



What Does Reputation Buy? Differentiation in a Market for Third-Party Auditors

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Abstract

We study differences in quality in the market for third-party environmental auditors in Gujarat, India. We find that, despite the low overall quality, auditors are heterogeneous and some perform well. We posit that these high-quality auditors survive by using their good name to insulate select client plants from regulatory scrutiny. We find two pieces of evidence broadly consistent with this

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evidence broadly consistent with this hypothesis: (i) though estimates are not precise, higher-quality auditors appear to be paid more both in their work as third-party auditors and in their complementary work as consultants; and (ii) plants with high-quality auditors incur fewer costly penalties from the regulator.

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JEL Classifications

G32: Financing Policy; Financial Risk and Risk Management; Capital and Ownership Structure; Value of Firms; Goodwill

M42: Auditing

O13: Economic Development:

Agriculture; Natural Resources; Energy;
Environment; Other Primary Products

O14: Industrialization; Manufacturing
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Q52: Pollution Control Adoption Costs;
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Q56: Environment and Development;
Environment and Trade; Sustainability;
Environmental Accounts and Accounting;
Environmental Equity; Population Growth