DIRECTORS' REPUTATION CAPITAL AND AUDITOR SELECTION CHOICE OF QUOTED MANUFACTURING FIRMS IN NIGERIA

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Abstract

This study investigated the effect of directors' reputation capital on auditor selection choice of quoted manufacturing firms in Nigeria. Reputation is one of the top 10 business risks and a potential threat to a company's wellbeing or even its existence; the study specifically evaluated the effect of directorship industry reputation and directorship experience reputation on the choice of selecting an audit firm. The study is anchored on two theories: 'agency theory' and 'resource dependency theory'. The study adopted the ex-post facto research design. The population of the study included all manufacturing firms quoted on the Nigerian Stock Exchange (NSE) as of 31st December 2019. The study relied on secondary sources of data which was obtained from the Nigerian Stock Exchange (NSE) as of 31st December 2019. The study employs binary logistic regression to test the hypotheses. The study revealed a non-significant negative effect of directorship industry reputation on the choice of selecting a Big-4 or non-Big-4 audit firm. The study also found a significant positive effect of directorship experience reputation on the choice of selecting a Big-4 or non-Big-4 audit firm. Consequent to the findings, the study, therefore, recommends amongst others that the possible loopholes that may elude particular audit firms based on experience are put into consideration in the decision to choose a Big-4 or non-Big-4 audit firm.

Keyword: Reputation Capital, Auditor Choice, Directorship Industry Reputation, Directorship Experience Reputation

Introduction

The Board of Directors is the most prominent group of actors in corporate governance (Association of Chartered Certified Accountants [ACCA], 2012). The board is a key important element central to the internal corporate governance mechanism of a firm (Mousa, Desoky, & Sanusi, 2012). Boards are responsible for the governance of their companies. The board is the "apex decision-making body" (Kassinis & Vafeas, 2002), responsible for corporate strategy (Mallin & Michelon, 2011), regardless of whether it is "proactively pursued or passively rubber-stamped" (Kassinis & Vafeas, 2002). The board is responsible for the identification, assessment and management of all types of risk, including business risk, operating risk, market risk and liquidity risk (Financial Reporting Council [FRC], 2010b). The board is crucial in mitigating the agency problem which arises from the separation of ownership and control (Shleifer & Vishny, 1997; Fama 1980).

Regardless of the status of a director, they play two critical functions, first, monitoring (control role); and, secondly, provision of resources (service role) (Hillman & Dalziel, 2003). Following several corporate scandals that rocked the business world from the early 2000s, concern for corporate reputation has greatly increased (Fich & Shivdasani, 2007). An organization's reputation is a reflection of how it is regarded by its multiple stakeholders (Feldman, Bahamonde, & Velasquez Bellido, 2014). The reputational stance of an organization can enable it to obtain trust and credibility in the society, which invariably leads to the achievement of its objectives and goals (Baur & Schmitz, 2011). At the heart of corporate reputation is the reputation of the board; which is responsible for steering the affairs of the company. The ultimate responsibility for achieving and maintaining a good reputation lies with the board and/or the CEO (Dowling, 2004; Kitchen and Laurence, 2003). Reputation plays a crucial role in tackling the agency problem which arises from incomplete and asymmetric information between the principal and the agent (Janssen, 2009).

The directors in a bid to safeguard their reputation decide on investing in "audit-related services of their company" (Fredriksson, Kiran, & Niemi, 2018, p. 4). Aguolu (2008, p.1) defined auditing as "the independent examination of the financial statements of an organization to express an opinion on whether these statements present a true and fair view and comply with relevant statutes and the International Financial Reporting Standards".

Prior studies have shown that reputation concern affects the strategic choices of directors and their ability to generate future rents (Francis, Huang, Rajhopal, & Zang, 2008; Fich & Shivdasani, 2007; Jackson, 2005). The external audit selection choice is a strategic choice that is bent on providing a reasonable assurance of financial reporting quality (Choi & Wong, 2007). The literature on auditor selection choice is vast and several studies have examined factors affecting a client's decision to choose a particular audit firm (Gigler & Penno, 1995; DeFond, 1992; Dye, 1991; Johnson & Lys, 1990). The factors are subdivided into two: (a) client-related; and, (b) auditor-related factors. Management change, financial distress and client sizes may be considered client-related factors; while, audit opinion qualification, audit quality, and change in auditor fees constitute auditor-related factors (Ismail, Aliahmed, Nassir, & Hamid, 2008).

Generally, firms make a trade-off decision on auditor choice, i.e., hiring high-quality auditors to signal effective monitoring and good corporate governance, or choose lower quality auditors to reap the benefits derived from weak corporate governance or less-transparent disclosure (Lin & Liu, 2009a). Presently, about 2,000 audit firms supply audit services to domestic listed and unlisted companies in Nigeria (World Bank, 2011). However, the market is dominated by the "Big Four" firms (KPMG Professional Services; Ernst & Young; Deloitte Touche Tohmatsu; and Price water

house Coopers) which audit about 90 per cent of listed firms in Nigeria, while the remaining national firms audit the remaining 10 per cent (World Bank, 2004). While studies have disparately examined issues related to board characteristics and auditor selection decisions in Nigeria, the literature is scanty on the relationship between directors' reputation capital and auditor selection choice. Prior studies have shown a positive link between reputation and superior financial performance (Brammer & Millington, 2005; Berens, 2004; Roberts & Dowling, 2002; Baden-Fuller & Hwee, 2001; Chernatony, 1999), the link between reputation capital and corporate social performance (Mallin & Michelon, 2011) or factors which determine the selection process (Kusters, 2016). Prior studies, such as Akpan and Amran (2014); Ujunwa (2012) in Nigeria have also established a causal relationship between directorship human capital reputation and company's financial performance; others, such as Cheng, Chan, and Leung (2010) in China, show that university degrees held by the board chairman were positively associated with seven measures of performance (EPS, ROA, cumulative returns, cumulative abnormal returns, change in EPS, change in ROA, and market-to-book ratio).

Thus, the literature is scanty on the link between reputation capital and auditor selection choice. Against this backdrop, the present study seeks to evaluate the influence directors' reputation capital has on auditor selection choice of quoted manufacturing firms in Nigeria.

Objectives of the Study

The main objective of the study is to ascertain the effect of directors' reputation capital on auditor selection choice of quoted manufacturing firms in Nigeria. The specific objectives of the study are to:

1. Determine the effect of directorship industry reputation on auditor choice of quoted manufacturing firms in Nigeria.
2. Examine the effect of directorship experience reputation on auditor choice of quoted manufacturing firms in Nigeria.

Literature Review

Conceptual Framework

Directors' Reputation Capital

Reputation is the beliefs or opinions that are held about an individual (CIPR, 2011). These "beliefs or opinions are formed through expectations (what and how it will deliver and how it will behave), experiences (what it has delivered and how it has behaved, which builds trust), the messages people are exposed to and the conversations they participate in or observe" (CIPR, 2011). Fombrun (1996) defined reputation as "a perceptual representation of a company's past actions and prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals". To safeguard corporate reputation, shareholders usually select the board of directors to monitor the managers (Berk & DeMarzo, 2007). From a directorship perspective,

reputation may be defined as the totality of the intangible perception of an individual director. Fombrun and Van Riel (1997) observed that reputation may be regarded as an intangible asset because it is "rare, difficult to imitate or replicate, complex and multidimensional, which needs a lot of time to accumulate, specific, difficult to manipulate by the firm, with no limits in its use and does not depreciate with use".

Directorship industry reputation

Directorship industrial reputation in the corporate governance literature represent boards with directors serving on boards of other companies too (Fredriksson, Kiran, & Niemi, 2018). Directors who possess multiple directorships are viewed as experienced monitors (Shivdasani, 1993), competent and of high quality (Fredriksson, Kiran, & Niemi, 2018). They hold multiple board seats as they fulfil their responsibilities more effectively and as a result incur lower agency costs to their respective firms (Jiraporn, Kim, & Davidson, 2008). Directors who have more connections tend to have better access to information that can be useful in decision making (Coles, Lemmon, & Meschke, 2012). The literature documents that a director's reputation capital increases with the number of directorships held and/or with compensation incentives (Bugeja, Rosa, & Lee, 2009; Kaplan & Reishus, 1990).

However, there are opposing views on the benefits of multiple directorships. Studies argue that being involved with many companies makes a director too 'busy', thus, reducing the quality of work (Tanyi & Smith, 2015; Ferris, Jagannathan, & Pritchard, 2003). Such directors may fail to concentrate their monitoring and supervisory roles, as they become too busy. Sila, Gonzalez, and Hagendorff (2017) find that there is a positive link between directors' reputation incentives and firm transparency. According to Reeb and Roth (2014) reputation reduces the confidence interval around hard (quantifiable) information estimates, thereby increasing creditor reliance on publicly available accounting statements. Reputation builds competitive advantage (Hall, 1993; Fombrun & Shanley, 1990) and improves financial performance (Fernández & Luna, 2007; Roberts & Dowling, 2002).

Directorship experience reputation

From a resource-based perspective, directors from different backgrounds bring different experiences and values to the board. The background of a director has a significant influence on the role of the director (Markarian & Parbonetti, 2007). Hillman, Cannella, and Paetzold (2000) observe that specialists provide advice and specialized expertise to the management team in issues related to law, finance, insurance, or capital markets. Zaman, Hudaib, & Haniffa (2011, p. 176) measured expertise in terms of "accounting, finance or professional accounting qualifications". According to Dass, Kini, Nanda, Onal, and Wang (2014), the expertise of directors from related industries can strengthen the quality of information available to the board and improve their monitoring function, thereby enhancing board effectiveness. According to Faleye, Hoitash, and Hoitash (2014) industry expertise is one of the most

important qualifications directors can bring to the boardroom because it offers an understanding of strategic opportunities and competitive threats.

Studies have shown that audit quality is positively related to specialization and industry expertise. García-Meca and Palacio (2018) using a sample of 43 firms included in the MERCO (Spanish Monitor of Corporate Reputation) from 2004 to 2015 showed that the proportion of business experts, support specialists, and other community influential had a positive statistically significant effect on corporate reputation. Francis, Hasan, and Wu (2015) found that the presence of academic directors is associated with higher acquisition performance, higher stock price informativeness and lower discretionary accruals. Courtney and Jubb (2005), found that Interlocking directors are in "one of the best positions to judge the relative quality of audits due to their experience with various service providers". According to Redor (2016), it is reasonable to believe that such directors are more experienced, provides better advice, and/or offer better monitoring. Lanfranconi and Robertson (2002) note that the breakdown of the Enron and WorldCom scandals was partly attributed to the lack of experience of their board members.

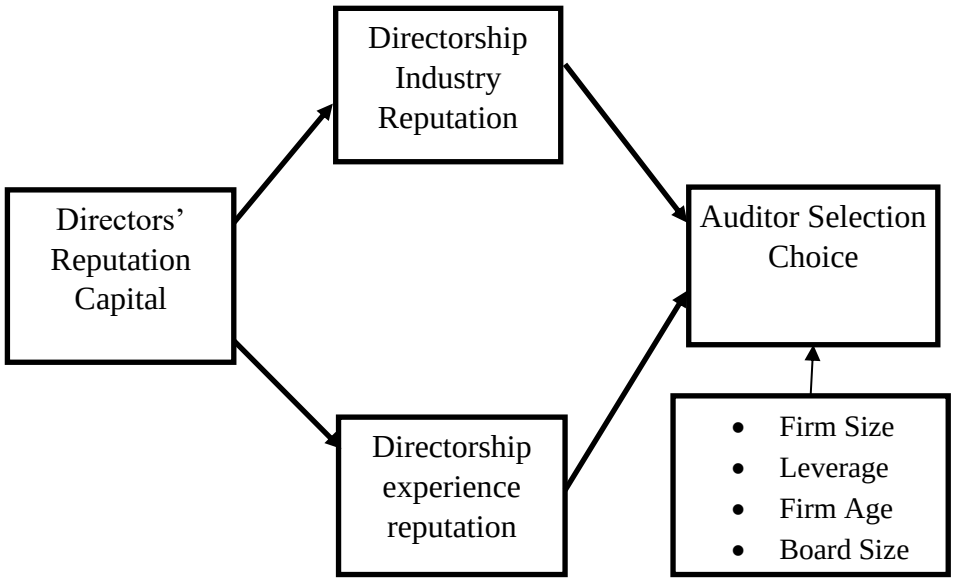
Auditor Selection Choice

The external audit plays an important role in the corporate governance process (Abidin, 2006). They play a role in monitoring a firm's financial reporting process (Fan & Wong, 2005; Ashbaugh & Warfield, 2003). In Nigeria, the requirement for auditing public limited liability companies is enshrined in the Companies and Allied Matters Act. Specifically, According to the Cadbury Report (1992, p. 36), the annual audit is "one of the cornerstones of corporate governance…The audit provides an external and objective check on how the financial statements have been prepared and presented."

The auditor selection choice is a decision where company managers need to assess the marginal benefits and marginal costs in hiring a specific auditor (Okere, Ogundipe, Oyedeji, Eluyela, & Ogundipe, 2018). Shareholders are interested in auditor selection because it affects shareholders wealth (Jubb, 2000). In theory, auditor switch may take different forms, i.e., switching to a smaller auditor or a larger auditor (Lin & Liu, 2009b). Prior studies have shown that switching to smaller auditors results in a negative response from investors and other market participants. This is opposed to the latter, which results in improved audit quality and decreasing likelihood of earnings management or "tunnelling" behaviours (Lin & Liu, 2009b). Using a sample of 183 firms listed on the Karachi Stock Exchange Abid, Shaique, and ul Haq (2018) found no statistically significant difference between earnings management activities of firms audited by Big 4 and non-Big 4 auditors. The factors which affect auditor selection choice may be broadly classified into behavioural, economic or a mix of both. They include such as disagreement about the content of financial reports (Addams & Davis, 1994); disagreement about auditor opinion (Haskins & Williams, 1990); change of

management (Beattie & Fearnley, 1998); auditor fees (Ismail, Aliahmed, Nassir, & Hamid, 2008; Addams & Davis, 1994); audit firm size and reputation, among others, (Knechel, Niemi, & Sundgren, 2008; Knechel, 2002).

Figure 1: Schematic representation of conceptual framework.



Source: Researchers Conceptualization (2019)

Theoretical Framework

The study is anchored on two theories: '*agency theory*' and '*resource dependency theory*'. The justification for both theories is premised on the fact that the board has two functions: the monitoring and service function. The monitoring function is mainly analysed from the agency perspective (Fama & Jensen, 1983; Jensen & Meckling, 1976), given the potential for conflict of interest arising from the separation of ownership and control (Berle & Means, 1932). On the other hand, the focus on the service role of boards is the perspective adopted in the resource dependence (Hillman, Cannella, & Paetzold, 2000; Pfeffer & Salancik, 1978; Pfeffer, 1972).

Agency Theory

The origin of '*Agency theory*' can be traced to the early work of Berle and Means (1932); who observed that separation of ownership and control in modern corporations result in potential conflicts between shareholders and management. It was originally associated with agency costs by Jensen and Meckling (1976). According to Jensen and Meckling (1976), an "agency relationship refers to a "contract under which one or more persons (the principal(s) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent". Eisenhardt outlined two streams of the theory which developed over time:

"the *principal-agent* where both act in concert and the *positivist* perspective where they are likely to have conflicting goals" (Eisenhardt, 1989).

Resource Dependence Theory (RDT)

RDT was first used in the finance literature by Pfeffer (1973). RDT posits that corporations depend on the environment and other organizations for required resources (Pfeffer & Salanick, 1978). According to RDT, a firm is an open social system that depends on the external environment; and, thus organisations' attempt to exert control over their environment by co-opting the resources needed to survive (Pfeffer & Salancik, 1978). It provides a theoretical foundation for the role of the board of directors (Johnson, Daily, & Ellstrand, 1996), and how they might facilitate access to valuable resources for the firm (Diepen, 2015). RDT view directors as a critical link between the firm and the external environment. The board plays a crucial role in linking firm and social resources such as human, information or capital resources (Boyd, 1990; Pfeffer, 1973).

Empirical Review

Fredriksson, Kiran, and Niemi (2018) examined the relationship between the reputation capital of the board of directors and the demand for audit quality in Finland. The study was based on a sample of 940 firm-year observations from listed companies on the Nasdaq OMX Helsinki, over the period 2007-2016. They proxied audit quality in two ways: (1) fees paid to the auditor; and, (2) abnormal working capital accruals. The results showed that both measures of reputation capital (number of directorships directors possess and total compensation that directors earn from their directorships) were positively associated with audit fees, and negatively associated with abnormal working capital accruals.

Huang and Kang (2018) investigated the effect of corporate reputation on auditor selection choice using a sample of Fortune 1000 companies. Corporate reputation was measured using the reputation scores from Fortune's "America's Most Admired Companies" list. The data were analysed using multiple regression, Heckman procedures and instrumental-variable two-stage least square regressions. The results demonstrate that corporate reputation is positively related to auditor selection choice, i.e., firms with higher reputations were more likely to hire industry-specialist auditors than their counterparts.

In Turkey, Mustafa, Che Ahmad, and Chandren (2017) examined the relationship between board diversity and audit quality. Board diversity comprised demographic diversity (gender and age) and cognitive diversity (interlocking directorship and levels of education). The sample comprised 83 firms which gave rise to 415 firm-year observations for the period 2011 to 2015. They used a random effect estimation model. The results showed that interlocking directorship and boards with Master degree holders had a significant positive impact on clients' demand for high audit quality.

Ghafran and O'Sullivan (2017) investigated the impact of audit committee expertise on audit quality in the U.K. The sample comprised FTSE350 companies and a total of 991 firm-year observations. The sample comprised secondary data between 2007 and 2010. The OLS results showed that audit committees with accounting expertise were non-significant and negative; audit committees with non-accounting expertise was significant and positive. Also, audit committee interlocking, represented by additional audit committee seats held in other listed firms had a negative non-significant effect.

Salawu, Okpanachi, Yahaya, and Dikki (2017) investigated the effect of audit committee expertise on audit quality in Nigeria. The study used a longitudinal panel research design. The sample comprised 15 manufacturing firms. The study relied on secondary data covering a period of 11 years, from 2006 to 2016. The hypotheses were tested using the multiple regression technique. The results showed that audit committee expertise has a positive non-significant effect on audit quality.

Kusters (2016) investigated the impact of professional networks of directors on auditor choice in the Netherlands. The sample comprised 119 Dutch listed firms over 10 years from 2006 to 2015, i.e., corresponding to 7,472-year observations. Board interlocks were used to proxy professional networks. The data were analysed using logistic regression. The results showed that board interlock has a positive significant effect on the choice of an auditing firm; and, the effect was stronger when an auditing firm has more interlocks with a firm compared to other auditing firms.

Asiriuwa, Aronmwan, Uwuigbe, and Uwuigbe (2015) in Nigeria, examined the relationship between audit committee attributes and audit quality. The study adopted the ex-post facto research design. The sample comprised 50 firms quoted on the Nigerian Stock Exchange. The study relied on secondary data from annual reports of the companies. The data was analysed using the Binary probit regression model. The results revealed that the number of expertise and overall effectiveness of the audit committee have a positive relationship with audit quality. However, only overall effectiveness was significant.

Bravo, Abad, and Briones (2015) investigated the association between the board of directors and corporate reputation in Spain. The sample comprised listed companies in Madrid Stock Exchange (Índice General de la Bolsa de Madrid) during the period 2004 to 2010. They employed logistic and multivariate regressions to analyse the data. The Results of the empirical analysis show that companies that appear high up in terms of ranking in the reputation index provided by MERCO tend to have a higher percentage of independent directors as well as more female directors on their board.

Cheng and Leung (2012) investigated the effects of management demography on auditor choice and earnings quality in China. They used a sample of 3,881 firm-year observations between 2001 and 2005. The data were analysed using multiple regression. The results showed that firms that had chairpersons with better reputations

(i.e., holding titles) prefers well-known auditors on a national basis, regional basis and in the industry group. Also chairpersons with titles and longer tenure report higher quality earnings.

Singh and Sultana (2012) examined the effect of the board of directors' independence, financial expertise, gender, corporate governance experience and diligence on audit report lag in Australia. They used a pooled sample of 500 firm-year observations for the period 2004 to 2008. They used Ordinary Least Squares (OLS) regression to analyse the relationship between board characteristics and audit report lag. The results showed evidence that independence, financial expertise and interlocking directorships had a negative significant effect on audit report lag. However, board diligence was positive and non-significant.

Gap in Literature

Despite being one of the top 10 business risks and a potential threat to a company's wellbeing or even its existence, directors' reputations have received little attention from scholars as the literature is scanty on the link between reputation capital and auditor selection choice (Ernst & Young & Tapestry Networks, 2015). The study by Lu and Cao (2018) in China; showed evidence that individual characteristics of board members such as education, experience, certification, integrity and training were related to internal control deficiencies thus, boards play a crucial role in the auditor selection process. The following gaps were identified in the study. *Firstly,* the influence of directorship industrial reputation has not been sufficiently investigated in the corporate governance literature in Nigeria. The majority of studies focused on holistic board information, such as board sizes, etc., without having a disaggregated view of board members peculiarities. The literature has shown evidence that directorship industrial reputation increases the experience and quality of the directors. *Secondly*, the bulk of studies have focused mainly on audit committee membership, a subcommittee of the overall board of directors. Studies did not consider *the* auditor selection choice and the resource-based proponents which posit that directors from different backgrounds bring different experiences and expertise to the board. Salawu, Okpanachi, Yahaya, and Dikki (2017), Omoye and Aronmwan (2013). Hence, the study is therefore set out to breach the gaps identified.

Methodology

Research Design

The study adopted the *ex-post facto* research design. The design is suitable because the researcher is interested in establishing the causal relationship among the dependent and independent variables. The population comprised of quoted manufacturing firms on the Nigerian Stock Exchange (NSE) as of December 2019. The final sample was delimited to sixteen (16) consumer goods companies using the purposive sampling technique. Only companies with consistent activities and published financial statement

over the 8 years were selected for the study. The selected companies are shown in the table below:

Table 1: List of firms included in the sample

SN	Companies	Sector	YOI	Country
1	Cadbury Nig	Consumer Goods	1975	Nigeria
2	Champion Breweries	Consumer Goods	1982	Nigeria
3	Dangote Sugar	Consumer Goods	2006	Nigeria
4	Flour Mills Of Nigeria	Consumer Goods	1978	Nigeria
5	Guinness Nig	Consumer Goods	1964	Nigeria
6	Honywell Flour Mill	Consumer Goods	2008	Nigeria
7	International Breweries	Consumer Goods	1994	Nigeria
8	Mcnichols Consolidated	Consumer Goods	2008	Nigeria
9	Nascon Allied	Consumer Goods	1991	Nigeria
10	Nestle Nig	Consumer Goods	1978	Nigeria
11	Nigeria Breweries	Consumer Goods	1972	Nigeria
12	Nigerian Enamelware	Consumer Goods	1978	Nigeria
13	Nigerian Northen Flour Mill	Consumer Goods	1977	Nigeria
14	Pz Cussons	Consumer Goods	1973	Nigeria
15	Unilever Nig	Consumer Goods	1972	Nigeria
16	Vitafoam Nig	Consumer Goods	1977	Nigeria

Source: Nigerian Stock Exchange Website (2019)

Source of Data

The data for the study is secondary. Secondary data are information or data that has previously been collected and recorded for other purposes (Blumberg, Cooper, & Schindler, 2008). The data were extracted from the financial statements of the selected companies. The reliability of the data was ensured because annual reports are standardized and produced regularly (Buhr, 1998).

Methods of Data Analysis

The study employs descriptive statistics such as the mean, median, standard deviation, minimum, maximum values, and Skewness-Kurtosis statistics, etc. and multiple regression was used to validate the hypotheses. According to Hair, Black, Babin, Anderson, and Tatham (2006) multiple regression is a 'statistical technique which analyses the relationship between a dependent variable and multiple independent variables by estimating coefficients for the equation on a straight line'. The study specifically employs logistic regression. Logistic regression is used for the prediction of the probability of occurrence of an event by fitting data to a logistic curve. It is used mostly when the dependent variable has two possible outcomes: Big 4 or non-Big 4.

According to Hair, Black, Babin, Anderson, and Tatham (2006), *logistic regression* does not require the assumption of multivariate normality.

Model Specification

The empirical models specified below were tested to test the hypotheses. They can be written econometrically as:

$$Audic_{it} = \eta_0 + \eta_1 DIR_{it} + \eta_2 Size_{it} + \eta_3 Leverage_{it} + \eta_4 Firm\text{-}Age_{it} + \eta_5 BoardSize_{it} + \sum_t \quad \ldots\ldots(1)$$

$$Audic_{it} = \eta_0 + \eta_1 DER_{it} + \eta_2 Size_{it} + \eta_3 Leverage_{it} + \eta_4 Firm\text{-}Age_{it} + \eta_5 BoardSize_{it} + \sum_t \quad \ldots\ldots(2)$$

Where:

Audic	=	Auditor Selection Choice of Big-4 or Non Big-4 Audit firms.
DIR	=	Directorship industry reputation
DER	=	Directorship experience reputation
$\sum$	=	Stochastic or disturbance term.
t	=	Time dimension of the Variables
η_0	=	Constant or Intercept.
$\eta_{1\text{-}5}$	=	Coefficients to be estimated or the Coefficients of slope parameters.

Description of variables

Table 2. Variable description and measurement

Variable	Proxy	Description
Directorship industry reputation	DIR	Natural logarithm of the total number of outside board seats held by the board of directors
Directorship experience reputation	DER	Blau's index is used to calculate the distribution of directors according to their specialisation. It is defined as the difference between 1 and the sum of the squares of the proportion of unit members (directors) *d* in each category *k* that composes the group, i.e., three categories (business experts, support specialists, and community influential) (García-Meca & Palacio, 2018). $\text{Diversity} = 1 - \sum (d_k)^2$
Dependent Variable		
Auditor Selection Choice	Audic	Auditor choice is a dummy variable that takes the value of 1 when the firm is audited by Big 4 (The "BIG 4" are: PriceWaterhouseCoopers, Deloitte &Touche, KPMG, and Ernst & Young). This proxy is consistent with prior researchers to represent audit quality, as the size of audit firm (DeFond& Lennox, 2011; Guy, Ahmed, & Randal, 2010; Sundgren and Svanström, 2013; Kim et al., 2013)
Control Variables		
Firm Size	Size	Log of total assets
Firm Leverage	Leverage	Total long-term liabilities divided by total asset
Firm Age	FA	The number of years since initial listing.
Board Size	BS	The number of Directors sitting in the Board for a particular period.

Source: Researchers Compilation, (2019)

Data Analysis and Discussion

The descriptive statistics and the correlation matrix are shown in the Appendix.

Test of Hypotheses

Hypothesis One

H_1: There is a significant positive effect of directorship industry reputation on the choice of selecting a Big-4 or non-Big-4 audit firm.

Binary logistic regression output for hypothesis one
Dependent Variable: AUDIT_CHOICE
Method: ML - Binary Logit (Newton-Raphson / Marquardt steps)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-29.69976	6.450020	-4.604600	0.0000
DIR	-1.265021	0.710554	-1.780329	0.0750
FirmSize	1.317505	0.328825	4.006708	0.0001
Leverage	-0.203212	0.352597	-0.576330	0.5644
Board Size	0.360729	0.276110	1.306467	0.1914
Firm Age	0.033066	0.026763	1.235496	0.2166
McFadden R-squared	0.669371	Mean dependent var		0.857143
S.D. dependent var	0.350973	S.E. of regression		0.217257
Akaike info criterion	0.342621	Sum squared resid		7.646505
Schwarz criterion	0.454191	Log likelihood		-22.78016
Hannan-Quinn criter.	0.387902	Deviance		45.56031
Restr. Deviance	137.7991	Restr. log likelihood		-68.89954
LR statistic	92.23877	Avg. log likelihood		-0.135596
Prob(LR statistic)	0.000000			
Obs with Dep=0	14	Total obs		128
Obs with Dep=1	114			

Source: E-Views 9

Decision:
The coefficient of DIR is negatively related to the choice of selecting a Big-4 or non-Big-4 audit firm, however, it is found to be insignificant. Thus, the null hypothesis is accepted and the alternate rejected. Therefore, there is 'no significant positive effect of directorship industry reputation on the choice of selecting a Big-4 or non-Big-4 audit firm'.

Control Variables
With regards to the control variables, the proxy for firm size is positively related to the choice of selecting a Big-4 or non-Big-4 audit firm. This association is also statistically significant @ .01. Other variables of Board Size and Firm Age were also positively related to the choice of selecting a Big-4 or non-Big-4 audit firm; however, they were not statistically significant. The variable of Leverage was negative and also not statistically significant.

Hypothesis Two
H_1: There is a significant positive effect of directorship experience reputation on the choice of selecting a Big-4 or non-Big-4 audit firm

Table 4: Binary logistic regression output for hypothesis two
Dependent Variable: AUDIT_CHOICE
Method: ML - Binary Logit (Newton-Raphson / Marquardt steps)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-54.39309	15.26638	-3.562933	0.0004
DER	25.31757	10.48836	2.413872	0.0158
FirmSize	1.679497	0.446243	3.763638	0.0002
Leverage	0.393891	0.329477	1.195504	0.2319
Board Size	0.326282	0.513879	0.634940	0.5255
Firm Age	0.074663	0.027751	2.690428	0.0071
McFadden R-squared	0.702904	Mean dependent var		0.857143
S.D. dependent var	0.350973	S.E. of regression		0.203336
Akaike info criterion	0.315116	Sum squared resid		6.697949
Schwarz criterion	0.426686	Log likelihood		-20.46977
Hannan-Quinn criter.	0.360397	Deviance		40.93953
Restr. Deviance	137.7991	Restr. log likelihood		-68.89954
LR statistic	96.85955	Avg. log likelihood		-0.121844
Prob(LR statistic)	0.000000			
Obs with Dep=0	14	Total obs		128
Obs with Dep=1	114			

Source: E-Views 9

Decision
The coefficient of DER is positively related to the choice of selecting a Big-4 or non-Big-4 audit firm, and, is also found to be significant. Thus, the null hypothesis is rejected and the alternate accepted. Therefore, there is 'a significant positive effect of directorship experience reputation on the choice of selecting a Big-4 or non-Big-4 audit firm'.

Control Variables
With regards to the control variables, the proxy for firm size and Firm Age were positively related to the choice of selecting a Big-4 or non-Big-4 audit firm. Both control variables were statistically significant @ .01. The other control variables Leverage and Board Size were positive but not statistically significant.

Discussion of findings
The hypotheses testing revealed that there is a non-significant negative effect of directorship industry reputation on the choice of selecting a Big-4 or non-Big-4 audit firm. There is a slight deviation of this finding from the prior expectations of the study which shows a non-significant negative effect of directorship industry reputation on the choice of selecting a Big-4 or non-Big-4 audit firm. However, this finding is in line

with Ghafran and O'Sullivan (2017) in the U.K, and Singh and Sultana (2012) in Australia that found that independence, financial expertise and interlocking directorships had a negative significant effect on audit report lag. However, Huang and Kang (2018) revealed a contrary finding when they investigated the effect of corporate reputation on auditor selection choice using a sample of Fortune 1000 companies and found that corporate reputation is positively related to auditor selection choice.

The study also reveals a significant positive effect of directorship experience reputation on the choice of selecting a Big-4 or non-Big-4 audit firm. This conforms wholly to the study prior expectation and is also consistent with Salawu, Okpanachi, Yahaya, and Dikki (2017) who investigated the effect of audit committee expertise on audit quality in Nigeria. The study used a longitudinal panel research design and found that audit committee expertise has a positive non-significant effect on audit quality.

Conclusion and Recommendations

The study investigated the effect of directorship reputation capital on the choice of selecting a Big-4 or non-Big-4 audit firm. Audit firms are broadly categorised as a Big-4 or non-Big-4 firms. Audit firms compete for clients in the audit market; and, the choice of a particular audit firm is predominantly based on the recommendation of the Board of Directors subject to ratification by the Shareholders. The study utilises two proxies of directorship reputation capital identified from prior literature; i.e., directorship industry reputation and experience reputation to examine the influence of these factors on the choice of a Big-4 or non-Big-4 audit firm. The results showed a non-significant negative effect of directorship industry reputation; but, a significant positive effect of directorship experience reputation on the decision to choose a Big-4 or non-Big-4 audit firm. The study makes the following recommendations based on the empirical results revealed above:

1. The experience of a director is crucial in selecting or appointing individuals to the corporate board: The wider the experience of a director the more likely the director is to offer suggestions based on cumulative knowledge acquired over time; and, therefore the possibility that possible loopholes that may elude particular audit firms based on experience are put into consideration in the decision to choose a Big-4 or non-Big-4 audit firm.
2. The irrelevance of industrial experience in the auditor selection choice decisions: The industrial experience of a director is a sub-component of the overall experience of the director; therefore, directors with experience cutting across industries based on years of service may not contribute much and therefore the appointment of such individuals should be made after due consideration of other desirable qualities.

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