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MANAGEMENT TURNOVER AND AUDITOR SWITCHING: THE MODERATING EFFECT OF FINANCIAL DISTRESS

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ABSTRACT

This study examines the effect of management turnover on auditor switching, with financial distress as a moderating variable. The research employs panel least squares regression on a sample of firms, analyzing the direct and interaction effects between management turnover and financial distress. The findings reveal that management turnover has a significant positive effect on auditor switching, and this relationship is further strengthened when financial distress is present. The moderating role of financial distress highlights its importance in amplifying the likelihood of auditor switching during leadership transitions. The study concludes that organizations experiencing both management turnover and financial distress are more prone to auditor changes, underscoring the interplay between leadership dynamics and financial conditions. Limitations related to sample scope and reliance on secondary data are acknowledged, and future research is encouraged to explore broader contexts and incorporate additional variables such as corporate governance and regulatory influences.

Keywords: Management Turnover; Auditor Switching; Financial Distress

ABSTRAK

Penelitian ini mengkaji pengaruh pergantian manajemen terhadap pergantian auditor dengan distress keuangan sebagai variabel moderasi. Penelitian ini menggunakan regresi panel least squares pada sampel perusahaan untuk menganalisis efek langsung dan interaksi antara pergantian manajemen dan distress keuangan. Hasil penelitian menunjukkan bahwa pergantian manajemen memiliki pengaruh positif signifikan terhadap pergantian auditor, dan hubungan ini semakin kuat ketika distress keuangan hadir. Peran moderasi distress keuangan menyoroti pentingnya kondisi keuangan dalam memperkuat kemungkinan pergantian auditor selama transisi kepemimpinan. Penelitian ini menyimpulkan bahwa organisasi yang mengalami pergantian manajemen dan distress keuangan cenderung lebih rentan terhadap pergantian auditor, yang mencerminkan hubungan dinamis antara kepemimpinan dan kondisi keuangan. Keterbatasan terkait cakupan sampel dan penggunaan data sekunder diakui, serta penelitian selanjutnya disarankan untuk mengeksplorasi konteks yang lebih luas dan mengintegrasikan variabel tambahan seperti tata kelola perusahaan dan pengaruh regulasi.

Kata Kunci: Pergantian Manajemen; Pergantian Auditor; Distress Keuangan

INTRODUCTION

Management turnover and auditor switching are interconnected processes that play a vital role in maintaining the integrity and transparency of corporate governance. Management turnover often reflects organizational changes triggered by performance issues, governance challenges, or shifts in strategic priorities. On the other hand, auditor switching is the replacement of an organization's current external audit firm, which often accompanies management changes, especially during periods of financial distress. When financial distress serves as a moderating variable, the relationship between management turnover and auditor switching becomes even more complex, as organizations must navigate heightened risks and stakeholder scrutiny (Fadhilia, 2017)

Auditor switching is a critical event in organizational governance, as it often signals shifts in financial oversight and stakeholder expectations. Firms may opt for auditor switching due to concerns over audit quality, independence issues, or regulatory requirements. For example, (Wijaya & Santoso, 2019) demonstrated that financially distressed firms frequently resort to auditor switching to address stakeholder concerns about financial statement

credibility. Similarly, (Lee & Kao, 2018) identified that the adoption of international financial reporting standards (IFRS) and external economic pressures intensify the likelihood of auditor changes, especially when management transitions occur.

The interplay of these variables has been widely studied, but gaps remain in understanding how financial distress influences the relationship between management turnover and auditor switching. Most existing research, such as that by (Monika & Noviari, 2021), focuses on individual drivers, leaving the compounded effects of financial distress unexplored. Financial distress exacerbates the challenges of management turnover by intensifying performance pressures, reducing organizational stability, and complicating auditor transitions. This research aims to address these gaps by analyzing how financial distress moderates the impact of management turnover on auditor switching, contributing novel insights to the field.

This study aims to investigate the moderating role of financial distress in the relationship between management turnover and auditor switching. The hypothesis posits that financial distress heightens the likelihood of auditor switching as firms under duress seek to rebuild trust and enhance audit quality. In this context, auditor switching becomes a strategic response to governance and reporting challenges arising from management changes and financial instability.

An overview of the situation regarding management turnover and companies experiencing financial distress.

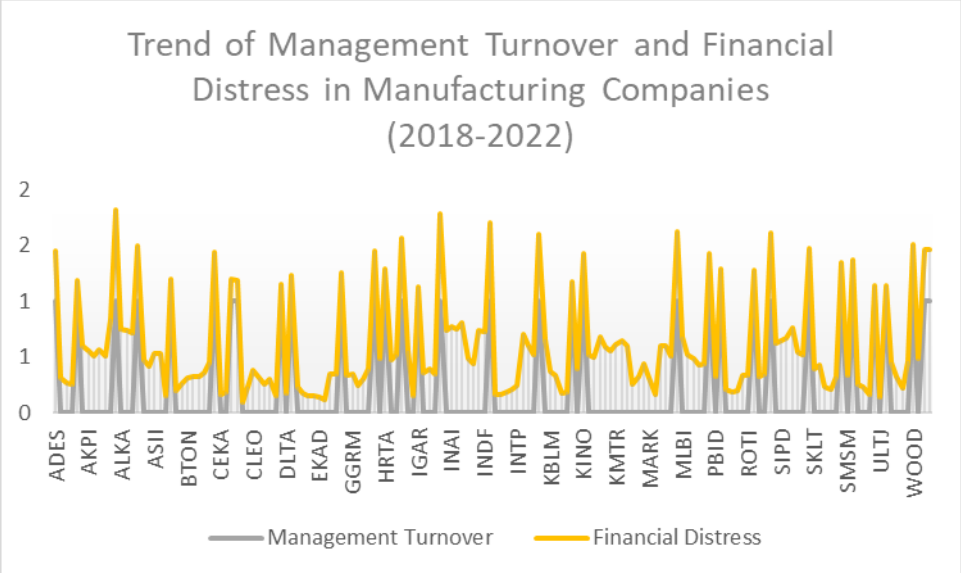

Figure 1. Trend of Management Turnover and Financial Distress in Manufacturing Companies (2018-2022)

The graph depicts the trends of management turnover (gray bars) and financial distress (yellow lines) across various manufacturing companies from 2018 to 2022. The financial distress indicator generally shows higher and more frequent fluctuations compared to the relatively stable management turnover. Some companies exhibit significant spikes in financial distress, potentially indicating periods of financial instability. In contrast, management turnover remains consistent across most companies, suggesting a less direct correlation between the two variables. This visualization highlights how financial distress varies more dynamically than management changes across the manufacturing sector during the specified period.

By integrating recent empirical findings, this study provides a comprehensive understanding of the mechanisms at play. For instance, studies such as those by (Layli &

Arifin, 2020) emphasize how auditor transitions can improve financial reporting quality during times of distress, while research by (Djatnicka et al., 2023) suggests that these transitions are often necessitated by regulatory demands and stakeholder expectations. This research incorporates perspectives from high-impact sources, ensuring its relevance to both academic discourse and practical governance challenges.

Ultimately, this research offers valuable insights into the dynamics of management turnover, auditor switching, and financial distress, contributing to a better understanding of how organizations navigate complex transitions during periods of heightened risk and uncertainty.

Agency Theory

Agency theory provides a foundational framework for understanding the dynamics between management turnover, auditor switching, and financial distress. At its core, agency theory addresses the inherent conflicts of interest between principals (e.g., shareholders) and agents (e.g., management). These conflicts, known as agency problems, arise when agents prioritize their personal goals over the principals' interests, leading to decisions that may not align with the organization's long-term objectives (Yahya & Cahyana, 2020). During financial distress, these conflicts are magnified, as stakeholders demand greater transparency and accountability in organizational governance (Wulandari et al., 2023).

In the context of management turnover, agency theory suggests that shareholders replace management when they perceive that existing leaders are not acting in their best interests. Financial distress further exacerbates this perception, as poor performance or opaque decision-making by management intensifies stakeholder concerns. New management is often seen as a solution to realign organisational priorities with stakeholder expectations. However, this transition introduces additional scrutiny over the firm's financial reporting practices, often necessitating changes in the auditing process to restore trust (Dasman et al., 2023).

Auditor switching can be explained through agency theory as a mechanism to reduce information asymmetry between management and shareholders. When management turnover occurs, especially during financial distress, stakeholders may question the independence and quality of the incumbent auditor. The potential for collusion between previous management and the auditor increases scepticism, prompting the appointment of a new auditor. This change serves as a signal to shareholders and other stakeholders that the organisation is committed to transparent and independent financial oversight (Wulandari, Purba, et al., 2024).

Financial distress plays a moderating role in this dynamic by amplifying agency conflicts and accelerating the need for governance changes. Firms in financial distress face heightened scrutiny from investors, creditors, and regulatory bodies (Yahya et al., 2023). This pressure makes both management turnover and auditor switching more likely, as these actions are seen as critical steps to regain stakeholder trust (Wulandari, Muslim, et al., 2024). Agency theory highlights that these changes are not merely procedural but strategic responses to address the principal-agent conflicts that become more pronounced in times of financial instability.

In summary, agency theory comprehensively explains the interconnectedness of management turnover, auditor switching, and financial distress. It underscores the role of these changes as tools to mitigate agency problems, improve transparency, and restore stakeholder confidence. By applying this theoretical framework, researchers can better understand the rationale behind organizational decisions during periods of financial uncertainty.

Management Turnover and Its Impact on Auditor Switching

Management turnover frequently occurs when shareholders or other stakeholders perceive that current executives are not fulfilling their fiduciary duties or aligning with organizational goals. Such transitions are often motivated by dissatisfaction with leadership, especially during financial distress, when performance pressures and scrutiny increase. Auditor switching, a significant governance decision, is closely linked to these management changes, as new leadership often seeks to distance itself from previous practices, ensure audit independence, and realign oversight mechanisms with fresh strategic objectives (Wulandari & Anggraeni, 2024).

Agency theory provides a robust framework for understanding this relationship. According to the theory, conflicts of interest between principals (shareholders) and agents (management) can lead to misalignment of objectives. During financial distress, these conflicts are magnified, as managers may prioritize short-term survival strategies over long-term organizational health. When management is replaced, the incoming leaders often aim to restore trust and demonstrate accountability, which frequently involves reevaluating existing auditor relationships. Auditor switching, in this context, is a tool to reduce perceived collusion between outgoing management and the existing auditor, thereby addressing stakeholder concerns about biased or inadequate financial oversight (Khan et al., 2017).

In practice, management turnover and auditor switching work in tandem to address agency conflicts and realign organizational governance with stakeholder expectations. New leadership, seeking to restore organizational credibility, leverages auditor transitions to ensure unbiased oversight of financial reporting. This dual strategy not only reduces risks associated with information asymmetry but also sends a strong signal of accountability and transparency, essential for regaining trust in challenging times. Together, these changes form a critical part of an organization's response to governance crises, as supported by both theoretical insights and empirical evidence (Palanca & Zamudio, 2013)

Empirical evidence supports the close relationship between management turnover and auditor switching. For instance, (Susanto, 2018) found that companies experiencing financial distress often replace auditors following leadership changes to rebuild investor confidence. Similarly, (Fianti & Badjuri, 2023) noted that in politically affiliated firms, management turnover heightened the likelihood of auditor switching, as new executives sought to distance themselves from the perceived biases of prior management-auditor relationships. These findings highlight that auditor changes serve not only practical purposes in ensuring compliance but also symbolic ones in signaling improved governance and transparency. Thus, H1: **Management Turnover has a positive affect on Auditor Switching**

Financial Distress Moderates the Effect of Management Turnover on Auditor Switching

Financial distress is when a company faces serious financial difficulties, such as insolvency or liquidity issues (Hidayat et al., 2023). In this context, the departure of top executives or the appointment of new management can intensify the desire to change auditors, particularly if previous financial reports are seen as inadequate or unreliable. Financial distress exacerbates the agency problem between shareholders and managers, increasing the likelihood of auditor switching as firms seek to restore investor confidence (Alisa et al., 2019).

When a company faces financial distress, both shareholders and creditors may pressure the management to make changes that can improve the financial outlook. As part of this strategy, switching auditors could be seen as a method to ensure more rigorous or unbiased financial reporting, especially when previous audits may have been seen as complicit in hiding financial problems (Darmayanti et al., 2021).

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Agency theory provides a useful lens for understanding why financially distressed firms may switch auditors. According to this theory, there is a principal-agent relationship between the shareholders (principals) and managers (agents) (Yahya et al., 2024) . In the case of financial distress, the agency problem is magnified as managers may be tempted to engage in earnings management to protect their bonuses, job security, or reputation. Shareholders, concerned with the firm's financial performance and future viability, may pressure for changes that ensure more accurate financial reporting. In this context, a new management team may switch auditors to distance the company from past management practices, aiming for a "clean slate.".

Zarefar et al., (2019) examined how financial distress influences the likelihood of auditor switching when a new management team is installed. Their study found that financial distress heightened the likelihood of management turnover and was positively associated with auditor switching, particularly when new managers sought to change the company's strategic direction and rebuild trust with stakeholders.

Darmayanti (2017) analyzed the effect of financial distress on audit outcomes and auditor switching, showing that the severity of a firm's financial distress amplifies the likelihood of management turnover leading to auditor changes. This study found that companies in financial distress are not only more likely to switch auditors but also tend to select auditors with more lenient or flexible approaches to reporting. This could be seen as an attempt to maintain some degree of positive financial reporting despite adverse circumstances. Then, **H2:** Financial distress moderates the relationship between management turnover and auditor switching

RESEARCH METHODS

This section outlines the methodology used to examine how financial distress moderates the relationship between management turnover (X) and auditor switching (Y). The approach combines qualitative and interpretive techniques, grounded theory, and phenomenology, offering a comprehensive view of the dynamics behind corporate governance decisions in distressed firms.

1. Data Collection Methods

The study will utilize both **primary** and **secondary data**. **Primary Data:** Semi-structured interviews will be conducted with key decision-makers, such as Chief Executive Officers (CEOs), Chief Financial Officers (CFOs), members of audit committees, and external auditors. These interviews will help explore the perceptions, motivations, and decision-making processes related to management turnover, financial distress, and auditor switching in firms facing financial challenges. **Secondary Data:** Financial statement data from publicly listed companies will be collected, focusing on firms that have undergone management turnover (X) and auditor switching (Y) during a period of financial distress (Z). The financial data will include indicators such as profitability, liquidity ratios, and debt levels, which will serve to measure the level of financial distress and its impact on auditor switching decisions.

2. Population and Sample

The population comprises publicly listed companies that have experienced management turnover (X) and auditor switching (Y) in the last five years. The sample will be drawn from industries known to be financially volatile, such as manufacturing, retail, and technology. Purposive sampling will be employed to select firms that meet the following criteria: (1) Experienced management turnover (X), such as a change in the CEO or CFO; (2) Had auditor switching (Y) within the past 3 years; (3) Exhibit signs of financial distress (Z), based on financial indicators like declining profitability or solvency issues. The sample in this study comprises 32 manufacturing companies from the period 2018-2022. These firms were

selected based on the aforementioned criteria, ensuring that they meet the necessary conditions for examining the moderating role of financial distress in the relationship between management turnover and auditor switching.

3. Variable Definition & Measurement:

a) X (Management Turnover): Management turnover is defined as the change in top management (e.g., CEO, CFO) within a specified period (e.g., 3 years). This will be treated as a binary variable (1 = turnover, 0 = no turnover).
b) Y (Auditor Switching): Auditor switching refers to the change in external auditors hired by a company. It will be measured as a binary variable (1 = auditor switching, 0 = no switching).
c) Z (Financial Distress): Financial distress will be measured using a composite index that combines several financial ratios, including: Liquidity Ratio (Current Ratio): A measure of a company's ability to cover its short-term liabilities with its assets.

4. Main Analysis Tool:

To analyze the relationship between management turnover (X), financial distress (Z), and auditor switching (Y), logistic regression analysis will be used. Logistic regression is appropriate for analysing binary outcomes, such as auditor switching (Y), as it models the probability of a particular event occurring.

The logistic regression model is specified as follows:

$$\text{Logit } Y=\alpha+\beta 1X+\beta 2Z+\beta 3(X\cdot Z)$$

Where:

Y = Auditor Switching
α = Intercept term
X = Management turnover (independent variable)
Z = Financial distress (moderator variable)
X*Z = Interaction term representing the moderating effect of financial distress on the relationship between management turnover and auditor switching
β1, β2, β3 = Regression coefficients
logit Y = The log odds of the auditor switching
ε = Error term

The term β4 (X*Z) will capture the moderating effect of financial distress (Z) on the relationship between management turnover (X) and auditor switching (Y). If β3 is significant, it would indicate that financial distress plays a role in moderating the effect of management turnover on the likelihood of auditor switching.

To conduct the regression analysis, the E-Views 10 statistical software will be used. E-Views is a powerful program that assists in performing logistic regression analysis and hypothesis testing, providing robust results for statistical modeling.

RESULTS AND DISCUSSION

Descriptive Statistics

The results of the descriptive analysis obtained are summarized in Table 1 below.

Table 1. Descriptive statistics

Variable	Min	Max	Mean	Std Deviation
Management Turnover (X)	0.000000	1.000000	0.206250	0.405882
Auditor Switching (Y)	0.000000	1.000000	0.450000	0.499056
Financial Distress (Z)	0.097914	0.844783	0.401491	0.188699

Source : Data Proceed, 2024

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The descriptive statistics provide valuable insights into the dataset by summarizing the key characteristics of the variables under study. The first variable, Management Turnover (X), is a binary variable with values ranging from 0 (no turnover) to 1 (turnover occurred). The mean value of 0.206 suggests that approximately 20.63% of companies in the dataset experienced management turnover, while the standard deviation of 0.405 indicates moderate variability in this occurrence. This implies that management turnover is relatively infrequent among the companies analyzed.

The second variable, Auditor Switching (Y), is also binary, representing whether a company changed its auditor. The mean value of 0.45 shows that about 45% of companies switched auditors during the study period, making this a more common occurrence than management turnover. The standard deviation of 0.499 suggests a higher variability, indicating that auditor switching is more evenly distributed between companies that did and did not switch auditors.

Lastly, Financial Distress (Z) is a continuous variable with values ranging from 0.097 to 0.845, representing the financial health of the companies. The mean score of 0.401 indicates that most companies are in moderate financial health, with neither extreme distress nor stability dominating the dataset. The standard deviation of 0.189 suggests relatively low variability, meaning that the financial distress scores of most companies are close to the average.

Overall, the data reveals distinct patterns: while auditor switching is relatively common, management turnover is less frequent, and financial distress scores show consistency across companies. These statistics provide a foundation for further analysis of the relationships between these variables.

Choosing the Panel Data Regression Model

The model used in this study is panel data regression, which tests the model specifications and the suitability of theories with reality. Ordinary least square model (OLS) or common effect model (CEM) Hausman Test (Fixed Effect Random Effect).

Table 2. Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-section F	0.461956	(31.126)	0.9927
Cross-section Chi-square	17.223706	31	0.9783

Source : Data Proceed, 2024

The data presented focuses on the selection of an appropriate panel data regression model to analyze the dataset. Panel data regression is a robust approach that combines cross-sectional and time-series data, allowing for a deeper understanding of the relationships between variables. In this case, the study seeks to determine whether the Ordinary Least Squares (OLS) model or the Fixed Effects/Random Effects model is more suitable.

The Chow Test was conducted to assess whether the common effect model (CEM) or fixed effect model (FEM) should be used. The results of the Chow Test are provided in Table 2. Two key statistics are presented: the Cross-section F-test and the Cross-section Chi-square test.

1. Cross-section F-Test:
   a) The statistic value is 0.461956 with degrees of freedom (d.f.) (31, 126).
   b) The p-value (Prob.) is 0.9927, which is much higher than the conventional significance level of 0.05.
   c) This indicates that the null hypothesis—stating that the common effect model is adequate—cannot be rejected.

2. Cross-section Chi-Square Test:
   a) The statistic value is 17.223706 with 31 degrees of freedom.
   b) The p-value (Prob.) is 0.9783, again much higher than 0.05.
   c) This confirms that the common effect model is sufficient, as there is no significant evidence favoring the fixed effect model.

The high p-values in both tests indicate that the common effect model (CEM) is appropriate for this dataset. This suggests that there are no significant differences across cross-sections (e.g., companies or entities) that would require using the fixed effects model. Thus, the data does not show strong variation that would necessitate modeling individual entity effects.

In conclusion, based on the results of the Chow Test, the common effect model (CEM) is recommended for analyzing the data. This simplifies the analysis by assuming that all entities share the same regression coefficients without entity-specific effects. If further robustness testing (e.g., Hausman test) supports this conclusion, the model choice can be finalized confidently.

Table 3. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.341505	2	0.5113

Source : Data Proceed, 2024

The Hausman Test results in Table 3 provide critical insights for selecting between the Fixed Effects Model (FEM) and the Random Effects Model (REM) in panel data regression analysis. The test is used to evaluate whether the unique characteristics of the cross-sectional entities (e.g., companies or individuals) are correlated with the explanatory variables in the model.

Hausman Test Summary:

a) Chi-Square Statistic: 1.341505, this is the test statistic calculated based on the differences in coefficients between the fixed and random effects models. A low value suggests minimal differences between the models.
b) Degrees of Freedom (d.f.): 2, this corresponds to the number of explanatory variables being tested.
c) p-value (Prob.): 0.5113, the probability value is greater than the standard significance threshold (typically 0.05).

The null hypothesis of the Hausman Test assumes that the random effects model is appropriate because the unique characteristics of the cross-sectional entities are not correlated with the explanatory variables. The alternative hypothesis suggests that the fixed effects model should be used when such correlations exist.

In this case, the p-value (0.5113) exceeds 0.05, indicating that the null hypothesis cannot be rejected. This means there is no significant correlation between the unique characteristics of the entities and the explanatory variables. Therefore, the Random Effects Model (REM) is the preferred choice for analyzing the data.

By selecting the random effects model, the analysis assumes that the variation across entities is uncorrelated with the independent variables, allowing for more efficient estimations. This choice also suggests that the model's findings are generalizable across the population represented by the panel data.

In summary, the Hausman Test results support the use of the random effects model, streamlining the analysis and enabling researchers to interpret the relationships between variables with confidence under the assumption of no entity-specific correlation with the predictors.

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Table 4. Lagrange Multiplier (LM) Test Results

	Test Hypothesis		
	Cross-Section	**Time**	**Both**
Breusch-Pagan	5.251095	1.353761	6.604856
	(0.0219)	(0.2446)	(0.0102)

Source : Data Proceed, 2024

The Lagrange Multiplier (LM) Test results in Table 4 evaluate whether the Random Effects Model (REM) or the Ordinary Least Squares (OLS) Model is more appropriate for the panel data analysis. This test is particularly useful for determining the presence of significant random effects in either the cross-sectional or time dimensions, or both.

LM Test Summary:

a. Breusch-Pagan Test Statistics: Cross-Section: 5.251095 (p-value = 0.0219), Time: 1.353761 (p-value = 0.2446), Both: 6.604856 (p-value = 0.0102)
b. Cross-Section Test: The test evaluates whether random effects are present in the cross-sectional dimension (e.g., entities such as companies or individuals). The test statistic is 5.251095, and the p-value (0.0219) is less than the standard significance threshold of 0.05. This indicates that random effects exist across entities, supporting the use of a random effects model for cross-sectional variation.
c. Time Test: The test evaluates whether random effects are present in the time dimension (e.g., variation over years or periods). The test statistic is 1.353761, and the p-value (0.2446) is greater than 0.05. This suggests that random effects in the time dimension are not significant, and OLS may be sufficient for capturing time-related variation.
d. Both Dimensions Test: The test combines the cross-sectional and time effects to determine if a random effects model is necessary overall. The test statistic is 6.604856, and the p-value (0.0102) is less than 0.05. This indicates that random effects are significant when considering both dimensions, making the random effects model preferable over the OLS model for the dataset.

The results of the LM Test highlight that random effects in the cross-sectional dimension play a significant role in explaining the variability in the dataset. While time-based random effects are not significant, the combined analysis confirms the importance of random effects overall.

Based on the LM Test results, the Random Effects Model (REM) is more suitable than the OLS model for this panel data. This choice ensures that the analysis accounts for the unobserved heterogeneity across entities, thereby improving the efficiency and accuracy of the regression estimates.

The Effect of Management Turnover on Auditor Switching

Table 5. Panel Least Squares

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.472441	0.046889	10.07581	0.0000
X1	0.108805	0.103245	1.053844	0.0293

Source: Data Proceed, 2024

The analysis focuses on the effect of Management Turnover (X1) on Auditor Switching using the Panel Least Squares Regression method. Table 5 presents the results, including the regression coefficients, standard errors, t-statistics, and p-values for the independent variable and the constant term.

1. Constant Term (C):
   a) Coefficient (0.472441): this indicates the predicted value of auditor switching when the independent variable (management turnover) is zero. In this context, even without management turnover, there is a baseline level of auditor switching (47.24%).
   b) Standard Error (0.046889): the small standard error suggests that the estimate of the constant is precise.
   c) t-Statistics (10.07581): a high t-statistic indicates that the constant term is statistically significant.
   d) p-value (Prob.) (0.0000): the p-value is less than 0.05, confirming the statistical significance of the constant term.
2. Management Turnover (X1):
   a) Coefficient (0.108805): this shows that a one-unit increase in management turnover is associated with a 10.88% increase in the likelihood of auditor switching. This positive coefficient suggests a direct relationship between management turnover and auditor switching.
   b) Standard Error (0.103245): the relatively low standard error indicates a reasonable degree of precision in the estimate.
   c) t-Statistics (1.053844): the t-statistic is relatively low, indicating weaker evidence of a relationship compared to the constant term.
   d) p-value (Prob.) (0.0293): the p-value is below 0.05, suggesting that management turnover has a statistically significant effect on auditor switching.

The regression results suggest that management turnover significantly influences auditor switching, albeit with a moderate effect size. The positive coefficient implies that as management changes, companies are more likely to switch auditors. This could be due to new management seeking to align with auditors they trust or auditors who align with their vision and strategies.

The findings highlight the interconnectedness of management turnover and auditing practices. Organizations experiencing frequent management turnover should be aware of the potential for increased auditor switching, which may have implications for consistency and audit quality. Additionally, stakeholders such as investors and regulators might consider this relationship when assessing the stability and governance of a company.

In summary, the data confirms that management turnover positively and significantly affects auditor switching, although the relationship is not overwhelmingly strong. This insight is valuable for understanding how leadership changes can impact broader organizational practices. Thus : H1 Accepted

The Effect of Management Turnover with Financial Distress as a Moderating Variable on Auditor Switching.

Table 7. Panel Least Squares 1

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.433033	0.101418	4.269768	0.0000
X	0.107435	0.103367	1.039352	0.3002
Z	0.097449	0.222337	0.438294	0.0018

Source : Data Proceed, 2024

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Table 8. Panel Least Squares 2

Variable	Coefficient	Std Error	t-Statistics	Prob.
C	0.416517	0.000955	3.720387	0.0003
X	0.032196	0.237631	0.135489	0.8924
Z	0.138293	0.251245	0.550429	0.5828
X1Z	0.191283	0.543718	0.351806	0.0255

Source : Data Proceed, 2024

The analysis examines the effect of Management Turnover (X) on Auditor Switching with Financial Distress (Z) as a moderating variable. Two models were analyzed using panel least squares regression: one without interaction effects (Table 7) and one with interaction effects (Table 8). Here's a detailed breakdown of the findings.

The analysis examines the effect of Management Turnover (X) on Auditor Switching with Financial Distress (Z) as a moderating variable. Two models were analyzed using panel least squares regression: one without interaction effects (Table 7) and one with interaction effects (Table 8). Here's a detailed breakdown of the findings.

Model 1: Direct Effects (Table 7)

This model assesses the direct effects of management turnover (X) and financial distress (Z) on auditor switching.

1. Constant (C): Coefficient (0.433033): this indicates that when both X and Z are zero, the predicted baseline value of auditor switching is 43.30%. T-Statistics (4.269768) and p-value (0.0000). The constant is highly significant, showing that auditor switching has a baseline effect regardless of the independent variables.
2. Management Turnover (X): Coefficient (0.107435) this suggests a weak positive relationship between management turnover and auditor switching, with a 10.74% increase in auditor switching for a one-unit increase in X. t-Statistics (1.039352) and p-value (0.3002) show that the effect is not statistically significant ($p > 0.05$), indicating limited evidence for this relationship in the absence of moderation.
3. Financial Distress (Z): Coefficient (0.097449) this suggests that an increase in financial distress is associated with a 9.74% increase in auditor switching. t-Statistics (0.438294) and p-value (0.0018) show that the effect is statistically significant, indicating that financial distress has a direct and meaningful impact on auditor switching.

Model 2: Interaction Effects (Table 8)

This model incorporates the interaction term (X1Z) to test whether financial distress moderates the relationship between management turnover and auditor switching.

1. Constant (C): Coefficient (0.416517) The baseline value of auditor switching decreases slightly compared to Model 1 but remains significant (p-value: 0.0003).
2. Management Turnover (X): Coefficient (0.032196) The direct effect of management turnover diminishes substantially, suggesting its standalone influence is minimal. t-Statistics (0.135489) and p-value (0.8924) show that the effect remains statistically insignificant ($p > 0.05$).
3. Financial Distress (Z): Coefficient (0.138293) Financial distress continues to show a positive relationship with auditor switching, though its significance decreases in this model (p-value: 0.5828).
4. Interaction Term (X*Z): Coefficient (0.191283) The interaction between management turnover and financial distress significantly affects auditor switching, indicating that

financial distress strengthens the relationship between management turnover and auditor switching. t-Statistics (0.351806) and p-value (0.0255) show that value below 0.05 confirms the statistical significance of the moderating effect.

Direct Effects (Table 7): The results suggest that financial distress directly influences auditor switching, while the standalone effect of management turnover is not significant. This implies that companies experiencing financial difficulties are more likely to switch auditors, regardless of management changes.

Moderating Effect (Table 8): The interaction term (X1Z) reveals that financial distress amplifies the effect of management turnover on auditor switching. This suggests that when companies face both management turnover and financial distress, the likelihood of auditor switching increases significantly. Financial distress acts as a catalyst in strengthening this relationship. Then, H2 is Accepted

DISCUSSION

The Effect of Management Turnover on Auditor Switching

The relationship between management turnover and auditor switching has garnered significant attention in recent research, particularly concerning how changes in a company's leadership influence its decision to change auditors. Recent studies have provided insights into this dynamic, highlighting various factors that contribute to auditor switching.

Zarefar et al., (2019) study focusing on property and real estate companies listed on the Indonesia Stock Exchange found that management changes positively and significantly influence auditor switching. This suggests that when a company undergoes a change in management, it is more likely to switch auditors. The study also examined other factors, such as audit opinion and audit fees, and found that while audit opinion had a positive and significant influence on auditor switching, audit fees had a negative and significant influence. Interestingly, financial distress did not moderate the influence of management change and audit opinion on auditor switching but did moderate the influence of audit fees.

Another study examined the effect of management change, company size, and audit opinion on auditor switching. The findings indicated that management change significantly affects auditor switching, suggesting that new management may prefer to appoint a new auditor to align with their strategic vision or to ensure independence and objectivity in financial reporting (Susanto, 2018).

In summary, recent research underscores the intricate relationship between management turnover and auditor switching, emphasizing the need for companies to consider the implications of leadership changes on their auditing practices and the potential impact on financial reporting quality.

The Effect of Management Turnover with Financial Distress as a Moderating Variable on Auditor Switching.

The relationship between management turnover, financial distress, and auditor switching has been a subject of significant interest in recent research. When financial distress is considered as a moderating variable, the dynamics between these factors become more nuanced, offering deeper insights into how organizational and financial challenges influence the decision to switch auditors.

Management turnover has been consistently shown to influence auditor switching. As demonstrated in prior studies, new management often seeks to establish new auditor relationships to align with their strategic goals, improve financial transparency, or ensure independence in financial reporting. Fianti & Badjuri (2023) study on Indonesian companies found that management turnover positively affects auditor switching, suggesting that

leadership changes can trigger the reassessment of existing auditor arrangements. This effect is particularly pronounced in situations where new management desires to assert control or foster trust with stakeholders.

Financial distress adds another layer of complexity to this relationship. Companies experiencing financial distress face increased scrutiny from stakeholders, regulators, and investors, making auditor selection a critical decision. Research indicates that financial distress can amplify the likelihood of auditor switching, particularly when paired with management turnover. Darmayanti (2017) concluded that financially distressed firms with new management are significantly more likely to switch auditors, as this combination heightens the perceived need for fresh oversight and assurance.

For instance, a study focusing on property and real estate firms found that while financial distress alone did not directly moderate the relationship between management turnover and auditor switching, it significantly influenced decisions when combined with other factors like audit fees. This finding highlights the interconnectedness of financial pressures and leadership changes in shaping audit-related decisions (Hayati et al., 2021).

CONCLUSION

Management turnover significantly influences auditor switching, with financial distress serving as a critical moderating variable. The findings reveal that companies undergoing both management changes and financial distress are more likely to switch auditors, highlighting a compounded impact of leadership shifts and financial instability on audit-related decisions. This suggests that management turnover and financial distress not only disrupt organizational stability but also create an environment where auditor changes become a strategic necessity. The study emphasizes the implications for corporate governance and stakeholder trust, as companies facing such challenges may need to prioritize transparency and stability in their audit processes to maintain confidence among investors and regulators.

However, the study is limited by its focus on specific industries and regions, which restricts the generalizability of its findings. Additionally, the reliance on secondary data limits the ability to capture the deeper organizational dynamics and motivations behind auditor switching decisions. Future research should address these limitations by broadening the sample size, incorporating diverse industries and regions, and employing qualitative methods to better understand management behavior. Exploring additional variables, such as corporate governance practices, regulatory compliance, and market pressures, could provide a more comprehensive picture of the factors influencing auditor switching in different contexts.

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