



Stakeholder management and audit fees

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ABSTRACT

The main purpose of this study is to investigate the relationship between corporate stakeholder management and audit fees. In addition, the impact of management compensation and audit quality has been tested on this relationship. This article uses regression analysis to test its hypotheses to a sample of 1,626 firms -year observations in the Tehran Stock Exchange (TSE) during 2011-2020. Results show a negative association between stakeholder management and audit fees. It can be concluded that effective stakeholder management reduces client risks. This finding is also consistent with agency theory that predicts agency problems lead to higher audit fees and vice versa. We also find that more management compensation and higher audit quality strengthen the negative association between stakeholder management and audit fees. Therefore, these variables can be considered important mechanisms to strengthen more effective stakeholder management. This study is the first study that empirically examines the association between stakeholder management and audit fees. Moreover, the moderating impact of management compensation and audit quality has been tested on the association between stakeholder management and audit fees. Finally, we use an interdisciplinary approach and use management literature to contribute to audit fee literature.

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1. Introduction

In the last decades, the concept of corporate stakeholders has become important. One of the important concepts in the stakeholder theory is stakeholder management (SM). In this regard, successful managing of all corporate stakeholders is important for achieving optimal performance (Loi, 2016). More clearly, stakeholder management is defined as managing the expectations of all stakeholders and balancing between the economic interests of the firm and stakeholder interests (Reynolds, et al., 2006).

On the other hand, Öhman, et al. (2006) express concern that auditors are reluctant to consider the interests of investors and other stakeholders. That is, auditors are not only responsible for representing annual reports about the client's financial statements but also examine the role of management stewardship (towards stakeholders). Khaksar et al. (2022) also argued that auditors are responsible for increasing the reliability of financial statements and must consider the interests of shareholders (stakeholders) and control managers' activities. Stolowy & Breton (2004) also state that auditors should consider both the client's satisfaction and avoiding risk from third parties. Auditors have confidence in the market when they attest to financial statements but communicate with stakeholders primarily through "accurately worded" audit reports (Gutierrez, et al., 2018). Baker and Owsen (2002) also in a critical perspective argue that the role of auditing should be increased to enhance the control of corporations for the benefit of all stakeholders and society. The inclusion of key audit matters (KAM) in the structure of audit reports following International Auditing Standards (IAS) has also been done to highlight the satisfaction of stakeholder interests (Wuttichindanon & Issarawornrawanich, 2020).

We mainly examine the relationship between stakeholder management (conflicts) and audit fees. We expect that stakeholder management (conflicts) is related negatively (positively) to audit fees. Accordingly, we reviewed studies that tested the factors affecting audit fees. Prior research shows that audit fees affect by agency conflicts, the complexity of financial reporting, client-level business risk, and litigation risk (Hope, et al., 2012; Srinidhi, et al., 2014; Barroso, et al., 2018; Al-Okaily, 2020; Salehi, 2020). Barroso, et al. (2018) document that litigation risk linked to agency conflict in stakeholder countries is more limited than in shareholder countries. Subsequently, the audit effort is reduced and the auditor charges fewer audit fees. Moreover, international auditing standards (IAS) (especially IAS 315: Identifying and Assessing the Risks of Material Misstatement) required that auditors should also consider business risk (A risk resulting from significant conditions, events, circumstances, actions, or inactions that could adversely affect an entity's ability to achieve its objectives and execute its strategies, or from the setting of inappropriate objectives and strategies) in dealing with material misstatements. Moreover, auditors have been asked to provide more information to users instead of binary opinions. This issue leads to more litigation risk (Li, et al., 2016). Furthermore, Stakeholder theory is an extended form of agency theory. Just as agency theory solves agency problems between owners and managers, stakeholder theory extends the scope of this issue to resolving conflict between different stakeholder groups. Moreover, business ethics and stakeholder rights consider key aspects of the modern business environment. In addition to ensuring short-term profitability, these objectives ensure the long-term survival of the firm (Marx and Els, 2009). In this regard, some studies document that stakeholder management reduces business risk (Orlitzky & Benjamin, 2001). Werder (2011) also argued that each stakeholder can principally bear the managerial opportunism and other stakeholders similarly. Choi et al., (2018) find that managerial opportunism increases audit risks and consequently audit fees. Finally, business risk is related positively to litigation risk (Houston, et al., 1999). So, it can be concluded that conflict of interest between corporate stakeholders leads to increased business risk and consequently audit fees.

Our study contributes to the literature in several approaches. First, in almost all audit research, the usefulness of audit reports for stakeholders has been emphasized. But this research takes an approach in which the auditor understands how the firm interacts with its stakeholders. Second, this research has used the management compensation variable as moderating variable to test moderating impact on the relationship between stakeholder management and audit fees. Third, this study has an interdisciplinary approach and uses management literature to contribute to audit literature on the factors affecting audit fees. Fourth, stakeholder management in this study is calculated in a way that compares the characteristics of each firm with its industry, which has not been considered in previous studies. This approach is important because Verbeke and Tung (2013) argued that stakeholders also seek homogeneity within the industry. Finally, although previous research, for example, has examined the impact of social

capital and corporate social responsibility (CSR) on audit fees, stakeholder management is a different matter and plays an active role to ensure that socially desirable objectives are met.

2. Accounting and auditing environment in IRAN

National accounting standards in the Iranian environment are almost inconsistent with international accounting standards (IAS). However, due to the conditions of the Iranian economic, cultural, and commercial environment, there are minor differences between national and international standards (Mashayekhi and Mashayekh, 2008). However, in recent years, with the increase of capital market penetration at the national level, the Tehran Stock Exchange (TSE) has found a more significant role. In this regard, the Iranian Securities and Exchange Organization (SEO) has required companies to meet international financial reporting standards (IFRS) since 2016.

The history of auditing in Iran dates back to before the Islamic Revolution of Iran in 1979. Before the revolution in 1979, the Iranian Association of Sworn Accountants was responsible for conducting audits and formulating and approving accounting and auditing principles. After the Iranian Revolution of 1979 and the nationalization of corporations, the Association of Sworn Accountants was practically disbanded, which led to the establishment of the Iranian Audit Organization (IAO). After the end of the Iraq-Iran war in 1988, the government decided to liberalize the economy. In this regard, many national companies were again privatized, which led to increased demand for audit services. In this regard, the Iranian Association of Certified Public Accountants (IACPA) was established in 2001.

According to the requirements of the Iranian Securities and Exchange Organization (SEO), auditing of listed companies in TSE must be done by grade A and B audit firms, also the Iranian Audit Organization. Moreover, based on revenue level, Mofid Rahbar's audit firm has significantly higher revenues than other private audit firms. So, inconsistent with previous research done in the Iranian environment, the Iranian Audit Organization and Mofid Rahbar's audit firm can be considered big auditors.

3. Background Literature and Hypotheses Development

3.1 Stakeholder Theory and Stakeholder Management

According to Fassin (2008), the success of stakeholder theory in both management and business contexts is largely due to the inherent simplicity of this model. Stakeholder theory highlights the latent overlap of stakeholder interests in value creation and describes corporate operations as a mechanism for improving the interest of all stakeholders over time (Freeman, et al., 2007). The interests of stakeholders in a value creation process are inextricably linked together (Sachs & Ruhli, 2011). In this regard, the concept of stakeholder management was created so that corporations can identify, analyze and examine the characteristics of stakeholder groups that have an impact on them (Mainardes, et al., 2011). Stakeholder theory argues that firm well-being is optimized by meeting the interests of the firm's key stakeholders in a win-win fashion. A firm that seeks to understand the utility function of a particular stakeholder group is seeking two types of knowledge. First, it wants to know the main factors in the desirability of stakeholders. Second, seek to gain knowledge about the relative weight of each of the factors in determining the relative utility (Harrison, et al., 2010).

Smith's argument that efficient markets allow people to select freely is similar to Freeman's view that all stakeholders are "customers" - they all have to decide whether a firm benefits them more than they miss out on other opportunities. By that logic, firms that improve their stakeholder interests will be the ones that can gain the support and participation of their stakeholders and thrive over time (Harrison & Wicks, 2013).

3.2 Determinant of Audit Fees

Auditors use a variety of factors to price audit services. In most studies, descriptive factors including risk factors, volume, and complexity of client operations have been considered (Hay, et al., 2006). Also, Salehi et al. (2019) by reviewing the previous studies related to the factors affecting audit fees, these factors were classified into three general topics including complexity, client size, and associated risk. Moreover, they stated that audit fees reflect the cost of the effort conducted by the public auditors and litigation risks. Many researchers confirm the theory that there is a positive relationship between some of the concepts of risk and audit fees (Bell et al., 2001). Thus, auditors should consider their client's risk characteristics in determining the audit fee and compensate for the risks through higher fees. In the accounting and auditing literature, the factors affecting the audit fee have been studied

from two aspects (Al-Harshani, 2008): A. Factors attributable to auditing service providers (supply side), such as the auditor's expertise in the industry, auditor's reputation, auditor's professional independence, audit quality, and the size of the auditing firm; B. Factors attributable to clients (demand side), such as litigation risk of the client, client reputation, client size, and overall client risk.

Despite the extensive literature on the factors affecting audit fees (Hay et al., 2006) as well as the expanding literature on stakeholder management and its impact on corporate risks; there is no documented evidence of the impact of stakeholder management on audit fees. Auditing standards state that auditors must respond to the risks associated with each audit work by changing the nature, timing, and scope of the methods and processes used. In the next section, based on a review of previous studies, we show how stakeholder management (conflict of interest between them) affects the two components of audit effort and expected loss.

3.3 Stakeholder Management and Audit Fees

Hope et al. (2012) argued that in an agency conflict environment, auditors increase audit efforts to discover probable misstatements associated with moral hazard and adverse selection problems. However, they merely examined the ownership structure and family relationships as indicators for agency conflict. Moreover, they argued that firms with higher agency conflict demand high-quality audits. In this regard, Moradi et al. (2020) argued that auditors decrease the conflict of interests among different stakeholders. Prior research documented that larger audit firms perform the audit with higher quality and consequently charge more audit fees (Choi, et al., 2010; MohammadRezaei, et al., 2018). The same can be said for situations where there is a conflict between stakeholders.

Separation of business ownership and management provides incentives for the manager to pursue their interests and to have opportunistic behaviors (Jensen & Meckling, 1976). So, we also expect that conflict of interest between stakeholders causes managers to become more involved in opportunistic behaviors. Sun and Rath (2008) highlight this argument that opportunistic behavior resulting in earnings management is a device to enhance communication with external parties. Previous research provides evidence that there is a positive association between opportunistic behavior and audit fees (Gul, et al., 2018). On the other hand, Wimelda and Chandra (2018) also found that opportunistic behavior influences earnings management. Greiner et al. (2017) argued that earnings management influences assessments of engagement risk related to the client's economic condition and increases audit fees. So, more conflict of interest between stakeholders (effective stakeholder management) leads to more (less) audit fees.

Foo (2007) argues that stakeholder management reduces agency costs and increases competitiveness. Because ethical solutions for satisfying stakeholders are more efficient than opportunistic mechanisms. Minoja et al. (2010) also argued that alignment between managers and stakeholders leads to competitive advantage. Prior studies document a positive association between agency costs and audit fees (Griffin, et al., 2008). Leventis, et al. (2011) also argued that competition reduces agency costs by reducing the marginal cost of eliciting effort from agents and documented an inverse association between competition and audit fees. Moreover, Khodakarami et al. (2021) argued that opportunistic and unethical behaviors are reduced as a result of the religious atmosphere (Especially the environment of Iran) and the satisfaction of stakeholders is better ensured. They also stated that in a religious atmosphere where the stakeholders have the least tension with each other, the litigation risk is also reduced. Subsequently, the audit fee will be reduced.

As being mentioned above, stakeholder management decreases business risk. Many researchers have documented a positive and significant relationship between business risk and audit fees (Bell, et al., 2001; Lyon & Maher, 2005). In sum, we expect that is a negative association between effective stakeholder management and audit fees and propose the following hypothesis (H1):

H1. Effective stakeholder management (more conflict of interests between stakeholders) is negatively (positively) associated with audit fees.

3.4 The moderating impact of management compensation on the association between Stakeholder Management and Audit Fees

Oradi (2021) based on the upper echelons theory concluded that CEOs play an important role in the leadership of the organization and play an essential role in the compatibility of corporate procedures

with its changing environment. Also, Salehi et al. (2022) stated that managers conceal their opportunistic behaviour. Therefore, the conflict of interests between managers and stakeholders increases the company's challenges, and this leads to the manipulation of accounting earnings and increases the litigation risk, both of which are important for the auditor.

Although managers are responsible for managing the relationship between the firm and its stakeholders, it should be noted that managers also use the firm's resources, so the provision of their interests should also be considered. In this regard, Öhman et al. (2012) also stated that in addition to owners and other external stakeholders; the interests of managers must be met simultaneously. So, we expect that compensation paid to managers moderate the relationship between stakeholder management and audit fees, in such a way, more compensation leads to effective stakeholder management and reduces client risks for the auditor. So, we formulate the second hypothesis (H2) as follows:

H2. More compensation strengthens the negative relationship between stakeholder management and audit fees.

4. Research design and measurement of variables

4.1 Stakeholder management measure

Considering that rational behavior is reflected in maximizing the interests of each stakeholder (Agle et al., 2008); therefore, cash flows (or interests) assigned to each of the stakeholders in comparison to the mean (average) for the industry is used as an important benchmark for measuring the interests of each stakeholder. Considering the past researches on the concept of stakeholder management such as Clarkson (1995), Agle et al. (2008), Harrison et al. (2010), and crane et al. (2015), primary stakeholders categorized as follows in this research: Stockholders (shareholders), Lenders (creditors), Government, Environmental issues, Employees, Customers, and Communities.

Stakeholder Management (SM) is a variable that has been rarely quantified (Hilman & Keim, 2001). Moreover, in Iranian databases, unlike databases in other countries (for example KLD), there is no data on the ranking of firms in terms of how to conduct relations between stakeholders. In this regard, the authors have compared the interests of each stakeholder in a specific firm with the industry. If the firms' performance is better than the industry, the value of 1 is assigned, otherwise, the value of 0 is assigned. Table 1 shows each of the stakeholders and their interests (claims). For each of the benefits that the firm has in its relationships with its stakeholders, the value of 1 is assigned. If the firm meets all the claims of the stakeholders, the maximum score that it will receive for the effective management of the stakeholders will be 16. The lowest possible value is 0. In other words, more indices show less conflict of interest between stakeholders. While these measures do not capture the full range of relations with these primary stakeholders, each provides some important evidence on the nature of stakeholder relations (It should be noted that the indices are extracted from the audited financial statements of the firms; Because using the questionnaire method can lead to misleading information).

Table 1. Stakeholders and their interests (claims)

| Stakeholders | Interests (claims) | Meet interests for calculating effective stakeholder management |
|----------------------|-----------------------------------|---|
| Stockholders | Dividends, liquidity of the stock | <ul style="list-style-type: none"> dividends paid to the stockholders is more than the mean for the industry stock liquidity rank is more than the mean for the industry |
| Lenders (creditors) | interest paid to lenders | <ul style="list-style-type: none"> interests rate paid to the lenders is more than the mean for the industry risk of default is less than the mean for the industry |
| Government | Income tax paid for government | <ul style="list-style-type: none"> income tax paid to the government is more than the mean for the industry book-tax conformity is more than the mean for the industry |
| Environmental issues | Environmental issues | <ul style="list-style-type: none"> Environmental pollution penalties paid is less than the mean for the industry Environmental expenditure is more than the mean for the industry The ratio of utilities to sales is more than the mean for the industry Abnormal waste loss is less than the mean for the industry |
| Employees | Salaries paid to employees | <ul style="list-style-type: none"> salaries paid to employees (per employee) is more than the mean for the industry education hours (expenditures) per labors is more than the mean for the industry |
| Customers | Product quality, product price | <ul style="list-style-type: none"> the sales growth rate is more than the mean for the industry guarantees and warranties expenditure is less than the mean for the industry R & D expenditure is more than the mean for the industry |
| Community issues | Community issues | <ul style="list-style-type: none"> Social responsibility payments are more than the mean for the industry |

Research Models

To examine Hypothesis 1 (the association between stakeholder management and audit fees), we use the following model (Model 1):

$$\begin{aligned} LnAFeeit = & \alpha + \beta SMit + \gamma 1 LnSIZEit + \gamma 2 InvRecit + \gamma 3 LIQit + \gamma 4 Levit + \gamma 5 ROAit + \gamma 6 SalesGit + \\ & \gamma 7 GCAOit + \gamma 8 BigNit + \gamma 9 AudChgit + \gamma 10 Restateit + \gamma 11 Lossit + \gamma 12 Opityeit + \\ & \gamma 13 Busyit + \gamma 14 MBVit + \gamma 15 Ageit + Industry Dummy Variables + Year Dummy Variables + \epsilon it \end{aligned} \quad (1)$$

Where:

The dependent variable is audit fees ($LnAfee$) and to neutralize the scale effects, its natural logarithm is intended. SM is our measure for stakeholder management. We also control for factors that prior research shows their impacts on our dependent variable (MohammadRezaei, et al., 2018; Al-Okaily, 2020). Specifically, we control for $LnSize$ (the natural logarithm for the average of total assets), $InvRec$ (the ratio of inventory and receivables to total assets), LIQ (the current ratio that is calculated as current assets divided on current liabilities), Lev (the ratio of total debts to total assets), ROA (the ratio of earnings to total assets), $SalesG$ (percentage change in sales over years t and $t-1$), $GCAO$ (1 if the audit reports include an opinion about going concern problems, 0 otherwise), $BigN$ is the type of auditor (1 if the auditor is the Iranian Audit Organization (IAO) or MofidRahbar firm, 0 otherwise), $AuditChg$ (1 if auditor change over the year, 0 otherwise), $Restate$ (1 if financial statements restate due to the correction of misstatement, 0 otherwise), $Loss$ (1 if the loss of the firm reports in the income statement, 0 otherwise), $Opitype$ (1 if the auditor issue a modified opinion, 0 otherwise), $Busy$ (represents auditor business and assigned 1 if the fiscal year-end of a firm is 20 March, 0 otherwise), MBV (the ratio of market value to book value of equity), Age (firm's age, measured as $\ln(1+Age)$). For examining Hypothesis 2, we use Model 2.

$$\begin{aligned} LnAFeeit = & \alpha + \beta 1 SMit + \beta 2 Compensationit + \beta 3 SMit \times Compensationit + \gamma 1 LnSIZEit + \gamma 2 InvRecit + \\ & \gamma 3 LIQit + \gamma 4 Levit + \gamma 5 ROAit + \gamma 6 SalesGit + \gamma 7 GCAOit + \gamma 8 BigNit + \gamma 9 AudChgit + \\ & \gamma 10 Restateit + \gamma 11 Lossit + \gamma 12 Opityeit + \gamma 13 Busyit + \gamma 14 MBVit + \gamma 15 Ageit + \\ & Industry Dummy Variables + Year Dummy Variables + \epsilon it \end{aligned} \quad (2)$$

Where:

$Compensation$ is moderating variable for examining its impact on the association between stakeholder management and audit fees and calculated as the natural logarithm of compensation paid to management. Other variables are similar to Model 1.

4.2 Sample selection

We collect our sample from all firms listed on the TSE during the 2011-2020 period after excluding financial and insurance firms and firms with missing data for our models (It should be noted that disclosure of audit fees in the financial statements of Iranian firms is optional. In this regard, only the data of firms that have disclosed audit fees in their financial statements have been used). Our final sample consists of 1,626 firm-year observations. We extracted our data from the Research, Development and Islamic Studies (RDIS)¹, and the Comprehensive Information System of Listed firms (CODAL)² databases. Some variables such as audit fee and firm size are reflected in million Rials (Iranian currency).

5. Results

5.1 Descriptive statistics

Table 2 reports the descriptive statistics for our models. All continuous variables are winsorized at the 1st and 99th percentiles. As reported, the mean for audit fees is 7.281 (1,452 million rials), and for asset size is 14.297 (1,618,483 million rials). That is, the average audit fee in Iranian corporations is 0.9% of the firm's assets. The mean for leverage is 58.5%. 6.2% of audit reports included going concern problems. 30.2% of the surveyed observations have been audited by the Iranian audit organization (IAO) and Mofid Rahbar firm (Big auditors). 23.4% of client auditors have changed compared to the previous year. On average, 36.1% of our sample received a modified audit opinion.

1. <http://www.rdis.ir/CompaniesReports.asp>.

2. <https://codal.ir/>

Table 2. Descriptive Statistics

| variable | Mean | Median | Min | Max | skewness | kurtosis | SD |
|-----------------------------|--------|--------|--------|--------|----------|----------|-------|
| <i>Ln AFee_{it}</i> | 7.281 | 7.241 | 6.483 | 8.161 | 0.179 | 1.850 | 0.465 |
| <i>SM_{it}</i> | 9.296 | 9.000 | 6.000 | 14.000 | 0.113 | 2.381 | 1.246 |
| <i>Ln SIZE_{it}</i> | 14.297 | 14.218 | 13.003 | 15.755 | 0.193 | 2.118 | 0.834 |
| <i>InvRec_{it}</i> | 0.511 | 0.486 | 0.313 | 0.759 | 0.297 | 1.664 | 0.161 |
| <i>LIQ_{it}</i> | 1.330 | 1.221 | 0.224 | 5.842 | 0.328 | 1.992 | 0.693 |
| <i>Lev_{it}</i> | 0.585 | 0.603 | 0.292 | 0.842 | -0.189 | 1.813 | 0.181 |
| <i>ROA_{it}</i> | 0.099 | 0.085 | -0.046 | 0.271 | 0.263 | 1.843 | 0.103 |
| <i>SalesG_{it}</i> | 0.125 | 0.097 | -0.153 | 0.476 | 0.341 | 1.857 | 0.214 |
| <i>GCAO_{it}</i> | 0.062 | 0.000 | 0.000 | 1.000 | 3.602 | 13.976 | 0.243 |
| <i>BigN_{it}</i> | 0.302 | 0.000 | 0.000 | 1.000 | 0.858 | 1.736 | 0.460 |
| <i>AudChg_{it}</i> | 0.234 | 0.000 | 0.000 | 1.000 | 1.255 | 2.574 | 0.424 |
| <i>Restate_{it}</i> | 0.308 | 0.000 | 0.000 | 1.000 | 0.481 | 1.232 | 0.486 |
| <i>Loss_{it}</i> | 0.182 | 0.000 | 0.000 | 1.000 | 1.641 | 3.692 | 0.387 |
| <i>Audtype_{it}</i> | 0.361 | 0.000 | 0.000 | 1.000 | 0.583 | 1.340 | 0.481 |
| <i>Busy_{it}</i> | 0.812 | 1.000 | 0.000 | 1.000 | -0.364 | 2.691 | 0.236 |
| <i>MBV_{it}</i> | 3.659 | 2.751 | 0.559 | 8.558 | 0.614 | 1.914 | 2.875 |
| <i>Age_{it}</i> | 3.508 | 3.526 | 2.485 | 4.143 | -0.674 | 2.585 | 0.473 |

5.2 Results for H1

Table 2 reports the regression results of testing hypothesis 1. The constant-coefficient (α_0) is positive and significant (2.041 at 99% significance level). That is, its impact on the regression equation cannot be ignored. In other words, auditors have considered this amount for each audit work (7.698 million rials), regardless of the circumstances. This amount can be attributed to cover the contract and issuing expenses, and other administrative (fixed) expenses. The coefficient of interest variable (SM) is negative and significant (-0.122 at 95 percent significance). That is, stakeholder management has a negative and significant association with audit fees. Therefore, the first hypothesis of the research is verified. The result can be interpreted as more effective stakeholder management reduces audit risk and consequently, auditors charge fewer audit fees.

The size of the firm (*Ln Size*) and the size of the auditor (*BigN*) are also important determinants affecting the audit fee. In such a way that these two factors have a positive and significant relationship with the audit fees. MohammadRezaei, et al., (2018) have documented the same results in the Iranian environment. However, the variable of the type of audit opinion (*Audtype*), although often in prior research, has shown a positive and significant relationship with the audit fee; but in this study, this relationship is negative. The reason for this can be attributed to the auditors' consideration to retain the client in exchange for issuing an unmodified audit report.

Table 3. The results of testing H1

| variable | Expected sign | β | t-Stat | Variance Inflation Factor (VIF) |
|-----------------------------|---------------|-----------------------|--------|------------------------------------|
| α_0 | ? | 2.041 ^{***} | 5.134 | - |
| <i>SM_{it}</i> | - | -0.122 ^{**} | -2.630 | 1.277 |
| <i>Ln SIZE_{it}</i> | + | ^{***} 0.346 | 5.189 | 1.270 |
| <i>InvRec_{it}</i> | + | 0.267 [*] | 1.934 | 1.098 |
| <i>LIQ_{it}</i> | ? | 0.011 | 1.048 | 1.069 |
| <i>Lev_{it}</i> | + | 0.156- | 0.861- | 1.102 |
| <i>ROA_{it}</i> | - | -0.803 ^{**} | 2.141- | 1.073 |
| <i>SalesG_{it}</i> | + | -0.026 | 0.333 | 1.324 |
| <i>GCAO_{it}</i> | + | 0.047 | 0.304 | 1.106 |
| <i>BigN_{it}</i> | + | 0.467 ^{***} | 6.984 | 1.067 |
| <i>AudChg_{it}</i> | ? | -0.033 | -0.417 | 1.184 |
| <i>Restate_{it}</i> | + | 0.029 | 1.451 | 1.119 |
| <i>Loss_{it}</i> | + | 0.035 ^{**} | 2.675 | 1.273 |
| <i>Audtype_{it}</i> | ? | -0.981 ^{**} | -2.130 | 1.304 |
| <i>Busy_{it}</i> | + | 0.021 | 0.706 | 1.041 |
| <i>MBV_{it}</i> | + | 0.384 [*] | 1.856 | 1.256 |
| <i>Age_{it}</i> | ? | 0.067 ^{**} | 2.413 | 1.185 |
| Adjusted R ² | | 0.419 | | Industry and year effects included |
| Durbin-Watson Statistics | | 1.691 | | |
| F Statistics | | 24.481 ^{***} | | N=1,626 |

***, ** and * respectively, is significant at 1%, 5% and 10%.

5.3 Results for H2

Table 4 reports the regression results of testing hypothesis 2. Inconsistent with prior research (Wysocki, 2010; Salehi, et al., 2018), we expect a positive association between management compensation and audit fees. However, we expect that more compensation motivates management to manage stakeholders effectively resulted in fewer audit fees. The *Compensation* coefficient is positive and significant (p-value < 0.05). the interest variable coefficient ($SM \times Compensation$) is negative and significant (-0.015 at 99 percent significance). So, the second hypothesis of the research is also confirmed. That is, more compensation strengthens the negative association between stakeholder management and audit fees.

Table 4. The results of testing H2

| variable | Expected sign | β | t-Stat | Variance Inflation Factor (VIF) |
|------------------------------------|---------------|-----------|--------|---------------------------------|
| α_0 | ? | 2.224*** | 5.017 | - |
| SM_{it} | - | -0.127** | -2.335 | 1.169 |
| $Compensation_{it}$ | + | 0.075** | 2.582 | 1.118 |
| $SM_{it} \times Compensation_{it}$ | - | -0.015*** | -3.685 | 1.063 |
| $Ln\ SIZE_{it}$ | + | ***0.358 | 4.861 | 1.038 |
| $InvRec_{it}$ | + | 0.274** | 2.833 | 1.087 |
| LIQ_{it} | ? | 0.019 | 0.988 | 1.146 |
| Lev_{it} | + | 0.131- | 1.300- | 1.102 |
| ROA_{it} | - | -0.781** | 2.828- | 1.039 |
| $SalesG_{it}$ | + | -0.028 | 0.489 | 1.197 |
| $GCAO_{it}$ | + | 0.044 | 0.363 | 1.207 |
| $BigN_{it}$ | + | 0.451*** | 5.873 | 1.028 |
| $AudChg_{it}$ | ? | -0.032 | -0.660 | 1.106 |
| $Restate_{it}$ | + | 0.026 | 1.098 | 1.157 |
| $Loss_{it}$ | + | 0.036*** | 3.015 | 1.031 |
| $Audtype_{it}$ | ? | -0.974** | -2.883 | 1.268 |
| $Busy_{it}$ | + | 0.022 | 0.809 | 1.067 |
| MBV_{it} | + | 0.369* | 2.017 | 1.145 |
| Age_{it} | ? | 0.066** | 2.368 | 1.131 |
| Adjusted R ² | | 0.480 | | Industry and year included |
| Durbin-Watson Statistics | | 1.870 | | |
| F Statistics | | 22.283*** | | N=1,626 |

***, **and * respectively, is significant at 1%, 5% and 10%.

5.4 Robustness checks and additional tests

As mentioned earlier, agency costs motivate managers to demand higher audit quality (Hope, et al., 2012). So, we separate our sample into two groups based on auditor size (BigN) and examine the association between stakeholder management and audit fees. We assume that big auditors meet higher audit quality. Firstly, we use univariate regression to compare the mean of variables into two groups. Table 5 shows the results of this test. As reported, the audit fee in the first group (more audit quality or big auditors) is significantly higher than the second group (mean difference = 1.064, p-value < 0.01). Based on the argument of Hope et al. (2012), we expect firms that demand more audit quality to have less stakeholder management. Our results confirm this argument, too. As reported, Stakeholder management in the first group is significantly less than the second group (mean difference = -1.669, p-value < 0.05). This result can be interpreted as the fact that the firms of the first group have stronger political connections and do not consider the interests of their stakeholders in comparison to the second group. In other words, the second group of firms is under more pressure to satisfy their stakeholders.

Second, we examine the association between stakeholder management and audit fees in a multivariate regression based on auditor size. Table 6 shows the results of this test. This regression also shows the moderating impact of audit quality (auditor size) on the association between stakeholder management and audit fee. As reported, the coefficient of interest variable (SM) (absolute value) is higher for group 1 (0.146 in comparison to 0.118 regardless of the sign). That is, the negative association between stakeholder management and audit fees is stronger in firms with more audit quality.

Table 5. Univariate comparison of variables by Auditor Size (*BigN*)

| | <i>Group 1, N=496</i> | | <i>Group 2, N= 1,130</i> | | <i>difference in means (1-2)</i> | <i>t-stat (1)-(2)</i> |
|----------------------------------|-----------------------|---------------|--------------------------|---------------|----------------------------------|-----------------------|
| | <i>mean</i> | <i>median</i> | <i>mean</i> | <i>median</i> | | |
| <i>Ln AFee_{it}</i> | 7.601 | 7.439 | 6.537 | 6.701 | 1.064 | 3.095*** |
| <i>SM_{it}</i> | 8.419 | 10.000 | 10.088 | 8.000 | -1.669 | -2.292** |
| <i>Compensation_{it}</i> | 7.327 | 7.019 | 4.624 | 4.402 | 2.925 | 2.411*** |
| <i>Ln SIZE_{it}</i> | 15.233 | 15.198 | 13.990 | 13.804 | 1.243 | 1.492* |
| <i>InvRec_{it}</i> | 0.493 | 0.489 | 0.625 | 0.631 | -0.132 | -0.962 |
| <i>LIQ_{it}</i> | 2.011 | 1.890 | 1.117 | 1.239 | 0.894 | 0.619 |
| <i>Lev_{it}</i> | 0.695 | 0.658 | 0.473 | 0.466 | 0.222 | 1.931** |
| <i>ROA_{it}</i> | 0.088 | 0.073 | 0.111 | 0.114 | -0.023 | -0.449 |
| <i>SalesG_{it}</i> | 0.161 | 0.172 | 0.093 | 0.075 | 0.086 | -0.363 |
| <i>GCAO_{it}</i> | 0.081 | 0.000 | 0.029 | 0.000 | 0.052 | 1.803* |
| <i>AudChg_{it}</i> | 0.162 | 0.000 | 0.263 | 0.000 | -0.101 | -2.088** |
| <i>Restate_{it}</i> | 0.277 | 0.000 | 0.325 | 0.000 | -0.048 | -0.777 |
| <i>Loss_{it}</i> | 0.137 | 0.000 | 0.206 | 0.000 | -0.069 | -0.987 |
| <i>Audtype_{it}</i> | 0.416 | 0.000 | 0.329 | 0.000 | 0.087 | 1.684** |
| <i>Busy_{it}</i> | 0.741 | 1.000 | 0.839 | 1.000 | -0.098 | 1.053 |
| <i>MBV_{it}</i> | 5.938 | 5.681 | 3.127 | 3.337 | 2.811 | 2.182** |
| <i>Age_{it}</i> | 3.727 | 3.638 | 3.204 | 3.116 | 0.523 | 1.518* |

Table 6. The results of testing H1 based on auditor size (audit quality)

| <i>variable</i> | <i>Expected sign</i> | <i>Group (1)</i> | | <i>Group (2)</i> | |
|-----------------------------|----------------------|------------------|---------------|------------------|---------------|
| | | <i>β</i> | <i>t-Stat</i> | <i>β</i> | <i>t-Stat</i> |
| α_0 | ? | 2.308*** | 5.697 | 1.947*** | 4.865 |
| <i>SM_{it}</i> | - | -0.146* | -1.520 | -0.118** | -2.330 |
| <i>Ln SIZE_{it}</i> | + | ***0.331 | 5.394 | 0.323*** | -2.408 |
| <i>InvRec_{it}</i> | + | 0.293 | 0.977 | 0.259** | 1.871 |
| <i>LIQ_{it}</i> | ? | 0.009 | 0.630 | 0.007 | 1.123 |
| <i>Lev_{it}</i> | + | 0.138- | 0.163- | -0.172 | 0.438 |
| <i>ROA_{it}</i> | - | -0.668 | 1.010- | -0.839*** | -2.721 |
| <i>SalesG_{it}</i> | + | -0.027 | 0.408 | -0.034 | 0.684 |
| <i>GCAO_{it}</i> | + | 0.063 | 0.233 | 0.055 | 0.598 |
| <i>AudChg_{it}</i> | ? | -0.017 | -0.345 | -0.040 | -0.631 |
| <i>Restate_{it}</i> | + | 0.027 | 1.119 | 0.032 | 1.320 |
| <i>Loss_{it}</i> | + | 0.034** | 2.160 | 0.038*** | 3.011 |
| <i>Audtype_{it}</i> | ? | -0.937** | -1.808 | -0.969*** | -2.356 |
| <i>Busy_{it}</i> | + | 0.024 | 0.861 | 0.027 | 0.763 |
| <i>MBV_{it}</i> | + | 0.303* | 1.370 | 0.375** | 2.070 |
| <i>Age_{it}</i> | ? | 0.040* | 1.595 | 0.083** | 2.018 |
| Adjusted R ² | | | 0.363 | | 0.381 |
| Durbin-Watson Statistics | | | 1.881 | | 1.991 |
| F Statistics | | | 7.415*** | | 17.531*** |
| N | | | 496 | | 1,130 |

***, **and * respectively, is significant at 1%, 5% and 10%.

In an additional test, we examine the hypotheses using firm fixed effects. Table 7 shows the results of this regression. As reported, the coefficients of the test variable (stakeholder management and compensation) are similar to Tables 3 and 4. In other words, the findings of these two types of estimates regarding the relationship between independent and dependent variables are the same and the results are not sensitive to the use of different estimation approaches and have good reliability.

Table 7. The results of testing H1, H2 using firm fixed effects

| variable | Expected sign | H (1) | | H (2) | |
|------------------------------------|---------------|-----------|--------|-----------|--------|
| | | β | t-Stat | β | t-Stat |
| α_0 | ? | 2.030*** | 3.523 | 2.217*** | 5.301 |
| SM_{it} | - | -0.128** | -2.055 | -0.120** | -2.326 |
| $Compensation_{it}$ | | | | 0.066** | 2.572 |
| $SM_{it} \times Compensation_{it}$ | | | | -0.015*** | -4.011 |
| $Ln\ SIZE_{it}$ | + | ***0.339 | 4.668 | **0.354 | 5.137 |
| $InvRec_{it}$ | + | 0.264** | 1.656 | 0.270** | 2.861 |
| LIQ_{it} | ? | 0.009 | 0.997 | 0.013 | 0.807 |
| Lev_{it} | + | 0.155- | 1.107- | 0.130- | 1.121- |
| ROA_{it} | - | -0.798** | 2.076- | -0.769** | 2.910- |
| $SalesG_{it}$ | + | -0.027 | 0.481 | -0.026 | 0.555 |
| $GCAO_{it}$ | + | 0.044 | 0.337 | 0.045 | 0.461 |
| $BigN_{it}$ | + | 0.459*** | 5.873 | 0.448*** | 4.902 |
| $AudChg_{it}$ | ? | -0.034 | -0.669 | -0.030 | -0.580 |
| $Restate_{it}$ | + | 0.037 | 1.138 | 0.025 | 1.013 |
| $Loss_{it}$ | + | 0.031** | 2.593 | 0.038*** | 3.361 |
| $Audtype_{it}$ | ? | -0.985** | -2.240 | -0.969** | -2.714 |
| $Busy_{it}$ | + | 0.026 | 0.807 | 0.025 | 0.917 |
| MBV_{it} | + | 0.381* | 1.540 | 0.364* | 1.991 |
| Age_{it} | ? | 0.087** | 2.142 | 0.075** | 2.418 |
| Adjusted R ² | | 0.441 | | 0.511 | |
| Durbin-Watson Statistics | | 1.708 | | 1.997 | |
| F Statistics | | 24.790*** | | 22.309*** | |
| N | | 1,626 | | 1,626 | |

***, ** and * respectively, is significant at 1%, 5% and 10%.

6. Conclusion

Today's business environment has provided the requirement for the application and integration of stakeholder theory with the agency theory in corporate financial and managerial strategies. In this regard, management and creating a balance between the interests of all stakeholders is important. This study examined the impact of stakeholder management on audit fees.

Results shows that stakeholder management is associated with audit fees negatively. We also showed that management compensation and audit quality intensifies this negative relationship. The results of this study are also consistent with the results of Du, et al., (2020) that documented the negative association between corporate social responsibility (CSR) and audit fees. Gul and Ng (2018) also showed that high level of business ethics is associated with low audit risk, and therefore low audit fees. These results can also be interpreted with the results of Leventis et al.'s (2018) research which showed that religious principles can lead to less auditing fees. Because basically in religious principles and especially in Islam, the emphasis is on observing fairness and justice and creating a balance between all stakeholders in society. However, some previous research (for example Garcia, et al., 2021) argued that the performance of corporate social responsibility leads to firm complexity and has documented a positive relationship between CSR and audit fees. There are two differences between the mentioned research and this study. First, CSR is a macro level variable and originates from the macro environment, but stakeholder management is usually the managers' task and is specific to each firm. Second, stakeholder management and solving stakeholder conflict reduces the firm's risks and usually do not involve much complexity. Therefore, the contradictory results that have been documented regarding the relationship between social responsibility and audit fees are not conceivable regarding the relationship between stakeholder management and audit fees.

In addition, to better understand the negative relationship between stakeholder management and audit fees, we can also refer to the research of Jha & Chen (2015). They argued that social capital promotes mutual trust between individuals (stakeholders) in the business environment, and thus drives economic behavior toward collective well-being. On the other hand, in the capital market, audit fees are affected by the risk of the client, so it can be an indicative indicator of the effectiveness of the trust

created from social capital in the business environment. Therefore, they predicted and confirmed the negative association between social capital and audit fees. In this regard, it can be concluded that balancing the interests of stakeholders also provides a kind of mutual trust between the firm and stakeholders and reduces the risk of the client to the auditor.

According to the research results, auditors are suggested to analyze the relationship between the firm and stakeholders from different dimensions (It should be noted that the indicators used to quantify stakeholder management in this study probably do not cover all aspects of stakeholder management) to use the client's risk related to stakeholder relations in decisions related to accepting audit work and pricing of audit services. Moreover, inconsistent with Laws' (2011) study, we recommend that auditing regulatory reform is based on stakeholder satisfaction. This approach leads to fewer audit fees and further meet of corporate governance mechanisms. As stated in the introduction, stakeholder management has been considered in previous research as an indicator of corporate governance. On the other hand, prior research showed that Strong governance leads to reduce the incidence of firms engaging in accruals management (Demirkan and Platt, 2009). Therefore, considering the benefits of stakeholder management, it is suggested that it be considered as one of the corporate governance mechanisms in the financial reporting environment.

In this study we showed that audit quality can strengthen the relationship between stakeholder management and audit fees, so we suggest that in future research the relationship between audit quality (using various criteria such as the discretionary accruals quality, audit failure, etc) and stakeholder management should also be examined. In addition, it is suggested that following Greenley and Foxall (1997), stakeholder management be assessed through a questionnaire, and its relationship with audit fees be tested.

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