.600)	(44.287)	(53.767)	(49.113)
debt	−0.052	−0.092	0.002	−0.144***
	(−1.201)	(−1.539)	(0.043)	(−2.684)
roa	0.310**	−0.358*	−0.062	0.176
	(2.012)	(−1.744)	(−0.354)	(1.021)
caset2	−0.085*	−0.164**	−0.199***	−0.003
	(−1.698)	(−2.088)	(−3.439)	(−0.043)
loss	0.083***	0.031	0.021	0.117***
	(2.841)	(0.832)	(0.674)	(3.513)
listtime	−0.032***	−0.014	−0.043***	0.013
	(−2.620)	(−0.808)	(−3.488)	(0.648)
ownership	−0.061***	−0.062***	−0.064***	−0.072***
	(−4.291)	(−3.213)	(−4.016)	(−4.402)
Big4/big5	0.670***	0.599***	0.618***	0.664***
	(18.874)	(15.379)	(17.078)	(17.968)
audittenure	0.041***	−0.035**	0.016	0.002
	(3.939)	(−2.566)	(1.491)	(0.156)
autype	−0.146***	−0.144***	−0.143***	−0.144***
	(−3.989)	(−2.969)	(−3.781)	(−3.175)
age	21.416	−24.793	−13.816	30.582
	(1.398)	(−1.199)	(−0.851)	(1.623)
tenure	−0.019	0.050***		
	(−1.472)	(2.885)		
Constant	−78.091	101.847	59.319	−114.196
	(−1.306)	(1.262)	(0.936)	(−1.553)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Adj.−R^2	0.630	0.681	0.645	0.640
N	4422	2536	4040	2918
Chi^2	8.27***		7.48***	

Notes: Significance level at: *10, **5 and ***1 percent; numbers in parenthesis are t-statistics for t tests, Chi^2-statistics for Chow tests.

behavior, so the negative relationship between the chairman's nomadic cultural background and the audit fees is enhanced.

4.2. Robust Tests

Considering the endogeneity of audit fees, the paper use one-year lagged audit fees to substitute audit fees of current period and do the robust tests, Table 5 provides robust tests results of H1 and H2, and Table 6 provide robust tests

Table 5. Robust tests results of H1-H2 by using lagged audit fees as independent variable.

Variables	(1)	(2)	(3)	(4)
	Total sample	Total sample	No duality	Duality
Culture	−0.101**	−0.128***	−0.090***	−0.334***
	(−2.234)	(−4.041)	(−2.673)	(−3.927)
size		0.373***	0.377***	0.357***
		(49.301)	(56.390)	(24.454)
debt		−0.095**	−0.062	−0.218**
		(−2.421)	(−1.301)	(−2.456)
roa		−0.139	−0.274*	0.213
		(−1.059)	(−1.667)	(0.683)
caset 2		−0.104**	−0.093*	−0.269**
		(−2.216)	(−1.743)	(−2.391)
loss		0.060**	0.047	0.113*
		(2.380)	(1.594)	(1.889)
listtime		−0.003	−0.018	0.055*
		(−0.195)	(−1.229)	(1.937)
ownership		−0.043***	−0.045***	−0.008
		(−3.426)	(−3.185)	(−0.232)
Big 4/big 5		0.607***	0.569***	0.751***
		(14.324)	(17.377)	(10.092)
audittenure		0.001	0.005	−0.025
		(0.098)	(0.431)	(−1.096)
autype		−0.130***	−0.142***	−0.067
		(−4.591)	(−3.510)	(−0.993)
age		17.135	12.796	41.755
		(1.234)	(0.798)	(1.281)
tenure		0.004	0.007	0.007
		(0.282)	(0.503)	(0.214)
Constant	13.411***	−61.441	−44.564	−157.340
	(355.596)	(−1.134)	(−0.712)	(−1.236)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Adj.−R2	0.179	0.622	0.630	0.623
N	6249	5530	4460	962
Chi²			7.86***	

Notes: Significance level at: *10, **5 and ***1 percent; numbers in parenthesis are t-statistics for ttests, Chi²-statistics for Chow tests.

results of H3 and H4. We can find that the sign and significance of parameters have no change. Moreover, estimations of Culture are significantly different between the two groups, showing the robustness of the results. This paper also uses standard error of clustering robustness and replicate the robust tests, the results shown in Table 7 and Table 8 are the same as the previous tests.

Table 6. Robust tests results of H3-H4 by using lagged audit fees as independent variable.

Variables	(1)	(2)	(3)	(4)
	Small board size	Big board size	Short tenure	Long tenure
Culture	−0.094**	−0.223***	−0.054	−0.202***
	(−2.395)	(−4.295)	(−1.158)	(−4.963)
size	0.358***	0.389***	0.367***	0.379***
	(47.313)	(37.944)	(41.949)	(45.417)
debt	−0.082	−0.156**	−0.033	−0.178***
	(−1.581)	(−2.253)	(−0.557)	(−3.056)
roa	0.090	−0.573**	−0.258	−0.045
	(0.501)	(−2.397)	(−1.163)	(−0.244)
caset2	−0.090	−0.111	−0.211***	0.007
	(−1.570)	(−1.245)	(−2.980)	(0.111)
loss	0.061*	0.049	0.019	0.112***
	(1.828)	(1.163)	(0.489)	(3.117)
listtime	0.002	−0.000	−0.028	0.033
	(0.144)	(−0.003)	(−1.617)	(1.489)
ownership	−0.047***	−0.032	−0.047**	−0.046***
	(−2.956)	(−1.468)	(−2.467)	(−2.662)
Big4/big5	0.642***	0.558***	0.603***	0.605***
	(15.396)	(12.723)	(13.510)	(15.353)
audittenure	0.033***	−0.050***	0.012	−0.013
	(2.758)	(−3.253)	(0.893)	(−0.992)
autype	−0.128***	−0.140**	−0.115**	−0.150***
	(−2.946)	(−2.460)	(−2.405)	(−3.020)
age	29.158	−4.728	−5.218	35.533*
	(1.615)	(−0.199)	(−0.257)	(1.763)
tenure	−0.019	0.040*		
	(−1.237)	(1.893)		
Constant	−108.161	23.688	26.013	−133.481*
	(−1.535)	(0.255)	(0.328)	(−1.696)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Adj.−R2	0.599	0.670	0.626	0.617
N	3509	2021	2821	2709
Chi^2	3.88**		5.37**	

Notes: Significance level at: *10, **5 and ***1 percent; numbers in parenthesis are t-statistics for t tests, Chi^2-statistics for Chow tests.

5. Conclusions

Culture finance is a hot topic in the academic field, and western scholars have put forward the importance of culture to corporate behavior earlier (Kwok and

Table 7. Robust tests results of H1-H2 by using standard errors of clustering robustness.

Variables	(1) Total sample	(2) Total sample	(3) No duality	(4) Duality
Culture	−0.101	−0.108*	−0.063	−0.296**
	(−0.944)	(−1.877)	(−1.024)	(−2.549)
size		0.384***	0.390***	0.355***
		(27.777)	(25.801)	(13.579)
debt		−0.054	−0.036	−0.100
		(−0.868)	(−0.526)	(−0.787)
roa		0.061	−0.046	0.277
		(0.324)	(−0.227)	(0.614)
caset2		−0.115	−0.111	−0.200
		(−1.402)	(−1.222)	(−1.284)
loss		0.061**	0.051	0.087
		(2.148)	(1.574)	(1.467)
listtime		−0.029	−0.040*	−0.002
		(−1.330)	(−1.664)	(−0.060)
ownership		−0.063***	−0.069***	−0.013
		(−2.602)	(−2.727)	(−0.262)
Big4/big5		0.640***	0.593***	0.792***
		(9.525)	(8.527)	(5.004)
audittenure		0.011	0.017	−0.022
		(0.868)	(1.178)	(−0.806)
autype		−0.143***	−0.156***	−0.107*
		(−4.147)	(−3.719)	(−1.688)
age		4.575	0.520	21.044
		(0.179)	(0.019)	(0.415)
tenure		0.007	0.000	0.042
		(0.350)	(0.008)	(0.988)
Constant	13.411***	−12.536	3.215	−76.300
	(207.736)	(−0.126)	(0.029)	(−0.385)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Adj.−R2	0.179	0.645	0.653	0.642
N	6249	6958	5508	1304
Chi2			11.02	

Notes: Significance level at: *10, **5 and ***1 percent; numbers in parenthesis are t-statistics for t tests, Chi²-statistics for Chow tests.

Tadesse, 2006, Chen *et al.*, 2015). It is a significant financial decision of the company that how much to pay for the audit fees, although there exist literatures about the effects of executive background characteristics such as age, sex, tenure

Table 8. Robust tests results of H3-H4 by using standard errors of clustering robustness.

Variables	(1) Small board size	(2) Big board size	(3) Short tenure	(4) Long tenure
Culture	−0.065	−0.225***	−0.039	−0.188**
	(−0.896)	(−2.600)	(−0.687)	(−2.451)
size	0.373***	0.399***	0.383***	0.385***
	(22.213)	(18.402)	(23.162)	(22.190)
debt	−0.052	−0.092	0.002	−0.144
	(−0.697)	(−0.909)	(0.028)	(−1.623)
roa	0.310	−0.358	−0.062	0.176
	(1.348)	(−1.211)	(−0.256)	(0.730)
caset2	−0.085	−0.164	−0.199**	−0.003
	(−0.852)	(−1.247)	(−2.101)	(−0.021)
loss	0.083**	0.031	0.021	0.117***
	(2.543)	(0.630)	(0.638)	(2.820)
listtime	−0.032	−0.014	−0.043*	0.013
	(−1.225)	(−0.421)	(−1.916)	(0.345)
ownership	−0.061*	−0.062*	−0.064**	−0.072**
	(−1.953)	(−1.900)	(−2.366)	(−2.222)
Big 4/big 5	0.670***	0.599***	0.618***	0.664***
	(6.775)	(6.868)	(6.318)	(10.258)
audittenure	0.041**	−0.035*	0.016	0.002
	(2.404)	(−1.829)	(1.039)	(0.102)
autype	−0.146***	−0.144**	−0.143***	−0.144***
	(−3.669)	(−2.284)	(−3.335)	(−3.096)
age	21.416	−24.793	−13.816	30.582
	(0.691)	(−0.627)	(−0.518)	(0.817)
tenure	−0.019	0.050		
	(−0.781)	(1.593)		
Constant	−78.091	101.847	59.319	−114.196
	(−0.645)	(0.659)	(0.570)	(−0.782)
Year	Yes	Yes	Yes	Yes
Industry	Yes	Yes	Yes	Yes
Adj.−R2	0.630	0.681	0.645	0.640
N	4422	2536	4040	2918
Chi2	8.27***		7.48***	

Notes: Significance level at: *10, **5 and ***1 percent; numbers in parenthesis are t-statistics for t tests, Chi^2-statistics for Chow tests.

and heterogeneity of these on audit fees, few researches discuss how cultural background characteristics of Chairman affect audit fees. Western researches have studied how culture affects corporate financial decisions and corporate go-

vernance, but it is difficult to control the differences between national accounting standards, tax systems, bankruptcy laws and the implementation of laws.

This paper studies the influence of Chairman's cultural background characteristics on the company's audit fees by using the Chairman's native place to measure the Chairman's culture background, the results show that the Chairman's cultural background characteristics significantly influence the audit fees, and compared to the Chairman coming from farming culture areas, the Chairman of the nomadic culture areas is only willing to pay lower audit fees. The main reason is that due to the influence of natural and social environment and other factors, people in nomadic culture areas will take more risks than people in farming culture areas, resulting in people coming from nomadic culture areas are more willing to take risks, and also more of risk awareness. This paper also finds that in the company of which the Chairman and CEO is the same person, the board size is bigger, the Chairman's tenure is longer, the negative relationship between nomadic culture background and audit fees is more stronger. That is because it will strengthens the authority of the chairman and weaken the supervision of the board of directors if the Chairman and CEO is the same person, and the bigger board size will also weaken the supervision of the board of directors, and the chairman's personal characteristics will also be more likely to be shown in the company's decisions with longer tenure of Chairman.

Unavoidably, there are still some limitations of this paper. Due to difficulties in the acquisition of certain data, there are still some other factors we don't consider, such as the other differences between culture areas, which may weaken the conclusions of this paper. Still, this is the direction of author's follow-up research.

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