

Family Firms and the Selection of Industry Specialist Audit Partners

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Family firms are important business enterprises in Taiwan, a regime characterized by weaker investor protection and less developed capital market. Using listed companies from 1996-2011, this study examines whether family firms employ high-quality auditors to mitigate the agency problem arising from concentrated ownership. We find that family firms are more likely to appoint audit partners with industry expertise to alleviate investors' concern about Type II agency problem, especially when the CEO is hired outside the founding family and when the family firm has larger control-ownership divergence. The results also show that investors react more positively to family firms' switch of audit partners from non-specialist to specialist. Our findings are consistent with industry specialist auditors serving a governance role to alleviate the entrenchment problem in family firms.

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