



Quality-differentiated Auditors, Block-holders and Monitoring Mechanisms

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Abstract: Many companies are closing down after the global economic melt-down of 2008 that involved Enron. The biggest problem for such business failures as identified by practitioners and academicians is information asymmetry existing in the relationship of the managements with the shareholders. This study seeks to investigate how monitoring mechanisms influence the block-holders in 111 Nigerian non-financial listed companies to resolve this problem. The study also investigates the mediating effect of the quality-differentiated auditors on the relationship between block-holders and monitoring mechanisms. The investigation adopted quantitative analysis using Stata to test related hypotheses. The findings indicate that the block-holders significantly influence monitoring mechanisms. The results also reveal that quality-differentiated auditors positively affect monitoring mechanisms and that it significantly explains the relationship between block-holders and monitoring mechanisms. Thus, this paper adds to knowledge on the subject of monitoring mechanisms and its scopes (directorship, internal and external auditing). These findings have policy implications for the board of directors to execute their monitoring responsibilities and guide them in external audit type selection. The findings also provide policy suggestions for both the internal and external auditors. The results can also be beneficial for the regulatory agencies and government to further review the guidelines for corporate governance. The paper adds to knowledge in Sub-Saharan Africa, especially, Nigeria by examining a mediating effect to expose the relationship between block-holders and monitoring mechanisms, which are not clear or exist in the previous studies.

Keywords: Monitoring mechanisms, quality-differentiated auditors, institutional block-holders, individual block-holders, agency problems, Nigeria

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1. INTRODUCTION

Investors are finding it more necessary to monitor the managements to ensure that their interests are well protected. The relentless business failures after the global economic collapse involving Enron, Worldcom and others compel this desire (Al-Janadi, Rahman, & Omar, 2013). The investors are the principals while management of the companies is the agents (Jensen & Meckling, 1976). The existence and level of information asymmetry, opportunistic attitudes of the management and the largest shareholders (Freeman, 1994) and weak corporate governance practices (Ikpefan & Ojeka, 2013) determine the type of relationship between the two parties. Agency theory clarifies the problems existing between the two parties (Fama & Jensen, 1983). Shareholders monitor their agents adopting monitoring mechanisms (Huson, Parrino, & Starks, 2001) that allow maximum transparency and accountability to limit the agency problems (Jensen & Meckling, 1976; Kao, Chiou, & Chen 2004). Monitoring mechanisms help to align the interests of the managers and the shareholders (Azim, 2012) and induce management to maintain shareholders' interests (Shleifer & Vishny, 1997).

Companies' performance in a country contributes to the status of the economy of the country and its gross domestic products (GDP). Hence governments, practitioners, and academicians are concerned with corporate monitoring mechanisms. Governments, regulatory agents, and companies have therefore been continually reviewing their codes of corporate governance (Huson et al., 2001). Also, academicians have been examining issues related to monitoring mechanisms and corporate governance (Fodio, Ibikunle, & Oba, 2013; Banerjee, Couzoff, & Pawlina, 2012; Liu, Uchida, & Yang, 2012; Mohamad-Nor, Shafie & Wan-Hussin, 2010; Mustapha & Che-Ahmad, 2009).

Despite government and regulatory agents unrelenting efforts to reform corporate governance codes and prior literature on corporate governance and monitoring mechanisms, business failures such as bankruptcies, corporate mergers, inadequate disclosure in financial reports and loss of shareholders' trusts, and confidence persist in global and national economy (Waweru, 2014; Fodio et al., 2013; Akinbuli & Kelilume, 2013; Cadbury, 1992). The effects transform to currency depreciation, increased unemployment, poor education, bad roads and transportation, criminality and corruption, substantial reduction in stock values, increased child abuse, rampant poverty, poor health facilities, power failures, insecurity and declining income (Hylton, 2011; Habbash, 2013; Akanle, Adebayo, & Adetayo, 2014). These incidents suggest the need for more empirical examination of corporate monitoring mechanisms.

There is extant literature on monitoring mechanisms. However, most of the studies are effected in transiting and developed countries like Malaysia, U.K, and U.S, (Banerjee et al., 2012; Liu et al., 2012; Mohamad-Nor Shafie & Wan-Hussin, 2010; Mustapha & Che-Ahmad, 2009). Also, many of these studies do not address the general monitoring mechanisms (directorship, internal and external auditing), but one or two of its antecedents. Some literature is just on directorship only (Latif, Kamardin, Mohd, & Adam, 2013; Gamba & Goldstein, 2009;). Some are only on internal auditing (Moorthy, Seetharaman, Mohamed, Gopalan, & San, 2011; Soh & Martinov-Bennie, 2011;). Some others are on external auditing alone (Bachlechner, Thalmann, & Manhart, 2014; Chow, 2012;). Very few examine directorship and internal auditing or directorship and external auditing while others investigate internal and external auditing (Pizzini, Lin, Vargus, & Ziegenfuss, 2014; Sarens, De Beelde, & Everaert, 2009; Chen & Zhou, 2007). Only two of the extant literature treated total monitoring mechanisms in their studies (Mustapha & Che-Ahmad, 2009; Anderson, Francis, & Stokes, 1993).

There is a dearth of literature on monitoring mechanisms in Sub-Saharan Africa, Nigeria in particular. There are few studies on directorship (Uadiale, 2010), internal and

external auditing (Zare, Khedri, & Farzanfar, 2013), and external auditing (Ogiedu & Izedonmi, 2013; Adeyemi & Fagbemi, 2010) in Nigeria. To the best of the knowledge of the researchers, none of the researchers examine the aggregate monitoring mechanisms (directorship, internal and external auditing) in their studies.

The extant literature on monitoring mechanisms that are with moderating or mediating variables are very few (Omri, Becuwe, & Mathe, 2014; Triana, Miller, & Trzebiatowski, 2013). None of these examine quality-differentiated auditor as a moderating or mediating variable.

In Nigeria, the serious business failures, drops in stock values, and bankruptcy consequential to weak monitoring mechanisms and weakness in enforcing a code of corporate governance have been a centre of attraction (Enofe, Mgbame, Aronmwan, & Ogbeide, 2013; Adeyemi & Fagbemi, 2010; Babatunde & Olaniran, 2009). The concern for the seemingly battered economy in Nigeria, reviewed code of corporate governance notwithstanding motivates this study. Other motivations for this study are the drought of literature on monitoring mechanisms in Nigeria, scarce literature empirically examining combined monitoring mechanisms as well as an indirect effect on relationships of organizational attributes and monitoring mechanisms. This study, therefore, empirically tests the mediating effect of the quality-differentiated auditors on the relationship between the block-holders and monitoring mechanisms (directorship, internal and external auditing) in Nigerian non-financial listed companies.

To the best of the knowledge of the researchers, this is the first study to empirically investigate the mediating effect of quality-differentiated auditors on the relationships between block-holders and monitoring mechanisms (directorship, internal and external auditing). It is also the first study to examine total monitoring mechanisms (directorship, internal and external auditing) in the relationships between block-holders and monitoring mechanisms in Sub-Saharan African, Nigeria in particular. The next section of this study is concerned with literature review followed by hypotheses development, sections on methodology, results and conclusion.

2. LITERATURE REVIEW

Monitoring mechanisms denote different things to different individuals (Kao, Chiou, & Chen 2004; Shleifer & Vishny, 1997; Azim, 2012). However, irrespective of the different definitions, the objective of these tools to resolve agency problems remains the same. Al-Janadi et al. (2013) in Saudi Arabia, examine corporate governance mechanisms relationship with voluntary disclosure. The study defines monitoring mechanisms as the process by which companies provide adequate and satisfactory information through financial statements to protect the shareholders' interests. The study of Bachlechner et al. (2014), on how auditing service providers relate to cross-organizational settings used data from 2 face-to-face and 14 telephone interviews. Monitoring mechanisms, according to the study are the tools by which companies identify and satisfy the information needs of the shareholders through adequate controls. Banerjee et al. (2012) in U.S, examine the effect of external monitoring and managerial entrenchment on corporate cash holdings. The study defines monitoring mechanisms as tools that companies are using to reduce the quantity of company assets that management can expropriate.

The study of Babatunde and Olaniran (2009) investigates how internal and external mechanisms affects a company's governance and performance in Nigeria. According to the study, monitoring mechanisms are the governance tools that companies employ to preclude managers from engaging activities that may not optimize shareholders' values. Pizzini et al. (2014) examine the quality and contributions of internal audit function to

audit delays. The study defines monitoring mechanisms as the means of inhibiting material weaknesses in the internal control and financial reporting of a company.

This paper explains the mediating effect of quality-differentiated auditors on the relationships between block-holders and monitoring mechanisms using agency theory. The rationale for this is that agency theory is designed to proffer solutions to agency problems, which is the main root of monitoring (Jensen & Meckling, 1976). Signalling theory is adopted in addition to agency theory because of the signals that quality-differentiated auditors give to investors and public at large in respect of monitoring and fraudulent characters dominating the modern day business entities. With these different definitions in existing literature on monitoring mechanisms, this study investigates the mediating effect of the quality-differentiated auditors on the relationships between the block-holders and monitoring mechanisms (directorship, internal and external auditing).

3. HYPOTHESES DEVELOPMENT

3.1 Block-Holders

The study of Azim (2012), examines how corporate governance mechanisms documents impact on company performance. The study claims that if the ownership of a company is dispersed control by shareholders may be weak. Also, it suggests that ownership concentration strengthens monitoring by block-holders for reduction of management's opportunistic attitude. It claims that block-holders through proxy-voting and direct relationship with the management regulate the distribution of power between the management and shareholders. Habbash (2013) examines the effect of the audit committee and block-holders on agency problems using 350 UK large firms. It claims that companies with high block-holders have fewer agency problems due to the separation between control and ownership. The study further claims that the agency problems change from management-shareholders' to majority-minority shareholders' conflict especially with the managerial or family owner block-holder. Furthermore, it claims that high block-holders' presence on the board of directors regulates the effectiveness of monitoring by the audit committee. Thus, the presence of high block-holders suggests a decrease in the board of directors and audit committee's independence. Extant literature categorizes block-holders differently (Azim, 2012). This study considers two categories of block-holders as in 3.1.1 and 3.1.2.

3.1.1 Institutional Block-Holders

According to agency theory institutional block-holders help to reduce the opportunistic behavior of the management. The existing literature shows that institutional block-holders are likely to demand more monitoring as their shareholding increases (Waweru, 2014; Liu, 2012; Kao, Chiou, & Chen, 2004; Shleifer & Vishny, 1997). The study of Kao, Chiou, & Chen (2004) examines the roles of monitoring mechanisms in respect of collateralized shares. The study reveals that institutional block-holders help to reduce agency problems effectively. Liu (2012), examines how board monitoring and management are contracting influence earnings management. The study finds that institutional block-holders with long-term bearings help to ease earnings management. The study of Liu et al. (2012) on how corporate governance and firm value relate during the global financial crisis finds that institutional block-shareholders limit financial constraints and expropriation problems. Omri et al. (2014) examine how the ownership structure and innovative behavior relate and investigate if board composition mediates the relationship in Tunisia. The study illustrates that institutional block-holders positively correlate to the number of outside directors on a board of directors. Likewise, the study

suggests that institutional block-holders relate to independent directors and innovative behavior of manager significantly.

The institutional block-holders are, therefore, expected to uphold the independence of the board since more non-executive and independent directors will be on the board of directors. Similarly, institutional block-holders will request for more monitoring to safeguard their interests. They hold large shares; they have various interests in several security investments and are also with more information about the company to drive their demand for monitoring. Their demand for more monitoring engenders the alignment of the interests of the management and shareholders to reduce agency problems. The request for more monitoring necessitates more costs for implementing adequate monitoring. This study, therefore, expects that:

- H₁** Institutional block-holders associate positively with the demand for monitoring mechanisms (directorship, internal and external auditing).
- H₂** Institutional block-holders associate positively with the demand for a directorship as a monitoring mechanism.
- H₃** Institutional block-holders associate positively with the demand for internal auditing as a monitoring mechanism.
- H₄** Institutional block-holders associate positively with the demand for external auditing as a monitoring mechanism.

3.1.2 Individual Block-Holders

Most of the existing literature on block-holders either fail to test individual block-holders or lump both the individual and institutional block-holders together regardless of the difference between the two (Connelly, Hoskisson, Tihanyi, & Certo, 2010). The study further claims that individual block-holders are treated in some cases as insider owners. The study of Haniffa and Hudaib (2006) examines corporate governance structure and performance of Malaysian listed companies. The study in consistency with the claim of Haniffa and Hudaib (2006) suggests that individual shareholders are often insiders like CEOs or family owners or top management related parties. It further argues that the controlling block-holders may expropriate the company's assets. Ali and Lesage (2013) investigate to know if auditors are engaged as monitoring mechanisms for mitigation of agency conflicts resulting from different controlling shareholders in France. The findings of the study confirm the results of Haniffa and Hudaib (2006) that only block-holders are likely to expropriate company assets. Eng and Mak (2003) examine ownership structure and board composition impact on voluntary disclosure. The study shows that block-holders do not relate to the level of disclosure.

Based on the above discussion, ownership may not be separated from control as demanded by agency theory for good corporate governance if the controlling shareholder is an individual block-holder. However, this study differs in its investigation because the data collected for the study does not portray that individual block-holders are insider-owners as suggested by Haniffa and Hudaib (2006). The study considers individual block-holders as outsiders. It is, therefore, expected that individual block-holders' demand for monitoring though not equally strong as the institutional block-holders because they are not as influential as the institutional block-holders. Therefore, this study predicts that:

- H₅** Individual block-holders associate positively with the demand for monitoring mechanisms (directorship, internal and external auditing).
- H₆** Individual block-holders associate positively with the demand for directorship as a monitoring mechanism
- H₇** Individual block-holders associate positively with the demand for internal auditing as a monitoring mechanism.

- H₈** Individual block-holders associate positively with the demand for external auditing as a monitoring mechanism.

3.2 Quality-Differentiated Auditors

Our study examines the mediating effect of the quality-differentiated auditors on the relationship between the block-holders and monitoring mechanisms. There are extant literature on quality-differentiated auditors (Francis & Wilson, 1988; Palmrose, 1988; Defond, Francis, & Wong, 2000; Che-ahmad & Abidin, 2001; Nasser, Wahid, Nazri & Hudaib, 2006; Willekens & Achmadi, 2003; Che-Ahmad, Houghton, & Yusof, 2006). The emergence of large companies and complexity of such companies warrants need for detection and reporting of breaches in the accounting system of the companies (Ferguson, Pinnuck, & Skinner, 2013; DeAngelo, 1981). The studies claim that this need for high-quality financial reports led to the emergence of quality-differentiated auditors. Hence, the emergence of audit firms with quality-differentiated auditors is a response to the demand of the clients (Craswell & Taylor, 1991). It is expected that the organizational attribute, block-holders affects quality-differentiated auditors. The study, therefore, predicts that:

- H₉** Institutional block-holders associate positively with the demand for quality-differentiated auditors.
- H₁₀** Individual block-holders associate positively with the demand quality-differentiated auditors.

Likewise, it is expected that quality-differentiated auditors affect monitoring mechanisms and that a quality-differentiated auditor mediates between block-holders and monitoring mechanisms. The study, therefore, predicts that:

- H₁₁** Quality-differentiated auditors mediate the relationship between institutional block-holders and the demand for monitoring mechanisms (directorship, internal and external auditing).
- H₁₂** Quality-differentiated auditors mediate the relationship between institutional block-holders and the demand for a directorship as a monitoring mechanism.
- H₁₃** Quality-differentiated auditors mediate the relationship between institutional block-holders and the demand for internal auditing as a monitoring mechanism.
- H₁₄** Quality-differentiated auditors mediate the relationship between institutional block-holders and the demand for external auditing as a monitoring mechanism.
- H₁₅** Quality-differentiated auditors mediate the relationship between individual block-holders and the demand for monitoring mechanisms (directorship, internal and external auditing).
- H₁₆** Quality-differentiated auditors mediate the relationship between individual block-holders and the demand for a directorship as a monitoring mechanism.
- H₁₇** Quality-differentiated auditors mediate the relationship between individual block-holders and the demand for internal auditing as a monitoring mechanism.
- H₁₈** Quality-differentiated auditors mediate the relationship between individual block-holders and the demand for external auditing as a monitoring mechanism.

4. METHODOLOGY

4.1 Sample

The study used 111 non-financial Nigerian listed companies using data from 2010 to 2012 annual reports and other data collected through questionnaires. The annual reports lack information in respect of the internal auditing. Hence, the study applied the questionnaires to obtain information needed for internal auditing. There were no similar annual reports for 6 of the 117 questionnaires collected.

4.2 Measurement

4.2.1 Dependent Variable

The dependent variable in this paper is the monitoring mechanism. It has three dimensions (directorship, internal and external auditing) and its measurement is the total costs of the three dimensions. It is the summation of the audit costs (internal and external) plus non-executive directors' remuneration.

4.2.2 Mediating Variable

The mediating variable, the quality-differentiated auditor, is binary coded as 1 if the auditor for the company is a big-4 and 2 if a non-big-4.

4.2.3 Independent Variables

Block-ownership is the independent variable in this study. Institutional block-holders as an independent variable is measured as a proportion of the institutional block shareholders stock to the company's issued share capital. Individual block-holders as a variable is measured as a proportion of the individual block shareholders stock to the issued share capital of the company.

4.2.4 Control Variables

The control variables in this paper are industry and complexity. The industry is a binary coded variable scored as 1 for manufacturing and 0 for services. Complexity's measurement is the numbers of a company's subsidiaries, headquarter company inclusive.

4.2.5 Panel Data Models

The models for the empirical tests are as follows:

$$MC_{it} = \alpha_{it} + \beta_1 INSB_{it} + \beta_2 INDB_{it} + \beta_3 IND_{it} + \beta_4 CY_{it} + \mu_{it} + \varepsilon_{it} \quad \text{equation 1}$$

(Equation 1 regressing dependent variable on independent variables)

$$QDA_{it} = \alpha_{it} + \beta_1 INSB_{it} + \beta_2 INDB_{it} + \beta_3 IND_{it} + \beta_4 CY_{it} + \mu_{it} + \varepsilon_{it} \quad \text{equation 2}$$

(Equation 2 regressing mediating variable on independent variables)

$$MC_{it} = \alpha_{it} + \beta_1 INSB_{it} + \beta_2 INDB_{it} + \beta_3 IND_{it} + \beta_4 CY_{it} + \beta_5 QDA_{it} + \mu_{it} + \varepsilon_{it} \quad \text{equation 3}$$

(Equation 3 regressing dependent variable on both independent and mediating variables)

Where:

MC	=	Monitoring Cost
INSB	=	Institutional Block-holders
INDB	=	Individual Block-holders
IND	=	Industry

CY = Complexity
QDA = Quality-differentiated Auditors

5. RESULTS

In this study, the researchers effected data cleaning; tested for multicollinearity, respondent bias, autocorrelation, heteroscedasticity, and normality. All tests suggest that the models meet the minimum requirement for multivariate analysis. An exception to these results is the presence of autocorrelation which cannot be eliminated in a panel data. Likewise, the F-tests for the models are statistically significant ($p < 0.0000$). The independent variables, institutional and individual block-holders are respectively with mean values of 47% and 8%. Their minimum scores are 0 because some companies are with no detail information on block-holders. Their maximum scores are respectively 97.35% and 87%. Table 1 presents the results on collinearity and multicollinearity, while Table 2 presents the results of variance inflation factors (VIF) and tolerance of the study. The variables in this study are free from collinearity and multicollinearity as all the values are less than 0.9, the VIF is 1.01, which is below the threshold of 5 and tolerance are more than 0.2.

Table 1. Variance Inflation Factors (VIF)

Variable	VIF	1/VIF
Institutional Block-holders	1.40	0.713
Individual Block-holders	1.42	0.704
Industry	1.04	0.959
Complexity	1.04	0.966
Mean VIF	1.23	

Table 2. Pearson Correlation

Variables	Monitoring Mechanisms	Institutional Block-holders	Individual Block-holders	Industry	Complexity
Monitoring Mechanisms	1				
Institutional Block-holders	0.0081	1			
Individual Block-holders	-0.1312	-0.5128	1		
Industry	0.093	0.0911	-0.2025	1	
Complexity	0.6367	-0.1443	-0.0229	0.0241	1

The study examines the mediating effect of quality-differentiated auditors on the relationship between the block-holders and monitoring mechanisms (directorship, internal and external auditing) in Nigerian non-financial listed companies. We used panel-corrected standard errors (PCSEs) regression for the direct relationship between the organizational attributes (institutional and individual block-holders) and monitoring mechanisms (C-Path). According to Bailey and Katz (2011), PCSEs regression is robust in nature and proficient in correcting heteroscedasticity and autocorrelation. Table 3a presents results of the regressions ran using Stata. We tested hypothesis 1 to know if block-holders have any influence on the demand for monitoring mechanisms solving equation 1. The results indicate that the relationship between the institutional block-holders and aggregate monitoring mechanisms is significantly positive ($\beta = \text{N}156,056$, $z = 2.39$).

The results also provide evidence that the relationships between the institutional block-holders and internal auditing ($\beta = \text{N}51,665.23$, $z = 10.13$) and external auditing ($\beta = \text{N}192,136.5$, $z = 5.02$) are also significantly positive. However, the result of the

relationship between institutional block-holders and directorship ($\beta = -187,745.47$, $z = 2.92$) is significantly negative. The study finds a significant negative relationship between individual block-holders and monitoring mechanisms ($\beta = -364,034.4$, $z = 8.03$). It also provides evidence of a significant negative relationship between individual block-holders and the dimensions of monitoring mechanisms [directorship ($\beta = -278,538$, $z = 4.54$), and external auditing ($\beta = -96,697.79$, $z = 7.71$)]. It shows a positive relationship between individual block-holders and internal auditing ($\beta = 11,201.4$, $z = 0.72$) but with no statistical evidence. The study illustrates significant positive relationships between the control variables, (industry and complexity) and monitoring mechanisms as well as all the three dimensions, directorship, internal and external auditing.

Table 3a. Equation 1 Using Panel-Corrected Standard Errors (PCSE)

Variables	Coef.	Std. Err.	z	P>z
Monitoring Mechanisms				
Institutional Block-holders	0.156	0.065	2.39	0.017
Individual Block-holders	-0.364	0.045	-8.03	0.000
Industry	13.400	2.245	5.96	0.000
Complexity	12.300	0.516	23.77	0.000
_cons	-1.478	2.432	-0.61	0.543
Directorship				
Institutional Block-holders	-0.088	0.030	-2.92	0.003
Individual Block-holders	-0.279	0.061	-4.54	0.000
Industry	3.741	0.999	3.74	0.000
Complexity	7.915	0.494	16.01	0.000
_cons	-1.809	2.055	-0.88	0.379
Internal Auditing				
Institutional Block-holders	0.052	0.005	10.13	0.000
Individual Block-holders	0.011	0.016	0.72	0.473
Industry	2.982	0.372	8.02	0.000
Complexity	0.353	0.024	14.72	0.000
_cons	12.200	0.654	18.62	0.000
External Auditing				
Institutional Block-holders	0.192	0.038	5.02	0.000
Individual Block-holders	-0.097	0.013	-7.71	0.000
Industry	6.666	1.009	6.61	0.000
Complexity	3.998	0.576	6.95	0.000
_cons	-11.800	2.765	-4.29	0.000
Quality-differentiated Auditors				
Institutional Block-holders	-0.003	0.000	-6.84	0.000
Individual Block-holders	-0.008	0.001	-11.14	0.000
Industry	0.075	0.007	10.64	0.000
Complexity	0.022	0.001	16.22	0.000
_cons	0.655	0.024	27.72	0.000
Quality-differentiated Auditors				
Institutional Block-holders	-0.016	0.005	-2.92	0.004
Individual Block-holders	-0.036	0.009	-3.85	0
Industry	0.348	0.365	0.95	0.34
Complexity	0.150	0.045	3.32	0.001
_cons	0.601	0.490	1.23	0.22

We tested hypothesis 2 using equation 2 for a direct relationship between organizational attributes (institutional block-holders, individual block-holders) and quality-differentiated auditors (A Path). The results of this regression are shown in Tables 3b and 3c using panel-corrected standard errors (PCSEs) and logistics. Both institutional and individual block-holders have a significant negative relationship with quality-differentiated auditors. The beta coefficient for institutional block-holders is 0.003 with z-value of 6.84 while individual block-holders is with a beta value of 0.008 and z-value of 11.14 (all negative)

running regression by PCSEs. When regression was run using logistics because of the binary nature of quality-differentiated auditors, the beta coefficient for institutional block-holders and individual block-holders are 0.016 and 0.037 and z-value of 2.92 and 3.85 (all negative) respectively.

The two control variables, industry, and complexity are both positively significant with a beta of 0.022 and 0.655 and z-value of 10.64 and 16.22 respectively using PCSEs. However, industry ($\beta=0.348$, $z=0.95$) is not statistically relevant using logistic regression, while complexity ($\beta=0.15$, $z=3.32$) remains positively significant.

Table 3b. Equation 2 Using Panel-Corrected Standard Errors (PCSE)

Quality-differentiated Auditors	Coef.	Std. Err.	z	P>z
Institutional Block-holders	-0.003	0.000	-6.84	0.000
Individual Block-holders	-0.008	0.001	-11.14	0.000
Industry	0.075	0.007	10.64	0.000
Complexity	0.022	0.001	16.22	0.000
_cons	0.655	0.024	27.72	0.000

Table 3c. Equation 2 Using logistics

Quality-differentiated Auditors	Coef.	Std. Err.	z	P>z
Institutional Block-holders	-0.016	0.005	-2.92	0.004
Individual Block-holders	-0.036	0.009	-3.85	0.000
Industry	0.348	0.365	0.95	0.340
Complexity	0.150	0.045	3.32	0.001
_cons	0.601	0.490	1.23	0.220

The study used binary-mediation to test hypothesis 3 solving equation 3 (b-Path and Total Effect). For b-path, Table 4a shows that quality-differentiated auditors significantly and positively relate to monitoring mechanisms and its three dimensions (directorship, internal and external auditing).

Table 4a. Binary-mediation

Variables	Monitoring Mechanisms	Directorship	Internal Auditing	External Auditing	Monitoring Mechanisms	Directorship	Internal Auditing	External Auditing
Model A								
Quality-differentiated Auditors	46.420*** (8.050)	23.010*** (5.927)	4.326*** (1.281)	19.080*** (2.562)	43.940*** (8.126)	22.790*** (6.012)	3.978*** (1.305)	17.180*** (2.617)
Institutional Block-holders	0.082 (0.145)	-0.137 (0.107)	0.050* (0.023)	0.169*** (0.046)				
Individual Block-holders					-0.392 (0.254)	-0.139 (0.188)	-0.027 (0.041)	-0.226*** (0.082)
Constant	27.350*** (9.462)	16.180* (6.967)	13.740*** (1.506)	-2.575 (3.012)	35.970*** (6.773)	10.990* (5.011)	16.540*** (1.088)	8.443*** (2.181)
Observations	333	333	333	333	333	333	333	333
R-squared	0.092	0.050	0.044	0.165	0.097	0.047	0.032	0.151
Model B								
Quality-differentiated Auditors	45.200*** (8.044)	23.260*** (5.947)	3.969*** (1.287)	17.970*** (2.602)	27.140*** (6.469)	10.730* (5.000)	3.786*** (1.312)	12.630*** (2.172)
Industry	15.800 (12.350)	5.061 (9.129)	2.845 (1.976)	7.896* (3.994)				
Complexity					11.470*** (0.808)	7.759*** (0.624)	0.209 (0.164)	3.503*** (0.271)
Constant	17.980 (12.140)	5.078 (8.975)	13.800*** (1.943)	-0.890 (3.927)	1.758 (5.252)	10.680*** (4.059)	15.680*** (1.065)	-3.235** (1.763)
Observations	333	333	333	333	333	333	333	333
R-squared	0.095	0.047	0.036	0.142	0.436	0.350	0.035	0.423

NOTE: *** significant at 1% level; ** significant at 5% level; * significant at 10% level; n=333; SN=111

The result suggests that quality-differentiated auditor is a possible mediator between block-holders and monitoring mechanisms including each of its antecedents. Its beta coefficient ranges between N3.786m and N46.42m, while its t-value ranges between 2.15 and 7.45. A variable must affect the dependent variable before it can mediate between the dependent variable and an independent variable (Baron & Kenny, 1986). The result in this paper meets this requirement.

Table 4b presents the bootstrap analysis on the mediating effect of quality-differentiated auditors (QDA) on the relationship between block-holders and monitoring mechanisms (directorship, internal and external auditing). The result demonstrates that the mediating relationship (indirect effect) is significant as the confidential interval for each of the variables in the model includes no zero. Hence, QDA serves as a mediator between block-holders (institutional and individual) and monitoring mechanisms (directorship, internal and external auditing). It also acts as a mediator between the control variables (industry and complexity) and monitoring mechanisms (directorship, internal and external auditing).

Table 4b. Bootstrap Coefficient, Direct and Indirect Effects (Institutional Block-holders, Individual Block-holders, Monitoring Mechanisms – Directorship, Internal, and External Auditing).

Variables	Institutional Block-holders			Individual Blockholders			Industry			Complexity		
	Coef./ Stder	[95% Conf. Interval]		Coef./ Stder	[95% Conf. Interval]		Coef./ Stder	[95% Conf. Interval]		Coef./ Stder	[95% Conf. Interval]	
Monitoring Mechanisms												
Indirect	-0.024	-0.063	0.013	-0.055*	-0.108	-0.017	0.028	-0.005	0.066	0.056***	0.032	0.087
	-0.019	-0.064	0.012	(0.023)	-0.107	-0.015	-0.018	-0.008	0.064	(0.014)	0.032	0.087
Total	-0.024	-0.063	0.013	-0.055*	-0.108	-0.017	0.028	-0.005	0.066	0.056***	0.032	0.087
Indirect	-0.019	-0.064	0.012	(0.023)	-0.107	-0.015	-0.018	-0.008	0.064	(0.014)	0.032	0.087
Direct	0.030	-0.085	0.177	-0.082*	-0.162	0.010	0.067***	0.027	0.103	0.600***	0.396	0.735
Effect	-0.065	-0.102	0.159	(0.041)	-0.162	0.010	(0.019)	0.028	0.103	(0.087)	0.388	0.732
Total	0.005	-0.109	0.154	-0.137***	-0.217	-0.056	0.095***	0.046	0.138	0.656***	0.455	0.783
Effect	-0.068	-0.114	0.146	(0.042)	-0.213	-0.051	(0.022)	0.045	0.137	(0.084)	0.455	0.783
Directorship												
Indirect	-0.017	-0.046	0.007	-0.040***	-0.073	-0.015	0.02	-0.005	0.046	0.031***	0.010	0.056
	-0.013	-0.048	0.007	(0.015)	-0.076	-0.017	-0.013	-0.002	0.048	(0.012)	0.012	0.059
Total	-0.017	-0.046	0.007	-0.040***	-0.073	-0.015	0.02	-0.005	0.046	0.031***	0.010	0.056
Indirect	-0.013	-0.048	0.007	(0.015)	-0.076	-0.017	-0.013	-0.002	0.048	(0.012)	0.012	0.059
Direct	-0.069	-0.162	0.054	-0.040	-0.118	0.036	0.03	-0.016	0.067	0.564***	0.310	0.699
Effect	-0.055	-0.162	0.056	(0.041)	-0.111	0.049	-0.022	-0.014	0.074	(0.101)	0.279	0.696
Total	-0.085	-0.178	0.032	-0.080**	-0.161	0.000	0.050*	-0.004	0.092	0.594***	0.350	0.726
Effect	-0.055	-0.179	0.030	(0.041)	-0.152	0.008	-0.024	0.004	0.098	(0.097)	0.308	0.721
Internal Auditing												
Indirect	-0.015	-0.041	0.007	-0.032*	-0.071	-0.007	0.016	-0.004	0.043	0.050*	0.011	0.096
	-0.012	-0.044	0.004	(0.016)	-0.076	-0.008	(0.012)	-0.003	0.046	(0.022)	0.018	0.104
Total	-0.015	-0.041	0.007	-0.032*	-0.071	-0.007	0.016	-0.004	0.043	0.050*	0.011	0.096
Indirect	-0.012	-0.044	0.004	(0.016)	-0.076	-0.008	(0.012)	-0.003	0.046	(0.022)	0.018	0.104
Direct	0.116*	0.021	0.208	-0.037	-0.141	0.065	0.078**	-0.001	0.158	0.070	-0.044	0.181
Effect	-0.050	0.026	0.208	(0.052)	-0.137	0.072	(0.042)	-0.001	0.158	(0.060)	-0.038	0.186
Total	0.102*	0.009	0.195	-0.070	-0.167	0.026	0.094*	0.013	0.179	0.120*	0.004	0.227
Effect	-0.05	0.011	0.197	(0.049)	-0.167	0.026	(0.043)	0.014	0.180	(0.058)	0.009	0.231
External Auditing												
Indirect	-0.030	-0.077	0.014	-0.065***	-0.113	-0.021	0.034	-0.015	0.076	0.078***	0.052	0.108
	(0.024)	-0.078	0.014	(0.024)	-0.113	-0.021	(0.023)	-0.015	0.076	(0.015)	0.056	0.116
Total	-0.030	-0.077	0.014	-0.065***	-0.113	-0.021	0.034	-0.015	0.076	0.078***	0.052	0.108
Indirect	(0.024)	-0.078	0.014	(0.024)	-0.113	-0.021	(0.023)	-0.015	0.076	(0.015)	0.056	0.116
Direct	0.184***	0.078	0.295	-0.142***	-0.186	-0.102	0.101***	0.063	0.141	0.552***	0.370	0.699
Effect	(0.055)	0.078	0.296	(0.021)	-0.179	-0.097	(0.021)	0.056	0.139	(0.086)	0.388	0.714
Total	0.154*	0.043	0.274	-0.207***	-0.256	-0.169	0.135***	0.097	0.174	0.630***	0.437	0.770
Effect	(0.061)	0.043	0.274	(0.023)	-0.250	-0.165	(0.020)	0.090	0.171	(0.085)	0.453	0.784

NOTE: *** significant at 1% level; ** significant at 5% level; * significant at 10% level
n=333; SN=111

The result conforms to extant literature that institutional block-holders help to resolve agency problems and so will demand more monitoring (Kao, Chiou, & Chen, 2004; Liu et al., 2012). Also, Mustapha and Che-Ahmad (2013), claim that institutional block-holders demand more monitoring costs with an increase in their shareholding. Following the conformational analysis of the findings to the studies of Mohd-Saleh, Rahman, and Hassan (2009), Kao, Chiou, and Chen (2002), Mustapha and Che-Ahmad (2013), Liu et al. (2012) a company is likely to protect the interests of its institutional block-holders. Hence, it will demand more monitoring. The result is also consistent with agency theory that institutional block-holders help to minimize the opportunistic behaviors of management through the demand for more monitoring.

Many of the institutional block-holders in Nigeria are foreign owners, government, and banks. They demand more monitoring as their shares increase. Institutional block-holders, therefore, influence monitoring mechanisms positively and significantly.

Hope (2013) claims that a company is likely to hire a Big 4 auditor as its ownership concentration decreases. Likewise, it conforms with the claim of Desender, Aguilera, Crespi, & Garcia-Cestona (2013), that the audit scope of quality-differentiated auditors will enforce directorship monitoring. This paper conforms to the studies of Hope (2013) and Desender et al. (2013) by providing evidence that institutional block-holders contribute to the variations in the demand for quality-differentiated auditors. All these extant literature put together are consistent with the findings in this study that institutional block-holders affect monitoring mechanisms, affect quality-differentiated auditors and that quality-differentiated auditors affect monitoring mechanisms. Hence, quality-differentiated auditors mediate the relationship between institutional block-holders and monitoring mechanisms.

The result for individual block-holders, though in the opposite direction of prediction conforms to the findings in the prior literature (Ali & Lesage, 2013; Haniffa & Hudaib, 2006; Eng & Mak, 2003). Interests of individual block-holders are more of self-benefits, hence, the claim of Mustapha and Che-Ahmad (2013) that individual block-holders' demand for monitoring costs decreases with increase in their shareholding. Hence, individual block-holders affect monitoring mechanisms but negatively. Thus, this study provides evidence that individual block-holders in Nigerian companies investigated are likely related to the top management or they are management or family owners. The incentive for them to monitor management because of the size of their stockholding is deterred by their relationship with the top management. Individual block-holders are often few and are unlike institutional block-holders are with less information. They are inhibited from exercising their rights because of insufficient information, financial illiteracy and ignorance of their rights. According to Bennedsen and Wolfenzon (2000), they are also with insufficient votes to control the activities of the company. Shareholders' associations are, therefore, emerging in countries, even in Nigeria to fortify the votes for controlling the company to protect their interests. However, individual block-holders in Nigeria are very scanty. Hence, their association may not be so powerful to exercise their right and guarantee adequate monitoring of the companies.

Similarly, the findings provide evidence that individual block-holders negatively contribute to the variations in the demand for quality-differentiated auditors. Since they are likely related to or are the top management or family owners of the company; they are likely motivated to expropriate company's asset. Hence, their demand for quality-differentiated auditors will be lesser for fear of being exposed. Moreso, the quality of the auditing of the quality-differentiated auditors, signals to the individual block-holders a probability of exposing the management with the ability to serve as a forensic auditor, detecting and reporting fraud in the form of any misappropriation of company assets.

Since individual block-holders significantly affect both monitoring mechanisms and quality-differentiated auditors and quality-differentiated auditors also positively affect monitoring mechanisms, while the bootstrap results demonstrate significant mediation in all the relationships, quality-differentiated auditors are likely to mediate between individual block-holders and monitoring mechanisms.

6. CONCLUSION

The study adds to the literature on block ownership, agency conflicts, monitoring mechanisms and quality-differentiated auditors. The primary contributions of this paper are that (1) block-holders significantly affect monitoring mechanism and quality-differentiated auditors, (2) quality-differentiated auditors also have a significant positive relationship with monitoring mechanisms, and (3) also have a mediating effect on the relationship between block-holders (institutional and individual) and monitoring mechanisms. Likewise, the control variables, industry, and complexity relate to monitoring mechanisms and quality-differentiated auditors significantly. Quality-differentiated auditors also mediate in the relationship between the control variables, industry and complexity and monitoring mechanisms. The primary contribution of this study to knowledge is the introduction of quality-differentiated auditors as a mediating variable in the relationship between block-holders and monitoring mechanisms. These findings are of importance for the investors, the board of directors, auditors, government, and the regulatory agents in respect of the protection of minority shareholders. This study is restricted to non-financial listed companies. Future studies may, therefore, consider extending the study to cover financial listed companies as well.

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