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# 資本市場把關人注意力分散對企業行為之影響：文獻綜述及未來研究方向

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**摘要：**本文統整近年文獻，探討當機構投資者、外部審計師、審計委員會等資本市場把關人出現注意力分散之情形，對市場績效、公司營運規劃、董事會監督，公司披露行為以及審計質量可能造成之影響。本文總結了注意力分散的衡量方式，建議未來相關研究方向，並且提供了可以作為企業利害關係人、監管部門在進行決策時可以參考的重要信息。

**關鍵詞：**注意力分散、機構投資者、外部審計師、審計委員會

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# The Impact of Distracted Gatekeepers on Corporate Actions: A Review and Implications for Future Archival Research

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**Abstract:** This study reviews recent research on the effect of distracted gatekeepers (i.e., institutional investors, external auditors, and audit committee members) on corporate actions, including operational outcomes, governance effectiveness, corporate disclosure and financial reporting behavior, and audit quality. This review also summarizes various empirical strategies for identifying gatekeeper distraction. This is the first review of the emerging body of research on gatekeeper distraction in the capital market. It will be very useful to researchers, practitioners, and regulators.

**Keywords:** distraction, institutional investors, external auditors, audit committee

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# I. Introduction

Management has great discretion in a company's operation, financial reporting, and disclosures. The principle-agent framework suggests that greater monitoring intensity will induce managers to focus on maximizing shareholder value; conversely, when monitoring is weak, managers have greater leeway to maximize their own private benefits, even at the expense of shareholder value (Berle and Means, 1932; Jensen and Meckling, 1976; Kempf, Manconi, and Spalt, 2017). Previous studies have shown that gatekeepers (such as institutional shareholders, audit committees, and external auditors) discipline management behavior, including firms' voluntary disclosure practices (Boone and White, 2015; Bird and Karolyi, 2016), tax avoidance (Bird and Karolyi, 2017; Khan, Srinivasan, and Tan, 2017), financial reporting quality (e.g., Chung, Firth, and Kim, 2002; Roychowdhury, 2006; Koh, 2007; Khurana, Li, and Wang, 2018), investment behavior (Bushee, 1998), merger and acquisition activities (Andriosopoulos and Yang, 2015; Chen, Harford, and Li, 2007), and corporate governance (Appel, Gormley, and Keim, 2016; Crane, Michenaud, and Weston, 2016; Gillan and Starks, 2003; Schmidt and Fahlenbrach, 2017; Schoenfeld, 2017). The key assumption of these studies is that gatekeepers' attention is homogenous across all of the firms in their portfolio of investments, audit clients, or board memberships and remains constant over time.

Motivated by psychological theory that attention is a scare cognitive resource and the quality of decision making deteriorates when attention is divided among multiple tasks (Kahneman, 1973), studies of rational inattention in economics (e.g., Sims, 2003; Kacperczyk, Nieuwerburgh, and Veldkamp, 2014) argue that monitoring capacity is a scarce resource that can temporarily lead monitors to supply less than the otherwise optimal monitoring capacity. Expanding this insight, recent accounting studies (e.g., Kempf et al., 2017; Kim, Li, and Luo, 2020) point out that as gatekeepers in the capital market usually monitor portfolios with multiple (even hundreds or thousands) companies, they can hardly simultaneously monitor all of their portfolio firms with the same intensity due to limited attention resources. A number of recent studies have focused on the impact of gatekeepers' attention on the effectiveness of their monitoring. Studies in accounting suggest that distractive events impact the effectiveness of gatekeepers' ability to constrain managerial opportunism in financial reporting (Chen, Kim, and Haibin, 2019; Elkinawy, Spizman, and Tran, 2021; Garel, Martin-Flores, Petit-Romec, and Scott, 2021; Chang, Li, and Luo, 2022), the quantity, content, and type of voluntary disclosure (Abramova, Core, and Sutherland, 2020; Basu, Pierce, and Stephan, 2019), merger and acquisition activities (Kempf et al., 2017), board composition and meetings frequency (Liu, Low, Masulis, and

Zhang, 2020), and boards of directors' decisions on CEO compensation (Kempf et al., 2017). Thus, lack of attention of gatekeepers ultimately damages firm value and results in abnormally low stock returns (Kempf et al., 2017). This review focuses on this emerging literature in order to gain a systematic understanding of archival measurements of capital market gatekeepers' distraction and the consequences of this distraction.

This review has important implications for academic researchers, practitioners, and regulators around the world. First, it complements the literature on the critical roles played by various gatekeepers in the capital market, such as credit rating agency, auditor, audit committee, courts of law, and financial analysts (see a review by Roychowdhury and Srinivasan 2019), and provides a timely summary of recent empirical findings on the detrimental impact of distraction on capital market gatekeepers. Second, it identifies archival methods for measuring distraction based on the portfolios of companies monitored by gatekeepers, and provides suggestions for further research in this emerging area. Third, it provides practitioners and regulations with critical insights by drawing attention to the potential consequences of distracting events. To effectively deter managerial opportunism, gatekeepers (i.e., institutional investors, external auditors, audit committee members, etc.) need to actively deter managerial opportunism, even when they are distracted.

This review proceeds as follows. Section 2 synthesizes the literature on the consequences of gatekeepers' distraction, including the effects on the capital market (Section 2.1), company operations (Section 2.2), governance effectiveness (Section 2.3), disclosure (Section 2.4), financial reporting (Section 2.5), external audit quality (Section 2.6), and crash risk (Section 2.7). Section 3 summarizes the methodologies for measuring distraction using archival data. Section 4 concludes the paper by identifying future research opportunities.

## II. Consequence of Distraction

Managers are aware of gatekeepers' attention (Segal and Segal, 2016), and they opportunistically use gatekeepers' distraction to exploit private benefits. This section reviews the consequence of gatekeepers' distraction on institutional investors, external auditors, and audit committee members.

### Capital Market Consequences

Studies in behavioral corporate finance have demonstrated that investors face attention constraints and that inattention leads to less efficient and more volatile stock prices. Specifically, Hirshleifer, Lim, and Teoh (2009) and DellaVigna and Pollet (2009) find that investors underreact to earnings news when inattention is high, and this inattention

leads to greater post-announcement drift. Pantzalis and Ucar (2014) examine whether and how the religious holiday calendar distracts investors' information processing and document an asymmetric pattern of delayed responses to earnings surprises experienced during Eastern. Likewise, Andrei and Hasler (2015) find that investors' inattention is positively associated with the volatility of returns.

In addition, to monitor companies' activities and obtain information about the companies' performance, institutional investors are generally in frequent contact with managers through conference calls, investor meetings, and private phone calls (Frankel, Johnson, and Skinner, 1999; Green, Jame, Markov, and Subasi, 2014; Brown, Call, Clement, and Sharp, 2019). Managers notice institutional investors' inattention when institutional investor-initiated communications decrease, when they participate in fewer conference calls, and when they initiate fewer governance-related proposals (Kempf et al., 2017). Managers opportunistically take advantage of loose monitoring to maximize their private benefit, resulting in lower firm value. Schmidt (2019) also shows that distracted institutional investors trade less profitably, incur higher transaction costs, and are less likely to close losing positions.

Researchers have long been interested in the capital market consequences of investor inattention. Recent studies have begun to examine how investor inattention affects corporate actions, such as corporate operations (Section 2.2), governance effectiveness (Section 2.3), disclosure and reporting behavior (Sections 2.4 and 2.5), audit quality (Section 2.6), and even crash risk (Section 2.7).

## Corporate Operation

Institutional investor attention affects corporate actions. Kempf et al. (2017) show that institutional investor attention to a firm can be impacted by unrelated shocks (identified by extreme returns in other industries in the investors' portfolios), leading to a temporary loosening of monitoring constraints on the un-shocked firms. Firms with "distracted" institutional shareholders are more likely to grant opportunistically timed CEO stock options, more likely to cut dividends, and less likely to fire their CEO for bad performance. Moreover, Kempf et al. (2017) and Liu et al. (2020) document that when institutional investors are distracted, firms are more likely to grant their CEOs higher abnormal pay and have lower pay-performance sensitivity, announce diversifying, value-destroying acquisitions, have abnormally low stock returns, and lower equity valuation. Furthermore, Chen, Dong, and Lin (2020) find that when institutional shareholders are distracted by exogenous shocks, they initiate fewer proposals related to corporate social responsibilities (CSR) and their portfolio companies have lower CSR commitments and lower CSR ratings.

## Board Oversight

Liu et al. (2020) argue that when distracted institutional investors shift their attention to "shocked" industries, the lack of institutional investors' monitoring over an extended period of time can lead to permanent changes to firms in the non-shocked industry. Empirically, Liu et al. (2020) show that institutional investor distraction weakens board oversight of directors' behavior, leading to the more frequent appointment of ineffective directors (i.e., directors socially connected to the CEO or overly busy directors) and a lower likelihood of disciplining problematic and ineffective directors. Moreover, when institutional shareholders are distracted, boards meet less frequently and independent directors miss meetings more often.

Similarly, Elkinawy et al. (2021) show that events that distract audit committee members, such as shareholder lawsuits or merger and acquisitions events occurring simultaneously at other firms in which the audit committee members also serve as board members or CEOs, create a shock to committee members' workload than can cause them to miss more audit committee meetings.

## Corporate Disclosure

Recent studies show that investor inattention is an important factor influencing corporate disclosure behaviors (Basu et al., 2019; Chen, Kim and Wu, 2019; Abramova et al., 2020), and that managers strategically adjust their disclosure behavior (e.g., timing, quantity, content) to exploit investors' inattention.

First, studies in behavioral finance document that when managers believe that investors are inattentive, they strategically *time* the release of negative *mandatory* disclosures (e.g., DeHaan, Shevlin, and Thornock, 2015; Lim and Fteoh, 2010; Niessner, 2015; Segal and Segal, 2016), for example, by releasing the information on Fridays (DellaVigna and Pollet, 2009; Niessner, 2015), before national holidays (Niessner, 2015), after market hours (DeHaan et al., 2015; Segal and Segal, 2016), and on days when there is competing contemporaneous news (Hirshleifer et al., 2009; DeHaan et al., 2015) or attention-grabbing events (Drake, Gee, and Thornock, 2016).

Second, there have been two recent studies of the impact of institutional investor attention on voluntary disclosure content and quantity. Specifically, Basu et al. (2019) examine whether investor inattention has negative consequence for firms' voluntary disclosure content. Consistent with the prediction by Hirshleifer and Teoh's (2003) analytical model that investor inattention leads to more opportunistic upwardly biased non-GAAP disclosure, Basu et al. (2019) empirically document that management takes advantage of investor inattention by increasing the amount of income-increasing exclusions

when calculating managers' non-GAAP earnings metrics. Moreover, Basu et al. (2019) find that managers opportunistically reduce the provision of costly management guidance when investors are less attentive and thus demand less guidance from management; according to Peng and Xiong (2006), this is because distracted investors are likely to rely more on market and section-wide information than on firm-specific information, reducing the demand for management guidance.

A closely related study by Abramova et al. (2020), which uses the same measure of institutional shareholder distraction to examine managers' response to institutional investors' attention/distraction, finds that managers respond to temporary institutional investor attention (distraction) by increasing (decreasing) the quantity of disclosure (i.e., the number of forecasts and 8-K filings), but that the extra filings do not contain much new information or do not represent a commitment to increased disclosure; therefore, they conclude that investor distraction has little meaningful effect on information quality or liquidity.

## Financial Reporting Quality

In addition to its impact on mandatory and voluntary disclosure, gatekeepers' distraction also influences companies' financial reporting behavior. Specifically, Elkinawy et al. (2021) find that firms have lower earnings quality when their audit committee members are distracted by workload shock if these committee members serve as board members or CEOs in other firms that are simultaneously experiencing shareholder lawsuits or merger and acquisitions. Similarly, Liu et al. (2020) find that when institutional directors are distracted, resulting ineffective board monitoring, firms exhibit greater earnings managements and lower financial reporting quality. Ni, Peng, Yin and Zhang (2020) find that managers reduce firms' accounting conservatism when institutional investors become distracted, which is evidenced by an increased motivation to hoard bad news. Garel et al. (2021) show that firms with distracted institutional investors engage in more upward income-increasing, accrual-based, and real earnings management. They also show that the association is stronger in firms with low analyst coverage and weak board monitoring, as well as firms where managing earnings upward allows them to meet or just beat the earnings targets. Chen et al., (2019) focus on companies that have upward earnings management in the period prior to the distraction events and find that firms whose institutional investors are distracted as a result of launching activism campaigns targeting other firms report more negative abnormal accruals that are at least partially aimed at unwinding prior upward earnings management or managing outsider expectations of future firm performance downwards. For example, they may book more write-downs while institutional investors are distracted.

## External Audit Quality

The recent financial crisis has increased risk across the banking industry, especially for banking clients, and intensified regulatory and market scrutiny from external auditors (Bajaj and Creswell, 2008; Cassell, Hunt, Narayanamoorthy, and Rowe, 2019). This has created an exogenous shock that hinders the banking industry's specialized auditors' ability to secure and allocate the resources needed to mitigate the heightened risk in their clients' portfolio (Cassell et al., 2019). This, in turn, has caused such auditors to shift their attention and resources toward bank clients. Cassell et al. (2019) document that such auditors' inattention is detrimental to clients from other industries that engage auditors who are banking industry specialists. Specifically, other-industry clients provide a supply of resources that are reallocated to banking industry clients, resulting in lower audit quality for clients in non-banking industries.

Chang et al. (2022) show that such distraction effect expands to wide range of industries (banking vs. non-banking), all auditors (with or without industry specialization), and all periods (recession vs. non-recession). Specifically, Chang et al. (2022) investigate whether industry shocks (not necessarily financial crises) to a subset of clients can distract auditors and affect their due diligence for their non-shocked clients. Chang et al. (2022) find that clients of distracted auditors (i.e., auditors who have a higher concentration of clients in shocked industries) have lower audit quality (i.e., a higher probability of meeting or beating analyst consensus forecasts). Their cross-sectional analyses reveal that the negative impact of auditor distraction on audit quality is more pronounced for clients that are less important, for clients with auditors facing lower third-party legal liabilities and experiencing higher growth, and for clients whose CEOs have stronger equity incentives.

Motivated by recently heighted regulators' concern that an emphasis on non-audit services (NAS) could distract from the audit function, Beardsley, Imdieke, and Omer. (2021) examine whether a greater emphasis on providing NAS to audit clients generally distract auditors from the audit function, resulting in lower audit quality. Beardsley et al. (2021) document NAS distraction effect: a greater emphasis on NAS at the office-level results in more clients' financial statement restatements, even after controlling for client specific NAS.

## Stock price crash

Because of heightened incentives for managers to manage earnings upwards and to hoard bad news when institutional investors are distracted, Ni et al. (2020) find a positive and significant relation between institutional shareholder distraction and stock price crash

risk. The effect becomes stronger when alternative corporate governance is weaker and when managers' incentives to hoard bad information are stronger.

Taken together, these patterns reveal that when gatekeepers are distracted, managers engage in opportunistic behaviors and seek more private benefits through various channels. Table 1 summarizes the various consequences of gatekeepers' distraction.

## Archival Measures of Distraction to Gatekeepers in Capital Market

The key challenge in the distraction literature is that distraction cannot be directly observed. Recent studies have come up with a number of creative identification strategies for measuring the distraction of various gatekeepers in the capital market.

### Measures of institutional investor distraction

Kempf et al. (2017) employ extreme returns in other industries to capture institutional investors' inattention. Specifically, they use exogenous shocks to unrelated industries held by a given firm's institutional shareholders to mark periods where capture institutional investors are likely to shift attention away from the focal firm and towards the firms in their portfolio that are subject to the shock. This measure depends on whether shocks occur in other industries, whether institutional investors care about those other industries, and whether the capture institutional investors that are most affected by the unrelated shock are potentially important monitors. Kempf et al. (2017) show that institutional investor distraction is associated with less monitoring of companies' activities, for example, less participation in conference calls and less initiation of governance-related proposals. Using Kempf et al. (2017)'s measure of institutional investor distraction, Liu et al. (2020) find that institutional investor distraction weakens board oversight; Ni et al. (2020) find a positive and significant relation between institutional shareholder distraction and stock price crash risk

When testing the association between institutional investors' distraction and firm's CSR rating, Chen et al. (2020) use the measure of institutional investors' distraction developed in Kempf et al. (2017) for their main tests. In their additional tests, Chen et al. (2020) construct three alternative measures of institutional investor attention based on 1) the past six-month performance of the mutual funds that hold the firm's shares; 2) the past six-month fund outflow of the mutual funds that hold the firm's shares, and 3) a recent decline in voting participation of investors who hold the firm's shares, The intuition for the first two measures is that institutions with recent bad performance or greater fund outflows might care more about the stock performance or their investors than about CSR ratings. The third measure is a direct measure of declining institutional investors' attention to the firm.

**Table 1　Consequences of Gatekeeper Distraction.**

| | Authors / Year | Journal | Negative Consequence |
|---|---|---|---|
| Capital Market Consequence | Kempf et al. (2017) | *Review of Accounting Studies* | The company has lower firm value and lower stock returns. |
| | Hirshleifer et al. (2009) | *The Journal of Finance* | The company's stock has greater post-announcement drift. |
| | DellaVigna and Pollet (2009) | *The Journal of Finance* | |
| | Andrei and Hasler (2015) | *The Review of Financial Studies* | The company has more volatile stock prices. |
| | Schmidt (2019) | *Journal of Financial and Quantitative Analysis* | Distracted institutional investors are less profitable, have higher transaction costs, and are less likely to close losing positions. |
| Corporate Operations | Kempf et al. (2017) | *Review of Accounting Studies* | The company is more likely to grant opportunistically timed CEO stock options, more likely to cut dividends, less likely to fire their CEOs for bad performance, and more likely to engage in value-damaging merger and acquisitions. |
| | Liu et al. (2020) | *Review of Financial Studies* | The company is more likely to grant its CEO higher abnormal pay, announce diversifying value-damaging stock returns and lower equity valuation. |
| | Chen et al. (2020) | *Journal of Financial Economics* | The company has a lower CSR commitment and lower CSR rating. |
| Board Oversight | Liu et al. (2020) | *Review of Financial Studies* | The company is more likely to appoint problematic directors, less likely to discipline ineffective directors, board meets less frequently, and independent directors are more likely to miss board meetings. |
| | Elkinawy et al. (2021) | *Review of Quantitative Finance and Accounting* | Distracted audit committee members are more likely to miss committee meetings. |

**Table 1 Consequences of Gatekeeper Distraction (Continue)**

| | Authors / Year | Journal | Negative Consequence |
|---|---|---|---|
| Corporate Disclosure | Lim and Fteoh (2010) | *Behavior Finance* | Managers release the mandatory disclosure of bad news when investors are distracted: on Fridays, before national holidays, after market hours, and on days when there is competing contemporaneous news or attention-grabbing events. |
| | DeHaan et al. (2015) | *Journal of Economics and Finance* | |
| | Niessner (2015) | *Working papers* | |
| | Segal and Segal (2016) | *Review of Accounting Studies* | |
| | Drake et al. (2016) | *Contemporary Accounting Research* | |
| | Hirshleifer et al. (2009) | *The Journal of Finance* | |
| | DellaVigna and Pollet (2009) | *The Journal of Finance* | |
| | Basu et al. (2019) | *Working paper* | Institutional investors' inattention leads management to increase the amount of income-increasing exclusions used to calculate managers' non-GAAP earnings metrics and opportunistically reduce the provision of costly management guidance. |
| | Abramova et al. (2020) | *Working paper* | Institutional investors' inattention leads to a decrease in the amount of disclosure (e.g., number of forecasts and 8-K filings). |
| | Ni et al. (2020) | *Journal of Corporate Finance* | Institutional shareholder distraction is positively associated with hoarding bad news and stock price crash risk |

**Table 1 Consequences of Gatekeeper Distraction (Continue).**

| | Authors / Year | Journal | Negative Consequence |
|---|---|---|---|
| Financial Reporting Quality | Liu et al. (2020) | *Review of Financial Studies* | When institutional investors are distracted, firms exhibit greater earnings management. |
| | Elkinawy et al. (2021) | *Review of Quantitative Finance and Accounting* | When audit committee members are distracted, firms have lower earnings quality. |
| | Garel et al. (2021) | *Journal of Corporate Finance* | Institutional investors' inattention is associated with more upward income-increasing, accrual-based, and real earnings management. |
| | Chen, Kim, and Wu (2019) | *Working paper* | When institutional investors are distracted, management report more negative abnormal accruals to unwind prior upward earnings management. |
| Audit Quality | Cassell et al. (2019) | *Review of Accounting Studies* | Financial crises compromise the audit quality of clients from non-banking industries that engage banking industry-specialized auditors, who face heighten resource constraints. |
| | Chang et al. (2022) | *Review of Accounting and Finance* | Clients of distracted auditors (whose subset of clients experience industry shocks) have lower quality audits. |
| | Beardsley et al. (2021) | *Journal of Accounting and Economics* | A greater emphasis on providing NAS to audit clients at the audit office level results in more client financial statement restatements. |

In addition, Chen et al. (2019) develop another identification strategy for institutional shareholder distraction: an exogenous shock caused by institutional shareholders' launch of a corporate activism campaign, which requires a considerable amount of the initiators' money, effort, and attention (Gantchev, 2013). Chen et al. (2019) argue that launching a corporate activism campaign against a target firm will lead to the loosening of the monitoring of non-target firms. Thus, the managers of non-target firms have more room to behave opportunistically during the activism period.

Schmidt's (2019) identification strategy focuses on the distraction caused by stocks on the institutional investors' watch list; his distraction proxy is the portfolio-weighted fraction of stocks on an institutional investor's watch list that have an earnings announcement (arguably the most important recurring news events for individual stocks) in a given period.

**Measure of external auditor distraction**

The recent financial crisis increased risk across the banking industry and especially for banking clients, and intensified the regulatory and market scrutiny of external auditors (Bajaj and Creswell, 2008; Cassell et al., 2019). It created an exogenous shock that hindered the ability of banking industry-specialized auditors to secure and allocate the resources needed to mitigate the heightened risk in their client portfolios, resulting in auditor's distraction (Cassell et al., 2019).

In order to examine auditor distractions caused by shocks other than financial crises, Chang et al. (2022) use the methodology in Kempf et al. (2017) to define distractive events to auditors as events that lead to negative stock returns in an industry (i.e., stock returns in the lowest decile). They then construct an office-level measure of auditor distraction to capture the extent to which a company's current auditor is distracted by negative events occurring in the shocked industries in the auditor's client portfolio.

Beardsley et al. (2021) uses ratio of the sum of the NAS fees from all audit office clients (excluding the specific client observations' NAS fees) to the sum of the total fees from all audit clients (excluding the specific client observation's total fee) to capture the effect of office-level emphasis on NAS provision distracting from audit service.

**Measure of audit committee member distraction**

Elkinawy et al. (2021) use major distracting events (i.e., shareholder lawsuits, being the target or being the acquirer in merger and activity activities) that create a shock to audit committee members' workload to identify audit committee distraction. An audit committee member is classified as distracted if they serve as a CEO, inside director, or independent director at a different firm that is experiencing a distracting event during the focal fiscal year.

Table 2 summarizes the various identification strategies and measures of gatekeeper distraction.

**Table 2 Empirical Measures of Gatekeeper Distraction**

| Gatekeeper | Authors / Year | Journal | Distraction Measure |
|---|---|---|---|
| Institutional Investor Distraction | Kempf et al. (2017); Liu et al. (2020); Ni et al. (2020) | *Review of Accounting Studies; Review of Financial Studies; Journal of Corporate Finance* | Extreme returns in other industries are used to capture institutional investors shifting attention away from the firm and toward the part of their portfolio subject to the shock |
| | Chen et al. (2020) | *Journal of Financial Economics* | The past six-month performance of mutual funds that hold the firm's share<br>The past six-months fund outflow of the mutual fund that hold the firm's shares<br>The recent decline in voting participation of shareholders |
| | Chen et al. (2019) | *Working paper* | The launch of a corporate activism campaign by institutional investors, which requires considerable input in terms of money, effort, and attention. |
| | Schmidt (2019) | *Journal of Financial and Quantitative Analysis* | Stocks on institutional investors' watch list has an earnings announcement |

**Table 2 Empirical Measures of Gatekeeper Distraction (continue)**

| Gatekeeper | Authors / Year | Journal | Distraction Measure |
|---|---|---|---|
| External Auditor Distraction | Cassell et al. (2019) | *Review of Accounting Studies* | The recent financial crisis increased risk across the banking industry, especially for the banking clients, and intensified the regulatory and market scrutiny of external auditors. This created an exogenous shock to banking industry-specialized auditors' ability to secure and allocate the resources needed to mitigate the heightened risk in their clients' portfolio, resulting in auditor distraction. |
| | Kim et al. (2020) | *Working paper* | For auditors, distractive events are events that lead to negative stock returns in an industry (i.e., stock returns in the lowest decile). This paper constructs an office-level measure of auditor distraction to capture the extent to which a company's current auditor is distracted by negative events in shocked industries in the auditor's client portfolio. |
| | Beardsley et al. (2021) | *Journal of Accounting and Economics* | Office-level emphasis on NAS provision distract auditors' attention from audit service, measured by the ratio of the sum of the NAS fees from all audit office clients (excluding the specific client observations' NAS fees) to the sum of the total fees from all audit clients (excluding the specific client observation's total fee). |
| Audit Committee Members Distraction | Elkinawy et al. (2021) | *Review of Quantitative Finance and Accounting* | An audit committee member is distracted if he/she also serves as a CEO or director at a different firm that is experiencing distracting events (e.g., shareholder lawsuits, being the target or the acquirer in M&A activities). |

## Conclusions and Discussion

Overall, the literature suggests that companies' operations, governance, disclosure, and financial reporting depend crucially on the effectiveness of the monitoring of gatekeepers in the capital market: institutional investors, external auditors, and audit committees. However, all of these gatekeepers face attention constraints, and managers strategically take advantage of any loosening in monitoring intensity when the gatekeepers (i.e., institutional investors, audit committee members, and external auditors) are distracted by shocks to their portfolios that are unrelated to the focal company. When the gatekeepers are distracted, mangers will maximize their own private benefits even at the expense of shareholders. Even in the presence of gatekeepers (i.e., institutional investors, external auditors, and audit committees) with superior monitoring abilities, limitations on attention are associated with bad operational activities and outcomes, ineffective board monitoring, opportunistic behavior in financial reporting and disclosure, opportunistic merger and acquisitions, or even heightened crash risk, etc.

Despite these detrimental consequences of gatekeeper distraction, there are no studies of the determinants of distraction. That is, it is unclear which gatekeepers are more (less) likely to be distracted, or more (less) likely to be aware of potential distractions and to mitigate the negative consequences of the distraction. Future studies on the determinants of gatekeepers' distraction and/or on the factors that mitigating the negative consequences are critical in this emerging area of research and will have important implications for researchers, practitioners, and regulators. Moreover, extant measures of distraction mainly focus on extreme stock returns and company specific events (e.g., shareholder lawsuit, activism campaign). Many macro-level factors that demand significant attention from investors, management, auditors and audit committees have not been studied, such as recent regulatory reforms in capital market and auditing standards (e.g., Dodd–Frank Wall Street Reform and Consumer Protection Act 2010 and AS 3101 Critical Audit Matter 2019), political / economic uncertainty resulting from recent global pandemic, trade wars, Russia-Ukraine war, etc. Future research based on new measures of distraction can shed light on many important research questions on the determinants and consequences of distracted gatekeepers.

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