Returnee Directors and Audit Fees

Journal of International Financial Management and Accounting [2025: forthcoming]

Muhammad Umar Farooq
PhD Student, School of Management, Northwestern Polytechnical University, Xi'an, China
Email: mufarooqms@hotmail.com

Kun Su* (Corresponding Author)
Professor, School of Management, Northwestern Polytechnical University, Xi'an, China
Email: sukun@nwpu.edu.cn

Vincent Tawiah
Assistant Professor, DCU Business School, Dublin City University, Ireland
Email: vincent.tawiah@dcu.ie

Muhammad Usman* (Corresponding Author)
Associate Professor, School of Accounting, Xijing University, China
Email: musmanms14@gmail.com

Acknowledgment

- Conflict of Interest: All Authors declare that they have no conflict of interest.
- Ethics approval statement: This study does not involve Human Participants and/or Animals and meets the ethical standards.
- Data availability statement: The datasets generated and/or analysed during the current study are not publicly available due to licensing from CSMAR, but are available from the corresponding author on reasonable request
- Funding statement: This study was funded by the National Natural Science Foundation of China (Nos: 72172127 and 71773088), the Fundamental Research Funds for Central Universities at Northwestern Polytechnical University, and the 'Funds for High-Level Talents' of Xijing University, China (No: XJ24B02),
- ORCID of Submitting Author: https://orcid.org/0000-0003-2538-228X

Authors Bibliography

Mr. Muhammad Umar Farooq is a PhD student in the School of Management at Northwestern Polytechnical University, Xi'an, China. His area of research interest is corporate governance, CEO power, board gender diversity, financial reporting quality, and audit fees. His research work has been accepted or published by international journals of repute, e.g., *Journal of Business Research*, *Economics Letters*, *Finance Research Letters, Managerial Auditing Journal*, and *The B.E. Journal of Economic Analysis & Policy Journal etc.*

Dr. Kun Su is a Professor in the School of Management, Northwestern Polytechnical University, Xi'an, China. His area of research interest is corporate governance, ownership structure, corporate risk, and environmental management. His research work has been accepted or published by international journals of repute e.g., *European Journal of Finance*, *Finance Research Letters*, Asia *Pacific Business Review*, *Chinese Management Studies*, *etc.*

Dr. Vincent Tawiah, Ph.D., from Griffith University, Australia, is an Assistant Professor of International Financial Reporting at Dublin City University, Ireland. His research focuses on financial reporting quality, financial reporting standards implementation, audit quality, corporate governance, and income inequality. He has papers published in several journals, including the *International Journal of Accounting*, *International Journal of Finance & Economics*, and *Resources Policy*, amongst others.

Dr. Muhammad Usman, Ph.D., from Xi'an Jiaotong University, China, is an Associate Professor in the School of Accounting at Xijing University, China. His research focuses on gender diversity, financial reporting quality, audit quality, corporate finance, corporate governance, and green innovation. He has papers published in several journals, including *Review of Accounting Studies*, *British Journal of Management*, *Journal of Business Research*, *The International Journal of Accounting,* and *Economics Letters,* amongst others.

Returnee Directors and Audit Fees

Abstract

Emerging literature shows that returnee directors have a positive effect on firm outcomes. However, this positive outcome is likely to come at a cost to the firm in the form of increased audit fees. Therefore, in this paper, we examine the relationship between returnee directors and audit fees. We use a large sample of 42,406 firm-year observations of Chinese firms between 2006 and 2022. We find that the presence of returnee directors on corporate boards is related to higher audit fees. The effect is more pronounced in non-state-owned firms compared with state-owned firms and when the returnee directors are nonexecutives. The results imply that there is an unintended price to be paid by firms for appointing returnee directors. The results are not sensitive to different firm characteristics and potential endogeneity problems.

Keywords: returnee directors; audit fees; corporate governance; directors with foreign experience

1. Introduction

The globalization of China's economy and its rapid transformation from a centrally planned to a more market-oriented system have brought about profound changes in corporate governance and financial practices (Giannetti et al., 2015). Central to these developments is the growing role of returnee directors—Chinese nationals who have studied or worked abroad—and their influence on corporate governance, financial reporting, and audit practices (Dai et al., 2018; Shan et al., 2023). The presence of returnee directors on corporate boards, many of whom have rich expertise in international governance and financial standards, has had significant implications for corporate governance reforms (Yuan & Wen, 2018; Zhang et al., 2018). This paper seeks to explore the relationship between returnee directors and audit fees in Chinese firms by examining how the international experience of returnee directors affects audit complexity, perceived audit risk, and the resulting costs.

Our primary research question is: How does the presence of returnee directors on corporate boards influence audit fees in Chinese firms? This study investigates whether this relationship is affected by factors such as firm characteristics (e.g., state-owned firms [SOEs] versus non-state enterprises [POEs]) and returnee directors' characteristics (e.g., the role of returnee directors as either executive or nonexecutive directors). Taking into account the distinct characteristics of the Chinese market, this research extends the literature by offering a more detailed understanding of how international expertise in governance influences audit practices within China's unique regulatory and corporate environments.

The main objective of this study is to empirically examine the effect of returnee directors on audit fees in China by assessing how their international background influences audit pricing. In additional analyses, we also explore the effect of firm and returnee directors' characteristics on the relationship between returnee directors and audit fees. By exploring these objectives, this study contributes to a

growing body of literature on corporate governance and audit practices in emerging markets, with a specific focus on China's dynamic corporate landscape.

China has expended significant effort to modernize its corporate governance frameworks in response to its growing integration into global markets. As China increasingly aligns its governance practices with international standards, particularly through initiatives such as the Thousand Talents Program and regulatory reforms (Giannetti et al., 2015), returnee directors have become vital players in transforming corporate practices (Giannetti et al., 2015; Wen et al., 2020; Zhang et al., 2018). However, while returnee directors are expected to improve governance and financial transparency, their international experience and the practices in which they are versed may increase the complexity of financial reporting (Masulis et al., 2012), thus raising audit risk and costs. These dynamics are particularly relevant in China, where SOE reforms and private sector growth have created a complex governance environment that often requires a balance to be struck between domestic regulations and international standards (Leng, 2009).

This study is motivated by the growing literature on human capital and audit pricing theories in corporate governance, particularly in the context of independent and returnee directors. Human capital theory suggests that individuals with international experience bring superior knowledge, skills, and expertise to the firms they serve, which can enhance corporate governance practices (Becker, 1962). In the case of returnee directors, Shan et al. (2023) suggest that their exposure to advanced regulatory environments and governance standards in developed markets enables them to introduce more stringent internal controls and compliance frameworks in Chinese firms. However, governance improvements can lead to increased audit complexity, as auditors must assess compliance with both domestic and international standards; this contributes to higher audit fees.

Audit pricing theory (Simunic, 1980) provides a complementary explanation for the relationship between returnee directors and audit fees. It posits that audit fees are determined by factors such as

audit risk, client complexity, and auditor effort. Auditors are likely to perceive firms with returnee directors as more complex and potentially riskier due to the directors' push for more sophisticated governance structures and financial reporting practices (Li et al., 2021). Returnee directors often advocate for the adoption of International Financial Reporting Standards (IFRS) and other globally recognized frameworks, which can increase the perceived risk of material misstatements in financial statements (Shan et al., 2023). Auditors must, therefore, allocate more resources to thoroughly evaluate the firm's compliance with these standards, resulting in higher audit fees (Hay et al., 2006).

Existing studies have explored the relationship between independent directors, corporate governance, and audit fees (Habib et al., 2019; Harjoto et al., 2015; Hay et al., 2006); however, there is a gap in the literature when it comes to examining the specific role of returnee directors in emerging markets like China. While previous research has highlighted the positive effects of returnee directors on firm performance and governance (Dai et al., 2018; Iliev & Roth, 2018; Khan et al., 2023; Shan et al., 2023; V. Tawiah et al., 2024; Yuan & Wen, 2018; Zhang et al., 2018), little attention has been paid to their influence on audit costs. This study seeks to fill this gap by investigating how the governance practices introduced by returnee directors affect audit complexity and fees in the Chinese context.

We use a sample of 42,406 firm-year observations of Chinese firms between 2006 and 2022 to examine the relationship between the presence of returnee directors and audit fees. Consistent with prior studies, we define returnee directors as directors with foreign experience who are non-Chinese citizens (Giannetti et al., 2015). Our results indicate that audit fees are affected by the presence of returnee directors and that this relationship is more pronounced in privately owned firms than in SOEs. Also, the effect is evident when more than one returnee director is on the board, confirming the relevance of critical mass. Moreover, this result is significant only when the returnee director is nonexecutive. In further analyses, we demonstrate that accounting irregularities do not significantly exacerbate the relationship between returnee directors and audit fees. Hence, the positive relationship between returnee directors and higher audit fees can be attributed to returnee directors' reputational

needs and their demand for high audit quality. Our results remain qualitatively similar after accounting for the type of foreign experience, firm complexity, auditor type, and firm political affiliation.

This research makes several important contributions to the literature on corporate governance and audit pricing. First, it provides empirical evidence on the relationship between returnee directors and audit fees in China, contributing to a broader understanding of how international expertise in governance influences audit practices in emerging markets. Furthermore, this paper highlights the nuanced role that returnee directors play in shaping audit complexity and costs, thereby extending existing theories on audit pricing and human capital.

Second, this study adds to the theoretical understanding of how human capital theory and audit pricing theory interact in the context of returnee directors. It demonstrates that while returnee directors bring valuable international expertise that can enhance corporate governance, their presence increases the complexity of the audit process, leading to higher audit fees. Our study of this dual role of returnee directors—who enhance governance while increasing costs—provides a more nuanced perspective on the benefits and trade-offs associated with international expertise on corporate boards.

From a policy perspective, this research has important implications for Chinese firms and policymakers. While the appointment of returnee directors can significantly improve governance and financial transparency, the associated increase in audit fees may pose challenges for smaller firms, particularly those with limited resources. Policymakers should consider these trade-offs when designing policies aimed at attracting returnee talent and promoting international governance standards in Chinese firms. Balancing the benefits of improved governance with the costs of increased audit complexity is crucial for ensuring the continued success of China's corporate governance reforms.

The remainder of this paper is structured as follows. Section 2 provides a review of the literature, and the hypothesis development is presented in Section 3. We describe the research methods in Section 4. Empirical results and discussions are presented in Section 5. We conclude with policy implications in Section 6.

2. Background and context of the study

The rapid globalization of China's economy, coupled with significant economic reforms and regulatory developments in recent decades (Giannetti et al., 2015), makes it an ideal context for examining the role of returnee directors and their influence on audit fees. China's unique institutional setting—characterized by its transitioning economy, distinctive corporate governance practices, and evolving regulatory frameworks (Leng, 2009; Qian, 2017)—presents a rich environment in which to explore how returnee directors, equipped with international experience, interact with domestic governance structures and contribute to corporate practices, including financial transparency and audit costs.

According to Leng (2009), China's transformation from a centrally planned economy to a more market-oriented one has been accompanied by significant corporate governance reforms. These reforms, driven by the government's recognition of the importance of good governance for attracting foreign investment and fostering sustainable economic growth, have fundamentally reshaped how Chinese firms operate. Corporate governance in China has evolved particularly through initiatives to modernize SOEs, develop robust capital markets, and improve the overall transparency and accountability of firms (Jiang & Kim, 2015; Ngwu et al., 2016; Wang, 2014).

China has implemented various policies aimed at attracting professionals educated and trained abroad—Chinese returnees are often referred to as "sea turtles"—as part of its broader strategy to drive economic modernization and global integration (Giannetti et al., 2015; Liu, 2022). These initiatives are crucial to China's efforts to integrate international expertise into its domestic firms and

improve governance standards. One of the most prominent policies is the Thousand Talents Program, introduced in 2008, which seeks to attract Chinese professionals who have worked or studied abroad by offering competitive salaries, research funding, housing subsidies, and other benefits (Giannetti et al., 2015). This program has been highly successful in attracting professionals with valuable expertise in areas such as finance, corporate governance, and technology, all of which are critical for enhancing China's global competitiveness.

Returnee directors play a crucial role in helping Chinese firms navigate this increasingly sophisticated capital market environment (Dai et al., 2018; Giannetti et al., 2015; Yuan & Wen, 2018). Their experience in global financial markets and understanding of governance practices in developed economies help firms meet the stringent financial reporting and regulatory requirements expected by both domestic and international investors. This, in turn, increases the demands placed on auditors, who must ensure that financial statements comply with international standards and meet the transparency expectations of a global investor base (Shan et al., 2023). The presence of returnee directors likely leads to higher audit fees, as auditors view these firms as more complex and risk-sensitive (Masulis et al., 2012).

The return of Chinese professionals educated abroad, especially in fields such as accounting, finance, and corporate governance, has played a pivotal role in ensuring compliance with these new standards. Returnee directors are often more familiar with IFRS and other international standards, which enables them to implement stronger governance frameworks that align with global expectations (Shan et al., 2023). However, this alignment with global standards increases the complexity of financial reporting and, by extension, the audit effort required. Auditors must ensure that firms with returnee directors meet these complex reporting standards; this contributes to higher audit fees.

The Chinese government has also strengthened its audit regulations, recognizing the importance of high-quality audits in ensuring financial integrity (Lin & Chan, 2000). Regulatory bodies such as the

Chinese Institute of Certified Public Accountants (CICPA) have issued more rigorous guidelines for audit practices; these align with international standards, including those set by the International Federation of Accountants (IFAC) (Qu & Zhang, 2010). These regulatory developments reflect China's commitment to fostering a transparent financial environment that meets global expectations, especially as Chinese firms increasingly operate in international markets (Xie & Wang, 2022).

Returnee directors are often seen as champions of corporate transparency and governance reform. In China, where governance practices have historically lagged behind those in developed economies, returnee directors push for stricter compliance with global standards. This shift toward greater transparency is crucial for Chinese firms seeking to gain credibility in international markets (Dai et al., 2018; Xie & Wang, 2022). The relationship between returnee directors and audit fees in China is shaped by the country's regulatory reforms, corporate governance developments, and policy environment. The presence of returnee directors increases the complexity of financial reporting and governance practices, as these directors bring with them knowledge of international standards and best practices (Shan et al., 2023). This complexity, in turn, raises perceived audit risk and increases the scope of the audit, leading to higher audit fees (Hay et al., 2006). At the same time, reforms in China's regulatory environment—particularly the adoption of IFRS and the strengthening of audit regulations (Lin & Chan, 2000; Qu & Zhang, 2010)—have further contributed to the increased demand for transparency and accountability in Chinese firms. Returnee directors are often at the forefront of these efforts, advocating for more rigorous governance and financial reporting standards. However, such improvements come at a cost, as auditors must devote more resources to ensuring compliance with these complex governance frameworks.

China's unique regulatory environment, corporate governance reforms, and policy push toward global integration make it an ideal context in which to study the relationship between returnee directors and audit fees. The evolving role of returnee directors in Chinese firms reflects broader efforts to align with international standards and enhance corporate transparency.

3. Theoretical framework and hypothesis development

3.1. Theoretical framework

The relationship between returnee directors and audit fees can be analyzed through audit pricing theory (Simunic, 1980) and human capital theory (Becker, 1962). Both offer insights into why firms with returnee directors may face increased or decreased audit fees based on the directors' influence on governance practices, risk management, and the complexity of financial reporting. This theoretical framework explores how the human capital of returnee directors contributes to changes in corporate governance and how these changes impact audit risk and pricing. Audit pricing theory (Simunic, 1980) explains that audit fees are determined by three primary factors: audit risk, client complexity, and auditor effort. Firms with returnee directors may be subject to changes in each of these factors, which influence the pricing of auditing services.

Returnee directors, due to their international exposure, may implement governance frameworks that auditors perceive as more complex or risky. The introduction of multilayered internal controls, foreign regulatory compliance, and IFRS increases the likelihood of errors or misstatements in financial statements (Duan & Hou, 2017). Auditors respond to this heightened audit risk by expanding the scope of the audit, conducting more rigorous testing of internal controls, and ensuring that financial statements comply with multiple regulatory frameworks (Li et al., 2021). This increase in auditor effort results in higher audit fees.

Returnee directors often push for international expansion or the adoption of global governance practices (Giannetti et al., 2015; Xie & Wang, 2022), which increases the complexity of the firm's operations. Auditors must consider the implications of cross-border transactions, foreign investments, and compliance with international accounting standards, all of which add complexity to the audit process. Firms with returnee directors may also need to comply with both domestic and international regulatory standards, such as IFRS or Generally Accepted Accounting Principles (GAAP), further increasing the scope of the audit (Lin & Chan, 2000; Qu & Zhang, 2010). Auditors must assess a

firm's financial statements in light of these multiple compliance requirements; this requires more time, resources, and specialized expertise. As a result, audit fees increase to reflect the additional complexity and auditor effort required.

Furthermore, audit pricing theory emphasizes that the effort required to complete the audit directly influences fees (Tawiah, 2021). Returnee directors often introduce governance practices that necessitate more thorough testing of internal controls and financial reporting systems. For example, returnee directors may advocate for stricter compliance with international risk management practices, such as environmental, social, and governance (ESG) risks, which require specialized auditing skills. The increased auditor effort needed to assess these enhanced governance practices contributes to higher audit fees (Hay et al., 2006).

While returnee directors can increase the complexity of governance structures, they may also reduce audit risk by improving the firm's internal governance (Shan et al., 2023). Returnee directors' exposure to best practices in risk management and financial reporting enables them to implement stronger internal controls, thereby reducing the likelihood of financial misstatements (Dai et al., 2018). Auditors, on recognizing these improvements in governance, may view the firm as less risky and adjust the scope of the audit accordingly. Lower perceived audit risk may result in auditors reducing their fees, as they may be of the view that less effort will be required to verify the firm's financial statements. Moreover, returnee directors may succeed in streamlining the firm's governance and reporting processes, which will render the audit process more efficient (Shan et al., 2023). For example, if returnee directors improve compliance with global standards, it may be possible for auditors to conduct fewer tests or rely more on automated auditing tools; this will reduce the overall audit effort and result in lower fees.

Human capital theory posits that individuals' skills, knowledge, and experience are valuable resources that enhance organizational performance (Becker, 1962). In the context of corporate governance,

returnee directors are perceived to possess superior human capital compared to domestic directors (Dai et al., 2018). This superior human capital includes familiarity with advanced governance practices, regulatory frameworks, and risk management strategies from more developed markets (Giannetti et al., 2015). Returnee directors are expected to bring new perspectives and expertise to their firms, especially in terms of international standards and compliance.

Returnee directors often advocate for the adoption of stringent governance practices and IFRS, and their exposure to more developed regulatory environments typically leads to the implementation of stronger internal controls and more transparent financial reporting. While these improvements contribute to better governance, they also increase the complexity of the firm's financial processes. Auditors, in turn, must dedicate more time and resources to evaluating compliance with these more sophisticated governance frameworks (Hay et al., 2006).

Moreover, the presence of returnee directors may increase perceived audit risk. Such directors often implement complex governance structures, and auditors may view these as increasing the likelihood of misstatements or compliance issues (Duan & Hou, 2017). To mitigate this risk, auditors expand the scope of their work, which includes more thorough assessments of financial statements and governance practices (Simunic, 1980). This added complexity and perceived risk directly contribute to increased audit fees. Returnee directors are also likely to appoint Big4 firms (Liao et al., 2017) out of a desire to protect their personal reputation (Wen et al., 2020).

Conversely, the presence of returnee directors can also lead to decreased audit fees, as such directors improve internal governance and reduce audit risk. This is because their international experience has equipped them with skills in enhancing risk management and internal controls. Stronger internal controls reduce the likelihood of financial misstatements, thus lowering the firm's overall risk profile. When auditors perceive a firm as less risky, they reduce the audit scope and effort, resulting in lower fees (Simunic, 1980). Additionally, returnee directors often enhance a firm's reputation for strong

governance, which can influence auditor confidence. Auditors may trust that firms led by returnee directors are committed to transparency and compliance, thereby reducing their perceived audit risk (Khurana & Raman, 2004). As a result, auditors may lower their fees, reflecting the reduced effort needed to ensure accurate financial reporting.

Returnee directors may also implement technology-driven solutions for financial reporting and risk management, thereby improving the efficiency of the aforementioned processes (Yuan & Wen, 2018). Automated reporting systems and advanced auditing tools can streamline financial reporting, making it easier for auditors to assess the firm's compliance with regulatory standards. This efficiency reduces the complexity of the audit, which may lead to lower fees (Hay et al., 2006).

Audit pricing theory and human capital theory offer valuable insights into the relationship between returnee directors and audit fees. Returnee directors, due to their international experience, often introduce more stringent internal controls, risk management systems, and financial reporting standards. These changes can increase audit complexity and perceived risk and lead to higher audit fees, as auditors must dedicate more resources to assessing the firm's compliance with multiple regulatory frameworks. However, returnee directors can also enhance the firm's governance and reduce audit risk, potentially leading to lower fees. The interplay between these two forces—complexity and risk reduction—explains the variability in audit fees associated with the presence of returnee directors.

3.2. Hypothesis development

The core aim of every external audit is to provide reasonable assurance that financial statements are free from material misstatements. Consequently, auditors need to plan the nature, timing, and extent of audit procedures according to the degree of risk of material misstatement (Public Company Accounting Oversight Board, 2010). Simunic (1980) argues that the total audit fee is a component of the resource cost of effort and liability loss; this is dependent on the business risk of the client and includes the risk of material misstatements. The resource cost includes both the time and effort

required to conduct the audit. Among other factors, directors' characteristics are a key indicator of the level of risk in the business. The assessment of the management and directors' integrity is one of the key steps in audit planning (Kizirian et al., 2005).

Prior studies have found that directors' characteristics are a significant determinant of audit fees (Habib et al., 2019; Hay et al., 2006; Moizer, 1997). One such board characteristic is the director's experience (Habib et al., 2019; Harjoto et al., 2015). Returnee directors, defined as directors who have studied or worked in countries other than their home country, have been found to have unique characteristics that significantly influence a firm's activities (Dai et al., 2018; Giannetti et al., 2015; Iliev & Roth, 2018; 2017; Yuan & Wen, 2018; Zhang et al., 2018). While nearly all existing research on returnee directors highlights their positive impact on a firm's activities, their effect on audit fees presents an intriguing question.

On the one hand, a returnee director on the board can increase audit fees through at least three channels. First, returnee directors have a reputation to protect (Wen et al., 2020); hence, they will demand high-quality audits from external auditors. As audit fees are a function of time and effort, the auditor will demand high audit fees that are commensurate with the increase in auditing activities. Second, returnee directors exhibit a marked preference for high-quality auditors such as the Big4. Liao et al. (2017) reported that firms are likely to switch to high-quality auditors after appointing directors with foreign experience. Similarly, Zhou et al. (2020) found that firms with returnee directors on their audit committees are likely to switch to international auditors. Moreover, high-quality auditors, predominantly international audit firms, charge higher fees (DeAngelo, 1981; Hrazdil et al., 2020). Third, the presence of returnee directors could increase audit fees because of weaker corporate governance and an increase in material misstatements. Masulis et al. (2012) found that directors with foreign experience are more likely to commit intentional material misstatements. This is because of the low meeting attendance of such directors, which negatively impacts the board's monitoring function. Audit risk increases when the board monitoring function decreases and material

misstatements increase, and needs to be compensated with increased audit fees. Therefore, we hypothesize that:

H1a: Ceteris paribus, the presence of returnee directors increases audit fees.

On the other hand, the presence of returnee directors could lead to a decrease in audit fees. For instance, returnee directors have overseas experience, which is perceived as best practice (Giannetti et al., 2015; Iliev & Roth, 2018; Zhou et al., 2020). Iliev and Roth (2018) reported that firms in emerging markets learn best corporate governance practices from developed countries through directors with foreign experience. Therefore, such directors help firms implement the best internal controls, thereby reducing audit risk. A reduction in audit risk means that auditors may need less time and effort to test control, leading to a decrease in audit fees. Returnee directors also bring diversity to the board, thereby increasing board effectiveness while decreasing misstatement and auditing time and effort (Kamarudin et al., 2018; Oradi & Izadi, 2019). Returnee directors bring diversity to the board because they have access to a larger and more diverse set of governance practices than domestic directors (Iliev & Roth, 2018). Living abroad endows returnee directors with a reasonable knowledge base, experience in cross-cultural management, and rich transnational skills, which enable them to implement high-quality systems (Iliev & Roth, 2018; Zhou et al., 2020). Thanks to their greater access to extensive overseas networks and knowledge of diverse governance practices, returnee directors incentivize management to improve financial reporting quality (Liao et al., 2017) over paying auditors high fees to check for material misstatements. Returnee directors also improve the board's independence and effectiveness due to their weak social ties and low connection to local norms (Giannetti et al., 2015; Iliev & Roth, 2018). Therefore, the presence of returnee directors improves the firm's informational transparency environment through an increase in earnings transparency (Liao et al., 2017). Returnee directors also tend to protect their reputation and the firm they serve by not engaging in activities that could attract negative attention from the media. Wen et al. (2020) found that firms with returnee directors are less likely to engage in aggressive corporate tax avoidance. Thus,

firms with returnee directors are more likely to have high-quality earnings reporting; as a result, auditors will need to expend less time and effort to review financial statements. Furthermore, the presence of returnee directors could improve the firm's image and reduce perceived operational risk. Wen et al. (2020) argue that firms with returnee directors are perceived as good firms because returnee directors encourage corporate social responsibility. Moreover, Zhang et al. (2018) found that firms do good business when they have directors with foreign experience. Positive impressions of firms with returnee directors could influence auditors to charge low audit fees because of the lesser probability of such firms engaging in financial statement manipulation. Therefore, we hypothesize the following:

H1b: Ceteris paribus, the presence of returnee directors decreases audit fees.

4. Research methods

4.1. Data source and sample

Our initial sample consists of all A-share nonfinancial firms listed on the Shanghai and Shenzhen stock exchanges between 2006 and 2022 with no missing data on audit fees (i.e., 47,679 firm-year observations). We exclude financial firms from our data because of their distinct nature and regulatory requirements. Our sample period starts from 2006 because this is the year from which data regarding all the variables used in this study are available. We extracted data on our sample firms from the China Stock Market and Accounting Research (CSMAR) database. We then dropped firm-year observations where the data regarding independent and control variables were missing (i.e., 5,273 firm-year observations). Therefore, our final sample consists of 42,406 firm-year observations from 4,606 unique firms (please see Table 1 for the year-wise sample distribution).

[Insert Table 1 here – Year-wise sample distribution]

4.2. Measurement of variables

4.2.1. Audit fees

Our main variable of interest is audit fees (*Audit_Fees*). Following previous studies (Gull et al., 2021; Nekhili et al., 2020), we use a natural logarithm of audit fees paid by a firm to its external auditor. Taking the logarithm of audit fees mitigates the effect of heterogeneity bias in the results.

4.2.2. Returnee directors

Our main independent variable is returnee director (*Returnee*), measured as the ratio of returnee directors to total directors serving on the board. Consistent with previous studies (e.g., Usman et al., 2024; Wen et al., 2020; Zhang et al., 2018), we define a returnee director as a Chinese national serving on the board who has previously worked or studied outside mainland China.

4.2.3. Control variables

Consistent with previous studies on the determinants of audit fees, we also control for firm characteristics associated with audit fees (e.g., Gul et al., 2021; Nekhili et al., 2020). We control for board structure, CEO and CFO characteristics, ownership structure, audit firm-related characteristics, and firm economic characteristics. Board structure variables include board size (*Board_Size*), board independence (*Board_Independence*), board gender diversity (*Board_Female*), board national diversity (*Board_Foreign*), board tenure (*Board_Tenure*), and board age (*Board_Age*). The CEO and CFO characteristics are CEO role duality (*CEO_Duality*), CEO gender (*CEO_Gender*), CEO political affiliation (*CEO_Political*), and CFO gender (*CFO_Gender*). Ownership structure variables include institutional ownership (*Institute_Owner*) and local or central government ownership (*SOE*). Controls for audit firm-related characteristics include the tenure of the audit firm with the client (*Auditor_Tenure*), whether the audit firm has been changed (*Auditor_Change*), and whether the audit firm belongs to the Big4 audit firms (*Big4*). Firm economic control variables include firm location (*Development*), firm performance (*Performance*), firm size (*Size*), firm age (*Age*), analyst following (*Analyst*), agency one issues (*Agency1*), agency two issues (*Agency2*), complexity (*Complexity*), and financial leverage (*Leverage*). A detailed description of all the variables can be found in Table 2.

[Insert Table 2 here – Description of variables]

4.3. Empirical equation

To explore the relationship between returnee directors and audit fees, we estimate equation 1. Given the nature of our data (i.e., unbalanced panel data), we follow existing studies (e.g., Javed et al., 2023; Liu et al., 2014) in selecting the optimal model. Using three diagnostic tests—the F-test ($p < 0.01$), Lagrange multiplier test ($p < 0.01$), and Hausman test ($p < 0.01$)—we find that the firm-fixed effects model is preferred over ordinary least squares (OLS) and random effects models. Therefore, we use firm-fixed effects regression as our baseline methodology to draw inferences. Firm-fixed effects regression mitigates concerns related to omitted or unobservable variable bias; this might relate to unobservable characteristics related to returnee directors' appointments and audit fees.

$$AUDIT\_FEE_{it} = \beta_0 + \beta_1 Returnee_{it} + \beta_n Controls_{it} + Year\_Fixed + Firm\_Fixed + \varepsilon_{it} \quad (Eq.1)$$

where *it* represents firms and years, respectively, and ε is the error term. *Audit_Fees* is the dependent variable, and *Returnee* is our independent variable. *Controls* refer to all the control variables used in this study. For further details on the measurement of the variables, please see Table 2.

5. Results and discussion

5.1. Descriptive statistics and correlation matrix

We present the descriptive statistics of all the variables in Table 3. About 48.5% of the Chinese listed firms have at least one returnee director serving on the board. On average, Chinese firms' boards consist of 9.5 directors; only 10.5% are returnee directors, and 37.8% are independent directors. In our sample, 37.8% of firms are owned and controlled by the local or central government, and around 68.2% of the firms are located in more developed regions of China.

Columns 1 to 3 of Table 4 represent the univariate analysis of firms with and without returnee directors. The univariate analyses show that firms with returnee directors pay higher audit fees than their counterparts (13.891 vs. 13.626, significant at 1%). This provides partial support to H1a, which states that firms with returnee directors demand high-quality audits and pay higher audit fees.

Moreover, the univariate analysis shows that firms with and without returnee directors significantly differ in their characteristics. The notable difference is that firms with returnee directors have a larger board size (9.645 vs. 9.364, significant at 1%), high board independence (0.379 vs. 0.377, significant at 1%), lower leverage (0.429 vs. 0.445, significant at 1%), and high performance (0.043 vs. 0.037, significant at 1%). Table 3 (columns 5 to 6) shows the results of the univariate analysis of SOEs and POEs. The univariate analysis shows that SOEs and POEs are significantly different from each other.

[Insert Table 3 here – Descriptive statistics]

[Insert Table 4 here – Univariate analysis]

Table 5 documents the correlations between the study variables. The correlation between all the independent variables is within acceptable limits, suggesting that all the variables are sufficiently independent and that there is no issue of multicollinearity (Tabachnick & Fidell, 2013). In addition, the highest value of the variance inflation factor is 2.15; this further confirms that there is no issue of multicollinearity.

[Insert Table 5 here – Correlation matrix]

5.2. Main results

Table 6 contains the regression results on the effect of returnee directors on audit fees. Column 1 reports the regression results using our main estimation methodology, i.e., firm-fixed effects regression. In addition to the results in column 1, columns 2–4 report the OLS regression results employing (i) industry-fixed effects, (ii) industry-fixed effects with firm-level clustering, and (iii) industry-fixed effects with two-way clustering by firm and year. We employ these methods because they have been used in existing studies on the determinants of audit fees (e.g., Alkebsee et al., 2021). The coefficient of *Returnee* remains positive and significant in all the columns reported in Table 6, indicating that the presence of returnee directors on corporate boards is related **to** higher audit fees. The coefficient of *Returnee* in column 1 suggests that a 10% increase in the proportion of returnee

directors will lead to a 0.066% increase in audit fees (for calculation procedures of coefficient economic significance, please see Tawiah et al., 2021).

These results suggest that firms with returnee directors are likely to pay higher audit fees than firms without returnee directors. As discussed in the literature, the positive relationship stems from returnee directors' preference for more comprehensive and high-quality audits, which incur higher costs. Given their exposure to superior governance mechanisms (Liao et al., 2017; Wen et al., 2020; Zhou et al., 2020), returnee directors demand more auditing activities and engage top audit firms as a means of increasing monitoring. Returnee directors ensure that firms achieve high-quality reporting not only to increase monitoring but also to protect their reputation (Giannetti et al., 2015). This result, therefore, lends support to H1a, which states that ceteris paribus, presence of returnee directors increases audit fees.

[Insert Table 6 here – Main results]

5.3. Sensitivity analyses

In the following subsection, we attempt to account for firm and returnee characteristics that can significantly drive the relationship between returnee directors and audit fees.

5.3.1. Type of firm ownership (does state ownership matter)?

Prior studies assert that the impact of a director's characteristics on a firm's outcomes depends on the environment in which the firm operates (DeWenter & Malatesta, 2001; Giannetti et al., 2015; Zhang et al., 2018). Specifically, the literature on returnee directors postulates a differential outcome of the presence of returnee directors in SOEs and POEs. For instance, Zhang et al. (2018) report that returnee directors' impact on increasing firms' corporate social responsibility engagement is much stronger in POEs than in SOEs. Similarly, Wen et al. (2020) report that the negative association between returnee directors and corporate tax avoidance is more pronounced in POEs than in SOEs. These differential consequences of returnee directors could be driven by the level of discretion in the firm's operating environment. Hambrick (2018) argues that some environments provide more latitude in actions and

managerial discretion than others. Consistent with this line of argument, Crossland and Hambrick (2011) report that directors' influence on firms' performance is much stronger in a highly discretionary environment. POEs are likely to grant more managerial discretion to directors to shape a firm's outcomes based on their experiences.

On the contrary, SOEs are bound mainly by government structures, which may discourage the significant application of personal experience in board decisions. Moreover, given that the government is the largest shareholder in SOEs and appoints the management, returnee directors may be captured and manipulated by the government and management to the extent that their foreign experience becomes irrelevant (Giannetti et al., 2015). Regarding auditing, SOEs are predominately financed by the government; hence, overall auditing quality may not be a significant issue that attracts directors' attention. Moreover, as SOEs are not likely to suffer from reputation damage (Lin et al., 2020), the reputation of the individual director and the firm is less likely to drive audit fees.

Despite the above arguments, the impact of returnee directors on audit fees may be stronger in SOEs, especially when the country in question is interested in increasing the transparency and accountability of its SOEs. Moreover, prior studies report that SOEs are less likely to engage in earnings management (Ding et al., 2007). As a result, it will be relatively easier for returnee directors to further improve SOEs' reporting quality and thus decrease audit fees. Furthermore, the government—which is the controlling shareholder in SOEs—will appoint returnee directors to increase monitoring and board effectiveness. Given these competing arguments, the effect of returnee directors on audit fees may differ significantly between SOEs and POEs.

Therefore, in Table 7, we test whether our results positing a positive relationship between returnee directors and higher audit fees differ between SOEs and POEs. The coefficient of *Returnee* in column 1 (SOEs) is positive but insignificant. The results suggest that returnee directors do not significantly influence audit fees in SOEs. This result is not surprising, given that SOEs are controlled by the

government and have predetermined structures. Also, demand for high-quality external audits may not be vital, as the government can request any information when needed. Furthermore, as argued by Giannetti et al. (2015), the government can capture returnee directors in SOEs, thereby limiting their influence on the firm's decisions.

On the contrary, the coefficient of *Returnee* is positive and significant in POEs (column 2), suggesting that returnee directors are related to high audit fees in these firms. Returnee directors are likely to have more discretion in POEs than in SOEs; as a result, they can shape a firm's outcomes based on their experiences. Hambrick (2018) argues that some environments provide more latitude in actions and managerial discretion than others. The reputation of returnee directors is more likely to drive audit fees in POEs than in SOEs because POEs are more likely to suffer from reputation damage than SOEs (Lin et al., 2020). Overall, the results reported in Table 7 support the notion that the relationship between returnee directors and audit fees significantly differs between SOEs and POEs.

[Insert Table 7 here]

5.3.2. Number of returnee directors (is there a critical mass)?

According to critical mass theory, the number of a particular type of directors matters in shaping a firm's outcomes (Kanter, 1993; Kramer et al., 2006; Kristie, 2011; Torchia et al., 2011). Specifically, the theory suggests that "one is a token, two is a presence, and three is a voice" (Kirstie, 2011). Therefore, it is expected that the influence of returnee directors on a firm's audit fees will be stronger as the number of returnee directors on the board increases. To test the critical mass theory, we follow prior studies by introducing dummy variables for the three different sets of returnee directors: *Returnee* = 1 if the firm has only one returnee director; *Returnee* = 2 if the firm has only two returnee directors; and *Returnee* $\geq$ 3 if the firm has more than two returnee directors. The results are presented in column 1 of Table 8. The coefficient of all three dummies is positive, but *Returnee* = 1 is insignificant. This result implies that returnee directors have a positive and significant relationship with audit fees when there is more than one on the board. This result is consistent with critical mass

theory, which states that numbers matter in the relationship between returnee directors and a firm's decisions, particularly regarding audit fees.

5.3.3. Executive and nonexecutive directors

Prior studies assert that a director's influence on a firm's decisions differs between executives and nonexecutives because each type performs different roles. Therefore, in this section, we test whether the relationship between returnee directors and audit fees varies when the director is executive or nonexecutive. Given that auditing is a monitoring mechanism, we expect nonexecutive directors to have much more influence on its decisions. The results are presented in column 2 of Table 8. The coefficient is positive and significant for *Returnee_NonExecutive* directors but insignificant for *Returnee_Executive*. This result is consistent with our expectation that the relationship between returnee directors and audit fees is stronger when the returnee director is nonexecutive. This result is not surprising, given that most returnee directors are likely to be nonexecutive.

5.3.4. Education and work experience

The main reason returnee directors exert different influences on firms' decisions is their unique foreign experience. Prior studies have demonstrated that the mode of acquiring foreign experience, i.e., through education or work experience, can further distinguish how returnee directors influence a firm's decisions (Giannetti et al., 2015). Therefore, following prior studies, we examine whether the type of foreign experience—that gained through education (*Returnee_Education*) or work (*Returnee_Work*) experience—has a differential relationship with audit fees. The results are presented in columns 3 and 4 of Table 8. The coefficient of *Returnee* remains positive and significant for both types of experience. The results suggest that all types of returnee directors have a positive relationship with audit fees regardless of their type of foreign experience. That is, acquiring experience through education or work experience does not matter when it comes to audit fees.

[Insert Table 8 here – Critical mass; type of director; type of foreign experience]

5.3.5. The moderating effect of accounting irregularities

Despite the plausible argument that the returnee director's reputation and demand for high audit quality drive audit fees, the high level of financial misstatement related to the returnee director could be the cause of increased audit fees. As reported by Masulis et al. (2012), the low meeting attendance of such directors, which negatively impacts the board's monitoring function, results in returnee directors being related to an increase in material misstatements. An increase in material misstatements increases audit risk, a critical ingredient of high audit fees. Therefore, in this section, we examine whether accounting irregularities drive the positive relationship between returnee directors and audit fees. To do this, we moderate our model with accounting irregularities measures. Following He and Luo (2018), we use accounting irregularities as a proxy for financial reporting quality. *Accounting_Irregularity* is a dummy variable that equals 1 if the firm has conducted accounting irregularities that have breached the rules of corporate disclosure and been penalized by market regulators and 0 otherwise. We estimate equation 1 for firms with and without accounting irregularities. The results are presented in columns 1 and 2 of Table 9. The findings indicate that accounting irregularities do not significantly exacerbate the relationship between returned directors and audit fees. Thus, the increase in audit fees in firms with returnee directors is not driven by accounting irregularities or financial misstatements.

5.3.6. Accounting for auditor type

Prior studies have shown that audit fees differ significantly between Big4 and non-Big4 firms (Hay et al., 2006). Big4 firms are known to charge high audit fees because of their global reputation (Griffin et al., 2009; Hay et al., 2006). Hence, our finding of a positive and significant relationship between the presence of returnee directors and audit fees may be driven by the dominance of Big4 clients. To disentangle the possible effect of the Big4 on the results, we perform an additional test using a subsampling estimation approach. We group our sample based on whether their auditors are Big4 or non-Big4. The results are presented in columns 3 and 4 of Table 9. The results show that returnee

directors are positively and significantly related to audit fees only in the non-Big4 sample, suggesting that our results are not driven by the dominance of Big4 clients. On the contrary, we find that the relationship is stronger for firms audited by non-Big4 firms. Compared to Big4 firms, any incremental change in the audit fees of non-Big4 firms can be very large because the latter have a smaller fee-base than the former. Also, relative to the Big4, non-Big4 firms require more resources and effort to produce high-quality audits that can meet the demands of directors with global exposure. Therefore, it is unsurprising to find that returnee directors are more likely to increase audit fees in non-Big4 clients.

[Insert Table 9 here – Moderating effect of accounting irregularities and Big4 auditors]

5.3.7. Accounting for firm complexity

Due to the potential liability losses associated with external auditing, firm complexity is critical in determining audit fees. Arguably, the complexity of the firm increases business risk and the probability of liability losses to the auditor, which in turn increases audit fees (Summic, 1980). Moreover, complex transactions and structures require increased audit effort. Complex firms are more prone to corporate failure and reputational damage. Therefore, in the interest of protecting their personal image, returnee directors will demand high audits as a mechanism to ensure quality firm presentation. Hence, the complexity level of the firm could influence how returnee directors drive audit fees in a firm. Based on the sample median, we classify the sample into high-complexity and low-complexity firms. Following prior studies (e.g., Alkebsee et al., 2021), we measure complexity as the sum of account receivables and inventory divided by total assets (*Complexity*). The results are presented in columns 1 and 2 of Table 10. The coefficient of *Returnee* is positive and significant for both high and low-complexity firms. However, the significance level is slightly higher in high-complexity firms, indicating that the relationship between returnee directors and audit fees is more evident in high-complexity firms than in those with lower complexity. In un-tabulated results, we find

qualitatively similar results by using an alternative measure of complexity, i.e., the number of business segments.

5.3.8. Accounting for political affiliation

Existing studies suggest that firms with politically connected executives have lower levels of transparency and earning quality and higher information asymmetry (e.g., Chaney, 2011; Faccio et al., 2006). Therefore, firms with politically connected executives in emerging economies face severe agency issues and are associated with higher audit risks. In that case, returnee directors in firms that have politically connected executives (such as the CEO) will demand high-quality audits to protect their reputation. To explore this nexus, we estimate the relationship between returnee directors and audit fees for firms that have politically connected CEOs and for firms whose CEO has no political connections. The results are reported in columns 3 and 4 of Table 10. The coefficient of *Returnee* remains positive and significant in both samples. However, the significance level is slightly higher in firms that have political connections, indicating that the relationship between returnee directors and audit fees is more evident in firms that have politically connected executives than in firms without politically connected executives.

[Insert Table 10 here – Moderating effect of firm complexity and executives' political connections]

5.4. Endogeneity checks and further robustness tests

5.4.1. One-year lag of the returnee directors model

To overcome the issue related to endogeneity, we first replace our independent variable (*Returnee*) with a one-year lag of the independent variable (*L.Returnee*) in the main regression. We do so because returnee directors might need some time to fully understand the board's functioning before they can participate actively in board decision-making. This alternative model specification is also estimated using year and firm-fixed effects regression, and the results are reported in column 1 of Table 11. Consistent with our previous findings, the coefficient of *L.Returnee* remains positive and significant.

5.4.2. Heckman two-step sample selection model

Our main findings may face the issue of self-selection bias, i.e., the appointment of returnee directors might not be random. Therefore, consistent with prior studies (Tawiah & Gyapong, 2021; Yuan & Wen, 2018), we employ a two-step Heckman model to address the endogeneity problems related to self-selection bias. In the first stage, we run a probit model that estimates the probability of a firm having at least one returnee director on the board (i.e., *Returnee_Dummy*). We include all the control variables used in this study as the determinants of appointing returnee directors. In addition, we use two exogenous variables. First, following Yuan and Wen (2018), we use the industry average of returnee directors (*Returnee_Industry*) as an exogenous variable because firms tread on the heels of their peers when making decisions such as appointing returnee directors (see Yuan & Wen, 2018). *Returnee_Industry* is defined as the mean of returnee directors working in the same industry, excluding the concerned firm. Second, following Khan et al. (2023), we use *British_Colony* as an instrumental variable; it equals 1 if the firm is headquartered in a province where Great Britain had a concession or leased territory during the late Qing dynasty and 0 otherwise. The underlying logic is that people from these regions experienced Western culture long ago. As these people have experience with Western values, they are more likely to go abroad to work or study and later return home to work for firms in their home country. Moreover, these provinces are more attractive to returnees because the lifestyle and values in these regions are closer to those of Western culture (Khan et al., 2023; Yuan & Wen, 2018). In this stage, we generate the inverse Mills ratio (*Mills_Ratio*), which needs to be included in the second stage to control the issue of sample-selection bias.

The results for the first stage are reported in column 2 of Table 11. Consistent with our expectations, the coefficients of both *Returnee_Industry* and *British_Colony* remain positive and significant. The second stage results are presented in column 3 of Table 11. The coefficient of *Returnee* remains positive and highly significant, confirming our main findings—namely, that the presence of returnee

directors is positively and significantly related to increased audit fees. Moreover, the *Mills_Ratio* coefficient remains insignificant, suggesting that our results are not subject to sample-selection bias.

5.4.3. Two-stage least squares (2SLS) regression

Another issue that our results may face is reverse causality, i.e., there is a possibility that audit fees are driving the appointment of returnee directors. To overcome this issue, we follow existing studies (e.g., Khan et al., 2023; Wen et al., 2020) and use the standard remedy, i.e., 2SLS. Following Wen et al. (2020) and Khan et al. (2023), we also use two instrumental variables, i.e., *Returnee_Industry* and *British_Colony*. We use these instrumental variables for the same reason given in the previous section.

The results for the first stage of 2SLS are reported in column 4 of Table 11. As expected, the coefficients of both instrumental variables are positive and significant. The *F*-statistics of the first stage are also higher than the recommended value of 10. In addition, the results of the weak identification test (i.e., the Cragg-Donald Wald F-statistic is higher than Stock-Yogo's critical value) also suggest that our instrumental variables are not weak. Moreover, the p-value of the Hansen J-statistic suggests that our instrumental variables are exogenous. Column 5 of Table 11 reports the results of the second stage of 2SLS. Again, the coefficient of *Returnee* remains positive and significant, suggesting that our results are not subject to reverse causality.

[Insert Table 11 here – Controlling endogeneity through the two-step Heckman method and 2SLS]

5.4.4. Propensity score matching (PSM) method

Table 4 shows that firms with and without returnee directors are significantly different from each other in terms of characteristics. Therefore, one may argue that higher audit fees are due to these differences in firm characteristics rather than returnee directors, rendering our results merely a coincidence. To address this issue, we follow existing corporate governance studies (e.g., Boubaker et al., 2016; Farooq et al., 2025; Javed et al., 2023; Tawiah et al., 2022; Usman et al., 2022, 2025; Yuan & Wen, 2018) and use the PSM method. This method allows us to more clearly attribute the effect of returnee directors on audit fees: We first identify a control sample (i.e., firms without

returnee directors) that is nearly identical to our treatment sample (i.e., firms with returnee directors) in terms of characteristics; we then estimate the effect of returnee directors on audit fees. Therefore, in the first stage, we estimate the probability of having returnee directors (*Returnee_Dummy*) based on all the control variables used in this sample (Column 4, Table 12). In this stage, we identify a propensity-score-matched control sample, which allows us to select one control firm with the closest propensity score for each treatment firm.

To ensure the reliability of the matching, we estimate the mean difference of firm characteristics between the treatment firms and matched control firms and report the results in columns 1 to 3 of Table 12. These results show no significant differences in the characteristics of firms with and without returnee directors, suggesting that the matched sample firms are nearly identical to our treatment firms. We then re-estimate our main regression using this PSM-matched sample and report the results in column 5 of Table 12. Again, the coefficient of *Returnee* remains positive and significant.

[Insert Table 12 here – Controlling endogeneity through PSM]

5.4.5. Considering alternative measures

Finally, to ensure the robustness of our results, we use alternative measures of the *Returnee* and *Audit_Fees* variables. We use two alternative measures of returnee directors (i.e., *Returnee_Dummy*, which equals 1 if there is at least one returnee director serving on the board and 0 otherwise, and *Returnee_Number*, the number of returnee directors serving on the board) and one alternative measure of audit fees (i.e., *Audit_Fees_Ratio*, which is defined as audit fees paid to external auditors scaled by total assets). The results for the alternative measures estimations are given in Table 13. Again, the results in Table 13 confirm the positive relationship between returnee directors and audit fees.

[Insert Table 13 here – Use of alternative measures]

6. Conclusion

Given the emerging literature on the intended consequences of returnee directors on firms' outcomes (Dai et al., 2018; Giannetti et al., 2015; Iliev & Roth, 2018; Wen & Song, 2017; Yuan & Wen, 2018; Zhang et al., 2018), we examine potential unintended consequences to open up new and fresh perspectives on how returnee directors shape firms' decisions. Specifically, we examine the influence of returnee directors on a firm's audit fees. It has been argued that the presence of returnee directors may increase audit fees because of their demand for high-quality audits and desire to protect their reputation (Wen et al., 2020). On the contrary, the presence of returnee directors could decrease audit fees through their exposure to superior governance mechanisms (Giannetti et al., 2015; Iliev & Roth, 2018; Zhou et al., 2020).

To test these competing arguments, we employ a sample of 42,406 firm-year observations of Chinese-listed firms between 2006 and 2022. Our results indicate that returnee directors are related to an increase in audit fees. However, the relationship is more pronounced in POEs than in SOEs. In addition, the effect is evident when there is more than one returnee director on the board, confirming the relevance of critical mass. However, this result is significant only when the returnee director is nonexecutive. We also demonstrate that the positive relationship between returnee directors and audit fees is not due to the firm's accounting irregularities or financial misstatements. Our results remain qualitatively similar after accounting for the type of foreign experience, firm complexity, firm political connections, and auditor type. The results are not sensitive to potential endogeneity problems and alternative measures.

Overall, our results imply that firms have a price to pay when they appoint returnee directors. That is, firms must be prepared to pay high audit fees when they appoint returnee directors because these kinds of directors are likely to demand high-quality audits, most likely to protect their reputation and public image. Our findings contribute to the literature by revealing this potential unintended impact

of returnee directors. Our study also highlights the effect of directors' characteristics on audit pricing. We therefore complement and extend existing studies, such as those examining problem directors and auditor switching, which confirm the significant impact of a director's experience on external auditing.

As is the case for many studies in the audit fee literature, we could not wholly account for all possible explanations of the relationship between returnee directors and audit fees despite including numerous relevant factors in our model. One such limitation is the assumption that all returnee directors have a "clean corporate history." However, some may be classified as "problem directors" if they have been involved in firms that have failed or faced major fraud (Habib et al., 2019). Prior studies have shown that such problem directors increase firm risk and are associated with higher audit fees (Habib et al., 2019). A study of the historical background of returnee directors would require a large and more detailed sample and is impossible due to the unavailability of such data at this time.

Furthermore, this study focuses solely on Chinese firms, which may limit the generalizability of the findings to firms operating in different cultural, regulatory, and economic contexts. Future research could explore how the relationship between returnee directors and audit fees varies across different countries and regions.

Future studies could also delve deeper into the underlying mechanisms or channels that drive the relationship between returnee directors and audit fees. For instance, qualitative research methods, such as interviews or case studies, could provide insights into the specific behaviors or actions of returnee directors that influence audit fee dynamics. Researchers could explore potential moderating factors that may influence the relationship between returnee directors and audit fees. For example, the impact of industry characteristics, board composition, or the regulatory environment on this relationship could be investigated to provide a more nuanced understanding of the dynamics at play. Conducting longitudinal analyses could offer valuable insights into the dynamic nature of the

relationship between returnee directors and audit fees over time. By tracking changes in board composition, firm performance, and audit fee dynamics longitudinally, researchers could identify trends and patterns that may not be apparent in cross-sectional analyses.

It is by addressing these limitations and pursuing these avenues for future research that scholars can advance our understanding of the complex relationship between returnee directors and audit fees, as well as their broader implications for corporate governance and firm performance.

References

Alkebsee, R. H., Tian, G. L., Usman, M., Siddique, M. A., & Alhebry, A. A. (2021). Gender diversity in audit committees and audit fees: evidence from China. *Managerial Auditing Jo*urnal. 36(1), 72-104

Becker, G. S. (1962). Investment in Human Capital: A Theoretical Analysis. *Journal of Political Economy*, *70*(5, Part 2), 9–49. https://doi.org/10.1086/258724

Boubaker, S., Nguyen, P., & Rouatbi, W. (2016). Multiple large shareholders and corporate risk-taking: evidence from French family firms. *European Financial Management, 22*(4), 697-745.

Crossland, C., & Hambrick, D. C. (2011). Differences in managerial discretion across countries: How nation-level institutions affect the degree to which CEOs matter. *Strategic Management Journal*, *32*(8), 797–819. https://doi.org/10.1002/smj.913

Dai, Y., Kong, D., & Liu, S. (2018). Returnee Talent and Corporate Investment: Evidence from China. *European Accounting Review*, *27*(2), 313–337. https://doi.org/10.1080/09638180.2016.1264306

DeAngelo, L. E. (1981). Auditor size and audit quality. *Journal of Accounting and Economics*, *3*(3), 183–199. https://doi.org/10.1016/0165-4101(81)90002-1

DeWenter, K. L., & Malatesta, P. H. (2001). State-Owned and Privately Owned Firms: An Empirical Analysis of Profitability, Leverage, and Labor Intensity. *American Economic Review*, *91*(1), 320–334. https://doi.org/10.1257/aer.91.1.320

Ding, Y., Zhang, H., & Zhang, J. (2007). Private vs State Ownership and Earnings Management: Evidence from Chinese listed companies. *Corporate Governance: An International Review*, *15*(2), 223–238. https://doi.org/10.1111/j.1467-8683.2007.00556.x

Duan, T., & Hou, W. (2017). *Returnee CEOs Under Weak Institutions: Blessing or Curse?* (SSRN Scholarly Paper ID 3042156). Social Science Research Network. https://doi.org/10.2139/ssrn.3042156

Farooq, M. U., Gyapong, E., Gull, A. A., Usman, M., Javed, M., & Tawiah, V. (2025). Do women directors influence CEO performance-induced turnover in China? *Journal of Business Research*, *186*, 115000.

Giannetti, M., Liao, G., & Yu, X. (2015). The Brain Gain of Corporate Boards: Evidence from China. *The Journal of Finance*, *70*(4), 1629–1682. https://doi.org/10.1111/jofi.12198

Griffin, P. A., Lont, D. H., & Sun, Y. (2009). Governance regulatory changes, International Financial Reporting Standards adoption, and New Zealand audit and non-audit fees: Empirical evidence. *Accounting & Finance*, *49*(4), 697–724. https://doi.org/10.1111/j.1467-629X.2009.00310.x

Gull, A. A., Atif, M., Issa, A., Usman, M., & Siddique, M. A. (2021). Female CEO succession and audit fees: Evidence from China. *Managerial Auditing Journal*, *36*(3), 485–509. https://doi.org/10.1108/MAJ-09-2020-2824

Habib, A., Bhuiyan, M. B. U., & Rahman, A. (2019). "Problem" directors and audit fees. *International Journal of Auditing*, *23*(1), 125–143. https://doi.org/10.1111/ijau.12150

Hambrick, D. C. (2018). Strategist Without A Plan: An Academic Life Considered. I*n Management Laureates* (pp. 83-122). Routledge.

Harjoto, M. A., Laksmana, I., & Lee, R. (2015). The impact of demographic characteristics of CEOs and directors on audit fees and audit delay. *Managerial Auditing Journal*, *30*(8/9), 963–997. https://doi.org/10.1108/MAJ-01-2015-1147

Hay, D. C., Knechel, W. R., & Wong, N. (2006). Audit Fees: A Meta-analysis of the Effect of Supply and Demand Attributes*. *Contemporary Accounting Research*, *23*(1), 141–191. https://doi.org/10.1506/4XR4-KT5V-E8CN-91GX

He, W., & Luo, J. (2018). Agency problems in firms with an even number of directors: Evidence from China. *Journal of Banking & Finance*, *93*, 139–150. https://doi.org/10.1016/j.jbankfin.2018.06.006

Hrazdil, K., Simunic, D. A., & Suwanyangyuan, N. (2020). Are the Big 4 audit firms homogeneous? Further evidence from audit pricing. *International Journal of Auditing*, *24*(3), 347–365. https://doi.org/10.1111/ijau.12198

Iliev, P., & Roth, L. (2018). Learning from directors' foreign board experiences. *Journal of Corporate Finance*, *51*, 1–19. https://doi.org/10.1016/j.jcorpfin.2018.04.004

Javed, M., Wang, F., Usman, M., Gull, A. A., & Zaman, Q. U. (2023). Female CEOs and green innovation. *Journal of Business Research*, *157*, 113515

Jiang, F., & Kim, K. A. (2015). Corporate governance in China: A modern perspective. *Journal of Corporate Finance*, *32*, 190–216. https://doi.org/10.1016/j.jcorpfin.2014.10.010

Kamarudin, K. A., Wan Ismail, W. A., & Kamaruzzaman, A. A. (2018). Board Members Diversity and Financial Statements Fraud: Malaysian Evidence. In R. Said, N. Z. Mohd Sidek, Z. Azhar, & K. Anuar Kamarudin (Eds.), *State-of-the-Art Theories and Empirical Evidence* (pp. 165–183). Springer. https://doi.org/10.1007/978-981-10-6926-0_10

Kanter, R. M. (1993). *Men and Women of the Corporation: New Edition* (Rev Ed Edition). Basic Books.

Khan, M., Tawiah, V., Usman, M., Wang, F., & Gyapong, E. (2023). Returnee directors and cost of debt. *Journal of Business Research*, *168*, 114118. https://doi.org/10.1016/j.jbusres.2023.114118

Kizirian, T. G., Mayhew, B. W., & Sneathen, L. D., Jr. (2005). The Impact of Management Integrity on Audit Planning and Evidence. *AUDITING: A Journal of Practice & Theory*, *24*(2), 49–67. https://doi.org/10.2308/aud.2005.24.2.49

Kramer, V. W., Konrad, A. M., & Erkut, S. (2006). *Critical Mass on Corporate Boards: Why Three or More Women Enhance Governance*. Wellesely Centers for Women.

Kristie, J. (2011). The Power of Three. *Directors & Boards*, *35*(5), 22–32.

Leng, J. (2009). *Corporate Governance and Financial Reform in China's Transition Economy*. Hong Kong University Press.

Li, C., Pan, L., & Chen, M. (2021). The Overseas Experience of Audit Committee and Audit Fees: Empirical Evidence from China. *Complexity*, *2021*, e5454418. https://doi.org/10.1155/2021/5454418

Liao, G., Ma, M. (Shuai), & Yu, X. (2017). *Transporting Transparency: Director Foreign Experience and Corporate Information Environment* (SSRN Scholarly Paper ID 2803195). Social Science Research Network. https://papers.ssrn.com/abstract=2803195

Lin, K. J., Lu, X., Zhang, J., & Zheng, Y. (2020). State-owned enterprises in China: A review of 40 years of research and practice. *China Journal of Accounting Research*, *13*(1), 31–55. https://doi.org/10.1016/j.cjar.2019.12.001

LIN, Z., Kenny, & CHAN, K. H. (2000). Auditing standards in China: A comparative analysis with relevant international standards and guidelines. *The International Journal of Accounting*, *35*(4), 559–577. https://doi.org/10.1016/S0020-7063(00)00079-0

Liu, Y., Wei, Z., & Xie, F. (2014). Do women directors improve firm performance in China? Journal of Corporate Finance, 28, 169-184.

Liu, J. M. (2022). From "Sea Turtles" to "Grassroots Ambassadors": The Chinese Politics of Outbound Student Migration. *International Migration Review*, *56*(3), 702–726. https://doi.org/10.1177/01979183211046572

Masulis, R. W., Wang, C., & Xie, F. (2012). Globalizing the boardroom—The effects of foreign directors on corporate governance and firm performance. *Journal of Accounting and Economics*, *53*(3), 527–554. https://doi.org/10.1016/j.jacceco.2011.12.003

Moizer, P. (1997). Auditor Reputation: The International Empirical Evidence. *International Journal of Auditing*, *1*(1), 61–74. https://doi.org/10.1111/1099-1123.00013

Nekhili, M., Gull, A. A., Chtioui, T., & Radhouane, I. (2020). Gender-diverse boards and audit fees: What difference does gender quota legislation make? *Journal of Business Finance & Accounting*, *47*(1–2), 52–99. https://doi.org/10.1111/jbfa.12409

Ngwu, F. N., Osuji, O. K., & Stephen, F. H. (2016). *Corporate Governance in Developing and Emerging Markets*. Taylor & Francis.

Oradi, J., & Izadi, J. (2019). Audit committee gender diversity and financial reporting: Evidence from restatements. *Managerial Auditing Journal*, *35*(1), 67–92. https://doi.org/10.1108/MAJ-10-2018-2048

Qian, Y. (2017). *How Reform Worked in China: The Transition from Plan to Market*. MIT Press.

Qu, X., & Zhang, G. (2010). Measuring the convergence of national accounting standards with international financial reporting standards: The application of fuzzy clustering analysis. *The International Journal of Accounting*, *45*(3), 334–355. https://doi.org/10.1016/j.intacc.2010.06.008

Shan, L., Tsang, A., & Zhang, X. (2023). Transporting Audit Quality Across Countries: Returnee CEOs and Audit Fees. *Journal of Business Ethics*. https://doi.org/10.1007/s10551-023-05532-8.

Simunic, D. A. (1980). The Pricing of Audit Services: Theory and Evidence. *Journal of Accounting Research*, *18*(1), 161–190. https://doi.org/10.2307/2490397

Tabachnick, B. G., & Fidell, L. S. (2013). *Using Multivariate Statistics*. Pearson Education.

Tawiah, V., Gyapong, E., & Usman, M. (2024). Returnee directors and green innovation. *Journal of Business Research*, *174*, 114369. https://doi.org/10.1016/j.jbusres.2023.114369

Tawiah, V. K. (2021). Does the impact of IFRS on audit fees differ between early and late adopters? *International Journal of Accounting & Information Management*, *30*(1), 1–21. https://doi.org/10.1108/IJAIM-04-2021-0085

Torchia, M., Calabrò, A., & Huse, M. (2011). Women Directors on Corporate Boards: From Tokenism to Critical Mass. *Journal of Business Ethics*, *102*(2), 299–317.

Usman, M, Gyapong, E., Agyei-Boapeah, H., Yin., J.(2025), Returnee directors and corporate fraud. *Review of Accounting Studies*. [Forthcoming]

Usman, M., Gull, A. A., Zalata, A. M., Wang, F., & Yin, J. (2022). Female board directorships and related party transactions. *British Journal of Management*, *33*(2), 678-702.

Wang, J. (2014). The Political Logic of Corporate Governance in China's State-Owned Enterprises 2014 Symposium: Never the Twain: Emerging U.S.-Chinese Business Law Relations. *Cornell International Law Journal*, *47*(3), 631–670.

Wen, W., Cui, H., & Ke, Y. (2020). Directors with foreign experience and corporate tax avoidance. *Journal of Corporate Finance*, *62*, 101624. https://doi.org/10.1016/j.jcorpfin.2020.101624

Xie, Z., & Wang, L. (2022). Returnee managers as an asset for emerging market multinational enterprises: Chinese cross-border acquisitions (2008–2017). *Journal of World Business*, *57*(2), 101270. https://doi.org/10.1016/j.jwb.2021.101270

Yuan, R., & Wen, W. (2018). Managerial foreign experience and corporate innovation. *Journal of Corporate Finance*, *48*, 752–770. https://doi.org/10.1016/j.jcorpfin.2017.12.015

Zhang, J., Kong, D., & Wu, J. (2018). Doing Good Business by Hiring Directors with Foreign Experience. *Journal of Business Ethics*, *153*(3), 859–876. https://doi.org/10.1007/s10551-016-3416-z

Table 1: Years-wise sample distribution.

Year	Initial sample with no missing data on audit fees	Sample with missing data on independent and control variables	Final usable sample
2006	1180	85	1095
2007	1215	83	1132
2008	1388	88	1300
2009	1563	109	1454
2010	1795	99	1696
2011	2061	94	1967
2012	2445	72	2373
2013	2497	62	2435
2014	2619	79	2540
2015	2811	71	2740
2016	3108	162	2946
2017	3487	193	3294
2018	3588	189	3399
2019	3793	656	3137
2020	4243	1003	3240
2021	4759	1140	3619
2022	5127	1088	4039
Total	47679	5273	42406

Table 2: Description of variables

Variable	Description
Audit_Fees	The natural logarithm of total audit fees.
Returnee	Proportion of directors with foreign experience (study or work) on the board.
Board_Size	Number of directors on the board.
Board_Independence	Proportion of independent directors on the board.
Board_Female	Proportion of female directors on the board.
Board_Foreign	Proportion of foreign directors on the board.
Board_Tenure	The natural logarithm of the average tenure of directors on the board (in months).
Board_Age	The natural logarithm of the average age of board members (in years).
CEO_Duality	A dummy variable that equals 1 if the CEO also chairs the board and 0 otherwise.
CEO_Gender	A dummy variable that equals 1 if the CEO is female and 0 otherwise.
CFO_Gender	A dummy variable that equals 1 if the CFO is female and 0 otherwise.
CEO_Political	A dummy variable that equals 1 if the CEO is politically connected and 0 otherwise.
Institutional_Equity	Proportion of shares held by institutions.
SOEs	A dummy variable that equals 1 if the ultimate owner is the local or central government and 0 otherwise.
POEs	A dummy variable that equals 1 if the ultimate owner is not the government (local or central) and 0 otherwise.
Development	A dummy variable that equals 1 if the company's headquarters are located in a developed region of the country and 0 otherwise.
Big4	A dummy variable that equals 1 if the external auditor is among the Big 4 auditing firms and 0 otherwise.
Auditor_Tenure	Number of consecutive years the external audit firm has been conducting audits of the client.
Auditor_Change	1 if the external audit firm has been changed and 0 otherwise.
Performance	Net profit divided by total assets.
Size	Defined as the natural logarithm of total assets.
Age	The natural logarithm of the number of years the firm has been listed on the stock exchange.
Analyst	The natural logarithm of the number of analysts following the firm.
Agency1	Admin expenses to sales ratio.
Agency2	Other receivables to asset ratio.
Complexity	The sum of accounts receivable and inventory divided by total assets.
Leverage	Total debt divided by total assets.
Returnee = 1	1 if there is only one director with foreign experience (study or work) on the board, and 0 otherwise.
Returnee = 2	1 if there are two directors with foreign experience (study or work) on the board, and 0 otherwise.
Returnee ≥ 3	1 if there are three or more directors with foreign experience (study or work) on the board, and 0 otherwise.
Returnee_Executive	Proportion of executive directors with foreign experience (study or work) on the board.
Returnee_Independent	Proportion of nonexecutive directors with foreign experience (study or work) on the board.
Returnee_Education	Proportion of directors with foreign education on the board.
Returnee_Work	Proportion of directors with foreign work experience on the board.
Accounting_Irregularity	A dummy variable that equals 1 if the firm has conducted accounting irregularities that have breached the rules of corporate disclosure and been penalized by market regulators, and 0 otherwise.
L.Returnee	One-year lag of the proportion of returnee directors on the board.
Returnee_Dummy	1 if there is at least one director with foreign experience (study or work) on the board, and 0 otherwise.
Returnee_Industry	The average number of directors with foreign experience (study or work) working in the industry, excluding the concerned firm.
British_Colony	1 if the firm is headquartered in a province where Great Britain had a concession or leased territory during the late Qing dynasty, and 0 otherwise.
Returnee_Number	Number of returnee directors serving on the board)
Audit_Fees_Ratio	Audit fees paid to external auditors scaled by total assets.

Note: All continuous variables (*Audit_Fees*, *Audit_Fees_Ratio*, *Institutional_Equity*, *Performance*, *Size*, *Age*, *Analyst*, *Agency1*, *Agency2*, *Complexity*, and *Leverage*) have been winsorized at the 1st and 99th percentiles. The data for all variables were extracted from the CSMAR database.

Table 3: Descriptive statistics.

Variable	Mean	Standard Deviation	Minimum	First quartile	Median	Third quartile	Maximum
Audit_Fee	13.754	0.758	9.210	13.271	13.653	14.152	21.417
Returnee	0.105	0.144	0.000	0.000	0.056	0.154	1.000
Returnee_Dummy	0.485	0.500	0.000	0.000	0.000	1.000	1.000
Returnee_Executive	0.049	0.098	0.000	0.000	0.000	0.083	1.000
Returnee_Independent	0.056	0.092	0.000	0.000	0.000	0.111	0.769
Returnee = 1	0.251	0.434	0.000	0.000	0.000	1.000	1.000
Returnee = 2	0.132	0.339	0.000	0.000	0.000	0.000	1.000
Returnee ≥ 3	0.119	0.324	0.000	0.000	0.000	0.000	1.000
Board_Size	9.500	2.504	4.000	8.000	9.000	11.000	27.000
Board_Independence	0.378	0.064	0.250	0.333	0.364	0.429	0.600
Board_Female	0.147	0.131	0.000	0.000	0.111	0.222	0.800
Board_Foreign	0.012	0.051	0.000	0.000	0.000	0.000	0.778
Board_Tenure	3.645	0.511	0.636	3.367	3.697	3.987	5.157
Board_Age	3.930	0.076	3.497	3.882	3.932	3.982	4.243
CEO_Duality	0.280	0.449	0.000	0.000	0.000	1.000	1.000
CEO_Gender	0.064	0.245	0.000	0.000	0.000	0.000	1.000
CFO_Gender	0.295	0.456	0.000	0.000	0.000	1.000	1.000
CEO_Political	0.346	0.476	0.000	0.000	0.000	1.000	1.000
Institutional_Equity	0.459	0.247	0.012	0.266	0.475	0.656	0.914
SOE	0.378	0.485	0.000	0.000	0.000	1.000	1.000
Development	0.682	0.466	0.000	0.000	1.000	1.000	1.000
Big4	0.059	0.235	0.000	0.000	0.000	0.000	1.000
Auditor_Tenure	7.329	5.347	1.000	3.000	6.000	10.000	24.000
Auditor_Change	0.117	0.321	0.000	0.000	0.000	0.000	1.000
Performance	0.040	0.068	-0.250	0.013	0.039	0.073	0.231
Size	22.099	1.380	14.937	21.144	21.912	22.833	30.732
Age	2.462	0.725	0.000	2.197	2.639	2.944	4.094
Analyst	1.170	1.218	0.000	0.000	0.693	2.197	4.317
Agency1	0.095	0.095	0.008	0.043	0.071	0.113	0.785
Agency2	0.017	0.028	0.000	0.003	0.008	0.018	0.179
Complexity	0.254	0.161	0.013	0.134	0.231	0.345	0.690
Leverage	0.437	0.208	0.072	0.271	0.431	0.592	0.875

Note: For detailed description of variables, please see Table 2.

Table 4: Univariate analysis.

	Univariate Analysis for firms with and without returnee directors			Univariate Analysis for SOEs vs. POEs		
Variable	Returnee ≥ 1	Returnee = 0	Compare Mean (t-statistics)	SOEs Sample	POEs Sample	Compare Mean (t-statistics)
Audit_Fee	13.891	13.626	(-36.667)***	13.885	13.675	(-27.971)***
Returnee	0.210	0.000	-	0.078	0.121	(30.724)***
Returnee_Executive	0.100	0.000	-	0.024	0.064	(41.318)***
Returnee_Independent	0.111	0.000	-	0.053	0.057	(4.253)***
Board_Size	9.645	9.364	(-11.583)***	10.307	9.010	(-53.565)***
Board_Independence	0.379	0.377	(-2.282)***	0.368	0.384	(25.723)***
Board_Female	0.146	0.148	(1.318)***	0.115	0.166	(39.436)***
Board_Foreign	0.023	0.002	(-45.117)***	0.005	0.017	(22.80)***
Board_Tenure	3.670	3.622	(-9.662)***	3.586	3.681	(18.472)***
Board_Age	3.933	3.926	(-9.218)***	3.945	3.921	(-31.845)***
CEO_Duality	0.299	0.261	(-8.667)***	0.102	0.388	(67.018)***
CEO_Gender	0.066	0.062	(-1.561)	0.041	0.078	(15.551)***
CFO_Gender	0.300	0.290	(-2.195)**	0.239	0.329	(19.766)***
CEO_Political	0.336	0.354	(3.875)***	0.416	0.303	(-24.078)***
Institutional_Equity	0.466	0.453	(-5.393)***	0.589	0.381	(-92.055)***
SOE	0.317	0.435	(25.215)***	1.000	0.000	-
Development	0.733	0.634	(-22.199)***	0.583	0.742	(34.761)***
Big4	0.088	0.031	(-25.010)***	0.097	0.035	(-26.698)***
Auditor_Tenure	7.255	7.398	(2.740)***	7.435	7.264	(-3.177)***
Auditor_Change	0.110	0.121	(3.618)***	.144	.099	(-14.214)***
Performance	0.043	0.037	(-9.108)***	0.033	0.044	(17.179)***
Size	22.272	21.937	(-25.230)***	22.637	21.772	(-65.797)***
Age	2.447	2.476	(4.089)***	2.704	2.315	(-55.622)***
Analyst	1.354	0.997	(-30.504)***	1.149	1.183	(2.813)***
Agency1	0.094	0.096	(2.342)**	0.083	0.102	(19.656)***
Agency2	0.016	0.018	(6.765)***	0.018	0.017	(-2.069)**
Complexity	0.256	0.253	(-1.491)	0.246	0.259	(8.125)***
Leverage	0.429	0.445	(8.157)***	0.509	0.394	(-57.864)***
N	20641	21934	-	16096	26479	-

Note: For a detailed description of variables, please see Table 2. *, **, and *** represent significance at p<0.10, p<0.05, and p<0.01 levels, respectively.

Table 5: Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1.Audit_Fee	1.000												
2. Returnee	0.196*	1.000											
3.Board_Size	0.127*	-0.004	1.000										
4.Board_Independence	0.019*	0.077*	-0.196*	1.000									
5.Board_Female	-0.040*	0.003	-0.107*	0.046*	1.000								
6.Board_Foreign	0.081*	0.378*	-0.011*	-0.009	0.011*	1.000							
7.Board_Tenure	0.075*	0.043*	-0.176*	0.010*	0.030*	0.007	1.000						
8.Board_Age	0.292*	0.064*	-0.015*	0.054*	-0.080*	0.088*	0.283*	1.000					
9.CEO_Duality	-0.065*	0.065*	-0.153*	0.105*	0.121*	0.046*	0.007	-0.086*	1.000				
10.CEO_Gender	-0.022*	0.014*	-0.061*	0.036*	0.251*	0.024*	-0.008	-0.020*	-0.022*	1.000			
11.CFO_Gender	-0.034*	0.003	-0.050*	0.012*	0.162*	-0.009	0.018*	-0.020*	0.049*	0.035*	1.000		
12.CEO_Political	0.018*	-0.031*	0.046*	-0.036*	-0.037*	-0.053*	-0.016*	0.076*	-0.017*	-0.016*	-0.007	1.000	
13.Institutional_Equity	0.249*	0.041*	0.215*	-0.096*	-0.133*	0.057*	-0.083*	0.141*	-0.206*	-0.041*	-0.054*	0.065*	1.000
14. SOE	0.134*	-0.147*	0.251*	-0.124*	-0.188*	-0.110*	-0.089*	0.153*	-0.309*	-0.075*	-0.095*	0.116*	0.407*
15. Development	0.096*	0.122*	-0.077*	0.043*	0.056*	0.054*	0.035*	0.004	0.104*	0.002	0.041*	-0.078*	-0.076*
16.Big4	0.446*	0.191*	0.109*	0.004	-0.064*	0.116*	0.003	0.151*	-0.061*	-0.010*	-0.015*	0.010*	0.229*
17.Auditor_Tenure	0.094*	-0.035*	-0.021*	-0.013*	0.021*	-0.022*	0.194*	0.080*	-0.033*	-0.015*	0.010*	-0.010*	-0.020*
18.Auditor_Change	-0.038*	-0.018*	0.045*	-0.023*	-0.027*	-0.006	-0.087*	-0.037*	-0.033*	-0.004	-0.023*	0.001	0.038*
19. Performance	-0.078*	0.052*	-0.019*	0.016*	0.009	0.062*	0.012*	0.019*	0.039*	0.007	0.020*	0.009	0.129*
20. Size	0.754*	0.121*	0.222*	-0.017*	-0.108*	0.021*	0.127*	0.325*	-0.156*	-0.039*	-0.068*	0.064*	0.380*
21. Age	0.101*	-0.027*	0.231*	-0.023*	-0.084*	-0.061*	0.000	0.030*	-0.172*	-0.017*	-0.068*	0.031*	0.112*
22. Analyst	0.240*	0.171*	0.113*	0.026*	-0.064*	0.077*	0.105*	0.081*	0.014*	-0.017*	-0.014*	0.004	0.261*
23.Agency1	-0.158*	0.010*	0.001	0.028*	0.020*	0.009	-0.074*	-0.102*	0.044*	0.010*	0.007	-0.042*	-0.135*
24.Agency2	0.038*	-0.031*	0.011*	-0.012*	-0.013*	-0.035*	-0.061*	-0.092*	-0.038*	0.013*	-0.027*	-0.046*	-0.031*
25. Complexity	-0.037*	-0.005	-0.031*	0.030*	-0.024*	-0.017*	-0.010*	-0.038*	0.011*	0.003	-0.009	-0.027*	-0.030*
26. Leverage	0.312*	-0.048*	0.152*	-0.051*	-0.090*	-0.059*	-0.028*	0.033*	-0.140*	-0.024*	-0.074*	0.019*	0.190*

Variables	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(26)
14. SOE	1.000												
15. Development	-0.166*	1.000											
16.Big4	0.128*	0.060*	1.000										
17.Auditor_Tenure	0.015*	-0.002	-0.044*	1.000									
18.Auditor_Change	0.069*	-0.025*	0.005	-0.376*	1.000								
19. Performance	-0.083*	0.054*	0.036*	0.008	-0.059*	1.000							
20. Size	0.304*	-0.006	0.360*	0.090*	-0.013*	-0.001	1.000						
21. Age	0.260*	-0.102*	0.019*	0.145*	0.010*	-0.119*	0.188*	1.000					
22. Analyst	-0.014*	0.048*	0.190*	0.000	-0.036*	0.377*	0.379*	-0.032*	1.000				
23.Agency1	-0.095*	-0.020*	-0.073*	-0.059*	0.032*	-0.213*	-0.302*	0.076*	-0.129*	1.000			
24.Agency2	0.010*	-0.036*	-0.021*	-0.022*	0.059*	-0.216*	-0.023*	0.112*	-0.135*	0.130*	1.000		
25. Complexity	-0.039*	0.081*	-0.057*	-0.027*	0.001	-0.061*	0.000	0.077*	-0.035*	-0.141*	0.084*	1.000	
26. Leverage	0.270*	-0.090*	0.102*	0.017*	0.056*	-0.371*	0.434*	0.220*	-0.047*	-0.147*	0.221*	0.286*	1.000

Note: For a detailed description of variables please see Table 2. * p<0.05

Table 6: Returnee directors and audit fees (H1a and H1b).

	Dependent Variable = *Audit_Fees*			
	Column 1	Column 2	Column 3	Column 4
Returnee	0.063***	0.221***	0.221***	0.221***
	(4.06)	(13.66)	(4.83)	(11.48)
Board_Size	0.003***	0.002*	0.002	0.002
	(3.80)	(1.75)	(0.82)	(1.64)
Board_Independence	-0.106***	0.062*	0.062	0.062*
	(-3.90)	(1.87)	(0.99)	(1.81)
Board_Female	-0.044***	-0.000	-0.000	-0.000
	(-2.76)	(-0.01)	(-0.01)	(-0.01)
Board_Foreign	0.212***	0.121***	0.121	0.121**
	(4.11)	(2.74)	(1.03)	(2.40)
Board_Tenure	-0.035***	-0.077***	-0.077***	-0.077***
	(-9.33)	(-17.28)	(-9.33)	(-16.54)
Board_Age	0.077**	0.145***	0.145**	0.145***
	(2.46)	(4.65)	(2.03)	(4.59)
CEO_Duality	0.003	0.016***	0.016*	0.016***
	(0.70)	(3.24)	(1.71)	(3.32)
CEO_Gender	0.014*	-0.013	-0.013	-0.013*
	(1.73)	(-1.54)	(-0.83)	(-1.67)
CFO_Gender	-0.009**	-0.012**	-0.012	-0.012***
	(-1.97)	(-2.57)	(-1.23)	(-2.59)
CEO_Political	-0.020***	-0.024***	-0.024**	-0.024***
	(-5.10)	(-5.42)	(-2.56)	(-5.37)
Institutional_Equity	0.088***	0.098***	0.098***	0.098***
	(6.42)	(9.61)	(4.34)	(10.03)
SOE	-0.000	-0.074***	-0.074***	-0.074***
	(-0.04)	(-13.69)	(-5.17)	(-13.66)
Development	-0.043***	0.123***	0.123***	0.123***
	(-3.44)	(26.72)	(9.81)	(26.59)
Big4	0.342***	0.674***	0.674***	0.674***
	(27.07)	(69.21)	(18.12)	(50.77)
Auditor_Tenure	-0.001***	0.005***	0.005***	0.005***
	(-3.14)	(11.48)	(4.82)	(11.63)
Auditor_Change	-0.027***	-0.021***	-0.021***	-0.021***
	(-5.71)	(-2.99)	(-3.07)	(-2.82)
Performance	-0.335***	-0.491***	-0.491***	-0.491***
	(-11.83)	(-13.24)	(-8.24)	(-12.28)
Size	0.286***	0.359***	0.359***	0.359***
	(91.04)	(143.43)	(43.62)	(113.68)
Age	-0.026***	0.004	0.004	0.004
	(-5.25)	(1.09)	(0.50)	(1.04)
Analyst	-0.001	-0.010***	-0.010**	-0.010***
	(-0.69)	(-4.77)	(-2.35)	(-4.65)
Agency1	0.096***	0.387***	0.387***	0.387***
	(4.34)	(15.28)	(7.49)	(14.20)
Agency2	0.777***	1.742***	1.742***	1.742***
	(12.38)	(22.21)	(12.03)	(21.92)
Complexity	-0.107***	-0.026	-0.026	-0.026
	(-6.52)	(-1.62)	(-0.70)	(-1.62)
Leverage	0.124***	0.136***	0.136***	0.136***
	(9.08)	(9.89)	(4.24)	(9.35)
Constant	6.801***	4.894***	4.894***	4.894***
	(52.73)	(40.38)	(14.95)	(36.72)
Year-fixed effects	Yes	Yes	Yes	Yes
Firm-fixed effects	Yes	No	No	No
Industry-fixed effects	No	Yes	Yes	Yes
Error clustered (by firm)	No	No	Yes	No
Error clustered (by firm & year)	No	No	No	Yes
R^2	0.67	0.69	0.69	0.69
F-test	1841.66***	1549.08***	268.77***	1059.25***
N	42406	42406	42406	42406

Note: The table documents the results on the effect of returnee directors on audit fees. The results reported in this table suggest that the presence of returnee directors on the board increases audit fees. Column 1 documents the results of year and firm fixed effects regression estimates; Column 2 shows the results of year and industry-fixed effects regression estimates; Column 3 represents the results of year- and industry- fixed effects regression estimates with cluster effects at the firm-level; and Column 4 reports the results of year- and industry- fixed effects regression estimates with two-way clustering by firm and year. The dependent variable in all the regressions is *Audit_Fees* (natural logarithm of total audit fees), and *Returnee* (proportion of directors with foreign study or work experience) is the independent variable. The t-statistics are in parentheses. *, **, and *** represent significance at p<0.10, p<0.05 and p<0.01 levels, respectively. All variables are as defined in Table 2.

Table 7: Returnee directors, audit fees, and ownership structure nexus.

	Returnee directors, audit fees, and ownership structure nexus	
	Dependent Variable = *Audit_Fees*	
	Column 1 (SOEs sample)	Column 2 (POEs sample)
Returnee	0.029	0.048***
	(1.04)	(2.65)
Board_Size	0.003**	-0.001
	(2.50)	(-0.49)
Board_Independence	-0.072*	-0.051
	(-1.65)	(-1.52)
Board_Female	-0.027	-0.053***
	(-1.00)	(-2.72)
Board_Foreign	0.251**	0.117**
	(2.09)	(2.03)
Board_Tenure	-0.016**	-0.059***
	(-2.55)	(-12.45)
Board_Age	0.122**	0.063*
	(2.18)	(1.66)
CEO_Duality	0.003	0.003
	(0.36)	(0.49)
CEO_Gender	0.013	0.001
	(0.89)	(0.10)
CFO_Gender	0.002	-0.009
	(0.33)	(-1.64)
CEO_Political	0.003	-0.023***
	(0.58)	(-4.16)
Institutional_Equity	0.089***	0.074***
	(3.59)	(4.45)
Development	0.003	-0.063***
	(0.14)	(-4.05)
Big4	0.307***	0.355***
	(17.90)	(19.07)
Auditor_Tenure	0.001	-0.005***
	(0.93)	(-7.31)
Auditor_Change	-0.043***	-0.024***
	(-6.26)	(-3.79)
Performance	-0.200***	-0.328***
	(-3.69)	(-10.06)
Size	0.306***	0.272***
	(56.26)	(68.08)
Age	-0.049***	-0.005
	(-4.21)	(-0.83)
Analyst	-0.006*	0.001
	(-1.94)	(0.28)
Agency1	0.054	0.112***
	(1.30)	(4.30)
Agency2	0.594***	0.690***
	(5.56)	(8.95)
Complexity	-0.006	-0.060***
	(-0.22)	(-2.94)
Leverage	-0.056**	0.138***
	(-2.31)	(8.28)
Constant	6.239***	7.133***
	(27.49)	(44.77)
Year-fixed effects	Yes	Yes
Firm-fixed effects	Yes	Yes
R^2	0.66	0.67
F-test	682.54***	1172.08***
N	15984	26422

Note: This table presents the results on the effect of returnee directors on audit fees for State-Owned Enterprises (SOEs) and Private-Owned Enterprises (POEs). The results indicate that returnee directors increase audit fees only for POEs. Columns 1 and 2 report the results for SOEs and POEs, respectively. The dependent variable is *Audit_Fees* (natural logarithm of total audit fees), and the independent variable is *Returnee* (proportion of directors with foreign study or work experience). T-statistics are in parentheses. *, **, and *** denote significance at p<0.10, p<0.05, and p<0.01 levels, respectively. All variables are as defined in Table 2.

Table 8: Returnee directors and audit fees (considering critical mass, type of director; type of foreign experience).

	Returnee directors and audit fee: Considering critical mass, type of director, and type of foreign experience in the analysis			
	Dependent Variable = *Audit_Fees*			
	Token vs. Critical Mass	Nonexecutive vs. Executives	Education vs. work experience	
	Column 1	Column 2	Column 3	Column 4
Returnee = 1	0.007	-	-	-
	(1.60)			
Returnee = 2	0.011**	-	-	-
	(2.04)			
Returnee ≥ 3	0.018***	-	-	-
	(2.75)			
Returnee_NonExecutive	-	0.093***	-	-
		(3.85)		
Returnee_Executive	-	0.040	-	-
		(1.56)		
Returnee_Education	-	-	0.110***	-
			(4.86)	
Returnee_Work	-	-		0.069***
				(2.88)
Board_Size	0.003***	0.003***	0.003***	0.003***
	(3.24)	(3.79)	(3.76)	(3.45)
Board_Independence	-0.105***	-0.101***	-0.108***	-0.093***
	(-3.86)	(-3.67)	(-3.96)	(-3.42)
Board_Female	-0.044***	-0.044***	-0.045***	-0.045***
	(-2.77)	(-2.74)	(-2.85)	(-2.82)
Board_Foreign	0.234***	0.200***	0.242***	0.192***
	(4.58)	(3.83)	(4.80)	(3.56)
Board_Tenure	-0.034***	-0.035***	-0.035***	-0.036***
	(-9.28)	(-9.35)	(-9.37)	(-9.71)
Board_Age	0.077**	0.077**	0.080**	0.102***
	(2.44)	(2.45)	(2.54)	(3.17)
CEO_Duality	0.003	0.003	0.003	0.001
	(0.68)	(0.68)	(0.74)	(0.14)
CEO_Gender	0.014*	0.014*	0.015*	0.011
	(1.72)	(1.72)	(1.76)	(1.30)
CFO_Gender	-0.009**	-0.009**	-0.009**	-0.008*
	(-1.98)	(-1.97)	(-1.96)	(-1.70)
CEO_Political	-0.020***	-0.020***	-0.020***	-0.023***
	(-5.09)	(-5.08)	(-5.09)	(-5.66)
Institutional_Equity	0.089***	0.088***	0.088***	0.089***
	(6.45)	(6.40)	(6.39)	(6.31)
SOE	-0.001	0.000	-0.000	0.010
	(-0.09)	(0.00)	(-0.06)	(1.07)
Development	-0.043***	-0.043***	-0.044***	-0.048***
	(-3.43)	(-3.45)	(-3.46)	(-3.75)
Big4	0.342***	0.341***	0.343***	0.338***
	(27.12)	(27.03)	(27.18)	(25.99)
Auditor_Tenure	-0.001***	-0.001***	-0.001***	-0.002***
	(-3.16)	(-3.16)	(-3.13)	(-3.45)
Auditor_Change	-0.027***	-0.027***	-0.027***	-0.029***
	(-5.71)	(-5.72)	(-5.70)	(-5.99)
Performance	-0.335***	-0.335***	-0.335***	-0.319***
	(-11.84)	(-11.82)	(-11.83)	(-11.19)
Size	0.286***	0.286***	0.286***	0.288***
	(91.05)	(91.05)	(91.09)	(87.94)
Age	-0.026***	-0.026***	-0.026***	-0.026***
	(-5.26)	(-5.27)	(-5.25)	(-5.28)
Analyst	-0.001	-0.001	-0.001	-0.002
	(-0.68)	(-0.71)	(-0.66)	(-1.10)
Agency1	0.096***	0.095***	0.095***	0.097***
	(4.33)	(4.32)	(4.32)	(4.29)
Agency2	0.779***	0.779***	0.777***	0.819***
	(12.41)	(12.40)	(12.38)	(12.40)
Complexity	-0.108***	-0.107***	-0.107***	-0.114***
	(-6.55)	(-6.49)	(-6.53)	(-6.74)
Leverage	0.124***	0.124***	0.124***	0.129***
	(9.08)	(9.08)	(9.09)	(9.25)
Constant	6.805***	6.800***	6.793***	6.724***
	(52.75)	(52.72)	(52.66)	(50.28)
Year-fixed effects	Yes	Yes	Yes	Yes
Firm-fixed effects	Yes	Yes	Yes	Yes
R^2	0.67	0.67	0.67	0.65
F-test	1755.36***	1797.96***	1842.19***	1633.21***
N	42406	42406	42406	42406

Note: The table presents results on whether appointing returnee directors as symbolic 'tokens' impacts audit fees (Column 1) and compares the influence of executive and independent returnee directors on audit fees (Column 2). Additionally, it examines whether the type of foreign experience (work vs. study) held by returnee directors affects audit fees. The results suggest that it is the independent or critical mass of returnee directors that significantly influences the audit fees. The results also suggest that returnee directors with foreign work or study experience have a significant effect on audit fees. The dependent variable in all the regressions is *Audit_Fees* (natural logarithm of total audit fees). The independent variables are *Returnee = 1* (1 if there is only one returnee director and 0 otherwise), *Returnee = 2* (1 if there are two returnee directors and 0 otherwise), *Returnee ≥ 3* (1 if there are three or more returnee directors and 0 otherwise), *Returnee_NonExecutive* (proportion of independent returnee directors), *Returnee_Executive* (proportion of executive returnee directors), *Returnee_Education* (proportion of returnee directors with foreign study experience),and *Returnee_Work* (proportion of returnee directors with foreign work experience). The t-statistics are in parentheses. *, **, and *** represent significance at p<0.10, p<0.05 and p<0.01 levels, respectively. All variables are as defined in Table 2.

Table 9: Returnee directors and audit fees in the context of accounting irregularity and big auditor

	Returnee directors, audit fees, and accounting irregularity nexus		Returnee directors, audit fees, and Big4 auditor nexus	
	Dependent Variable = *Audit_Fees*			
	Irregularity = 1	Irregularity = 0	Big Auditor = 1	Big Auditor = 0
	Column 1	Column 2	Column 3	Column 4
Returnee	0.121	0.005	0.045	0.064***
	(1.13)	(0.24)	(0.85)	(3.99)
Board_Size	-0.000	0.002**	0.000	0.002**
	(-0.04)	(2.13)	(0.12)	(2.35)
Board_Independence	0.100	-0.127***	-0.086	-0.099***
	(0.68)	(-4.07)	(-0.67)	(-3.66)
Board_Female	-0.061	-0.019	-0.014	-0.053***
	(-0.59)	(-0.89)	(-0.16)	(-3.34)
Board_Foreign	0.106	0.307***	0.426***	0.201***
	(0.33)	(4.52)	(2.62)	(3.52)
Board_Tenure	-0.018	-0.035***	-0.011	-0.037***
	(-0.84)	(-6.94)	(-0.54)	(-9.98)
Board_Age	0.030	0.079*	0.087	0.077**
	(0.16)	(1.91)	(0.44)	(2.47)
CEO_Duality	-0.086***	0.008	0.062**	0.002
	(-3.15)	(1.32)	(2.19)	(0.35)
CEO_Gender	-0.014	0.025**	-0.047	0.021**
	(-0.28)	(2.21)	(-1.07)	(2.55)
CFO_Gender	-0.044	-0.010*	0.036*	-0.014***
	(-1.52)	(-1.69)	(1.65)	(-3.18)
CEO_Political	0.029	-0.014***	-0.029	-0.016***
	(1.23)	(-2.74)	(-1.52)	(-4.07)
Institutional_Equity	0.199**	0.067***	0.024	0.084***
	(2.45)	(3.94)	(0.26)	(6.22)
SOE	0.008	-0.026**	0.034	0.009
	(0.14)	(-2.02)	(0.53)	(1.03)
Development	-0.039	-0.069***	-0.036	-0.044***
	(-0.44)	(-2.87)	(-0.49)	(-3.52)
Big4	-0.069	0.322***	-	-
	(-0.63)	(19.61)		
Auditor_Tenure	-0.009**	-0.001	0.021***	-0.002***
	(-2.58)	(-1.28)	(8.36)	(-4.66)
Auditor_Change	-0.044*	-0.034***	-0.075***	-0.022***
	(-1.74)	(-5.92)	(-3.45)	(-4.75)
Performance	-0.135	-0.120***	-0.077	-0.335***
	(-1.03)	(-2.94)	(-0.41)	(-12.05)
Size	0.255***	0.301***	0.370***	0.278***
	(13.53)	(72.23)	(14.02)	(89.17)
Age	-0.041	-0.105***	-0.098***	-0.019***
	(-0.30)	(-6.58)	(-3.85)	(-3.81)
Analyst	-0.004	-0.002	-0.025**	-0.000
	(-0.33)	(-0.77)	(-2.35)	(-0.21)
Agency1	0.225**	0.033	0.173	0.077***
	(2.32)	(1.11)	(0.84)	(3.55)
Agency2	0.075	0.557***	0.373	0.821***
	(0.23)	(6.98)	(0.84)	(13.31)
Complexity	0.011	-0.022	0.044	-0.100***
	(0.11)	(-1.01)	(0.41)	(-6.15)
Leverage	0.117	0.010	-0.205**	0.127***
	(1.46)	(0.57)	(-2.13)	(9.46)
Constant	7.714***	6.750***	6.160***	6.928***
	(9.20)	(38.84)	(6.79)	(54.34)
Year-fixed effects	Yes	Yes	Yes	Yes
Firm-fixed effects	Yes	Yes	Yes	Yes
R^2	0.61	0.66	0.38	0.68
F-test	36.40***	1153.63***	29.28***	1888.43***
N	3297	39109	2398	40008

Note: This table presents results on the impact of returnee directors on audit fees for firms with and without accounting irregularities (Columns 1 and 2, respectively) and firms audited by Big4 and non-Big4 audit firms (Columns 3 and 4, respectively). The results indicate that accounting irregularities do not significantly intensify the relationship between returnee directors and audit fees, whereas this relationship is stronger for firms audited by non-Big4 audit firms. The dependent variable in all the regressions is *Audit_Fees* (natural logarithm of total audit fees), and *Returnee* (proportion of directors with foreign study or work experience) is the independent variable. The t-statistics are in parentheses. *, **, and *** represent significance at p<0.10, p<0.05 and p<0.01 levels, respectively. All variables are as defined in Table 2.

.

Table 10: Returnee directors, audit fees in the context of firm complexity and politically connected CEOs

	Returnee directors, audit fees, and firm complexity nexus		Returnee directors, audit fees, and CEO's political affiliation nexus	
	Dependent Variable = *Audit_Fees*			
	Column 1 Complexity > 0.231	Column 2 Complexity < 0.231	Column 3 CEO_Political = 1	Column 4 CEO_Political = 0
Returnee	0.057**	0.055***	0.092***	0.076***
	(2.40)	(2.66)	(4.49)	(2.65)
Board_Size	0.005***	0.002*	-0.003***	0.004**
	(3.91)	(1.79)	(-2.95)	(2.51)
Board_Independence	-0.147***	-0.123***	-0.011	-0.174***
	(-3.53)	(-3.50)	(-0.32)	(-3.66)
Board_Female	-0.042*	-0.042*	0.089***	-0.019
	(-1.76)	(-1.92)	(4.15)	(-0.64)
Board_Foreign	0.183**	0.131*	0.115*	0.058
	(2.35)	(1.87)	(1.72)	(0.50)
Board_Tenure	-0.028***	-0.033***	-0.028***	-0.019***
	(-4.96)	(-6.57)	(-5.66)	(-2.85)
Board_Age	0.047	0.039	0.610***	-0.028
	(0.99)	(0.90)	(14.36)	(-0.48)
CEO_Duality	0.001	-0.000	0.002	-0.001
	(0.16)	(-0.03)	(0.36)	(-0.07)
CEO_Gender	0.024*	0.004	0.043***	-0.013
	(1.94)	(0.35)	(3.73)	(-0.70)
CFO_Gender	-0.010	-0.017***	0.008	-0.015*
	(-1.53)	(-2.89)	(1.24)	(-1.92)
CEO_Political	-0.027***	-0.016***	-	-
	(-4.54)	(-2.95)		
Institutional_Equity	0.036*	0.084***	-0.139***	0.094***
	(1.66)	(4.40)	(-7.62)	(3.63)
SOE	0.002	-0.004	-0.043***	0.001
	(0.13)	(-0.35)	(-3.52)	(0.07)
Development	-0.021	-0.069***	-0.104***	-0.043*
	(-1.04)	(-4.04)	(-5.82)	(-1.80)
Big4	0.329***	0.332***	0.351***	0.327***
	(17.30)	(18.92)	(20.04)	(14.25)
Auditor_Tenure	-0.001*	-0.002**	0.005***	-0.003***
	(-1.71)	(-2.41)	(8.80)	(-3.49)
Auditor_Change	-0.028***	-0.026***	-0.002	-0.030***
	(-4.10)	(-4.16)	(-0.24)	(-3.78)
Performance	-0.244***	-0.372***	-0.605***	-0.285***
	(-6.15)	(-9.01)	(-16.37)	(-5.55)
Size	0.279***	0.292***	0.451***	0.272***
	(55.20)	(63.61)	(134.18)	(44.31)
Age	-0.025***	-0.042***	0.091***	-0.023***
	(-3.16)	(-5.97)	(18.25)	(-2.69)
Analyst	0.001	-0.008***	-0.030***	-0.008**
	(0.39)	(-3.17)	(-12.02)	(-2.31)
Agency1	0.034	0.216***	0.186***	0.000
	(1.14)	(6.06)	(6.58)	(0.00)
Agency2	0.761***	0.467***	0.675***	0.816***
	(8.39)	(5.13)	(8.33)	(6.75)
Complexity	-	-	-0.246***	-0.083***
			(-11.28)	(-2.67)
Leverage	0.093***	0.103***	-0.004	0.128***
	(4.61)	(5.24)	(-0.19)	(5.09)
Constant	7.075***	6.867***	1.469***	7.497***
	(35.62)	(38.38)	(9.33)	(30.51)
Year-fixed effects	Yes	Yes	Yes	Yes
Firm-fixed effects	Yes	Yes	Yes	Yes
R^2	0.60	0.69	0.60	0.61
F-test	664.05***	978.80***	1449.58***	465.58***
N	21122	21284	14624	27782

Note: This table presents results on the impact of returnee directors on audit fees for firms with high and low complexity (Columns 1 and 2, respectively) and for firms with and without politically connected CEOs (Columns 3 and 4, respectively). The results indicate that returnee directors increase audit fee irrespective of firm complexity level and CEO political affiliation, however, their positive effect is slightly higher in highly complex firms and firms with politically connected CEOs. The dependent variable in all the regressions is *Audit_Fees* (natural logarithm of total audit fees) and *Returnee* (proportion of directors with foreign study or work experience) is the independent variable. The t-statistics are in parentheses. *, **, and *** represent significance at p<0.10, p<0.05 and p<0.01 levels, respectively. All variables are as defined in Table 2.

Table 11: Returnee directors and audit fees (Controlling endogeneity through lagged model, Heckman method, and 2SLS)

	One-Year Lagged	Two-Step Heckman		2SLS	
	Audit_Fees	1st Stage *Returnee_Dummy*	2nd stage *Audit_Fees*	1st Stage *Returnee*	2nd stage *Audit_Fees*
	Column 1	Column 2	Column 3	Column 4	Column 5
Returnee	-	-	0.050***	-	0.682***
			(2.61)		(3.50)
L.Returnee	0.047***	-	-	-	-
	(3.10)				
Mills_Ratio	-	-	0.003	-	-
			(1.05)		
British_Colony	-	0.066***	-	0.007***	-
		(3.79)		(4.54)	
Returnee_Industry	-	4.907***	-	0.547***	-
		(8.20)		(15.68)	
Board_Size	0.004***	0.039***	0.003***	-0.000	0.003***
	(4.40)	(12.61)	(3.83)	(-1.50)	(3.97)
Board_Independence	-0.108***	-0.053	-0.105***	0.084***	-0.158***
	(-4.08)	(-0.51)	(-3.84)	(9.26)	(-4.91)
Board_Female	-0.039**	-0.308***	-0.044***	-0.016***	-0.033**
	(-2.45)	(-5.79)	(-2.78)	(-3.04)	(-1.99)
Board_Foreign	0.232***	8.481***	0.223***	0.775***	-0.273*
	(4.56)	(35.67)	(4.24)	(46.17)	(-1.70)
Board_Tenure	-0.026***	0.046***	-0.034***	0.005***	-0.038***
	(-6.75)	(3.26)	(-9.31)	(4.42)	(-9.65)
Board_Age	0.098***	-0.469***	0.077**	-0.070***	0.120***
	(3.06)	(-4.80)	(2.46)	(-6.68)	(3.45)
CEO_Duality	0.001	0.006	0.003	-0.005***	0.006
	(0.23)	(0.39)	(0.71)	(-3.24)	(1.30)
CEO_Gender	0.011	0.028	0.014*	-0.004	0.017*
	(1.30)	(1.01)	(1.73)	(-1.29)	(1.95)
CFO_Gender	-0.007	0.011	-0.009**	-0.000	-0.009*
	(-1.47)	(0.75)	(-1.97)	(-0.10)	(-1.93)
CEO_Political	-0.021***	0.008	-0.020***	0.001	-0.021***
	(-5.24)	(0.60)	(-5.09)	(1.08)	(-5.20)
Institutional_Equity	0.086***	0.171***	0.088***	0.019***	0.076***
	(6.13)	(5.35)	(6.43)	(4.16)	(5.26)
SOE	0.012	-0.295***	-0.001	-0.019***	0.012
	(1.34)	(-17.33)	(-0.09)	(-6.48)	(1.23)
Development	-0.042***	0.163***	-0.043***	-0.000	-0.043***
	(-3.36)	(10.71)	(-3.41)	(-0.03)	(-3.37)
Big4	0.340***	0.431***	0.342***	0.022***	0.328***
	(26.14)	(13.37)	(27.09)	(5.31)	(24.19)
Auditor_Tenure	-0.001***	-0.005***	-0.001***	-0.000***	-0.001**
	(-2.93)	(-4.06)	(-3.16)	(-3.12)	(-2.40)
Auditor_Change	-0.022***	-0.026	-0.027***	-0.002	-0.026***
	(-4.73)	(-1.17)	(-5.71)	(-1.07)	(-5.38)
Performance	-0.419***	-0.456***	-0.335***	-0.043***	-0.311***
	(-14.55)	(-3.88)	(-11.84)	(-4.56)	(-10.44)
Size	0.295***	0.081***	0.286***	0.008***	0.282***
	(90.77)	(10.21)	(91.03)	(7.16)	(79.97)
Age	-0.023***	0.000	-0.026***	-0.000	-0.026***
	(-4.16)	(0.03)	(-5.25)	(-0.14)	(-5.13)
Analyst	0.004*	0.075***	-0.001	0.001*	-0.002
	(1.81)	(10.90)	(-0.62)	(1.87)	(-1.15)
Agency1	0.071***	-0.007	0.096***	-0.016**	0.100***
	(3.15)	(-0.09)	(4.35)	(-2.17)	(4.41)
Agency2	0.787***	0.284	0.779***	0.048**	0.748***
	(12.23)	(1.13)	(12.40)	(2.28)	(11.56)
Complexity	-0.103***	0.150***	-0.107***	-0.018***	-0.097***
	(-6.18)	(2.96)	(-6.49)	(-3.25)	(-5.64)
Leverage	0.103***	-0.318***	0.123***	-0.009**	0.130***
	(7.35)	(-7.30)	(9.02)	(-1.98)	(9.24)
Constant	6.527***	-1.636***	6.799***	0.101**	6.733***
	(49.51)	(-4.26)	(52.70)	(2.35)	(50.46)
Year-fixed effects	Yes	Yes	Yes	Yes	Yes
Firm-fixed effects	Yes	No	Yes	No	No
Industry-fixed effects	No	Yes	No	Yes	Yes
R-squared	0.679	0.11	0.67	0.11	0.66
F-test/ Chi-square	1841.66***	6094.41***	1797.85***	298.62***	1765.31***
Cragg-Donald Wald F statistic	-	-	-	110.686	-
Stock-Yogo weak ID test	-	-	-	19.93	-
Hansen J (p-value)	-	-	-		0.31
N	36752	42406	42406	42406	42406

Note: This table presents results on the impact of returnee directors on audit fees using: (1) a one-year lag of returnee directors (Column 1), (2) the two-step Heckman method (Heckman) (Columns 2-3), and (3) two-stage least squares regression (2SLS) (Columns 4-5). Columns 2 and 4 report the first-stage results for Heckman and 2SLS regressions, respectively, with dependent variables *Returnee_Dummy* (1 if at least one returnee director is on the board) and *Returnee* (proportion of returnee directors). We employ two instrument variables: *Returnee_Industry* (average number of returnee directors in the industry, excluding the firm) and *British_Colony* (1 if the firm's province had a British concession or leased territory during the late Qing dynasty, and 0 otherwise). The results consistently show a positive relationship between returnee directors and audit fees. The dependent variable in Columns 1, 3, and 5 is *Audit_Fees* (natural logarithm of total audit fees) and *Returnee* (proportion of directors with foreign study or work experience) is the independent variable. The t-statistics are in parentheses. *, **, and *** represent significance at p<0.10, p<0.05 and p<0.01 levels, respectively. All variables are as defined in Table 2.

Table 12: Returnee directors and audit fees (Controlling endogeneity through PSM)

	Post-match univariate analysis of firms with and without returnee directors			PSM 1st Stage	PSM matched sample 2nd Stage
	Firms with returnee directors	Firms without returnee directors	Compare mean (t-statistics)	*Returnee_Dummy*	*Audit_Fees*
	Column 1	Column 2	Column 3	Column 4	Column 5
Returnee	-	-	-	-	0.045**
					(2.43)
Board_Size	9.440	9.466	(0.920)	0.040***	0.002**
				(12.96)	(1.96)
Board_Independence	0.379	0.380	(0.926)	-0.091	-0.046
				(-0.88)	(-1.48)
Board_Female	0.150	0.149	(-0.766)	-0.340***	-0.061***
				(-6.37)	(-3.26)
Board_Foreign	0.002	0.003	(0.503)	8.444***	0.176
				(35.50)	(1.49)
Board_Tenure	3.659	3.653	(-0.927)	0.045***	-0.033***
				(3.22)	(-7.77)
Board_Age	3.929	3.929	(0.028)	-0.460***	0.101***
				(-4.68)	(2.75)
CEO_Duality	0.291	0.289	(-0.354)	0.002	-0.000
				(0.15)	(-0.00)
CEO_Gender	0.064	0.064	(0.023)	0.031	0.031***
				(1.13)	(3.23)
CFO_Gender	0.302	0.304	(0.274)	0.007	-0.006
				(0.51)	(-1.23)
CEO_Political	0.350	0.354	(0.636)	0.013	-0.022***
				(0.96)	(-4.69)
Institutional_Equity	0.443	0.446	(0.985)	0.163***	0.061***
				(5.07)	(3.76)
SOE	0.348	0.352	(0.758)	-0.294***	0.025**
				(-17.07)	(2.37)
Development	0.694	0.698	(0.636)	0.180***	-0.059***
				(12.26)	(-4.00)
Big4	0.033	0.040	(1.504)	0.433***	0.330***
				(13.40)	(19.44)
Auditor_Tenure	7.360	7.369	(0.141)	-0.005***	-0.002***
				(-3.81)	(-3.96)
Auditor_Change	0.112	0.113	(0.236)	-0.028	-0.032***
				(-1.26)	(-5.76)
Performance	0.039	0.039	(-0.003)	-0.444***	-0.381***
				(-3.76)	(-11.51)
Size	22.054	22.084	(1.066)	0.084***	0.287***
				(10.53)	(73.20)
Age	2.461	2.458	(-0.368)	0.006	-0.024***
				(0.53)	(-4.10)
Analyst	1.140	1.155	(1.079)	0.075***	-0.003
				(10.80)	(-1.32)
Agency1	0.095	0.094	(-0.231)	-0.082	0.105***
				(-1.00)	(3.97)
Agency2	0.017	0.017	(0.958)	0.113	0.781***
				(0.45)	(10.35)
Complexity	0.258	0.258	(-0.173)	0.091*	-0.085***
				(1.76)	(-4.35)
Leverage	0.429	0.431	(1.025)	-0.288***	0.095***
				(-6.53)	(5.82)
Constant	-	-	-	-1.823***	6.754***
				(-4.72)	(43.70)
Year-fixed effects	-	-	-	Yes	Yes
Firm-fixed effects	-	-	-	No	Yes
Industry-fixed effects	-	-	-	Yes	No
R^2	-	-	-	0.11	0.65
F-test				-	1179.31
N	15177	15177	-	42406	30354

Note: This table presents the results of the Propensity Score Matching (PSM) analysis on the relationship between returnee directors and audit fees. Columns 1-3 display the univariate analysis for firms with and without returnee directors for the PSM-matched sample, revealing no statistically significant differences between the two groups. Column 4 reports the first-stage regression results for predicting firms with returnee directors, using *Returnee_Dummy* (1 if at least one returnee director is on the board) as the dependent variable. Column 5 presents the PSM version of the baseline results, with *Audit_Fees* (natural logarithm of total audit fees) as the dependent variable and *Returnee* (proportion of directors with foreign study or work experience) as the independent variable. The PSM results confirm our baseline findings: returnee directors significantly increase audit fees. The t-statistics are in parentheses. *, **, and *** represent significance at p<0.10, p<0.05 and p<0.01 levels, respectively. All variables are as defined in Table 2.

Table 13: Returnee directors and audit fees (use of alternative measures)

	Dependent Variable = Dependent Variable =		
	Dependent Variable = *Audit_Fees*		Dependent Variable = *Audit_Fees_Ratio*
	Column 1	Column 2	Column 3
Returnee_Dummy	0.013***	-	-
	(3.50)		
Returnee_Number	-	0.010***	-
		(4.70)	
Returnee	-	-	0.022**
			(2.33)
Board_Size	0.003***	0.003***	-0.001***
	(3.66)	(3.55)	(-2.68)
Board_Independence	-0.099***	-0.098***	-0.021
	(-3.65)	(-3.60)	(-1.27)
Board_Female	-0.044***	-0.044***	0.006
	(-2.78)	(-2.77)	(0.68)
Board_Foreign	0.241***	0.201***	0.004
	(4.76)	(3.89)	(0.13)
Board_Tenure	-0.034***	-0.035***	-0.006***
	(-9.29)	(-9.39)	(-2.67)
Board_Age	0.077**	0.079**	0.104***
	(2.46)	(2.50)	(5.54)
CEO_Duality	0.003	0.003	-0.002
	(0.68)	(0.69)	(-0.69)
CEO_Gender	0.014*	0.014*	0.005
	(1.72)	(1.75)	(1.04)
CFO_Gender	-0.009**	-0.009**	0.002
	(-1.98)	(-2.00)	(0.82)
CEO_Political	-0.020***	-0.020***	0.001
	(-5.07)	(-5.08)	(0.60)
Institutional_Equity	0.088***	0.088***	-0.012
	(6.43)	(6.39)	(-1.52)
SOE	-0.001	-0.001	0.019***
	(-0.07)	(-0.07)	(3.54)
Development	-0.043***	-0.043***	-0.053***
	(-3.42)	(-3.44)	(-6.94)
Big4	0.342***	0.340***	0.019**
	(27.12)	(26.96)	(2.46)
Auditor_Tenure	-0.001***	-0.001***	0.001***
	(-3.18)	(-3.14)	(5.20)
Auditor_Change	-0.027***	-0.027***	0.002
	(-5.71)	(-5.69)	(0.73)
Performance	-0.336***	-0.335***	-0.034**
	(-11.85)	(-11.84)	(-2.00)
Size	0.286***	0.286***	-0.029***
	(91.07)	(90.96)	(-19.81)
Age	-0.026***	-0.026***	0.004
	(-5.24)	(-5.25)	(1.45)
Analyst	-0.001	-0.001	-0.001
	(-0.67)	(-0.70)	(-1.03)
Agency1	0.096***	0.096***	0.174***
	(4.35)	(4.33)	(13.19)
Agency2	0.780***	0.779***	0.187***
	(12.43)	(12.41)	(4.97)
Complexity	-0.108***	-0.107***	0.347***
	(-6.53)	(-6.50)	(71.47)
Leverage	0.123***	0.124***	-0.041***
	(9.05)	(9.09)	(-5.08)
Constant	6.797***	6.800***	0.229***
	(52.69)	(52.72)	(3.32)
Year-fixed effects	Yes	Yes	Yes
Firm-fixed effects	Yes	Yes	Yes
R^2	0.67	0.67	0.15
F-test			
N	42406	42406	42406

Note: This table presents results on the impact of returnee directors on audit fees using alternative measures. Columns 1 and 2 employ *Returnee_Dummy* (1 if at least one returnee director is on the board) and *Returnee_Number* (number of returnee directors), respectively. Column 3 uses *Audit_Fees_Ratio* (audit fees scaled by total assets) as the audit fee alternative measure. The dependent variables are *Audit_Fees* (natural logarithm of total audit fees) in Columns 1-2 and *Audit_Fees_Ratio* in Column 3. Consistently, we find a positive relationship between returnee directors and audit fees. The t-statistics are in parentheses. *, **, and *** represent significance at p<0.10, p<0.05 and p<0.01 levels, respectively. All variables are as defined in Table 2.