Malik Abu Afifa [*]
Isam Hamad Saleh [**]

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DOES AUDIT QUALITY AFFECT COMPANIES' PERFORMANCE? EVIDENCE FROM AN EMERGING MARKET

The purpose of this research is to look into the impact of audit quality on company performance. It offers empirical evidence from the Jordanian market, which is considered an emerging market. In this study, audit quality is proxied by auditor tenure, auditor industry specialization, and auditor firm size, while company performance is proxied by ROA, ROE, and EPS. A panel data analysis of all Jordanian industrial public shareholding companies listed on the Amman Stock Exchange during the timeframe (2012 to 2017) is used in this study. The primary findings are that auditor tenure has a negative influence on ROA, but auditor industry specialization and auditor firm size have no influence on ROA. Auditor firm size has a positive influence on both ROE and EPS, but auditor tenure and auditor industry specialization have a non-significant negative influence on both ROE and EPS. According to these results, companies in emerging markets should be encouraged to overcome the barriers that limit the link between audit quality and company performance. The study also suggests more research on the impact of audit quality on information asymmetry and earnings manage-

[*] M. Abu Afifa, Ph.D., Assistant Professor, Al-Zaytoonah University of Jordan, Faculty of Business (e-mail: M.abuafifa@zuj.edu.jo).

[**] I. Hamad Saleh, Ph.D., Assistant Professor, Al-Zaytoonah University of Jordan, Faculty of Business (e-mail: i.saleh@zuj.edu.jo). The paper was received on 26.03.2020. It was accepted for publication on 13.09.2021.

ment. Future study might potentially identify characteristics that influence audit quality, particularly in emerging countries (such as MENA countries), where there has been little effort to explore the level of audit quality and its relationship with other factors.

Keywords: *Audit quality, companies' performance, emerging market, Jordanian market, agency conflicts.*

1. INTRODUCTION

The separation of ownership from the management in business organizations requires more control in order to ensure achieve targeted performance; it also requires more financial reporting to find out the current real situation and identify the gaps (Abdallah *et al*., 2015). Financial reporting is one of management's most essential tasks; hence, the auditor's duty is to undertake audits in order to acquire reasonable assurance regarding the financial information included in financial reports and statements (Tyokoso *et al*., 2016; Christensen *et al*., 2016).

The role of auditing in ensuring the quality of reported earnings and financial statements has been called into question following recent corporate accounting scandals (Lin & Hwang, 2010), where recent corporate accounting scandals impacted the quality of external auditing as well as its ability to limit earnings management (Velury, 2003). Thereby, prior studies have investigated the relationship between audit quality, earnings management, and company performance, such as Almarayeh *et al*. (2020) and Ching *et al*. (2015). Most of these studies provide inconsistent evidence (Lin & Hwang, 2010) and are based on data from developed countries, such as West-European countries and Anglo-Saxon countries (Almarayeh *et al*., 2020). Moreover, prior studies by Leuz *et al*. (2003), Maijoor and Vanstraelen (2006), Choi and Wong (2007), Dechow *et al*. (2010), Lin and Hwang (2010), and Enomoto *et al*. (2015) have documented that differences in economic, legal, cultural, and institutional factors between countries can affect the role of auditing in restraining earnings management and company performance. According to Francis and Wang (2008), the efficacy of audit quality in restricting earnings management in order to enhance performance has been observed to be more evident in some nations.

Besides, Berkowitz *et al*. (2003), Iatridis (2012), and Bao and Lewellyn (2017) discussed that the level of investors' protection provided by companies in developing countries to market participants is different from those in developed countries, and this is encouraging earnings management and affecting performance (Li *et al*.,

2014). In this regard, the audit quality attributes can constrain earnings management, especially in USA (Becker *et al*., 1998; Lin & Hwang, 2010), but the mechanisms of control auditors may fail in preventing earnings management because the company setting does not promote high-quality audits (Francis & Wang, 2008; Jeong & Rho, 2004; Choi *et al*., 2014). Prior studies by Abdul Rahman and Ali (2006) argued that companies with low-level performance have more motivation to manage earnings, and this requires more audit quality. Audit quality has the ability to benefit regulators, stakeholders, boards of directors, and others by limiting managers' options for earnings management and therefore giving genuine information on performance. Additionally, Orazalin and Akhmetzhanov (2019), Machdar *et al*. (2017), Leuz *et al*. (2003), Wysocki (2005), Latif *et al*. (2017), and Antonio *et al*. (2019) confirmed that the audit quality contributes to improve a company's earning quality. According to Balsam *et al*. (2003), Krishnan (2003), and Khurana and Raman (2004), good audit quality increases the trustworthiness of information for shareholders and investors, which may enhance company performance.

Other empirical evidence such as Doyle *et al*. (2007) and Drake *et al*. (2009), explored how the quality of information in financial statements impacts accruals. They noted that a low level of audit quality indicates a high amount of mispricing. On the other hand, Ugwunta *et al*. (2018) claimed that audit quality increases earnings in companies, which improves the company's worth (Wijaya, 2020). Higher audit quality is intended to minimize agency costs and information asymmetry, therefore increasing the company's worth (Zgarni *et al*., 2016; Muttakin *et al*., 2017; Alsmairat *et al*., 2018).

In terms of audit quality in the Jordanian market, the Jordanian audit market offers an engaging setting to be studied by the researchers for several reasons. The first reason is that the risk of punishments and litigation for abuser auditors is lower as compared to the Anglo-Saxon nations (Abdullatif & Al-Khadash, 2010). The second reason is that personal relations as well as financial bonding between auditors and their customers are widespread, and these constants affect the auditor selection (Abdullatif & Al-Khadash, 2010; World Bank, 2004; Shbeilat & Abdel-Qader, 2018). Additionally, the ownership structure of Jordanian companies is concentrated, which causes a low demand for high-quality external audits, and audit fees in the concentrated ownership structure are lower compared to non-concentrated ownership (Abdullatif & Al-Khadash, 2010). Investigating the influence of audit quality on company performance in the Jordanian market, therefore, might give useful information regarding the role of external auditing in enhancing company performance in a setting very different from that of industrialized countries.

The current study analyzes the impact of audit quality on company performance and provides actual evidence from the Jordanian market, which is still in its early stages. Hence, this study's contribution is twofold. First, this study's findings

might contribute to a better understanding of the impact of audit quality in corporate success, as well as the efficacy of external auditing in emerging markets such as Jordan. Second, it identifies and offers proof of the Jordanian market's control over audit quality. Audit quality perceptions may enhance company performance.

2. LITERATURE REVIEW AND HYPOTHESES DESIGN

2.1. Audit Quality

Trueman and Titman (1988) defined audit quality as the accuracy of information provided by auditors to investors and other interested users in order to identify more accurate estimations of company performance and company value. Therefore, the audit quality is an important indicator for investors and other users; previous studies by Allahkaram *et al*. (2017), DeFond and Zhang (2014), Bedard *et al*. (2010), Francis (2011) and Knechel *et al*. (2013) addressed how users of financial statements rely on an auditor's assessment and, therefore, when the audit quality is high, the audit opinion will be more independent which will lead to an increase in the investors' confidence to make decisions in financial statements.

Prior studies measured audit quality through three indicators: auditor's tenure, auditor industry specialization, and auditor firm size (Alzoubi, 2016; Wang *et al*., 2014; Francis & Wang, 2008; Myers-J *et al*., 2003; Johnson *et al*., 2002; Davis *et al*., 2000; *Hegazy & Hegazy, 2018)*. These indicators assume that, first, a longer auditor's tenure refers to the auditor being less independent, thereby reducing the audit quality (Al-Thuneibat *et al*., 2011; Sumiadji *et al*., 2009). Additionally, auditors with industry specializations can work more effectively to accomplish their tasks; more industry specialization refers to higher audit quality (Sumiadji *et al*., 2009). Finally, the Big Four audit firms (Deloitte, PWC, Ernst & Young-EY, and KPMG) have higher audit quality than other audit firms (Sumiadji *et al*., 2009; Alzoubi, 2016).

2.2. Audit Quality and Company Performance: Related Theories

The primary goal of an audit is to overcome asymmetric information that might jeopardize the trustworthiness of financial data. Employing a brilliant auditor in a firm, according to Cho and Wu (2014), is a measure to control the level of agency conflicts; this plays a critical role in establishing an integrated link between

auditors and internal management in the company. Next, many studies have argued that the audit quality affects company performance. Farouk and Hassan (2014) examined the influence of audit quality as assessed by auditor independence and audit firm size on financial performance, concluding that audit firm size and auditor independence had an impact on financial performance. According to Jusoh et al. (2013), audit quality has a positive association with financial performance as measured by ROAs and Tobin's Q. The external audit serves as a monitoring unit to reduce information asymmetry between shareholders and company managers, which may enhance company performance.

Matoke and Omwenga (2016) also documented that audit quality has a significant positive link with financial performance. They contended that greater auditor independence is more likely to be associated with a company's high profitability. Besides, Elewa and El-Haddad (2019) found that auditor independence and expertise had a significant influence on return on assets (ROA) and return on equity (ROE). Bouaziz (2012) also added that auditor size has a significant influence on financial performance proxied by ROA and ROE. Phan *et al*. (2020) confirmed that auditor size has a positive influence on overall financial performance metrics. The audit quality identifies any errors in financial reporting and restricts the practice of earnings management, therefore enhancing corporate performance.

Moreover, the literature also mentioned other possible measures of audit quality, such as more advanced models that are designed to detect earnings management, suggesting that a higher quality auditor will be able to detect and prevent earnings management. For example, Barghathi *et al*. (2018) argued that a high audit quality is able to detect earnings management practices and reduce information asymmetry, thereby improving stakeholders' perceptions about future earnings. Lopes (2018) also argued that earnings management practices are significantly lower among companies that have a high audit quality as compared to companies with a low audit quality. Then, Mostafa (2019) indicated that companies with low performance are more engaged in earnings management practices than companies with high performance. Profitable companies are not under pressure to manipulate earnings and are less likely to engage in earnings management (Mostafa, 2020). Finally, measures of earnings management are often used as proxies for audit quality. Therefore, it is also possible that companies' financial performance positively affected by audit quality.

From the above discussions, we can see that there are limited studies on the influence of audit quality on company performance in less developed capital markets. However, some previous studies (e.g., Saleh *et al*., 2020b; Almasarwah *et al*., 2021) considered that the opposite direction is also possible. Therefore, it is possible that companies' financial performance positively affects audit quality. Ac-

cordingly, this study seeks to evaluate the impact of audit quality (as measured by auditor tenure, auditor industry specialization, and auditor firm size) on company performance (proxied by ROA, ROE, and EPS), then it presents actual evidence from an emerging market, such as Jordan. In other words, the purpose of this research is to close a gap in the literature. This study's framework is based on the agency theory and the theory of inspired confidence. These theories are commonly used by researchers in the accounting field (Andersson & Emander, 2005; Hayes *et al*., 2005; Cho & Wu, 2014; Afifa *et al*., 2020; Saleh *et al*., 2020a).

According to agency theory, auditing financial reports is an effective monitoring tool in businesses since it ensures stakeholders that financial information is devoid of substantial misstatements (Jensen & Meckling, 1976; Eisenhardt, 1989). In the literature, this theory has been used to analyze information asymmetry between shareholders (principals) and management (agent). It also gave some insight into how auditors' roles have evolved (Cho & Wu, 2014). Furthermore, the basic assumption of this theory is that conflicts of interest develop in company interactions owing to the divergence of shareholder and management benefits, and this theory supports the function of auditors in managing the relationship between shareholders and managers (Jensen & Meckling, 1976; Eisenhardt, 1989). In other words, this theory mentioned that external auditors support the business's degree of control, which decreases information asymmetry and misrepresentation in financial reports, presenting genuine company performance to interested parties while also enhancing company performance. External auditors are in charge of ensuring that a company's audit is adequate (Andersson & Emander, 2005).

Besides, the theory of inspired confidence examines the relationship between a society's belief in the efficacy of auditing and the utility of the auditing process (Limperg, 1932). It was suggested that audit quality increases a society's trust in the audit's efficacy, which in turn increases the utility of the auditing process. Furthermore, the theory of inspired confidence relates society's needs for the dependability of financial information to audit procedures' capacity to satisfy these needs. It focuses on the evolution of society's demands as well as auditing methodologies over time (Hayes *et al*., 2005). The audit is recognized as a means of enhancing the quality of financial information and the performance of the company. Changes in society's requirements and auditing procedures, on the other hand, lead to changes in the auditor's role. Finally, this study suggests that higher audit quality attracts investors by reducing information asymmetry and therefore increasing profitability.

Based on the above discussion, the following hypotheses may be offered for this study:

H1*: Given Jordanian industrial public shareholding companies, high audit quality increases ROA*.

H2*: Given Jordanian industrial public shareholding companies, high audit quality increases ROE.*

H3*: Given Jordanian industrial public shareholding companies, high audit quality increases EPS.*

3. METHODOLOGY

3.1. Population and Sampling

The current study provides some empirical evidence from the Jordanian market, especially from Jordanian industrial public shareholding companies listed on the Amman Stock Exchange (ASE) during the period (2012 to 2017). According to government estimates, Jordan's industrial sector is an important sector, contributing around 25.2 percent of the country's gross domestic product (GDP) yearly, with a total investment in the Jordanian industrial sector of more than JD 3.25 billion by the end of 2019. As a result, the population of the study is comprised of all industrial public shareholding companies listed on ASE throughout the study period, for a total of 62 companies. This study uses a complete sensuous population method, which means that the study sample comprises all listed companies. In addition, the current study used a panel data analysis approach. Annual financial reports relating to the targeted companies were used to collect study data during the study period.

3.2. Measurements of the Study Variables

The purpose of this study is to determine the impact of audit quality (AQ), as an independent variable, on company performance, as a dependent variable. Prior research by Barghathi *et al*. (2018) and Lopes (2018) highlighted potential AQ measures such as earnings management. They hypothesized that higher AQ will be able to recognize and avoid earnings management, and so earnings management metrics serve as proxies for AQ.

Other investigations by Balsam *et al*. (2003), Sumiadji *et al*. (2009), Wang *et al*. (2014), Afifa *et al*. (2020), Francis and Wang (2008), Davis *et al*. (2000), Gul *et al*. (2009), Al-Thuneibat *et al*. (2011), Drake *et al*. (2009), and Myers-J *et al*. (2003)

assessed AQ by three proxies: auditor's tenure, auditor industry specialization, and auditor firm size. These proxies function as dichotomous variables, with the assumption that a longer auditor tenure reduces the auditor's independence (Al-Thuneibat *et al*., 2011; Sumiadji *et al*., 2009), and auditors with industry expertise are of better quality than those without, and these auditors can work more efficiently to complete their responsibilities (Sumiadji *et al*., 2009). The previous literature defined auditor industry specialization as auditors whose experience is largely concentrated in a specific industry (Badawy & Aly, 2018), and this study defined it as "an audit firm that has differentiated itself from its competitors in terms of market share within a particular industry" (Neal & Riley, 2004, p. 170). Furthermore, the audit work performed by the Big Four audit firms is of greater quality than that of smaller audit firms (Sumiadji *et al*., 2009; Alzoubi, 2016). As a result, the study assesses AQ by combining the preceding three proxies, as stated below:

- Auditor's tenure (AT): A dummy variable that is set to (1) if the company has been audited by the same audit firm for more than three years, and (0) otherwise (Sumiadji *et al*., 2009; Al-Thuneibat *et al*., 2011; Johnson *et al*., 2002).
- Auditor industry specialization (AIS): A dummy variable that is (1) if the audit firm has industry specialization (10% of total audit firm customers listed inside the industrial sector) and (0) otherwise (Badawy & Aly, 2018; Zhou & Elder, 2004; Solomon *et al*., 1999).
- Auditor firm size (AFSize): A dummy variable of (1) if the company is audited by the Big Four audit firm, and (0) otherwise (Afifa *et al*., 2020; Sumiadji *et al*., 2009; Alzoubi, 2016).

The financial performance of the company is constantly monitored utilizing research done by Nassar (2018), Saleh *et al*. (2020a), Obuobi *et al*. (2020) and Alqirem *et al*. (2020). They established that there are three primary financial metrics to assess company performance: Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS). These metrics are used in this study to assess the performance of Jordanian industrial public shareholding companies. The following are the ROA, ROE, and EPS equations:

$$\text{ROA i. t} = \frac{\text{Net Income i.t}}{\text{Total Assets i.t}} \tag{1}$$

$$\text{ROEi. t} = \frac{\text{Net Income i.t}}{\text{Total Equity i.t}} \tag{2}$$

$$\text{EPSi. t} = \frac{\text{Net Income - Dividends on Preferred Stock i.t}}{\text{Average outstanding shares i.t}} \tag{3}$$

Whereby, i for the company; t for the period.

Following that, three control variables were used as scientific constants in the study: First, company size (Size) as measured by the natural logarithm (ln) of the total assets of a company i for the period t; second, total equity by total assets ratio (TEto-TA) is calculated by dividing total equity by total assets of a company i for the period t; this ratio represents internal funding for company investments; and third, the working capital (WC) of a company i for the period t is calculated by dividing total current assets by total current liabilities. Previous research, such as Saleh *et al*. (2020b), Maijoor and Vanstraelen (2006), Choi and Wong (2007), and Dechow *et al*. (2010), claimed that these characteristics might have an impact on company performance and earnings quality. They also highlighted the characteristics of larger companies, which have more steady and diverse operations, and therefore earnings should be of higher quality and honestly allocated to the stakeholders of those companies. Saleh *et al*. (2020b) also mentioned that the earnings management is negatively affected by the working capital; because less company liquidity may motivate managers to engage in earnings management in order to accomplish their own objectives.

4. DATA ANALYSIS AND FINDINGS

4.1. Diagnostic Analysis

To increase the reliability and validity of the conclusions, the anomaly values from the research data are initially removed. In the current study, multicollinearity tests (Pearson correlation and the Variance Inflation Factor (VIF) as well as the inverse VIF (tolerance (TOL, 1/VIF)) are utilized to determine if a panel data model has any econometric issues (Baltagi et al., 2010; Baltagi, 2008; Gujarati & Porter, 2009). Gujarati (2003) confirmed that multicollinearity issues arise when the correlation (Beta) between two variables exceeds 0.8, the VIF value for all variables exceeds 10, and the tolerance (TOL, 1/VIF) value for all variables is less than 20%. In this research, the Pearson correlation (Beta) values between the research variables are less than 0.80, as shown in Table 1. Simultaneously, VIF and tolerance (TOL, 1/VIF) values are less than 10 and more than 20%, respectively (see Tables 3, 4, and 5). As a result, the panel regression models in this study do not suffer (are a fit) from the multicollinearity issues.

Table 1.

PEARSON CORRELATION MATRIX

Variables	AT	AIS	AFSize	Size	TEtoTA	WC
AT	1.000					
AIS	-0.300***	1.000				
AFSize	-0.011	0.302***	1.000			
Size	0.164***	-0.186***	0.058	1.000		
TEtoTA	-0.207***	0.052	-0.033	-0.156***	1.000	
WC	0.013	-0.025	-0.188***	-0.042	0.618***	1.000
Note: *, **, *** = p-value < .10, .05, .01 respectively						

4.2. Descriptive Analysis

In order to explain a panel data, the current study presents the lowest value, maximum value, mean, and standard deviation. Furthermore, one-sample *t* statistics is used to determine whether or not there are significant statistical differences in a panel data set in order to validate that the data are continuous (rather than discrete) and follow the normal probability distribution. Table 2 reveals that the mean of AT was (0.877) with a standard deviation of (0.329). The mean of AT is closer to (1), indicating that the great majority of Jordanian targeted companies have been audited for more than three years by the same audit firm. AIS had a mean of (0.041) and a standard deviation of (0.199). The mean of AIS is closer to zero, indicating that these companies are not examined by industry expert auditors, most likely because industry specialist auditors in Jordan demand more audit fees than ordinary auditors. The mean AFSize was (0.320) with a standard deviation of (0.467), implying that the Big Four audit firms audit around one-third of the targeted companies.

ROA, ROE, and EPS mean values were (0.013, 0.014, and 0.057, respectively) with standard deviations (0.079, 0.151, and 0.334, respectively). We can see that the profitability of the targeted firms were low, owing mostly to Jordan's challenging economic conditions and environmental uncertainty, which had a substantial impact on company earnings during the research period. The mean of Size (Ln total assets) was then (16.706), with a standard deviation of (1.461). This indicates that

the average total asset value throughout the research period was (JD 64,678,633). The TEtoTA mean was (0.636) with a standard deviation of (0.234), indicating that the companies rely on internal funding for their investments. The mean of WC was (2.511) with a standard deviation of (2.394), indicating that the companies can meet their short-term responsibilities. Additionally, the results of the one-sample *t* statistics in Table 2 indicate no significant statistical differences in a panel data in this study at a significant level of p-value .10, .05, .01, indicating that the data are continuous (rather than discrete) and follow the normal probability distribution.

Table 2.

DESCRIPTIVE ANALYSIS

Variables	Minimum	Maximum	Mean	S.D	t	Sig.
AT	0.000	1.000	0.877	0.329	51.026	0.000***
AIS	0.000	1.000	0.041	0.199	3.949	0.000***
AFSize	0.000	1.000	0.320	0.467	13.096	0.000***
ROA	-0.358	0.277	0.013	0.079	3.204	0.001***
ROE	-0.620	0.660	0.014	0.151	1.733	0.084*
EPS	-1.172	2.386	0.057	0.334	3.273	0.001***
Size	12.677	20.915	16.706	1.461	219.108	0.000***
TEtoTA	0.001	0.996	0.636	0.234	51.551	0.000***
WC	0.021	16.227	2.511	2.394	19.873	0.000***
Note: *, **, *** = p-value < .10, .05, .01 respectively						

4.3. Regression Models Findings

To evaluate the hypothesis models, the current study used the linear regression test. The results of the linear regression test for each hypothesis are shown in the following paragraphs.

H1*: Given Jordanian industrial public shareholding companies, high audit quality increases ROA*.

The hypothesis presented above explores the influence of AQ proxies on ROA. The results in Table 3 show that the first hypothesis model is a fit at a significant

level of the F-statistic (14.418***). This model's consistent term (_Cons) is statistically significant (Beta=0.467) with a p-value of 0.01. The model explains (0.203) of the changes in ROA (Adjusted R^2 = 20.3 percent). Furthermore, data reveal that AT has a negative significant influence on ROA at a significant level of p-value.10, but AIS and AFSize have no effect on ROA. Thus, the ***H1*** is partially accepted.

Table 3.

REGRESSION FINDINGS OF THE FIRST HYPOTHESIS

Variables	$ROAi.t = \alpha + \beta_1 Size_{i.t} + \beta_2 TEtoTA_{i.t} + \beta_3 WC_{i.t} + \beta_4 AT_{i.t} + \beta_5 AIS_{i.t} + \beta_6 AFSize_{i.t} + (\varepsilon_i + v_{it})$ (4)					
	Unstandardized Coefficients		**(t-static)**	**Sig.**	**Collinearity Statistics**	
	B	**Std. Error**			**Tolerance**	**VIF**
Con-	-33.150	4.920	-6.737	0.000***		
Size	1.583	0.274	5.787	0.000***	0.978	1.022
TEtoTA	12.646	2.160	5.854	0.000***	0.604	1.656
WC	0.072	0.195	0.367	0.714	0.613	1.630
Con-	-31.771	5.057	-6.282	0.000***		
Size	1.616	0.280	5.770	0.000***	0.930	1.075
TEtoTA	11.308	2.273	4.975	0.000***	0.544	1.839
WC	0.201	0.206	0.977	0.329	0.547	1.827
AT	-2.010	1.218	-1.651	0.099*	0.805	1.242
AIS	-1.408	2.188	-0.644	0.520	0.803	1.245
AFSize	1.128	0.862	1.310	0.191	0.851	1.176
R (Beta)		*0.467*				
R Square		*0.218*				
Adjusted R Square		*0.203*				
(F-value)		*14.418****				
Note: *, **, *** = p-value < .10, .05, .01 respectively						

H2*: Given Jordanian industrial public shareholding companies, high audit quality increases ROE.*

Table 4 shows the results of the second hypothesis. The results show that the second hypothesis model (*H2*) fits at a significant level of the F-statistic (13.334***), and the consistent term (_Cons) of this model is positively significant (Beta=0.453)

at p-value 0.01. Adjusted R^2 of this model was (19.0%), which means that the second hypothesis model explains (0.190) of the variations of ROE. More importantly, AFSize has a positive significant effect at a significant level of p-value < .05 on ROE, whilst AT and AIS have a negative non-significant effect on ROE. As a conclusion, the *H2* is partially accepted.

Table 4.

REGRESSION FINDINGS OF THE SECOND HYPOTHESIS

Variables	$ROEi.t= \alpha + \beta_1 Size_{i.t} + \beta_2 TEtoTA_{i.t} + \beta_3 WC_{i.t} + \beta_4 AT_{i.t} + \beta_5 AIS_{i.t} + \beta_6 AFSize_{i.t} + (\varepsilon_i + v_{it})$ (5)					
	Unstandardized Coefficients		**(t-static)**	**Sig.**	**Collinearity Statistics**	
	B	**Std. Error**			**Tolerance**	**VIF**
Con-	-60.632	10.006	-6.060	0.000***		
Size	2.551	0.550	4.640	0.000***	0.973	1.028
TEtoTA	29.939	4.558	6.568	0.000***	0.610	1.640
WC	-0.258	0.392	-0.659	0.510	0.622	1.606
Con-	-58.068	10.254	-5.663	0.000***		
Size	2.491	0.561	4.441	0.000***	0.924	1.082
TEtoTA	27.592	4.755	5.803	0.000***	0.554	1.805
WC	0.044	0.412	0.108	0.914	0.557	1.795
AT	-2.463	2.433	-1.012	0.312	0.809	1.236
AIS	-3.939	4.376	-0.900	0.369	0.805	1.243
AFSize	4.183	1.709	2.448	0.015**	0.852	1.174
R (Beta)		*0.453*				
R Square		*0.205*				
Adjusted R Square		*0.190*				
(F-value)		*13.334****				
Note: *, **, *** = p-value < .10, .05, .01 respectively						

***H3**: Given Jordanian industrial public shareholding companies, high audit quality increases EPS*.

The regression results of the aforementioned hypothesis are shown in Table (5). These results show that the third hypothesis model (*H3*) fits at a significant level of the F-statistic (17.919***), and the Adjusted R^2 was (22.9 percent), implying that the aforementioned hypothesis model explains (0.229) of the fluctuations

in EPS of Jordanian targeted companies. This model's consistent term (_Cons) is statistically significant (Beta=0.492) with a p-value of 0.01. Continuously, findings reveal that AFSize has a positive significant influence on EPS at a significant level of p-value.05, but AT and AIS have a negative non-significant effect on EPS, implying that the ***H3*** is partially accepted.

Table 5.

REGRESSION FINDINGS OF THE THIRD HYPOTHESIS

Variables	$EPSi.t = \alpha + \beta_1 Size_{i.t} + \beta_2 TEtoTA_{i.t} + \beta_3 WC_{i.t} + \beta_4 AT_{i.t} + \beta_5 AIS_{i.t} + \beta_6 AFSize_{i.t} + (\varepsilon_i + v_{it})$ (6)					
	Unstandardized Coefficients		**(t-statistic)**	**Sig.**	**Collinearity Statistics**	
	B	**Std. Error**			**Tolerance**	**VIF**
Con-	-1.736	0.202	-8.613	0.000***		
Size	0.088	0.011	7.767	0.000***	0.983	1.017
TEtoTA	0.502	0.091	5.532	0.000***	0.614	1.628
WC	0.005	0.009	0.536	0.592	0.622	1.608
Con-	-1.711	0.209	-8.197	0.000***		
Size	0.086	0.012	7.386	0.000***	0.926	1.080
TEtoTA	0.473	0.095	4.961	0.000***	0.553	1.809
WC	0.009	0.009	1.006	0.315	0.562	1.781
AT	-0.011	0.053	-0.215	0.830	0.814	1.229
AIS	-0.042	0.089	-0.475	0.635	0.791	1.264
AFSize	0.077	0.037	2.061	0.040**	0.840	1.190
R (Beta)		*0.492*				
R Square		*0.242*				
Adjusted R Square		*0.229*				
(F-value)		*17.919****				
Note: *, **, *** = p-value < .10, .05, .01 respectively						

5. CONCLUSION AND DISCUSSION

The purpose of this study is to look into the impact of audit quality on company performance. It presents empirical evidence from the Jordanian market. In this study, audit quality is proxied by the auditor's tenure, audit industry specialization, and audit firm size, while company performance is proxied by ROA, ROE, and EPS. The current study used a panel data analysis, thus the study data gathered through annual financial reports is connected to all Jordanian industrial public shareholding companies listed on the Amman Stock Exchange throughout the time (2012 to 2017).

The findings of this study point out that three hypotheses models explain (20.3%, 19.0%, and 22.9%) of the variance of ROA, ROE, and EPS, respectively. As a general review for the literature, a high audit quality in a company leads to increasing the quality of financial information while simultaneously decreasing information asymmetry and agency cost, resulting in increased company performance (Almarayeh *et al*., 2020; Zgarni *et al*., 2016; Balsam *et al*., 2003; Krishnan, 2003; Khurana & Raman, 2004). The current study, on the other hand, concluded that AT has a negative estimated coefficient, which supports the notion that a longer audit company tenure lowers an auditor's independence and, as a result, negatively impacts audit quality. AFSize has a positive estimated coefficient, implying that the Big Four audit firms deliver a higher quality audit, which improves company performance. Furthermore, the sign of the estimated coefficient in front of AIS (audit firm industry specialization) is negative, indicating that companies audited by industry specialists have lower profitability indicators, which may refer to audit firms with industry specialization charging higher fees than other non-specialized audit firms. Therefore, the company's profits have decreased (Almarayeh *et al*., 2020). Additionally, Hegazy and Hegazy (2018) documented that industry specialization has an important impact on the auditor's retention, and the auditor's retention may negatively affects the auditor's independence and finally, the company performance will be affected negatively.

More importantly, the findings reveal that AT has a negative significant impact on ROA, but AIS and AFSize have no effect on ROA, and AFSize has a positive significant effect on ROE and EPS, whereas AT and AIS have a negative non-significant effect on ROE and EPS. In other words, the greater the AT, the greater the ROA, and the greater the AFSize, the greater the ROE and EPS. However, the current study's findings are supported by a theoretical framework based on agency theory and the theory of inspired confidence (Eisenhardt, 1989; Cho & Wu, 2014; Limperg, 1932; Hayes *et al*., 2005).

According to studies by Abdelghany (2005), Alsmairat *et al*. (2018), and Asthana (2014), good audit quality relates to increased company value in stock markets, and therefore high company value positively links with company performance. Furthermore, Muttakin *et al*. (2017) and Orazalin and Akhmetzhanov (2019) said that audit quality is essential in increasing earnings quality, and that a high audit quality contributes to lower earnings management techniques, which may enhance business performance and market returns. Simultaneously, Machdar *et al*. (2017) demonstrated that high relevance of financial information has a favorable impact on operating performance while having a negative impact on real earnings management, and high relevance of financial information relates to good earnings quality. High audit quality paired with enhanced financial information dependability will help users (shareholders, managers, and investors) make decisions that contribute to increased operating performance, as supported by the work of Balsam *et al*. (2003), Krishnan (2003), Khurana and Raman (2004), and Oroud *et al*. (2019).

Almarayeh *et al*. (2020), on the other hand, found that audit quality, as measured by auditor size and audit fees, had no effect on earnings management. They explained how audit tasks begin after a company's earnings are extracted; hence, there is no substantial link between audit quality and earnings management. Allahkaram *et al*. (2017) also documented that there is no significant relationship between auditor tenure and earnings sustainability.

Based on the present study's findings, the researchers propose that firms in emerging markets, such as Jordan, enhance their audit quality in order to increase their performance, and that they be pushed to overcome the constraints that restrict the link between audit quality and performance, such as limiting earnings management practices and improving governance practices. The study also suggests more research on the impact of audit quality on information asymmetry and earnings management. Future study might potentially identify characteristics that influence audit quality, particularly in emerging countries (such as MENA countries), where there has been little effort to explore the degree of audit quality and its relationship with other factors. Next, a new contribution to the issue of the association between audit quality and company performance can be achieved through novel empirical strategy to overcome the endogeneity problem. The endogeneity between audit quality and company performance is critical because one may argue that companies with better performance is more likely to hire high-quality auditors because they have better cash flows or they are unlikely have financial misreporting to hide from auditors.

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UTJEČE LI KVALITETA REVIZIJE NA USPJEŠNOST PODUZEĆA? DOKAZI S TRŽIŠTA U RAZVOJU

Sažetak

Svrha ovog istraživanja je istražiti utjecaj kvalitete revizije na uspješnost poduzeća. Ono nudi empirijske dokaze s jordanskog tržišta, koje se smatra tržištem u razvoju. U ovom istraživanju, kvaliteta revizije je aproksimirana pomoću duljina revizorskog mandata, specijalizacije revizorske industrije i veličine revizorskog poduzeća, dok je uspješnost poduzeća aproksimirana pomoću ROA, ROE i EPS. U ovom istraživanju korištena je analiza panel podataka svih jordanskih industrijskih javnih dioničarskih društava koja su kotirala na Ammanskoj burzi tijekom vremenskog okvira (2012. do 2017.). Primarni nalazi su da duljina revizorskog mandata ima negativni utjecaj na ROA, dok specijalizacija revizorske industrije i veličina revizorskog poduzeća nemaju utjecaj na ROA. Veličina revizorskog poduzeća ima pozitivan utjecaj i na ROE i na EPS, dok duljina revizorskog mandata i specijalizacija revizorske industrije nemaju značajan negativan utjecaj ni na ROE ni na EPS. Prema ovim rezultatima, poduzeća na tržištima u razvoju treba poticati da prevladaju prepreke koje ograničavaju vezu između kvalitete revizije i uspješnosti poduzeća. Istraživanje također predlaže dodatna istraživanja o utjecaju kvalitete revizije na asimetriju informacija i upravljanje zaradom. Buduća bi istraživanja mogla potencijalno identificirati karakteristike koje utječu na kvalitetu revizije, posebno u zemljama u razvoju (kao što su zemlje MENA), gdje je postojalo malo napora da se istraži razina kvalitete revizije i njezin odnos s drugim čimbenicima.

Ključne riječi: kvaliteta revizije, uspješnost poduzeća, tržište u razvoju, jordansko tržište, sukobi agencija.