

The Survey of The Effect of Organizational Ethical Culture on Audit Quality Reduction Behaviors

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Abstract

The purpose of this research is investigating the effect of organizational ethical culture on Audit quality reduction behaviors. Four hypotheses were given to examine the auditors' behavior. The standard questionnaire was used to study the hypotheses. The statistical population includes in-charge auditors. The results of the research show that the auditors' perception of the organizational's ethical culture has no effect on their behavior. This research showed that perception of auditors of organizational ethical culture understanding of personal and occupational characteristics and reduced form of ethical culture has no effect on the quality of auditing by audit quality reduction behaviors.

Keywords: *Organizational Ethical Culture, Weak evidence to evaluate client, Accepting weak client explanation, Reduce work in Auditing, Failure to research an accounting standard.*

Introduction

Not observing the code of professional behavior, trusteeship and code of conduct has lead to several scandals. Enron, World Com, Adelphia, Tyco, Martha Stewart and Parmalat are the companies which had unethical and unprofessional procedures. Other ethical lapses have been reported in the mutual fund industry and subprime mortgage industry too, the unethical behaviors in subprime mortgage industry of course have had a great role in the global problems (Donaldson, 2005, p. 3). Copeland (2005) believes that although the effect of unprofessional behaviors and ethical lapses may be low, but they are followed by the collapse of the world largest companies and lead to the loss of credit and reputation of hundreds of thousands of people who have spent their time to do the right actions and observe the trusteeship (p. 36). Sama and Shoaf (2008) believe that the organization's culture is among the effective factors in the peoples' behavior within the organization. The inappropriate culture of the firm causes problems



in the leadership. For example, the culture of Arthur Anderson's firm was accused (pp. 42-43). Wyatt (2004) believes that the culture of firm such as Arthur Anderson has changed from professional behavior to the greedily behavior and the return to the professional culture is essential (p. 23).

The necessity of establishing the ethical behavior and culture is to the extent that many organizations reacted against the legal and environmental pressures by establishing ethical cultures in the organizations. Professional and ethical behavior seems necessary from the view point of auditors, academics, oversight boards, Congress and the auditors' clients (Weaver *et al.*, 1999, p. 283). Considering the outcomes of audit low culture, all the members of audit profession should create the ethical organizational culture through appropriate behaviors. If the ethical culture was created and the auditors behave responsibly, the unethical behaviors did not lead to the failures and scandals at the beginning of the 21th century. Some of the researchers believe that ethical culture should be taken into consideration by the organizations' leaders. Collapse of Arthur Anderson firm is an opportunity for the leaders to foster the ethical culture (Jenkins *et al.*, 2008, p. 46). So it could be said that studying the effective factors in auditors' behavior is necessary. The ethical culture of the audit organization is an effective factor in auditors' behavior. The leaders influence the ethical culture or ethical climate of the organization by their performance. This factor has a great impact on the organizational objectives and the behavior of the organization's members (Donaldson, 2005, p. 5). Thus regarding the above mentioned issues, the main question of this research is what the perception of in-charge auditors concerning the firm's ethical culture and audit quality reduction behaviors is? The next question is to what extent audit quality reduction behaviors is related to their perception of firms' ethical culture and their personality characteristics?

Several researches were done in the field of the organizational ethical culture in the audit profession (for example, Hunt and Vitell, 1986; Windsor and Ashkanasy, 1996; Douglas *et al.*, 2001; Schein, 1992,1996 and 2004; Jenkins *et al.*, 2008; and Sarros *et al.*, 2011). Moreover, many researches were done to survey the audit quality reduction behaviors (Rhode, 1978; Lightner *et al.*, 1982; Alderman, 1982; Rest, 1986; Margheim and Pany, 1986; Kelley and Margheim, 1987; McNair, 1991; Raghunathan, 1991; Otle and Pierce, 1996b; Malone and Robert, 1996; Almer *et al.*, 2005; Sweeney and Pierce, 2006). But none of these researches studied the effects of the organizational ethical culture on audit quality reduction behaviors of the auditor. Studying this subject is important in the developing countries. Since Islamic Republic of Iran is a country that believes in Islam and such a research was not done, this research needs to be done. So, this research provides the possibility of better perception and recognition of the effective factors in audit quality reduction behaviors.

Theoretical Framework and Literature Review

1. Culture and Organizational Culture

Hofstede (1991) believes that culture is the collective programming of the human mind that distinguishes the members of one human group from those of another. In another definition culture is defined as a set of social patterns, arts, beliefs, customs and other human products and intellectual properties of a society or nation. Korte and Chermack (2007) define culture as a strong chain that provides the organization's stability (p. 647). Keyton (2005) expresses that



culture was first used as a concept to classify the societies which are distinguished from each other geographically and its focus was on the anthropological studies (p. 17). Now after defining the culture generally, the organizational culture is defined in the following. Combination of two words culture and organization created a new idea that none of these two words convey this idea. Organization is a metaphor for regularity and training, while the culture's factors are not regular. Therefore, it could be said that culture of an organization is like personality of a human. In other words, every organization has a personality named organizational culture. The organizational culture describes the internal environment of the organization which is in fact the combination of a set of commitments, beliefs and common values among the organization's members and is used to guide the personnel in doing their duties. Schein (1992) believes that the organizational culture has three layers: basic assumptions, values and manifestations of culture. Hill *et al.* (2000) believe that the organizational culture is a pattern of the values, beliefs and learned behavior form the past with an experience developed during the organizations' life and emerged in the members' behavior (p. 69). Martin (2002) consider the organizational culture as a pattern of concepts which is made by combining the different cultural manifestations such as stories, customs, official and nonofficial experiences (p. 330). From the viewpoint of Balthazard and Cook (2004) the organizational culture is considered as the origin of the organizational processes such as structure, hierarchy, human relations method, the way of management and performance, attitudes and approaches of the organization's members. Also, the organizational culture could be considered as a combination of belief, values and defaults which exist in the organization and all of its members are equally exposed to it more or less; it is almost agreed and spread between the personnel and manager well. The organizational culture could leads to the organizational commitment, ethical promotion, more effective performance and generally the higher productivity and is accepted as a fact of organizational life. Clemente (2003) believes that the organizational culture is an opaque commercial concept which is neglected by the leaders. In spite of it, the effective culture surely is the most valuable unobvious asset of a company. From the viewpoint of Post *et al.* (2002) the organizational culture is a combination of the ideas, customs, traditional procedure, the company's values and the common meanings which helps the determination of the normal behavior of the personnel (p. 132). Schein (2004) offered an official definition of culture:

...A patter basic assumption that the group learned as it solved its problems of external adaption and internal integration that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way you perceive, think, and feel in relation to those problems (p. 17).

Several researches were done to study the effect of the organizational culture on the people's behavior and decision making. For example, Windsor and Ashkansay (1996) did a research on 131 audit firm in Australia. The findings of their research revealed that the organizational culture and personal factors are the integral component of the auditors' decision making methods and behavior and their ethical reasoning is in relation with the organizational culture of the audit firm (p. 81). Also, Douglas *et al.* (2001) studied the relationship between the organizational culture, auditors' personal values and their judgments. The statistical sample of this research consisted of 304 employed auditors. The result of their research showed that in the firm the judgment is influenced by the personal values and environmental variables such as code of professional behavior, ethical instructions and the firm culture has indirect effect on the ethical judgments (p.



101). Doing a research with a sample of 1448 managers and senior executives who were the members of an Australian management firm, Sarros *et al.* (2011) found that the relation between the leader's approach and the dimensions of the organizational culture among the departments is not distinct (p. 291).

2. Audit Quality Reduction Behaviors

The audit quality reduction behaviors is a term used in academic texts to describe the behavior leads to the decrease in audit quality and ultimately to the audit failure (Bryan *et al.*, 2005, pp. 9-10). The audit quality reduction behavior affects the audit quality directly. The audit quality reduction behaviors includes several cases such as weak evidence to evaluate client, accepting weak client explanation, reduce work in auditing, failure to research an accounting standard. Kelley and Margheim (1990) believe that auditors have been involved in at least one of the behaviors decreasing quality of auditing. Also, organizational ethical culture has a correlation with behaviors decreasing the quality of auditing. This relationship in some studied has been reported to be negative (Morris, 2009). Besides, Shapiro *et al* (2003) investigated a model regarding ethical decision making and auditor's behavior. They came to the conclusion that who follow an ethical process, are less likely to commit any behavior decreasing auditing quality. Mahdavi and Hooshmand (2013) believe that there is no relationship between ethical culture and auditing behavior.

Research Hypotheses

Four hypotheses were developed and examined as below:

H1: Auditors' perceptions of organizational ethical culture is related to weak evidence to evaluate client.

H2: Auditors' perceptions of organizational ethical culture is related to accepting weak client explanation.

H3: Auditors' perceptions of organizational ethical culture is related to reduce work in auditing.

H4: Auditors' perceptions of organizational ethical culture is related to failure to research an accounting standard.

Methodology of The Research

This research is in the form of quasi-experimental or ex-post design researches. To collect the data, Iran Audit Organization and member firms of Iranian Association of Certified Public Accountants was considered as the spatial domain of research. The statistical population of this research consists of in-charge auditors employed in Audit Organization and audit firms. Since the official statistics of the number of in-charge auditors in Audit Organization and audit firms is not available, the number of statistical population is assumed unknown. According to equation (2) the sample size is approximately 170 persons. Considering the questionnaires return of which were impossible, 250 questionnaire were distributed among the members of the statistical population. 140 questionnaires were collected from among those distributed; the rate of return was approximately 82%.



In this research three questionnaires were used in two parts of general and technical questions to collect the data. The organization's ethical culture was designed via Corporate Ethical Value (CEV) scale questionnaire by Hunt *et al.* (1989) and auditor behavior was measured using the questionnaire which was used in Kelley and Margheim (1990) research. To measure the auditor's personal characteristics a questionnaire including six questions was used which was designed with the help of Kelley and Margheim (1990) research. Since the used questionnaire in this research was standard, their structural validity was approved in other researches. Retest methods and Cronbach's Alpha were used to examine the reliability of the questionnaire in this research. The results of retesting the questionnaires of ethical culture and audit quality reduction behaviors indicate the high correlational coefficient for all the questionnaires, so their questions have reliability. The result of this research indicate that the internal consistency of the questionnaire was significantly high and hence the test-retest provide reliability and consistency of score in table 1 and 2. Table 3 shows the Cronbach's Alpha value proving reliability of the questionnaire results.

Table 1: The Reliability Coefficient of The Audit Firm Ethical Culture Questionnaire

Order	Correlation Coefficient
1	89.87%
2	95.13%
3	88.61%
4	76.41%
5	94.15%

Table 2: The Reliability Coefficient of The Audit Quality Reduction Behavior Questionnaire

Order	Correlation Coefficient
1	99.89%
2	99.25%
3	99.41%
4	98.60%
5	99.24%
6	99.88%
7	100.00%
8	89.87%

Table 3: The Cronbach's Alpha Coefficient

Questionnaire	Cronbach's Alpha
Corporate Ethical Value Scale (CEV)	71.70%
Auditor Behavior Questionnaire	73.20%



Analyzing The Data of The Research

1. Descriptive Statistics

The general questionnaire includes six questions about the environmental personal characteristics of the respondents including gender, firm type, educational degree, major, age and work experience. The obtained results of the descriptive analysis of the questionnaire's general questions indicate that 75% of 140 participants are men and the rest are women. Also, 32.14% of the participants are the employer of audition Organization and the rest 67.86% are the employers of audit firms. Surveying the educational degrees shows that 68.57% of in-charge auditors have bachelor degree and the rest have master degree. According to received information from the respondents, 86.43% of them studied in accounting, 11.43% in management and 2.14% in economy majors. Also, the obtained results of the descriptive analysis of the general questions reveal that the average age of the respondents is 34.69. The youngest respondent is 23 years old and the oldest one is 59 years old.

Finally, studying the experience of in-charge auditor position indicates that the average work experience of the respondents is 4.61 years. The least amount of in-charge auditor work experience is 0.30 years (approximately 4 months) and the most amount is 25 years. The obtained results of the descriptive analysis of the general questions 1 to 4 are shown in table 4 and the questions 5 and 6 are shown in table 5.



Table 4: The Descriptive Statistics for Questions 1 To 4 Of General Questionnaire

Order	Description Question	Frequency	Percent	
1	Gender	Male	105	0.75
		Female	35	25.00
		Sum	140	100.00
2	Firm Type	Audit Organization	45	32.14
		Audit Firm	95	67.86
		Sum	140	100.00
3	Major	Accounting	121	86.43
		Management	16	11.43
		Economic	3	2.14
		Other	0	0.00
		Sum	140	100.00
4	Educational Degree	B. A.	96	68.57
		M. A.	44	31.43
		Ph. D	0	0.00
		Other	0	0.00
		Sum	140	100.00

Table 5: The Descriptive Statistics for Questions 5 to 6 Of Public Questionnaire

Order	Description Question	Frequency	Mean	Median	Maximum	Minimum	Standard Deviation
5	Age	140	34.69	32.5	59.00	23.00	8.37
6	Work Experience	140	4.61	3.00	25.00	0.30	4.31



2. Statistical Test of Research Hypotheses

2.1. First Hypothesis

For this hypothesis regarding "Auditors understanding of institute ethical culture is related to weak analysis of clients documents" Regression was used. To analysis the data, dependent variable (two-tailed) was used. The results obtained from the model are presented in tables 6 and 7. As can be seen in Table 6, Chi-square statistic amount and the related significance indicate that amount statistically is not significant. Cox R^2 index and Neg R^2 are 0/017 and 0/024 which indicate the independent variable has no power. Statistical results regarding coefficient of model are presented in table 7. As can be observed, the significant amount of parent statistic related to the independent variable indicates that the relationship between auditors understanding of institute ethical culture and weak analysis of client's document is not statistically significant. So, the first main hypothesis is rejected.

Table 6: Results Obtained from Evaluation Of The Model For First Main Hypothesis

Sig.	Hassmer Lamsho &	R2 Neg	R2 Cox	Sig.	Chi-Square
0.523	5.163	0.024	0.017	0.119	3.423

Table 7: Results Obtained From Evaluating Model Coefficient For The First Hypothesis

Sig.	Parent statistics	SD	Coef.	Variable Name
0.124	2.368	0.266	-0.410	Auditor Understanding
0.332	0.943	1.164	1.130	Fix Value

2.2. Second Hypothesis

For evaluating the second main hypothesis regarding "Auditors understanding of institute ethical culture has relationship with accepting weak explanations of client Regression was used. To analysis the model, the dependent variable was assessed. The results are presented in tables 8 and 9. As Table 8 reveals the amount of Chi-square and its significant indicate no statistical significance. The amounts of Cox R^2 and Neg R^2 equal 0.022 and 0.029 which signify the independent variable plays no rule and it is non-functional. However, the comparison of the level of significance of Hassmer and Lam statistics concerning 5% error indicates a correspondence between the model and the observed facts. The statistical results related to the model coefficient are presented in Table 9. As it can be seen the significant value of statistics related to the independent variable indicated that the relationship between Auditors understanding of institute ethical culture and accepting weak explanations of client is not statistically significant. Thus, the second main hypothesis is rejected.



Table 8: Results For The Second Main Hypothesis

Sig.	Hassmer lamsho &	R2 Neg	R2 Cox	Sig.	Chi-Square
0.420	6.032	0.029	0.022	0.080	3.060

Table 9: The Results Obtained From Model Coefficient For The Second Hypothesis

Sig.	Parent statistics	SD	Coef.	Variable Name
0.085	2.965	0.263	-0.452	Auditor Understanding
0.201	1.637	1.150	1.471	Fix Value

2.3. Third Hypothesis

For the 3rd hypothesis regarding "Auditors' understanding of organizational ethical culture is related to reduce work in auditing " Regression was used. To evaluate the model, the dependent variables were assessed and the obtained results are offered in Tables 10 and 11. As it can be observed in Table 10, the amount of Chi-square and its significance indicate that the model is not statistically significant. The amount of Cox R² and Neg R² are 0.004 and 0.005 respectively indicating the independent variable has no role to play. However, the comparison of significance of Hassmer and Lam statistic with 0.5% error indicated a correspondence between the model and the observed facts. As it can be observed, the significant amount of statistics related to independent variable indicates the relationship between Auditors understanding of institute ethical culture and accounting is not statistically significant. Thus, the 3rd hypothesis is rejected.

Table 10: The Obtained Results Overall Model Evaluation For The Third Hypothesis

Sig.	Hassmer lamsho &	R2 Neg	R2 Cox	Sig.	Chi-Square
0.365	6.541	0.005	0.004	0.459	0.549

Table 11: The Results Obtained From The Model Coefficient Regarding The Third Main Hypothesis

Sig.	Parent statistics	SD	Coef	Variable Name
0.460	0.547	0.264	-0.195	Auditor Understanding
0.906	0.014	1.161	0.137	Fix Value



2.4. Fourth Hypothesis

The fourth hypothesis regarding "Auditors understanding of institute ethical culture has relationship with negligence of searching for standard and efficient accounting" regression was used. To evaluate the model, the dependent variable and the independent variable were assessed and the obtained results are offered in Table 12 and 13. As Table 12 shows the Chi-square value and its related significance indicate that the model is not statistically significant. Cox R^2 and Neg R^2 in the model are 0.021 and 0.028 respectively, which show lack of explanation through independent variable. However, the comparison of meaning fullness of Hassmer and Lam statistics with 5% error indicate a correspondence with the observed facts. The statistical results related to model coefficients are offered in Table 13. As it can be observed the significant statistic related to independent variable indicates that the relationship between the independent and dependent variables is not statistically significant. Thus, the fourth hypothesis is rejected.

Table 12: Results Obtained from Model Evaluation For Four Hypothesis

Sig.	Hassmer lamsho &	R2 Neg	R2 Cox	Sig.	Chi- Square
0.076	12.848	0.028	0.021	0.085	2.959

Table 13: Results Obtained from Model Coefficient For The Four Hypothesis

Sig.	Parent statistics	Sd	Coef	Variable Name
0.090	2.868	0.257	0.436	Accountant understanding
0.154	2.030	1.132	-1.613	Fix Value

Conclusion and Suggestions

The effects of the audit firm's ethical culture on auditor's audit quality reduction behavior were studied in this research. One of the objectives of this research is to study the relation between auditor's audit quality reduction behaviors and the audit firm's ethical culture. Analyzing the results of this research's hypotheses showed that there is no significance relation between the audit firm's ethical culture and the criteria of the audit quality reduction behavior. Therefore, the results of these hypotheses is against the results of Morris (2009), And compatible with research Mahdavi and Hooshmand (2013). Additionally, on the basis of the results of the estimated models it could be concluded that there is no significance relation between the audit firm's ethical culture and the criteria of the audit quality reduction behavior. The results of this research indicate that he audit firm's ethical culture had no effects on the audit quality reduction behaviors. Perhaps the reason of this conclusion is the lack of training the auditors and accountants in the field of creating ethical culture. Most auditors believed that passing the training courses in the field of ethic and ethical culture seems to be obligatory before entering a



profession. Therefore, it is recommended that the managers of the organizations and audit firms try further to create and maintain the ethical organizational culture.

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