

# BOARD CHARACTERISTICS AND INDUSTRY SPECIALIST AUDITOR : THE MODERATING ROLE OF CONCENTRATED OWNERSHIP

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## ABSTRACT

This study illustrates the impact of concentrated ownership on the monitoring role of board of directors in term of high quality audit proxy by industry specialist auditor. The integration of agency theory and resource dependency theory reflects that board has different incentives and abilities to monitor management. The analyses of Turkish listed firms indicates that board characteristic complement high quality audit when ownership concentration at low levels. When ownership concentration is at high level, this is not the case- proposing that there is substitution influence between concentrated ownership and board characteristics in term of the demand for high quality audit.

**KEYWORDS :** Board characteristics, industry specialist auditor, concentrated ownership in Turkey firms.

## 1. INTRODUCTION

Is board monitoring role equally important in all firms, independent of their ownership structure? researcher report that there is no one best way exit. For instance, based on institutional analysis and strategic governance the effectiveness of corporate governance depend on environment characteristics and interdependent organizations. Corporate governance has been defined as a system with interrelated process and practise with institutional complementariness, where governance practise will be more effective in particular combination. Moreover, those combined mechanism of corporate governance lead to various patterns of it (Aguilera, Filatotchev, Gospel, & Jackson, 2008). The monitoring effectiveness depend on a bundle of corporate governance mechanisms instead of any single one. Consequently, studies investigating a particular mechanism of corporate governance regularly address vast connection between different corporate governance mechanisms and neglect their substitution and complementary influence on various firm outcome. Shareholder depend on different mechanisms of corporate governance in order to supervising their agents for instance, external auditor (Watts & Zimmerman, 1990), direct shareholder supervision, board control (Renee B Adams, Gray, & Nowland, 2010). The main issue of this study is to examine the extent to which

board depend on external audit as mechanism of monitoring contingent on concentrated ownership. Previous literature by Tuggle, Sirmon, Reutzel, and Bierman (2010) report that board monitoring effectiveness not only depend on directors incentive but also on their ability to do it. Consistently, shareholders ability to monitor management behavior rely on their incentive (the magnitude of shareholders investment) and ability (Kaplan & Minton, 1994). This paper view consistent with the argument that corporate governance effectiveness contingent on ownership structure. More specifically, this paper concentrates on board monitoring function measured by clients demand for high quality audit (industry specialist auditor) and examine the moderate role of concentrated ownership on the relationship between board characteristics and audit quality. To empirically examine whether board characteristics considers an important matter, one trend of studies have examined the influence of board characteristics on firm performance, but the result is inconsistent and mixed (Finkelstein & Hambrick, 1996a). Another trend of studies proposed that there is direct relationship between board monitoring function and board strategic behavior and indirect relationship with firm performance (Deutsch, 2005). Furthermore, a multitude of exogenous and endogenous variables beyond board characteristics impact on firm performance (Kosnik, 1987). Therefore, instead of evaluate the effectiveness of board monitoring by observing the performance of the firms, a more relevant evaluation might be achieved by examining board strategic decision to align the interests between principle and agent (Sundaramurthy, 1996). The decision of high quality auditor engagement is one of the strategic behavior of board of directors, this paper examine extent to which

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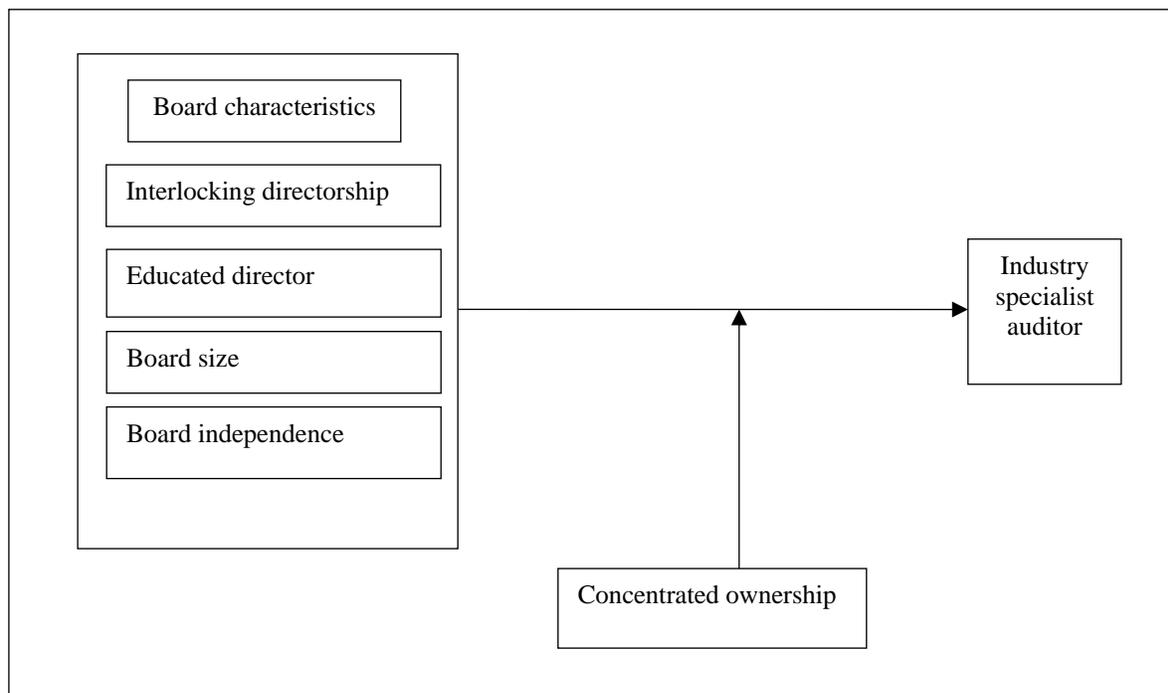
board behavior contingent on ownership structure. Based on the integration of agency-dependency theory board of director has distinct incentive and ability to monitor management. This study propose that board characteristics substitute with ownership structure when it come in monitoring function. it suggests that firms characterized with dispersed ownership, board monitoring function will be more effective. This is due to the problem of coordination between shareholders, thus shareholders lack of incentives and abilities to oversight management directly (Davies, 2000). In contrast, concentrated ownership directly monitor management behavior as a consequence of their incentive and abilities (Bohinc & Bainbridge, 2001). External audit represents as a significant mechanism to improve shareholder wealth. External auditor attests that all investors are treated equally and the financial reports are in conformity with contractual agreement. External auditor look at corporate board as it is clients even though board of directors review audit fees including audit scope and plan (Carcello, Hermanson, Neal, & Riley, 2002). Moreover, the OECD Principles of corporate governance (2004) reports that corporate board should work in the best interests of stakeholders, act on a fully informed basis, with due diligence and care. In many countries, aforementioned fiduciary duties take the form of statutory obligations, and some of them for instance, United State US and Canada take the form of extensive law (Desender, Aguilera, Crespi-Cladera, & Garcia-Cestona, 2009). Theoretical and empirical contributions has been achieved by this study. In term of theoretical contribution, This study provides greater understanding about the impact of ownership structure on the mechanism of corporate governance. Aguilera and Jackson (2003) report the importance of environment-organization interdependence on the effectiveness of corporate governance and the need to move behind "under-contextualized" logics. Studies examined the effectiveness of corporate governance mechanism got mixed results and the main reason beyond that might be the neglect of different pattern of corporate governance in various organizational settings. This study is based on this suggests that the relationship between various corporate governance characteristics is contingent on ownership structure of the firms. More specifically, this study develop the conceptual framework of agency theory through integrate agency-dependency theory to analysis board strategic in terms of monitoring management behaviors, depend on ownership structure. Whereas, agency theory have not addressed that boards possess distinctive incentive and ability to conduct the monitoring function, this study propose that board has heterogeneous incentives and abilities. Consequently, board of directors differ in their monitoring function. This study framework reflects that to get clear

understanding about board incentive and ability to monitor management must control for ownership structure because the interaction between those variables leads to various pattern of board monitoring. From an empirical phase, by reviewing Continental European environment, this study examine external soundness of corporate governance studies addressed in the Turkey context. Moreover, because this study examine the moderate role of concentrated ownership, this study result add to the comparative literature in corporate governance through display how different patterns of corporate governance practices related to ownership structure.

## 2. Theoretical Framework and Hypotheses

Corporate governance considers an interrelated mechanisms in which some practices will be effective and relevant only in particular combinations, leading to various arrangements of corporate governance (Aguilera et al., 2008). In this regard, this study adopt a contingency approach to investigate how the ownership structure impacts board behavior towards the selection of audit quality. This study points of view based on the integrated of both of agency theory and resource dependence theory views and expand agency theory propositions by concentrating on how ownership structure influence not only on clients incentive to demand high quality audit, but also their ability to do so. Whereas, clients incentive is underlined by agency theory, the clients ability to demand strong monitoring mechanism stems from resource dependency theory (Hillman, Cannella, & Paetzold, 2000). Furthermore, this study argue that the monitoring role of board of directors rely on the incentives and abilities of various structures of firm ownership to oversight management directly (instead of depend on the corporate board). This study proposes that ownership structure of the firm is crucial in analyzing the monitoring function, as their combination leads to various patterns of board demand for audit quality. Previous studies concentrated on clients demand for audit quality. Most of the previous literature on clients demand for high audit quality is based on a theoretical model, that there is complementary or substitution influence between corporate governance and audit quality (Gacar, 2016; Karaibrahimoglu, 2013). Another stream of studies examine the relationship between corporate governance quality and audit quality (Zaman, Hudaib, & Haniffa, 2011). Nevertheless, conceptual link on the mechanisms address aforementioned relationship-specifically when it focus on board impacts on clients demand for high audit quality. In order to build the study model and evaluate the adopted contingency approaches, in the first step, the relationship between board characteristics and audit quality have been addressed. Secondly, the study examines the strength of the relationship between board

characteristics and audit quality contingent on the ownership structure. The conceptual model of the study shows in Figure 1.



**Fig 1. The relationship between board characteristics, concentrated ownership, and industry specialist auditor**

### 2.1 Interlocking directorship and industry specialist auditor

Interlocking directorships indicates to those directors who occupy more than one boards of director. Based on resource dependency theory, interlocking directors considers as human capital because they play significant advisory role. Interlocking directorship gets strong qualification and capabilities to make effective decisions as a consequence of their experience through working in more than one board of directors (Harris & Shimizu, 2004). Interlocking directors skills, knowledge and expertise help firms to improve management monitoring function and thus enhance their financial reporting quality (Hashim & Rahman, 2011). Previous empirical studies suggest that interlocking directorship improves earning quality and little is known in terms of clients demand for high audit quality, accordingly, it is infer that interlocking directorship increase clients demand for high audit quality. In contrast, previous literature by Courtney and Jubb (2005), Davison, Stening, and Wai (1984a) and Seabright, Levinthal, and Fichman (1992) indicates that interlocking directorship have negative influence on board monitoring mechanism. This indicates that interlock directorship improve the relationship between the clients and audit firms. So, interlock organizations are more likely to hire the same auditor for longer time. Thus, this study suggests that cognitive diversity proxy by interlocking directorship is related to

audit quality and it propose the following hypothesis :

H1 : There is a relationship between interlocking directorship and audit quality.

### 2.2 Education Level and industry specialist auditor

Board of directors with educational background provide a valuable assets to the firms. Directors with higher education background for instance, Master and PhD degree will improve the value of human capital (Plian, 1995) or having strong cognitive capability, higher ability for decision processing, and propensity to innovation which equip them with an effective solution for decision making function (Bantel & Jackson, 1989). Therefore, educated directors are less likely to experience turnover as their turnover portray a loss to the firms (Ou-Yan & Shuang-shii, 2007) as educated directors serves some functional background for instance problem definition, strategic choices and information procession (Datta & Rajagopalan, 1998). In contrast, previous studies report adverse relationship between educated directors and board monitoring mechanisms in term of industry specialist auditor (Cheng & Leung, 2012a). The logic interpretation is educated director are less conservative in making strategic decisions and the have strong incentive to engage in management earning. According to the mixed results of previous literature, the study hypothesis is

H2: There is a relationship between educated directors and audit quality.

### 2.3 Board size and industry specialist auditor

Previous studies addressed the influence of board size (number of directors occupy corporate board) on the effectiveness of corporate governance in firms (Beiner, Drobetz, Schmid, & Zimmermann, 2004). Nonetheless, In regards to board size, Jensen (1993) and Mustafa, Che-Ahmad, Chandren, & Sitraselvi (2017) reported that small board might be more effective than large board of directors as a result of free riding and coordination problems. They suggested that the appropriate size of corporate board should be not greater than 8 to 9 directors. On the other side, some scholars argued that smaller board lack of necessary management capabilities. Based on resource dependency propositions, scholars have suggested that large board of directors have greater collective information consequently this will influence positively to improve firm performance. Furthermore, previous studies reported that larger board possess more specialists from different areas and might provide better advice and counsel to the chief executive officer (Dalton, Daily, Johnson, & Ellstrand, 1999). However, the coordination problem between board member might overweigh the advantages behind having larger corporate boards (Dalton et al., 1999; Guest, 2009). This indicates that there is inconsistency in the results of previous studies regarding the relationship between board size and audit quality, therefore requires further investigation. Based on this, the study hypothesis is :

H3 : There is a relationship between board size and audit quality.

### 2.4 Board Independence and industry specialist auditor

Board independence represents as one of the important characteristics that improve the effectiveness of board of directors. Agency theory assume that non-executive directors are more likely to enhance board monitoring role (Jensen & Meckling, 1979; Shleifer & Vishny, 1997). Organizational studies reported that independent directors acts to improve and protect their legitimacy, particularly in the investor community (Filatotchev, Lien, & Piesse, 2005). This align with the propositions that non-executive directors play significant role to improve management monitoring function (Chancharat, Krishnamurti, & Tian, 2012). In addition, they provide balance in decision making particularly, stakeholders protections (Nugroho & Eko, 2012). Furthermore, studies suggested to occupy more independent directors to protect shareholders from opportunistic activities of executive directors (Jensen & Meckling, 1979). Therefore, non-executive directors are essential characteristics to improve board effectiveness and efficiency (Haniffa & Hudaib, 2006). Fama and Jensen (1983) reported that independent directors possess valuable expertise and they provide wide connection to the firm, that influence positively to improve board monitoring effectiveness. On the other hand, Lee et al. (2004) document a negative

relationship between an independent board of directors and frequency of auditor resignation. This is because board independence has a crucial role in mitigating the negative impacts inherent in auditor resignation. Based on the inconsistency of previous studies results, the study hypothesis is :

H4 : There is a relationship between board size and audit quality.

### 2.5 Board characteristics and industry specialist auditor : contingent on concentrated ownership

Board monitoring function has been studied extensively in corporate governance studies (Adams & Ferreira, 2009), specifically as it relates to the impact of board characteristics (e.g. interlocking directorship, educated directors, board size and board independence) (Ararat, Süel, Aytekin, & Alkan, 2014; Finkelstein & Hambrick, 1996b), there is inconsistency in the results of previous studies on those agency theoretic suggestions in respect to board monitoring function. Dalton, Hitt, Certo, and Dalton (2007) a review of audit quality literature do not provide support for this relationship. Aguilera and Jackson (2003) reports that critics of the agency theory viewpoint have notice its "under-contextualized" nature and, therefore, its inability to clarify adequately the variety of governance provisions across diverse contexts. The best combination of governance mechanisms should be considered as a bundle where the effectiveness of one mechanism contingent on the effectiveness of the others (Rediker & Seth, 1995). Concentrated ownership is an internal governance mechanism that could range from numerous small shareholders and a sole majority owner. This study argue that there is complementary or substitution impact between concentrated ownership and the corporate board in regards to monitoring function. Specifically, an integration of agency theory and resource dependence theory indicates that board of directors have typical incentive and ability to demand high audit quality (Hillman et al., 2000). In particular, they suggest that, rather than assuming that boards of directors with an equal number of independent directors will assure the same monitoring effectiveness, it is assume that those independent directors could possess unequal incentive and ability to monitor. Based on this, the study suggests that the positive influence of board independence on audit quality is contingent on the firm concentrated ownership. Therefore, the study propose the following hypotheses :

H5 : Concentrated ownership moderate the relationship between board characteristics and industry specialist auditor.

H5a : Concentrated ownership moderate the relationship between interlocking directors' and industry specialist auditor.

H5b : Concentrated ownership moderate the relationship between educated directors' and industry specialist

auditor.

H5c : Concentrated ownership moderate the relationship between board size and industry specialist auditor.

H5d : Concentrated ownership moderate the relationship between board independence and industry specialist auditor.

**3. RESEARCH METHOD**

**3.1 Population and sampling**

Secondary data has been utilized from 2011 to 2015. This

could assist to examines the regulatory changes in 2012. This study sample exclude financial institutions because these kind of institution implement different corporate governance code than non-financial firms (Maury, 2006). Bursa Istanbul (BIST) shows that there are about 411 listed firm in the end of 2015 and table 1 explain sample selection process.

**Table (1) : Procedures of sample selection**

<b>Firms listed in Borsa Istanbul Webpage in 2015</b>	<b>411</b>
Less : financial institution and holding	142
Less : firms with missing corporate governance information	15
Less : firms with missing directors profiles	70
Less : firms with missing interlocking directors information	38
Final sample observations	146

**3.2 Research model and measurement**

The first model of this study investigate the relationship between board characteristics measured by Interlocking directorship, education level, board size and board independence and control variables and audit quality

measured by industry specialist auditor. This might help to meet this study objective and answer it is questions. Therefore, developed hypotheses of this study are examined using the following model :

$$SPECLST\_MS_{it} = \beta_0 + \beta_1INTD_{it} + \beta_2EDUC_{it} + \beta_3BOAS_{it} + \beta_4BOAI_{it} + \beta_5CONC_{it} + \beta_6FSIZE_{it} + \beta_7LEVE_{it} + \beta_8FAGE_{it} + \epsilon_{it}$$

Where :

For each firm (i) and each year (t)

- SPECLST\_MS<sub>it</sub> = Industry specialist auditor
- INTD = Interlocking directorship
- UDUC = Education level
- BOAS = Board size
- BOAI = Board Independence
- FSIZE = Firm size
- LEVE = Leverage
- FAGE = Firm age
- ε<sub>it</sub> = Error term supposed to be normally scattered with constant differences

Model 2 investigates the moderating influence of board independence and control variables with audit concentrated ownership in the relationship between quality. The structure equation of the regression is as interlocking directorship, education level, board size and follows :

$$SPECLST\_MS_{it} = \beta_0 + \beta_1INTD_{it} + \beta_2EDUC_{it} + \beta_3BOAS_{it} + \beta_4BOAI_{it} + \beta_5CONC_{it} + \beta_6CONC*INTD_{it} + \beta_7CONC*EDUC_{it} + \beta_8CONC*BSIZE_{it} + \beta_9CONC*BINDE_{it} + \beta_{10}FSIZE_{it} + \beta_{11}LEVE_{it} + \beta_{12}FAGE_{it}$$

$$+ \varepsilon_{it}$$

Where :

For each firm (i) and each year (t)

SPECLST_MS <sub>it</sub>	=	Industry specialist auditor
INTD	=	Interlocking directorship
UDUC	=	Directors level of education
BOAS	=	Board size
BOAI	=	Board independence
CONC	=	Concentrated ownership
FSIZE	=	Firm size
LEVE	=	Leverage
FAGE	=	Firm age
$\varepsilon_{it}$	=	Error term supposed to be normally scattered with constant differences

### 3.3 Measurement of Variables and Descriptive Statistics

Table 2 shows the number of observation, mean, standard deviation, min and max for SPECLST\_MS, INTD, EDUC, BSIZE and BINDE and control variables (FSIZE, LEVE and FAGE). Consistently with previous literature by Craswell, Francis, and Taylor (1995) this study defines industry market share as the fraction of

industry total assets audited by particular audit firm relative to the total assets for all firms in that particular industry. Table 2 shows the average of SPECLST\_MS is about 0.176 ( a standard deviation of 0.234) with a ranged from a minimum of 0.000 to a maximum of 0.984.

**Table (2) : Descriptive Statistics**

Variable	Observations	Mean	Standard deviation	Minim	Maxim
SPECLST	724	0.176	0.234	0.000	0.984
INTD	724	3.875	2.673	0	12
EDUC	724	2.303	1.849	0	8
BOAS	724	6.783	2.128	2	15
BINDE	724	1.812	0.909	0	5
CONC	724	-	-	0	1
FSIZE	724	1.904	1.781	1.433	2.608
LEVE	724	0.481	0.279	0	1.707
FAGE	724	33.825	15.856	1	80

The percentage of interlocking directors to the total number of directors work in the board of directors is used to measure interlocking directorship. The average number of interlocking directorship is about 3.875 with a standard deviation of 2.673 with a ranged from a minimum of 0 and maximum of 12 directors work in more than one directorship. The percentage of educated directors to total number of director is used to measure

education level. The mean number of ( PhD and Master degree) is about 2.303 with a minimum of 0 to 8 and a standard deviation of 1.849. The average size of corporate boards is about 6.783 ~ 7. Corporate board in Turkey is smaller than United Kingdom (UK) and United State (US) which is about 8.01 and 12.48 respectively (Peasnell, Pope, & Young, 2005). The meran number of independent directors is about 1.812 with standard

deviation of 0.909. and a range from of 0 to 5. Concentrated ownership is measured using binary measurement. Table 3 shows the correlation between the study variables. The values of the correlation between all variables is less than 0.80. This indicates that there is no multicollinearity problems present between the study variables. The value of Variance influence Factor (VIF) and tolerance factor (1/VIF) also indicates that the data

free from multicollinearity this is because VIF results for independent and control variables are less than 5 as proposed by (Hair, Black, Babin, & Anderson, 2010). The correlation finding reflects that there are positive correlation present between INTD, BSIZE, FSIZE, and FAGE expect of CONC that possess a negative correlation with SPECLST\_MS. Whereas, EDUC, BINDE and LEVE are not correlated with SPECLST\_MS.

**Table (3) : Pearson correlation (N= 724)**

	SPECLS T_MS	INTD	EDUC	BSIZE	BINDE	CONC	FSIZE	LEVE	FAGE	VIF
SPELST_M S	1.000									-
INTD	0.263	1.000								1.25
EDUC	0.051	0.109	1.000							1.12
BSIZE	0.144	0.385	0.002	1.0000						1.40
BINDE	0.061	0.091	-0.020	0.330	1.000					1.16
CONC	-0.210	-0.071	-0.081	-0.031	-0.028	1.000				1.11
FSIZE	0.469	0.277	0.012	0.296	0.209	-0.225	1.000			1.25
LEVE	0.054	0.012	-0.033	0.035	0.042	-0.136	0.245	1.0000		1.09
FAGE	0.279	0.064	-0.144	0.214	0.129	0.150	0.101	-0.0662	1.0000	1.15

Notes : Two-tailed, bold= correlation are significant at  $P < 0.05$ . \*FSIZE is natural log of total assets. \*\*FAGE is natural log of firm age.

### 3.4 Tests for Random and Fixed effects Regression

This study depends on Hausman test in order to select between fixed and random effects. This is because Huasman test examine whether there is any correlation between ( $U_i$ ) and the regressors (Greene, 2003). If  $\text{pro} > \text{chi}^2$  is  $< 0.05$  (i.e., significant) the fixed effect model is used (Greene, 1997). The finding of Husman test displays probability more than 0.05 therefore, the null hypothesis has been rejected and random effects is more appropriate for estimation purpose for the study. Consequence, the individual error component is not correlated with regression variables, then OLS estimator is consistent. As a result of the existence Autocorrelation and heteroscedasticity as characterized in panel data, this study uses Feasible Generalized Least Square (FGLS) to correct for this problem as (Wooldridge. J. M., 2002) proposed.

### 3.5 Results of the Models

The reported Wald Chi 2 utilising FGLS for Model1 and Model2 are about (327.92 and 340.14) respectively (Table 3.4). This displays that independent variables show about 327% and 340% of the deviation in the dependent variable. This suggest that, around 327% and 340% of the variance in the industry specialist auditor is explained by

INTD, EDUC and BSIZE. The findings of this study are align with that of agency-dependency suggestions, that board characteristics possess significant impact on clients demand for high audit quality in terms of SPECLST\_MS. In particular, INTD possess significant influence on board monitoring mechanism. The finding for INTD is highly significant at 1% level of significance with P-value of (0.000) for Model1. Besides, the degree of influence on SPECLST\_MS is about (0.68) and t-value of 4.46. This shows that any increase in INTD by one unite will leads to increase about 0.68 on clients demand for high audit quality. The influence of educated directors on SPECLST\_MS in contrast to another analytical results on Table 3.4 shows that educated directors possess greater influence on clients demand for high audit quality. The same argument is proposed by (Mustafa et al., 2017).

The finding in Table 3.4 reflects that education level of board of directors effects positively to improve clients demand for high audit quality with P-value of (0.072) and t-value of (1.80). this shows that for every one qualified directors with (PhD and master degree), clients demand for high audit quality will increase by 0.12.

Table (3.4) : Regression Models (FGLS)

Item	Model 1				Model 2			
	Coefficient	Standard Errors	t-value	p-value	Coefficient	Standard Errors	t-value	p-value
INTD	0.068	0.015	4.46	0.000***	0.068	0.153	4.44	0.000***
EDUC	0.012	0.007	1.80	0.072*	0.010	0.007	1.40	0.163
BSIZE	-0.035	0.016	-2.19	0.028**	-0.033	0.161	-2.04	0.041*
BINDE	-0.011	0.008	-1.42	0.155	-0.011	0.008	-1.44	0.150
CONC	-0.031	0.145	-2.19	0.029**	-0.038	0.145	-2.28	0.023**
INTD*CONC	-	-	-	-	-0.018	0.007	-2.39	0.017**
EDUC*CONC	-	-	-	-	0.010	0.126	0.84	0.400
BSIZE*CONC	-	-	-	-	0.007	0.012	0.61	0.540
BINDE*CONC	-	-	-	-	-0.007	0.007	-0.88	0.379
FSIZE	0.053	0.004	12.30	0.000***	0.052	0.004	11.79	0.000***
LEVE	-0.031	0.257	-1.22	0.223	-0.032	0.025	-1.25	0.210
FAGE	0.003	0.000	7.50	0.000***	0.003	0.000	7.47	0.000***
Wald chi <sup>2</sup>	327.92				340.14			
Prob > chi <sup>2</sup>	0.000				0.000			

Notes : \* = significant at 10%, \*\* = significant at 5% and \*\*\* = significant at 1%.

The same argument is proposed by (Cheng & Leung, 2012b). BSIZE and SPECLST\_MS is another relationship analysed on Table 3.4. There is significant negative relationship between BSIZE and SPECLST\_MS. The finding from the analysis explains that an inverse relationship present between BSIZE and SPECLST\_MS. This reflects that an increase in BSIZE might leads to decrease in client demand for SPECLST-MS at rate of -0.035 with P-value of (0.028) at 5% level of significant, this infer that the more directors occupy corporate board, the lower will be the clients demand for SPECLST\_MS. The same argument is reported by Abbott, Parker, and Peters (2004) report that small board of directors experience a lower incidence of restatements as they work to effective communication and there is less probability of a communication failure. This propose that when directors communicate effectively, they mitigate the incidence of confusion and then reduce errors, consequently they are more sensitive to the issues that could influence their investors and shareholders confidence, specifically concerning financial reporting issues. The influence of BINDE is not significant (Table 3.4). Its influence is about -0.11 for SPECLST\_MS. The implication of this findings that for every increase in board member independence by one unite, SPECLST\_MS would rise by 0.11. The result of this study align with that of Karaibrahimoglu (2013) that there in adverse relationship between BINDE and SPECLST\_MS as a result of substitution influence between the two variables. The moderating influence of wedge with INTD

on SPECLST\_MS is inverse and significant. Thereby showing not only a fall on all the impact from 0.68% to 0.18% but also a fall in SPECLST\_MS for every increase in INTD. Past researches by Fan and Wong (2002) and Park and Shin (2004) have supported the outcome of the moderating effects of concentrated ownership on INTD. This demonstrates the substitution impact between corporate governance and audit quality in the presence of high concentrated ownership. There is an insignificant moderating impact of EDUC on SPECLST\_MS as opposed to a significant relationship as a result of the moderating influence reducing the impact on SPECLST\_MS from 0.12 to 0.10. This result is being supported by previous study Wu, Chen, and Lee (2016) that CONC positively influence on the relationship between corporate governance and earning management. Thus, this undermine client incentive and ability to demand high audit quality. This conclusion is consistent with that of previous studies (González & García-Meca, 2014; La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1999). BSIZE has a positive but insignificant moderating influence on SPECLST\_MS. Compared to previous analysis, this influence was negative and insignificant as well. However, in terms of its effect it fell from 0.35% to 0.07%. The outcome of this analysis has never been supported by any study whatsoever. Family ownership with high CONC have strong incentive to increase their interests at the expenses of minority shareholders as a result of their ability to monitor management directly instead of external monitoring mechanism (Claessens,

Djankov, Fan, & Lang, 2002). Then, this issue block corporate governance effectiveness and efficiency that effect negatively to reduce clients incentive to demand high quality audit. The moderating impact of BINDE is insignificant and negative. The effects are negative in both instances. The important feature however, is that the effects on SPECLST\_MS has reduced from 0.011 to 0.007. The same opinion is proposed by Wu et al. (2016) that independent directors impact positively client incentive to involve with earning manipulation in the presence of high concentrated ownership. Consequently, they are less likely to hire strong monitoring mechanism. The results of control variables (Table 3.4) shows that FSIZE, LEVE and FAGE have significant relationship with firm performance. To sum up, the study results show that board characteristics (e.g. INTD, EDUC and BSIZE) increase client incentive and ability to demand SPECLST\_MS. While, this relationship is weaken in the presence of high CONC in the environment of Turkey.

#### 4. Conclusion

This study investigates the relationship between INTD, EDUC, BSIZE and BINE and SPECLST\_MS of public listed companies in BIST. In order to answer this study questions, this study employ cross-sectional time-series FGLS regression to controls of the issues of Autocorrelation and heteroscedasticity on a sample of 146 listed Turkish firms. This study demonstrations that there is a relationship between board characteristics and high quality audit measured by SPECLST\_MS. The results seem to suggest that greater concentration need to be taken by firms to have more INTD, EDUC, and small BSIZE which is argued and found in this study to have significant implication on clients incentive and ability to demand high quality audit. Nevertheless, the result finds weak relationship between board characteristics and audit quality in the presence of CONC. The research thus, recommends that policy makers encourage listed firms to make their boards with various attitudes of directors and issue new regulation. Those regulations should be more appropriate for family firms with high concentrated ownership. The study also recommends further investigations that will include more data, inclusion of other characteristics of directors both before and after the regulatory changes of 2012 for comparison of clients demand before and the amendments.

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