

Does Auditors' Role Influence their Ethical Environment?: Examining the Mediating Roles of Organizational Fit

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Abstract

The objective of this study is to investigate the influence of role to ethical environment and organizational fit as the mediating variable in public accounting firms in Indonesia. 101 auditors from 9 international public accounting firms were participated as participants in our online questionnaires. To test the hypothesis of the study, SEM SmartPLS with WarpPLS version 3.0 software was used to process the data. The result of the study showed that role variable is positively associated with ethical environment and also organizational of fit was mediated the relationship between role and ethical environment. This study is expected to build better understanding to public accounting firms the importance to build the ethical environment in their organizations.

Keywords: Roles, Organizational Fit, Ethical Environment.

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Introduction

Individuals' role in an organization is assumed to be very important to build perceptions and behaviors towards ethical environment in organization. This role has been considered to be significant contribution in influencing every member's behavior within the organization. Furthermore, the role will also enable the individuals as members of the organization to perceive an ethical environment which then leads them to build

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expected behaviors for the organization (Booth & Schultz, 2004). The existence of the ethical environment in the organization will lead the members' role of the organization to be more effective and be able to build productive environment which could support the performance of the organization. as well. Auditors as professionals who work for public accounting firm are considered to have interests in building friendly working environment which supports ethical environment for them to work within the organization.

Several experts argued that the ethical environment does not only influence employees' behaviors in an organization but also influences management in making ethical decision (Shafer & Wang, 2011). Therefore, the management of public accountant needs to make an extra effort to have commitment to build the ethical environment in order to convince societies as their clients with their integrity in their professions, since the ethical environment condition supports the management of the firms to build their capacity in their role in decision making. On the other hand, building an ethical environment is a kind of building a trust.

Besides the existence of the ethical environment, to make an effective working environment which could enhance the success of the organization. Auditors as the members of the public accounting firms need to feel "fit" which enables the auditors feel suitable for the organization (Saks & Ashforth, 1997). From this condition, the auditors will experience a better place or environment to work and enable them to stay longer and perform better. Furthermore, Kristof (2000) defined organizational fit as attributes matching between individuals and their organizations. In other words, when the individuals have similar values with the organization's values, it will be considered that the individuals have experienced the organizational fit. They will enjoy working in that organization, perform better and have better integrity. Therefore, it is assumed that if the auditors feel "fit" to their organization, they will better perceptions in ethical work environment.

The study of investigating the relationship among the variables of role, organizational fit and ethical environment is somewhat limited, especially in accounting firms. Previous research has been done by Bobek et al. (2015) which examined the influence of role, public interest, organizational fit toward ethical environment in leaders and non-leaders at CPA firm. Meanwhile our study was aimed to examine the effect of the ethical role of environment, and whether or not the effect was mediated by organizational fit. Therefore, this study is considered important to contribute the body of knowledge and fill the existing gap in this area.

This study was organized into several parts of discussion. The first section presents the introduction of the study. The second session discusses the relevant literature and develops hypotheses. The third section provides the research method. The fourth section presents analysis, result and discussion. The last section includes conclusions, limitations, and suggestions for future research.

Literature review and hypothesis development

Auditors' Roles

Individuals' roles are socially specified their institutions. The individual's role in an organization mostly refers to his position in the organization. In explaining the role of an individual in an organization, Keller (1997) asserts that an individual needs to have his engagement in his certain position in an organization. It will enable the individual to have commitment in his position and lead to build his integrity through his ethical behaviors. Furthermore, according to *social identity theory*, the role or identification of an individual in an organization will influence his perceptions to behave in the organization (Trevino et al., 2008).

Auditor's role is not considered only as a professional in accounting field but also as a profession. As a profession, an auditor should be compliance with the ethical audit principles of auditing standards (Martinov-Bennie & Pflugrath, 2009). It is clear that as a profession, an accountant has responsibility to societies to uphold and obey the ethical standards in their profession. In addition, as a professional in accounting firms, an auditor has a strong role in serving the public interest (Bobek et al, 2015). Therefore, if an auditor breaks the ethical behavior as a professional, he will lose the public interest (Stuebs & Wilkinson, 2010) and this will become a bad impact to the performance of the accounting firms.

Organizational Fit

The term person-organizational fit or organizational fit is defined as "congruence between patterns of organizational values and patterns of individual values" (Chatman, 1991). The existence of organizational fit for an individual is very important to support the organization performance. In other words, if individuals have strong congruence of values with organizational values, they will have positive work attitudes (Cable and Judge, 1996). They will enjoy staying in the organization and reduce turnover intention.

The contributions of organizational fit perception take strategic roles in organizational behaviors. The organizational fit is considered to have associations with job satisfaction and organizational commitment (Chatman, 1991) and turnover and performance (Ambrose et al., 2008). When an individual feels fit with his organization, he will feel comfortable, enjoy working, stay longer and make them perform better. Therefore, in order to support the success of the organization, management's attention to organizational fit perception among their employees should be paid more.

Ethical Environment

Ethical environment is assumed to be important to lead an individual to act based on the rules and legal conducts. Therefore, to build the ethical environment, the individual will be motivated to do the right things in their organization, which will result ethical environment at their workplace. An effective ethical environment will make the employees follow company's rules and regulations since they consider that it was morally accepted (Rae et al., 2008). Furthermore, DeRenzo (2005) argued that the ethical environment was not about rules and legal violations only but also how to build trusts the members of the organization to achieve organization's mission. The ending point of the ethical environment is also to build the trust of the societies as the users of public accounting firm services.

Numerous study believed that the ethical environment could be effective in influencing employees' behaviors an organization in two ways. First, processes of organizational socialization, which covers level of ethical climate, ethical values and ethical outcomes (Ardtset al., 2001). In this context, the role of management to build an effective culture to support the ethical environment is very important. Second, management's attitudes regarding building better environment plays an important role in building employee's behavior (Weaver et al., 1999). The role of management members' leadership are expected to be role model for the members of the organization itself.

Hypothesis Development

The Role of Auditors and Ethical Environment

The role of auditors is very crucial in building and maintaining the ethical environment since it is assumed that auditors as members of profession have responsibility and moral obligations to their ethical environment and public interest. Hence, the auditors have to build an integrity value through a good culture in upholding integrity which is compliant with auditing standard (Kaveh et al., 2014). Furthermore, they suggested that profession of auditor has become a fundamental role in building people's trust on their profession. In other words, the ethical behavior is a very critical issue for the profession of auditors. It will influence trust from their clients or societies and certainly have impact to their firm business in their future. On the other hand, Stuebs and Wilkinson (2010) emphasized that breaking ethics of profession could cause public interest loss. If this happens, it certainly has negative impact to credibility and the sustainability of the business. Hence, based on the discussion above, we come to first hypothesis that the role of auditors is positively associated with ethical environment.

Hypothesis 1: Role of auditors is positively associated with ethical environment

The Role of Auditors and Organizational Fit

An individual should feel as a part of an organization. In order to achieve this condition, an individual should have the same values with his organization in order to make them enjoy working at his organization. According to Chatman (1991), organizational fit means "the congruence between patterns of organizational values and patterns of individual values." Furthermore, when an individual has positive perception to his organization, he will be committed and this condition will reduce employees' intention of turnover in the organization (Cable & Judge, 1996). The employee will enjoy and happy to work in his environment and it will make him committed in his job. This condition is good for the organization to make the employees focus and help the organization to achieve its goal. Furthermore, an organization will have positive benefit in having employees' low turnover. Therefore, an organization prefers to recruit employees who have consistent values with the organization (Morley, 2007). This discussion leads us to come to second hypothesis that role of auditors is positively associated with organizational fit.

Hypothesis 2: Role of auditors is positively associated with organizational fit

Organizational Fit and Ethical Environment

In correlating between organizational fit and ethical environment, several experts have conducted several studies and come to various findings. Verquer et al. (2003) stated that when an individual feels fit with an organization, he will feel a part of an organization and then will show his high level of contribution and positive perception to work environment or organization. In addition, Cable and Judge (1996) asserted that an individual with organizational fit will have positive work attitudes in his environment. He will build friendly work environment at workplace. Hence, auditors with organizational fit tend to keep their credibility and integrity in their activities which are mostly related to public interests as the consequences of their professional profession. This condition certainly enables the accounting firm to build an effective ethical environment. Therefore, this study states third hypothesis that organizational fit positively is related to ethical environment.

Hypothesis 3: Organizational fit positively associated with ethical environment

Based on the literature review discussion, hence, this study formulated a theoretical framework which then becomes the model of this study as follows:

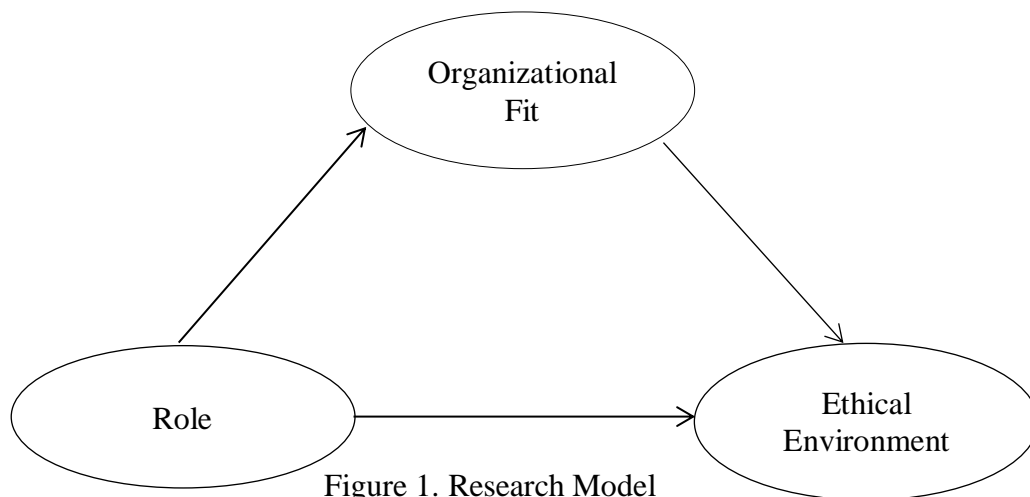


Figure 1. Research Model

Research Method

Research Setting and Sample

To test the hypotheses, 120 auditors from international public accounting firms in Indonesia were used as the sampling. The questionnaires were distributed to them with a covering page which explains the purposes of the study and assures the data confidentially. The survey instrument was sent to the respondents through web basis. From 120 questionnaires distributed, 101 were returned and gave a high response rate of 85%.

A demographic data of respondents on table 1 showed that they have worked in the public accounting firms on average for 1,8 years (range 1 – 6 years), with majority were

female auditors (61,4%) and male auditors 38,6%. Most respondents have several positions as junior auditor 72,3% and senior auditor 27,7% with highest education for undergraduate 92%, diploma 7%, and 1% for master degree.

Table 1 Demographic Sample

Variable	Percentage
Age	
17-25	85.1
26-35	11.9
36-45	2.0
>45	1.0
Gender	
Male	38.6
Female	61.4
Experience	
1 to 2 year	80.2
3 to 4 year	10.9
5 or more year	8.9
Education	
Diploma	6.9
Undergraduate	92.1
Postgraduate	1.0
Position	
Associate	72.3
Senior Associate	14.9
Assistant Manager	12.9
Audit Firm	
International	100.0

Measures

All variables used in this research were measured by instruments which had been previously developed. To enhance the validity and reliability of the constructs, all of the instruments were pilot-tested to the last semester students in the University, majoring in Accounting and had studied Accounting Ethics subject. Besides, the students have also been taking internship in public accounting firms.

Role

Role was assessed using question taken from Bobek et al. (2015): "I feel I have a meaningful role in helping to form the ethical environment of my firm". The questionnaire used a 7 point Likert-scale, ranging from 1 = strongly disagree to 7 = strongly agree. The Cronbach Alpha for the role variable was 1.000.

Organizational Fit

Organizational fit was measured by using item questions adopted from Cable and Judge (1996) and Bobek et al. (2015). The respondents were asked to indicate the level of their agreement using 7 points Likert scale, ranging from 1 (strongly disagree) to 7 (strongly agree). The items questions were: (1) “My values seem to fit in well the values of my firm and (2) The personality of my firm reflects my own personality”. The Cronbach Alpha for this measure was 0.827.

Ethical Environment

To measure this variable, items questions used in this study were taken from the instrument developed by Bobek and Radtke (2007) that assessed the ethical environment of accounting firm. The items were: (1) “My firm is greatly concerned with ethical behavior; (2) Colleagues within my firm act ethically; and (3) My firm has a code of ethics that is consistent with the AICPA code of professional conduct”. The respondents were requested to rate in 7 point Likert scale from 1 (strongly disagree) to 7 (strongly agree). The Cronbach Alpha for ethical environment measure was 0.624.

Findings

Descriptive Statistics

Table 1 presents the result of the descriptive statistic of variables studied. The result shows that while the theoretical score is wide (from 1 to 7 scale), auditors tended to choose “strongly agree” that they have meaningful role in shaping ethical environment in their audit firm (5,06). The auditors also felt that they had same values with the audit firm or they agreed that their values were fit with firm’s value (4,71). Both junior auditor and senior auditor were tended to act ethically to colleagues in their firm and they believed that their firm concern to ethical behavior (5,68).

Analysis

To test the hypothesis, a structural equation modeling with partial least squares or SmartPLS was employed. There were several reasons to choose this approach. First, SEM-PLS was able to deal with multiple dependent and independent variable. Second, SEM-PLS is suitable to small sample size (Hair et al, 2011). SEM-PLS was considered used for exploring the theory that already existed, so this approach is more properly to use. In this study, WarpPLS version 3.0 software was used.

The measurement model is needed to evaluate to ensure that relationship between measures and constructs was suitable. The model in this study was evaluated by assessing the reliability and validity of each indicator relating to a specific construct. The reliability of instruments was measure by composite reliability and value of Cronbach’s alpha should be more than 0.60. This study shows that composite reliability coefficients for the role constructs are 1.00, for organizational fit constructs are 0.92, and for ethical environment constructs are 0,80. Besides, Cronbach’s alpha for all constructs are above

0.60. In other words, all the constructs in this study are reliable and above accepted level of 0.70 (Nunnally, 1967).

The validity test was assessed through convergent validity and discriminant validity. There are requirements of convergent validity to reflect the construct. First, loading value is more than 0.40, second p-value is less than 0.05, and third average variance extracted (AVE) is more than 0.5 (Hulland, 1999). As seen in table 2, that all the loading value of each construct is above 0.60, p-value is below 0.001, and AVE above 0.5, thus providing evidence of adequate convergent validity.

Table 2 Reliability and convergent validity

Laten Variable	Loading	P-Value	s.d
Role (composite reliability=1,000; AVE=1,000)			1.27
Role 1	1,000	<0.001	
Organizational Fit (composite reliability=0,920; AVE=0,852)			1.54
Organizational Fit 1	0,923	<0.001	
Organizational Fit 2	0,923	<0.001	
Ethical Environment (composite reliability = 0,800; AVE = 0,574)			1.01
Ethical Environment 1	0,827	<0.001	
Ethical Environment 2	0,641	<0.001	
Ethical Environment 3	0,792	<0.001	

Discriminant validity was assessed by comparing the square roots of AVE to correlate among constructs (cross loading). The square roots of AVE in the diagonal meanwhile the correlation among constructs are in the off-diagonal. If the square roots of AVE are greater than cross loading value, it means that all the constructs are valid. Table 3 shows the result of discriminant validity test which correlation among constructs is less than square roots of AVE, indicating the adequate discriminant validity. Finally, from all the constructs analysis reveals that the measurement model is reliable and valid.

Table 3 Discriminant validity

	Role	Organizational Fit	Ethical Environment
Role	1.000		
Organizational Fit	0.592*	0.923	
Ethical Environment	0.591*	0.638*	0.758
* significant at $p < 0.001$			

The correlation between variables has described in table 2 also. Role of the auditors were not only correlated to organization fit (coefficient =0.592; $p < 0.001$), but also correlated with ethical environment (coefficient =0.591; $p < 0.001$), then organization fit has correlation with ethical environment (coefficient =0.638; $p < 0.001$). Auditors as members of a firm have an important influence to their organization. This is suggested

that role auditor will enhance the value of a firm. A fit value between individual value from auditor with the value from public accounting firm will shape ethical environment.

Structural equation model analysis

In this study, structural model was used to test hypothesis relationship whether role of auditor have a direct or indirect effect to ethical environment. Part A on table 4 reveals the direct effect of relationship between role and ethical environment. It shows that role is positively associated with ethical environment (coefficient=0.594; $p < 0.001$; $R^2 = 0.352$). Therefore, H1 which stated that role is positively associated with ethical environment is supported. Furthermore, an analysis by conducting organization fit as mediating variable, part B revealed that organization fit is significantly positive mediating the relationship between role and ethical environment (coefficient=0.308; $p < 0.001$; $R^2 = 0.487$). Even though the relationship remains significant, the organizational fit only partially mediates between role and ethical environment. The mediation is partial if coefficient of relationship between independent variable and dependent variable decrease but remain significant (Baron and Kenny, 1986).

Table 4 PLS result

	Path coefficient	R ²
A. Direct Effect:		
Role to Ethical Environment	0.594***	0.352
B. Mediating Effect of Organizational Fit		
Role to Ethical Environment	0.308***	0.487
C. Full Model		
Role to Organizational Fit	0.603***	0.364
Organizational Fit to Ethical Environment	0.465***	

***significant at $p < 0.001$

Part C shows the full model of relationship between role ethical environment and organizational fit as mediating variable. and organizational fit were significant (coefficient=0.603; $p < 0.001$; $R^2 = 0.364$) and relationship between organizational fit and ethical environment were also significant (coefficient=0.465; $p < 0.001$). Hence, H2 which stated that role was positively associated with organizational fit was supported and H3 which stated that organizational fit was positively associated with ethical environment was supported as well. The summary analysis of associated each variable was explained completely in Table 4 and Figure 2.

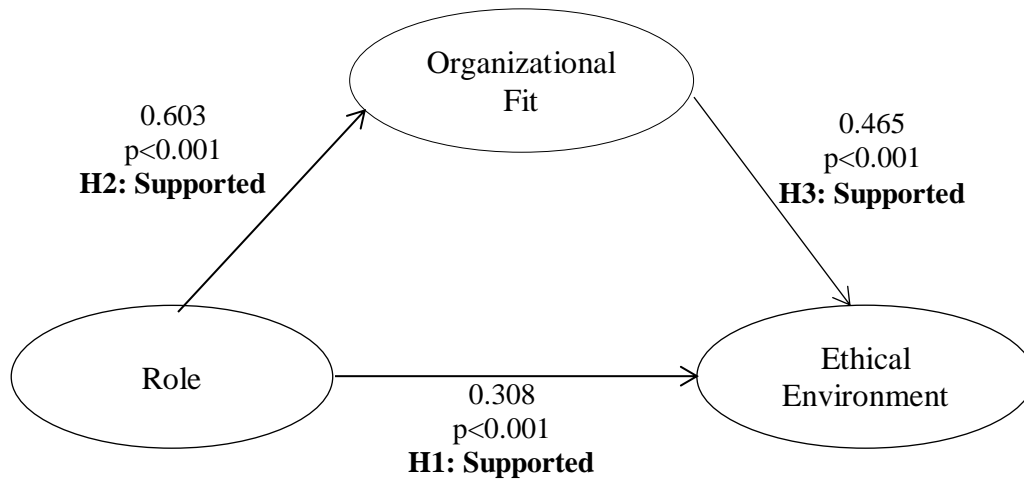


Figure 2: PLS Result

Conclusions, Limitation and Future Research

The purpose of this study was to examine whether role auditor affects to ethical environment and whether or not the effect is mediated by organizational fit. Based on the responses from 101 auditors in public accounting firms in Indonesia, this study revealed that the role was positively associated with ethical environment. By using organizational fit as mediating variable, this study demonstrated the association was partially mediated by those two variables. This suggested that value of an organizational becomes an important role in shaping role of auditors and ethical environment in their firm.

This study continues research of Bobek et al. (2015) about the influence of role the auditor's ethical environment in the public accounting firm. The study is also expected to support a research by Bobek et al. (2015) and adds to the literature which explores the organizational fit as a mediating variable between the role of auditors with the ethical environment. The results also increase the generalisability of their research by using models that have been on the extent that organization fit into a mediating variable.

Several limitations of this study should be highlighted in considering the result. First limitation is related to sample size. The sample size of this study was relatively small and all respondents were only from international audit firm in Indonesia. For future research, it could examine the model by using larger sample from local or regional audit firm to get generalization of result. Second, this study used survey method which potentially to self-report bias, it is encouraged the result to common method bias (Podsakoff et al. 2003). It is also suggested to use other research methods which could increase external validity such as experimental method. Other limitations in our research are in the terms of measurement of respondents or participants. In Role, organizational fit, and ethical environment, the participation only captured using a few measurements items, which may not capture overall dimension. Future research could use other items measurement to get more comprehensive result of this variable therefore the result could be increase validity and reliability. Another limitation in our research, we are not considering gender in our research. From total 110 respondent, number of female is more over than male. Gender

may be effect to result, which female may more attractive with moral and ethical things than male (Maas & Gonzalez, 2011). Last, we use organizational fit as mediating variable. Future research should also continue to examine another variable that impact to ethical environment, for example ethical behavior. As previous research said, that organizational fit is not the only one variable that mediate the relationship between role and ethical environment (Baron and Kenny, 1986).

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