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Moderating Effect of Firm Size on the Relationship between Managerial Ownership and Audit Quality of Listed Manufacturing Firms in Nigeria

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Abstract

This study investigates the moderating role of firm size on the relationship between managerial ownership and audit quality in the Nigerian manufacturing sector. Using secondary data from 390 firm-year observations of listed manufacturing companies, logistic regression analysis was employed to examine the hypothesized relationships. The findings reveal that managerial ownership positively influences audit quality, suggesting that higher managerial stakes align managers' interests with those of shareholders, thereby promoting financial transparency and accountability. However, the interaction between managerial ownership and firm size shows a significant negative effect, indicating that as firms grow larger, the positive influence of managerial ownership on audit quality diminishes. This outcome highlights the complexities introduced by firm size, as larger firms often face increased operational challenges and governance complexities that may dilute the effectiveness of managerial ownership in enhancing audit quality. The study's results underscore the importance of considering firm-specific characteristics in corporate governance strategies to ensure effective monitoring and audit processes. Recommendations include the

adoption of robust governance frameworks tailored to firm size and the reinforcement of independent board oversight in larger firms. Additionally, policymakers are encouraged to implement regulations that promote audit quality across firms of varying sizes. This study contributes to the literature by providing empirical evidence on the moderating role of firm size in the managerial ownership-audit quality nexus, particularly in a developing economy context. Future research could explore other firm-specific moderators or extend the analysis to other industries and countries to provide broader insights into corporate governance and audit quality dynamics.

Keywords: Managerial Ownership, Audit Quality, Firm Size, Logistic Regression and Manufacturing Sector

Introduction

Across the globe, audited financial reports serve as the primary tool for shareholders, investors, and other stakeholders to evaluate firms and make informed economic decisions (Enofe & Igbinoba, 2020). Consequently, there is an expectation that external auditors provide assurance and validate that the financial statements prepared by management accurately reflect the organization's financial activities during the reporting period (Owolabi & Babarinde, 2020). Thus, the quality of audit reports plays a pivotal role in fostering transparency and accountability across both public and private sectors (Sattar et al., 2020). Audit quality is defined as the market's assessment of the likelihood that an auditor will identify a significant anomaly in a client's accounting records and disclose it (De Angelo, 1981, as cited in Alves, 2023). To achieve high audit quality, it is essential for firms to implement robust corporate governance mechanisms that regulate the auditor-client relationship and enhance auditor independence, ultimately resulting in more reliable audits (Pious et al., 2022). This study, therefore, explores the influence of ownership structure (managerial ownership), board characteristics (size and independence), and audit committee attributes (committee size) on audit quality.

The necessity for managerial ownership arises from potential conflicts of interest that may occur between business executives and diverse shareholders when directors lack a stake in the companies they oversee (Olotu et al., 2020). Managerial ownership is crucial to audit quality because the demand for independent audit services historically

stems from principal-agent conflicts, a longstanding challenge caused by the separation of management and ownership (Okerekeoti, 2022). Consequently, distributing ownership between directors and other stakeholders in the company can help reduce management-ownership conflicts, safeguard stakeholder interests, and improve audit quality (Alsharawi, 2022). Accordingly, Ojeh (2021) asserts that managerial ownership is among the most significant corporate governance mechanisms influencing board decisions directly.

Nigeria's manufacturing sector remains a vital component of the economy, contributing significantly to GDP and providing substantial employment opportunities, as highlighted by the Central Bank of Nigeria (CBN) in 2023. On average, the sector accounts for 10% of Nigeria's annual GDP (LinkedIn, 2023). As a result, manufacturing companies are regarded as having strong potential in the future growth of a developing economy (Irom et al., 2023). Beyond their GDP contribution, these companies play a key role in the economy, employing approximately 12% of the formal labor force (Saidu & Aifuwa, 2020). However, the sustainability of Nigeria's manufacturing sector depends on effectively addressing challenges such as financial mismanagement and other critical issues (Olotu et al., 2020).

Globally, stakeholders in financial reporting are increasingly confronted with the challenge of corporate financial reporting failures, which have surged in recent decades. One notable instance occurred in the USA with the collapse of Enron in 2001, where the company declared bankruptcy after manipulating its financial accounts (Alves, 2023). Similar cases include WorldCom, Global Crossing, and Rank Xerox in the USA. In Italy, Parmalat collapsed in 2003 due to accounting scandals involving eight billion Euros (An, 2023). Nigeria has also experienced financial reporting failures, such as issues with Cadbury Nigeria Plc, Afribank Nigeria Plc, and Intercontinental Bank Plc, all in 2009 (Olotu et al., 2020). These high-profile accounting irregularities in Nigeria have drawn the attention of investors and regulators, highlighting the need for collaborative efforts to restore stakeholders' confidence in financial reports (Owolabi & Babarinde, 2020).

Research on the impact of managerial ownership on audit quality reveals mixed findings: Alsharawi (2022) and Ojeh (2021) reported a significant positive effect, whereas Olotu et al. (2020) and Okerekeoti (2022) found insignificant and negative relationships, respectively.

Barron and Kenny (1986) suggested that inconsistencies in research findings have led to the inclusion of moderating variables in studies. In line with this, the present study introduced firm size as a moderating variable, because it influences risk of financial misappropriation. Consequently, an increase in firm size is expected to enhance the

effectiveness of the selected board monitoring mechanisms on the audit quality of listed manufacturing companies in Nigeria.

Literature Review and hypothesis Development

Concept of Managerial Ownership

Managerial ownership refers to the percentage of a company's shares held by its corporate managers, commissioners, and other individuals directly involved in managing the organization (Irom et al., 2023). This shareholding by management is a vital component of the corporate ownership structure (Ojeh, 2021). Similarly, Jensen and Meckling (1976), as cited by Alves (2023), define managerial ownership as the ownership held by directors, management, commissioners, or anyone actively participating in company decision-making. This concept arises because the separation of ownership and control creates incentives for managers to prioritize their personal interests over those of shareholders (Alsharawi, 2022).

The management ownership structure can be analyzed through the agency theory or the imbalance approach (Okerekeoti, 2022). From an agency perspective, it serves as a mechanism to minimize conflicts of interest between shareholders and managers. Meanwhile, the imbalance approach views it as a strategy to reduce information asymmetry between insiders and outsiders (Olotu et al., 2020). Increasing managerial ownership promotes transparency by motivating managers to align their efforts with organizational goals, ultimately improving business performance (Okerekeoti, 2022). Additionally, higher managerial ownership fosters greater commitment among managers, as they are also shareholders, ensuring their interests align with the company’s success (Alves, 2023).

Alsharawi (2022) supports this view, noting that executive ownership reduces conflicts of interest by aligning the personal interests of managers and shareholders. Similarly, Irom et al. (2023) argue that higher managerial ownership decreases information asymmetry but simultaneously increases opportunities for earnings management, which can affect financial reporting and auditing practices. However, excessive managerial ownership may compromise board independence and weaken corporate governance mechanisms by reducing the board's monitoring role and leading to the selection of lower-quality external auditors (Olotu et al., 2020). Consequently, excessive managerial ownership can negatively impact audit quality, as managers may leverage private information and firm resources for personal benefit.

Empirical Review

Managerial Ownership and Audit Quality

On the relationship between managerial ownership and audit quality, Alves (2023) examined the effect of managerial ownership on audit quality (measured by audit fees)

in Portugal and Spain for the period of 2010 to 2021. Secondary data used for this study were sourced from the annual reports of all the non-financial listed firms of Euronext Lisbon and the Madrid Stock Exchange for the study period. Correlation and OLS regression were employed for analysis and hypotheses testing. The results of the study revealed that there is a non-linear relationship between managerial ownership and audit fee which corresponds to a pattern of "alignment-entrenchment-alignment". The result of a comparative study could hardly be generalized for a particular country in the comparison let alone another country. Hence, there is need for such study with data on a particular country.

In the same vein, Alsharawi (2022) examined the effect of ownership structure on the external audit quality of Egypt and Sausi Arabian companies through a comparative study. Secondary data was obtained from the published annual reports of a sample of 82 listed Egyptian companies and 77 listed Saudi companies from 2014 to 2021, employing the OLS regression analysis. The results showed a significant effect of board ownership, management ownership, and family ownership on audit quality. However, the direction of this effect varied between positive or negative in Egyptian or Saudi companies, and the effect was sometimes insignificant. The study was comparative of two countries, which may not operate with similar regulatory environment. Hence, there is need for a study within a particular context for clarity.

Furthermore, Ojeh (2021) examined the effect of ownership structures on audit quality of Nigerian deposit Money Banks, using managerial ownership and institutional ownership as predictor determinants. Secondary data were extracted from the sample of 10 banks out of the 24 population through Banks Annual Reports and Accounts for the periods 2015 to 2019. The data was empirically tested using OLS regression with the aid of SPSS technique. The study found that there is positive significant relationship between institutional shareholding and managerial shareholding with audit quality of the Nigerian Deposit Money Banks. The observation of the study ended at 2019, which may be overtaking by events and required empirical reexamination with recent information.

Contrarily, Olotu et al. (2020) examined the impact of managerial ownership on audit quality of firms quoted on the Nigerian Stock Exchange from 2007 to 2017. The sample size was 36 manufacturing companies purposively selected from 185 firms listed on the NSE. The study used descriptive, correlational and multiple regressions for analysis. It was found that managerial ownership does not have significant impact on audit quality measured by audit fees, while managerial ownership structure has a negative but significant impact on audit size. The study was limited to managerial

ownership as one of the board monitoring mechanisms, which paves way for including other constructs as considered by the present study.

On negative relationship, Okerekeoti (2022) determined the extent to which managerial ownership affect the audit quality of quoted companies in Nigeria**.** Ex-post facto research design was employed by the study. A total of 64 companies form the sample size of the study from a population of 170 companies quoted on the Nigerian Exchange Group. The data were analyzed using descriptive statistics. Hypothesis was tested with regression analysis with aid of E-view 9.0. The result shows that a significant and negative effect exists between managerial ownership and audit quality of quoted companies in Nigeria. The study comprised of companies from different sectors among which generalization of the result could be problematic, which triggers the need for sector specific research. Based on the foregoing, it is hypothesized that:

H0: firm size does not significant moderate the relationship between Managerial Ownership and Audit Quality of listed manufacturing firms in Nigeria

Adopted and updated from: Mustafa et al. (2018)

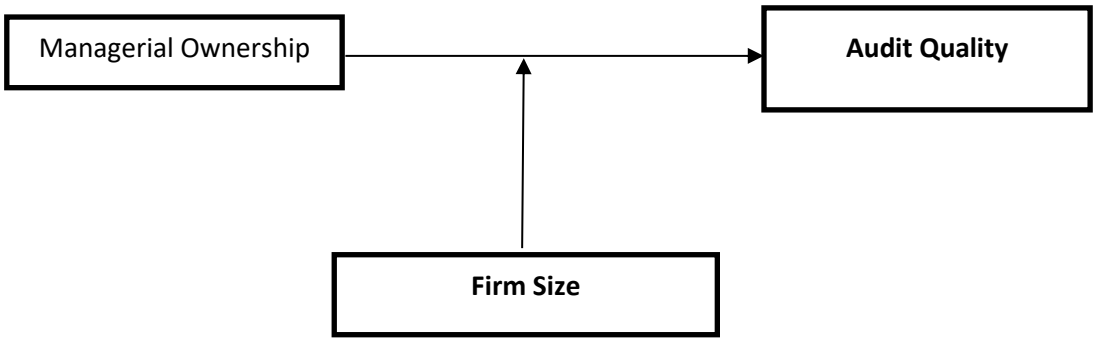


Figure 2.1: Research Framework

As shown by the figure above, this study adapted the framework from the work of Mustafa et al. (2018), which examine the effect of board diversity and audit committee characteristics on audit quality of companies in Albania.

Conceptual Framework

The following is the conceptual framework that gauged the study:

Theoretical Framework

This study focuses discussions on include Agency Theory and Resource Dependency Theory. The study however opinion of the agency theory as it the best theory that explains the relationship between board monitoring mechanisms and audit quality in

the context of this study. The theoretical framework of this research is rooted in the combination of different theories mentioned above since they are highly inter-correlated.

Agency Theory

Agency theory focuses on the relationship that arises between two parties when one (the principal) engages the other (the agent) to perform a service on their behalf (Jensen and Meckling, 1976). It is the main theory underling the firm's corporate governance because firms are managed by technocrats who are not owners of the firm, thus leading to the separation of ownership as well as control (Mustapha et al., 2018). Jensen and Meckling (1976) argued that agency relationship takes place when the principals engage the agents to perform some of their duties on their behalf. The assumption is that the principal suffer an agency loss which is lesser a return on the investment because they do not directly manage the company (Sattar et al., 2020).

Consequently, this study underpins Agency theory as it provides a framework to understanding the relationship between board monitoring mechanisms and audit quality in organizations. Precisely, Agency theory acknowledges information asymmetry between principals and agents. In addition, Agency theory gave much emphasis on the alignment of interest between managers and the shareholders (Mustafa et al., 2018).

Resource dependence theory

Pfeffer (1972) developed Resource Dependency theory to explain the composition of the board of directors that provides the firm with resources that promote corporate performance. The theory postulates that the board of a firm is critical because it provides resources to the managers who in turn utilize them to achieve organizational objectives (Salawu et al., 2018).

Resource dependency theory focuses on the board of directors as a key mechanism for providing critical resources, expertise, and external connections to an organization. This improves strategic decision-making and risk management, leading to higher profitability.

The theory provides insights into how board monitoring mechanisms, especially managerial ownership and audit committees, influence audit quality within the context of organizations. The theory proposes that the audit committees functions as the provider of resources to the firm (Arumona 2021) which, ultimately, improves the audit quality of the firm. Furthermore, resource dependency theory posits that organizations depend on external resources for survival.

Methodology

Research Design

This study adopted ex-post facto research design to examine the relationship between managerial ownership and audit quality of listed Nigerian manufacturing companies with firm size serving as moderator for the study. The research design ex-post facto because it used existing data from audited and published annual report of the listed manufacturing companies. Ex-post factor research design is the aspect of statistics that involves the various techniques of describing data collections (An, 2023). The design enable the researcher to describe and summarize the data collected for the purpose of a study and enable an in-depth knowledge about the objectives and the variables of the study.

Population, Sample Size and Sampling Technique

The population of the study consists all 42 Manufacturing firms listed on Nigerian Exchange Group as at January 2024. Accordingly, the researcher set a criterion that for every company to be considered in this study, it must be listed within the starting period of the study and continue to be in existence up to the end of the selected period. The companies to be selected must also have a published and accessible annual report in their website. Therefore, based on the aforementioned criteria for the purposive sampling, the researcher observed that up to 3 companies who fail meet the criteria as most of them are established few years ago. In view of that, the sample size of the study is 39 listed manufacturing The study adopts purposive sampling technique that can allow it to select only 39 listed manufacturing companies as sample size, those that have the complete information required by the study.

Method of Data Collection and Analysis

Data for this study were collected from secondary sources specifically from the annual reports of the selected manufacturing companies for the selected period of ten years (2013-2022) via Nigerian Exchange Group (NGX) website. This study adopts logistic regression analysis due to the presence of many discrete variables in the data set. It also enables the researcher to capture both time-series and cross-sectional variation of data that enables a comprehensive understanding of the independent variable on the dependent variable. The analysis was done with the use of STATA.

Variables and Measurements

The following table 3.1 contains the variables and their measurements adapted by the study.

Table 3.1 Measurement of Research instruments

Variable(s)	Category	Description	Source
Audit Quality	Dependent	1 if the entity is engaged with the service of big-four auditors and 0 if otherwise	Mardessi (2020).
Managerial Ownership	Independent	Percentage of Shares ownership of the company's board of directors	Nurmalita and Asmara (2022)
Firm Size	Moderator	Logarithm of total asset	Peter (2022)

Source: Researcher's compilation (2024)

Model Specification

The regression model that will be used for this study to test the hypotheses formulated is stated below:

$$\mathbf{AQ = \beta_0 + \beta_1 MOW}it + \mathbf{\beta_5 MOW}it \mathbf{*FS}it + \mathbf{\epsilon}.$$

Where: AQ= Audit Quality, MOW=Managerial Ownership, FSZ=Firm Size, ϵ = Stochastic Error term, β = Beta Coefficient and *it* = is the individual entity *i* in the time *t*

Findings and Discussion

Descriptive Statistics

Table 4.1 displays the result of the descriptive statistics of the variables of the study. It includes measures of central tendency such as the mean, standard deviation, minimum and maximum mean as well as number of observations.

Table 4.1: Descriptive Statistic

Variables	Min	Max	Mean	Std. Dev.
AQ	0	1	0.954	0.210
MOW	0	78.2	8.288	10.703
FSZ	**4.226**	**8.543**	**6.789**	**0.835**

Source: Descriptive Statistic from STATA 14, 2024

The descriptive statistics in Table 4.1 provide an overview of the key variables used in the study. Audit Quality (AQ), a binary variable, ranges from 0 to 1, with a mean value of 0.954 and a standard deviation of 0.210. This indicates that most firms in the

sample exhibit high audit quality, with limited variation across observations. The high mean suggests that the majority of firms consistently meet standards associated with audit quality.

Managerial Ownership (MOW) shows a wide range from 0 to 78.2, with an average of 8.288 and a relatively large standard deviation of 10.703. This wide dispersion reflects significant variability in the percentage of shares owned by management among the sampled firms, indicating differences in managerial influence across companies. Firm Size (FSZ), measured logarithmically, varies from 4.226 to 8.543, with a mean of 6.789 and a standard deviation of 0.835. The moderate variation suggests that while the sample includes firms of varying sizes, most fall within a similar size range. These results provide insights into the diversity of the sample and the potential influence of managerial ownership and firm size on audit quality.

Correlation Analysis

Table 4.2 displays the correlation values between dependent and the independent variables and the relationship between the independent variables themselves. The values were obtained from the Spearman correlation of two-tailed significance.

Table 4.2: Correlation Analysis

VARIABLES	AQ	MOW	FSZ
AQ	1.0000		
MOW	-0.2191*	1.0000	
FSZ	0.4441	0.1438*	1.0000

Source: Correlation Matrix from STATA 14

*. Correlation is significant at 0.01 and 0.05 level (2-tailed)

Table 4.2 presents the correlation analysis among the key variables: Audit Quality (AQ), Managerial Ownership (MOW), and Firm Size (FSZ). The correlation coefficient between AQ and MOW is -0.2191, which is statistically significant, indicating a weak negative relationship. This suggests that as managerial ownership increases, audit quality tends to decrease slightly. The negative relationship aligns with theories suggesting that higher managerial ownership may reduce the effectiveness of board oversight, potentially affecting audit quality.

The correlation between AQ and FSZ is 0.4441, indicating a moderate positive relationship. This implies that larger firms are more likely to exhibit higher audit quality, possibly due to their greater resources and adherence to stringent regulatory standards. Additionally, the relationship between MOW and FSZ shows a weak

positive correlation of 0.1438, suggesting that larger firms may have slightly higher levels of managerial ownership. These correlations provide preliminary insights into the interactions among the variables but do not establish causality, highlighting the need for further analysis to understand their effects on audit quality.

Robustness Tests

Hair et al. (2013) advise that various tests should be carried out to confirm whether the data collected complied with assumptions underlying the intended statistical analysis tools. In this study, assumption tested include sample size, Normality, heteroskedasticity, multicollinearity, autocorrelation, regression specification error test

Normality Test of the Residuals

A normality test is required in order to determine whether the data collected are normally distributed, otherwise the study will arrive at a wrong conclusion. Normality refers to a normal distribution of the error terms (residual) (Hair et al., 2013). However, it was argued that the normality is to be conducted on the residuals of the model and not the data where the dependent variable determines the parametric analysis to be conducted (Ghasemi & Zahediasl, 2012). In this study, both skewness/kurtosis and Shapiro-Wilk test of normality were used to determine the normality of the data set. The Skewness discloses the symmetry of the distribution of variables while Kurtosis reveals the peakness of a variable's distribution as either too peak or too flat. For Shapiro-Wilk, this test as suggested by Keskin (2006) is a robust method of checking normality test. The results of Skewness and Kurtosis alongside Shapiro-Wilk test are presented in Table 3.

Table 4.3 shows that the values of skewness of all variables are below $\pm$1.96 as recommended by Hair et al (2012). Similarly, the result of the Kurtosis suggests the value of the variable fell below the benchmark $\pm$3 recommended by Hair at al. (2012). Based on the results of Skewness and Kurtosis as well as Shapiro-Wilk test of the residual in Table 3, the data in this study is said to be normally distributed and multivariate normally assumption for all the variables have been met, since all their p-values are greater than 0.05.

Table 4.3: Skewness & Kurtosis test of Normality

Variables	Obs.	Skewness	Kurtosis	Adj Chi2(2)	Prob Chi2
AQ	390	0.0000	0.0002	51.86	0.0000
MOW	390	0.0000	0.0117	40.77	0.0000
FSZ	390	0.0202	0.0042	11.92.	0.0000

Source: Extracted from STATA (version 14.0) Output, 2024

Table 4.4: Shapiro-Wilk Test of Normality

Variables	Obs.	W	V	Z	P>Z
AQ	390	0.87773	24.507	7.484	0.0000
MOW	390	0.98888	2.228	1.874	0.0004
FSZ	390	0.91427	17.182	6.653	0.0000

Source: Extracted from STATA (version 14.0) Output, 2024

The Heteroskedasticity Test

Heteroskedasticity simply means that the error variance should be constant, as one of the main assumptions for OLS regression is the homogeneity of the variance of residuals. If the variance of the residuals is non-constant, then the residual variance is said to be heteroskedastic. To examine the heteroskedasticity problem using the STATA software, after conducting regression analysis, the command "hettest" was used to run the Breusch-Pagan test. The null hypothesis of this test is that the variance of residuals is homogenous, so if the P-value is small the null hypothesis will be rejected, and will accept the alternative hypothesis that the variance is heteroskedastic. In this study, a heteroskedasticity test was conducted using breush-pegan/cook-Weisberg, in order to see whether the data are suffering from heteroskedasticity problems.

The results from the test for the Breusch-Pagan test showed a significant chi2 for all the models (that is, the results suggests that $P< 0.05$ in all the models), which indicates the presence of the heteroskedasticity as shown in Table 4.5

Table 4.5: Test of Heteroskedasticity

Models	Chi2	Prob > chi2
Model 1	111.89	0.000
Model 2	154.28	0.000

Source: Extracted from STATA (version 14.0) Output, 2023

To resolve this problem using STATA, the command for the regression included logistic which will eliminate the problem of heteroskedasticity. Breusch-Pagan/Cook-Weisberg is used to test the presence of heteroskedasticity in the study, the result is presented in Table 4.5. The result shows that the models 1 and 2 are have problem of heteroskedasticity. Hence the study used logistic regression.

Multicollinearity

Multicollinearity indicates the degree of relationship existing between the independent variables. According to Pallant (2007), multicollinearity exists when the relationship

between some independent variables is highly correlated. The existence of multicollinearity in analysis may reduce the predictive power of any single independent variable by the extent to which it related to other independent variables (Hair et al., 2013). As one of the assumptions of regression, multicollinearity occur when two or more of the independent variables are fully or partially a linear function of the other (King, Keohane & Verba, 1994). Multicollinearity test can be assessed by examining the Tolerance value and Variance Inflation Factor (VIF). Hair et al. (2013) recommended threshold of 10 for VIF and 0.10 for tolerance value.

Table 4.6: Multicollinearity Test of the Main Effect

Variables	VIF	Tolerance
MO	1.73	0.578425
FS	1.26	0.795343
Mean VIF	**1.69**	

Source: Extracted from STATA (version 14.0) Output, 2024

Therefore, the VIF of each variable of this study as well as the overall VIF is within the recommended threshold. Hence, multicollinearity issue is not an issue in this study.

Presentation of Regression Results and Test of Hypotheses

The relationships between the main independent variables and the dependent variable and the extent to which the relationships are moderated in the presence of firm size was determined statistically using logistic regression analysis as presented in Table 4.7 The statistical analyses were carried out in a step process, as recommended by Hair et al. (2010). The five hypotheses formulated are validated using result in models 1 and 2.

H_0: There is no moderating effect of Firm Size on the relationship between Managerial Ownership and Audit Quality of listed manufacturing firms in Nigeria.

Table 4.7: Logistic Regression Result for Moderating Relationship (Model 2)

	Coefficient	Odds ratio	z	P>z
CONS	-13.425	0.000	-6.500	0.000
MOW	0.551	1.736	0.300	0.042
MOWFSZ	-2.073	0.126	-0.180	0.000
Pseudo R2		0.4607		
Chi2		154.280		
Prob. Chi2		0.000		
Observations		390		

Source: Extracted from STATA (version 14.0) Output, 2024

Table 4.7 presents the logistic regression results for the moderating relationship (Model 2). The constant (CONS) is negative and significant ($z = -6.500$, $p < 0.001$), indicating a baseline likelihood of low audit quality when other variables are absent. Managerial Ownership (MOW) has a positive and significant coefficient (0.551) with an odds ratio of 1.736, suggesting that higher managerial ownership increases the likelihood of improved audit quality. However, the interaction term between Managerial Ownership and Firm Size (MOWFSZ) is negative and significant (-2.073) with an odds ratio of 0.126, implying that firm size moderates the relationship between managerial ownership and audit quality negatively. The model has a pseudo R-squared value of 0.4607, indicating that approximately 46.07% of the variance in audit quality is explained by the predictors. The Chi-square statistic (154.280) is highly significant ($p < 0.001$), demonstrating the overall model's goodness of fit. The analysis is based on 390 observations, making the results robust and reliable.

Discussion of Findings

The logistic regression analysis reveals insightful findings about the moderating role of firm size in the relationship between managerial ownership and audit quality. The significant positive coefficient of managerial ownership (MOW) indicates that higher levels of managerial ownership are associated with increased audit quality. This suggests that when managers have a greater stake in the company, they are more likely to ensure financial transparency and accountability, aligning their interests with those of other stakeholders. However, the interaction term (MOWFSZ) shows a significant negative relationship, implying that the positive effect of managerial ownership on audit quality diminishes as firm size increases. Larger firms, often characterized by more complex structures and broader managerial autonomy, may dilute the influence of managerial ownership, potentially weakening its impact on audit quality.

These results align with the theoretical expectation that firm size plays a critical moderating role. While larger firms may have more resources to enhance audit processes, the complexity of their operations may reduce the effectiveness of managerial ownership as a governance mechanism. The findings underscore the importance of contextual factors, such as firm size, in shaping the dynamics of ownership structures and audit quality. Additionally, the model's goodness of fit, evidenced by the high pseudo R-squared value and significant Chi-square statistic, affirms the robustness of these conclusions. This study contributes to understanding how managerial ownership interacts with firm-specific characteristics to influence audit quality, offering valuable insights for policymakers and corporate governance frameworks in the manufacturing sector.

Conclusions

The study examined the moderating role of firm size on the relationship between managerial ownership and audit quality in Nigeria's manufacturing sector. Findings revealed that managerial ownership positively influences audit quality, aligning managerial interests with those of shareholders to enhance financial transparency. However, firm size moderates this relationship negatively, indicating that as firms grow, the effectiveness of managerial ownership in driving higher audit quality diminishes. This highlights the dual role of managerial ownership in enhancing governance and the complexities introduced by firm size, necessitating tailored approaches to corporate governance.

Recommendations

Based on the findings, it is recommended that manufacturing firms implement balanced ownership structures that ensure managerial incentives are aligned with organizational goals while maintaining robust governance mechanisms. Larger firms should consider strengthening independent board oversight to mitigate the diminishing effects of managerial ownership on audit quality. Policymakers and regulators should develop frameworks that emphasize the need for accountability and transparency in large organizations, including the integration of audit quality-enhancing practices across various firm sizes.

Suggestions for Future Research

Future studies could explore the moderating role of other firm-specific factors, such as profitability, leverage, or industry-specific dynamics, on the relationship between managerial ownership and audit quality. Additionally, longitudinal studies covering more extended periods or comparisons across multiple countries with similar regulatory environments could provide a broader understanding of the complexities in ownership structures and audit quality dynamics. Finally, examining the impact of technological advancements in auditing processes on the interaction between managerial ownership and audit quality could offer new insights in the evolving corporate governance landscape.

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