The Impact of Corporate Governance on Auditor Selection: An Empirical Study on Service Companies in Jordan

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Abstract:
Corporate governance mechanism is of great importance, since it is a key determinant of high (low) quality auditors. This research is intended to examine the impact of corporate governance on auditor selection in several service companies listed in Amman Stock Exchange. To test the research hypotheses, descriptive methods and statistical analyses will be used in this research including the percentages, means, and the standard deviations as well as the binary logical regression.

Keywords:
Corporate Governance, Auditor Selection, Jordan

Introduction

In the early 2000s, the enormous bankruptcies (and Fraud) of Enron and WorldCom, as well as lesser corporate scandals, such as Adelphia communication, AOL, Arthur Andersen, Global crossing Tyco, led to a global realization of the importance of independent attestation of corporate financial statements and internal control systems for sound corporate governance (CG). This is reflected in the passage of the Sarbanes-Oxley Act of 2002. Corporate governance mechanism is of great importance, since it is a key determinant of high (low) quality auditors. Good (bad) corporate governance will result in a selection of high (bad) quality auditors who in turn create effective (ineffective) audit monitoring, so that firms can obtain their capital at a lower cost and communicate more efficiently with their stakeholders (Mahdavi, Mahalouie, Ebrahimi and Sarikhani, 2011), (Lin, Z.J and Liu, M., 2009), (Broye and Weill, 2008), (Watts and Zimmerman, 1986).

Also, Good (bad) corporate governance will result in more (less) reliability and confidence in the firm's financial statements, accounting and financial information for shareholders and stakeholders (Gao and Kling, 2012), (Wang and Zhang, 2007), (Patel, Balic and Bawkira, 2002). The agency problem –which is the conflict of interests between the principal and the agent due to the separation of control and ownership-, justifies the need for corporate governance research. Managers (the agents) may undertake actions that are harmful or at least not beneficial to the owners (the principal). Also, managers may pursue their own interests, goals and incentives at the expense of the owners in the absence of symmetric information (Berle and Means, 1933). According to the organization of economic cooperation and development (OECD), corporate governance is one key element in improving economic efficiency, growth and enhancing investor confidence in order to have financial stability. Corporate governance involves the set of rules and practices that govern the relationships between the firm's management and its shareholders and other stakeholders such as suppliers, employees, tax agencies, creditors…etc. Corporate governance also provides the structure through which the objectives of the firm are set and the means of attaining those objectives and monitoring performance are determined (OECD, 2004).

Larcker, Richardson and Tuna (2007) defined corporate governance more generally as "the set of mechanisms that influence the decisions made by managers when there is separation of ownership and control". On the other hand, (Armstrong, Guay and Weber, 2010) viewed corporate governance as "the subset of a firm's contracts that help align the actions and choices of managers with the interests of shareholders". In global economy, corporate governance rules have become of great significance. They reinforce the success of economic and organizational reforms undertaken in the dynamic environment; they enhance confidence and stability in any national economy and investment climate; they assure fairness and transparency to protect investors and indicate the level of management commitment toward good governance, control and accountability. Good corporate governance must provide proper remunerations in the form of incentives and rewards for the board and management to achieve objectives that are in the interest of the firm and its owners, and must facilitate effective monitoring. The presence of effective corporate governance system will create confidence and stability in every individual firm and economy as a whole, so that firms can obtain capital at a lower cost and can use resources more efficiently.

The controls that affect management activities and corporate performance are divided into two groups. First, internal corporate governance controls which are related to the effective

interaction among the board, management, shareholders and other internal stakeholders. Second, external corporate governance controls which external stakeholders exercise over organization (Brickley, A. and Zimmerman, L., 2010). After discussing corporate governance, its role in the firms and economy as a whole and its controls, it is worthy to shed lights on corporate governance aspects in Jordan. Jordan is a civil law country, in which obligations, responsibilities and rights should be supported by legislation. However, the legal and regulatory framework consists of securities laws, companies' laws, rules and regulations of capital market institutions, banks laws, insurance supervision laws and finally privatization laws. Jordan has recently noticed major concerns in corporate governance (CG) through adopting a set of economic, financial, legislative reforms to enhance transparency, control and accountability. The crisis caused by "Shamayleh Gate" Scandal has reinforced the concerns in consolidating the foundations and the principles of corporate governance in the economy. Corporate governance rules for listed firms at Amman stock exchange (ASE) are based on a set of principles, which are: first, the rights of shareholders, second, the equitable treatment of shareholders, third, disclosure and transparency, fourth, the role of stakeholders in corporate governance, and finally the responsibilities of the board.

Literature Review

The agency theory, which relates the agency problem (that is the conflict of interests between the principal and the agent) to the separation of control and ownership, justifies the need for corporate governance research (Berle and Means, 1933; Jensen and Meckling 1976). Corporate governance defines the structure, procedures and process of every organization in which business managed and directed. The presence of effective corporate governance mechanism eliminates the conflict of ownership and control by defining the rights, responsibilities and the interests of the principals and agents (Khan, 2011). The selection of auditors indicates the degree of corporate governance, where auditors are one of effective corporate governance tools.

Many studies have been conducted on auditor selection predominantly in the U.S with occasional studies in countries such as Australia and U.K where the auditing environments are relatively similar. The presence of extensive studies relates to developed capital markets in these countries. On the other hand, there are fewer studies in emerging capital market countries. One study (conducted in a less developed Chinese context) investigated the impact of corporate governance on auditor selection; this study used three variables to proxy for firms' internal corporate governance mechanism, i.e., the ownership concentration, the size of the supervisory board (SB), and the duality of CEO and chairman of board of directors (BoDs). The results show that firms with larger controlling shareholders, with smaller size of SB, or in which CEO and BoDs chairman are the same person, are less likely to hire a (high-quality) auditors. This suggests that when benefits from lowering capital raising costs are trivial, firms with weaker internal corporate governance mechanism are inclined to choose low-quality auditors so as to capture and sustain their opaqueness gains. On the other hand, with improvement of corporate governance, firms should be more likely to appoint high-quality auditors (Lin, Z.J and Liu, M., 2009). When they replaced the second variable (which is the size of the board) a year after with another variable (which is the effectiveness of SB), they found that effectiveness of the SB does not have any significant impact on auditor selection (Lin, Z.J and Liu, M., 2010).

Also, another study (conducted in Iran) investigated the impact of corporate governance on auditor selection; this study used six variables to proxy for firms' corporate governance mechanism, i.e., the institutional ownership, the managerial ownership, the family ownership, the ownership concentration, the board composition and the duality of CEO and chairman roles. The results show that increasing the percentage of outside directors will increase the possibility of choosing high-quality audit firms. The institutional ownership has a negative meaningful relationship with the possibility of choosing high quality audit firms. The board composition has a positive meaningful relationship with the possibility of choosing high quality audit firms for all companies in the sample. The results for other variables were varying because industry type plays the role of a modifying factor for the results (Mahdavi, Mahalouie, Ebrahimi and Sarikhani, 2011).

A relevant study of auditor selection, client firm characteristics and corporate governance finds that client firm size, level of shareholdings by foreign shareholders, and membership in the finance sector are the firm-specific variables that are positively and significantly associated with the selection of High quality auditors versus the other auditors. This finding is consistent with the findings of extant auditor selection literature in both developed markets and in the emerging market of Athens Stock Exchange (Asku, Onder and Saatcioglu, 2007). Another paper investigated the corporate governance, auditor selection and auditor switch; in this paper three variables are used to proxy for firms' internal corporate governance mechanism, i.e., the ownership concentration, the size of the supervisory board (SB), and the duality of the CEO and the chairman of the board of directors (BoDs).the results find that audit quality and switching to a larger auditor have a positive (negative) impact on earnings response coefficients (ERCs) for firms with positive (negative) abnormal earnings. On the other hand, switching to a smaller auditor has a negative (positive) impact on ERCs for firms with positive (negative) abnormal earnings (Ming, 2007). Also a relevant research investigated corporate governance, legal environment and auditor selection, the results show that the positive association between auditor selection and the firm-level governance scores is weaker (stronger) in a low (high) legal environment (Hossain, Lim, and Tan, 2010).

Research Problem
This research is intended to examine the impact of corporate governance on auditor selection in several service companies in Jordan listed in Amman Stock Exchange. Specifically, this research focuses on the influence of board size, board independence, CEO duality and institutional ownership on auditor selection. One controlling variable is considered in this research: Firm size. The importance of this research can be explained in many points. First, there are few empirical studies that examine auditor selection decisions in the emerging economies; even the auditor selection issue has a critical impact on the credibility of corporate financial reporting and the operation of capital market. Second, this research is intended to examine and evaluate the effect of corporate governance on auditor selection by considering Jordan as a case study. Third, this research is intended to shed lights on the strengths and weaknesses of corporate governance in different capital market environments and can provide meaningful information for harmonization and standardization process all over the world.

Construction of Variables and Hypotheses Development
Construction of Variables
Independent Variables
Board Size (BRD_SIZE)
literature findings suggest that large boards result in less effective coordination, increased information costs and confused decision-making (Lipton and Lorsch, 1992) and (Jensen, 1993). This variable (BRD_SIZE) is measured by the number of directors sitting on the board of a firm in a particular financial year; it takes the value of 1 if the firm's board size is less than the sample median and 0 otherwise.

Board Independence (BRD_IND)
Independent non-executive directors can monitor and control the actions of opportunistic executive directors resolving agency problem between managers and the owners (Brickley et al. 1994) and (Fama, 1980; Fama and Jensen, 1983).
The measures of this variable (BRD_IND) are:
- Proportion of outside directors on the board
- CEO tenure (the number of years the CEO has served on the board)
- Family affiliation of board of directors
This variable takes the value of 1 if it is above the sample median (Good governance) and 0 otherwise (bad governance).

CEO Duality (DUAL)
Literature findings suggest that the separation of chief executive officer and chairman roles indicates the effectiveness of the board, i.e. the separation enhances shareholders' monitoring effectiveness over managers' decisions (Yermack, 1996). This variable (DUAL) takes the value of 1 if there is a separation of the chief executive officer and chairman roles in the company and 0 otherwise.

Institutional ownership (INST_OWN)
Institutional owners have an important influence on the level of CEO and their Remuneration; and on manager's performance and activities directly through their ownership and indirectly by their ability to trade shares (Ozkan, 2006) and (Gillan and Starks, 2002). This Variable (INST_OWN) will be measured by the number of shares owned by institutional owners and the proportion of their ownership in the firm (PIO).

Dependent Variable
Auditor selection: Big Four Auditors Vs Other Auditors (AUDIT)
In this study we use a binary classification to divide auditors into two categories: the big four auditors to proxy for high-quality auditors and non-big four auditors to proxy for low-quality ones. The size and reputation of the audit firm is used to measure the quality of the auditor, where the big four auditors are considered to be : Earnest and Young, KPMG, Deloitte and Toche and Coopers. This variable takes the value of 1 if the firm is a big four audit firm (High Quality) and 0 otherwise (Low Quality).

Control Variable
Firm Size (F_SIZ)
This variable will be measured by log of assets. Small firms' selection of auditors is strictly different from large firms (Gao and Kling, 2012).

Hypotheses Development
In this study, five research hypotheses are developed and will be tested, as explained below:
H1: there is a positive meaningful relationship between board size and the possibility of selecting high quality auditors.
H2: there is a positive meaningful relationship between board independence and the possibility of selecting high quality auditors.
H3: there is a positive meaningful relationship between duality of the CEO and chairman roles and the possibility of selecting high quality auditors.
H4: there is a positive meaningful relationship between institutional ownership and the possibility of selecting high quality auditors.
H5: there is a positive meaningful relationship between firm size and the possibility of selecting high quality auditors.

Research Methodology
Data and Sample
Research data for this case study (Jordan) include data for 20 listed firms (service sector) on Amman Stock Exchange for the period 2011-2013.

Proposed Model
The following empirical model is developed to test the research hypotheses:
$y = \beta0 + \beta1 BRD\_SIZE + \beta2 BRD\_IND + \beta3 DUAL + \beta4 INST\_OWN + \beta5 F\_SIZ + \mu$
Where:
- Y is a measure for auditor selection and compliance to mandatory disclosure requirements.
- The independent variables are represented by BRD_SIZE, BRD_IND, DUAL and INST_OWN.
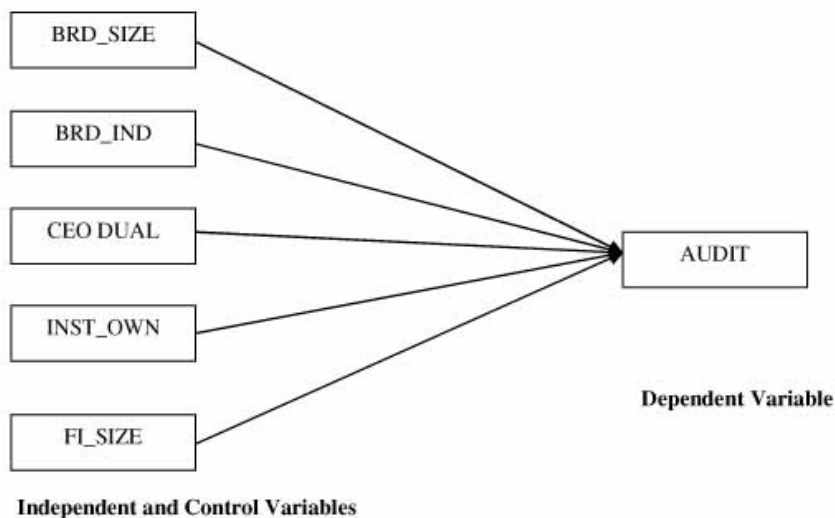- The control variable is represented by F_SIZ.

Figure 1. Research Model

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Data Analysis

In order to answer the research questions and examine their assumptions descriptive and analytical statistical methods using the statistical package (IBM SPSS), frequencies, percentages, averages, and standard deviations were used. Test of hypotheses will be based on binary logistic regression results.

Descriptive Statistics for the Study Sample

The study sample consisted of 20 service companies listed in Amman Stock Exchange; the data was collected from the reported financial statements of each company on Amman Stock Exchange site. The following tables (1) and (2) present the descriptive statistics for the dependent variable and the independent variables employed in the study.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
BSizen	60	4	16	8.62	2.762
POD	60	.40	1.00	.8338	.13432
CEOT	60	1	22	3.95	4.312
NoSHARES	60	500000	224699999	17953793.47	48231120.832
PoOWNER	60	.06	.90	.4263	.25784
Valid N (listwise)	60				

Table 2: Descriptive Statistics

		BSize	FA	BIND	CEOD	AUDITSELEC	FirmSize
N	Valid	60	60	60	60	60	60
	Missing	0	0	0	0	0	0
Mean		.48	.35	.48	.28	.63	1.65
Median		.00	.00	.00	.00	1.00	1.00
Mode		0	0	0	0	1	1
Std. Deviation		.504	.481	.504	.454	.486	.860
Variance		.254	.231	.254	.206	.236	.740
Minimum		0	0	0	0	0	1
Maximum		1	1	1	1	1	3

Table (1) and (2) shows that the mean of BRD-SIZE =.48, with maximum value of 1 and minimum value of 0 (Binary). While the mean for BRD-IND = 0.48, with maximum value of 1 and minimum value of 0 (Binary). The mean for CEO-DUAL =0.28, with maximum value of 1 and minimum value of 0 (Binary). And the mean for INST-OWNER = 17,953,793.47 as number of shares owned by the owners and a mean of = .43 as proportion of ownership, with maximum value of 224,699,999 and minimum value of 500,000 for the number of shares and a maximum value of = .9 and a minimum value of = .06 for the proportion of ownership. The mean for FIRM-SIZE = 1.65, with maximum value of 3 and minimum value of 2 (3 for large companies and 1 for small companies). The above results seem reasonable and within the normal range. The following section displays the distribution of the study sample by independent variables.

Table 3: Board Size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	31	51.7	51.7	51.7
	1	29	48.3	48.3	100.0
	Total	60	100.0	100.0	

Note from Table (3), that the board size of the sample members, of the study conducted, were ranging by (51.7%) as large board size and (48.3%) as small board size.

Table 4: Board Independence

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	31	51.7	51.7	51.7
	1	29	48.3	48.3	100.0
	Total	60	100.0	100.0	

Note from Table (4), that (51.7%) of the study sample had board independence whereas (48.3%) had no board independence.

Table 5: CEO Duality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No Duality	43	71.7	71.7	71.7
	Duality Exists	17	28.3	28.3	100.0
	Total	60	100.0	100.0	

Note from Table (5), that (71.7%) of the CEO`s in the companies of the study sample had no duality in their work and (28.3) of them had duality.

Table 6: Auditor Selection

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not Big Four	22	36.7	36.7	36.7
	Big Four	38	63.3	63.3	100.0
	Total	60	100.0	100.0	

Note from Table (6), that (36.7%) of the companies in the study sample didn't use one of the big four auditors, while on the on the other hand (63.3%) hired one of the four big auditors.

Table 7: FirmSize

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Small	36	60.0	60.0	60.0
	Medium	9	15.0	15.0	75.0
	Large	15	25.0	25.0	100.0
	Total	60	100.0	100.0	

Note from Table (7), that companies of the sample members, of the study conducted, were ranging by (60%) as small companies, (15%) as medium companies and (25%) as large companies.

Table 8: Board Size Statistics

N	Valid	60
	Missing	0
Median		9.00

Table 9: Board Size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	4	2	3.3	3.3	3.3
	5	7	11.7	11.7	15.0
	6	4	6.7	6.7	21.7
	7	10	16.7	16.7	38.3
	8	6	10.0	10.0	48.3
	9	14	23.3	23.3	71.7
	10	4	6.7	6.7	78.3
	11	2	3.3	3.3	81.7
	12	6	10.0	10.0	91.7
	14	4	6.7	6.7	98.3
	16	1	1.7	1.7	100.0
	Total	60	100.0	100.0	

Table 10: Outside Directors, CEO Tenure and Family Affiliation Statistics

		POD	CEOT	FA
N	Valid	60	60	60
	Missing	0	0	0
Median		.8600	3.00	.00

Table 11: Proportion of Outside Directors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.40	2	3.3	3.3	3.3
	.50	1	1.7	1.7	5.0
	.57	2	3.3	3.3	8.3
	.60	2	3.3	3.3	11.7
	.75	2	3.3	3.3	15.0
	.78	5	8.3	8.3	23.3
	.80	4	6.7	6.7	30.0
	.82	2	3.3	3.3	33.3
	.83	1	1.7	1.7	35.0
	.86	11	18.3	18.3	53.3
	.88	5	8.3	8.3	61.7
	.89	9	15.0	15.0	76.7
	.90	1	1.7	1.7	78.3
	.92	4	6.7	6.7	85.0
	.93	1	1.7	1.7	86.7
	.94	1	1.7	1.7	88.3
	1.00	7	11.7	11.7	100.0
	Total	60	100.0	100.0	

Table 12: CEO Tenure

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	14	23.3	23.3	23.3
	2	12	20.0	20.0	43.3
	3	10	16.7	16.7	60.0
	4	8	13.3	13.3	73.3
	5	6	10.0	10.0	83.3
	6	5	8.3	8.3	91.7
	7	2	3.3	3.3	95.0
	20	1	1.7	1.7	96.7
	21	1	1.7	1.7	98.3
	22	1	1.7	1.7	100.0
	Total	60	100.0	100.0	

Table 13: Family Affiliation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No Family Affiliation	39	65.0	65.0	65.0
	Family Affiliation Exists	21	35.0	35.0	100.0
	Total	60	100.0	100.0	

Readiness Tests and the Validity of Data for Regression Analysis

In order to answer the study questions and test their assumptions, the researcher needs to apply different regression analysis. But there are some conditions that should be available in the data in order to be sure of the integrity of that data, and the validity of the regression analysis, which are:

1-   The data must be normally distributed (Normal Distribution)

2-   The variables should be independent and not interfere with each other (Multicollinearity)

3-   Every variable must be correlated to itself more than its correlation with other variables (Correlation)

In the absence of these conditions, the researcher should not use regression analysis; he should use (Non-Parametric Tests).

Test of Normality

To test whether the data were normally distributed, the researcher used Skewness-Kurtosis test. Table (14) and (15) shows that most of the skewness values and kurtosis values are between ± 2 which indicates that most of the study variables are distributed normally (Hair et al, 2006).

Table 14: Test of Normality using Skewness-Kurtosis Test

	BSize	FA	BIND	CEOD	AUDITSELEC	FirmSize
N Valid	60	60	60	60	60	60
Skewness	.068	.645	.068	.986	-.568-	.755
Std. Error of Skewness	.309	.309	.309	.309	.309	.309
Kurtosis	-2.065-	-1.640-	-2.065-	-1.063-	-1.737-	-1.226-
Std. Error of Kurtosis	.608	.608	.608	.608	.608	.608

6.2.2. Pearson Correlation

Pearson correlation was applied to test if every variable is correlated to itself more than its correlation with other variables. This test enhances the degree of certainty in variables` independency and that they don't interfere with each other, thus, its suitability and

readiness for regression analysis. Tables (15) and (16) show that every variable is correlated to itself more than its correlation with other variables in the study.

Table 15: Pearson Correlation Analysis

		BSizen	POD	CEOT	NoSHARES	PoOWNER
BSizen	Pearson Correlation	1	.374**	.401**	-.097-	.038
	Sig. (2-tailed)		.003	.001	.462	.773
	N	60	60	60	60	60
POD	Pearson Correlation	.374**	1	.066	.314*	.327*
	Sig. (2-tailed)	.003		.617	.015	.011
	N	60	60	60	60	60
CEOT	Pearson Correlation	.401**	.066	1	-.079-	-.117-
	Sig. (2-tailed)	.001	.617		.547	.375
	N	60	60	60	60	60
NoSHARES	Pearson Correlation	-.097-	.314*	-.079-	1	.464**
	Sig. (2-tailed)	.462	.015	.547		.000
	N	60	60	60	60	60
PoOWNER	Pearson Correlation	.038	.327*	-.117-	.464**	1
	Sig. (2-tailed)	.773	.011	.375	.000	
	N	60	60	60	60	60

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

Table 16: Pearson Correlation Analysis

		BSize	FA	BIND	CEOD	AUDITSELEC	FirmSize
BSize	Pearson Correlation	1	-.080-	-.068-	.206	-.164-	-.033-
	Sig. (2-tailed)		.541	.606	.114	.211	.801
	N	60	60	60	60	60	60
FA	Pearson Correlation	-.080-	1	.199	-.229-	-.167-	-.068-
	Sig. (2-tailed)	.541		.127	.079	.203	.608
	N	60	60	60	60	60	60
BIND	Pearson Correlation	-.068-	.199	1	-.090-	-.025-	.084
	Sig. (2-tailed)	.606	.127		.494	.847	.523
	N	60	60	60	60	60	60
CEOD	Pearson Correlation	.206	-.229-	-.090-	1	-.136-	.128
	Sig. (2-tailed)	.114	.079	.494		.302	.330
	N	60	60	60	60	60	60
AUDITSELEC	Pearson Correlation	-.164-	-.167-	-.025-	-.136-	1	.499**
	Sig. (2-tailed)	.211	.203	.847	.302		.000

	N	60	60	60	60	60	60
FirmSize	Pearson Correlation	-.033-	-.068-	.084	.128	.499**	1
	Sig. (2-tailed)	.801	.608	.523	.330	.000	
	N	60	60	60	60	60	60

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

BSize: Board Size
POD: Proportion of Outside Directors
CEOT: CEO Tenure
NoSHARES: Number of shares
PoOwners: Proportion of Ownership
FA: Family Affiliation
BIND: Board Independence
CEOD: CEO Duality
AUDITSELEC: Auditor Selection
FirmSize: Firm Size

According to table (15) and (16) there is a relatively moderate correlation between BSize & CEOT (0.401) and POD & BSize (0.374) which is significant at 1% level. Among the independent variables, FIRMSIZE shows the highest correlation with the dependent variable (Auditor Selection), with a correlation coefficient of 0.499. Depending on the results of the validity and readiness of the data, we can now use regression analysis tests to answer the study questions and test the hypotheses.

Binary Logistic Regression Model
Test of the Study Hypotheses
H1: there is a positive meaningful relationship between board size and the possibility of selecting high quality auditors.
H2: there is a positive meaningful relationship between board independence and the possibility of selecting high quality auditors.
H3: there is a positive meaningful relationship between duality of the CEO and chairman roles and the possibility of selecting high quality auditors.
H4: there is a positive meaningful relationship between institutional ownership and the possibility of selecting high quality auditors.
H5: there is a positive meaningful relationship between firm size and the possibility of selecting high quality auditors.

Table (17) indicates that the regression model is in general significant at 0.01 level.

Table 17: Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	24.699	8	.002

Table 18: Classification Table[a,b]

			Predicted		
			AUDITSELEC		Percentage Correct
	Observed		Not Big Four	Big Four	
Step 0	AUDITSELEC	Not Big Four	0	22	.0
		Big Four	0	38	100.0
	Overall Percentage				63.3

a. Constant is included in the model.
b. The cut value is .500

Table (18) shows that 22 company of the study sample didn't hire one of the big four auditors, whereas 38 company hired them with an overall percentage of (63.3%).

Table 19: Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	54.769[a]	.331	.452

a. Estimation terminated at iteration number 6 because
parameter estimates changed by less than .001.

The regression results reported in table (19) show a relatively moderate value for the R2 of 0.452.

Table 20: Regression Coefficients Results

		B	S.E.	Wald	df	Sig.
Step 1[a]	BSize	-.431-	.692	.389	1	.533
	BIND	-.743-	.764	.947	1	.331
	CEOD	-1.440-	.830	3.008	1	.083
	FirmSize	2.257	.823	7.522	1	.006
	NoSHARES	.000	.000	.004	1	.950
	PoOWNER	.943	1.537	.377	1	.539
	Constant	-2.042-	1.213	2.833	1	.092

a. Variable(s) entered on step 1: BSize, BIND, CEOD, FirmSize, NoSHARES, PoOWNER.

According to regression results in table (20), only Firm Size is shown to be positively & significantly associated with Auditor Selection with a regression coefficient of .006, which is also statistically significant at 0.05 level. The other regression coefficients for the remaining independent variables failed to be statistically significant.

Research Results
The results of the analysis show that:
-        Board Size (BRD-Size) does not have a significant effect on Auditor Selection.
-        Board Independence (BIND) does not have a significant effect on Auditor Selection.
-        CEO Duality (CEOD) does not have a significant effect on Auditor Selection.

- Institutional Ownership (INST-OWNER) does not have a significant effect on Auditor Selection.
- Firm Size (FirmSize) has a significant effect on Auditor Selection.

Discussion and Conclusions

The results of this study show that only the Firm Size variable has a significant effect on Auditor Selection, although in the researchers` opinion the other variables are very important and do affect Auditor Selection due to their importance. This study has proven the opposite were the data analyzed did not show this relationship for the chosen sample maybe due to the small sample that was undertaken. Also, the current research recommends:

- Results from testing the hypotheses reflect that Firm Size has a significant effect on Auditor Selection. And that the other variables don't have a significant effect on the Auditor Selection. Thus, the management of companies needs better understanding of critical factors affecting the Auditor Selection and how to measure them.
- Additional Future research can be done on other sectors for additional benefits.
- Additional Future research can be done on other variables and their effect on Auditor Selection.

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