



Ferdowsi University of Mashhad

Iranian Journal of Accounting, Auditing & Finance

Received: 2021-06-22

Accepted after revision: 2021-07-17

Published online: 2021-07-30

RESEARCH ARTICLE

DOI: 10.22067/IJAAF.2021.40338

The Relationship between Management Entrenchment and Audit Opinion Shopping

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Abstract

The present study aims to assess the relationship between management entrenchment and audit opinion shopping in listed firms on the Tehran Stock Exchange. In other words, this paper attempts to figure out whether management entrenchment can contribute to audit opinion shopping or not. For this study, research hypotheses were tested using a sample of 768 observations on the Tehran Stock Exchange during 2012-2017 and by employing the Logistic Regression Pattern. The results show a significant relationship between management entrenchment and opinion shopping, which means entrenchment leads to increased opinion shopping. Management entrenchment is among managers' factors to increase authority, job security, interests, and corporate governance, contributing to the decline of management entrenchment. One of the mechanisms of corporate governance is the auditor's opinion. There are few studies on the quality of corporate governance components in Iran, and this study can pave the way for further studies on the relationship of management entrenchment with other factors.

Keywords: Management entrenchment, Opinion shopping

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Number of Tables: 5
Number of References: 51
Pages: 79-92

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1. Introduction

According to the Agency Theory (Jensen and Mackling), financial reporting's main objective is to supervise the managers. However, by using information disclosure and presentation, managers may attempt to convince the shareholders of an organization that the performed measures are appropriate. The presence of independent auditors in the firm is also one of the shareholders' policies to supervise the management.

Audit opinion shopping is a phenomenon that has gained increasing interest in recent years (Chen, 2020). According to the agency theory, the audit profession has come into existence to protect shareholders' interests against managers (Jensen). The auditor's primary duty is to assess the management's reliability of financial statements prepared and presented. And shareholders and users make their decisions based on the reliability presented by the auditor. Audit creates added value in financial reports by playing accreditation and declining incorrect information risk (Wallace, 1984). Hence, users expect from audited financial statements by the audit team and the auditors' published reports to deal completely with their information needs and be a confident and absolute resource.

On the other hand, auditors should also perform their professional duties based on prefabricated rules and regulations. In contrast, some independent auditors consider auditing only making opinions about the quality and favorability of financial statements with no error and mistake (Bame-Aldred et al., 2013). According to Olagunju and Leyira's (2012) studies, one of the auditors' primary objectives is to present their audit reports based on facts and realities with no bias toward users. Every person who uses such opinions can have access to critical information about the content. Presently, auditors have some duties beyond such limits and should assess managers' policies financially and non-financially. Making decisions proportional to financial information is reliable. Fair and auditing is a part of financial information reporting. The evaluation can give credit to the reports and satisfy users' needs for the reliability and fairness of information to facilitate decision-making.

On the other hand, the audit fees contribute to the planning for sound and high-quality financial audit implementation. Low audit quality can lower the trust of financial statement users. This leads to failure in audit objectives but lowers the audit process's credit at large scales, hinders the optimum allocation of capital in the Securities and Stock Market, and increases the capital cost and financial supply.

On the other hand, since employers are informed about audit market conditions, that is competitive, by using the bargaining system attempt to affect the auditor's opinion to be higher or lower depending on the size, complication, non/physical properties, and activity location of the employer (Chen et al., 2016; Smith, 1986). Audit opinion shopping is when the employer attempts to collect trimmed audit reports by changing the auditors to perform better. When firms look for easy-going auditors, they try to change the audit firm (Osma et al., 2017). According to Security and Exchange Commission (SEC), opinion shopping is an action through which the auditor helps the firm achieve its reporting objectives, even if it interrupts reports' reliability (Chen, 2020; Archambeault and Dezoort, 2001).

Management entrenchment is a survival instinct among managers. It seems that there are some methods for managers who are willing to increase their authority, job security, and payment. Few studies were carried out on the quality of Iran's corporate governance components (Baratiyan and Salehi, 2013).

According to agency theory, information utilization functions (group management) and information users (investors, creditors) are different. The result of such a difference will appear in the form of agency costs. At the center of such conflict of interests, the manager attempts to lower the agency costs but, due to management authorities and supervising the manager's performance, needs independent auditors' expert judgment. Auditors can affect the selection of accounting methods by the management. Hence, final financial statements are under their influence, and they cause the

reliability of inserted items in financial statements to go up. According to Mayangsari (2007), audit quality is high when auditors have limited the unwise selection of management via accounting methods and hinder the firm's false presentation of the firm's financial status. When audit quality is low, auditors have no limitations for the manager. Still, they may consult with the manager about existing loopholes in accounting principles and give him a false financial status presentation. Thus, we can claim that audit quality can affect agency costs. The lack of ownership concentration can lead to the shareholder's inability to consider the manager's measures and operations.

Therefore, the present study aims to assess the relationship between entrenchment and opinion shopping in listed firms on the Tehran Stock Exchange regarding the facts above. In other words, this paper attempts to figure out whether management entrenchment can contribute to auditor's opinion shopping or not. The related topical literature also shows no study on the relationship between management entrenchment and opinion shopping. And the previous studies (including Zhuang, 2018; Salehi, Mahmoudabady, and Adibian, 2018) focused mostly on the relationship between management entrenchment and performance, innovation, earnings payment policies, and organizations' capital structure. Therefore, this paper attempts to fill the existing literature gap and contribute to the development of science and knowledge in this field. In the upcoming sections, first, the theoretical principles will be expressed, then the conducted studies in each area will be explained, then the methodology and data analysis will be discussed. In the final section, we have the discussion and conclusion about the research findings.

2. Theoretical Principles and Hypothesis Development

2.1. Audit opinion shopping

The auditor can play different roles, in his opinion. He can be a supervisor, an information source, and/or an insurer for the firm. The empirical and archival studies show that an auditor's opinion provides some related information about decision-making, affects the actual behavior of financial markets, and the market reacts to the type of auditor's opinion. A favorable auditor's opinion is good news in the market. Auditor's opinion shopping occurs when the firm substitutes or keeps its auditor's avoidable opinions (adjusted or qualified) (Lennox, 2000). One of the significant incentives that encourage the auditors is considering the interests of audit firms they pay for. The other reason is competition in the audit market. One of the other reasons for encouraging auditors to shop is to lower the risk of a lawsuit against auditors. Empirical studies (Haskins and Williams, 1990; Schwartz and Menon, 1985; Chen, 2020) on audit opinion shopping show that opinion shopping occurs in each period (before and after auditor change). Smith (1986) believes that one of the concerns about opinion shopping is that the alternative auditor's opinion is different from that of the previous auditor. Moreover, Chow and Rich (1982) argue a significant relationship between auditor change and opinion shopping. A change in auditor's opinion can occur year by year due to a change in the employers' financial status and a change in auditor's judgment, especially when an auditor change occurs.

Opinion purchase by SEC is defined as an operation through which the management is searching for an auditor willing to advocate the suggested accounting method to reach the management objectives (Alfasa, 2013; Chen, 2020). The manager has different goals for performing such an action to jeopardize firm operation (Praptitorini and Januarti, 2011).

Firms are likely to change the opinions of audit firm partners due to different reasons:

Due to investors' limited support and not regulating the rules appropriately (Allen, Qian, and Qian, 2005; Chen et al., 2016a), firms are unwilling to recruit high-quality auditors (DeFond, Wong, and Li, 1999; Wang, Wong and Xia, 2008). The audit market's scatteredness has caused fierce competition, so firms search for those auditors that are more willing to perform their duties (Yang,

2013; Wang, Wong, and Xia, 2008).

The abovesaid reasons have increased employers' bargaining power against auditors that lead to keeping customers for auditors. Hence, it is not unexpected that audit firms direct the opinions toward the employer's needs; in time, the conflict exists between them and the employer to keep the customer. Hence, audit opinion shopping may exist despite different costs because managers are willing to align auditors' opinions with theirs (Deborah and DeZoort, 2001).

Yaghoobnezhadet, Royae, and Gerayli (2014) reveal a negative relationship between audit firm size and auditor industry specialization and information asymmetry but find no relationship between auditor rotation and information asymmetry. In general, audit quality contributes significantly to the decline of information asymmetry in the capital market. Tsui and Gul (1998) and Tsui, Jaggi, and Gul (2001) evaluate Jensen's assumption in the auditing framework and assess whether the agency problem as a consequence of free cash flows can cause a change in the level of audit risk and the range of auditors' attempt which is reflected in the audit fee. They argue that managers should invest in firms with high free cash flow and low growth opportunities with no positive value. They attempt to conceal their non-optimal behavior by presenting incorrect financial statements. Auditors should also consider such managerial behavior through their audit risk evaluation and ask for more time and attempt for auditing, increasing the audit fees. By examining firms with high free cash flows and low growth opportunities, the scholars discover a significant positive association between the agency problem derived from cash flows and audit fees.

2.2. Management entrenchment

The process of separation of ownership from control expresses that stock ownership dispersion occurs as the firm gets larger, resulting in the decline of shareholders' power and the incremental growth of managers' authorities. Moreover, the next problem is the manager's responsibility as the agent of owners that has caused the shareholders not to influence the firm's managerial side, which has led to the creation of the Agency Theory (Salehi, Mahmoudabadi and Abedian, 2018).

According to the definition of Jensen and Meckling (1976), an agency relationship is a contract, based on which the employer or owner assigns the agent on his side and delegates to him the authority for deciding the current affairs. It is assumed that each party is trying to maximize his/her interests. According to this theory, separating the role of ownership from management leads to a demand for an agent because it is believed that managers pursue their interests even if they are to the detriment of the agents (Mustapha and Che Ahmad, 2011).

2.3. The relationship between management entrenchment and audit opinion shopping

According to the theory of managerial entrenchment, it is expected that entrenchment increase to debilitate the external control regulation effects and lead to lower investment, so an increase in managerial entrenchment contributes inversely to the value of shareholders (Chakraborty, Rzakhanov and Sheikh, 2014). The manager is willing to show the financial statements positively and send the good news to the assemblies. The question posed here is that despite agency problems, including information asymmetry and moral risk, how shareholders and law-maker authorities can be assured of presented financial statements by managers and generally of financial reporting quality?

On the other hand, whenever the auditor is on the verge of losing the employer, he/she will issue the report to the clients' benefit (Blay, 2005). The topic of competition in the audit profession has always been interesting for scholars. The previous studies show a direct relationship between audit fees and the type of audit opinion.

Within the conducted studies in Malaysia, it is discovered that the chance of auditor change for receiving a more favorable audit report than the previous year is higher in firms with inappropriate

profitability and performance.

In Australia, the conducted studies have indicated that audit firms' income is lower after issuing an unacceptable report, after the clients' bankruptcy, and/or changing the clients' auditor. However, those audit firms that do not issue such reports for employers with inappropriate financial status will no change and experience no decline in their income (Carey Tanewski and Simnett, 2009).

The impact of audit partners' characteristics on judgment and audit opinion has also been studied. The results reveal that the auditor's work experience and his/her acquaintance with the related industry contribute to the decline of errors in the auditor's opinion. For example, some characteristics like auditor independence, work experience, tenure, and familiarity with the industry can affect his/her opinion.

By assessing the relationship between auditor change and type of auditor's opinion in a sample of 800 productive firms, we observe that those firms that received an unqualified report and then changed their auditors in the next period, compared with firms that did not change their auditors, are less likely to receive an unqualified report. To decide whether the auditor change may lead to opinion shopping or not is a significant problem relative to most of the conducted studies on opinion shopping, which should be considered an implicit assumption (Newton et al., 2016). By shopping the auditor's opinion and forcing him/her to assess the risk of excessively low control, the risk of failure in exploring a significant distortion will increase (Fitzgerald, Omer, and Thompson, 2018).

Two approaches are proposed by Banko et al. (2013) regarding the effective manner of managerial entrenchment on earnings management. The first approach shows that entrenched managers are less willing to earnings management. Zhao and Chen (2008) show that firms with entrenched managers (board dispersion is a criterion for measuring entrenchment) are less likely to manage the earnings. Stein (1998) argues that threats related to taking possession are a strong incentive for shortsighted managers. Since the entrenched managers are forced to reduce threats associated with taking possession, they are more concentrated on long-term strategic policies than short-term ones, like earnings management. In line with such a view, Pugh, Page, and Jahera (1992) figure out that managers have adapted long-term approaches in dealing with anti-acquisition reforms, like research and development costs. The second approach shows that entrenched managers are more willing to manage their earnings. The empirical results illustrate that managers with weak performance are entrenched (Gompers, Ishii, and Metrick, 2003; Bebchuk, Cohen, and Ferrell, 2009).

Moreover, topical literature shows that there are individual financial motives for earning more income among managers. For example, Healy (1985) and Holthausen, Larcker, and Sloan (1995) perceive that managers manipulate earnings with compensation plans. Bergstresser and Philippon (2006) show a linear relationship between CEO motivations and accrual manipulation. These studies show that personal motives for all CEOs and lack of sufficient supervision enable the entrenched managers to manage the earnings more freely and pursue their benefits (Banko et al., 2013). Dechow, Hutton, and Sloan (1996) figure out that systematic earnings manipulation is related to weakness in control and internal and external supervisions and firms with earnings management are more likely to have managers who dominate the board, the COE has a dual role or the CEO is the founder of the firm.

By evaluating the effect of innovative CEOs' characteristics on real earnings management, Kouaiba and Jarbouï (2016) observe that such firms are associated positively with the chance of committing real earnings management.

Ali and Zhang (2015) show that incremental earnings management is higher within the first years of tenure than in upcoming years because new managers attempt to indicate favorable results and influence the market's understanding of their abilities within the first year's tenure. In contrast,

Dechow and Sloan (1991) perceive that research and development costs will be cut off to increase the short-term earnings within the last years of CEO tenure.

Krishnan and Wong (2015) express an inverse and significant relationship between management ability and audit fee and conditional opinion due to ambiguity in firm activity continuity.

Simamora and Hendarjatno (2019) notice that opinion shopping and leverage variables positively affect auditor opinion on firm continuity. The variables of auditor tenure, audit report delay, and liquidity ratio have had no impact on auditor opinion on firm continuity.

Given the facts mentioned above on the relationship between management entrenchment and opinion shopping, the first hypothesis is as follows:

H1: There is a significant relationship between management entrenchment and audit opinion shopping.

3. Research Methodology

This paper is causal-correlational and quasi-experimental and retrospective, in terms of methodology in the realm of positive accounting studies that are carried out based on real information. This paper is practical in terms of nature and objectives. Practical studies aim to develop practical knowledge within a particular field. In terms of data collection and analysis, this paper is causal-correlational.

3.1. Statistical population

The statistical population of the study is limited to the firms:

Their financial information is available;

Are not affiliated with financial firms (like banks, financial institutions) and investment and financial intermediaries; and,

Are active during the period of the study.

Hence, the study period includes 6 consecutive years from 2012-2017 for listed firms on the Tehran Stock Exchange.

Given the limitations, a total number of 128 firms are selected for testing the hypotheses.

Table 1. Number of firms in the statistical population by imposing the condition

Description	Eliminated firms in total periods	Total number of firms
Total listed firms on the Tehran Stock Exchange		445
Eliminating financial intermediaries, financial supply, insurance, and investment firms	88	
Firms with more than 6 months of transaction halt	112	
Eliminating firms that entered the Stock Exchange during the study period	4	
Eliminating due to lack of access to information	113	
Statistical population		128

3.2. Data collection and method

The required data of the study are collected based on their types from different resources. The information related to the study's literature and theoretical facts were gathered from library resources, including Persian and Latin books and journals, and Internet websites. The information related to firms (balance sheets and profit and loss statements) is used as the research instrument.

The primary information and data for hypothesis testing were collected using the information bank of Tehran Stock Exchange, including TadbirPardaz and Rah Avard-e Novin and also the published

reports of Tehran Stock Exchange via direct access (by analyzing the released reports in Codal Website and manually collected data) to CDs and also by referring to rdis.ir website and other necessary resources.

3.3. Data analysis method

The data analysis method is cross-sectional and year-by-year (panel data). In this paper, the multivariate linear regression model is used for hypothesis testing. Descriptive and inferential statistical methods are used for analyzing the obtained data. Hence, the frequency distribution table is used for describing data. The F-Limer, Hausman test, normality test, and a multivariate linear regression model are used for hypothesis testing at the inferential level.

3.4. Research model

The following logistic regression model is used for testing the research hypothesis:

$$Shop_{it} = a_0 + a_1ME_{it} + a_2Tenure_{it} + a_3change_{it} + a_4BIG1_{it} + a_5Lnfee_{it} + a_6 M change + a_7FSM + a_7 ISM + a_9size_{it} + a_{10}ROA_{it} + a_{11}LEV_{it} + a_{12}MB_{it} + \varepsilon_{it}$$

Where

Shop (Auditor's opinion shopping): if the has a restatement in the upcoming year and the employer changes his auditor to a low-quality one or does not change his auditor but presents a lower fee, compared to the previous year, 1, otherwise, 0;

ME (Management Entrenchment): is obtained from exploratory factor analysis, which is explained in the following;

Tenure (Auditor Tenure): the period the auditor has been consistently responsible for the firm audit;

Change (Auditor Change): if the auditor has changed in the year under study 1, otherwise, 0.

LnAfee: natural logarithm of audit fees;

M change (CEO change): if the CEO has changed in the year understudy 1, otherwise, 0.

Fsm (CEO financial expertise): if the CEO has an educational certificate related to one of the financial majors, including accounting, financial management, and economics 1; otherwise, 0.

Ism (CEO industry expertise): if the CEO has an educational certificate related to industry 1, otherwise, 0.

BIG1 (audit firm largeness): if the audit unit of the employer is the audit organization or any other audit firm that mandatory rotation is not considered for the 1; otherwise, 0;

SIZE (firm size): natural logarithm of total firm assets;

ROA (return on equity): net profit divided by book value of equity in the year under study; and

LEV (financial leverage): total liabilities to total assets of the firm under study.

Independent variables:

In the present study, the models of Lin et al. (2015), and Salehi, Mahmoudabady, and Adibian (2018) are used for measuring entrenchment.

According to available information on Iran's capital market, we have mingled corporate governance characteristics that are probably associated with management's motivation and ability to affect shareholders' interests and evaluate them in the form of a management entrenchment index.

CEO ownership: the number of shares available to the CEO divided by total published shares;

CEO tenure: the number of years the CEO has been consistently at the CEO position of the firm under study (the base year for this variable is 2001, namely the year the Stock Exchange has been established);

CEO change: if the CEO has changed in the year under study 1, otherwise, 0;

CEO duality: if the CEO is the director or vice-chair 1, otherwise, 0;

Board independence: the number of unbound board members divided by total board members;

CEO financial expertise: if the CEO has a certificate related to financial majors 1, otherwise, 0;

CEO industry expertise: if the CEO has a certificate related to industry 1, otherwise, 0;

In this paper, the exploratory factor analysis (using the principal component analysis) is used for calculating the variable of management entrenchment. Factor analysis is a multivariate statistical method for classifying and recognizing the present structures among research data. Such a statistical method is mainly used for two reasons. Firstly, the exploratory factor analysis method enables us to combine an extensive set of corporate governance variables to proxy for management entrenchment. This occurs while in the previous studies, either a limited set of corporate governance factors were considered as management entrenchment or the linearity problem that may derive from the presence of several corporate governance variables is ignored that can emerge in the form of control and independent variables in experimental models. On the other hand, controlling mutually potential relations of variables is not an easy task. Secondly, one of the exploratory factor analysis features is assigning a weight to every included variable in management entrenchment based on the output of the correlation matrix, which contrasts with the previous studies that consider the effect of each variable of corporate governance as equal.

As for the calculation of the variable of management entrenchment, the information related to the 7 factors of corporate governance with an influence on motivation and management capability is collected for each year-company. Then the linear correlation coefficient matrix of the above 7 variables is extracted for each year. Finally, the exploratory factor analysis is carried out. The weight of 7-fold variables is computed. The variable of management entrenchment is achieved from the total weight multiplication of the factor in a numerical value of the related factor.

4. Data Analysis

4.1. Descriptive statistics

In this paper, model 1 is used to assess the relationship between intellectual capital and opinion shopping with the medium role of financial statement comparability and analyze the sensitivity. This paper has also inserted the panel data method, including 128 Iranian firms from 2012 to 2017, into its database. The variables of intellectual capital, opinion shopping, and financial statement comparability are used for estimating the models.

Table 2. Descriptive statistics of research variables

Variable	obs	Mean	Std.dev	Min	Max
Shop	768.000	0.645	0.478	0.000	1.000
Me	768.000	1.195	0.628	0.298	9.259
Tenure	768.000	3.762	3.981	1.000	16.000
Changea	768.000	0.346	0.476	0.000	0.000
Lnfee	706.000	7.604	1.862	3.245	14.390
Big1	768.000	0.298	0.457	0.000	1.000
Size	768.000	14.247	1.526	10.533	19.374
ROA	767.000	0.226	0.8683	-16.845	6.888
LEV	768.000	0.611	0.263	0.090	4.002
M change	768.000	0.268	0.443	0.000	1.000
Fsm	757.000	0.231	0.422	0.000	1.000
Ism	760.000	0.373	0.484	0.000	1.000
Mb	747.000	3.347	2.347	-4.773	13.986

Given the Table of descriptive statistics, the maximum value for return on assets is 6.888. The

minimum value is -16.845, so the firm loss this year for the business unit is 16 times more than the book value of equity. Financial leverage also has the maximum value (4.002), which shows that the business firm has been present in our selected sample, and the liability has been 4 times more than its asset.

Results of the linearity test

By assessing the unit root of data, we have found that all variables are at no unit root level (stationary). The obtained LM statistic for each variable is reported in Table 3. All variables of the study are stationary and have no unit root.

Table 3. Results of the linearity test

Variable	VIF	1/VIF
TENURE	2.01	0.496
SIZE	1.73	0.576
BIG1	1.68	0.594
Lnfee	1.58	0.632
ChangeA	1.34	0.740
ROA	1.28	0.815
Lev	1.23	0.824
Ism	1.21	0.863
Fsm	1.16	0.905
Mtb	1.10	0.976
Change	1.02	0.980
Me	1.02	
Mean VIF	1.36	

Correlation test

Table 4. The results of the sensitivity analysis

	shop	Me	Tenure	changea	big	Ln fee	Mchange	fsm	ism	Size	roa	Lev	Mtb
Shop	1.000												
Me	0.0343	1.000											
Tenure	0.1124	0.0468	1.000										
Changea	-0.4070	0.0213	-0.4859	1.000									
Big	-0.0215	0.0109	0.5980	-0.2255	1.000								
Ln fee	0.0349	0.0020	0.1913	-0.0415	0.2432	1.000							
mchange	0.0025	0.0574	-0.0127	0.0096	0.0316	-0.0021	1.000						
Fsm	0.0362	-0.0316	-0.0699	0.0444	-0.0348	0.0141	0.0393	1.000					
Ism	-0.0456	0.0367	0.0413	-0.0098	0.1059	0.0136	0.0044	-0.3465	1.000				
Size	0.0771	0.0636	0.2077	-0.594	0.3113	0.5870	-0.0226	-0.0858	0.1983	1.000			
Roa	0.0467	-0.0126	0.0098	-0.0719	0.0368	0.0130	0.0010	-0.0953	0.0710	0.0875	1.000		
Lev	0.2249	-0.0203	0.1474	-0.0075	0.1156	0.0580	0.0989	-0.0530	0.1170	0.0717	-0.3453	1.000	
Mtb	0.0176	0.0318	-0.0018	-0.0311	-0.0127	-0.0127	0.0689	0.0134	0.0115	-0.0916	0.2502	-0.0087	1.000

This test also referred to as sensitivity analysis, examines the relationship between the model's variables two-by-two, the above matrix's output. Since it assesses the correlation between itself and the variable, the matrix's diameter is always 1, namely total correlation. The closer these numbers to 1, the more the correlation, and the closer to zero, the less is the correlation. The correlation interval is between -1 and +1, with the negative figures indicate inverse correlation and positive figures indicative of the direct correlation.

4.2. Inferential test

The following model is used for testing the hypotheses

Model (1)

$$Shop_{it} = a_0 + a_1ME_{it} + a_2Tenure_{it} + a_3change_{it} + a_4BIG1_{it} + a_5Lnfee_{it} + a_6 M change + a_7FSM + a_7 ISM + a_9size_{it} + a_{10}ROA_{it} + a_{11}LEV_{it} + a_{12}MB_{it} + \varepsilon_{it}$$

Table 5. The results of the hypotheses testing

Shop	Coef	Std.Err	z	p-value
Me	0.001	0.002	6.00	0.000
Tenure	0.086-	0.026	-2.35	0.019
Changea	-0.471	0.048	-9.80	0.000
Bigl	-0.206	0.082	-2.52	0.013
Lnfee	-0.033	0.010	-3.03	0.002
M change	0.009	0.034	2.86	0.004
Fsm	0.041	0.017	2.74	0.006
Ism	0.058-	0.015	2.80-	0.005
Size	0.037	0.020	1.76	0.079
ROA	0.057	0.026	2.20	0.028
LEV	0.038	0.018	2.09	0.036
MTB	0.002	0.001	1.90	0.057
-CON	0.365	0.242	1.51	0.132
F-lmer	F(126,550)	2.10		
	p-value	0.000		
Hasman	Chi2(12)	13.30		
	p-value	0.3473		
Number of obs	768			
R-sq	0.2663			
P-value	0.000			

To estimate the models, we should first determine whether the data are pooled or panel by the F test. This test's null hypothesis is that the data are pooled, and hypothesis 1 claims that data are panel. If H0 is rejected after performing the F test, the question here is that based on which models of fixed effects or random effects, the model is analyzable, determined by the Hausman test. Regarding the pooled test results reported in the following Table, the null hypothesis concerning the pooled data is ejected for the research model at a 99% confidence level. Hence, the model with panel data should be used for estimating the coefficients of the models. Moreover, these test results are reported in Table 4. The Hausman teststatistic based on the estimation for the research model is 13.30 with a probability level of 0.3473 larger than χ^2 in the Table, so the null hypothesis is not rejected. Given that model with random effects will be selected for the model.

According to Table 4, the results of hypothesis testing show a positive and significant relationship between entrenchment and opinion shopping, which means the higher the intellectual capital, the lower is the opinion shopping because its p-value is 0.000 lower than the significance level of 0.05 that indicates a direct relationship between these two variables.

As can be seen in Tables (4), the results of the model estimation are robust. In the panel data's research model, four classic econometric assumptions are evaluated, and reliable reports will be reported. These four assumptions include linearity among variables, exogeneity of descriptive variables, homogeneity variance, and lack of serial autocorrelation among disruptive components. Given the applied regression, the intercept of the model is not significant for firms. The intercept of the model is 0.365, with a p-value of 0.132, which is significant at the 99% level. So, we can generally say that the model has the required priority because the R² of the model is 0.2663, and the p-value of the model is 0.000, which shows the model is significant.

5. Conclusion and discussion

The present study is concerned about the relationship between management entrenchment and opinion shopping. The results show a positive and significant relationship between management entrenchment and opinion shopping. This finding is in line with that of Salehi Mahmoudabady and Adibian (2018), who express that there is a significant relationship between management entrenchment and firm performance, and Salehi, Mahmoudabady, and Adibian (2018), who discover a positive relationship between management entrenchment and earnings management because the higher the management entrenchment, the lower is the firm performance and the higher is the earnings management and the lower the entrenchment and agency costs, the more the managers will be in search of high-quality audit firms. Audit firms attempt to higher their audit quality, and high audit quality would lead to the decline of opinion shopping (Chow and Rich, 1982). In this regard, Nasl Mousavi and Jahanzab (2016) also indicate that higher intellectual capital would lower the audit opinion shopping. This shows that higher intellectual capital can be an effective strategy for lowering opinion shopping's inappropriate audit phenomenon.

Moreover, the study results are in line with that of Simamora and Hendarjatno (2019). They declare that opinion shopping and financial leverage can contribute to the auditor's opinion about firm continuity because firms embark on opinion shopping when their condition is inappropriate.

Audit opinion shopping is an inappropriate phenomenon that seriously hurts the audit profession's future and creates a sense of distrust. So, preventing such a phenomenon is of utmost importance to guarantee the profession's future. This study shows that the phenomenon can be reduced by lowering the management entrenchment.

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