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EFFECT OF AUDIT FIRM SIZE ON MARKET PERFORMANCE OF INDUSTRIAL GOODS COMPANIES IN NIGERIA

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AUTHORS' CONTRIBUTIONS

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ABSTRACT

This study investigated whether audit firm size of the selected industrial goods firms in Nigeria affect market performance via share prices. Market performance (MAPEF) was used as dependent variable measured using share price and audit firm size (AUDFSZ) was the independent variable measured using Big_4 audit firms. The study used sample size companies of 18 quoted industrial goods firms in Nigeria. The study employed *ex-post facto* and descriptive research design. Secondary data were collected from annual reports of the selected industrial goods firms quoted in Nigeria exchange. The result from the study revealed that Audit firm size (AUDFSZ) has positive and significant relationship on market performance (MAPEF) of industrial goods companies in Nigeria. Based on the above findings, we recommend that emphasis on the use of Big_4 audit firms should be encouraged since it has shown to have high chances of improving the market share price of industrial goods firms in Nigeria.

Keywords: Audit firm size; market performance; share price.

1. INTRODUCTION

"The sole aim of auditing is to enable the external auditor to express an opinion on whether the financial statement of a company portrays true and fair view at the same time whether the financial statement is prepared in all material respects in accordance with the general acceptable financial reporting framework. The high rate of financial failures, corporate scandals, frauds have all led to poor market performance of quoted companies in Nigeria for examples the Enron scandal of 2001; Parmalat in 2003; Cadbury in 2006; Afrik bank 2009; Intercontinental bank Plc 2009; (Sky bank Plcin 2018, PHB and Oceanic bank Plc" (Ajani, 2012; Miettinen, 2011). "Most company failures were due to lack of audit quality in the financial reports. The size of an audit firm has been identified as one crucial factor affecting the auditor independence" [1]. Prior studies suggested that audit firm size is one of the factors that determine the quality of an audit report.

Audit market has a dual market of which the large dominant firms are known for rendering high quality audit as a result of reputational risk in audit features [2,3]. Small audit firms often render lesser quality audit and this gives credence to the use of Big4 audit firm as a determinant of audit quality [4,5]. This is in

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tarndem with De Angelo [6] idea which suggested that "larger firms provide higher quality audits because larger audit firms have fewer incentives to compromise their standards to ensure retention of clients comparing with small audit firms". Alsmairat, Yusolf, Ali and Ghazalet (2015) explained that "if a firm falls under the Big4 fir006Ds they are regarded as big audit firm but if the firm does not fall under Big4 audit firms, they are regarded as small audit firm. Also the globally known firm can be regarded as Big4 audit firm while a local firm is not among Big4 audit firm" [7]. Previous studies like [8] revealed that "firm audited by Big4 audit firms has positive and significant relationship with performance and this is in line with the studies of" Farouk and Hassen [9]; Mustafa and Muhammed [10]; Phan, Lai and Tran [11]; This is contrary to the study of [12] (Aledwan, Yasee and Alkubisi 2015); that revealed "a significant negative relationship between audit firm size and firm performance".

This study intends to investigate the effect of audit Firm Size (AUDFSZ) on market performance (MAPEF) of industrial good companies in Nigeria. Meanwhile, audit firm size was used as the independent variable measured using Big4 audit firm while market performance (MAPEF) was the dependent variable measured using share price.

1.1 Statement of the Problem

It has been observed that audit firm size (AUDFSZ) contributes to high quality reports which can affect the market performance of companies. The impression is that firms audited by Big4 audit firms have better market performance than those not audited by the Big4 audit firms. The increases in financial scandals and fraudulent financial reporting have led to company failures in Nigeria. Evidence from the previous studies, have shown that there is less existing literature on audit firm size vis-a-vis performance. The study intends to fill the gap in literature.

1.2 Objective of the Study

The main objective of this study is to investigate the effect of audit firm size (AUDFSZ) on market performance of industrial goods companies in Nigeria.

1.3 Research Hypothesis

H_{01}: Audit firm size has no significant relationship on market performance of industrial goods companies in Nigeria.

1.4 Significance of the Study

Stakeholders will benefit from this study because they will understand the importance of employing the services of Big4 audit firms as this will increase market performance. The result from the study will offer the managers of industrial goods firms in Nigeria a chance to make better economic decisions. Regulatory agencies, policy makers and professional accounting bodies will also benefit because the study will help them in developing curriculum and frameworks, such as corporate governance codes. The Investors will understand the advantages and benefits of using the Big4 audit firms as this will increase their share price. Finally, Students and researchers will benefit because the study will provide empirical evidence and vital information on effect of audit firm size on market performance.

1.5 Limitations of the Study

The study concentrated only on industrial good sectors therefore, the observed result will be limited to only the industrial good sectors in Nigeria. Moreover, the study is limited to Nigeria environment which is not wide enough in generalizing the result.

1.6 Theoretical Framework

1.6.1 Signaling theory

The Theory was proposed by Micheal Spence in the year (1973). The theory suggested that companies with good performance and audited by Big4 firms send favorable signals to the market portraying that their financial statements are more credible than those companies audited by non-Big4 audit firms. This present study relates to signaling theory because the fact that a company is audited by one of the Big4 audit firms is enough signal to portray that the firm is in good light, with reference to their financial statements and market performance.

1.7 Concept

This section is structured into the following: Conceptual framework, Theoretical framework and Empirical framework.

1.7.1 Audit firm size

"The size of an audit firm has been identified as one crucial factor affecting the auditor's independence" [1]. "The Big4 audit firms comprised of Klynveld Peat Marwick Goerdeler (KPMG), Price Waterhouse Cooper (PWC), Ernst &Young (E&Y), and Deloitte Touche Tohmatsu (Deloitte). Studies have shown that

large and internationally affiliated firms perform audit engagements faster than smaller firms" [13,14,15] (Al-Ajmi, 2009; Francis, 2004). Recently is the study of Rusmin and Evans (2017) using "a sample of firms from Indonesia showed that Big4 audit firms conduct faster audits than their non-Big4 audit firm counterparts Literature documents several reasons for this; such as, larger firms have a greater reputation at stake and are able to give their client's financial statements a higher degree of credibility as, they often have greater resources at their disposal". The study by Okere, et.al [16] showed that "listed companies in Nigeria that had more equity than debt preferred Big4 audit firms to non-Big4audit firms. They further opined that Big4 audit firms have shown to have higher accrual quality (Financial reporting quality) as measured by lower absolute values of discretionary accruals and their clients is less likely to manage earnings".

1.7.2 Market performance

"Market performance of a company means the proper financial statement analysis which is the process of evaluating the relationship between component parts of the financial statements to get a better understanding, study of the company's financial position and also the relevance of the share price" Mirzaaddance (2013). "Many past researches have used different variables in measuring market performance such as earnings per share EPS, Tobin's Q and Market to book value". Zraiq and Fadzil (2018) examined "the impact of audit committee characteristics and firm performance using earnings per share to proxy and measure market performance". Also, in the study of Cho and Pucik (2005), Tobin's Q and market to book value was used to measure market performance. In this study market performance was the dependent variable and was measured using share price.

1.7.3 Share price

"The share price is one of the most important indicators available to the investors for their decisions to invest in or not a particular share" (Gill et al 2012). "The stock price in the market is not static rather it changes every day. The most obvious factor that influence is demand and supply factors. The price of any commodity is affected by both micro-economic and macro-economic factors". According to Gompers et al. (2003) as quoted by Uddin, Rahman and Hossain (2013), opined that "in the securities market, whether the primary or the secondary, stock price can be significantly influenced by a number of micro environmental factors including dividend per share, book value (asset value) of the firm, earnings per share, price earnings ratio and dividend cover etc. Macro-economic factors include politics, general economic conditions i.e. how the economy is performing, government regulations, etc. Then there may be other factors like demand and supply conditions which can be influenced by the performance of the company and, of course, the performance of the company vis-a-vis the industry and the other players in the industry" (Oseni, 2009). Again, some distinguished authors such as Sharma and Singh, (2006); Sharma, (2011) suggest that "share price changes are associated with changes in fundamental variables that are relevant for share valuation like book value per share, dividend coverage ratio, dividend per share, earnings per share, dividend payout ratio, price-earnings ratio, and firm size".

The dynamics of supply and demand for a certain security on the market primarily influence the market price of the share. The market's price reflects its knowledge and experience as a whole. The balance between buyers and sellers is reflected in the price of a share at a specific time [17,18]. As the buying and selling pressure changes, daily price swings result. The dynamics of supply and demand for a certain security on the market primarily influence the market price of the share. The market's price reflects its knowledge and experience as a whole. The balance between buyers and sellers is reflected in the price of a share at a specific time.

1.8 Review of Related Literatur

Farouk and Hassan [9] examined "the impact of audit quality on financial performance of quoted firms in Nigeria. Data were obtained from published annual reports and accounts covering the year 2007-2011. Multiple Regression was used for the data analysis. The study revealed that auditor size and auditor independence significantly impact on the financial performance of quoted firms in Nigeria".

Musa (2014) examined "the impact of audit quality on financial performance of quoted firms in Nigeria. The study employed Multiple regression analysis. The data for the study were extracted from annual reports and notes to the financial statements of the four firms selected. The study came up with the result that audit size and auditor independence have significant impacts on the financial performance of quoted cement firms in Nigeria".

Ike, Salama and Ngbede (2020) examined "the effect of audit quality on performance of money deposit bank in Nigeria from the period 2009-2019. Secondary data were collected from central bank of Nigeria statistical bulletin. Correlation and regression

analysis was applied. The result showed that auditor size had a negative effect on the return on asset of selected banks".

Mustapha and Muhammed (2018) investigated "the nexus between audit quality and firm performance for the listed oil and gas firms in Nigeria and established that there is significant relationship between audit quality proxies and Tobin Q and a negative relationship with audit firm tenures. Data sourced from annual account of selected oil and gas firms in Nigeria for the period 2006 – 2015 and used multivariate regression analysis data analysis. Dependent variable Tobin Q while the independent variables were audit fees, audit firm size, audit timeliness and audit firm tenure".

Tyokoso, U-Ungwa and Ojonimi [19] sought to examine "the effect of audit quality on the performance of deposit money banks in Nigeria using multiple regression technique. The study used secondary data from Central bank of Nigeria bulletin for the period 2009-2019. Regression analysis was employed. The study suggested that audit tenure, audit size and auditor specialization have significant positive and negative effect on Tobin's Q of DMBS in Nigeria".

Abba and Sadah (2020) examined "the impact of audit quality on firm volume of listed deposit money banks in Nigeria. The study adopted correlation research design and data were extracted from the published annual reports and account of 13 banks from 2013-2018 with the aid of pool multiple regression analysis. The result showed that industrial specialized auditor had significant positive influence on firm value of the banks. Audit size has no significant influence on firm value of the banks".

Ugwunta and Ugwuanyi [20] examined "the effect of audit quality on share price of Nigeria oil and gas firms using the regression and covariance analysis. Findings suggested that the composition of the audit committee and auditor type had significant effect on the market prices of quoted firms. There is a positive and significant relationship between audit committee composition and share price. The convariance analysis suggested that while auditor type (BIG_4/ NON BIG_4) auditor independence and composition of the audit committee had a positive and significant relationship with market price".

Afza and Nazir [21] studied "the impact of audit quality on the firm value of listed insurance companies in Nigeria with the aid of correlation and regression analysis and established that audit size (AFSZ) had a negative relationship though; the relationship was not statistically significant. Audit fees (AFEE) had a positive and statistically significant effect, audit tenure (AFT) has a negative relationship, firm age has a negative but not statistically significant effect on all the firm value of listed insurance companies in Nigeria".

Adeyemi and Fagbemi (2010) provided "evidence on the relationship between corporate governance, audit quality and firm related attributes of Nigerian companies using logistic regression. Results indicate ownership by non-executive director has the possibility of increasing the quality of auditing and that company size and leverage both have positive effect on audit quality".

Ogbodo and Akabuogu [22] studied "the effect of audit quality on corporate performance of selected banks in Nigeria using firm size, audit committee, and committee independence to proxy audit quality. The population and sample of their study was 16 money deposit banks quoted on Nigerian stock exchange and data analyzed using regression analyses. Their study found that firm size had significant effect on ROE, and committee independence had significant effect on ROE, also audit committee size was found to have significant effect on profit margin".

2. METHODOLOGY

The study employed *ex-post facto* and descriptive research design using panel data from 2011-2020. Population of the study comprises of 23 industrial goods firms quoted in the Nigeria stock exchange. Secondary data were sourced from the financial statements of the selected companies. Purposive sampling technique was used and 18 firms selected from the quoted industrial goods firms in the Nigeria exchange. The study used Panel least square regression analysis, fixed and random effect determined by Hausman test to test the hypothesis at 0.05 level of significance with the aid of E-View Econometric statistics software. Pearson correlation analysis was used to measure the relationship and direction between the variables. Audit firm size (AUFSZ) was measured using the Big_4 audit firm while market performance (MAPEF) was the dependent variable measured using share price calculated as the average of share price for the period.

2.1 Model Specification

This study adapted the model of Tarmid, Fitria and Ahmed (2019). The original model was stated as follows:

$$ROA = \beta_0 + \beta_1\ AUDFE_{it} + \beta_2\ AUDFSZ_{it} + \beta_3\ AUDSPEC_{it} + \beta_4\ AUDADJ + U_{it} - \varepsilon_{it}$$

Where:

β_0 = Constant term (intercept) of the study model.
β_1 - β_3 = Coefficient of audit quality
U_{it}= Error term (stochastic term) of firm i at time t,
ROA_{it}= Return on asset of firm i at time t,
$AUDFE_{it}$= Audit fee of firm i at time t
$AUDFSZ_{it}$= Audit firm size of firm i at time t,
$ADSPEC_{it}$= Audit Specialization of firm i at time t,
AUDADJ= Audit Adjustment of firm i at time t.

Restated as follows:

$Y=F(x_i)$ (1)

MAPEF= (AUDFSZ) (1)

$MAPEF= \beta_0+ \beta_1 AUDFSZ_{it}+U_{it} \varepsilon_{it}$

Where

B_0= Constant term (intercept) of the study model
B_1= Coefficient of audit firm size
U_{it}= Error term (stochastic term) of firm i at time t
$\varepsilon_{it=Components}$ of unobserved error term of firm I at period t
MAPEF= Market performance of firm t
AUDFSZ= Audit firm size

2.2 Data Ananlysis

The study will be subjected to preliminary data test such as descriptive statistics, correlation matrix and inferential analysis like Variance Inflation Factor (VIF). The study used panel least regression analysis in obtaining functional casual effect relationship between market performance (MAPEF) and audit firm size (AUDFSZ).

2.3 Preliminary Data Tests

Below is the complete set of data for the analysis and were collected from the selected industrial goods companies in Nigeria.

The mean values, maximum values, standard deviation, and Jarque-Bera values for each variable are displayed in table 1 above as a result of the descriptive statistics, demonstrating the normalcy and nature of the data. The descriptive statistics for the study's goal are provided in this section. Market performance which was the dependent variable was measured as market share price with a mean value of 30.57. It was observed that over the period under review, the sampled firms have average positive market share price of #30.57 per share in the market. Within the period under review, the firm's shares were sold at a maximum share price of #279 and minimum share price of #0.20. The significant discrepancy between the highest and minimum share price suggests that the firms' share prices vary widely among those chosen, and across the study period, demonstrating that the enterprises are not homogeneous. The standard deviation for share price was 52.94suggesting considerable clustering of share price for the distribution around the mean value. The skewness for share price was 2.410 implying that the data on share price were skewed to the right hence most values were bunched to the left of the distribution. The kurtosis for share price was 8.375 that are greater than 3 hence the distribution is said to be leptokurtic hence it may have few outliers. The Jacque-Bera statistic value of 391.02 alongside its p-value ($p=0.000<0.05$) indicates that the data satisfies normality.

Table 1. Descriptive statistics

	MAPEF	**AUDFSZ**
Mean	30.57667	0.533333
Median	8.050000	1.000000
Maximum	279.0000	1.000000
Minimum	0.200000	0.000000
Std. Dev.	52.94291	0.500279
Skewness	2.410523	-0.133631
Kurtosis	8.375357	1.017857
Jarque-Bera	391.0271	30.00239
Probability	0.000000	0.000000
Sum	5503.800	96.00000
Sum Sq. Dev.	501728.4	44.80000
Observations	180	180

Source: researcher's summary of descriptive result (2022) using E-view 10

Audit firm size was captured using a dichotomous variable 1 if the firm is being audited by any of the Big4 auditing firms or 0 if otherwise. It was observed that over the period under review that auditor firm size (Big4) has an average value of 0.533 with standard deviation of 0.5002. While the minimum and maximum values which are dichotomous are 0 and 1 respectively. Within the period under review, it was discovered that about 53% of the firms selected were being audited by Big4 audit firm while about 47% were being audited by other auditing firms not classified under Big4. This implies that Big4 auditors' service was about 53% during the period of the study and the deviation from the mean is 50.02%. The skewness for audit firm size was -0.133 implying that data on audit firm size were skewed to the left and therefore does not conform to the symmetrical distribution requirement hence most values were bunched to the right of the distribution.

2.3.1 Pearson correlation matrix

Pearson's correlation matrix was applied to check the degree of associatioan between audit firm size and market performance of quoted industrial good firms in Nigeria so as to determine the nature or degree of association ie positive or negative correlation and magnitude of the correlation between dependent variable and independent variable. Correlation can be positive (>0) or negative (<0).

Table 2. Correlation Analysis Result

	MAPEF	AUDFSZ
MAPEF	1.000000	
AUDFSZ	0.227094	1.000000

Source: researcher's summary of correlation result (2022) using E-view 10

The result of the correlation matrix coefficient showed that there exists a positive and strong association between market performance and audit firm size (MAPEF& AUDFSZ=0.227).

The considerable difference between the greatest and lowest share price implies that the firms' share prices fluctuate significantly among those picked and during the course of the study, proving that the enterprises are not homogeneous.

3. REGRESSION RESULTS

n order to examine the relationship between the dependent variable (MAPEF) and the independent variable (AUDFSZ and MAPEF) and to test the formulated hypotheses, we employed panel regression analysis since the data had both time series (2011-2020) and longitudinal properties (18 quoted industrial goods firms). However, the study takes into cognizance the non-homogeneity nature of the firms, hence the need for testing its effect on the data. This necessitates the use of Hausman effect test to ascertain which effect to explain.

3.1 Hausman Effect Test

Hausman effect test was conducted to decide which effect to adopt in interpretation of our regression result. Given that our data is a panel data with complete information, the question is whether fixed effect or random effect should be utilised to interpret the regression result or determine which is appropriate to be used in the study. The results of the Hausman test are summarised here. Following this Hausman effect test comes a summary of the regression analysis's findings, which is shown below. Hausman Effect Test: Decision rule.

H_0 – random effect is more preferable than fixed effect
H_1 – fixed effect is more preferable to random effect

When chi-square probability value is less than 5% – rejects H_0 and accepts H_1 ($P \leq 0.05$)

When chi-square probability value is greater than 5% – accepts H_0 and rejects H_1. ($P \geq 0.05$)

Hausman test is used to decide between fixed effect model or random effect model. When the Chi square (Prob) value is greater than 5%, you interpret the random effect and say that the random effect is preferable to the fixed effect; when it is less than 5%, you interpret the fixed effect and say that the fixed effect is preferable to the random effect.

The Hausman test result above shows a chi-square statistics value of 8.9113and probability value 0.2591 which was greater than 5%, this means that there is heterogeneity in the collection of the firms' data. Since the Chi-square (Prob) value is more than 5%, hence we accept the random effect and interpret its regression while the fixed effect is rejected. Hausman test shows that the Random-effects estimation (REM) method is more appropriate than the Fixed effects (REM) for all the industrial goods sector firms in Nigeria; hence the results from REM is presented and interpreted. Therefore, the study use the Random effect to correct the problem of heterogeneity in the data used for the study; the random effect regression result is presented in Table 4.

Table 3. Hauseman effect tests

Correlated Random Effects - Hausman Test Equation: Untitled Test cross-section random effects			
Test Summary	**Chi-Sq. Statistic**	**Chi-Sq. d.f.**	**Prob.**
Cross-section random	8.911359	7	0.2591

Source: Researcher's summary of Hausman effect analysis result (2022)

Table 4. Random effect regression result

Cross-section random effects test equation: Dependent Variable: MAPEF Method: Panel Least Squares Date: 04/15/22 Time: 05:21 Sample: 2011 2020 Periods included: 10 Cross-sections included: 18 Total panel (balanced) observations: 180				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	27.12696	15.05629	1.801703	0.0735
AUDFSZ	20.588503	8.648753	2.488305	0.0138
	Effects Specification			
	Cross-section fixed (dummy variables)			
R-squared	0.813821	Mean dependent var		30.57667
Adjusted R-squared	0.784994	S.D. dependent var		52.94291
S.E. of regression	24.54898	Akaike info criterion		9.367463
Sum squared resid	93411.09	Schwarz criterion		9.810930
Log likelihood	-818.0717	Hannan-Quinn criter.		9.547270
F-statistic	28.23058	Durbin-Watson stat		1.520724
Prob(F-statistic)	0.000000			

Source: Researcher's summary of regression result (2022)

The Table 4 above shows the panel regression analysis of quoted industrial goods firms in Nigeria. From the result above, the study observed that the R. squared value was 0.8138 (81.4%) approximately and R-squared adjusted value was 0.7849 (78.5%) approximately. The value of R- squared which is the coefficient of determination stood at 81.4% which implies that 81.4% of the systematic variations in individual dependent variables were explained in the model while about 18.6% were unexplained thereby captured by the stochastic error term. Again, the adjusted R-squared which stood at 78.5% indicates the independent variable explains about 78.5% of the system variation in audit quality of our sampled companies over the 10years period while about 21.5% of the total variations were unaccounted for, hence captured by the stochastic error term. Additionally, the F-statistics value of 28.23 and its probability value of 0.000 demonstrate the statistical significance at the 1% level of the overall auditor's independence model employed for the analysis. This demonstrates that the model we utilised for the analysis is adequate. Additionally, the model is widely spread out, as evidenced by the Durbin Watson statistic of 1.520, which also demonstrated that there are no self- or autocorrelation issues and that errors are independent of one another.

4. DISCUSSION OF FINDINGS

"In addition to the above, the specific findings from explanatory variable are provided as follows:

Audit firm size which was measured using Big4 audit firms was found to have a positive and significant effect on market performance having recorded a positive coefficient value of 20.588 and t-statistic value of 2.4883. This shows that Big4 audit firm has a positive effect on the market performance of industrial goods companies in Nigeria as shown, from the coefficient of 20.588 which was statistically significant at 5% level of significance (p-value of 0.0138). This implies that the large reputable audit firms with relevant expertise do not compromise independence in the course of their audit exercise, as indicated by a positive effect on market performance. Though statistically significant, the result is consistent with the proposition that Big4 audit firm has higher

chances of increasing share prices as a result of their reputation. The coefficient associated to the variable audit firm size (Big4) has a positive sign at the level of our empirical models even and is statistically significant. This demonstrates that an audit with high quality is likely to limit improve market performance of industrial goods firms. Hence, our result is coherent with the least judicial risk incurred by the renowned audit firms in France, with respect to the U.S environment". Our finding agreed with the findings of Ogbodo, Akabuogu and Nzube [22] that documented "positive and significant effect between audit firm size and firm performance but disagrees with the findings of" Eshiteni and Buhimo (2017). Based on this, the study fails to accept the null hypothesis two (H_{01}) which states that, audit firm size has no significant effect on the market performance of industrial goods firms in Nigeria but rather accepts the alternative hypothesis and conclude that audit firm size has positive and significant effect on market performance of quoted firms in Nigeria which was statistically significant at 5% level of significance (p-value of 0.0138).

5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Audit firm size has a positive and significant effect on market performance with a positive coefficient value of 20.588 and t- statistic value of 2'488. Also it was concluded that managers of industrial goods companies in Nigeria should employ the services of one of the Big4 audit firms' to improve and restore confidence and reliability of their financial statement

5.2 Recommendations

Base on the above findings the study recommends that emphasis on the use of the Big 4 audit firms should be encouraged since it has shown to have higher chances of improving the market share price of industrial goods firms in Nigeria.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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