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Abdul-Azeez Adeniyi ALAO<sup>1</sup>  
Opeoluwa Paul FAKAYODE<sup>2</sup>  
Oluwasegun Temitayo ODUNSI<sup>3</sup>

## NARROWING THE EXPECTATION GAP IN NIGERIAN QUOTED FIRMS VIA EMPLOYEES' SHAREHOLDING

This study examined the influence of employees' shareholding on the Expectation Gap (EG) in auditing, focusing on Nigerian quoted firms. A cross-sectional survey research design was adopted for the study, along with the purposive sampling method. Three hundred and ten (310) responses were used for the analysis. The data were analysed using the Partial Least Square Structural Equation Model (PLS-SEM) at a 5 percent level of significance. The result showed that employees' shareholding ( $\beta = 0.374$ ;  $t = 7.362$ ) has a significant positive effect on the external auditor's independence factor. The study concluded that employees' participation is a good practice to be employed by the Nigerian quoted firms in addressing the challenge of EG in those firms. Therefore, the study recommended that quoted firms should strengthen the independence of external auditors by allowing employees' participation in the ownership structure to reduce the EG.

**Keywords:** employees' shareholding, expectation gap, external auditors, PLS-SEM, Nigerian quoted firms.

### 1. INTRODUCTION

The audit profession engages in an essential economic activity that helps protect stakeholders' interests in corporate entities by reinforcing their trust in financial reporting processes. The Expectation Gap (EG), a worldwide issue, affects the perception and effectiveness of auditing. The EG refers to the difference between what the general public and other stakeholders expect from auditors and what auditors believe their responsibilities entail. This gap varies in intensity and complexity across different regions due to cultural, economic, and legislative factors. The EG is a multifaceted problem with global variations, but regulatory changes, improved communication, audit education, and corporate

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<sup>1</sup> Abdul-Azeez Adeniyi Alao, Olabisi Onabanjo University, Ago-Iwoye, Nigeria; e-mail: alao.adeniyi@oouagoiwoye.edu.ng (corresponding author). ORCID: 0000-0003-1710-9734.

<sup>2</sup> Opeoluwa Paul Fakayode, Olabisi Onabanjo University, Ago-Iwoye, Nigeria; e-mail: fakayode.opeoluwa@oouagoiwoye.edu.ng. ORCID: 0009-0007-7897-7777.

<sup>3</sup> Oluwasegun Temitayo Odunsi, Olabisi Onabanjo University, Ago-Iwoye, Nigeria; e-mail: odunsi.oluwasegun@oouagoiwoye.edu.ng. ORCID: 0009-0009-5621-3658.

governance practices/principles are some of the crucial strategies to bridge the gap in any environment.

Accordingly, it has been reported by Alao et al. (2022) and Alao (2024) that EG can be reduced in any society through “defensive and constructive approaches”. “The defensive approach entails the use of audit education while the constructive approach considers the adoption of corporate governance principles/practices in narrowing the EG”. Additionally, it was previously stated by Soyemi et al. (2021) that one of the key activities that both ensures the correctness of the financial information contained in financial reporting systems and stimulates them is corporate governance. Alao et al. (2020) defined corporate governance as the relationship between shareholders and the people in charge of overseeing both the management of corporate entities and governance.

Furthermore, the two (2) categories of corporate governance mechanisms/factors are internal and external (Almutairi, Quttainah, 2019; Aditya, 2020; Payne, Moore, 2022). Board structures, ownership agreements, and managerial incentives are examples of internal mechanisms, according to Payne and Moore (2022), whereas external elements are those that come from outside sources and support internal governance systems. Furthermore, according to the information provided by the “Association of Chartered Certified Accountants” (ACCA), the external mechanisms of corporate governance include the regulatory framework, market discipline, external auditors, disclosure, and transparency, while the internal factors of corporate governance include the board of directors, internal controls and risk management, executive compensation, ethical standards, and corporate culture (ACCA, 2020). Additionally, the above submissions are in compliance with the Nigerian Code of Corporate Governance (NCCG, 2018), which governs the management of corporate companies.

More so, Alao (2024) further established the existence of EG in the Nigerian listed enterprises, lending confirmation to earlier research on the EG’s global subsistence. Therefore, one of the hypothetical statements in the work of Alao et al. (2023) – that is, “employees’ shareholding has no significant effect on the independence factor of the external auditor” – forms the basis of the current investigation. The study proposed that allowing employees to take part in the ownership structure of Nigerian listed companies can help maintain the independence of the external auditors, hence reducing the EG. Employees’ shareholding is one of the internal mechanisms of corporate governance as contained in the above documents/submissions (NCCG, 2018; ACCA, 2020; Payne, Moore, 2022). As a result, the present study validates the aforementioned hypothetical statement.

Therefore, the alignment of interests between employees and shareholders is a key benefit of employee shareholding which can improve the quality of financial oversight especially where the employee possesses basic accounting/finance knowledge and potentially narrow the ES. Therefore, when employees become shareholders, their perspectives shift to include not only their roles as workers but also their interests as owners (Pendleton, Robinson, 2011). According to Fitzsimons and Douglas (2011), companies with significant employee ownership may need to improve internal communication and transparency, which could help in narrowing the EG by aligning the employees’ expectations with the auditors’ responsibilities.

Consequently, by understanding how employee ownership influences perceptions and expectations of audits, companies can implement better governance practices and improve the reliability of financial reporting. Therefore, adopting the constructive approach and improving on the works of Alao et al. (2022), and Alao et al. (2023), the present study

investigated the effect of employees' shareholding on the EG in Nigerian quoted firms. The study was further divided into five (5) sections. The first section addressed the introduction, literature review, and development of the hypothesis were presented in the second section, the third section dealt with the methodology, the fourth section displayed the results and discussions, and the fifth section highlighted the conclusion and recommendations.

## 2. LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESIS

The term EG was initially coined by Liggio in 1974 as substantiated in the literature. Meanwhile, Lee's investigation in the United Kingdom in 1969 marked the first exploration of public perceptions regarding auditors' roles (Porter, 1990). Conceptually, Liggio (1974) described EG as the difference between the expected performance levels perceived by financial statement users and those anticipated by auditors. Recently, Ashibogwu et al. (2023) characterised EG as the discrepancy between users' expectations and the audit report's contents, while Alao (2024) viewed EG as the divergence in auditors' and stakeholders' opinions on auditors' responsibilities. Furthermore, Alao et al. (2022) categorised EG into four (4) factors: going concern, independence, responsibility, and reliability. This study focused on the independence factor as a proxy for EG, specifically external auditors' independence.

On the other hand, employees' shareholding has been used in the literature as employees' ownership, employees' participation, and Employee Stock Ownership Plan (ESOP). According to Cheng and Ji (2021), the concept of employees' shareholding/ESOP was first introduced in the mid-1950s by an American economist, Louis Kelso. Kelso described ESOP as a financial arrangement that deals with funds provision for a business as well as making employees business owners. Maghraoui and Zidai (2016) conceptualised employee ownership as – a source of funds for corporate entities; a means of supporting business growth; and a tool for improving productivity and profitability. Conceptually, employees' shareholding is described in the study as the level of participation of the firm's employees in the ownership structure of the entities where they are employees. Above all, Bova (2012) posited that corporate entities with a policy of employee participation usually employ a more transparent information communication that benefits all investors.

Theoretically, the present study is anchored on the "theory of inspired confidence". "The theory originated from the work of Dutch Professor Theodore Limperg, specifically his publication 'Theory of inspired confidence' in 1932". Theodore Limperg, a Dutch professor who lived in the early 1900s, developed the theory of inspired confidence, which offers a fundamental viewpoint on the purpose and benefits of auditing. This according to "Theodore Limperg" helps promote the smooth operation of capital markets, hence the main goal of an audit is to increase stakeholders' trust in the financial statements that a company provides. This idea highlights the auditor's responsibility in bridging the gap between the firm management and its stakeholders through the validation of financial information, which forms the basis for a large portion of modern auditing practice.

Furthermore, the "theory of inspired confidence", which emphasises the crucial role auditors play in promoting credibility and trust in financial reporting, continues to be a pillar of auditing philosophy. Finally, the findings from this study corroborate Limberg's idea of the "theory of inspired confidence". Therefore, the "theory of inspired confidence" is conceptualised in this study as a theory that explains enhancing stakeholders' assurance in the audit procedures of the Nigerian quoted firms via upholding the independence of

external auditors by creating avenues for employees' shareholding thereby narrowing the EG in our society corporate entities.

Investigating the subsistence of EG in auditing, Porter (1990) examined the nexus between the expectation gap and the duties of external auditors in New Zealand. The study employed a qualitative approach to gather the required data and used non-parametric tests to establish the differences in the opinions of the target respondents. Findings from the study explained the audit expectation-performance gap which gave room for the attempts to reduce the gap. Furthermore, Humphrey et al. (1993b) investigated the perceptions of stakeholders on the issues regarding EG in Britain. The authors adopted the survey design by administering a questionnaire among the stakeholders while Analysis of Variance (ANOVA) was employed to test the formulated hypotheses. The study's findings revealed differences in the opinions of the auditors and the stakeholders on auditors' responsibilities.

Corroborating the submission of Porter (1990), Shbeilat (2013) investigated the influence of "The Jordanian Corporate Governance Code" (JCGC) on the dependability of audit reports and the extent to which the JCGC assists in reducing the EG. The study design was based on a mixed-method approach. The results demonstrated that the JCGC's principles helped in narrowing the EG. Similarly, Shebeilat et al. (2017) adopted a qualitative approach to examining investors' evaluation of the level to which corporate responsibility can address the EG. The authors considered the JCGC while the results showed that in Jordan, a robust corporate accountability system played a remarkable role in reducing the EG.

Also, Alaraji (2017) utilised the analytical descriptive method to assess how corporate governance principles influence the reduction of the EG between external auditors and stakeholders in Iraq. The results indicated that implementing corporate governance practices had a positive effect on narrowing the EG within the external audit career in Iraq. Meanwhile, Akther and Xu (2020) examined the effect of EG on stakeholders' assurance in Bangladesh. The authors employed the Structural Equation Model to test the hypotheses just like the present study. The results showed that EG harms stakeholders' confidence in Bangladesh. From the Nigerian environment, Fijabi (2020) examined the nexus between corporate governance and auditors' expectations with a focus on Pension Fund Administrators (PFAs). The study employed the Pearson Product Moment Correlation coefficient to test the connection between the NCCG and the EG in Nigeria. Findings from the study revealed that effective accountability as a corporate governance practice has a positive contribution to the expectation gap.

Kozłowski (2014) conducted a theoretical and empirical review of studies on the nexus between employees' participation and economic results of firms. After a thorough review, the author concluded that various programmes of employees' participation in corporate entities have a positive influence on the performance of those companies. Maghraoui and Zidai (2016) conducted an empirical study to validate the causality nexus between employee ownership and firm performance in French corporate entities. Using the data of one hundred and twenty (120) French quoted firms, employee ownership was measured in terms of the percentage of shares held by the companies' employees. Findings from the study revealed that employee ownership has a positive relationship with firms' performance.

Cheng and Ji (2021) investigated the effect of employees' stock ownership plans on the cost of capital of three thousand, three hundred and sixty (3,360) Chinese-listed corporate entities from 2014 to 2018. Regression models were used to test the hypotheses. The price/earnings-to-growth (PEG) ratio was used to measure the cost of equity capital while

a dummy variable was employed to proxy employees' stock ownership plan. The results showed that employees' stock ownership plan has a positive influence on the cost of capital of small enterprises and non-state-owned enterprises. Abdelhamid (2022) examined the effect of employees' share ownership on corporate governance of one hundred ten (110) French-listed companies from 2009 to 2012. The author employed panel data regression models in testing the hypotheses. The findings revealed a significant positive effect of employees' share ownership and employee participation on corporate governance.

Based on the above submissions especially that of Porter (1990); Alaraji (2017); and Fijabi (2020), this study was conducted to ascertain the impact of employees' shareholding, one of the components of internal corporate governance practices, in narrowing the EG in auditing profession hence, study's hypothesis is formulated thus;

Ho: "Employees' shareholding has no significant effect on the independence factor of the external auditor"

### 3. METHODOLOGY

This study aimed to investigate the nexus between employees' shareholdings and the EG in Nigerian quoted firms hence, the survey research design was employed. The process involved the administration of a questionnaire among directors, external auditors, and shareholders of quoted firms in Nigeria using the purposive sampling technique. Meanwhile, a pilot test was earlier conducted physically in Abeokuta, Ogun State among twenty-three (23) respondents and, on that basis, the questionnaire was modified accordingly before the final administration. Consequently, the adjusted questionnaire was shared among the respondent groups via Google Forms.

The study's questionnaire was designed for respondents to select the appropriate option from a list of alternatives provided. The questionnaire was divided into two (2) parts. Part A entailed respondents' details while Part B focused on questions relating to the hypothesis. Part B comprised Likert-scale questions on the independence of external auditors and employees' shareholding. Seven (7) questions were raised on the independence of external auditors and six (6) on employees' shareholding. The questions were rated on a 4-point Likert scale (Strongly Agree, Agree, Disagree, and Strongly Disagree). The questionnaire was adapted from the works of Akther and Xu (2020), Olojede et al. (2020); Nguyen and Nguyen (2020); Saidu and Gidado (2018); Enyi et al (2012); Schelluch and Gay (2006). Three hundred and ten (310) valid responses were used for the study. The information about the respondents is provided in Table 2 below.

In testing the nexus between employees' shareholdings and the AEG, the Partial Least Square Structural Equation Model (PLS-SEM) was employed via SmartPLS version 4.0. Structural Equation Modeling (SEM) is a statistical analysis technique that combines factor analysis and multiple regression analysis to analyse the underlying relationships among latent constructs or variables, providing insights into the structural relationships within a dataset. Consequently, the use of PLS-SEM is adjudged appropriate for this study because the study employed latent constructs (constructs that are measured via manifest questions in the questionnaire). Secondly, the study's objective is tailored toward prediction.

The use of PLS-SEM for this kind of study is supported by previous studies of Sarstedt et al. (2021); Akther and Xu (2020); and Adedeji (2020). Meanwhile, as stated in the introductory section, the present study was conducted to validate one of the hypothetical statements postulated in the work of Alao et al. (2023).

Table 1. Reliability Test

S/N	Constructs	Items	Cronbach Alpha Coefficients
1.	Employees Shareholdings	6	0.84
2.	Independence Factor	7	0.88

Source: SPSS Output (2024).

Table 1 above shows the results from the pilot test. The test was conducted to test the reliability of the items contained in the questionnaire. The Cronbach Alpha coefficients range from 0.84 to 0.88 (which is greater than 0.70) showing that it is within the acceptable range as outlined by George and Mallery (2003).

#### 4. RESULTS AND DISCUSSIONS

The study employed SmartPLS version 4 in testing the formulated hypothesis. Consequently, the Confirmatory Factor Analysis (CFA) otherwise known as measurement model analysis was conducted on the latent variables. The process led to the deletion of certain manifest latent variables whose factor loadings are below the threshold of 0.50. This is supported by the rules governing the application of SmartPLS (Ramayah et al., 2018). Therefore, Independence Factor (IF) 1 and 2 as well as Employees' Shareholdings (ES) 4 and 5 were deleted accordingly.

Table 2. Respondents' Data

Variables	Label	Frequency	Percentage
<b>Respondents' Group</b>	Auditors	201	64.8
	Directors	34	11.0
	Shareholders	75	24.2
	<b>Total</b>	<b>310</b>	<b>100.0</b>
<b>Gender</b>	Female	268	86.5
	Male	42	13.5
	<b>Total</b>	<b>310</b>	<b>100.0</b>
<b>Age (Years)</b>	Less than 30	21	6.8
	30 – 39	43	13.9
	40 – 49	105	33.9
	50 – 59	104	33.5
	60 and above	37	11.9
	<b>Total</b>	<b>310</b>	<b>100.0</b>
<b>Highest Educational Qualification</b>	OND/NCE	7	2.3
	B.Sc./HND	113	36.5
	MBA/M.Sc.	148	47.7
	PhD	35	11.3
	Others	7	2.3
	<b>Total</b>	<b>310</b>	<b>100.0</b>
<b>Professional Qualification</b>	ACA/CNA/ACCA	94	30.3
	ACTI	25	8.1
	CISA/CFA	2	0.6
	FCA/FCNA/FCCA	120	38.7
	Others	69	22.3
	<b>Total</b>	<b>310</b>	<b>100.0</b>

Source: Field Survey (2024).

Table 2 above exhibited the demographic pattern of the study's respondents. The table showed that 65% of the respondents are external auditors hence, they possess the required expertise about the subject matter; 79% of the respondents are above 40 years of age hence, the majority of the respondents are adults; 37% have B.Sc./HND while 48% have MBA/M.Sc. hence, the majority of the respondents possess the required educational qualifications; 39% have FCA/FCNA/FCCA hence, the majority of the respondents are professionally qualified to understand the subject matter being investigated in the study.

Table 3. Descriptive and Normality Analysis

Name	Type	Missings	Mean	Median	Scl. min	Scl. Max	Obs. min	Obs. Max	Std dev.	Excess kurtosis	Skws	Cramér-von Mises p value
IF3	ORD	0	3.558	4	1	4	1	4	0.575	1.330	-1.099	0.000
IF4	ORD	0	3.813	4	1	4	1	4	0.422	7.005	-2.377	0.000
IF5	ORD	0	3.761	4	1	4	1	4	0.509	6.423	-2.365	0.000
ES1	ORD	0	3.252	3	1	4	1	4	0.580	0.584	-0.294	0.000
ES2	ORD	0	3.094	3	1	4	1	4	0.628	0.113	-0.230	0.000
ES3	ORD	0	3.077	3	1	4	1	4	0.672	-0.122	-0.285	0.000

Source: SmartPLS Output (2024).

The results of the descriptive and normality tests are displayed in Table 3. The table revealed the minimum and maximum values as 1 and 4 respectively. The values of standard deviation ranged from 0.422 to 0.672; kurtosis ranged from -0.122 to 7.005; and skewness ranged from -2.377 to -0.230. All the values are within the acceptable range as recommended by Bryne (2010), Kline (2011), and Ryu (2011). Besides, the p-value for each of the manifest variables is 0.000 hence, they are significant at all levels.

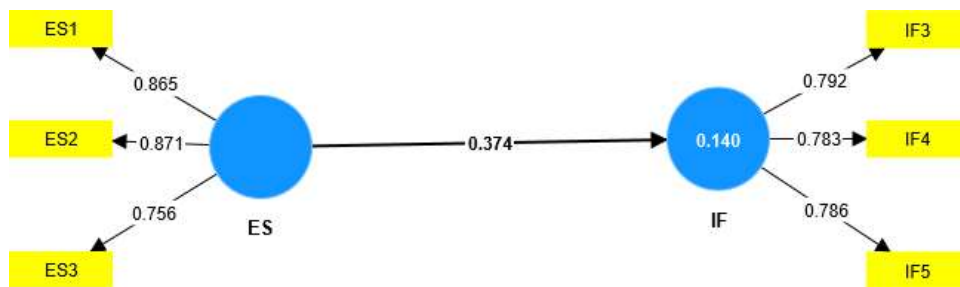


Figure 1. Measurement Model

Source: SmartPLS Output (2024).

Figure 1 above displayed the measurement model while the figures contained therein were further analysed in Table 4. From the table, the factor loadings ranged from 0.756 to 0.871 which are greater than the threshold of 0.70 as recommended by [Hair Jr. et al., (2010); Hair Jr. et al., (2017)]; Cronbach Alpha and composite reliability values ranged from 0.705 to 0.871 while Average Variance Extracted (AVE) values ranged from 0.620 to 0.693 which are higher than the threshold of 0.50 [Hair Jr. et al., (2017); Ramayah et al., (2018)]. Based on the results, it is reported that the study has no problem with

the constructs' convergent validity and reliability as each of the values computed is higher than the respective threshold.

Table 4. Constructs' Convergent Validity and Reliability Analysis

Constructs	Measurement Items	Factor Loadings	Cronbach's Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
ES	ES1	0.865	0.783	0.824	0.871	0.693
	ES2	0.871				
	ES3	0.756				
IF	IF3	0.792	0.705	0.721	0.830	0.620
	IF4	0.783				
	IF5	0.786				

Source: SmartPLS Output (2024).

Table 5. Fornell & Larcker's Analysis Test

	ES	IF
ES	<b>0.832</b>	
IF	0.374	<b>0.787</b>

Source: SmartPLS Output (2024).

Table 6. Heterotrait-Monotrait ratio of correlations (HTMT) Test

	ES	IF
ES		
IF	0.462	

Source: SmartPLS Output (2024).

The discriminant validity results are shown in Tables 5 and 6 above. Fornell and Larcker's test revealed that the values on the diagonal ranged from 0.787 to 0.832 and these are higher than the off-diagonal value 0.374. Furthermore, the HTMT test revealed a value of 0.462 which is below the threshold of 0.90. Therefore, for each of the tests, discriminant validity is justified.

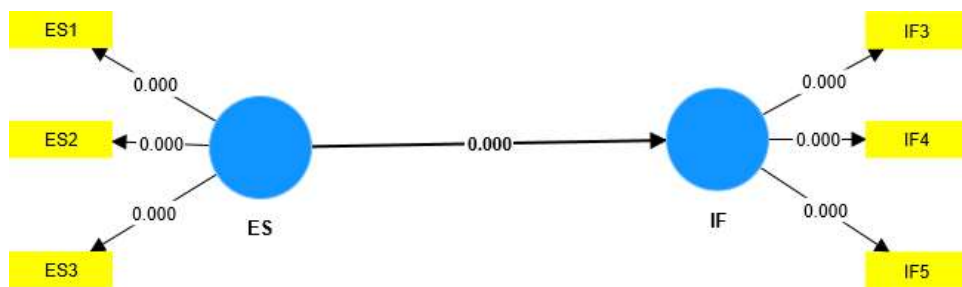


Figure 2. Structural Model

Source: SmartPLS Output (2024).



Figure 2 above shows the study's structural model analysis. The bootstrapping with 5000 resamples that was employed with the aid of PLS-SEM assisted in the determination of path coefficients, standard errors,  $t$ -value, and significant levels to examine the relevance of the hypothesised nexus between employees' shareholdings and external auditors' independence factor.

Table 7. Model Fit Test

	Saturated model	Estimated model
SRMR	0.113	0.113
d_ ULS	0.266	0.266
d_ G	0.095	0.095
Chi-square	193.35	193.35
NFI	0.644	0.644

Source: SmartPLS Output (2024).

Table 7 above displays the results of the Goodness of Fit (GoF). Standardised Root Mean Square Residual (SRMR) equals 0.113 which is a bit higher than 0.10 while Normed Fit Index (NFI) equals 0.64 which is below 1 but close to 1 hence, the model is a good fit.

Table 8. Collinearity Check Test

	VIF
ES1	1.586
ES2	1.899
ES3	1.574
IF3	1.174
IF4	1.727
IF5	1.719

Source: SmartPLS Output (2024).

Table 8 above shows the results of the collinearity check test. For the test, the values for the Variance Inflation Factor (VIF) ranged from 1.174 to 1.899 which is below 5 hence, there is no collinearity problem with the data set.

Table 9. Path Coefficients Test

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
ES -> IF	0.374	0.380	0.051	7.362	0.000***

Note: \*\*\* implies 1% Significance Level

Source: SmartPLS Output (2024).

Table 9 above reveals the results for the path coefficients. The coefficient value ( $\beta$ ) equals 0.374; the  $t$ -value equals 7.362 while the  $p$ -value equals 0.000. The coefficient value of 0.374 indicated a positive effect of employees' shareholdings on the external auditors' independence factor while the  $t$ -value of 7.362 and  $p$ -value of 0.000 indicated a significant effect of employees' shareholdings on the external auditors' independence factor.

Meanwhile, the  $p$ -value of 0.000 is an indication of significance at all levels of significance (10%, 5%, and 1%). Therefore, the null hypothesis which stated that employees' shareholding has no significant effect on the external auditors' independence factor is rejected. Above all, it can be concluded that employees' shareholding has a significant positive effect on the external auditors' independence factor.

Furthermore, the study revealed that employees' shareholdings should be encouraged in corporate entities to guarantee external auditors' independence and stakeholders' confidence; ensure that external auditors conduct their work without bias and undue influence; and also ensure there is no form of influence by the management or any third party in the discharge of external auditors' responsibilities.

Table 10. Coefficient of Determination ( $R^2$ )

	<b>R-square</b>	<b>R-square adjusted</b>
IF	0.14	0.137

Source: SmartPLS Output (2024).

Table 10 shows the results for the study's coefficient of determination ( $R^2$ ). The  $R^2$  value of 0.14 revealed that fourteen (14) percent variation in the endogenous construct (IF) is accounted for by the exogenous variable (ES) hence, according to Cohen (1988), ES has a moderate level of predictive accuracy on IF.

Table 11. Assessment of Effect Size ( $f^2$ )

	<b>ES</b>	<b>IF</b>
ES		0.162
<b>IF</b>		

Source: SmartPLS Output (2024).

Table 11 shows the result for the effect size ( $f^2$ ). From the table, ES has a value of 0.162 hence, according to Cohen (1988), ES has a medium effect on IF.

Table 12. Assessment of Predictive Relevance for Manifest Variable

	<b>Q<sup>2</sup>predict</b>	<b>PLS-SEM_RMSE</b>	<b>PLS-SEM_MAE</b>	<b>LM_RMSE</b>	<b>LM_MAE</b>
IF3	0.119	0.542	0.466	0.545	0.455
IF4	0.042	0.414	0.294	0.412	0.291
IF5	0.050	0.498	0.359	0.497	0.357

Source: SmartPLS Output (2024).

Table 12 exhibited the results for the predictive relevance of the manifest variables. The  $Q^2$ predict values ranged from 0.042 to 0.119. Each of the values is greater than zero (0) hence, the indication that the exogenous variable (ES) has predictive relevance on the endogenous construct (IF).

The present study examined the effect of employees' shareholding on the EG in auditing, focusing on Nigerian quoted firms. In this study, the EG was measured via external auditors' independence factor. The results as shown in Table 9 above revealed that employees' shareholding has a significant positive effect on external auditors' independence factor in Nigerian quoted firms. This means that quoted firms that create

room for employees' shareholdings can uphold the independence of external auditors, especially in ensuring that external auditors carry out their statutory duty without bias and undue influence from those saddled with governance responsibilities. Thus, the upholding external auditors' independence factor would in turn reduce the EG in auditing.

In terms of the literature reviewed, findings from this study aligned with the postulation of the theory of inspired confidence. That is, the study aligned with the fact that stakeholders' confidence in the audit procedure of the Nigerian corporate entities can be improved when the independence of external auditors is upheld via employees' participation in the ownership of those entities. More so, the finding is supported by the works of Kozłowski (2014); Maghraoui and Zidai (2016); and Cheng and Ji (2021) who found a positive connection between employees' shareholding and firms' performance in Chinese-listed firms. Similarly, Abdelhamid (2022) conducted a study from which it was also reported that the participation of employees on the board of corporate entities has a significant positive influence on corporate governance in French-listed companies.

## 5. CONCLUSION AND RECOMMENDATIONS

The study, therefore, concluded that the participation of employees in the ownership of corporate entities where they work is a good internal corporate governance practice that can be employed by corporate entities in addressing the problem of the EG in auditing especially, in the Nigerian quoted firms. According to this study, firms that put in place good internal corporate governance practices especially, employees' shareholdings, are capable of enhancing the independence of their external auditors.

Thus, the upholding of external auditors' independence factor via employees' participation would in turn reduce the EG. Finally, the study recommended based on its findings that Nigerian quoted firms should put in place such a policy that encourages employees' participation in the ownership of the firms where they work. This would help to uphold the independence of external auditors; boost stakeholders' confidence and in turn narrow the EG in corporate entities.

Furthermore, this study is limited to one of the approaches for narrowing the AEG. That is the constructive approach. Also, the study has considered the effect of one of the internal corporate governance mechanisms in narrowing the EG. That is employees' shareholding. Lastly, the study has used only the primary source of data. Therefore, future researches are encouraged in the aspect of narrowing the AEG via the defensive approach as well as the consideration of other corporate governance mechanisms (internal or external) to further supplement the literature. However, the study has contributed to the existing literature on the EG in auditing conceptually by examining the influence of employees' shareholding on the EG; methodologically by testing the nexus between employees' shareholding and the AEG via PLS-SEM; and theoretically by alluding its findings to the theory of inspired confidence.

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**Authors' Contributions:** **Alao, A.A.** designed the study, wrote the first draft, designed the questionnaire (Google form), participated in the data collection process, and performed the data analysis; **Fakayode, O.P.** worked on the empirical review, data collection process, and discussion of

findings. **Odunsi, O.T.** worked on the theoretical review, data collection process, and conclusion. **Alao, A.A., Fakayode, O.P., Odunsi, O.T.** proofread, revised, and finalised the whole paper.

**Conflict of Interest:** The authors declare no conflicts of interest.

**Data Availability:** The data used to establish the objective of this study were obtained by the authors via questionnaire administration with the aid of Google form design.

All authors have read and agreed to the published version of the manuscript.

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