
The common effects of social identity and institutional pressures on audit quality in companies listed in Tehran Stock Exchange

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Editor Científico: José Edson Lara
Organização Comitê Científico
Double Blind Review pelo SEER/OJS
Recebido em 03.02.2019
Aprovado em 02.08.2019



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Abstract

Financial statements are considered as the most important set of financial information. But the key issue is the uncertainty about the reliability of the mentioned information which comes from conflict of interests. In addition to conflict of interests, other issues such as lack of users' direct access to information have led to the demand for independent audit services. Indeed, the role of auditing is to assess the quality of information for users. The present study aims to investigate the impact of the relationship between social identity and institutional pressures on audit quality. The research statistical population comprises the companies listed in Tehran Stock Exchange. This research is an applied study in terms of purpose and the hypotheses have been analyzed using Eviews software. After data analysis, the research hypotheses were confirmed, meaning that normative, compulsory and imitative pressures and social identity have a significant positive impact on audit quality.

Keywords: Social identity, institutional pressures, audit quality

Efeitos comuns da identidade social e pressões institucionais sobre a qualidade da auditoria em empresas relacionadas à de Stock Exchange de Tehran

Resumo

As demonstrações contábeis são consideradas o conjunto mais importante de informações financeiras. Mas a questão chave é a incerteza sobre a confiabilidade da informação mencionada que vem de conflito de interesses. Além do conflito de interesses, outras questões, como a falta de acesso direto dos usuários às informações, levaram à demanda por serviços de auditoria independentes. De fato, o papel da auditoria é avaliar a qualidade da informação para os usuários. O presente estudo tem como objetivo investigar o impacto da relação entre identidade social e pressões institucionais sobre a qualidade da auditoria. A população estatística da pesquisa compreende as empresas listadas na Bolsa de Valores de Teerã. Esta pesquisa é um estudo aplicado em termos de propósito e as hipóteses foram analisadas utilizando o software Eviews. Após a análise dos dados, as hipóteses de pesquisa foram confirmadas, o que significa que as pressões normativas, compulsórias e imitativas e a identidade social têm um impacto positivo significativo na qualidade da auditoria.

Palavras-chave: identidade social, pressões institucionais, qualidade de auditoria

Los efectos comunes de la identidad social y las presiones institucionales sobre la calidad de la auditoría en las empresas listadas en la bolsa de Stock de Teherán

Resumen

Los estados financieros se consideran el conjunto más importante de información financiera. Pero la cuestión clave es la incertidumbre acerca de la confiabilidad de la información mencionada que proviene del conflicto de intereses. Además del conflicto de intereses, otros problemas, como la falta de acceso directo de los usuarios a la información, han llevado a la demanda de servicios de auditoría independientes. De hecho, el papel de la auditoría es evaluar la calidad de la información para los usuarios. El presente estudio tiene como objetivo investigar el impacto de la relación entre la identidad social y las presiones institucionales en la calidad de la auditoría. La población estadística de investigación comprende las empresas que cotizan en la Bolsa de Teherán. Esta investigación es un estudio aplicado en términos de propósito y las hipótesis han sido analizadas utilizando el software Eviews. Después del análisis de datos, se confirmaron las hipótesis de investigación, lo que significa que las presiones normativas, obligatorias e imitativas y la identidad social tienen un impacto positivo significativo en la calidad de la auditoría.

Palabras clave: identidad social, presiones institucionales, calidad de auditoría

1. Introduction

The issue of economic globalization and information revolution has even removed control from the hands of governments. These conditions have caused audit profession to gradually strive not to be left behind and move along with technological changes in line with the needs of the society. In this environment, users need a variety of information, including financial information about economic enterprises, for decision-making (Sajjadi & Naseh, 2003).

There has been a demand for auditing before legal requirement is raised. According to the argument, demand theory for audit quality arises from the lack of information symmetry between corporate managers and investors. Since the issue of the company's stock pricing is under consideration, auditing is one way to determine the credibility of financial statements information. With the growth of competition in the profession, audit firms further understood the necessity of providing their services with the best quality to the market and seek to offer a variety of services for competition on a basis other than remuneration. Di Angelo defined audit quality as including two possibilities. First, the auditor should discover the significant

distortions and defects in the client accounting system. Second, he should report them (Li, 2007).

Despite little research conducted, which has sometimes examined the effects of these dimensions in relation to each other separately, there is not a study that has comprehensively investigated the role of social identity and institutional pressures in audit quality. In this context, the present study is intended to evaluate the effect of the relationship between social identity and institutional pressures on audit quality.

2. Research background and theoretical literature

Audit quality

Audit services play a crucial role in reduced information asymmetry and agency problems between managers, shareholders and creditors (Willenborg, 1999). To play this role, audit quality is important. While audit quality is an essential element of corporate governance, it is not entirely clear whether audit quality and other aspects of corporate governance complement or substitute each other (DeFond, Francis & Wong, 2005). Audit quality is a concept for which different definitions have been provided. Palmrose (1988) states that audit quality should be defined with the probability that financial statements lack significant distortion. Davidson and Neu (1993) have defined audit quality as the auditor's ability to detect and eliminate distortion and manipulation of the net profit reported.

In a more comprehensive definition, Davidson and Neu (1993) have defined audit quality as the auditor's ability to discover and eliminate significant distortions and manipulations done in reported profits. Thus, the auditor's ability is an important issue in audit quality, which has been interpreted from a variety of perspectives and is widely associated with internal and external factors, characteristics of auditors (such as experience, competence, ethics, etc.), independence of auditors (independence from the employer, competition in the market, etc.) and legislative environment (mandatory substitution, audit and non-audit services, etc.). Given the multidimensionality of audit quality, it is not clear which of the factors mentioned has been more effective in determining the ability of auditors and hence, audit quality cannot be directly observed and measured.

Research background in the field of audit quality can be divided into two main categories; studies conducted from suppliers' point of view and studies conducted from demanders' point of view. The studies conducted from suppliers' point of view mainly

emphasize the factors that affect the audit capabilities in providing high-quality audit. On the contrary, the studies conducted from demanders' point of view are associated with the factors that chiefly affect the users of audit reports, including shareholders, legal authorities, creditors and clients. From the viewpoint of auditors, the auditor's ability and economic incentives are effective in audit quality. Further, professional auditors have a greater understanding of the mistakes made in preparing financial statements, which can increase the quality of audit decisions. From the standpoint of auditors, audit firm size is one of the characteristics that affects audit quality (Mehrani & Na'eimi, 2003).

Institutional theory

Institutional theory as a conceptual framework to explain organizational compliance states that organizational structures are formed in response to formal pressures by other organizations or compliance with normative standards established by foreign institutions (Wright & Rwabizambuga, 2006). Institutional theory suggests that the institutional environment creates rules such as social norms and expectations which affect the requirements of structures, operations, behaviors and organizational traditions (Scott, 1995). Compliance with these expectations and norms is essential for an organization in order to maintain its legitimacy and achieve rare resources (Heugens & Lander, 2009). Therefore, when an organization decides to match itself with a new phenomenon, it will obtain information with respect to institutional norms and expectations and will apply the information to assess potential costs and resources for adapting to the new phenomenon and will take a position based on immunity against uncertainties (Zsidisin et al., 2005).

Basically, institutional pressures originate from the institutional environment and bring the organization into conformity with ordinary beliefs and currents. In order to analyze why organizations adapt themselves in the same way, theorists of the organizational theory classify institutional pressures into three categories of normative, imitative and compulsory whose pressure factors are customers, suppliers and competitors. Organizations' perception of these pressures influences their interpretation of this environment in general and the intention to adapt to new phenomena in particular (Ketokivi & Schroeder, 2004).

Normative pressures refer to pressures from collective expectations within the organizational context about what constitutes appropriate and legitimate behavior (Heugens &

Lander, 2009). These expectations are published through intra-organizational channels and gradually turn into shared norms. Imitative pressures basically derive from the organization's perceived success relative to the competitor's activities (Liu et al., 2010). Such a perception reflects the recognition of the environment and its competitive status. Finally, compulsory pressures are defined as pressures that come from political influence exercised by powerful organizations on focal organizations.

Social identity

Social identity approaches can be used to analyze and understand identity development and organizational identification. According to this approach which includes social identity theory (Tajfel & Turner, 1979) and self-categorization theory (Turner et al., 1987), people largely define themselves in terms of their membership in social groups. Self-definition which is done within the framework of the group forms the individuals' social identity, meaning that part of the individual's self-concept is the result of his awareness of his membership in a social group(s) (Olkkonen & Lipponen, 2006). In this approach, social identity is conceptualized as a person's awareness of belonging to a given social group and the emotional value and significance of this membership for the individual (Doran & Mohseni, 2004).

The importance of social identity is in turn reflected in the degree of the individual's identification with a certain social group. Specifically, social identification refers to a relatively stable situation that is the reflection of a person's readiness to define himself as a member of a particular social group (Olkkonen & Lipponen, 2006). In line with social identity theory and group identification literature, organizational identification is seen as the perception of unity with the organization or a sense of belonging to it, based on which the individual defines himself within the framework of the organization of which he is a member (Fuller et al., 2006).

According to Tajfel's view, social identity has been conceptualized as the individual's awareness of belonging to a particular social group and the emotional value and importance of this membership for the individual. As a result, it is based on people's belonging to different groups that they achieve a social identity representing their particular situation in society. But belonging to a given group leads to participation in a positive social identity only when the profile of that group can be compared with other groups in a biased manner. In this comparison, individuals tend to judge in favor of their own group. The desire to maintain or enhance the positive distinction in favor of the in-groups in comparison with the out-groups in the related

dimensions and under conditions in which people introduce themselves based on their membership indicates the need for positive social identity. Tajfel considered this psychological analysis of motivation for positive social identity in the advantage for the in-group (for example, social categorization, social identity and social comparison). In this way, it is evident that the social identity theory is based on two cognitive and motivational bases. In the cognitive basis, the identifier is driven into overestimation of intergroup differences and underestimation of intragroup differences during the categorization process. Although the motivational basis causes discrimination, it is essential for self-esteem. Some judgments about this theory have contented themselves with this psychological analysis while this was just the beginning of the path. Tajfel clearly pointed out that the social identity theory has three aspects, each of which is considered as an important part of this theory: A) Psychological analysis of motivational-cognitive processes which create the need for positive social identity; B) describing how this analysis can be used in intergroup relationships; C) providing an intergroup-interpersonal continuum model (Turner, 1999).

In connection with the impact of the relationship between social identity and institutional pressures on audit quality, research has been done inside and outside the country. Below, the most important studies and their results are mentioned.

Zhang (2014) investigated the relationship between audit quality and real earnings management and concluded that increased audit quality can lead to an increase in the level of real earnings management.

Eshleman and Guo (2014) assessed the relationship between audit quality and spending audit fee with earnings management and came to the conclusion that there is a negative relationship between spending audit fee and the possibility of managers' use of discretionary accruals for earnings management.

Wang et al. (2016) examined the effect of the relationship between social identity and institutional pressures on audit quality. The analysis of Chinese audit firms from 2000 to 2007 shows that the research hypotheses are confirmed.

Amini and Shirazi (2012) evaluated the role of institutional and cultural pressures in utilizing knowledge management. Perceived institutional pressures affect the development and utilization of knowledge management and organizational culture mediates this relationship. Thus, in exploiting knowledge management, the effects of institutional pressures and the role of organizational culture should be taken into account.

Kaffashi (2014) investigated structural equation modeling of lifestyle components affecting social identity. The results in the description section suggested that both variables of lifestyle and social identity indicate the desirable and normal status of this variable in Islamic Azad University. Besides, students of the Faculty of Social Sciences compared to other students under study enjoy a higher mean in the field of social identity. In the explanation and modeling section, the results show the existence of a significant and direct relationship between the indicators of independent variables of lifestyle and the dependent variable of social identity. Moreover, results of structural equation modeling indicate the extraction of three models from the research theoretical model. With regard to the modeling indexes, it can be argued that the proposed models have a good fit, and optimal adaptation has been provided between the structured model and experimental data. More details are provided in this article.

Kordlar et al. (2014) examined the relationship between audit quality and capital cost and found no significant relationship between these two variables.

Research hypotheses

- 1- Normative pressure has a significant positive impact on audit quality;
- 2- Compulsory pressure has a significant positive impact on audit quality;
- 3- Imitative pressure has a significant positive impact on audit quality;
- 4- Social identity has a significant positive impact on audit quality.

3. Methodology

The present research is an applied study in terms of classification based on purpose. The purpose of the applied research is the development of applied knowledge in a particular field. In this study, library method has been used in order to collect the data required to obtain the research background and theoretical foundations. To this end, the necessary information has been achieved through studying books and journals and visiting the specialized websites. For the data needed to estimate the models, document mining method has been employed. The required data has been collected from audited financial statements of companies listed in Tehran Stock Exchange and website of Management of Research, Development and Islamic Studies of Securities and Exchange Organization. Further, the current study is a correlational research in terms of method and nature.

After data collection, the choice of an appropriate tool for calculating and analyzing the data related to variables is of particular importance. To make the calculations and prepare and analyze the required data, Excel and SPSS software has been applied.

Research variables

Dependent variable: it is the audit quality. In this study, to measure audit quality, earnings management (discretionary accruals) has been used as a reverse index of audit quality. Since discretionary accruals are at the disposal and under the supervision of management, they are used as an index in detecting earnings management (Mashayekhi et al., 2005). In this research, modified Jones model (1995) has been applied to measure the amount of earnings management. In the mentioned model, non-discretionary accruals are estimated as follows:

$$NDA = \alpha_1 \left(\frac{1}{A_{i(t-1)}} \right) + \alpha_2 \left(\frac{\Delta REV_{it} - \Delta REC_i}{A_{i(t-1)}} \right) + \alpha_3 \left(\frac{PPE_{it}}{A_{i(t-1)}} \right)$$

REV= Changes in net accounts receivable in the current year compared to the previous year

PPE= Gross property, machinery and equipment

A= Total assets of the company in the previous year

Discretionary accruals (DA) are as follows:

$$DA_{it} = TA - NDA$$

Independent variables: Social identity theory and institutional theory are independent variables evaluated by questionnaire.

4. Results

Assessing the relationships between the research variables

In this section, the hypotheses are tested using Pearson correlation coefficient and linear regression. Correlation coefficient shows the severity and type of the relationship (direct or inverse). This coefficient is between 1 and -1 and is equal to zero in case of the lack of a relationship between two variables. This test examines the relationship between two variables based on the following hypotheses.

The following table shows the relationships between the research variables in relation to financial performance:

Table 1
Relationships between the research variables

		Normative pressure	Imitative pressure	Compulsory pressure	Social identity
Audit quality	Pearson correlation coefficient	0.939	0.978	0.982	0.995
	Significance	0.018	0.004	0.003	0.000
	Number	5	5	5	5

1. Since the significance level between the two variables of normative pressure and audit quality has been obtained to be 0.018 which is lower than the standard number 0.05, this relationship is established and there is a very strong and direct correlation between the variables.
2. Since the significance level between the two variables of imitative pressure and audit quality has been obtained to be 0.004 which is lower than the standard number 0.05, this relationship is established and there is a very strong and direct correlation between the variables.
3. Since the significance level between the two variables of compulsory pressure and audit quality has been obtained to be 0.003 which is lower than the standard number 0.05, this relationship is established and there is a very strong and direct correlation between the variables.
4. Since the significance level between the two variables of social identity and audit quality has been obtained to be 0.000 which is lower than the standard number 0.05, this relationship is established and there is a very strong and direct correlation between the variables.
5. To investigate the causal relationship between independent and dependent variables and to approve the whole model, regression analysis method has been employed. Regression analysis was performed using SPSS software. The results of SPSS outputs are provided in the following tables.

Testing the first hypothesis

Normative pressure has a significant positive impact on audit quality. The following table presents the results of regression analysis test for testing the first hypothesis.

Table 2
Regression analysis results of the first hypothesis

Model		Non-standardized coefficients		Standardized coefficients	T-value	Significance
		B	Standard deviation	Standard beta	B	Standard deviation
1	(Constant)	-.457	.272		-1.678	.192
	Normative pressure	.605	.128	.939	4.733	.018

According to the above table, it can be observed that the significance level of the test is equal to 0.018 which is lower than the standard number 0.05. Thus, this hypothesis is confirmed and given that the standard beta of this relationship has been obtained to be .939, it can be stated that for one unit increase in the variable of normative pressure, the variable of audit quality also increases by 0.93 unit along with the normative pressure.

Testing the second hypothesis

Imitative pressure has a significant positive impact on audit quality. The following table provides the results of regression analysis test for testing the second hypothesis.

Table 3
Regression analysis results of the second hypothesis

Model		Non-standardized coefficients		Standardized coefficients	T-value	Significance
		B	Standard deviation	Standard beta	B	Standard deviation
1	(Constant)	-.606	.177		-3.432	.041
	Imitative pressure	.629	.077	.978	8.139	.004

Based on the above table, it can be observed that the significance level of the test is equal to 0.004 which is lower than the standard number 0.05. Hence, this hypothesis is confirmed and since the standard beta of this relationship has been obtained to be 0.978, it can be mentioned that for one unit increase in the variable of imitative pressure, the variable of audit quality also increases by 0.97 unit along with the imitative pressure.

Testing the third hypothesis

Compulsory pressure has a significant positive impact on audit quality. The following table shows the results of regression analysis test for testing the third hypothesis.

Table 4
Regression analysis results of the third hypothesis

Model		Non-standardized coefficients		Standardized coefficients	T- value	Significance
		B	Standard deviation	Standard beta	B	Standard deviation
1	(Constant)	-.751	.174		-4.325	.023
	Compulsory pressure	.704	.077	.982	9.099	.003

With respect to the above table, it can be stated that the significance level of the test is equal to 0.003 which is lower than the standard number 0.05. Therefore, this hypothesis is confirmed and since the standard beta of this relationship has been obtained to be 0.982, it can be mentioned that for one unit increase in the variable of compulsory pressure, the variable of audit quality also increases by 0.98 unit along with the compulsory pressure.

Testing the fourth hypothesis

Social identity has a significant positive impact on audit quality. The following table shows the results of regression analysis test for testing the fourth hypothesis.

Table 5
Regression analysis results of the fourth hypothesis

Model		Non-standardized coefficients		Standardized coefficients	T-value	Significance
		B	Standard deviation	Standard beta	B	Standard deviation
1	(Constant)	.387	.117		3.298	.046
	Social identity	.058	.014	.926	4.255	.024

According to the above table, it can be stated that the significance level of the test is equal to 0.024 which is lower than the standard number 0.05. Therefore, this hypothesis is confirmed and since the standard beta of this relationship has been obtained to be 0.926, it can be said that for one unit increase in the variable of social identity, the variable of audit quality also increases by 0.92 unit along with social identity.

6. Discussion and conclusion

This study has been conducted with the aim of investigating the effect of the relationship between social identity and institutional pressures on audit quality. The research results demonstrate that there is a significant relationship between imitative, compulsory and normative pressures with audit quality and also between social identity and audit quality. Financial statements provide a large part of the information required by the investors and creditors. Based on such a level of trust in financial statements, the role of auditors is also critical. Audit of financial statements is necessary because audited financial statements can ensure the investors and creditors that reliable information is provided to them. Thus, audit of financial statements can create economic value added for a company. Considering the importance of audit services and the impossibility of direct observation of audit quality, it is essential to find an effective method to control audit quality. The findings of this study have several implications for corporate managers. First, our results suggest that not only institutional factors but also organizational identity issues are effective in changing the organization. Hence, managers should make decisions based on perceived organizational identity. Besides, we explain why the central organization's efforts to improve audit services for companies are successful.

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