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Institutional Isomorphism Model and Its Impact on Environmental, Social, and Corporate Governance Reporting

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A B S T R A C T

Objective: The aim of this research is to present an institutional isomorphism model and examine its impact on environmental, social, and corporate governance reporting.

Methodology: This study employs a mixed-methods approach, conducted simultaneously. The quantitative part is descriptive-survey and correlational, with data collected from 385 managers of publicly traded companies on the Tehran Stock Exchange through a questionnaire. The data were analyzed using LISREL software. In the second part of the study, a qualitative approach using ethnography and purposive sampling was employed to collect data from individuals holding doctoral degrees in accounting and working in publicly traded companies on the Tehran Stock Exchange. The data were analyzed using thematic analysis and content analysis methods.

Findings: Based on the findings of the first study, the institutional isomorphism factors (coercive, normative, and mimetic) explain 65.9% of the variance in environmental, social, and corporate governance reporting. Additionally, in the second study, after conducting interviews with 10 participants, a total of 33 categories were identified during the open coding phase, which were considered as the main categories. The category of labor rights had the most repetitions in the interviews, and the categories of performance compensation, labor rights, and corporate social responsibility investment were repeated in all interviews. During the axial coding phase, the 33 main categories were classified into four categories: social dimension, corporate governance, environmental dimension, and finally, institutional isomorphism. The environmental dimension, with 10 main categories and 96 repetitions in the interviews, had the highest number of repetitions, with the categories of corporate social responsibility investment, biodiversity, and environmental issues in products, services, and supply chains being the most important from the interviewees' perspectives. The social dimension, with 11 main categories and 183 repetitions, had the highest frequency, with the categories of labor rights, social issues related to customers and the supply chain, stakeholder social perceptions, and health, safety, and productivity being the most important. Finally, the corporate governance dimension, with 9 main categories and 105 repetitions, had the most importance in the interviews, with the categories of investment risk management and performance compensation being the most significant. In the selective coding phase, the social dimension, with 11 main categories, was introduced as the central category.

Conclusion: This study highlights the critical role of institutional pressures—coercive, normative, and mimetic—in shaping sustainability assurance practices. By addressing legal, cultural, and industry-specific factors, it underscores assurance as a vital tool for legitimacy and stakeholder alignment. The findings advance institutional theory and offer practical insights for policymakers, companies, and stakeholders.

Keywords: *Institutional isomorphism model, coercive isomorphism, normative isomorphism, mimetic isomorphism, environmental reporting, social reporting, corporate governance reporting.*

1 Introduction

Sustainability performance refers to the overall performance of an organization, which may encompass policies, decisions, and actions with social, environmental, or economic dimensions that generate financial outcomes. In response to (a) investor demands that prioritize social and environmental considerations in their decision-making processes (Dhaliwal et al., 2012) and (b) the growing concerns of employees, customers, suppliers, and other stakeholders regarding socially responsible performance, there is an increasing trend toward the voluntary disclosure of such performance (Clarkson et al., 2008). A sustainability report evaluates three main components: environmental protection, economic growth, and social equity (Alsaid & Ambilichu, 2024; Crisóstomo et al., 2020; Gardazi et al., 2023; Morimoto et al., 2005).

However, despite the increasing number of sustainability reports, public trust levels have not correspondingly risen (Alsaid & Ambilichu, 2024). Concerns regarding the credibility, transparency, and consistency of sustainability reports have led to calls for an assurance process that addresses these qualitative aspects (Mahmudi, 2024; Ni Luh Putu Agustin Nirmala, 2024; Thoan, 2024). This demand has prompted requests for independent assurance of sustainability reports, defined by Gray (2010) as "designed activities aimed at evaluating the published outcomes of the quality of the report and its information." (Irigaray, 2024; Lowe & Reckers, 2024).

Similar to financial audit practices, the growing pressure from stakeholders to enhance the credibility of sustainability information positions assurance as a key element in the external review of published social and environmental information. Assurance processes may (1) provide credibility and transparency for such information (Weber, 2014), (2) act as a mechanism to build stakeholder trust not only in the quality of the information but also in the organization's sustainability commitment (Simnett et al., 2009), (3) serve as a managerial oversight tool addressing agency relationships (Wong & Millington, 2014), and (4) reduce information asymmetry and uncertainty (Moroney et al., 2012). Ultimately, in cases where sustainability information is questionable or lacks reliability, companies may voluntarily initiate processes to verify this information. This verification benefits various stakeholders by legitimizing the credibility of the reported information through effective communication with different stakeholders.

Stakeholder theory posits that organizations need to engage with a broad range of stakeholders to ensure their long-term survival through a "social contract" between the company and society (Deegan et al., 2006). The concept of "social contract" is a fundamental assumption in legitimacy theory (Deegan, 2002). According to Deephouse and Carter (2005), legitimacy involves meeting the expectations of norms, values, laws, and meanings within a social system. Legitimacy theory thus suggests that management can adopt an assurance process to legitimize their sustainability reports among key audiences and society as a whole (Deephouse & Carter, 2005).

The expansion of multinational corporations in global markets, coupled with the economic and social importance of emerging economies, underscores the necessity for managers, shareholders, and stakeholders to comprehend regulations, norms, and cultural dimensions across diverse countries. Institutional theory has enriched numerous commercial and managerial studies, emphasizing that firms operate within frameworks shaped by institutions that influence their behaviors and impose expectations on them. This institutional environment defines the "rules of the game" in a society or, more formally, the human-devised constraints that shape human interaction (North, 1990).

Organizations operating in countries with similar institutional structures tend to adopt homogeneous behavioral patterns (Campbell, 2007). DiMaggio and Powell (1983) termed this process "isomorphism," arguing that it enhances organizational stability and survival while facilitating institutional legitimacy and political power. Institutional theory suggests that companies modify their behavior concerning sustainability practices, disclosures, and assurances based on their social environments. The assurance of legitimacy through sustainability assurance is expected to be significantly influenced by institutional factors (Simnett et al., 2009).

This approach has been bolstered by neo-institutional theory, which incorporates previously overlooked elements such as cultural values to provide a robust framework for explaining organizational isomorphism. Neo-institutional theory defines legitimacy as "the degree of cultural support for an organization," enabling companies to gain and strengthen support from powerful institutional stakeholders. Companies can achieve legitimacy through coercive (e.g., legal), normative (e.g., ethical compliance), and mimetic (e.g., adopting widely accepted practices in the same industry) isomorphic pressures (Kolk & Perego, 2010). In line with neo-institutional theory, obtaining social legitimacy may be a primary driver for adopting assurance processes (Kolk & Perego, 2010).

Public demand for companies to address ethical, social, and environmental concerns has increased significantly in recent years. This demand has pressured companies to adopt appropriate social standards and align institutional operations with social norms (Cormier et al., 2005). Moreover, stakeholders increasingly expect companies to provide information about environmental, social, and governance (ESG) issues due to their importance to stakeholder interests. Organizations operate within an environment that they influence and are influenced by, where the environment can profoundly impact their behavior and even their survival (Amoako et al., 2021).

Institutional theory posits that organizations, when faced with institutional pressures, must either conform to survive in the long term or resist and risk elimination from the environment (Scott, 2008). Organizations demonstrate complex behaviors in response to such pressures, either genuinely conforming or feigning compliance. Cormier and Magnan (2005) argue that companies respond to such pressures by integrating ESG into their agendas to address investor demands for ESG-related disclosures and considerations in investment decision-making. Simultaneously, companies face growing pressure to adopt a more cautious approach to environmental, social, and ethical issues, aligning institutional objectives with social, environmental, and ethical norms (Cormier et al., 2005).

DiMaggio and Powell (1983) assert that regulations are shaped by the environments in which they are implemented. Institutional theory suggests that organizations gain legitimacy, benefits, and survival by accepting institutional pressures (DiMaggio & Powell, 1983). Institutional isomorphism serves as a valuable tool for understanding organizational policies and rituals, particularly those relevant to modern organizational life (Boxenbaum & Jonsson, 2008). Social conformity to societal expectations provides organizations with the operational legitimacy necessary for survival.

The growing public focus on sustainability reporting, ESG disclosures, and CSR underscores the evolving dynamics within the corporate landscape. While global ESG practices are well-researched, the exploration of institutional isomorphism in Iran remains theoretical and underdeveloped. This study seeks to fill this gap by examining the dimensions and impacts of institutional isomorphism on ESG reporting in Iran, thereby contributing to the financial literature and addressing research gaps. The primary research question is: What is the institutional isomorphism model, and how does it impact environmental, social, and corporate governance reporting?

2 Methods and Materials

This research adopts a mixed-methods approach conducted concurrently. The quantitative study uses a descriptive-survey and correlational method. Data were collected through simple random sampling from 385 managers of publicly traded companies listed on the Tehran Stock Exchange, using a questionnaire. The collected data were analyzed using LISREL software. The qualitative study employed ethnographic methods and purposive sampling, focusing on individuals with doctoral degrees in accounting who are active in publicly traded companies listed on the Tehran Stock Exchange. Data were collected and analyzed using thematic analysis and content analysis methods.

3 Findings and Results

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After validating the measurement models, structural equation modeling was used to examine the research hypotheses. Table 1 presents the results of the structural equation modeling for the study's hypotheses.

Table 1

Results of Structural Equation Modeling for Research Hypotheses

Hypothesis	Research Hypotheses	Beta	t-statistic	Sig	Status
Main	Institutional isomorphism -> ESG reporting	0.671	9.713	0.000	Confirmed
H1	Coercive isomorphism -> Environmental reporting	0.617	11.905	0.000	Confirmed
H2	Coercive isomorphism -> Social reporting	0.311	8.389	0.000	Confirmed
H3	Coercive isomorphism -> Corporate governance reporting	0.696	14.523	0.000	Confirmed
H4	Normative isomorphism -> Environmental reporting	0.465	12.034	0.000	Confirmed
H5	Normative isomorphism -> Social reporting	0.605	11.071	0.000	Confirmed
H6	Normative isomorphism -> Corporate governance reporting	0.386	7.245	0.000	Confirmed
H7	Mimetic isomorphism -> Environmental reporting	0.440	7.510	0.000	Confirmed
H8	Mimetic isomorphism -> Social reporting	0.244	5.350	0.000	Confirmed
H9	Mimetic isomorphism -> Corporate governance reporting	0.285	5.094	0.000	Confirmed

In the qualitative study, data were collected through 10 interviews with individuals holding doctoral degrees in accounting who are active in publicly traded companies. The data analysis process included three stages: open coding, axial coding, and selective coding. A total of 33 categories were identified during open coding. For determining main and sub-categories, any category mentioned by at least four out of ten interviewees was considered a main category, while the rest were classified as sub-categories. Consequently, all 33 categories were identified as main categories. Among these, labor rights had the highest frequency in the interviews, and three categories—performance compensation, labor rights, and corporate social responsibility investment—were repeated in all interviews.

During axial coding, the 33 main categories were grouped into four dimensions: social, corporate governance, environmental, and institutional isomorphism. The social dimension had the highest frequency, with 11 main categories repeated 183 times across interviews. Key categories in this dimension included labor rights, social issues related to customers and supply chains, stakeholder social perceptions, and health, safety, and productivity. The environmental dimension followed, with 10 main categories repeated 96 times. Important categories here included corporate social responsibility investment, biodiversity, and environmental issues related to products, services, and supply chains. Finally, the corporate governance dimension comprised 9 main categories repeated 105 times, with investment risk management and performance compensation as the most significant categories.

The findings indicate that the legal environment, as a coercive force, has a significant positive impact on the assurance of social and environmental information, at a 99% confidence level. Initial predictive models suggest that companies operating in more stakeholder-centric environments are more likely to provide assurance for their sustainability reports. Companies in civil law countries with strong legal enforcement are more inclined to issue assurance statements for their voluntary reports as a tool to meet stakeholder demands.

Regarding normative pressures, culture, as a representative of a country's cultural development, also positively impacts the assurance process. This finding highlights that voluntary assurance demand is significantly influenced by the stage of cultural development in the country where the company operates. According to Hofstede's cultural dimensions, companies in societies that are more future-oriented, socially collaborative, less individualistic, and less male-dominated are likely to produce more reliable sustainability reports.

Finally, the results highlight the positive effect of mimetic isomorphism, where assurance adoption is influenced by mimicking the behavior of a "model or leader" competitor. Companies operating in industries with high social and environmental concerns are more likely to issue assurance statements alongside their sustainability reports. This behavior reflects a desire to emulate model competitors and avoid reputational risks from negative media coverage. For instance, energy sector companies highly committed to environmental issues are pressured to align with peers who undergo sustainability assurance.

The study's findings confirm the following:

- **At the national level**, countries with stronger legal systems and higher cultural development are more likely to produce assured sustainability reports.

- **At the corporate level**, industries with higher social and environmental concerns see greater assurance adoption in sustainability reporting.

4 Discussion and Conclusion

Based on the explanatory power of the three-pronged institutional framework, the findings of this study support the prediction that voluntary sustainability assurance can serve as a legitimizing tool employed by companies in response to organizational pressures (Francis et al., 2011). Providing a detailed explanation of the findings and discussing them in relation to prior literature, the results align with the notion that the assurance process may complement a robust legal system as a coercive pressure. Similar findings have been presented in previous studies examining the strength of legal systems with various dependent variables, such as governance and transparency, corporate social performance, and integrated reporting (Durnev & Kim, 2005). However, in the context of assurance, the literature remains scarce and undoubtedly limited (Simnett et al., 2009). The stronger the legal enforcement system, the greater the likelihood of sustainability assurance adoption.

From an institutional perspective as a secondary theoretical framework, identifying cultural norms and values as normative forces indicates that national culture plays a significant role in explaining cross-country differences in assurance practices. Although most business and management studies have adopted Hofstede's dimensions for assessing cultural values, this research incorporates six additional dimensions proposed in 2011—power distance, individualism, masculinity, uncertainty avoidance, long-term orientation, and indulgence—into the analysis. Despite the recognition of cultural values as determinants of ethical values, corporate performance, and sustainability disclosure, this study represents the first effort to evaluate normative pressure based on the proposed cultural dimensions.

Finally, regarding mimetic isomorphism, the industry pressure coefficient reveals that companies adopt assurance systems as mimetic tendencies, emulating the sustainable behavior of industry leaders to alleviate stakeholder pressure. This study extends the domain of assurance research by introducing a new institutional argument for the role of industry (as mimetic isomorphism) and includes a novel period of analysis focusing on industry pressure as an institutional mimetic factor.

Moreover, as a major contribution of this research, the findings suggest that country-specific factors exert stronger pressure for adopting sustainability assurance compared to industry-level factors. Cultural and legal dimensions have a more substantial influence on companies and managers in making assurance decisions, while industry pressure does not act as the primary driver of sustainability assurance. The reduced importance of mimetic forces in supplementary tests underscores that companies' assurance decisions are more influenced by country-level factors—such as legal and cultural dimensions—than by industry pressures.

While the studies referenced above examine the influence of various institutional factors, this research uniquely identifies which factor exerts the greatest impact on assurance decision-making. Overall, our study builds on prior research by advocating for sustainability assurance as an essential component for enhancing the credibility and transparency of such voluntary information and adding value to these reports. The evidence shows that managers in culturally robust contexts (societies characterized by collectivism, feminism, indulgence, long-term orientation, low uncertainty avoidance, and specific power distance values) and strong legal systems (societies with robust enforcement mechanisms and civil law) exert greater pressure on companies to adopt sustainability assurance, enabling them to gain confidence in the legitimacy of their actions. Legitimacy building through external assurance is also strengthened in industries that are highly sensitive to social and environmental issues.

However, the evidence also emphasizes the greater explanatory power of country-level factors over industry-level factors. Specifically, the institutional framework that defines homogeneous behavioral patterns among organizations is more prominent in companies with strong legal and cultural development, reflecting coercive and normative isomorphism as primary causes of assurance adoption rather than industry effects.

The results of this study provide several implications for theory and practice. From a theoretical perspective, our findings contribute to different theoretical approaches, including agency theory, stakeholder theory, legitimacy theory, and institutional theory. While most international studies on sustainability disclosure and assurance have adopted agency, stakeholder, or legitimacy theories as theoretical frameworks, this study not only confirms these hypotheses but also extends them by positioning institutional theory and the coercive, normative, and mimetic isomorphism frameworks proposed by DiMaggio and

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Powell (1983) as the main theoretical foundations. These frameworks suggest that sustainability assurance serves as an effective monitoring mechanism for managers, enhancing corporate information credibility and reducing the information asymmetry caused by agency conflicts (DiMaggio & Powell, 1983). In this regard, both assurance and voluntary disclosure of information can reduce agency conflicts by increasing the amount of information accessible to shareholders and stakeholders about corporate strategies while improving confidence in and the credibility of sustainability information (Simnett et al., 2009).

We confirm the rationale supported by previous international assurance studies (Peters & Romi, 2014). Sustainability assurance effectively reduces information asymmetry between companies and the general public. Additionally, we confirm that assurance demand serves as a response to stakeholder pressures (Zhou et al., 2013).

Our study, consistent with Perego (2010), confirms that companies adopt sustainability assurance to legitimize their operations under societal norms and expectations about corporate practices (Perego, 2009). From a stakeholder theory perspective, companies tend to act more decisively in assurance decisions for shareholders perceived as more influential. Based on this theory and our findings, companies are more likely to issue sustainability reports under higher industry pressure because major shareholders (e.g., environmental organizations in chemical industries) exert more influence on companies.

Similarly, this study adopts and supports legitimacy theory. From this perspective, assurance is regarded as a necessary tool to meet social demands and ensure the survival of the organization by aligning it with the objectives of the society in which it operates. Nevertheless, the findings of this study—the impact of legal, cultural, and industrial factors on assurance demand—indicate that previous theories may have limited applicability in international contexts. By analyzing determinants of sustainability assurance within a new institutional theoretical approach, this study bridges this theoretical gap and contributes relevantly to the assurance literature.

Therefore, the central theoretical focus of this research expands institutional theory by emphasizing that legitimacy varies according to the institutional environment in which companies operate (DiMaggio & Powell, 1983). This study provides a solid foundation for examining how institutional pressures—coercive and normative forces—and corporate incentives—mimetic forces—affect companies' decisions regarding sustainability assurance. Specifically, our evidence supports the idea that companies adopting homogeneous behavioral patterns (DiMaggio & Powell, 1983) are linked to assurance demand in countries with strong legal and cultural systems and in industries more sensitive to sustainability concerns.

Our contributions to theory pertain to several aspects. First, we confirm the primary premise of institutional theory, which emphasizes the significant interest of this approach in understanding assurance demand across varying institutional environments.

Second, we specifically focus on two country-level pressures: the legal system and cultural development stage, without disregarding the influence of industry-level incentives on assurance demand (contrary to prior evidence). In this regard, we build on the research recommendations of Perego (2010) and incorporate additional characteristics at the company and country levels (beyond legal and enforcement dimensions) to explain voluntary assurance (Perego, 2009). Additionally, we provide novel evidence on why industry pressure acts as a company-level characteristic and influences assurance demand.

Third, this research provides new insights, as differences among countries regarding voluntary disclosure have been extensively analyzed, but theoretical or practical references addressing country-level or, more importantly, industry-level differences in assurance literature remain scarce and undoubtedly limited.

Fourth, we complement existing studies that have employed institutional theory to examine institutional factors as determinants of corporate practices.

The primary practical implications of this article relate to the findings that should be utilized by companies, managers, shareholders, stakeholders, and public institutions directly involved in assurance adoption.

First, understanding the reasons for divergence in sustainability assurance at the country and industry levels is of interest to various users of information, such as companies. Our evidence offers valuable insights into the diverse organizational pressures influencing companies and managers—not only in terms of reporting and assuring their social and environmental information but also in legitimizing their strategies and organizational actions.

It appears that the data suggest the most appropriate pathway for companies is to develop industry leadership sensitivity to sustainability concerns. Furthermore, our findings provide useful information for investors and stakeholders regarding how to assess the reduction of information asymmetry between managers and different

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stakeholders, especially in countries with strong legal enforcement and advanced cultural development.

Additionally, investors should consider assurance as a means to enhance credibility and confidence in sustainability information, which serves as a signal for future investment decisions. Assurance may increase value for shareholders and stakeholders by demonstrating managerial commitment to credible sustainability reporting.

For policymakers and regulatory organizations, our findings may serve as a guide for increasing assurance demand. Understanding environments less inclined toward or incentivized by assurance can help identify gaps in assurance-related issues. For instance, they can collaborate with companies to promote organizational programs supporting sustainability report assurance.

According to our findings, this approach could be particularly relevant for public institutions in less stakeholder-oriented countries and culturally less developed societies. Additionally, they should focus on industries with lower sustainability commitments to increase both the performance of social and environmental reporting and subsequent assurance verification of such information.

National legislation, regulatory reforms, institutional programs, or financial incentives could play a crucial role in enhancing sustainability assurance without incurring excessive regulatory costs, ultimately increasing organizational value.

Moreover, given the lack of regulatory laws and auditing standards that should be adhered to by the assurance profession, assurance practices often lack legal and standardization frameworks. Therefore, our findings suggest that institutional support for assurance practices should benefit governments, policymakers, and public institutions.

Supporting sustainability assurance as a powerful tool for legitimizing operational activities and strategies in alignment with stakeholder expectations—and based on the neo-institutional theory and developed isomorphism by DiMaggio and Powell (1983)—this study examines the impact of coercive, normative, and mimetic pressures on companies' decisions regarding sustainability assurance.

Specifically, this research considers two country-specific factors (legal and cultural development) and one industry-specific factor (industry tendency toward assurance) to explain differences in assurance practices across industries. The findings indicate that institutional isomorphism (coercive, normative, and mimetic) exerts significant pressure to adopt voluntary assurance for sustainability reports. Notably, normative forces offer greater predictive power in explaining assurance, followed by coercive forces.

In other words, in sustainability reporting and assurance, companies and managers primarily align their actions with the legal and enforcement systems of the countries they operate in, guided by stakeholder orientation and the degree of cultural development in the country.

This article extends previous research on sustainability report assurance and its institutional dimensions, contributing to the growing body of literature in this evolving field.

Authors' Contributions

All authors have contributed significantly to the research process and the development of the manuscript.

Declaration

In order to correct and improve the academic writing of our paper, we have used the language model ChatGPT.

Transparency Statement

Data are available for research purposes upon reasonable request to the corresponding author.

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Declaration of Interest

The authors report no conflict of interest.

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Ethical Considerations

In this research, ethical standards including obtaining informed consent, ensuring privacy and confidentiality were observed.

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