

ETHICAL DIMENSIONS OF INTERNAL AUDITING PRACTICES OF SELECTED COMPANIES IN INDIA

Submitted in Partial Fulfilment of the Requirement for the Award of the Degree of

DOCTOR OF PHILOSOPHY

IN ACCOUNTING

BY

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2019**

DECLARATION

I, George Sarpong do hereby declare that this thesis entitled “**ETHICAL DIMENSIONS OF INTERNAL AUDITING PRACTICES OF SELECTED COMPANIES IN INDIA**” submitted to the department of Joseph School of Business Studies and Commerce in the Faculty of Management, Humanities and Social Sciences at the **Sam Higginbottom University of Agriculture, Technology and Sciences, Allahabad, Uttar Pradesh** for the award of the Doctor of Philosophy degree in **Accounting** in an original work. I have not submitted the same work for the award of any other degree or any other university /institution.

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ABSTRACT

Cases of corporate scandals have attracted mainstream research attention to issues bordering on ethical judgement and ethical behavior. Although internal auditors have a crucial role to play in preventing such scandals, limited research attention has been directed at examining the factors that influence internal auditor's ethical judgement. The few studies that considered this phenomenon have resorted to studying external auditors than internal auditors, and have also largely dwelled on the quantitative research design than the qualitative approach. This study seeks to examine four key factors (Internal control environment, ethical position/philosophy, national and organizational culture, and job versatility) that influence the ethical judgment of internal auditors in India. The study mainly dwells on the qualitative approach to study by employing interviews with internal auditors of 10 selected Indian companies and some quantitative approach, aspects also. Following data analysis techniques of Miles and Hubeerman, the study finds that "social stratification and filial piety" elements of the Hinduism culture has been exported to the organizational context in India; social stratification makes members of a caste want to protect colleagues even if they act unethically, whereas filial piety demands absolute loyalty to superiors and thereby making it impossible to question their actions. In addition, the study finds that the board of family firms in India are too trustful of management, hence compromising their oversight responsibility which may lead to unethical behavior. Besides, the study finds ethical relativism to be negatively associated with ethical behavior, whereas ethical idealism is positively associated with ethical behavior. Lastly, the study also that internal auditors who are more skillful and versatile are more likely to be objective. The study recommends that firms should always elevate the corporate code of ethics over societal and cultural judgment of what is wrong or right.

Keywords: Ethical Dimensions, Internal Auditing Practices, Companies.

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DEDICATION

First and foremost, with a gleeful heart, I humbly dedicate this work to the Glory of the Most High God.

Secondly, this work is dedicated to these precious individuals in my life who have had the greatest impact on my success not only in completing this doctoral degree, but in whatever accomplishments I can claim in my personal and professional life. To my parents **Mr. Adomako Boamah Stephen** and **Esther Kwarteng**, for their encouragement. To my grandmother, **Mrs. Afia Sarpong** who taught me that a strong faith, a quiet patience, and treating people the right way can take one as far as he wants to go. To **Dr. Samuel Donkor, Dr. Mark Boadu, Dr. Ebenzer Bennet** and **Dr. Archana Chandra, Dr. Phillip Kisémbé, Mrs. Doris Kisémbé and Miss Matilda Quansah**, who have been such inspirations to me. This thesis would not have been completed without them by my side. I dedicate to them, this humble first attempt at scholarly work.

Place: Allahabad

Date:

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LIST OF ABBREVIATIONS

Abbreviations	Description
ACIIA	Asian confederation of institutes of internal auditors
CARO	Companies (Auditor's Report) Order,
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CB	Covariance-Based
HTMT	Heterotrait-Monotrait
MAOCARO	Manufacturing and Other Companies Auditor Report Order
NCC	Naresh Chandra Committee Report
PLS	Partial Least Square Structural Equation
SEM	Structural Equation Modelling
SOX	Sarbanes Oxley's
US	United State
UK	United Kingdom

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND

The corporate world started calling for reforms in corporate governance practices during the South-East and East Asian crisis of 1997-98. Governments and Corporations alike (**according to the Naresh Chandra Committee Report, 2002**) noted that *“the devil lay in the details— the nitty-gritty of transactions among companies, banks, financial institutions and capital markets; corporate laws, bankruptcy procedures and practices; the structure of ownership and crony capitalism; stock market practices; poor boards of directors with scant fiduciary responsibility; poor disclosures and transparency; and inadequate accounting and auditing standards”*. Albeit India as a country was not at the forefront of the global demand for changes in corporate governance practices (since the movement did not start because of economic and financial reasons), it is noteworthy that in terms of the earlier move developments for corporate governance reforms, India's role cannot be overemphasized, as the (NCC) posits that all those initial drives *“came from the all-India industry and business associations, and in the Department of Company Affairs”*. This perhaps may be as a result of the 1992 stock market fraud in India as well as the onset of global competition.

The Enron scandal (which is one of the worst corporate scandals to hit the corporate world) caused a lot of damages to the corporate. At least, one would expect that the Enron scandal of 2001 would serve as a caution and restraint on scandalous corporate practices which often bedevils multinational corporations. However, after Enron's case came other episodes of corporate scandals involving large US firms including WorldCom, Qwest, and Global Crossing among others. Indeed, India has had its “unfair” share of these global corporate scandals both prior to and after the Enron Scandal, -think of corporate scandals involving the likes **Satyam (approximately \$1bn of expense**

padding- the New York Times, 2009), Tata Company, and the Ponzi scheme run by Sharadha Group (discovered in 2013) among others.

Such scandals re-energised the calls for reforms in corporate governance practices and systems, especially those related accounting, risk management, control and disclosures. In the USA, calls for reforms in corporate governance were heightened following the Enron scandal, and this led to the enactment of the Sarbanes Oxley's act of 2002 which in turn brought a tectonic shift to the corporate governance environment, especially matters bordering on auditor objectivity and independence, internal controls, control environment, risk management, financial disclosure among others.

The Indian regulatory establishments in a bid to enhance good governance practices at the national context and protect the investor and other stakeholders from scandals like the case of Enron, on 21 August 2002 established the Naresh Chandra Committee as a High-Level Committee to deliberate and analyse diverse corporate governance affecting corporate entities in India. It is noteworthy that 10 out of the 10 bulleted issue areas deliberated on by the committee (as contained in the executive summary of Naresh Chandra Committee report) emphasized auditor objectivity, independence, and faithful representation; see below the issues addressed by the committee

- i. *“the statutory auditor-company relationship, so as to further strengthen the professional nature of this interface”*
- ii. *“the need, if any, for rotation of statutory audit firms or partners”*
- iii. *“the procedure for appointment of auditors and determination of audit fees”*
- iv. *“restrictions, if necessary, on non-audit fees”*
- v. *“independence of auditing functions”*

- vi. *“measures required to ensure that the management and companies actually present ‘true and fair’ statement of the financial affairs of companies”*
- vii. *“the need to consider measures such as certification of accounts and financial statements by the management and directors”*
- viii. *“the necessity of having a transparent system of random scrutiny of audited accounts”*
- ix. *“adequacy of regulation of chartered accountants, company secretaries, and other similar statutory oversight functionaries”*
- x. *“advantages, if any, of setting up an independent regulator similar to the Public Company Accounting Oversight Board in the SOX Act, and if so, its constitution” and*

“the role of independent directors, and how their independence and effectiveness can be ensured”

As can be seen from above, almost all issue areas identified by the committee focused on auditor objectivity and independence. To this extent, it is not surprising that in almost all the biggest corporate scandals, the concerned auditors were central to forensic investigations; the collapse of Arthur Andersson is a case in point (**Beasley et al, 2012**). Indeed many studies have attempted understanding the drivers and factors that influence auditor independence from diverse points of view whereas some scholars study external auditor independence and objectivity, other studies consider independence and objectivity from the internal auditors point of view, however, be it internal or external, (**Cecil, 2017**) argues that such studies have resorted to measuring auditor independence and objectivity mainly by means of developed scales and the Internal Audit professional code of ethics, however, Cecil argues that matters bordering on auditor objectivity and independence transcends beyond merely written codes of ethics, he argues that there are other codes of ethics that are not written but are value-laden and inherent in the auditor in question that influences His decision regarding matters of ethical decision making. This phenomenon becomes more worrying in an internal

auditing setting, how can an auditor be objective and independent of the same management he reports to (**Raiborn et al., 2017**).

According to **Raiborn et al. (2017)**, the term independence connotes different meanings depending on whether it is used in reference to internal or external auditing.

According to Him, in reference to internal auditors, it (i.e. independence) denotes the ability to undertake one work freely and objectively without “interference from management or other organizational personnel”. The role of internal auditing has been emphasized by **Raiborn et al (2017) and Rossiter (2011)** as they argue that external auditors can in no way be a substitute for internal auditors. To them, the work of the external auditor is basically concerned with assessing whether the firm's financial statements comply with the applicable regulations. However, they argue that the internal auditor's responsibilities transcend above financial statements to risk management, control, and the overall governance structure of the firm. In regard of this, **Rossiter (2011)** asserts that any attempt aimed at making external auditors serve as internal auditors will likely lead to failure of corporate governance mechanisms and probably the firm itself (**Raiborn et al., 2017**), just as in the case of Enron. Clearly, the argument by **Raiborn et al (2017) and Rossiter (2011)** throws light on the importance of the internal auditing function as far as corporate governance and accounting is concerned, in regard of this, the study emphasizes on the internal auditor's objectivity and independence from an ethical perspective. Moreover, it is documented that one of the major reasons for the formation of the Naresh Chandra Committee in India after Enrons scandal and the SOX by the United States was to bring reforms to corporate governance in the Indian context that is effective enough to prevent scandalous corporate practices like the case of Enron (**Fernando, 2012**);

However, Corporate India has witnessed scandalous acts amidst the implementation of recommendations by the Naresh Chandra Committee. The irony of it is that, prior to the formation of

the Naresh Chandra Committee, India had not yet witnessed its version of the Enron scandal which it sought to prevent, however, the Satyam Fraud which is touted by **Veena et al. (2014)** to be India's version of the Enron Scandal occurred amidst the reforms of the NCC. Do we then conclude that the reforms have failed, or the various code of ethics is only toothless bulldogs? Not so I argue, it's been almost 17 years since President Bush signed the Sarbanes-Oxley Act into law on July 30, 2002, nonetheless, the United States cannot boast of being free from corporate fraud since corporate frauds involving companies in the likes of Lehman Brothers Holdings, American International Group, WorldCom among others occurred after enactment of the **Sarbanes Oxley's Act of 2002 (Moody et al., 2013 and Schapiro & Mary, 2010)**. Of course, these reforms are just rules and just as **Soskil (2017)** wrote, it is impossible for rules and legislation to mandate integrity. Accordingly, **Fass (2003)** puts it that just as laws have not stopped crooks from robbing banks or selling drugs, they can't either stop them from ripping off investors, but at least they provide some checks and require doubled-up efforts.

This then brings us to the question that, "if the written codes (i.e. referring to the rules and regulations) do not necessarily mandate integrity and subsequent objectivity of the internal auditors' ethical decision making, what about the unwritten or value-laden codes? thus ushering us into the ethical dimensions of internal auditing, which is the main focus of the study.

1.2 OVERVIEW OF INTERNAL AUDITING IN INDIA

It is no longer the gatekeeper or watchman of a gate. Historically, internal auditing was considered a monitoring function, as **Morgan, (1979)** referred to it as an "organizational policeman and watchdog" meant for internal controls but subservient to the achievement of major corporate objectives. The old young boy (Internal Auditing) who was once considered subservient to external auditing although at a point in time is now an integral sub-function under 'management accounting', readily being

practised by organizations these days (**Kimi Thareja, 2015**). The laws and regulations in India have come to terms with the growing importance of internal auditing in an organizational setting. **Kimi Thareja (2015)** puts it that although internal auditing practices in India is not comparable to that of advanced countries like the United States, it has considerably evolved and is still gaining prominence.

Kimi Thareja (2015) asserts that in the early years of corporate India, Internal Auditing was introduced by some few enlightened companies and did not gain much attention until 1975. The IA function caught regulators attention because it had helps companies who practice it to achieve independent financial and control review. As a result, some set of companies meeting certain criteria were mandated by the **Department of Corporate Affairs (dated 7th November 1975)** via the “Manufacturing and Other Companies Auditor Report Order”, (**MAOCARO, 1975**) to put in place internal audit systems. **MAOCARO (1975)** among other regulations, required external auditors of affected organizations to establish whether the organization in question has an internal audit system commensurate with its size and nature of its business. Not only that but also, the law required that the auditor certifies whether adequate internal control procedures commensurate with the size and nature of the company's business operations are in place for the purchase of stores, raw materials including components, plant and machinery, equipment and other assets, and for the sale of goods.

(**MAOCARO, 1975**) was superseded by Manufacturing and Other Companies (Auditor's Report), 1988 by the **Ministry of Corporate Affairs (7th September 1988)** which was again superseded by **Companies (Auditor's Report) Order, 2003 (CARO 2003)**. It is noteworthy that all this while, the perception of internal audit as inferred from the **MAOCARO, 1988 and CARO 2003** still stressed the need for internal audit and on the same premise. For instance, Section 581ZF of the Companies (Amendment) Act, 2002 states that “Every Producer Company shall have an internal audit of its accounts carried out, at such interval and in such manner as may be specified in articles, by a chartered accountant”.

It is however noteworthy that after **CARO 2003**, subsequent amendments and enactments of regulations governing internal auditing reflected contemporary internal auditing perspectives and practices as it considered other dimensions of internal auditing like risk management, control, and governance processes. This is in part attributed to the evolution of the internal audit in other advanced economies of the world and major financial scandals that rocked multinational firms in the developed countries, Enron's scandal is typical of such scandals. It is noteworthy that order of 2003 ceased operating when was the Companies Act, 1956 was amended and put in operation in April 2014.

The **Institute of Internal Auditors (2004)** defines Internal Audit as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations”. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate. **Kimi Thareja (2015)** asserts that independent internal auditing is very important in the objective assessment of the efficiency of systems and existing architectures of a firm. At present, ‘a select class of companies in India is mandated to put in place an IA function. Again, **Kimi Thareja (2015)** states that “*the scope of an internal audit has not been statutorily defined by any of the laws in India*” but it is also documented that companies are increasingly embracing the need for an internal audit function.

1.3 STATEMENT OF THE PROBLEM

"Mr Raju and the company's global head of internal audit used a number of different techniques to perpetuate the fraud. Using his personal computer, Mr Raju created numerous bank statements to advance the fraud. The company's global head of internal audit created fake customer identities and generated fake invoices against their names to inflate revenue. The global head of internal audit also forged board resolutions and illegally obtained loans for the company". These are excerpts of scholarly accounts by **Willison (2006), Ramachandran (2009) and Bhasin (2016)** about the Satyam

scandal. In terms of fraud prevention and corporate governance, the internal auditor has more to do than the external auditor whose job primarily is to express an opinion. The internal auditor reviews financial activities of the firm, internal controls as well as risk management processes and to this extent it is expected that with the institution of internal auditing systems and the application of relevant code of ethics, objectivity, and independence of the internal auditors will be enhanced as far as ethical decision making is concerned, however, that seems to be elusive. Obviously, the accounts shown above indicates that objectivity and independence of the internal auditor were compromised, and same was the fate of the internal auditing function in the case of the Enron **scandal (Bhasin, 2016)**. The study does aim to research on corporate scandals, it rather focuses on internal auditor independence and objectivity not on the basis of the “letter” or in other words, written code of ethics but from the perspective of the inherent ethical values of the internal auditor as a person. Emphasis is placed on the ethical values of individual internal auditor because most studies that sought to explain internal auditors ethical decision making (as far as independence and objectivity is concerned) did so by looking at External factors (particularly the professional code of ethics) without emphasis or considerations for internal factors of the individual auditor in question, such as personality and ethical values (**Bangun & Asri, 2017**) that influences ethical decision making.

Indeed it is equally important to conduct research from the perspective of professional ethical influence on auditors professional behaviour since scholars (**e.g Ussahawanitchakit, 2009; Sugianto, Habbe, & Tawakkal, 2010**) have established that professional code of ethics influences ethical decision making. However, ethics is not influenced only by external factors, because if that was the case, then we could expect corporate scandals to cease after the enactment of the SOX (in the USA) and implementation of the NCC report (in India), but that is not the case. The implication is that there is something beyond the external realm that influences ethical behaviour, and that is the innate ethical values of the individual auditor in question. The study seeks to explore such innate

ethical values and their influence on auditors' ethical decision making leading to objectivity and independence. It is indeed true that many studies have attempted studying auditor independence and objectivity, most of such studies focused on external auditing. However, independence, as used in internal auditing, is different from that of external auditing hence the need to devote research attention to internal auditing as far as objectivity and independence are concerned.

Again, there is a new dimension or frontier in auditing, which is auditing of corporate culture.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework documents that the existing ethical tone at the top of demonstrates a firm's commitment to integrity and ethical values" (COSO, 2013 , p. 31) since such tone permeates the entire firm and reflects management behaviours and attitudes toward internal controls, this basically implies the culture of a firm can promote or hinder the ethical behaviour of the internal auditor (Hosban & Ahmad, 2015; Cecil, 2016; Lightle, Baker, & Castellano, 2015). To this extent, the study examines the links between corporate culture and internal auditors' ethical decision making. It is important to discuss such a relationship since the area is new (Cecil, 2016; Tabuena, 2016) and it represents a less discussed issue in the literature. Again, as can be seen from the appendix, most studies that sought to address ethical issues as far as individual internal auditors are concerned to have mostly resorted to a quantitative approach, however, values, as we know, are subjective, and they are influenced by different factors such as organizational settings, culture among others. Hence to understand personal values and their influence on ethical behaviour, it is necessary to consider each participant subjectively, this study addresses such concern by adopting a qualitative approach to study, hence ability to examine each participant in-depth.

1.4 OBJECTIVES OF THE STUDY

The overall aim of the study is to investigate the factors that influence internal auditors' ethical judgment. Specifically, the study seeks to accomplish the following objectives.

- I. To examine the internal control environment of Indian firms
- II. To investigate the influence of the ethical position of internal auditors on ethical judgment.
- III. To examine the relationship between organizational culture and ethical judgment of internal auditors.
- IV. To find out whether job versatility influences the internal auditor's ethical decision making.

1.5 RESEARCH QUESTIONS

To be able to achieve the objectives set above, the study will aim at answering the following questions,

- I. What are the Internal Auditing practices instituted by firms in India?
- II. Do ethical realism and ethical idealism influence internal auditor's ethical judgement?
- III. How does the ethical tone at the top of an organization influence internal auditor objectivity and ethical decision making?
- IV. Does job security matter as long as ethical decision making is concerned.
- V. Who has the greatest influence on ethical decision making and objectivity? The written codes or ingrained codes?

1.6 SIGNIFICANCE OF THE STUDY

In academic discourse, the relevance of a study is judged by its contribution to literature, practice, and policy.

To literature, this study will add to the body of knowledge as far as auditor objectivity, independence and ethical decision making is concerned. Also, since the study is one of the few to examine the

influence of ethical position on ethical decision making, it is expected that this study will serve as new theoretical openings to guide future studies.

To practice, recommendations of the study may be implemented in organizations in order to realize the benefits of the internal auditing function. Besides, the recommendations when adopted can help shape managements' philosophy towards internal auditing and internal controls

To policy, governments, accounting professional bodies and other global organizations may rely on the recommendations of the study in issuing standards and regulations and directives as far as auditing is concerned.

1.7 SCOPE OF THE STUDY

The study investigates the ethical judgement of internal auditors from the perspective of ethical position, organizational culture, control environment and job versatility. The pragmatist approach, which adopts a methodology based on the research problem at hand was employed in the study. The study population encompassed 52 internal auditors and auditing staffs of firms in Faridabad and Gurgaon in Haryana State of India.

Based on the pragmatic view, the study employed both quantitative and qualitative approach to analysing data. Whereas the quantitative approach employed the partial least squares structural equation modelling in analysing data pertaining to the relationship between ethical position (i.e. ethical idealism and relativism) and ethical judgement, the qualitative aspect analysed data gathered through interviews. The study adopted the COSO framework as an underpinning framework of internal auditing practices. The cross-sectional nature of the study places a limitation on the extent to which research findings can be generalized considering that culture and ethical positions may be influenced and altered over time, a situation in which longitudinal studies would be more preferable.

1.8 TIME FRAME

The present study was scheduled to be fully completed in the period of the three years that the researcher was engaged in both course work and research work, all in the bid to be awarded the Doctor of Philosophy honours. Thus from August 2016 to June 2019.

1.9 ORGANIZATION OF THE STUDY

A well-organized study is able to communicate the procession of the study and study findings. The study is organized into five chapters.

- The first chapter introduces the study. It contains the background of the study, research problem, study objectives, research questions among others.
- The second chapter is devoted to the review of the empirical literature as far as the phenomenon under study is concerned.
- The third chapter considers the researcher's approach to the study, the philosophical stance, methodological choice, the technique of analysis among others
- Penultimate, the fourth chapter presents the data gathered and discusses the results of the data gathering process thereof.
- Chapter five being the last chapter presents a summary of the study, concludes the study by making recommendations as well as suggest areas for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter undertakes a review of the empirical literature as far as ethical decision making is concerned. The chapter looks at how factors encompassing ethical beliefs, morality, organizational and national culture etc. influences the ethical behaviour of internal auditors.

The recommendations by **Webber and Watson (2002)** were followed in conducting the literature review in order to ensure that no relevant publication is left out during the review process. According to Webber and Watson, it is necessary for researchers to triangulate the literature review process in the following manner; firstly, relevant article publications should be downloaded from databases using keywords. Within this study, keywords such as “*ethical position and ethical behaviour*”, “*culture and ethics*”, “*moral philosophy and ethical behaviour*” among others. Databases such as ScienceDirect, EbscoHost, Taylor and Francis were filtered to ensure that only peer-reviewed articles and quality journal publications were used in the study. Secondly, the search for literature also involved downloading and the review of relevant conference publications pertaining to the study. Lastly, the snowballing technique was applied in the study. This technique involves the review of relevant citations in the various publications and conference papers reviewed. Moreover, the articles were classified either as “low ethics content” or high ethics content article”. This was done to ensure that proper attention is devoted to articles whose main focus were on ethical decision making at the organizational level.

2.1 THE INTERNAL AUDIT FUNCTION AND ETHICAL DILEMMA

Just about every profession faces an ethical dilemma's unique to it, in the accounting and auditing profession, practitioners (be it external or internal auditors) most often are confronted with ethical issues that may influence their judgment and action. To deal with situations of conflicting interests, almost all (if not all) professional bodies in accountancy and auditing have established codes of ethical conduct that guides and directs how practitioners should act to behave professionally. Indeed, one common theme that is found almost in all the codes of ethics of accounting professional bodies is Independence and Objectivity.

Finn *et al.* (1994), Lutz Preuss (1998) and Cecily et al (2017) have emphasized that the term *objectivity and independence* apply differently to internal and external auditors. Internal auditors, in contrast to external auditors, are part of the staff of the company and as such their job duties might conflict with their professional and personal standards on matters bordering on ethical decision making. However, as **Lu Preuss (1998)** puts it, "but they too have a responsibility to society – comparable to an engineer's concern for public safety" and as a result, are obligated by the governing professional bodies to observe standards of behaviour and competence congruent with the requirement of the appropriate code of ethics. Ethical dilemmas may be complex and only imprecisely defined (**Lutz Preuss, 1998**) as **Moizer (1995, p. 425f.)** puts it that in the accounting setting, moral agency in most cases is often subject to the question of causation since an audit report's content may not necessarily have an obvious link with a specific outcome or result, just as **Lutz Preuss (1998)** states that;

“If an auditor qualifies a company's accounts, has he actually caused an ensuing bankruptcy? Furthermore, the very subject matter of accounting is such that two equally objective accountants may reach different results.”

Recent high profile financial scandals (E.g. the Satyam scandal and Enron), involving accounting fraud have emphasized the role of internal auditors in an organization. **Cullinan, (2004)** have asserted that the auditors involved in monitoring firms that fall prey to corporate financial frauds have disappointed the public by turning a blind eye to what the public has always perceived to be their appropriate role and thus, the public has become less trusting of the auditing profession's ability and/or willingness to protect investor interests.

In India, every company whose shares are listed is required to have an internal auditing system in place. Aside from that, all companies whose shares are not listed on the stock exchange market but whose average turnover during the previous three-year period exceeds INR5 crore, or whose share capital plus reserves at the beginning of the financial year exceed INR50lakh is expected to set up an internal auditing system. According to the **Asian Confederation of Institutes of Internal Auditors (ACIIA-2015)**, Internal Audit's functions in India encompasses assurance on the integrity of financial information, control systems, risk management among others. Aside from these, reporting of concerns on actual or suspected unethical and/or fraudulent behaviour was also cited by the confederations report as being one of the major functions of internal auditing in India.

2.2 DETERMINANTS OF ETHICAL JUDGEMENT

In trying to understand the factors that influence the ethical judgment of internal auditors, the study reviews empirical literature related to ethical decision making. Several variables have been examined in the following chapters and they include Age, gender, code of ethics, culture, nationalism, moral philosophy among others. These have been discussed below. It is noteworthy that the review of empirical literature an extant review from 19996 to 2003 by **Fallon and Butterfield (2005)** revealed the following findings as discussed below.

2.2.1 Code of ethics and Ethical Behaviour of Auditors

Recent corporate governance scandals have led to increasing attention being directed at issues bordering on ethics as far as auditing is concerned.

Kung and Li Huang (2013, p. 1) states that

“Audit failures have attracted wide publicity and tarnished the reputation of the profession, dissolving the respect and trust previously bestowed on auditors. Despite the numerous regulations that have been established to prevent or halt unethical activities, fraudulent conduct continues to make its way into the corporate sphere. However, stringent regulation is not the only means to resolve this problem. Auditors play the role of gatekeepers in monitoring decision-relevant information and are obliged to fulfil their responsibilities in a professional manner” (**Cohen et al., 1996; Satava et al., 2006**).

In 1991, Cohen and Pant made a similar argument just as **Kung and Li Huang (2013)**. They indicated that for the auditing profession to regain their image, there is the need for auditors to attach many ethical standards to their actions. Most scholars such as (**Moore and Scott, 1989; Baiman et al., 1991**) argue that most corrupt cases involving a collision between management and auditors usually emanates from conflict of interest. **Cullinan (2004)**, and **Miller and Bahnson (2004)** argues in support of **Moore and Scott (1989)**, and **Baiman et al. (1991)** to the effect that instead of promoting stakeholders interest, auditors may at a point in time compromise on their responsibility by failing to fulfil their obligation to remain objective and independent in carrying out their duties. The neglect of objectivity by auditors eventually culminates in the compromise of auditor independence, a situation that often results in tremendous costs affecting the auditing profession, capital market, and society as a whole.

The most popular approach taken by corporate regulators has been to enact ethical codes and other corporate governance regulations aimed at ensuring sanity within organizations. However, the limitation of using regulations alone as a means of exacting ethical behaviour has been clearly stated by **Kung and Li Huang (2013)**. According to **Kung and Li Huang (2013)**,

"Regulating the auditing profession by means of a clenched fist would function (at best) as a warning. The real determinants of (un)ethical behaviour are the ethical beliefs held by individual auditors. Only when auditors are correctly positioned on the scale of ethics will their conduct be ethically appropriate. When one's moral compass has gone askew, no legislation is powerful enough to prevent misdeeds. In other words, a strengthening of regulations is insufficient to prevent corporate transgressions. The ethical code of individuals represents the last line of defence" (p. 2).

Most studies have made significant findings concerning the influence of the code of ethics on ethical behaviour, although such findings are highly divergent (**Sims & Keon, 1999**). **Weaver and Ferrell (1997)** found that the presence of a code of conduct with stringent enforcement policies can enhance ethical behaviour in an organizational context. Accordingly, research conducted by **Peterson (2002)** and **Valentine, Hanson and Fleischman (2018)** supports the findings of **Weaver and Ferrell (1997)** as both studies concluded that codes of ethics have an association with ethical behaviour. In addition, research findings by **Greenberg (2002)** indicated that people individuals who work in an office that has established ethics program are less likely to engage in unethical behaviour than otherwise

Several studies conducted across different countries established a positive relationship between regulations (in the forms of the code of ethics) and ethical judgment. For example, **Pflugrath, Martinov-Bennie and Chen (2007)** conducted a study which sought to examine the relationship between the use of the code of ethics and ethical judgement of auditors in the Australian context. Within the study, a sample consisting of 120 auditing students and accounting professionals were used. Findings from the study suggest that "...the presence of a code of ethics has a positive impact on the quality of the judgments made by professional accountants, but not on

students. This suggests that it is the code of ethics, in the context of greater general experience that leads to higher quality of judgments” (p. 1).

In addition, **Booth and Schulz (2004)** examined the impact of an ethical environment on managers' project evaluation judgments under agency problem conditions. The study found that a strong ethical environment will be effective in reducing the tendency for managers behaving unethically. This finding corroborates with the findings of **Pflugrath, Martinov-Bennie and Chen (2007)** who indicated that having a good ethical code enhances ethical judgement among auditors and managers alike.

Schwartz (2001) investigated the relationship between the corporate code of ethics and ethical judgement by conducting an interview with fifty-seven employees, managers, and ethics officers from four large Canadian companies. The study found that the corporate code of ethics has the potential of influencing ethical judgment among managers and employees alike. Notably, the authors suggested eight key themes that explain the relationship between the code of ethics and ethical judgement. That is, ethical codes are seen as the following

- *“rule-book that helps to clarify what behaviour is expected from employees”;*
- *“sign-post that leads employees to consult with other people, peers or corporate policies to determine if a certain behaviour is acceptable”;*
- *“a mirror that provides employees with an opportunity to confirm whether the behaviour is acceptable”;*
- *“the magnifying glass that suggests a note of caution to employees before acting”*
- *“the shield that allows employees to better challenge unethical requests”;*
- *“a smoke a detector that leads employees to try to convince others of their unethical behaviour”;*

- *“a fire alarm that leads employees to contact the appropriate authority and report violations; and”*
- *“A club that causes employees to comply with the code's provisions”.*

According to **Schwartz (2001)**, the eight metaphors above potentially explains the means through which code of ethics can influence ethical judgement in the organizational context. He, however, recommended an extensive study into the phenomenon to validate the metaphors.

Somers (2001) examined the relationship between codes of ethics, employee behaviour and organizational values. The study placed emphasis on the influence of the code of ethics on employee's ethical behaviour. The results of the study indicated that the presence of a code of ethics was associated with less perceived wrongdoing in the organizational context, but not with an increased propensity to report observed unethical behaviour.

In **2001**, **Fisher** examined the use of codes of ethics in British organizations and concluded that codes of ethics contribute to a loss of personal ethical responsibility on the part of employees. He also found that the code of ethics undermines the personal integrity of employees, as well as limiting the development of loyalty.

In the context of **Japan and Korea**, **Lee and Yoshihara (1997)** studied the influence of ethical codes on ethical behaviour. Their study found that although codes of ethics are important in improving the ethical standards of employees, their influence on the ethical values of executive management is limited.

Similarly, a study by **Glenn and Van Loo's (1993)** also intimated that although the code of ethics to some extent influences ethical behaviour, such an influence is not as strong as the influence that personal value system has on ethical behaviour.

The general remarks emanating from the empirical review of the code of ethics suggest that whereas it is generally believed that the code of ethics can enhance ethical judgement, such an assumption can

be universally true. This is because some authors still find the relationship between the code of ethics and ethical behaviour to be weak. An alternative approach recommended by researchers in examining ethical judgement is to look at how the moral philosophy of auditors influences their ethical judgement and behaviour.

Thus, in light of the fact that codes of ethics do not fully explain ethical behaviour, the researcher has been devoting attention to investigating other possible factors that influence ethical behaviour of auditors.

The existence of a code of ethics is not enough to influence ethical behaviour, but also, employees' knowledge of such codes is very key. The early works by **Delaney and Sockell (1992)**; and **Kawathatzopoulos (1994)** suggest that training employees on the code of ethics are one sure way of increasing employees' knowledge about the codes and getting them to comply with it. Their view also agrees with those of **Trevino and Nelson (2007)**; **Valentine and Fleishman (2004)**; and **White and Lam (2000)** who noted that ethics training helps introduce employees to an organization's principles and rules as far as compliance with ethical codes is concerned

2.2.2 Reward systems and ethical behaviour

Within the literature, there appear to be mixed findings pertaining to the the the relationship between rewards and ethical behaviour. However, there appears to be a general consensus within the literature that rewarding an ethical behaviour most often leads to the continuation of such behaviour (**Baumhart., 1961**; **Hegarty and Sims 1978**; **Hegarty and Sims 1978**). For example, **Shapeero et al. (2003)** found that rewarding ethical behaviour goes a long way to incentivise the individual exhibiting such behaviour to continue behaving ethically. Contrary to these findings, a study by **Kiecker and Chonko (1990)** on the relationship between rewards systems and ethical behaviour could not establish any significant relationship between rewards and penalties on ethical behaviour.

2.2.3 Competition and Ethical Behaviour

Studies have found that factors external to an organization such as competition can influence ethical behaviour. Whereas there is no consensus regarding the relationship between competition and ethical behaviour, studies by **Hegarty and Sims (1978)** and **Christies et al. (2003)** note that competition can lead to decreased ethical behaviour as firms try to gain a competitive edge at all cost. On the contrary, **Dubinsky and Ingram (1984)** could not establish any significant relationship between competition and ethical conduct when they examined the propensity of salespersons to be unethical when faced with keen competition.

2.2.4 Gender and Ethical Judgement

From Table 1 below (as adopted from **Fallon and Butterfield, 2005**), it can be observed that the majority of studies report few or no significant gender differences (23 studies) (e.g., **Fleischman & Valentine, 2003**) in ethical behaviour, or found women to behave more ethically sensitive than men, at least in certain situations (16 studies) (e.g., **Cohen et al., 2001**).

The earlier review by **Ford and Richardson (1994)** also produced mixed results– whereas Seven studies reported no significant differences in the ethical behaviour of men and women, another seven revealed that it is more likely for females to behave ethically than males.

Fallon and Butterfield (2005) also cited **Loe et al. (2000)** whose review revealed a mixed result in terms of the influence of gender on ethical behaviour– **Loe et al. (2000)** found Nine studies reporting no significant findings between gender and ethical behaviour, while 12 studies reported that females are more likely to act ethically than their male counterparts under certain circumstances.

Table one below (see next page) contains excerpts from the 8-years literature review on ethical decision making by **O'Fallon, and Butterfield (2005)** as far as the discussion above is concerned.

Table 1: Individual And Organizational Factors Influencing Ethical Behaviour

Authors:	Year	Findings
Individual factors:		
Age		
Singhapakdi et al.: J	1996a	<i>In every one out of 4 scenarios, age was found to predict ethical behaviour</i>
Zacher	1996	<i>Age is positively related to ethical behaviour</i>
Conflict		
Zetmar and Eastman:	2000	<i>Role conflict has a negative relationship with ethical sensitivity.</i>
Education, Employment, job satisfaction and work experience		
Zacher	1996	<i>No significant relationship between job position and ethical behaviour education.</i>
Sparks and Hunt	1998	<i>Students are less sensitive in matters of ethics compared to practitioners Job satisfaction has a significant positive relationship with ethical</i>
Zetmar and Eastman	2000	<i>sensitivity.</i>
Gender		
Ameen et al.	1996	<i>‘Females are more ethically sensitive and less likely to tolerate unethical behaviour than males’.</i>
Fleischman and Valentine	2003	<i>‘No significant relationship between gender and ethical behaviour’</i>
Okleshen and Hoyt	1996	<i>‘Females were less tolerant of unethical situations than males’.</i>
Vimalasiri et al.	1996	<i>‘No significant findings’.</i>
McDonald and Pak	1996	<i>‘Significant gender differences existed in 3 of 8 cognitive frameworks’.</i>
Mason and Mudrack	1996	<i>‘Women scored higher on an ethics scale than men’.</i>

Rayburn and Rayburn	'996	<i>'No significant findings'.</i>
Acuddy and Peery	'996	<i>'No significant findings'.</i>
Schoderbek and Deshpand	1996	<i>'No significant findings'.</i>
Malinowski and Berger	'996	<i>'In 7 of 9 scenarios, there was a difference between males and females'.</i>
Cole and Smith	'996	<i>'Females scored significantly higher than males in 8 of 10 statements'.</i>
Eastman et al.	'996	<i>'No significant findings'.</i>
		<i>'Men and women employ different ethical models to</i>
Schminke and Ambrose	'997	<i>situations'.</i>
		<i>'There was a significant difference between males and females in 8 of 20</i>
Dawson	'997	<i>scenarios'.</i>
Deshpande	'997	<i>'Significance at $p < 0.10$ was found in 1 of 17 situations'.</i>
		<i>'No difference between gender regarding ethics related to legal</i>
		<i>or company policy issues, however, females had higher</i>
Smith and Oakley	'997	<i>expectations for ethical behaviour's in social &</i>
		<i>concerns than males'.</i>
Schminke	'997	<i>'No significant findings'.</i>
Keyton and Rhodes	'997	<i>'Females identified more sexual harassment cues than males'.</i>
Tse and Au	'997	<i>'Female students were more ethical than males students'.</i>
Lynnon et al.	'997	<i>'Females have higher moral reasoning scores than males'.</i>
		<i>'Males tend to regard extra-organizational behaviours of</i>
Reiss and Mitra	'998	<i>uncertain ethical nature as more acceptable than females'.</i>
		<i>'In 10 of 51 statements regarding perceptions of a just society,</i>
Prasad et al.	'998	<i>there were differences between female and male responses'.</i>
		<i>'There is a difference between males and females in ethical</i>
Weeks et al.	'999	<i>judgment. Females reported having higher ethical judgment in 7</i>

of 19 scenarios, while males reported as having higher ethical judgment in 2 of 19 scenarios.

Moderate support”.

“Females were more likely to perceive the activity as unethical

Deshpande et al. 2000 n 7 of 17 activities at $p < 0.10$ ”.

Nationality

“U.S. participants of the study are more ethically sensitive than their

Cherry et al. 2003 Taiwanese counterparts”

Philosophy/value orientation

“People with a higher sense of professional values are more ethically

Singhapakdi et al. 1996a sensitive than otherwise”

Sparks and Hunt. 1998 “Ethical relativism is negatively related with ethical sensitivity”

Detmar and Eastman. 2000 “Ethical relativism is negatively related with ethical sensitivity”

Religion

“Positive relationship between religion and ethical behaviour in every 3 of

Singhapakdi et al. 2000 1 scenarios”.

Moral intensity

Singhapakdi et al. 1996b “Moral intensity significantly predicts ethical sensitivity”

Singhapakdi et al. 1999 “Moral intensity has a positive relationship with ethical sensitivity”

“Individuals who were idealistic contributed significantly to judgments of moral concern in 2 of 4 scenarios and judgments of

Davis et al. 1998 immorality in 2 of 4 scenarios”.

		<i>'Ethical judgments are significantly affected by</i>
Kallapalli et al.: JBR	1998	<i>deontological norms and teleological evaluations".</i>
		<i>'Absolutists judgments were harsher in the scenarios, where</i>
Barnett et al.: JBE	1998	<i>subjectivists judged the actions most leniently".</i>
		<i>'High relativists judged the ethically-questionable behaviour as</i>
		<i>more ethical than low relativists and low and high idealists did</i>
		<i>not differ in their judgment of the ethically-questionable</i>
Boyle:	2000	<i>behaviour".</i>
		<i>'Moral equity significantly influenced ethical</i>
Cruz et al.	2000	<i>judgments".</i>
		<i>'Personal values, leniency and triviality, are significant</i>
Ashkanasy et al.	2000	<i>predictors of ethical tolerance"</i>
		<i>'Teleological thinking in general, and especially utilitarianism, plays an</i>
Kujala:	2001	<i>important role in Finnish managers' decision-making".</i>
		<i>'Instrumental values have a greater impact on ethical judgment than</i>
Roosen et al.	2001	<i>terminal values".</i>
Douglas et al.	2001	<i>'Ethical orientation did not significantly influence ethical judgments".</i>
		<i>'High idealists judged the earnings management actions as more</i>
Elias	2002	<i>unethical and high relativists judged them as more ethical"</i>
		<i>'Individuals with high idealism or less relativism tend to make stricter</i>
Kim	2003	<i>ethical judgments".</i>
Schepers:	2003	<i>'Moral equity was a significant predictor of ethical judgment."</i>

Sivadas et al. 2003 *‘Relativistic managers reported more positive ethical evaluations of controversial sales practices. No significant relationship with regard to idealistic managers’.*

Source: Adopted from O’Fallon, and Butterfield, 2005.

2.2.5 Education, religion, employment, job satisfaction, and work experience.

O'Fallon and Butterfield (2005) conducted one of the most extant literature reviews on ethical decision making. The study covered the years 1996 to 2003 (8 years). The study reported forty- one finding with respect to the influence of education (type and number of years of education), employment, job satisfaction, and work experience on ethical decision making. Table 1 below presents a summary of the findings of **O'Fallon and Butterfield (2005)**

Table 1: Individual and Organizational factors influencing ethical behaviour (continued)

Authors	Year	Findings
Education, employment, job satisfaction and work experience		
Çaynama et al.	1996	<i>'The ethical perception of undergraduate students are stronger than those of MBA students'.</i>
Malinowski and Berger	1996	<i>'No significant findings between majors'.</i>
Verbeke et al.	1996	<i>'No relationship between career orientation and ethical decision making'.</i>
Vimalasiri et al.	1996	<i>'There were significant differences in moral reasoning among different levels of education'.</i>
Vimalasiri et al.	1996	<i>'There is no difference between practising managers and a student's level of moral reasoning'.</i>
Cole and Smith	1996	<i>'Students were more accepting of questionable ethical statements (7 of 10 statements) than business people'.</i>
Deshpande	1997	<i>'Significance at $p < 0.10$ was found in 1 of 17 situations'.</i>
Green and Weber	1997	<i>'There was no difference in moral reasoning scores for accounting and other business major scores before taking an auditing course. However, after taking the auditing course accounting majors scored higher than other business majors'.</i>

Smith and Oakley	1997	<i>'Graduate students had higher responses to rule based scenarios than did undergraduates'.</i>
Case and Au	1997	<i>'Senior students were less ethical than junior students at $p < 0.10$'.</i>
Case and Au	1997	<i>'No difference between business and non-business students'.</i>
Reiss and Mitra	1998	<i>'There were no differences between business and non-business students'.</i>
Reiss and Mitra	1998	<i>'Individuals that have work experience considered extra-organizational behaviours of an uncertain nature as more acceptable than individuals with no work experience'.</i>
Weeks et al.	1999	<i>'There is a difference in ethical judgment across career stages. In general, individuals in the latter years of their career display the higher ethical judgment'.</i>
Markin	2000	<i>'Overall, the ability to identify unethical behaviour is related to experience'.</i>
Latif	2000	<i>'First-year pharmacy students scored higher on moral reasoning than pharmacists.'</i>
Roosen et al.	2001	<i>'No significant findings with respect to work experience.'</i>
Cohen et al.	2001	<i>'No difference between entry-level students and graduating students, as well as between students & professional accountants'.</i>
Shafer et al.	2001	<i>'Job position or education has no influence on judgment'.</i>
Zaplan.	2001	<i>'Overall, individuals assigned to the role of manager did not form more unfavourable ethically related judgments than individuals assigned to the role of shareholder'</i>
Latif	2001	<i>'As pharmacists gain tenure, their moral reasoning scores decline'.</i>
Kracher et al.	2002	<i>'Education was positively associated with moral development scores'.</i>

Razzaque and Hwee	2002	<i>'Education was a significant and positive influence on the judgment in 4 of 6 scenarios'.</i>
Nu	2003	<i>'In 1 of 5 scenarios, there was a significant difference in ethical recognition after receiving a Business ethics education'.</i>
Roosen et al.	2001	<i>'No significant findings'.</i>
Shafer et al.	2001	<i>'No significant findings'.</i>
Singhapakdi et al.	2001	<i>'In 5 of 7 dimensions, there were gender differences'.</i>
Targeneli and Arikan	2002	<i>'Female and males perceptions of ethical behaviour were different in 4 of 14 scenarios'.</i>
Tracher et al.	2002	<i>'Males and Females reported similar levels of moral development'.</i>
Razzaque and Hwee	2002	<i>'No significant findings'.</i>
Baker and Hunt	2003	<i>'Moral orientation differed between all female and all male groups'.</i>
Christie et al.	2003	<i>'There were significant gender differences in questionable business practice scenarios'.</i>
Abdolmohammadi et al.	2003	<i>'No significant findings'.</i>
Melechman and Valentine	2003	<i>'Women judged the ethically questionable case more harshly than men'.</i>

Individual factors:

locus of control

McCuddy and Peery	1996	<i>'Locus of control is negatively associated with ethical standards'.</i>
Reiss and Mitra	1998	<i>'Externals tended to regard uncertain ethical behaviours as more acceptable than internals'.</i>
Bass et al.	1999	<i>'No significant findings'.</i>
Cherry and Fraedrich	2000	<i>'Internal individuals express more severe ethical judgments of unethical behaviour than externals'.</i>
Razzaque and Hwee	2002	<i>'No significant findings'.</i>

Individual Factors: Religion

Vimalasiri et al.	996	<i>‘A significant relationship between higher stages of moral reasoning and a higher degree of religious commitment existed’</i>
Clark and Dawson:	996	<i>‘Intrinsically religious individuals judged the scenarios as less unethical than did non-religious individuals’</i>
Use and Au	997	<i>‘The influence of religion on the judgment was significant’.</i> <i>‘Individuals with high religious beliefs are less likely to</i>
Wagner and Sanders:	2001	<i>evaluate an unethical act as being fair’.</i>
Giacalone and Turkiewicz	2003	<i>‘Spirituality negatively influences an individual’s perception of questionable business practice’.</i>

Organizational factors: Business competitiveness

Verbeke et al.	996	<i>‘Competition didn’t affect ethical decision making’.</i>
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Codes of ethics

Jdas et al.	996	<i>‘Codes of ethics has no bearing on the perception of ethical issues’.</i>
Nwachukwu and Vitell	997	<i>‘No significance between the existence of or nonexistence of a code of ethics on judgment’.</i>
Stohs and Brannick	999	<i>‘In regards to issues dealing with the firm, a code of ethics influences a managers’ perception of wrongness’.</i>
Douglas et al.	2001	<i>‘Codes of conduct did not significantly affect ethical judgments’.</i> <i>‘Individuals employed in organizations with a code of ethics rated other members as more ethical than individuals in organizations that do not have a code of ethics’.</i>
Adams et al.	2001	

Ethical Climate/Culture

Verbeke et al.	1996	<i>‘Ethical climate positively affected ethical decision making’.</i>
Wapchurch	1998	<i>‘Benevolence is the most predominant ethical climate in decision making’</i>
Singhapakdi et al.	2001	<i>‘Ethical climate strongly influences perceived importance of ethics’.</i>
Douglas et al.	2001	<i>‘Ethical culture did not directly influence ethical judgments’.</i>
Weber and Seger	2002	<i>‘Instrumental work ethical climate was the predominant climate in the ethical decision-making process’</i>

Organizational Factors: Industry Type

Synon et al.	1997	<i>‘CPA’s in small-firms scored significantly lower in moral reasoning than CPA’s in Big 6 firms’.</i>
Neal and Carroll	1999	<i>‘Entrepreneurs may exhibit slightly higher moral reasoning skills than middle-managers’.</i>
Latif	2000	<i>‘Pharmacists scored lower on moral reasoning than other health professionals’.</i>
Roosen et al.	2001	<i>‘Employees in the public sector and education reported a higher score on the most ethical profile than employees in the private sector’.</i>
Shaffer et al.	2001	<i>‘No significant findings’.</i>
Argeneli and Arikan	2002	<i>‘There was a significant difference in the perceptions of salespeople working in the medical equipment and clothing sectors in 4 of 14 scenarios’.</i>
Valler	2002	<i>‘In 3 of 5 statements regarding ethics in political advertising, there was a significant difference in attitudes between advertising executives and federal politicians’.</i>

Rewards and sanctions

Tenbrunsel and Messick 1999	<i>‘Weak sanctioning systems resulted in a focus on the business aspects in contrast to a focus on the ethical aspects when no sanctions were present’.</i>
Cherry and Fraedrich 2002	<i>‘Individuals who perceive higher levels of risk responded with more severe negative ethical judgments.’</i>

Source: Adapted from Fallon and Butterfield, 2005.

2.2.6 Nationality and ethical behaviour

Some scholars suggest that the nationality of individuals influence their ethical judgement whereas others do not find any significant relationship between these two variables.

Peterson, Albaum, Merunka, Munuera and Smith (2010) studied the relationship between an individual’s nationality and business-related ethical judgement based on a survey taken from about 6300 respondents across 36 countries. The findings of the study revealed that although American survey participants were more likely to make ethical decisions than Non-Americans, the difference between the two groups was insignificant. The finding by **Peterson et al (2010)** corroborates with the earlier finding of **Singer (1991)** who intimated that American workers are more ethical compared to workers in other parts of the world. Moreover, **Vogel (1992)** noted that there is a significant ethics gap between the United States and the rest of the world. **Rittenburg and Valentine (2000)** attribute such national differences in ethical behaviour to variations in cultural practices. From a European context, **Peppas and Peppas (2000)** surveyed Greek university students in order to examine their perceptions about ethical judgements and found a generally low ethical sensitivity among the students. In terms of race, **Deshpande et al. (2006)** divided their sample consisting of hospital workers into Whites and Non-whites in a bid to examine whether they differ in their ethical judgement. Results of the study

could not establish any significant difference between the two groups. In addition, a study by **Simga-Mugan, Daly, Onkal, and Kavut (2005)** noted that “researchers who emphasize the importance of one's culture suggest that when facing moral dilemmas, people from Western and masculine cultures utilize ethics of justice” (p. 140)., and another study, **Cherry, Lee, and Chien's (2003)** compared Americans to Taiwanese workers in terms of the extent to which they exercise ethical judgement and decision making. The study revealed that Americans are more ethical decision-makers and are more likely to exhibit ethical judgement than their Taiwanese counterparts. A study by **Rawwas, Swaidan and Oyman's (2005)** however, found that Turkish consumers score higher points on ethical idealism and are more likely to indulge in ethical practices than their American counterparts.

2.2.7 Age and Ethical Behaviour

A number of studies within the literature have concluded that the age of individuals influences their ethical judgements. For example, **Peterson, Rhoads and Vaught (2001)** examined the influence of age on the ethical judgement by surveying the views of 280 MBA students through an online administered questionnaires. The study found that individuals who were aged 30 years above exhibited higher ethical standards than those who were below that age group. For those who were 30 years or below, females exhibited higher ethical standards compared to males.

On the contrary, **Honeycutt, Glassman, Zugelder and Karande (2001)** could not find any significant relationship between age and ethical behaviour when they studied the determinants of ethical behaviour among auto salespeople using a sample of 184 auto salespersons. Moreover, **Ruegger and King (2013)** examined the relationship between age and ethical behaviour using a sample of 2,196 students offering business courses at the University of Southern Mississippi. The findings of the study were that “those students falling in the 40 plus years age group were the most

ethical, followed in order by the 31–40 group, the 22–30 group and those of 21 years of age and under”

(p. 1).

The study has also presented below the findings of other scholars pertaining to the influence of the variables discussed above on ethical behaviour.

Table 1: Individual and Organizational factors influencing ethical behaviour (continued)

Authors:	Year	Findings
Age		
Shaffer et al.	2001	‘No significant findings’.
Nationality		
Singhapakdi et al.	2001	‘In 2 of 4 scenarios, Australian and American marketers differed in intent to engage in unethical behaviour’
Volkema and Fleury	2002	‘In 3 of 5 situations, U.S. respondents were more likely to indicate a higher likelihood of engaging in questionable negotiating behaviours than Brazilian respondents’.
Cherry et al.:	2003	‘U.S. respondents demonstrated less intention to perform the unethical behaviour than Taiwanese respondents’.
Organizational commitment		
Paoillo and Vitell:	2002	‘No significant findings’.
Granitz: JBE	2003	‘Organizational commitment demonstrated no relationship to sharing’.
Flannery and May	2000	‘Intentions to engage in unethical behaviour is positively influenced by their attitude to engage in that behaviour’.
Flannery and May	2000	‘No significant findings with respect to self-efficacy or moral obligation’.

		<i>'Individuals who were more cynical about others unethical behaviour were more likely to engage in the unethical behaviour'</i>
Beams et al.	2003	
philosophy/value orientation		
		<i>'Personal values are inversely related to behavioural intentions'</i>
Morris et al.	1996	
		<i>'Deontology and Teleological were significant predictors of intention'</i>
DeConinck and Lewis.	1997	
Mass et al.	1998	<i>'No significant findings'</i>
Rallapalli et al.	1998	<i>'Intentions are affected by teleological evaluations'</i>
Mass et al.	1999	<i>'No significant findings'</i>
		<i>'Idealism is a significant and positive predictor of Thai manager's ethical intentions in 3 of 4 scenarios, while relativism negatively and significantly influences intentions'</i>
Singhapakdi et al.	2000	
		<i>'Intentions to behave ethically are based primarily on moral equity and contractualism'</i>
Cruz et al.	2000	
Eastman et al.	2001	<i>'No significant findings'</i>
		<i>'High self-monitors did not express higher intentions of fraudulent reporting.'</i>
Jeddin and Gillett	2002	
		<i>'Individuals who believed they would feel guilty were less likely to engage in the unethical behaviour'</i>
Beams et al.	2003	
		<i>'Deontological individuals are less likely to intend to engage in unethical behaviour than teleological individuals'</i>
Shapeero et al	2003	
		<i>'Relativistic managers were more likely to hire a salesperson who has performed an ethically questionable act'</i>
Sivadas et al.: JPSSM	2003	
		<i>'No significant relationship with respect to idealistic managers'</i>
religion		
		<i>'In 2 of 4 scenarios, religious Thai managers were likely to report more ethical intentions than their counterparts'</i>
Singhapakdi et al.: JBE	2000	
		<i>'In 3 of 4 scenarios where $p < 0.10$, there was a significant positive relationship between religion and ethical intentions'</i>
Singhapakdi et al.: JBE	2000	

Significant others

James and Kavanagh	1996	<i>“In 1 of 2 experiments, peer influence and manager influence positively and significantly influenced behavioural intentions”</i>
Andersson and Bateman	1997	<i>“Individuals who were high in cynicism were more likely to indicate that they would perform unethical acts requested by management”.</i>
Beams et al.	2003	<i>“Peer influence positively influenced the intent to behave unethically”.</i>

Moral Intensity

Singhapakdi et al.	1996	<i>“Moral intensity is a significant predictor of ethical intentions”.</i>
Harrington	1997	<i>“Social consensus significantly influences intentions”</i> <i>“Magnitude of consequences, social consensus, and proximity were predictors of behavioural intentions in at least one of two situations”.</i>
Barnett.	2001	<i>“Probability of effect and magnitude of consequences significantly influenced intentions”.</i>
Shaffer et al.	2001	<i>“Moral intensity is positively related to ethical decision-making intentions”.</i>
Paolillo and Vitell	2002	<i>“Magnitude of consequence, social consensus and concentration of effect were positively related to moral intentions”.</i>
May and Pauli: BandS	2002	<i>“Magnitude of consequences was negatively associated with behavioural intentions in 1 of 2 scenarios, while social consensus, proximity and temporal immediacy had no significant influence”.</i>
Barnett and Valentine: JBR	2002	

Granitz: JBE	2003	<i>‘Individuals who perceived the issues to have low personal moral intensity were more likely to participate/switch’.</i>
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Codes of Ethics

Paolillo and Vitell	2002	<i>‘Neither the existence or enforcement of codes of ethics influence ethical decision-making intentions’.</i>
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Granitz	2003	<i>‘Individuals who shared in their perception of an applicable code shared in ethical reasoning and moral intent’.</i>
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Ethical Climate/Culture

DeConinck and Lewis	1997	<i>‘No significant findings’.</i>
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Barnett and Vaicys	2000	<i>‘Ethical climate did not directly affect intentions to behave ethically’.</i>
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Flannery and May	2000	<i>‘The instrumental climate deterred ethical intentions’</i> <i>‘Individuals who rated their organization as more ethical demonstrated greater perceived discretion, while those who rated their organization as less ethical had less perceived discretion’</i>
Key	2002	<i>‘discretion’</i>

Industry Type

Shafer et al.	2001	<i>‘No significant findings’</i>
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Rewards and Sanctions

Glass and Wood	1996	<i>‘An individual’s intention to engage in an unethical act is positively related to perceived favourable social outcomes’.</i>
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Cherry and Fraedrich	2002	<i>‘Individuals who perceive higher levels of risk express less intent to engage in the unethical behaviour’.</i>
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Beams et al.	2003	<i>‘No significant findings with respect to the likelihood of getting caught or the severity of the punishment.’</i> <i>“Individuals who expected higher gains were more likely to engage in unethical behaviour”</i>
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Shapero et al.	2003	<i>'Greater likelihood of reward results in intention to engage in unethical behaviour'.</i>
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Subjective Norms

Gibson and Frakes	1997	<i>'The behaviour and subjective norms explained a significant portion of unethical intentions'.</i>
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Flannery and May: AMJ	2000	<i>'Intentions to engage in unethical behaviour is positively influenced by the subjective norms'</i>
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Rowpaka: JBE	2002	<i>'Intention to engage in unethical behaviour is positively influenced by subjective norms'.</i>
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Source: adopted from O'Fallon and Butterfield, 2005

2.2.8 Cognitive moral development (CMD)

Kolberg (1984) developed the theory of moral development to aid in explaining the stages of moral reasoning. **Kolberg** identified three main stages of moral reasoning encompassing the pre-conventional stage, the conventional stage, and the post-conventional stage. According to the theory, individuals can only go through the different stages in sequential order just as they are herein listed (i.e Pre-conventional→conventional→post-conventional). The conventional stage mostly relates to infants generally aged around nine years and below. At this stage, **Kolberg (1984)** posits that individuals tend not to have personal codes of morality but have to follow the prescriptions of adults as well as to adjust behaviour based on the consequences of heeding to or breaking the rules given by adults. That is, “authority is outside the individual and reasoning is based on the physical consequences of actions”.

In addition, at the conventional stage, individuals begin internalizing the moral standards of adults whom they revere and consider as role models. At this stage, the main emphasis is on internalising authority without questioning it and reasoning guided by the norms of the group to which an individual belongs.

The third stage is the post-conventional stage at which point the judgement of individuals is based on self-chosen principles, and moral reasoning is based on individual rights and justice.

A number of researchers have studied the influence of moral development on ethical behaviour within different geographic contexts. **Sweeney and Roberts (1997)** examined the relationship between cognitive moral development and auditor independence using a survey covering over 300 professional auditors. The findings of the study were that “an auditor's level of moral development affected his or her sensitivity to ethical issues and independence judgments” **(P.1)**. Recently, **Li, Chao, Chen, and Zhang (2018)** also examined the relationship between business managers moral development of ethical judgements. The study employed the structural equation modelling technique and the hierarchical regression models in analysing responses gathered from over 451 business managers in Shanghai, China. The results of the study revealed that

“Individualizing moral foundations and moral idealism have significant positive impacts on moral judgment. Moreover, the findings indicate that moral relativism and levels of managers' moral development moderate the relationship between individualizing moral foundations and moral judgment with the impact of individualizing moral foundations being stronger when managers' relativism is low rather high or when their moral development is high than it is low”. Evidence from East Java in India also indicated that the extent of public accounts moral development has a significant influence on ethical judgements made by these accountants **(Laily, 2016)**.

2.2.9 Machiavellianism

“Machiavellianism in psychology refers to a personality trait which sees a person so focused on their own interests that they will manipulate, deceive, and exploit others to achieve their goals” (**Therapy, 2017**). Studies also indicate that this personality trait influences the ethical behaviour of individuals. For example, **Lee, Bonn, Reid and Kim (2017)** studied the influence of Machiavellianism personality trait on the ethical judgement of 602 professional marketers. Results of the analysis depicted a significant positive relationship between Machiavellianism and unethical behaviour, that is, people higher on Machiavellianism are more likely to behave unethically than otherwise. In another study, **Ross and Robertson (2000)** found that Machiavellianism is strongly associated with salespersons' willingness to lie in order to increase sales. **Brown and Treviño (2006)** on the other hand indicated that “In contrast to ethical leaders, Machiavellian leaders are motivated to manipulate others in order to accomplish their own goals. They have little trust in people and, in turn, tend not to be trusted by others” (p. 604). **Hartog and Belschak (2012)** argued that Machiavellianism does not always result in unethical behaviour. Specifically, **Hartog and Belschak (2012)** note that:

“... manipulative Machiavellians may (inauthentically) display ethical leader behaviours if they perceive this is a useful way to reach their goals even though they privately hold less moral beliefs. However, we argue that the positive impact of ethical leadership on engagement will be reduced for those leaders for who private identity and expressed identity is not in line as followers are likely to pick up on inauthentic displays”

2.2.10 Religion.

It has been reported within the literature that individuals who know, understand, and practices their religious beliefs are more likely to judge ethical issues based on the prescriptions of the religion. **Parboteeah et al. (2008)** note that individuals who understand their religion are less likely to engage in unethical behaviour than those who do not understand their religion. **Oumlil and Balloun (2009)** in a related study found that the strength of an individual's religion (measured by one's attendance to worship session) has a strong influence on ethical decision making as far as managers in the USA and Morocco are concerned. Moreover, findings by **Longenecker et al. (2004)** suggests that individuals who rate religion as being of either moderate or high importance in their lives are less accepting of unethical decisions. Accordingly, **Emerson and McKinney (2010)** surveyed 2500 executives in a bid to investigate whether religious importance has any influence on the ethical judgement and behaviour of individuals. The study concluded that religious importance has a significant influence on attitudes towards ethical dilemma.

Below is a presentation of the results that **O'Fallon and Butterfield (2005)** got when they conducted a literature review on the influence of Religion, moral development, Machiavellianism on ethical judgement.

Table 1: Individual and Organizational factors influencing ethical behaviour (continued)

Authors:	Year	Findings
Cognitive moral development/ethical judgment		
Green and Weber: JBE	1997	<i>'Higher levels of moral reasoning lead to more ethical behaviour'.</i>
Marnburg: JBE	2001	<i>'Individuals high in moral reasoning produced significantly more instability and inconsistency between policy-decisions and action- decisions'</i>
Ryan: JBE	2001	<i>'Moral reasoning was positively related to the helping and sportsmanship OCB behaviours, but not the civic virtue OCB behaviour.'</i>
Honeycutt et al.: JBE	2001	<i>'Ethical judgment was positively related to ethical behaviour'.</i>
Greenberg: OBHDP	2002	<i>'Individuals classified as conventional rather than pre-conventional stole significantly less money'.</i>
Abdolmohammadi and Sultan	2002	<i>'Individuals with a lower P-score were more likely to engage in unethical behaviour'.</i>
Fleischman and Valentine.	2003	<i>'No significant findings with regards to ethical judgments'.</i>
Valentine and Fleischman	2003	<i>'Ethical judgment was significantly positively related to the decision to grant relief.'</i>
Nationality		
Kennedy and Lawton:	1996	<i>'Ukraine individuals were far more willing to engage in unethical business practices than American individuals'.</i>
Whitcomb et al.:	1998	<i>'Significant findings between Chinese and U.S. subjects in 3 of 5 dilemmas'</i>

Organizational commitment

		<i>‘Organizational commitment is not related to unethical behaviour’.</i>
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Philosophy/value orientation

		<i>‘A strong achievement orientation did not result in lower levels of ethical decision making, while a concern for honesty and fairness were not associated with higher levels of ethical decision making’.</i>
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Glover et al.	1997	<i>‘The drop in mean scores suggest that when a person’s economic wellbeing is an issue, the tendency to act ethically diminishes’.</i>
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Hoffman et al.	1998	<i>‘In 3 of 4 scenarios, differences in personal values did not enhance the propensity to make unethical business decisions’.</i>
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Jonis and Swift	2001	<i>‘An individual’s love of money was significantly related to unethical behaviour’.</i>
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Tang and Chiu:	2003	<i>‘Environmental values positively influenced behaviour’.</i>
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Religion

		<i>‘Those who are more religious are somewhat less willing to engage in unethical behaviour’.</i>
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Significant others

		<i>‘A high concern for others was not associated with ethical decision making’.</i>
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Glover et al.	1997	<i>‘The employee’s perception of supervisor expectations was significantly related to ethical decision making’.</i>
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Jims and Keon	1999	<i>‘Top managements attitude influences a lower level managers behaviour in ethical decision making.’</i>
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Jackson	2000	<i>‘No significant findings with respect to commitment to the relationship’</i>
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Robertson and Rymon:	2001	
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Moral intensity

Marshall and Dewe:	1997	<i>'Moral intensity was not seen as an influencing factor in elicited responses of individuals'.</i>
Greenberg	2002	<i>'Individuals stole more money when it was said to come from the organization, rather than an individual'.</i>
Fleischman and Valentine:	2003	<i>'Moral intensity in an equitable relief case was negatively related to the decision to grant equitable relief'.</i>
Valentine and Fleischman:	2003	<i>'Moral intensity was negatively associated with the decision to deny relief'.</i>
ethical climate/culture		
Bartels et al	1998	<i>'Strong ethical climates are associated with less serious ethical problems.'</i>
Fritzsche	2000	<i>'Laws and codes was the dominant climate in high tech firms and lead to ethical behaviour'.</i>
Jardi	2001	<i>'Laws and rules were the most important climate type influencing OMB'.</i>
Peterson	2002	<i>'Egoism climate correlated positively, while the benevolent and principled climates correlated negatively to unethical behaviour'.</i>
Weber et al.	2003	<i>'Organizations with a morally preferred ethical climate did not have known employee theft.'</i>
organizational culture/climate		
Jardi:	2001	<i>'The more positively the organizational climate is viewed, the less the reported misbehaviour.'</i>
organizational size		
Bartels et al.	1998	<i>'Larger organizations tend to have more serious ethical problems.'</i>
Chavez et al.	2001	<i>'Firm size is positively related to ethical decision making'.</i>

Organizational factors: other organizational effects

Treviño and Weaver:	2001	<i>‘Observed unethical conduct was higher when employees perceived less general fairness.’</i>
McKendall et al.	2002	<i>‘Communication did not lessen legal violations.’</i>

Organizational factors: rewards and sanctions

Tenbrunsel	1998	<i>‘Individuals in a high incentive condition were more likely to engage in unethical behaviour.’</i>
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Organizational factors: training

McKendall et al.	2002	<i>‘Did not lessen legal violations’.</i>
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Source: adopted from O’Fallon and Butterfield, 2005

2.2.11 Organizational Culture and Ethical Behaviour

Luthans (2006:47) defined organizational culture as “norms and values contributing to organization members’ behaviour. Each member of an organization behaves based on the prevailing culture so that the member can blend it with the organization environment”.

Many empirical findings suggest that organizational culture and the ethical climate prevailing within an organization’s internal environment can either enhance or place a limitation on ethical behaviour. Using a sample of 304 accountants from the United States (103 staff, 136 senior staff, and 65 managers), **Douglas, Davidson and Schwartz (2001)** investigated the influence of organizational culture on the ethical judgement of accountants. The finding of the study as stated by the researchers was that:

“Perceived organizational culture is indirectly related to ethical judgements as ethical culture affects individual values (i.e idealism) and idealism affects judgements” **(p. 1)**. In addition, the article entitled

“Does ethical culture in audit firms support auditor objectivity?” is a research work by **Svanberg and Öhman (2016)** that sought to investigate the relationship between ethical culture and auditor objectivity in an organizational setting. The study drew on a sample of 281 practising auditors in the United States and found that

“In conclusion, our findings indicate that auditors are more likely to make objective judgments in ethical cultures characterized by the rewarding of ethical behaviour and punishment of unethical behaviour, the prevalence of ethical norms, visible ethical leadership, and low emphasis on Obedience to authority” (p. 76).

Moreover, **Sweeney, Arnold and Pierce (2010)** also investigated the influence of organizational culture on auditors’ ethical judgements and intention to act. The findings of the study were that "perceived unethical pressure to engage in dysfunctional behaviours and unethical tone at the top was significant in forming an ethical evaluation, only perceived unethical pressure had an impact on intention to engage in the behaviours" **(p.1)**.

2.3 INDIAN CULTURE AND ETHICS CULTURE IN ORGANIZATION

As important as Confucianism is in understanding Chinese culture, so is Hinduism in understanding Indian culture. The teachings of Hinduism and Confucianism also have a number of common features, which produce some common cultural characteristics between Indian and Chinese society. These include social stratification, the concern for "harmony within hierarchy", and filial piety (**Sinha and Sinha, 1990; Kangayappan, 1992**). Social stratification is a "hierarchical ranking of status positions in a society ... the outcome of social inequalities within the social structure which are transmitted by society's major institutions" (**Edgar et al., 1993, p. 172**). **Kangayappan (1992, p. 42)** notes that “it is largely the caste system of social stratification that has glued Indian society since the arrival of

Aryans in the Indus valley around 1500 BC”, while **Phegade (1997, p. 78)** argues that “stratification along caste lines is also a strong feature of contemporary organizational behaviour in India”. Employees have used caste connections, for example, to pressure management not to dismiss workers of their own caste, even in cases of serious misconduct (**Sinha and Sinha, 1990, p. 709**); and even large Indian multinationals have tended to hire fellow members of their business sub-caste for key positions (**Elliot, 199, p. 48**). **Sinha and Sinha (1990, pp. 706–708)** note that members of organizations in India enter them with a set of values stressing caste bonds, sensitivity to interpersonal harmony, and a sense of social hierarchy. While hierarchy in social systems is a universal phenomenon, the extent to which "Indians are disposed to structure all relationships hierarchically is phenomenal" (**Sinha and Sinha, 1990, p. 707**). **Roland (1984) and Palkhivala (1997, p. 13)** also corroborate that Indian social systems are steeply hierarchical and Indians are highly status conscious. The pattern of superior/subordinate relationships dictated by the caste system affects power relations in Indian organizations, with even large public companies in India being run "like personal fiefdoms" (**Sinha and Sinha, 1990, p. 708**). Superiors expect loyalty, compliance and total submission by their subordinates (**Phegade, 1997, p. 78**). Subordinates who yield to power are bestowed with favours, while those who do not are distanced and discriminated against (**Sinha and Sinha, 1990, p. 708**). This reward/punishment behaviour modification technique has resulted in subordinates' unquestioning loyalty to superiors (**Kangayappan, 1992, p. 48**). The relationship is characterized by *Sneh* (affection) for the subordinate and *Shradha* (deference) for the superior. Thus, an Indian organization consists of a network of "affection reciprocity" (**Roland, 1984, p. 21**), wherein the avoidance of conflict and maintenance of hierarchical equilibrium are the cardinal rules (**Triandis, 1994, pp. 4–8**). The importance of affection reciprocity in India is also reflected in the Hindu concept of collective ego, a concept different from that of the empirical self as conceived by western thinkers (**Shils, 1961, p. 119**). One's personal ego is not as important in India as is the maintenance of

hierarchical order and harmonious interpersonal relationships in a relatively stable social order **(Marriott, 1976, p. 111; Sinha and Sinha, 1990, p. 709)**. The difference between the Hindu and the western concept of self-provides insight into how individuals in these societies are likely to differ in their professional judgments. In western social and psychological theories, individuals are seen as "separate, indivisible bounded units" **(Marriott, 1976, p. 111)**. By contrast, anthropologists suggest that the Indian self is "not an individual, but a 'dividual' self" **(Bharati, 1985, p. 196)**. That is, Indians assign different meanings to different layers of selfhood: "one's true, permanent self, is different from the self that he produced and proffered within society" **(Bharati, 1985, p. 196)**. There are so many layers of self that what appears to be contradictory to western eyes is seen as acceptable by Hindus.⁵ The concept of an individual as a separate person with the choice to decide what is ethical and unethical is generally absent among Indians. Rather, an individual is part of a collective which decides the rules of acceptable behaviour **(Triandis, 1994, pp. 191–193)**. People are more concerned about acting appropriately than about doing what they consider right or wrong **(Triandis, 1995, p. 247)**. Therefore, judgments related to what is ethical or unethical are dependent on the people and the context concerned, with issues of family, friendship, caste reputation and preservation of harmony being of greater importance **(Trompenaars, 1993, pp. 34–35, 37–38)**.

2.4 ETHICAL DIMENSIONS OF ACCOUNTING AND AUDITING

2.4.1 Utilitarian ethics Dimension

Teleological or consequentialist ethics judges the rightness or wrongness of an act by its consequences. The most elaborate consequentialist theory is that of utilitarianism, as propagated by **Jeremy Bentham (1789/1962)**. In the definition of his disciple **John Stuart Mill (1861/1962, p. 257)**: "Utility or the Greatest Happiness Principle holds that actions are right in proportion as they tend to promote

happiness, wrong as they tend to produce the reverse of happiness. Utilitarianism is a strongly democratic theory as every individual is to be given as much consideration as anybody else is.

Utilitarianism has two advantages for application in business. It links self-interest with moral behaviour, and a company is per definition self-interested. Secondly, the calculation of benefit and harm is similar to profit and loss accounting and hence more likely to find acceptance with business practitioners than rival ethical theories. By default, utilitarianism is the most influential ethical theory in the business context. Most economic and finance concepts are implicitly or explicitly built on the assumption that individuals are interested in maximizing short-term self-interest. Resulting intellectual parenthood of accounting theory and methods in utilitarianism becomes important in the debate over the neutrality of accounting information. Neutralists, like **Solomons (1991)**, argue that it is not the task of accountancy to be an agent of change in society. Accountants should merely convey unbiased information, on which users can then base their decisions. Radical accountants, such as **Tinker (1991)**, have questioned whether accounting information can actually be neutral. As accounting is embedded in social reality – it is neither inexplicably given nor a straight reflection of social reality – and in social conflict, its theory and methods inevitably favour one side of the conflict over another.

2.4.2 Deontological Ethics Dimension

Deontological ethics focuses on duty or moral obligation, *Deon* being the Greek word for duty. There are various deontological concepts, such as “Do unto others as thou wouldst have them do unto you”, but the most rigorous version was developed by **Immanuel Kant (1785/1898)**. He sees a sharp difference between self-interest and morality and proposes that action only has moral value if it is performed from duty. Kant proposes his **Categorical Imperative (1785/1898, p. 38)**. Act only on that maxim whereby thou canst at the same time will that it should become a universal law.

A deontological perspective underlies much of the self-regulation in accountancy, see for instance the explicit requirement by the Auditing Practices Committee in the US on qualifying a company's accounts on a going concern basis (**Moizer, 1995, p. 424**): The auditor should not refrain from qualifying his report if it is otherwise appropriate, merely on the grounds that it may lead to the appointment of a receiver or liquidator. This clear, deontological view is necessitated by the public role of the accountancy profession which requires it to place above any other the public interest in being informed of the auditors' doubts about the ability of the company to continue trading. There may be individual cases where an auditor, after considering the consequences of a qualification, would want to give the company a clean account; the more since qualification is only a weak indication of business failure. Deontological ethics is uncompromising by definition, but the complete disregard for circumstances can lead to morally dubious requirements. Few would follow the Kantian notion that telling a lie should always be wrong, even if it prevented a major disaster; witness the protracted debate on the evaluation of whistleblowing (**Vinten, 1994**), where accountancy bodies for a long time held that concerned employees may raise their concern to superiors but must not under any circumstances report to outsiders without authorization. A strong deontological emphasis has the disadvantage that compliance with rules is taken to be moral. "One feels like an accountant", said a participant in a study by **Vyakarnam et al. (1996, p. 159)** that "there are so many rules and regulations that anything outside is acceptable." A consensus to work just above the required minimum can lead to a situation where the minimum becomes expected and pressure increases to drop standards further.

2.4.3 Ethics of Care Dimension

The ethics of care has been developed as a feminist critique of the traditional moral philosophy on the basis of rights and rules. Traditional ethics is grounded in a view of others as potentially dangerous; thus rights become an important means to underscore claims against others and rules are needed to

settle the conflict. The moral responsibility arising from both rights and rules is universal; it binds all moral agents equally (cf. the principle of utilitarianism or Kant's Categorical Imperative) but makes the individual person replaceable without any loss to the ethical principle. Feminist authors have contended that the ethics of rights is essentially a male perspective and reflects male dominance in western society and thought.

An ethics of care has been applied both directly to the accounting profession and in the concept of a caring organization. **Burton and Dunn (1996, p. 139)** suggest that a company could be said to care if "it exhibits caring behaviour consistent with firm policy". A company is here seen as a secondary caring agent, dependent on the primary caring actions of its organizational members. **Liedtka (1996)** finds that much of the present rhetoric about caring for customers or employees are just "care-talk" but suggests a caring organization can be built. Apart from having caring employees, organizational support is crucial, because the organization largely shapes the person's role within it and must also provide the resources for care. Employees would be seen as central because they are the people who deal directly with customers and thus ultimately determine the success or failure of the business. **Reiter (1996)** suggests that caring is a valuable trait for employees, especially in the service sector. A caring firm could enjoy a competitive advantage in capability-driven markets because it engenders trust and reduces transaction costs. **Reiter (1997)** claims that an ethics of care can foster a better understanding of the underlying principles of the accounting profession, such as auditor independence. This independence is to be achieved by a number of detailed rules which determine the relationship between auditor and client, yet true mental separation from the client would require the auditor to work in a social vacuum, and the rule-based approach can be seen as arbitrary. The contextual perspective of the ethics of care, Reiter suggests, provides the alternative metaphor of *interdependence*. This allows defining an appropriate balance of interests, on which users of accounting information could rely more

than on the appearance of independence. Such thinking influenced the framework approach by the ICAEW (Maurice, 1996, p. 43).

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter of the study discusses the methodology followed in conducting the research. Among many other things, the chapter discusses the research philosophy, study design, research strategy, technique of analysis, study population, among others. These are presented below

3.1 PHILOSOPHICAL UNDERPINNING

Holden and Lynch (2004) argued that good research is not one that is methodologically led. They argued that methodological choice of a study should be consequential to the philosophical stance of the researcher, thus, research should be philosophically led. Accordingly, **Saunders, Lewis, and Thornhill (2016; p124)** posit that the philosophical stance of a study permeates and informs all other aspects of the research design, including methodology. Although philosophical ideas remain largely hidden in research (**Slife & Williams, 1995; Holden & Lynch 2004**), Creswell (2014) among other scholars argue that they still influence the practice of research and as such researchers ought to make vivid the larger philosophical ideas they espouse. **Saunders, Lewis, and Thornhill (2016; p124)** define research philosophy as a system of beliefs and assumptions held by an individual pertaining to how knowledge is developed.

3.1.1 ACCOUNTING RESEARCH PERSPECTIVES

Accounting research has been widely identified as one that functions to establish general laws covering the behaviour of empirical events or objects in a scientific manner, hence enabling people to connect their knowledge of different phenomena (**Belkaou, 2004**). This assertion basically presupposes that

accounting research to a greater extent follows the path of the popularly acclaimed natural science models of research which espouses a meticulous approach to sampling, measurement, design, and analysis of theory-supported hypotheses. Albeit practised by many, using the natural science model of research in social science discipline like accounting has met with many objections; the nomothetic-ideographic (objective-subjective) debate is a case in point. Thus, whereas the nomothetic view seeks generalizations or overarching laws and employs only those procedures admitted by exact science, the ideographic approach aims at having an apprehension of specific phenomena in nature or society by obtaining first-hand knowledge of the unique subjects under investigation than to seek generalizable explanations (**Belkaou, 2004**). Behling offered five key objections to the use of the natural science model of research (objectivist/nomothetic approaches) in social science research like accounting research and the first among such objections was captioned "*Uniqueness*". He argued that organizations, groups and persons differ in one way or the other hence applying exact science approaches to develop precise general laws in explaining organizational and human behaviour is a fallacy. Again, he argued that whereas phenomena of interest in exact sciences tend to be static in nature, same cannot be said of humans, organizations and the social universe in general since they are highly transitory (this he referred to as instability). Behling moreover intimated that unlike chemical compounds and other things of interest to natural science researchers, the people or organizations under study in social science research may behave differently by mere awareness of research hypotheses formulated about them, this also he called Sensitivity. Penultimately, he, in addition, argued that Social science research lacks realism as compared to pure science research since manipulation and controlling of variables in organizational research changes the phenomena under study and lastly, Behling intimated that natural science model of research will present inconsistencies if applied in social sciences due to epistemological differences. It is not the researcher's priority to argue in support of or against any of these two approaches (ideographic and nomothetic), however, for the fact that the IFRS

standards and conceptual framework of accounting are largely principle-based and thus allows for professional judgment of accountants, it might not be entirely true to think that the nomothetic methodology better applies to accounting compared to ideographic approaches.

3.1.2 PHILOSOPHICAL ASSUMPTIONS OF SOCIAL SCIENCE RESEARCH

There are basically two philosophical assumptions in social science, they include assumptions about the nature of society and assumptions concerning the nature of science. The nature of science is broadly categorized into the subjectivism-objectivism dimensions which are further decomposed by Barrell and Morgan into socio-philosophical worldviews regarding ontology (Nominalism vs Realism), Epistemology (Anti-Positivism – Positivism), Human Nature (Conflict-order), and Methodology (Ideographic vs Nomothetic Theory). The nature of society dimension basically concerns the Conflict-Order debate of Durkheim, Weber, Pareto and Marx

Ontology basically concerns the constitution of reality or existence and the nature of being. Saunders defines it as assumptions about the nature of reality. A researcher's ontological assumption greatly influences his approach to inquiry. Popular ontological assumptions include nominalism, realism, idealism and solipsism among others. The Objectivist view is that nature is real and there is one true reality (realism) external to an observer. Thus, it emphasizes a structured order that can be studied following definitive procedures in order to arrive at general or universal rules. Realism thus assumes a real-world composed of hard, intangible structures that exist independent of our labels and perceptions. The subjectivity grid on the other side of ontology holds that the nature of reality is nominal or decided by convention and that there exists no one true reality that applies across the board, thus reality is not universal and independent of our perceptions but is the result of social construction or subject to diverse interpretations or unique ideas of individuals. This is to say that multiple realities exist due to the transitory nature of humans and social entities. Epistemology, on the other hand,

concerns assumptions about knowledge, and the constitution of legitimate knowledge as well as the communication of such knowledge (Burrell and Morgan 1979). According to Saunders, due to the multidisciplinary nature of business and management, several knowledge types exist— ranging from numeric data to textual and visual data, from facts to interpretations, and including narratives, stories and even fictional accounts. Objectivists /positivists embrace assumptions pertaining to the model of the natural sciences of seeking valid knowledge by looking for facts and observing cause and effect relationships to make law-like generalizations. Objectivists also believe in the development and testing of hypothesis. However, the extreme end of epistemological subjectivism or anti-positivism embraces assumptions espoused by the arts and humanities discipline which entails gathering knowledge by means of narratives, opinions and unique accounts of objects under study and in their specific contexts. Thus, to the anti-positivists, the notion that one true objective knowledge can be created and applied across the board is a fallacy. Accounting in general and financial reporting and book-keeping to be specific make the Monetary Measurement assumption by recognizing and recording only business transactions that can be assigned monetary values and measured reliably, this then suggests that financial reporting and book-keeping in general lies within the realms of positivism and objectivism as far as epistemology is concerned. However, when issues like decision usefulness of accounting information and ethical values of accountants and auditors are considered, then the epistemological view of accounting may be more of relativist and anti-positivist view. E.g. useful accounting information cannot be said to be universally useful, it depends on the need of the user of such information since all stakeholders of accounting information do not have the same informational needs. Again, ethical values of accountants and auditors alike are not directly observable let alone being measured reliable using numbers and the rigours of pure science. The Human nature debate is a socio-philosophical assumption pertaining to whether human behaviour is determined by the environment (deterministic view) and whether humans conduct themselves out of their free will (voluntarist). It is

noteworthy that the assumptions regarding methodology (i.e. nomothesis and ideography have been discussed above).

World views regarding the nature of society essentially embody views of individuals as to whether society is a chaotic setting that is fraught with conflicts or it is characterized by order. Early scholars in the likes of Durkheim, Weber, and Pareto pioneered and supported the idea that society is characterised by social order, while Marx saw it as a chaotic setting that requires social change. Burrell and Morgan (1997) described the human nature debate with the terms regulative and radical change, thus whereas regulation parallels order, radical change parallels conflict. From the authors' perspective, Regulation emphasizes unity, cohesiveness and harmonious coordination in society whereas radical change theories emphasize structural conflict, domination, and structural contradiction and thus a dire need for change.

Axiology, on the other hand, looks at the role of values and ethics of the researcher and participants in the research process. It was Heron's argument in 1996 that our values as humans principally directs our actions. Thus, values espoused by a researcher informs His judgment concerning the kind of study to conduct and how to conduct it. On the extreme end of Objectivism in axiology, axiological skills are reflected in the researcher's ability to conduct value-free research where the respondents' responses are detached from influences of the researcher. Thus, the need for independence. However, in subjectivism, research is value-laden and that the researcher's interaction with respondents must help generate responses that are reflexive. By combining assumptions about the nature of science and the nature of society, Burrell and Morgan derived four major paradigms that embody social science research as follows:

The Functionalist paradigm (objective - regulation): seeks to attribute rational explanations to human affairs. This paradigm advocates sociological positivism and believes that human relationships are

concrete and can be identified, studied and measured via science. Idealist Philosophers and Marxists had a mild influence on this idea.

The Interpretive Paradigm (subjective-regulation) explains the stability of human behaviour from the individual's viewpoint. This view does not buy the idea of an objectively created world, it emphasises the uniqueness of individuals in their unique contexts. Philosophers like Kant pioneered this worldview with exponents like Husserl and Schutz furthering the ideology. The Radical Humanist (subjective-radical change), Philosophers encompassing Kant, Hegel and Marx are proponents of the Radical Humanist paradigm. It was carried on in the 20's at the Frankfurt School, and in French existentialism. This paradigm basically takes an anti-organization orientation as it advocates that social structures, laws and rules are psychic captors which enslave human consciousness through ideological processes of manipulation. You may call it mental slavery. Radical Structuralist (objective - radical change), with this, radical change is seen as an integral part of societal structures. "Contemporary society is characterized by fundamental conflicts which generate radical change through political and economic crises". Marx laid foundations for this worldview, followed by Engels, Lenin and Bukharin.

3.1.3 PHILOSOPHICAL STANCE OF THE STUDY

The pragmatist philosophical stance is applied in this study. **Fisher (2010)** intimated that good research is one that exhibits consistency in methodological procession, including coherence between Philosophy and methodology. Whilst discussing philosophy in accounting research (refer to section 3.1.2), it was noted that accounting as a discipline does not bow wholly and slavishly to any one particular philosophical view. For instance, it was indicated that the monetary measurement concept appeals more to the objectivists view whereas issues pertaining to decision usefulness appeals to the subjectivist philosophical stance. This implies that there might be situations where a study in the field of accounting may incorporate both philosophical views depending on the research problem at hand.

Pragmatism is a philosophical stance that asserts that the relevance of a concept lies in its ability to support action (**Kelemen & Rumens, 2008**). This philosophical stance has its origin in the late nineteenth to early twentieth-century work of philosophers **Charles Pierce, William James and John Dewey in 1970**. According to **Saunders, Lewis and Thornhill (2015)**,

“Pragmatism tries to reconcile “both objectivism and subjectivism, facts and values, accurate and rigorous knowledge and different contextualized experiences. It does this by considering theories, concepts, ideas, hypotheses and research findings not in an abstract form, but in terms of the roles they play as instruments of thought and action, and in terms of their practical consequences in specific contexts. Reality matters to pragmatists as practical effects of ideas, and knowledge is valued for enabling actions to be carried out successfully” (p. 143).

That is, the pragmatism philosophical stance considers the research problem that exists in reality and decides on the best philosophical approach to address the situation. In regard to this, a study

that adopts the Pragmatist approach may combine both objectivism and subjectivism dimensions in a single study. That is, in a single study, a subjectivist approach may be adopted in attaining some research objectives whereas other research objectives may be achieved by applying an objectivist approach.

Accordingly, **Saunders, Lewis, and Thornhill (2015)** state that:

“As pragmatists are more interested in practical outcomes than abstract distinctions, their research may have considerable variation in terms of how ‘objectivist’ or ‘subjectivist’ it turns out to be. If you were to undertake pragmatist research, this would mean that the most important determinant for your research design and strategy would be the research problem that you would try to address, and your research question. Your research question, in turn, would be likely to incorporate the pragmatist

emphasis of practical outcomes. If a research problem does not suggest unambiguously that one particular type of knowledge or method should be adopted, this only confirms the pragmatist's view that it is perfectly possible to work with different types of knowledge and methods" (p. 143).

From the statement of **Saunders et al. (2015)**, it is observed that the pragmatist view is in sharp contrast with the argument of **Holden and Lynch (2004)**. That is, whereas Holden and Lynch argue that it is appropriate for research design and strategy to be determined by the philosophical stance of the researcher, pragmatists are of the view that it is rather the research problem that should determine the research design and strategy. In this study, the research design and strategy was informed by the research problem at hand. Thus, research starts with a problem and aims to contribute practical solutions that inform future practice (**Thornhill, 2015 P. 143**).

In this study, whereas research objective two was approached using an objectivist design and strategy, all other study objectives were approached from a purely subjective stance owing to the need to gather in-depth knowledge through interviews. The objectivist approach was also appropriate for objective two as it sought to predict statistically how ethical position may influence ethical behaviour using existing instruments that have been validated over time.

3.1.4 METHODOLOGICAL STANCE

The researcher blends both the ideographic and nomothetic methodological stance. This is informed by the philosophical stance of the researcher (pragmatism) as described above. The ideographic approach explains a phenomenon in nature or society by obtaining first-hand knowledge of the unique subjects under investigation and in their unique contexts than to seek generalizable or universal rules. This methodology rejects the notion that pure science approaches when used in social science can generate valid and reliable results. Thus, unlike nomothetic approaches, the ideographic methodology adopts more personal and flexible research structures (**Carson et al., 2001**). **Creswell (2014), Fisher**

(2010), Saunders et. al (2016) argued that some research philosophies are more coherent with some methodological approaches than others, they indicated that the ideographic approach sinks well with the subjectivism-anti positivism dimension of philosophy which also agrees well with the interpretivism paradigm. The nomothetic approach, on the other hand, appeals more to the natural science approach as it emphasizes the tendency to generalize research findings to other contexts.

3.2 METHODOLOGICAL CHOICE

Miles and Huberman (2014) stated that,

“Qualitative data, with their emphasis on people’s lived experiences, are fundamentally well suited for locating the meanings people place on the events, processes, and structures of their lives and for connecting these meanings to the social world around them..... They often have been advocated as the best strategy for discovery, for exploring a new area, and for developing hypotheses”.

The topic at hand emphasizes ethical values of internal auditors, and values as (Cecil, 2017) puts it, are not static and universal, neither are they facts nor artefacts or physical entities that are readily observable; they are inherent quality. Again, factors like culture, religion, and lived experiences among others influences ethical values, hence using nomothetic approaches that seek to make statistical generalisations about internal auditors' values may miss unique individual details. Hence the qualitative approach is adopted as a suitable methodological choice in this study. Accordingly, Miles and Huberman (2014 ;) posit that:

“One major feature of well-collected qualitative data is that they focus on naturally occurring, ordinary events in natural settings so that we have a strong handle on what "real life" is like. That confidence is buttressed by local groundedness, the fact that the data were collected in close proximity to a specific situation..... The influences of the local context are not stripped away but are taken into account. The possibility for understanding latent, underlying, or nonobvious issues is strong.”

Again, aside from that the topic at hand can be best explored using the qualitative approach, **Cassidy (2010)**, **Fisher (2010)**, **Saunders et al. (2016)** all argue that the ideographic methodology adopted in this study is coherent with the qualitative approach to research. Moreover, the quality approach will enable the gathering of data that meets the “richness and Holism” feature of good data (**Miles and Huberman, (2014)**) with the potential of uncovering complexities; including data that provides insightful descriptions (**Geertz, 1973**) and are vivid. Pertaining to study objective two, the research problem at hand sought to predict the influence of ethical position on ethical behaviour. Such prediction oriented study objective suggests that the quantitative approach is more suitable (as it appeals to the nomothetic and deterministic view on philosophy). Hence the quantitative approach is adopted in achieving study objective two using partial least squares structural equation modelling.

3.3 RESEARCH STRATEGY AND INSTRUMENT

A strategy is a plan of action to reach specific goals. The concept has roots in military terminology as it regards how generals plan specific combat tactics as part of a broader plan for overall triumph. There is no one size fit all strategy in conducting research, according to **Denscombe (2010)**, it is a matter of horses for courses". Thus, adopting a strategy that is fit for purpose. **Denscombe (2010)** advised that three key issues should be addressed before adopting a research strategy: First, one must examine whether the strategy is suitable and appropriate for the study at hand. Secondly, the feasibility of the research strategy must be assessed in relation to time constraint, the ability to get access to the respondents, the level of detail required and specialist equipment required among others. Thirdly, the strategy selected must be ethical. The case study approach is adopted for this study. A case study is an in-depth inquiry into a topic or phenomenon within its real-life setting (**Yin 2014**). The ‘case’ in this study refers to the internal auditors of selected firms. As mentioned earlier on, the topic at hand require detailed subjected accounts of the research participants and according to **Saunders et al and**

Yin (2014), the case study strategy is well suited for this purpose. The Interview approach enables an unrestricted response from respondents. This allows respondents the opportunity to express themselves and also offers the researcher the opportunity to gather in-depth knowledge. In this Study, an interview guide was used for the most part of the data gathering process, however, a closed-ended questionnaire was also administered to gather data on the ethical position of the respondents. This is discussed below in section 3.3.1:

3.3.1 QUESTIONNAIRE DESIGN

- The questionnaire was sectionalized into four categories. The first section was a structured questionnaire that sought to determine the ethical position of respondents. The instrument was adapted from **Forsyth (1980)** in His Work, "A taxonomy of ethical ideologies".
- The second section of the questionnaire presented respondents with a case scenario of an internal auditor who is faced with an ethical dilemma. Respondents were then asked to give a detailed account of what they think the internal auditor should do in the scenario. This was to ascertain the importance that respondents attached to ethical values, how it affects their work, and why they will behave or act in a certain situation under certain circumstances. The Case scenario for this section was adapted from **Arens et al (2012)**.
- The third section of the questionnaire sought to gather information about the corporate ethical culture of firms studied. Many scholars and accountancy bodies including the big four are now advocating for the audit of corporate ethics culture and the general ethics climate in their organization. This will help determine the relationship between organizational ethics culture and ethical decisions of internal

auditors. The Last section of study gathers information about the profile of respondents and their organizations.

3.4 STUDY POPULATION

The target population for this study is internal auditors. Since the study is premised on the ethical dimensions of internal auditing, it is deemed appropriate to gather first-hand knowledge of internal auditors who have practical experiences in internal auditing. As an inclusion criterion, an internal auditor must be employed to qualify as a respondent. Besides, to ensure that the internal auditor can provide valid responses, only auditors who have served for at least two years in their respective organizations were considered for the interview.

3.4.1 SAMPLING TECHNIQUE AND SELECTION OF CASES

The study covered ethical issues that internal auditors in India face. Case selecting was based on the ability of the participant to maximize understanding as far as ethical concerns pertaining to internal auditing are concerned. Specifically, the purposive sampling technique was applied in the study. According to Creswell, the main idea of qualitative research is to purposefully select participants or sites which in the researcher's best opinion will help understand the research problem and question. The purposive technique of sampling is a non-probability sampling technique which operates on the assumption that by focusing on a relatively small number of deliberately selected cases, one is able to reach respondents well suited for the study. That is, in this study, the sample is 'hand-picked' based on the best judgement of the researcher. According to **Denscombe (2010),**

“Purposive sampling works where the researcher already knows something about the specific people or events and deliberately selects particular ones because they are seen as instances that are likely to produce the most valuable data. They are selected with a specific purpose in mind, and that purpose

reflects the qualities of the people or events chosen and their relevance to the topic of the investigation”

This approach was adopted in order to ensure that the researcher selects respondents who could offer valid and reliable responses to interview questions. Again, issues bordering on ethics are highly personal, it is not uncommon for respondents to be economical about the truthfulness of their responses as far as ethical issues are concerned; hence the need for the researcher to personally choose respondents based on His own knowledge and experience on one hand; and that of the thesis supervisor.

To be precise, the specific criterion used in the selection of cases are spelt out as follows;

Firstly, the internal auditor must be in the active employment of an organization in India. This is a delimitation of the study that ensures that the study is well controlled, precise, and also to provide easy access to study participants

Secondly, to warrant the inclusion of a research participant, the participant should have at least two years of working experience as an internal auditor in his current place of employment. This is to ensure that participants have the understanding of the interplay between organizational culture and ethics, and hence, can provide valid responses in that regard.

Last, the interview guide commences with screening questions which seek to test the knowledge of respondents regarding internal auditing and ethics. Where respondents' offered by the respondents to the screening questions suggest a knowledge barrier, such interviews are discontinued in a polite manner, not to offend the respondent.

For the quantitative session, a census of the internal audit staff was undertaken in order to gather data pertaining to the relationship between ethical position and ethical decision making.

3.4.2 SAMPLING SIZE FOR INTERVIEW

Regarding sample size in qualitative studies, **Creswell (2013)** intimates that there is no definite answer regarding how large or small a sample should be. He, however, made an inference from past literature and posited that usually, four to five cases are used in qualitative case study designs.

The idea of saturation as applied in grounded theory (**Charmaz, 2006**) informed the selection of cases for this study. According to **Charmaz (2006)**, saturation of participants denotes a situation whereby successive research participants do not contribute new ideas to the phenomenon under consideration, but rather, repeats what has already been said by earlier participants. In this study, saturation will imply that a researcher stops data gathering only when the categories or themes are saturated and that no fresh data sparks new insights (**Creswell, 2014**).

In all, 10 face to face interviews were conducted with respondents at their premises or offices across 10 firms in India. The interviews were conducted with internal auditors of the firms concerned. On average, each interview session lasted from 30 minutes to 1.25 hours. For study objective two (which adopted the quantitative method), 42 staff members in the auditing department across the 10 firms studied were sampled for data gathering purposes. A structured questionnaire was administered to the staff in order to survey their views in respect of the research topic at hand

Table 3.4.2 Background of Selected Cases

Business Organization	Designation of Respondent	Years of experience	Length of Interview	Business Sector	No. of Staffs Respondent
A	Internal Auditor and auditing staff	10	45 Minutes	Health	5
B	Internal Auditor and auditing staff	12	37 Minutes	Manufacturing	5
C	Internal Auditor and auditing staff	7	33 Minutes	Construction	4
D	Internal Auditor and auditing staff	15	36 Minutes	Agriculture	4
E	Internal Auditor and auditing staff	11	32 Minutes	Consultancy firm	4
F	Internal Auditor and auditing staff	17	1.25 hrs	Manufacturing	4
G	Internal Auditor and auditing staff	16	1.23 hrs	Education	4
H	Internal Auditor and auditing staff	6	54 Minutes	Real Estate	4
I	Internal Auditor and auditing staff	4	40 Minutes	Manufacturing	4
J	Internal Auditor and auditing staff	5	30 Minutes	Construction	4

Source: Field Data (2018)

Information on the respondents' background is contained in Table 3.4.2 above. It can be observed that ten respondents companies which are *Blue Sapphire Healthcares Pvt Ltd*, *Hi-lex India Pvt Ltd*, *Wig-Brothers India Pvt Ltd*, *Agri Best India Pvt Ltd*, *Savit & Associates*, *Sharma Tool & Dies Works*, *Insight Print Communication Pvt Ltd*, *Dinesh Suresh & Associate*, *Uday Industries* and *KK Spun India Ltd*. (Represented with the pseudonyms A, B, C, D, E, F, G, H, I, and J) were selected for purposes of data gathering. It can also be observed that the respondent with the least working experience had 4 years of working experience, whereas the maximum number of experience was 17. Clearly, this is an indication that the respondents had enough experience to adequately respond to the interview questions

relating to the ethical dimensions of internal auditing. In addition, the table reveals that the respondents interviewed were mainly the internal auditors and staffs of their respective firms. From the table, four (4) staff members were selected across all the 10 firms except firm A and B (*Blue Sapphire Healthcare Pvt Ltd, Hi-lex India Pvt Ltd,*) in which case five (5) staff members were selected. Moreover, it is also evident from Table 3.4.2 that the interviews lasted for about a minimum of 30 minutes and a maximum of 1.25 hours. The respondents were sampled from business sectors encompassing *Health, Manufacturing, Construction, Agriculture, Education, Real Estate and Consultancy firm.*

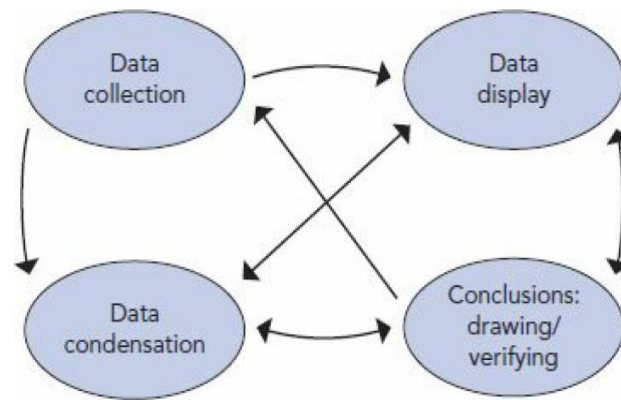
3.5 QUALITATIVE DATA ANALYSIS

Data Collection is a process or a means to an end and not an end in itself. To be able to make sense of research data, there is the need to condense the volume of information, identify significant patterns and formulate a framework for communicating findings.

Regardless of how excellent the write-up of a study may be, if data gathered are not analyzed with the required rigour and competence, the study is bound not to achieve its intended impact (**Creswell, 2014; Saunders et al, 2016; Kothari, 2004**). Data gathered in this study basically are based on interviews and *documents*. Such data after collection do not inherently lend themselves to effective analysis unless they are processed. That is, raw field note, recordings, photographs, questionnaire responses among others need to be processed before use. This study adopts the approach of **Miles and Huberman (1994)** in analyzing data gathered from the study.

Fig 3.5

Components of Data Analysis: Interactive Model



Source: Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis: An expanded sourcebook* (2nd ed.). Thousand Oaks, CA: Sage Publications.

Miles and Huberman's approach to analyzing qualitative data have received the support of researchers over the years. According to their module, after data has been gathered, a researcher

Miles and Huberman's approach to analyzing qualitative data have received the support of researchers over the years. According to their module, after data has been gathered, a researcher takes the data through two major interactive processes before finally drawing conclusions and making relevant.

Thus, to them, qualitative data analysis entails; 1) Data condensation 2) Data display and 3) Conclusion drawing/verification.

Firstly, data condensation according to **Miles and Huberman (2014)** refers to “the process of selecting, focusing, simplifying, abstracting, and/or transforming the data that appear in the full corpus (body) of written-up field notes, interview transcripts, documents, and other empirical materials. By condensing, we’re making data stronger”

In this study, data collected will first go through a process of data condensation. The process includes data summarization, data coding, theming and categorizing of data as well as writing analytical

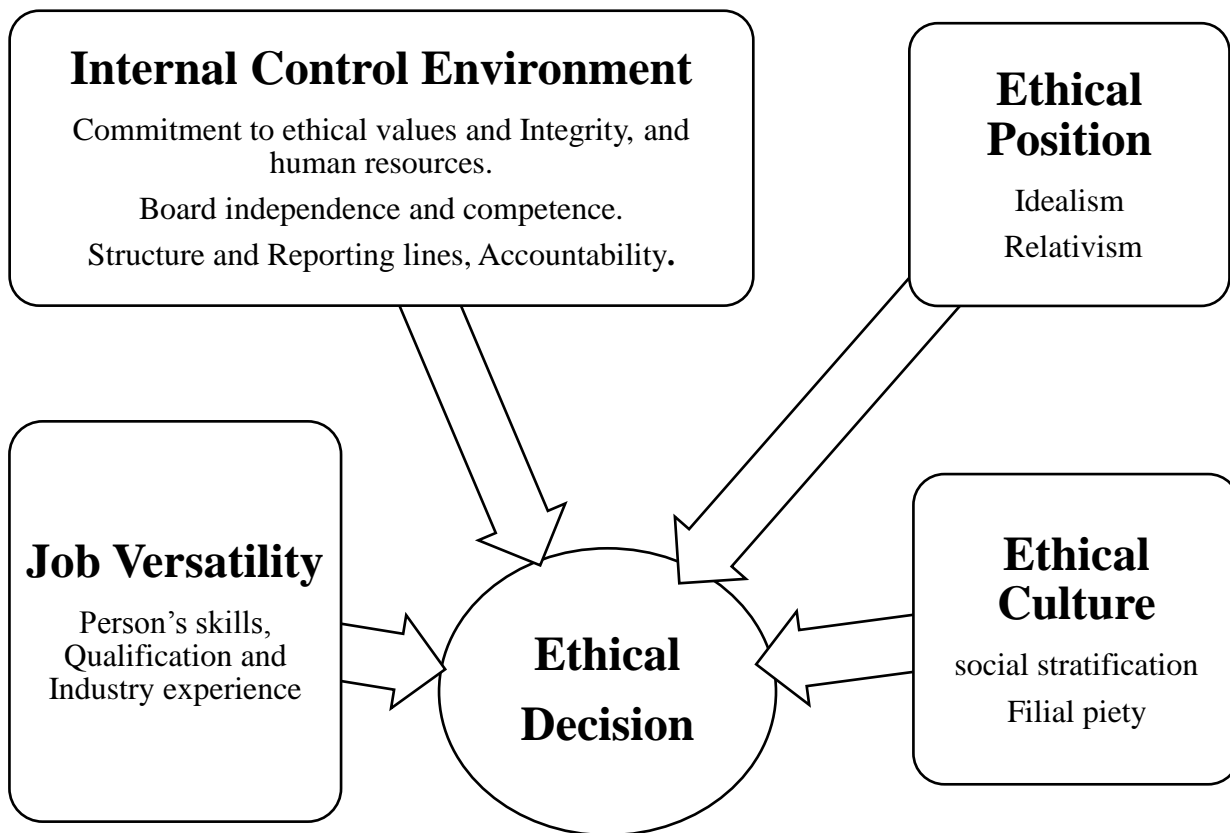
memos. In a qualitative study, data condensation is not only a post data gathering process but takes place continuously throughout the life of the study. **Miles and Huberman (2014)** put it that;

“Even before the data are collected, anticipatory data condensation is occurring as the researcher decides (often without full awareness) which conceptual framework, which cases, which research questions, and which data collection approaches to choose. As data collection proceeds, further episodes of data condensation occur: writing summaries, coding, developing themes, generating categories, and writing analytic memos.”

In this study, audio recordings emanating from each interview was transcribed and reviewed many times before being processed for further interpretation.

Data Display is the next step to analyzing qualitative data after data has been condensed. This process is concerned with presenting data in a compressed and organized manner to enable conclusion drawing and action. **Miles and Huberman (2014)** are convinced that good displays are a major premise for robust qualitative analysis. This study strikes a balance between using extended text displays and graphical displays (E.g. matrices, graphs, charts, and networks) albeit the former approach (extended text display) is popular compared to the latter. Combining such two methods of a display will serve to complement each other. For instance, **Miles and Huberman (2014)** argue that the use of extended text is *“terribly cumbersome”* since it is *“dispersed, sequential rather than simultaneous, poorly structured, and extremely bulky”*. By using graphical displays, such challenge with extended text displays is managed to the barest minimum and will lead to accurate conclusion making. After the data display, the study would not be complete until conclusions are drawn, and verifications made.

Fig 3.5a. A model of Key relationships



Source: Authors Own Construct, 2018.

For study objective one (which seeks to examine the internal control environment of Indian firms), the COSO framework is adopted as the guiding framework of analysis. According to **Moeller (2013)**, COSO (Committee of Sponsoring Organizations) internal controls "are only a framework model outlining professional practices for establishing preferred business systems and processes that promote efficient and effective internal controls" (**p.1**). The earliest version of the framework was launched in 1992 following a series of corporate scandals in the United States. The framework, therefore, is intended to provide well-recognized internal control processes and procedures to help a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. During the data analysis,

interviewee responses regarding the internal auditing and control practices of their firms were compared with the requirement of the COSO framework in order to determine their appropriateness and sufficiency. Just as **Moeller (2013)** noticed that internal controls are not only about accounting figures, the COSO framework is deemed appropriate for the study as it transcends beyond controls related to accounting figures to include issues pertaining to information technology, ethics, compliance among others.

3.6 QUANTITATIVE DATA ANALYSIS

3.6.1 STRUCTURAL EQUATION MODELLING

The study employed the structural equation modelling technique in analysing the relationship between the ethical position of auditors and ethical decision making. Although other quantitative techniques (like multiple regression analysis, path analysis, and factor analysis) could have been employed to analyze such relationships, the SEM techniques were deemed more appropriate in the context of this study for the following reasons:

Firstly, empirical evidence (**e.g. Mertens et al., 2017; Hair et. al, 2011**) suggest that structural equation models are preferable where the research model involves many latent variables that can only be measured through their proxies. In this study, three main latent constructs are considered. For example, a latent construct like *idealism* is a moral philosophy that is difficult to directly measure, since it is an innate trait, hence it is measured through a number of statements that may indirectly indicate that a person's moral philosophy is dominated or more shifted toward idealism. The same applies to ethical relativism.

In addition, the structural equation modelling technique was deemed suitable in analyzing objective two since the study seeks to answer questions like "How much variance in the dependent variables

does the model explain?"; "What is the directionality of the independent variables' effects on the dependent variables"?, and "What is the strength and the significance of the effects?". In this study, Objective two basically aims at investigating the relationship that moral philosophies encompassing idealism and relativism has on ethical decision making. As such, this makes SEM application suitable. The hypothesized relations in this study as indicated in chapter two above clearly seeks to answer questions such as these and as such justifies the application of SEM in this study

3.6.2 PARTIAL LEAST SQUARE STRUCTURAL EQUATION

Choosing to use SEM is one thing, and knowing the type of SEM to use is another. Two variants of SEMs are available, these are

- I. Covariance-based SEM and,
- II. PLS-SEM

According to **Hair, Ringle, and Sarstedt (2011, p. 140)**, *"The philosophical distinction between CB-SEM and PLS-SEM is straightforward. If the research objective is theory testing and confirmation, then the appropriate method is CB-SEM, In contrast, if the research objective is prediction and theory development, then the appropriate method is PLS-SEM"*

As study objective two seeks to predict the relationship between ethical position and ethical decision making, the PLS-SEM is considered more suitable. Further justifications for employing this technique can be found below.

Firstly, **Hair et al. (2011)** join **Henseller (2009)** in centring the point that the PLS-SEM Techniques is more appropriate when the study objective under consideration is aimed at explaining or predicting the dependent variable, or theory building other than theory confirmation. As the primary aim of study objective two is to explain the influence of ethical position on ethical decision making, application of the PLS-SEM is more appropriate than the CB-SEM approach.

More importantly, unlike CB-SEM, PLS-SEM makes no assumptions about data distribution since it is a non-parametric method. **Hair et al (2014)** noted that this characteristic of PLS-SEM is very important to social science researchers since data gathered in social science research normally tend to be non-normal. That is, using CB-SEM for non-normal data often leads to lead to underestimated standard errors and inflated goodness-of-fit measures (**Hair et al., 2014**). The PLS-SEM approach overcomes this challenge as its algorithm transforms non-normal data in accordance with the central limit theorem, thus not requiring data to be normally distributed before reaching convergence

In addition, the PLS-SEM technique is suitable for small sample sizes. According to **Hair et al (2014)**, the PLS-SEM technique works more efficiently compared to the CB-SEM when faced with small sample sizes since. This is because PLS-SEM usually achieves higher statistical power and easily reach convergence than CB-SEM, especially when faced with small sample size. In this study, a total of 42 respondents were considered for the quantitative session of the study, hence make the PLS-SEM technique more appropriate.

3.6.3 MEASUREMENT MODEL

3.6.3.1 Measurement Theory (Reflective Measurement)

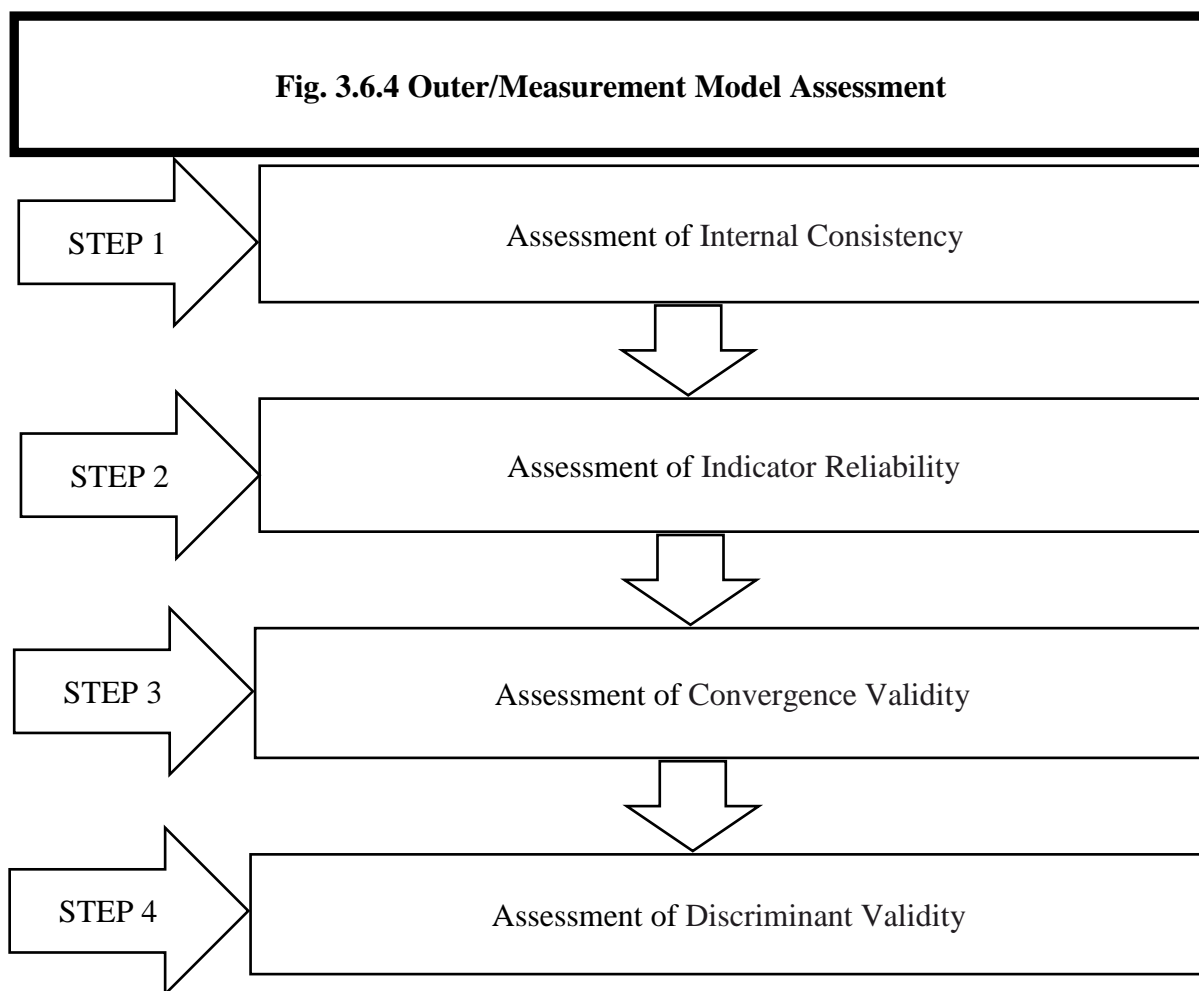
Two main measurement theories available in PLS-SEM are the formative and the reflective measurement theories. Whereas the formative measurement theory assumes that a latent construct derives its nature from the underlying indicators, the reflective measurement theory assumes that measurement indicators/variables rather derive their nature from an underlying latent construct. In this study and for purposes of achieving objective two, the reflective measurement theory was applied for the following reasons

Firstly, it has been recommended that researchers use the reflective measurement theory where a change in a latent construct will necessarily lead to a change in the underlying measurement variables or indicators (**Chin, 1998**). In this study, replacing latent constructs like *idealism*, or *relativism* will necessarily lead to the change in their measurement indicators or variables, hence the application of the reflective measurement is justified.

Secondly, empirical evidence suggests that it is more appropriate to apply the reflective measurement model when indicators of underlying constructs in a structural model are interchangeable (**Jarvis et al., 2003**). Within this study, the indicators/measurement variables derive their nature from the same source (latent variable) and as such they share similarities. This means that such indicators can be interchanged for one another and as such justifies the application of the reflective measurement theory.

3.6.4 OUTER (MEASUREMENT) MODEL RELIABILITY AND VALIDITY

The structural model relies on the measurement model in analyzing the hypothesized relationships and such there is a need to ensure the reliability and validity of the measurement model. Within this study, four main reliability and validity tests would be conducted in order to assess the measurement model. They encompass an assessment of internal consistency, indicator reliability, convergence validity, and discriminant validity (**Campbell & Fiske, 1959; Hair et al., 2014**).



Source: Adapted from Hair *et al.*, 2014

- **Internal Consistency**

Internal consistency is a reliability test that assesses the extent to which several items that purport to measure an underlying construct produces similar results, and are correlated. The Cronbach Alpha and the composite reliability test are used to determine the internal consistency of the measurement. In both cases, test scores equal to, or above 0.70 is required to establish internal consistency (**Nunnally, 1978; Hair *et al.*, 2014**). In cases where an item does not meet the Cronbach requirement but satisfies the composite reliability test, precedence is given to the CR test due to its robustness. For example, **Hair et al. (2014)** note that the Cronbach alpha is sensitive to the number of indicators used in the measurement model and thus limits its ability to accurately determine internal consistency.

- **Indicator reliability**

Indicators reliability assesses the extent to which measurement variables are reliable. An indicator is deemed reliable when its standardized correlation with the associated construct is either equal to or above 0.708. within this study, indicators whose loadings were equal to or greater than 0.40 were maintained based on their content validity (**Hair, et al. 2014**). **Hair et al (2014)** note that in social science research it is usually the case that indicator loadings do not meet the required threshold of 0.708, hence researchers should use the content validity of an indicator (aside from the loadings) to judge whether such indicator should be maintained or eliminated. Also, an indicator with loadings below 0.708 but above 0.40 should only be considered for deletion if their omission will improve composite reliability and the average variance extracted. However, **Hair et al. (2014)** recommend that an indicator whose standardized correlation is below 0.40 should necessarily be eliminated.

- **Convergence Validity**

This test of validity assesses the degree to which test items which purport to measure an underlying construct relates positively. The average variance extracted (AVE) criterion is used in assessing convergence validity (**Fornell & Larcker, 1981**). An AVE is the proportion of variance that a latent construct shares with its associated indicators. As a rule of thumb, a construct is said to have achieved convergent validity if it shares at least 50% of the variance with its associated indicators (i.e. an AVE of at least 0.50). Results of the AVE test are discussed in chapter four.

- **Discriminant Validity**

The discriminant validity test help determines whether measurements or constructs that purport to be unique are indeed unique and not represented by other constructs in the research model. Within the study, the Heterotrait-Monotrait Ratio of Correlations, the Fornnel-Larcker test of discriminant validity, and the Cross Loadings criterion (**Hair *et al.*, 2014**) are employed in assessing discriminant

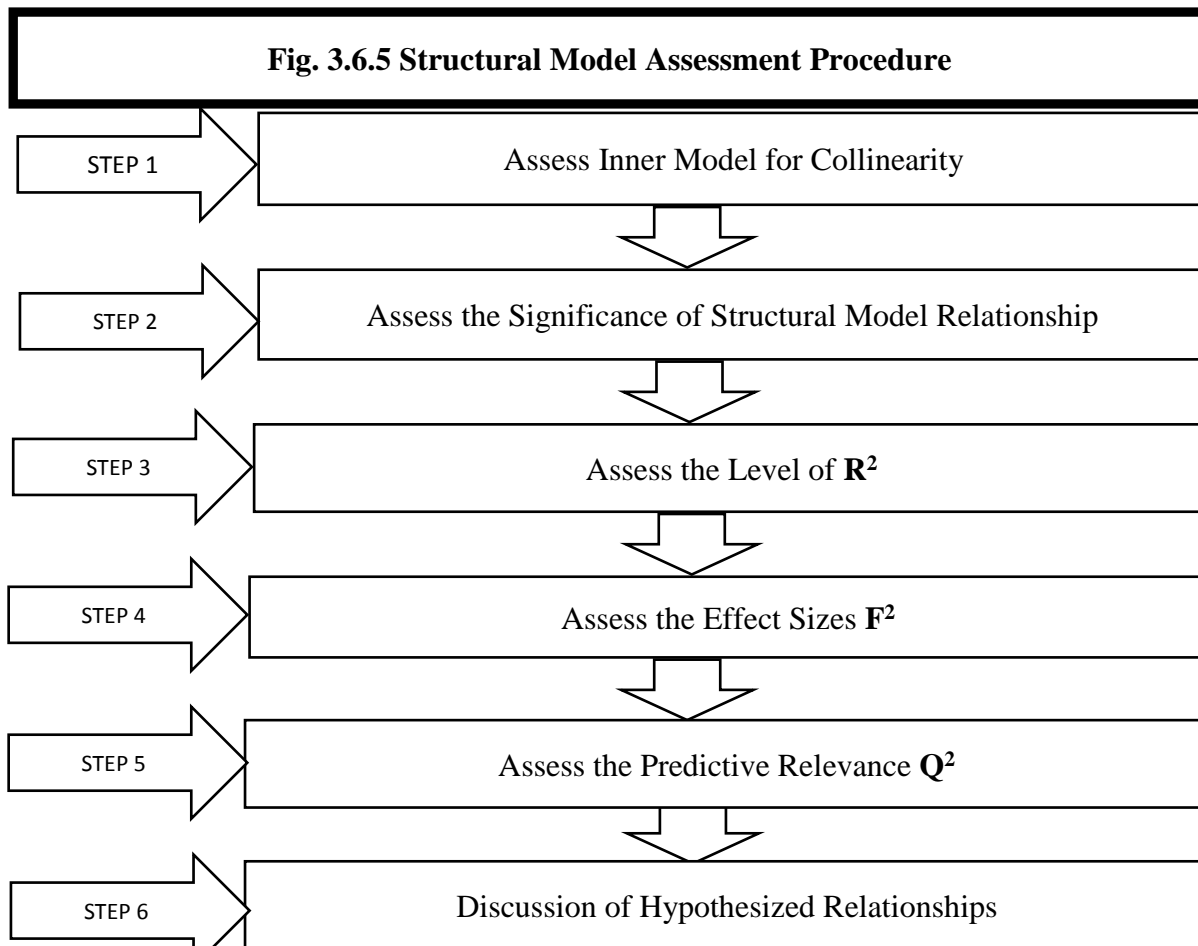
validity. Firstly, the HTMT assesses the ratio of correlation between different constructs in the research model to the extent that to establish discriminant validity, the HTMT ratio should not be close to one. **Gold et al. (2001)** posits that a correlation is regarded as close to one when the correlation value exceeds 0.90. That is, a correlation value above 0.90 signifies lack of discriminate validity. According to **Henseller, Ringle, and Sarstedt (2015)**, the HTMT approach is better able to detect a lack of discriminant validity than the Fornell-Larcker and the cross-loadings criterion.

Secondly, using the Fornell-Larcker criterion to assess discriminant validity requires that a construct shares more variance with its associated variables than with other variables in the research model. That is, *“In statistical terms, the square root of each construct’s Average Variance Extracted (AVE) must be greater than its correlation with other constructs in the research model”* (**Hair, et al. 2014**). Results of the application of the Fornell-Larcker test are presented and discussed in subsequent chapters.

Lastly, using the cross loading criterion to assess discriminant validity at the indicator level requires that the loadings of each indicator on an underlying variable should be greater than all of its cross-loadings with other indicators. Results of cross-loadings of the measurement variables are presented and discussed in subsequent chapters.

INNER/STRUCTURAL MODEL ASSESSMENT

A six-step approach is adopted in assessing the inner/structural model related to study objective two.



Source: Adapted from Hair *et al.*, 2014

- **Collinearity assessment**

In theory, it is expected that the structural model is not biased by issues pertaining to collinearity. However, in practice, this is seldom the case, hence it is the severity of the collinearity among constructs that determines whether it is within the acceptable range. (Hair *et al.*, 2014). The Variance inflation factor (VIF) quantifies the severity of multicollinearity. A VIF value of five (5) and above indicates potential collinearity problem (Hair, Ringle & Sarstedt, 2011).

- **Assessment of the significance of path relationship**

The second stage of assessing the inner model involves assessment of the hypothesized relationships and path significance. Within this study, all path relationships were estimated using a two-tailed test at 5% significance level. Within these parameters, a significant relationship is deemed to have been established when an underlying t-statics value is 1.96 or above.

- **Assessment of Co-efficient of determination (R^2)**

The coefficient of determination tells the proportion of variation in the dependent variable that is explained by the independent variables. According to **Chin (1998), and Moore (2013)**, R^2 values within the ranges of 0-49%, 50-69% and above 70% are regarded as weak, moderate and substantial respectively. These criteria are applied in evaluating the structural model in subsequent chapters.

- **Assessment of effect size (f^2)**

The effect size of a variable tells the relative contribution of the variable in explaining the variation in the dependent variable. The heuristic is that an effect of 0.02, 0.15, and 0.35 are considered as small, moderate, and substantial (**Cohen, 1988**). These results are discussed in chapter four.

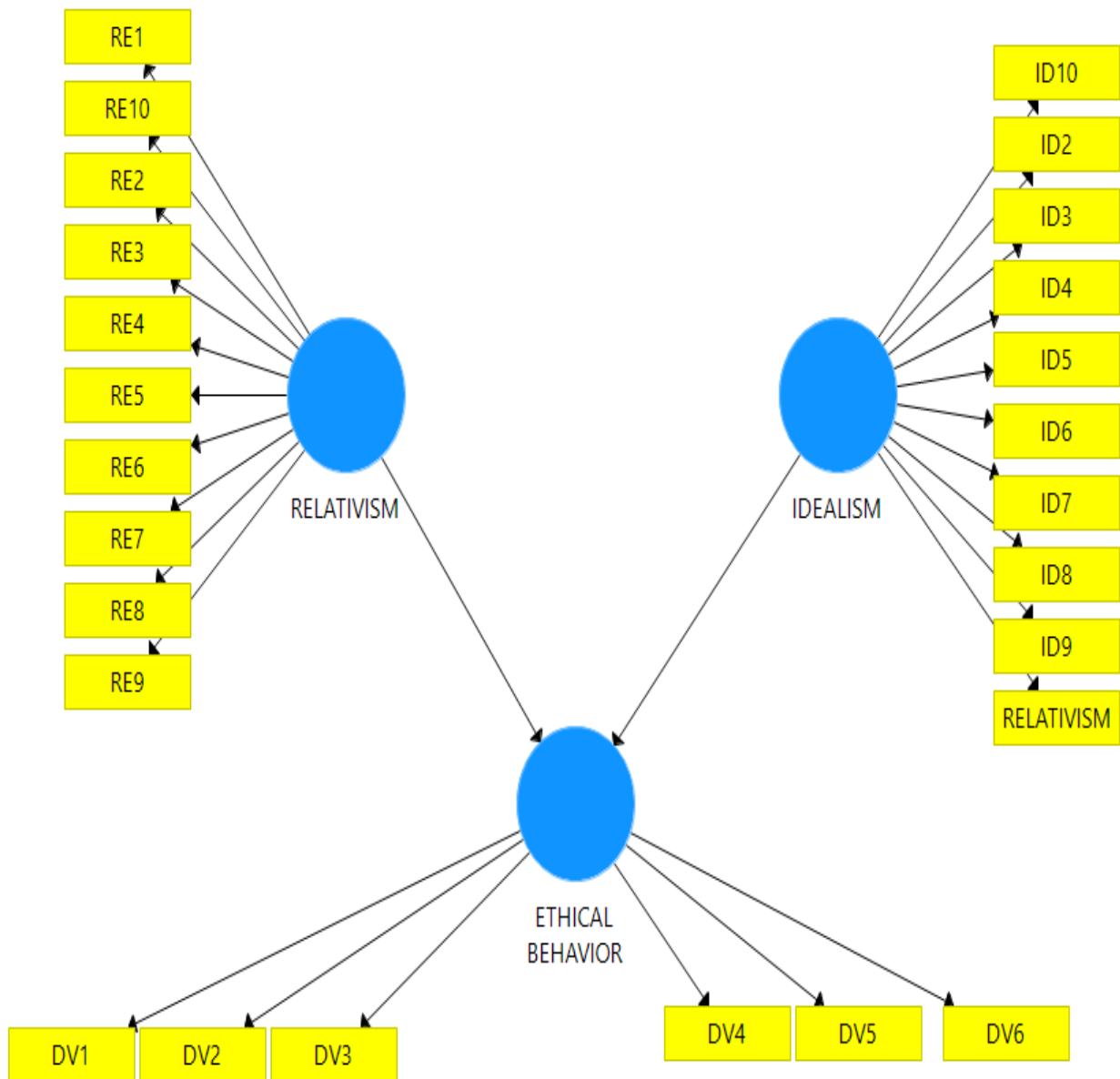
- **Assessment of predictive relevance and discussion of results**

Stone-Geisser's Q^2 is used in assessing the predictive relevance of the structural model. According to **Geisser (1974) and Stone (1974)**, a Q^2 value greater than zero (0) signifies that the structural model has predictive relevance.

See specification model below (see next page)

3.6.6 SPECIFICATION OF RESEARCH MODEL

Fig 3.6.6 Model specification



Source: Authors Own Construct, 2018.

From Fig 3.6.6 above, the exogenous latent variables are idealism and relativism, whereas the endogenous variable is ethical decision making. In all, 20 indicators are proposed to measure the latent

constructs of idealism, and relativism. The measure used for the endogenous variables is based on a case scenario regarding an internal auditor who is faced with an ethical dilemma. Based on the case scenario, the respondents were asked to rate the actions of the internal auditor as to whether they were appropriate. In all, six indicators were used to measure the endogenous variable. Results of the estimated model are discussed in chapter four of the study.

Table 3.6.6 below (**see next page**) depicts a description of the indicators used in the research model

Table 3.6.6 Ethical Idealism

ID 1	A person should make certain that their actions never intentionally harm another, even to a small degree.
ID 2	Risks to another should never be tolerated, irrespective of how small the risks might be.
ID 3	The existence of potential harm to others is always wrong, irrespective of the benefits to be gained.
ID 4	One should never psychologically or physically harm another person.
ID 5	One should not perform an action which might in any way threaten the dignity and welfare of another individual
ID 6	If an action could harm an innocent other, then it should not be done.
ID 7	Deciding whether to perform an act by balancing the positive consequences of the action against the negative consequences of the act is immoral.
ID 8	The dignity and welfare of people should be the most important concern in any society.
ID 9	It is never necessary to sacrifice the welfare of others.
ID 10	Moral actions are those which closely match ideas of the most "perfect" action.

Ethical Relativism

RE 1	There are no ethical principles that are so important that they should be a part of any code of ethics.
RE 2	What is ethical, varies from one situation and society to another.
RE 3	Moral standards should be seen as being individualistic; what one person considers to be moral may be judged to be immoral by another person.
RE 4	Different types of moralities cannot be compared to "rightness".

- RE 5 Questions of what is ethical for everyone can never be resolved since what is moral or immoral is up to the individual.
- RE 6 Moral standards are simply personal rules which indicate how a person should behave and are not to be applied in making judgements of others.
- RE 7 Ethical consideration in interpersonal relations is so complex that individuals should be allowed to formulate their own individual codes.
- RE 8 Rigidly codifying an ethical position which prevents certain types of actions could stand in the way of better human relations and adjustment.
- RE 9 No rule concerning lying can be formulated; whether a lie is permissible or not permissible totally depends on the situation.
- RE 10 Whether a lie is judged to be moral or immoral depends upon the circumstances surrounding the action.

Source: Forsyth (1988)

3.7 CHAPTER SUMMARY

The study adopted pragmatist approach. Based on the pragmatic view, the study employed both quantitative and qualitative approach to analysing data. The study albeit mainly builds on the qualitative design and some quantitative design, aspects also informs the study. Qualitative interviews are used in this study to investigate the control environment of the firms under study. Accordingly, the study also adopts the qualitative interviews in gathering data pertaining to the relationship among national culture, organizational culture, and ethical behaviour of internal auditors. In addition, the structural equation modelling technique is regarded as a suitable approach in analyzing study objective two, which seeks to examine the relationship between the internal auditor's ethical position, and their ethical decision making. Regarding ethical issues, data from research participants will not be passed on to third parties, and respondent responses are kept under lock and key and are destroyed after being analyzed.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 INTRODUCTION

This chapter presents the empirical findings, presentation and discussion of the results. The organization of the chapter is informed by the research objectives, and as such, the first section of this chapter covers the internal auditing practices of Indian firms. The second section takes a look at the relationship between ethical position and internal auditors' decision making. The third section considers how an organization's culture can influence ethical decision making. The last section of this chapter, which answers objective 4 of the study, will examine how job versatility influences ethical decision making.

4.1 ASSESSING THE CONTROL ENVIRONMENT OF INDIAN FIRMS

The COSO framework provides that to ensure organizations effective and efficient functioning, there is a need for appropriate internal auditing practices and activities to be instituted. Moreover, the framework provides that internal auditing and controls practices should not be considered as a standalone or just one solitary activity, but as a series of activities in a system-wide manner. The COSO framework provides five major components of internal controls namely risk assessment, control environment, control activities, information and communication, and monitoring. Fig 4.1 below is a depiction of the components of the COSO framework.

Fig. 4.1 Components of the COSO framework.

Control Environment
<ol style="list-style-type: none"> 1. Commitment to integrity and ethical values. 2. Independent board of directors' oversight. 3. Structures, reporting lines, authorities, and responsibilities. 4. Attract, develop, and retain competent people. 5. People held accountable for internal control.
Risk Assessment
<ol style="list-style-type: none"> 6. Clear objectives specified. 7. Risks identified to achievement of objectives. 8. Potential for fraud considered. 9. Significant changes identified and assessed.
Control Activities
<ol style="list-style-type: none"> 10. Control activities selected and developed. 11. General IT controls selected and developed. 12. Controls developed through policies and procedures.
Information and Communication
<ol style="list-style-type: none"> 13. Quality information obtained, generated, and used. 14. Internal control information internally communicated. 15. Internal information externally communicated.
Control Activities
<ol style="list-style-type: none"> 16. Ongoing and/or separate evaluations conducted. 17. Internal control deficiencies evaluated and communicated.

Source: COSO, 2013

4.1.1 THE CONTROL ENVIRONMENT OF INDIAN BUSINESSES

“The control environment is the organizational structure and culture created by management and employees to sustain organizational support for effective internal control. When designing, evaluating, or modifying the organizational structure, management must demonstrate its commitment to competence in the workplace (Tarantino, 2006, p. 59)”. The COSO framework asserts that management's attitude towards internal controls reflects their philosophy in that regard. The extent to which management demonstrates a commitment to integrity and ethical values,

accountability, human resource management, independent board structure among others, is an indication of their commitment to internal controls.

4.1.1.1 Commitment to ethical values and Integrity, and human resources

The study gathered that in most Indian firms, ethics are usually incorporated as part of the leadership agenda. In most cases, ethics are formalized into corporate codes in order to enhance its enforcement. The only worrying finding suggested that in most cases, such formalized and codified ethical codes may be complied with by managers, employees and other business affiliates with an ulterior motive. Secondly, the results revealed that firms do train their staff to behave ethically regardless of their level in the organizational ladder. In addition, the interviewees indicated that in their respective firms, the Human resource department initiates a rigorous process in attracting, developing and maintaining competent staff.

For example, when interviewees were questioned as to whether ethics are part of the leadership agenda of their respective companies, respondents “A”, “B”, and “I” responded as follows:

Respondent A: *“YES, ethics are part of the leadership agenda. The formal code of ethics exists, it is widely used and distributed. It is reinforced in other formal systems such as reward and decision-making systems. Even orientation programs are available for directing the managers, they are trained in ethical decision making.”*

From the response of interviewee "A", one could observe that in the respondent's company, management's philosophy towards internal controls is positive. This assertion is justified by the

respondent's response that ethics is incorporated and formalized in the company's codes. In terms of human resources, it can as well be observed that managers and employees who are new recruits are also trained and oriented in matters bordering on ethical decision making, and employees are trained and thought to behave ethically. Moreover, going to the extent of tying ethical behaviour to reward and decision making systems demonstrate a positive management philosophy towards internal controls. In addition, management's decision to encourage whistleblowing is an indication of management's commitment towards building and maintaining their integrity. This is because although a whistle may be blown on the managers themselves, they did not hesitate to incorporate policies that support whistleblowing.

This finding corroborates with earlier findings by ...

Respondent B: *"In my firm, ethics are distributed in a book form but it is written in our language form and we are also told in an oral form. Anyone who breaks the company rules is disciplined. People are promoted and also incentives are given to them for acting ethically. Our business partners all demonstrate ethical behaviour, but it is not ethics since everybody wants to win a contract. New employees are trained and taught about the code of ethics in the company and the company has a policy and internal rules it follows, so the managers are given orientation programs on it. YES, they are trained on how to make the ethical decision."*

Although the response of respondent B agrees with that of A, there is one revealing finding from the response of respondent B. Respondent B indicated that although firms may have put in place structures to ensure an effective control environment, not all people complying with such structures do so with the intention to enhance internal controls. This is because some people may

demonstrate a positive attitude towards internal controls just to gain some personal favours or benefits. Respondent B indicated that some business affiliates shows a positive attitude towards internal controls just to win contracts. This finding, therefore, raises the question as to whether it is appropriate to attach rewards and incentives to ethical behaviour, since the rewards may induce people to pretend to be ethical, but innately, are not. It also raises questions as to whether ethical positions of individuals do affect their ethical behaviour in practice.

Respondent D: *"Leadership agenda is to increase knowledge about the ethics of the company and learn them. YES, formal codes of ethics are defined in our organization, ethics handbooks are distributed to each employee and whole employees used the code every day. It is mandatory in order for formal systems such as reward and decision-making systems. Whistleblowing channels do not exist, such type of nature is not in our organization. Formal channels are available for people to make their concerns known confidentially. The HR department is responsible to organize training on the topic of ethics in orientation programs. Managers are trained in how to handle the situation and make the ethical decision."*

Whereas the response by **respondent D** also confirms the existence of a positive control environment, it points out that not all firms encourage whistleblowing in the Indian context. Instead of whistleblowing, it was revealed that some firms would rather have formal internal channels for addressing issues that need exposure, and such channels usually tend to be confidential. Whereas this might be an attempt to protect a firm's reputation from bad publicity, this might also suppress information that should be of interest to the public, hence culminating in corporate mismanagement, fraud, and scandals. In line with interviewee D, respondent "I"

indicated that *“whistleblowing is forbidden in our organization, and anyone who tends to challenge management actions may be forced to resign, suspended, and or withdrawn”*. Respondent, I acknowledged that although there exist formalized ethical procedures regarding internal controls, they remain as mere “paper tigers” that exist for formality sake. These findings throw more light on the argument by **Graham (2015)**, who stated that *“... Management may tell you a great deal about their integrity and ethical values. They may even commit their words to a written document. Responses to inquiries and written policies are good, but the COSO report makes it clear that the effectiveness of an entity’s control environment depends primarily on management’s **actions and how these actions** affect the entity on a day-to-day basis”*. Thus, Graham is of the view that formal ethical codes are not enough to ensure a good control environment, management's actions must reflect their commitment to these ethical standards if the objectives of internal controls must be achieved. This situation might explain why corporate scandals occur amidst well formalized written codes of ethical conduct. Thus, the codes are just formal, but not practised.

4.1.1.2 Governance Board, reporting lines and accountability

- **Board independence and competence**

The study revealed that there is a balance of executive and non-executive directors on the board of the firms interviewed. Whereas appointment to the board of directors appears to be formal and rigorous, findings from firms that originated from a family background appear to be mixed. The study found evidence to suggest that family businesses in India sometimes do operate in a family owned culture and as such, it is not uncommon to find the board of directors being too trustful of

senior managers, hence compromising their oversight responsibility and scepticism. This finding corroborates with earlier findings by **Suresh (2012)** who indicated that

"Many Indian companies in the private sector operate in a family owned culture. There has been the implicit assumption amongst boards that senior managers know their job and have the best interests of companies they manage at heart. This has sometimes resulted in boards refraining from asking the difficult questions to senior managers when the company has been performing well or until there is a crisis" (p.4).

The interview response of respondents C, B, and E throws more light on the independence of the board

Respondent C *"in our firm always more than half of our directors are not running the day-to-day business. They are NEDs... as for their ability to control management, I wish I would not be asked that question... but you know that even though NEDs are appointed by shareholders, they work more frequently with management, as for the rest the least said the better..."*

In respect of the response given by respondent C, it can be inferred that whereas the respondent believed that there exists a balance between executive and non-executive board member representation, the effectiveness of such board members was questionable. The reason why the COSO framework recommends an independent NED is mainly to enhance the effectiveness of the board in discharging their oversight responsibility. Nonetheless, evidence gathered from the study suggest that boards of firms that are family businesses may not be effective, although they demonstrate a balance between NEDs and executive directors. The explanations obtained from the study further suggests that most often, the NEDs who are supposed to be independent tend to

compromise their oversight responsibility on the grounds of maintaining the family relationship, and family brand reputation. This is because being strict on a manager who happens to be a family member may be regarded as an unfriendly act, and the directors may also hide sensitive information that should benefit the public in order to protect corporate reputation.

Respondent B *"more than half of the board members are long distance family members... yes, they were appointed formally and do not run the business as manager's do.... They are not too strict on the managers, it is a family business brand, it is the reputation of the whole family, so the board trust the managers will do a good job. Sometimes you find something inappropriate but you can report, especially when you are a non-family member. because bondage by blood is thicker than bondage by profession... sometimes they would not make public certain issues that the public should know if they think it will damage the family's reputation... it only remains an internal rumour..."*

Whereas the response of respondent B falls squarely within the response given by interviewee C, it appears to add some insight into the scenario under consideration. The respondent indicated that in a family setting, it is relatively difficult to report a family member who misbehaves to another family executive, hence one stands the risk of becoming a third party. This situation can hamper the ability of the internal control systems in preventing, detecting and managing risks associated with unethical behaviour.

4.1.1.3 Structure and Reporting lines, Accountability

According to the COSO framework, one key component of the control environment is the reporting lines of the company. The framework stresses the need to clearly lay out the reporting lines, and to also ensure accountability and transparency at all levels. When this is complied with, everyone becomes accountable for his or her actions and inactions, and the clarity in reporting lines enhances the transparency of management actions.

Evidence gathered from the study suggest that reporting lines are clearly laid out and communicated to employees and managers of the firms studied. Moreover, the study gathered that all workers, regardless of level in the organizational hierarchy are held responsible for their behaviour. This to some extent are signs of accountability and transparency.

For example, according to Respondent A, *during the orientation, we informed of the reporting lines. As for accountability, I can say that YES, all workers are responsible for the consequences of their behaviour. YES, we question authority if they ask us to do something which is considered to be wrongful. But we ask the question in the right way so that it will be considered. YES, any misconduct is disciplined swiftly, it does not matter the level of organization.*

The response provided by the respondent suggests that in His firm, accountability does not only flow from top management to subordinates, but subordinates can also demand accountability from superiors. Subordinates having the ability to question superiors is an indication of the organization's commitment to transparency and accountability. Besides, having clearer reporting lines as indicated by the respondent suggests that the likelihood of conflicting roles in the reporting lines can be kept at the minimum.

Moreover, according to *Respondent C* “... the board assesses the executive management on periodic basis to find out how they are running the affairs of the business..., but we the workers don't have access to the report of the board, hence the workers cannot tell if the boards assessment of management was thorough, and we can tell if answers provided by management were true....”

The response by respondent C suggests that a well-functioning board of governance can enhance accountability and transparency from management by assessing their (management) performance and actions. Notwithstanding, the respondent also indicated that whereas board exacts accountability from management, employees are not provided with reports concerning the boards' assessment of management. This situation, as revealed by data gathered may lead to executive managers misleading the board during the assessment. The respondent also indicated that not letting the employees know the outcome of the boards' assessment of managers impedes on effective whistleblowing since employees cannot tell whether management has been honest during the assessment process, let alone blowing a whistle on false information, and potential cases of malfeasance.

4.2 INDIAN CULTURE AND ETHICS CULTURE IN ORGANIZATIONS

Pateli (2002) notes that national culture can have an influence on organizational culture as far as ethical behaviour is concerned. Empirical evidence suggests that just as Confucianism influences the Chinese society, the cultural beliefs associated with Hinduism to a greater extent influences organizational culture regarding ethical behaviour and decision making. For example, **Sinha and Sinha (1990), and Kangayappan (1992)** find that the presence of the concept of social stratification in Hinduism culture influences organizational culture in India, as far as ethical behaviour is concerned. “Social stratification is the arrangement of the members of a society into

different categories of class, caste or a hierarchy based on factors like income, wealth, status, occupation, or even ethnicity”. In the Indian context, **Kangayappan (1992, p. 42) and Phegade (1997, p. 78)** argues that stratification along caste lines is a strong feature of contemporary organizational behaviour in India.

Evidence gathered from the research suggest that social stratification among firms in India can culminate in unethical behaviour. For example, the interviewees indicated that employees who see themselves as belonging to a certain class may come together to defend an employee belonging to their class (caste) from being sanctioned, albeit he might have acted unethically. Moreover, the study uncovered that even employers may desire to recruit members within their caste for key positions and by so doing create a strong bond and loyalty. It was also gathered that such bond is characterized by the need to maintain interpersonal harmony as well as a sense of social hierarchy, even if it means to defend caste members who have acted unethically.

According to respondent G “... *I am a chartered accountant, my superior is also, and he is the one who recommended my appointment. The chief accountant is regarded as the most superior in my firm's accounting function... tell me since you are also human like me, how would you feel if this person (the superior) loses His job because His own recruit reported Him for exhibiting unethical behaviour..*”

Respondent Cs response tends to agree with earlier arguments by **Patelli (2002)** who indicated that some aspects of the Hinduism culture mimic the Confucianism concept of filial piety. Filial piety entails a strong loyalty and deference to one's parents. In the organizational context, it refers to subordinates at the lower level of organizational structure demonstrating loyalty and absolute respect for superiors. Empirical evidence suggests that the extent to which “Indians are disposed

to structure all relationships in a very steep hierarchical order is phenomenal” (Sinha & Sinha, 1990, p. 707). In 1997, Palkhivala also argued that “Indian social systems are steeply hierarchical and Indians are highly status conscious” (p. 13).

Within organizational context, the study found that the caste system creates a kind of superior-subordinate relationships which often culminate in a situation whereby superiors expect absolute loyalty and submission from their subordinates. The situation is heightened by the fact that subordinates who yield to power always win the favourable position of their superiors whereas those who do not yield to power are discriminated against and may even be punished (Sinha & Sinha, 1990, p. 708). The reward/punishment attached to loyalty often culminates in situations where subordinates cannot question the acts of superiors. Such relationships are rooted in *Sneh* (affection) demonstrated by the superior towards the subordinate, and *Shraddha* (defence) for superior demonstrated by subordinates, implying that the national culture of Hinduism imported into the organizational context culminates in what Pateli (2002) refers to as *affection reciprocity*, "wherein the avoidance of conflict and maintenance of hierarchical equilibrium are the cardinal rules" (Triandis, 1994, pp. 4–8). This also suggests that subordinates and superiors have a *wrong* moral obligation to protect each other, even when their actions are unethical. This scenario might explain why some corporate scandals can be hidden for a longer period before being exposed.

According to respondent F “... *Indian culture is not like America’s and some European countries who are selfish and individual, in our culture, we believe in community and society. What is good and right is mainly based on the perceptions of the society, and what the community perceives as right... sometimes your own community would even prefer that you obey community moral rules*

at the expense of legal provisions. For example, if an employee steals from the company, His relatives will come here and plead based on moral and religious grounds for out of court settlements, even if it is against company codes... they will talk about the need to maintain the brotherly relationship... this is worst if it is a family business”

According to **Marriott (1976, p. 111)** cited in **Patteli (2002, P.)**, *“The difference between the Hindu and the western concept of self-provides insight into how individuals in these societies are likely to differ in their professional judgments. In western social and psychological theories, individuals are seen as separate, indivisible bounded units”*. By contrast, anthropologists such as **Bharati (1985, p. 196)** postulates that the “Indian self is not an individual, but a ‘dividual’ self”. The response provided by respondent F tends to find grounds in the argument of **Patelli (2002)**. **Patelli (2002)** noted that *“the concept of an individual as a separate person with the choice to decide what is ethical and unethical is generally absent among Indians. Rather, an individual is part of a collective which decides the rules of acceptable behaviour”*. Thus, within an organization, a person's behaviour might contradict ethical codes but may still be deemed as appropriate if the society approves of it. That is, individuals are more likely to act appropriately within societal bounds in order to be accepted than to do what they themselves consider as right or wrong. This situation often culminates in a phenomenon whereby "judgments related to what is ethical or unethical are dependent on the people and the context concerned, with issues of family, friendship, caste reputation and preservation of harmony being of greater importance".

4.3 JOB VERSATILITY AND ETHICAL BEHAVIOUR.

The study sought to find out whether a person's skills, qualification and industry experience have any influence on ethical behaviour of internal auditors.

Respondent B gave an extensive answer regarding whether job versatility had any relationship with an ethical position. His response was as follows

Respondent B: *sometimes you are not afraid of doing the right even if others do not agree. This is because when you know you have the skills and industry experience you become confident of getting a new job even if you are sacked for doing what is right.*

The response given by respondent B suggests that where internal auditors have the requisite skill that makes it easy to switch among different workplaces, they are more likely to be straightforward in executing their auditing task without fear of job insecurity.

Another respondent, respondent E alluded to professional qualification is a source of job security.

Respondent E: *“it might be easy to act objectively as an internal auditor when you belong to a professional accountancy body. Number one simply because the professional body can protect you for doing the right thing even if management disagrees, and also with your professional qualification it is relatively easier to find another auditing task”*

All the other respondents responded in a similar manner just as respondent B and E as far as job versatility and ethical behaviour are concerned.

The finding on job versatility corroborates with earlier findings by **Sankaran and Bui (2003)** who indicated that an individual's expertise in a particular field can influence his or her ethical judgment.

4.4 ETHICAL POSITION AND ETHICAL BEHAVIOUR

Discussion of the quantitative results in regard to the relationship between ethical behaviour and ethical position is presented below (**see next page**).

Table 4.4 Descriptive statistics

	IDEALISM	MEAN	STD. DEVIATION
ID 1	A person should make certain that their actions never intentionally harm another, even to a small degree”.	.1667	.42994
ID 2	Risks to another should never be tolerated, irrespective of how small the risks might be”.	.0238	.78050
ID 3	The existence of potential harm to others is always wrong, irrespective of the benefits to be gained”.	.1429	.95180
ID 4	One should never psychologically or physically harm another person”.	.7143	.45723
ID 5	One should not perform an action which might in any way threaten the dignity and welfare of another individual”.	.5238	.50549
ID 6	If an action could harm an innocent other, then it should not be done”.	.3684	.81940
ID 7	Deciding whether to perform an act by balancing the positive consequences of the action against the negative consequences of the act is immoral”.	.4286	.80070
ID 8	The dignity and welfare of people should be the most important concern in any society”.	.2143	.60630
ID 9	It is never necessary to sacrifice the welfare of others”.	.4048	.91223
ID 10	Moral actions are those which closely match ideas of the most perfect action”.	.5238	.10956
ETHICAL RELATIVISM			
RE 1	There are no ethical principles that are so important that they should be a part of any code of ethics”.	.5952	.79815
RE 2	What is ethical, varies from one situation and society to another”.	.0238	.78050
RE 3	Moral standards should be seen as being individualistic; what one person considers to be moral may be judged to be immoral by another person”.	.9048	.72615
RE 4	Different types of moralities cannot be compared to rightness”.	.1190	.83235

RE 5	Questions of what is ethical for everyone can never be resolved since what is moral or immoral is up to the individual”.	.7381	.01356
RE 6	Moral standards are simply personal rules which indicate how a person should behave and are not to be applied in making judgements of others”.	.9286	.83791
RE 7	Ethical consideration in interpersonal relations is so complex that individuals should be allowed to formulate their own individual codes”.	.4286	.19231
RE 8	Rigidly codifying an ethical position which prevents certain types of actions could stand in the way of better human relations and adjustment”.	.6842	.80891
RE 9	No rule concerning lying can be formulated; whether a lie is permissible or not permissible totally depends on the situation”.	.1905	.59420
RE 10	Whether a lie is judged to be moral or immoral depends upon the circumstances surrounding the action”.	.0952	.03145

Source: Field data, 2018.

Table 4.4 above presents descriptive statistics of the indicators used in measuring the exogenous variables in the research model. It is noteworthy that the questionnaire on ethical position was a 5 point Likert scale questionnaire whereby the respondents had to rank their approval of various statements (from strongly disagree to strongly agree). Considering that the Likert scale questionnaire achieved the properties of symmetry and equidistance, it can be assumed that Likert scale point 3 is an average number, whereas all points above 3 are above average, and those below 3 are below average scores (**Hair et al., 2014**). It appears from the table... that most responses given by the respondents were above the average score, however, matters pertaining to ethical position cannot be subjected to such a simplistic interpretation. The PLS-SEM techniques results regarding objective two are discussed below.

Table 4.5 Measurement Model Evaluation

	Cronbach's	Composite	Average Variance Extracted
	Alpha	Reliability	
Relativism	0.835	0.858	0.557
Idealism	0.894	0.909	0.667
Ethical Judgement	0.773	0.866	0.632

Source: Field data, 2018.

4.5.1 Assessment of Internal Consistency

The Cronbach alpha criterion and the composite reliability test are used in assessing whether several indicators that measure a particular underlying construct produce similar results. As a rule of thumb, an item whose Cronbach score, and or CR score is equal to or above 0.70 is deemed to have attained internal consistency.

From table 4.5 above, it can be observed that all the three constructs in the measurement model have attained internal consistency within the acceptable range. For example, in terms of Cronbach's alpha, it can be observed from table 4.5 that latent constructs encompassing idealism, relativism, and ethical judgement scored a Cronbach score of 0.835, 0.894, and 0.773 respectively. Clearly, this demonstrates that constructs in the measurement model satisfied the Cronbach criterion for internal consistency.

Secondly, it can also be observed that all the constructs satisfied the composite reliability test of internal consistency. This is because all the constructs, including idealism, relativism, and ethical judgement recorded composite reliability scores above 0.70. Specifically, CR scores ranging 0.858, 0.909, and 0.866 were recorded for constructs encompassing idealism, relativism and ethical judgement. This once again proves that the measurement model has achieved internal consistency within the acceptable range (**Hair et al., 2014**).

4.5.2 Assessment of Indicator Reliability

Hair et al (2014) provide a guideline to the effect that an indicator that loads 0.708 and above can be relied on and used for statistical analysis. However, as discussed in chapter three, an indicator may still be maintained in the measurement model based on content validity, even if they do not meet the 0.708 thresholds.

Table 4.5.2 Assessment of indicators

Indicator Reliability	
Indicator	Loadings
ID 10	0.853
ID 2	0.72
ID 6	0.737
ID 7	0.883
ID 8	0.875
RE10	0.846
RE5	0.709
RE6	0.671
RE7	0.934
RE8	0.497
DV1	0.445
DV2	0.963
DV4	0.843
DV5	0.883

Source: Field Data, 2018.

From table 4.5.2 above, it can be observed that apart from indicator item RE 6, RE 8 and DV 1, all the other measurement items demonstrated reliability. Indicator items RE6, RE8, and DV1 loaded at 0.671, 0.497, and 0.445 respectively, thus not meeting the required threshold of 0.708. However, these indicators were maintained on grounds of content validity. Thus, according to

Hair et al (2014), an indicator may still be maintained even if they don't meet the loading required but contains content that is relevant to the study.

It also noteworthy that some of the indicators (i.e. ID 1, ID 3, ID 4, ID 5, ID9, RE 1, RE 2, RE 3, RE 4, RE 9, DV 3, and DV 6) loaded below 0.40. According to **Hair et al (2014)**, all indicators that load below 0.40 should necessarily be eliminated, and such a recommendation has been applied in the study. As such, out of 26 indicators initially proposed in the research model (as far as objective two is concerned), 14 met validity assumptions and were retained, whereas the others were discarded in order to ensure the reliability of the findings.

4.5.3 Assessment of Convergent Validity

Convergent validity assesses whether a latent construct shares many variations with its underlying indicators. It indicates the proportion of variance in measurement items that is explained by the latent construct. As a heuristic, a construct should explain at least 50% (half) of variation in its associated indicators in order to establish convergent validity. Thus, to establish convergent validity, a construct must record an average variance extracted value of 0.50 or more (**Fornell & Larker, 1981**).

From Table 4.5 it can be observed that all the latent constructs explained more than half of variations in their underlying measurement items since their AVE scores were more than 0.50. Specifically, it is observed from the table 4.5 that latent constructs encompassing idealism, relativism, ethical judgement had AVEs of 0.557, 0.667, and 0.632. This clearly shows that the latent constructs explain more than half (50%) of variation in their underlying indicators, hence demonstrating convergent validity.

4.5.4 Assessment of Discriminant Validity

Within this study, three main tests are carried out in order to assess discriminant validity. They are:

1. The Heterotrait-Monotrait ratio of correlation.
 2. The Fornell-Larcker criterion
 3. The Indicator Cross Loadings
- Heterotrait-Monotrait Ratio of Correlations (HTMT)

As a rule of thumb, an HTMT value lesser than 0.90 demonstrates that discriminant validity has been attained. However, when the ratio of correlation between two different constructs is above 0.90, it implies a lack of discriminant validity (Hair et al. 2014)

Table 4.5.4a HTMT matrix

	Relativism	Ethical Judgement	Idealism
Relativism			
Ethical Judgement	0.425		
Idealism	0.743	0.305	

Source: Field Data, 2018.

From the HTMT matrix above, it can be observed that none of the Heterotrait-Monotrait ratios of correlation is closer to one (i.e. all the correlations among constructs are equal to or lesser than 0.90). For example, it is observed that HTMT ratios of 0.425, 0.743, and 0.305 were recorded

between latent constructs ethical judgement and relativism; idealism and relativism; and idealism and ethical judgement. This demonstrates the measurement model has attained discriminant validity.

- The Fornell-Larcker criterion to discriminant validity

The funnel Larker criterion uses the square root of average variance extracted to determine whether discriminant validity has been obtained. To establish discriminant validity, the criterion requires that the diagonal elements of the Fornell- larker matrix should be larger than the off-diagonal elements in the corresponding roles and columns.

Table 4.5.4b Fornell-Larcker Criterion

	Relativism	Ethical judgement	Idealism
Relativism	0.747		
Ethical Judgement	-0.545	0.795	
Idealism	0.241	0.397	0.817

Source: Field Data, 2018.

From table 4.5.4b it can be observed that the diagonal elements between latent constructs are higher than the off-diagonal elements. For example, between the row and column representing relativism, it can be observed that the correlation of 0.747 was higher than any off-diagonal element. Similarly, ethical judgement vs. ethical judgement recorded a diagonal correlation of 0.795, this is higher than any off-diagonal element as far as ethical judgement is concerned. Moreover, it is observed that the diagonal correlation between idealism on the horizontal line and that of the vertical line was higher than any off-diagonal correlation. This is proof of the fact the research model has attained discriminant validity.

- The cross-loadings criterion

The cross-loadings criteria to discriminant validity require that the loadings of an indicator on an associated construct be higher than any of its cross-loadings with other indicators.

Table 4.5.4c below depicts the cross loading matrix.

Table 4.5.4c Cross Loadings

	Relativism	ethical judg...	idealism
DV1	-0.373	0.445	0.183
DV2	-0.558	0.963	0.388
DV4	-0.373	0.843	0.336
DV5	-0.391	0.833	0.315
ID10	-0.163	0.487	0.853
ID2	0.464	-0.002	0.720
ID6	0.428	0.214	0.737
ID7	0.540	0.245	0.883
ID8	0.477	0.173	0.875
RE10	0.846	-0.416	0.336
RE5	0.709	-0.126	0.328
RE6	0.671	-0.042	0.557
RE7	0.934	-0.634	-0.071
RE8	0.497	-0.201	0.596

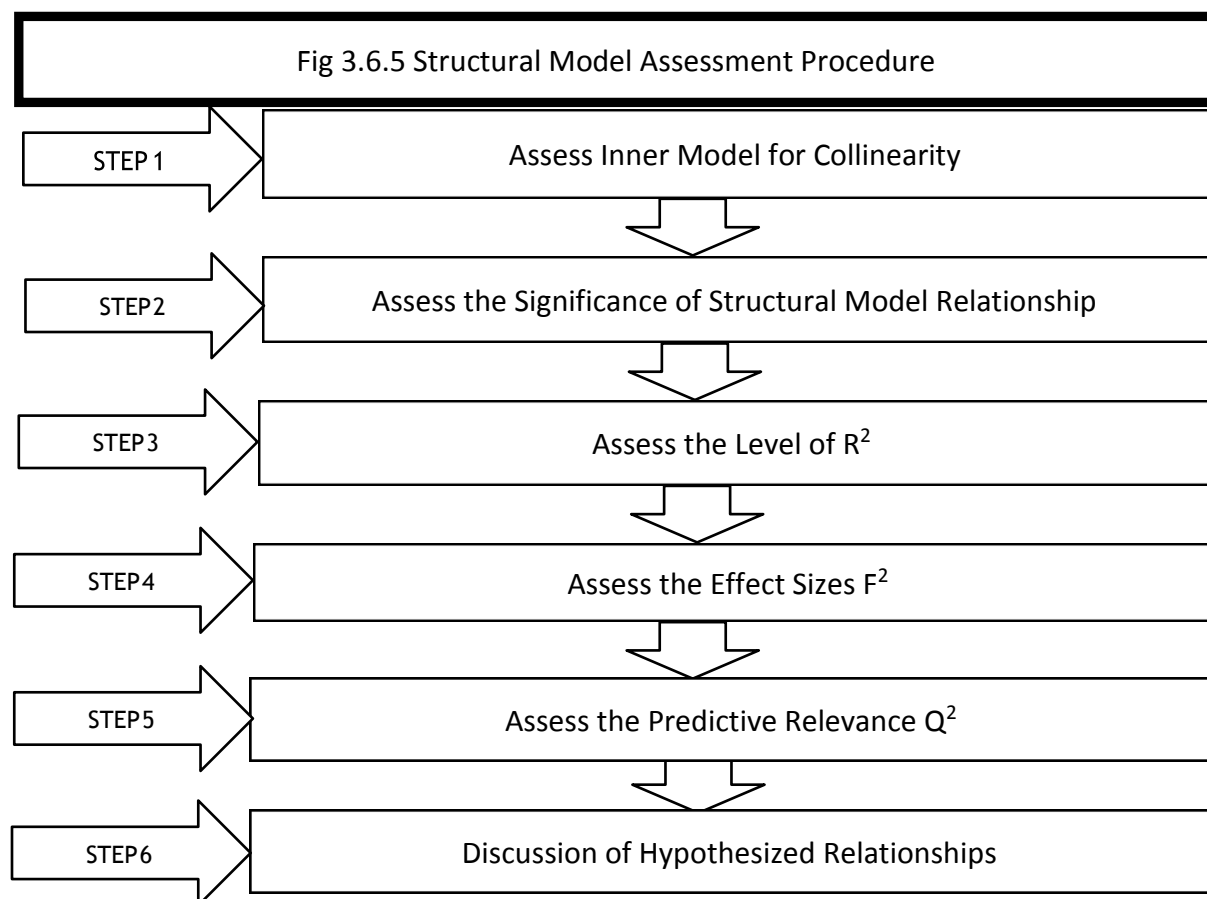
Source: Field Data, 2018.

From table 4.5.4c above, it can be deduced that the measurement model has attained discriminant validity since all the indicators loaded the highest on their associated constructs than their cross-loadings with other indicators in the research model. For example, I can have observed that an indicator like DV1 loaded at 0.445 on its underlying latent construct (ethical judgment). Glancing through the matrix will indicate that the indicator loading of DV1 on its associated latent construct

was higher than any of its cross-loadings with other constructs in the research model. Again, an indicator like ID10 loaded the highest (0.853) on its underlying latent construct (idealism), than any of its cross-loadings with other indicators. In addition, an indicator like RE10 also had its maximum loading (i.e. 0.846) on its underlying latent construct (relativism) that its cross-loadings with other indicators. This clearly is an indication of the fact that discriminant validity has been attained in the measurement model.

4.6 ASSESSMENT OF STRUCTURAL MODEL

Fig 3.6.5 Structural Model Assessment



Source: Adapted from Hair *et al.* (2014)

After satisfying validity and reliability assumptions within the acceptable range, the study proceeds with an assessment of the inner model. This entails an assessment of collinearity, assessment of path significance, assessment of the coefficient of determination, assessment of effect sizes, assessment of the predictive relevance, and discussion of hypothesized relationships. These diagnostics are discussed below

- Assessment of collinearity

The variance inflation factors are used in quantifying the severity of collinearity. As a rule of thumb, a VIF value of 5 and higher indicates a potential collinearity problem (**Hair, Ringle & Sarstedt, 2011**)

Table 4.6a Variance Inflation Factors

INNER VIF	
Relativism	1.062
Ethical Judgement	
Idealism	1.062

Source: field data, 2018

From the table 4.6a, it can be observed that the Variance inflation factors scores were 1.062 each for relativism and idealism. The implication of this is that the study results have not been biased by issues pertaining to multicollinearity (**Hair et al, 2014**).

- Assessment of coefficient of determination

The coefficient of the determination indicates the proportion of variation in the dependent variable explained by the independent variable. In all, the exogenous variables used in the study (i.e. idealism and relativism) could moderately explain about 60% of ethical decision making. That is, on average, about 60% of the variation in ethical judgement among internal auditors can be attributed to ethical positions encompassing idealism and relativism.

Assessment of Effect Sizes (f^2)

The effect size measures the relative importance of exogenous construct (s) in explaining endogenous constructs. **Cohen (1988)** suggest that an effect size of 0.02, 0.15, and 0.35 is regarded as small, moderate, and substantial respectively.

Table 4.6.b Effect Size

Effect Size	
Relativism	1.071
Idealism	0.728

Source: Field Data, 2018

From **Table 4.6b** it can be observed that effect sizes of 1.07 and 0.728 were recorded for latent constructs idealism, and relativism respectively. Following Cohen's interpretation criterion, it can be assumed that the relative contribution of idealism and relativism towards explaining ethical judgement among internal auditors are regarded as strong in each case.

- Assessment of Predictive Relevance (Q^2)

When PLS-SEM model exhibits predictive relevance, it accurately predicts the data points of indicators in a reflectively measured model. Q^2 (predictive relevance) values larger than zero for a construct proves that the construct has predictive relevance (**Hair *et al.*, 2014**).

Table 4.6.c Predictive Relevance

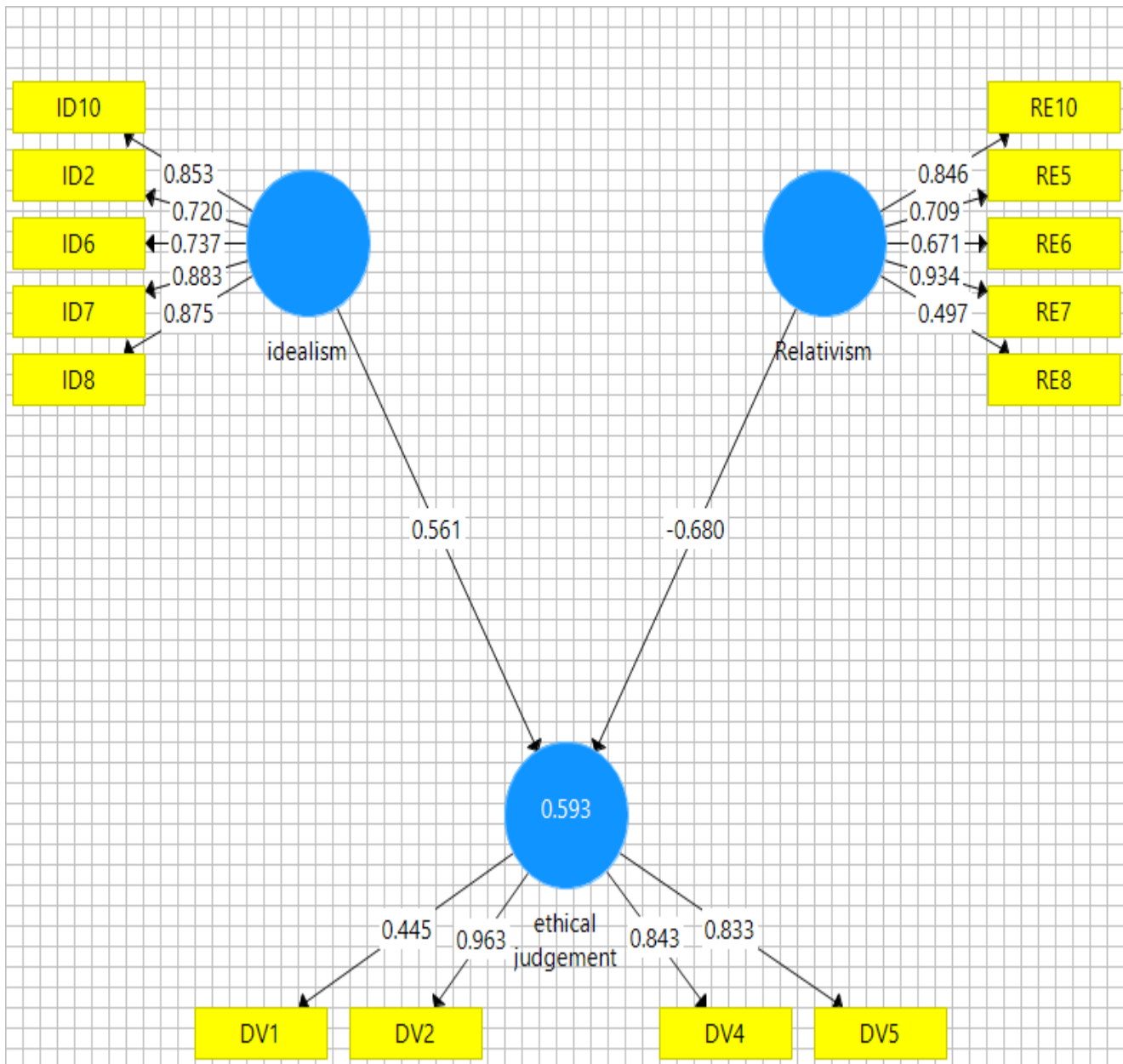
Q^2 PREDICTIVE RELEVANCE	
RELATIVISM	0.225
ETHICAL JUDGEMENT	0.225
IDEALISM	0.369

Source: Field Data, 2018.

As per **Table 4.6c**, it can be observed that for all the constructs, the cross-validated redundancy values are greater than zero, this demonstrates that the structural model has predictive relevance. Notably, latent constructs encompassing relativism, ethical judgement, and idealism had Q^2 values of 0.225, 0.225, and 0.369 respectively. Since all these values are greater than zero, it is assumed the structural model has attained predictive relevance within an acceptable range.

4.7 Model Estimation

Fig 4.7 Model Estimation



Source: Field Data, 2018.

4.8 DISCUSSION OF HYPOTHESIZED RELATIONSHIPS

4.8.1 RELATIVISM AND ETHICAL BEHAVIOUR

Hypothesis 1: *there is a significant negative relationship between ethical relativism and ethical decision making*

At 5% significance level, and in a two-tailed test, the study finds a significant negative relationship between ethical relativism and ethical decision making. The path coefficient of -0.680 suggest that on average, should the extent of an internal auditor's ethical relativism increase by one unit, there would be a 68% likelihood that the said internal auditor would make an unethical decision, all things being equal. Moreover, a T statistic value of ... suggest that such a negative relationship between ethical decision making and moral relativism are not due to random chance. This finding corroborates with earlier findings by **Tian (2008)** who found that relativism had a significant and positive impact on how business managers in Mainland China favourably perceived business bribery and kickbacks. In line with this, and from a marketing perspective, **Swaidan, Rawwas, and Al-Khatib (2004)** also noted that that consumer who scored higher on relativism are more likely to engage in questionable business activities. This finding thus suggests that where internal auditors judge ethical matters based on specific circumstances and not based on general rules and codes of ethics, the likelihood of unethical behaviour is high. We, therefore, fail to reject hypothesis H1.

4.8.2 IDEALISM AND ETHICAL DECISION MAKING

Hypothesis 2: there is a significant positive relationship between idealism and ethical decision making of internal auditors.

Results of the PLS-SEM estimates indicate a significant positive relationship between idealism and ethical decision making at a 5% significance level. This suggests that internal auditors whose more philosophy are dominated by moral idealism are more likely to behave ethically. Specifically, a path coefficient of 0.561 suggests that on average, the likelihood of an internal auditor behaving ethically will increase by 56.1% following a unit improvement in the level of idealism.

This finding corroborates with earlier findings by **Steenhaut and Kenhove (2006)** in the context of consumer ethics who found that more idealistic individuals are less likely to behave unethically. This is due to the facts that idealist mainly follows the laid down rules and codes of behaviour, without contextualizing ethical behaviour on the basis of the situation at hand. Moreover, this finding of the study is supported by the findings of **Robertson, Gilley and Bao (2008)**, who noted that there is a negative relationship between idealism and the willingness to sacrifice ethical standards for individual and firm financial rewards on Chinese employees.

This finding thus suggests that where internal auditors' judge ethical matters based on general rules and codes of ethics, and not based on specific circumstances the likelihood of ethical behaviour is high. We, therefore, fail to reject hypothesis H2.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter of the study draws conclusions from the entire study. The chapter begins by providing a summary of the entire study, and a summary of the major findings of the study. The study then it then proceeds by drawing conclusions based on the research findings and making recommendations in respect of the findings. Finally, the last section of chapter five draws out the limitations of the study and provides directions for future studies to follow.

5.1 RESEARCH SUMMARY

The primary aim of the study was to investigate the ethical decision making among firms in India. To be able to reach these objectives, specific research objectives encompassing the following were formulated

- I. To investigate the internal control environment of Indian firms.
- II. To find out the influence of the ethical position of internal auditors on ethical decision making and objectivity.
- III. To evaluate the relationship between organizations ethical culture and the internal auditor's ethical decision making.
- IV. To investigate how internal auditor job versatility influences the ethical decision.

The study employed the mixed method approach to research, specifically, the sequential explanatory mixed method approach. This implies that both quantitative and qualitative data were gathered for purposes of answering the research questions. In respect of the qualitative session, interview guides were used in conducting interviews with 10 internal auditors in 10 purposively selected Indian firms. The qualitative data analysis model as provided by **Miles and Huberman (1988)** were followed in analyzing the qualitative data gathered, thus, the data collected were transcribed, coded, displayed, condensed, and relevant themes extracted for purposes of further analysis. In all, the qualitative session was designed to achieve study objective I, III, AND IV.

The quantitative session of the study employed closed-ended questionnaires in gathering data about the relationship between the ethical positions of internal auditor's ethical decision making Indian firms. In all, 42 closed-ended questionnaires were administered to the internal audit staff of the 10 companies studied and the PLE-SEM technique was employed in analyzing the data gathered. Initially, the research model involved 26 indicators but 12 of the indicators could not satisfy validity and reliability assumptions and were subsequently deleted from the final iteration of results. This implies that 14 out of 26 indicators based on **Forsyth's (1989)** ethical position questionnaire were used in measuring the ethical position of internal auditors in this study. Beside indicator reliability, the measurement model for the quantitative session demonstrated internal consistency reliability, convergent validity, and discriminant validity since the test score scores for composite reliability, average variance extracted among others yielded satisfactory results. Moreover, the structural model of the study was assessed using the variance inflation factors (VIF), predictive relevance (Q²), effect sizes, and the coefficient of determination (R²). All these reliability and validity assumption were met within acceptable ranges and hence provides a justification for the presentation of research findings and conclusion.

5.2 SUMMARY OF RESEARCH FINDINGS

The findings of the study are summarised into four main sections as outlined below

- I. Section 5.2.1: Internal control environment of Indian firms
- II. Section 5.2.2 Ethical culture and ethical decision making
- III. Section 5.2.3 Job versatility and ethical decision making.
- IV. Section 5.2.4 Ethical position and ethical decision making

These are presented below;

5.2.1 Internal control environment of Indian firms

5.2.1.1 Commitment to ethical values and Integrity, and human resources

- ❖ The study finds that the management of the firms studied exhibit a positive attitude towards the internal control environment. Such a positive attitude to internal controls is exhibited by the following specific findings:
 - Firstly, the findings of the study suggest most Indian firms have written codes of ethics that are integrated into the leadership agenda, but such codes may remain as merely written codes, without being practised.
 - Secondly, the interviewees indicated that, in their respective firms, employees, regardless of their position on the organizational ladder are trained and thought to behave ethically. In addition, it was also found that the need to behave ethically is also integrated into the HR recruitment process to the extent that, the process of attracting, retaining and maintaining competent workforce emphasize ethical behaviour.
 - In addition, the study found that some managers exhibit a positive philosophy toward the internal control environment by encouraging whistleblowing. Most of the interviewees indicated that within

their respective firms, there are formal channels of whistleblowing to ensure the anonymity of people who expose unethical behaviour. Besides, the study also finds that firms who do not have formal whistleblowing channels do put in place for channels for reporting and addressing ethical concerns.

- Fourth, the study finds that most Indian firms do reward ethical behaviour (e.g. promotion, an award of contracts to business affiliates etc.). The study also finds that such a reward system may culminate in situations whereby employees and other business affiliates exhibit outward ethical behaviour (for the sake of rewards), but innately may be unethical.

5.2.1.2 Governance Board, reporting lines and accountability

5.2.1.2a Board independence and competence

- ❖ Findings of the study reveal that there exists a balance between executive and non-executive directors on the board of the Indian firms interviewed.
- ❖ Second, the study finds that firms that originated from a family background usually have family members at the executive management level. This leads to a situation whereby the board of directors becomes too trustful of management since they wrongly assume that a family member at the executive position will have the interest of the company at heart. Thus, such an assumption by the board of directors makes them compromise on their oversight responsibility and scepticism. This finding is supported by earlier findings by **Suresh (2012)**.
- ❖ Accordingly, the study finds that family firms were more likely to appoint family members as executive managers on one hand, and non-executive directors on the other hand. Data gathered from the study indicates that when that happens, the board may be unable to adequately and strictly enforce accountability and codes of best practices since such acts may be regarded as an unfriendly act. Again, the directors may hide sensitive information that should benefit the public, if it is considered potentially harmful to the firm's reputation. Moreover, such a situation was also found to be restrictive on

employee's ability to exact accountability from management since one may become a "third person" trying to report the bad behaviour one family member to another family member; according to one respondent, blood is thicker than water.

5.2.1.2b Structure and Reporting lines, Accountability

- ❖ Among the firms studied, it was uncovered that reporting lines were clearly laid out and communicated to employees.
- ❖ In addition, the study finds that whereas in most cases the board demands accountability from management, employees are not privy to reports regarding the boards' assessment of management. Meanwhile, the study uncovered that not letting the employees know the outcome of the boards' assessment of managers may impede on effective whistleblowing. This is due to the fact that employees cannot tell whether management has been honest during the assessment process, let alone blowing a whistle on false information, and potential cases of malfeasance.

5.2.2 Indian Culture and Ethics Culture in Organizations

- ❖ The study finds that the Indian culture of Hinduism does impact on the ethical culture of Indian firms.
- Specifically, the study finds that social stratification, which is an element of Hinduism, does influence ethical culture among Indian firms and thus culminates in unethical behaviour. For example, the study reveals that those employees who see themselves as belonging to a certain class may come together to defend a colleague who has been found culpable for unethical behaviour.
- Secondly, the element of filial piety of the Hinduism culture was found to have created a strong bond of total loyalty between subordinates and superiors in Indian firms, just like the bond between a parent and His/her children. Data gathered suggest that such relationship culminates in a situation whereby subordinates who yield to power are bestowed with favours, whiles those who question the acts of

superiors are discriminated against, hence making superiors enjoy absolute power, which may corrupt absolutely. Moral, filial piety culminates in the situation whereby an implied moral obligation exists among superiors and subordinates to protect each other, even in wrongdoing.

- Moreover, the study finds that there Hinduism culture as exported to the organizational context leads to a situation whereby societal prescriptions for good conduct may be elevated above the ethical code of conducts. This implies that individuals are more likely to act appropriately within societal bounds in order to be accepted than to do what they themselves consider as right or wrong, or what ethical codes may prescribe.

5.2.3 Job versatility and ethical behaviour

- ❖ The study found that internal auditors that are more skilful can switch across different jobs and different firms with ease and are more likely to behave ethically. The study also found that more experienced internal auditors are less likely to be manipulated by management to behave unethically.

5.2.4 Ethical position and ethical decision making

5.2.4.1 Relativism and ethical behaviour

- ❖ The study found a significant negative relationship between ethical relativism and ethical decision making. The finding suggests that it is more likely for auditors to behave unethically if their judgement of what is right or wrong is based the situations they are faced with, than on general rules or codes of ethical behaviour.

5.2.4.2 Idealism and ethical decision making

- ❖ The study finds that ethical idealism is positively related to ethical behaviour, and such a relationship is not due to random chance. This can be explained by the fact that idealist mainly follows the laid down rules and codes of behaviour, without contextualizing ethical behaviour on the basis of the situation at hand. Thus, judging what is right or wrong is not based on societal beliefs, the conditions at hand or personal subjective beliefs but rather based on the rules and laid down the code of ethics.

5.3 CONCLUSIONS OF THE STUDY

5.3.1 Internal control environment of Indian firms

5.3.1.1 Commitment to ethical values and Integrity, and human resources

- ❖ The study concludes that generally, the philosophy of Indian firm managers towards the internal control environment is positive, and mainly exhibited through the integration of written codes of ethics into corporate internal laws and guidelines, however, such written codes largely remain as theoretical codes which are seldom complied with. Again, those complying with the code may do so with the aim of gaining some rewards or incentives (e.g. renewal of license, winning of contracts, promotion etc.)

5.3.1.2 Governance Board, reporting lines and accountability

5.3.1.2a Board independence and competence

- ❖ First, the study concludes that firms that sprout forth from a family background are less likely to adopt and practice an effective corporate governance mechanism as far as independence, objectivism, and accountability are concerned.

- ❖ Again, the study concludes that within family firms, employees are less likely to demand accountability from management. This is because the employee may end up reporting a family affiliate to another family member, thereby risking being a “third person”.

5.3.1.2b Structure and Reporting lines, Accountability

- ❖ The study concludes that making the board assessment of management's performance assessable to employees can help ensure accountability and ethical behaviour, and prevent corporate scandals. Thus, reports on the assessment of management can trigger whistleblowing where an employee is confident that management has provided false information during the assessment.

5.3.2 Indian culture and ethics culture in organizations

- ❖ The study concludes that social stratification (an element of Hinduism), which favours protecting people in one's own group/caste/class usually culminates in unethical behaviour as people are more likely to protect their own, even if they act unethically.
- ❖ Secondly, the element of filial piety of the Hinduism culture culminates in unethical behaviour in Indian organizations. This is due to the total loyalty of subordinates to superiors that makes it difficult for them to question the actions of those at the apex of the organizational ladder, and doing so may be regarded as disloyalty (which may be punished or discriminated against)
- ❖ Moreover, the study concludes that due to the element of *dividual self* in their Hinduism culture as exported to the organizational context, internal auditors in Indian firms may end up judging ethical behaviour based on societal prescriptions of right and wrong, other than using laid out rules and codes of ethics.

5.3.3 Job versatility and ethical behaviour

- ❖ The study concludes that internal auditors that are more skilful can switch across different jobs and different firms with ease and are more likely to behave ethically. The study also concludes that more experienced internal auditors are less likely to be manipulated by management to behave unethically.

5.3.4 Ethical position and ethical decision making

- ❖ The study concludes that internal auditors whose judgement of right or wrong are contextualized to specific circumstances are more likely to behave unethically. Thus, ethical relativists are less likely to comply with internal auditing code of ethics.
- ❖ Secondly, the study also concludes the internal auditors who are idealist are more likely to comply with auditing codes of ethics as their judgement of right or wrong is based on the written codes of the law on ethics.

5.4 RECOMMENDATIONS OF THE STUDY

The study makes recommendations to Practitioners, Policy and Theory as follows.

Firstly, based on the conclusion that Indian firms have rigorous written ethical codes but seldom practice them, the study recommends that management must be educated on the need to implement ethical codes in the running of the business. Besides, the code of ethics guidelines should be revised and made as practicable as possible by eliminating or substituting unreasonable codes with more practical ones. Again, punishment for deviating from the ethical codes should be severe enough to act as a deterrent

Secondly, based on the conclusion that family firms in India are less likely to strictly implement corporate governance code of ethics, the study recommends that tailored corporate governance codes be drafted to govern the activities of family firms, than the generic corporate governance codes that

have been applied in the family business context. Such codes should emphasize on eliminating the negative influences of family executives and board members on transparency and accountability.

Moreover, to enhance whistleblowing, the study recommends that organizations integrate anonymous formal channels of whistleblowing to enhance individuals to expose unethical behaviour before they get out of hand. This is particularly important for family firms where whistle-blowers may end exposing one family member to another family member, hence risking becoming a third person at the end of it all. Moreover, it is recommended that employs are given access to the boards' assessment of management activities as it will provide the employees with information to aid potential whistleblowers in exposing false claims by management during the assessment.

Also, based on the findings that *social stratification and filial piety* elements in the Hinduism culture often culminates in unethical behaviour in the organizational context, the study recommends that organizations should only use their respective code of ethics as the only basis of judging ethical behaviour, and not societal beliefs and judgements of what constitutes good behaviour. Again, people within a social caste that tries to shield or protect unethical behaviour should be treated as accomplices.

Fifthly, based on the finding that ethical position of internal auditors significantly influences their ethical behaviour, the study recommends that organizational recruitment of internal auditors should place more emphasis on aptitude tests that aim at assessing the ethical position of potential applicants before making the final selection. Such recruitment exercise should aim at recruiting more idealist as opposed to relativists since idealist prefers to play by the rules.

Lastly, based on the findings that job versatility does influence ethical behaviour, the study recommends that the HR department of organizations should ensure that only internal auditors having a minimum number of experience and skills are recruited. Such internal auditors usually are not afraid to expose corrupt practices of management and also, can easily move on from one job to another hence not too concerned about the job security risk of exposing wrongdoings of management.

5.4 LIMITATIONS AND DIRECTIONS FOR FUTURE STUDY

Firstly, although scholars have proposed several variables that may influence ethical judgement, the study emphasized only on culture, internal control environment, job versatility and ethical position. This suggests that other variables like competition, code of ethics, age, gender etc. were not examined. Future studies may seek to examine these variable as far as ethical judgement is concerned.

Second, this study was conducted using Indian firms and this places a limitation on the findings of the study. Future researchers are entreated to replicate the study in other geographic contexts.

Lastly, the study was designed to be cross-sectional in nature. The implication is that changes in respondent responses that may be occasioned by time differences have not been adequately captured in the study. Future studies should consider a longitudinal study in regards to this.

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Cover Letter

Dear Participant,

I invite you to participate in a research study entitled “ethical dimensions of internal auditing”. I am currently a PHD student at the Sam Higginbottom University of Agriculture, Technology and Sciences, and this exercise is part of the process in writing my final long Essay.

The enclosed questionnaire has been designed to seek your view on ethical dimensions in internal auditing practices

Your participation in this research project is completely voluntary. You may decline altogether, or leave blank any questions you don't wish to answer.

Your responses will remain confidential and anonymous. Data from this research will be kept under lock and key and reported only as a collective combined total. No one other than the researchers will know your individual answers to this questionnaire.

If you agree to participate in this project, please answer the questions on the questionnaire as best you can. Not that your views or opinions are important, there is no wrong or right answer in this exercise.

If you have any questions about this project, feel free to contact me, *Georgesarpong75@gmail.com* on Email: *georgesarpong75@gmail.com*

Contact: 7800993402

Thank you for your assistance in this important endeavour.
Sincerely yours,

RESEARCH INSTRUMENTS

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Appendix 1

Ethical Position:

Please indicate the degree of your agreement to the following statements ticking one of the scales from 1-N. there is no right or wrong answer, all answers are equally important.

		strongly disagree	disagree	Neutral	Agree	strongly agree	Do not know
1	A person should make certain that their actions never intentionally harm another, even to a small degree.	1	2	3	4	5	N
2	Risks to another should never be tolerated, irrespective of how small the risks might be.	1	2	3	4	5	N
3	The existence of potential harm to others is always wrong, irrespective of the benefits to be gained.	1	2	3	4	5	N
4	One should never psychologically or physically harm another person.	1	2	3	4	5	N
5	One should not perform an action which might in any way threaten the dignity and welfare of another individual.	1	2	3	4	5	N
6	If an action could harm an innocent other, then it should not be done.	1	2	3	4	5	N
7	Deciding whether to perform an act by balancing the positive consequences of the act against the negative consequences of the act is immoral.	1	2	3	4	5	N
8	The dignity and welfare of people should be the most important concern in any society.	1	2	3	4	5	N
9	It is never necessary to sacrifice the welfare of others.	1	2	3	4	5	N
10	Moral actions are those which closely match ideals of the most "perfect" action.	1	2	3	4	5	N
11	There are no ethical principles that are so important that they should be a part of any code of ethics.	1	2	3	4	5	N
12	What is ethical, varies from one situation and society to another.	1	2	3	4	5	N
13	Moral standards should be seen as being individualistic; what one person considers to be moral may be judged to be immoral by another person.	1	2	3	4	5	N
14	Different types of moralities cannot be compared as to "rightness".	1	2	3	4	5	N
15	Questions of what is ethical for everyone can never be resolved since what is moral or immoral is up to the individual.	1	2	3	4	5	N
16	Moral standards are simply personal rules which indicate how a person should behave, and are not to be applied in making judgements of others.	1	2	3	4	5	N
17	Ethical consideration in interpersonal relations are so complex that individuals should be allowed to formulate their own individual codes.	1	2	3	4	5	N
18	Rigidly codifying an ethical position which prevents certain types of actions could stand in the way of better human relations and adjustment.	1	2	3	4	5	N
	No rule concerning lying can be formulated; whether a lie is permissible or not permissible totally depends on the situation.	1	2	3	4	5	N
19	No rule concerning lying can be formulated; whether a lie is permissible or not permissible totally depends on the situation.	1	2	3	4	5	N
20	Whether a lie is judged to be moral or immoral depends upon the circumstances surrounding the action	1	2	3	4	5	N

Appendix 2: Study Case

Please read the following case very carefully

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Chris Gibson has been employed by the public accounting firm of RS&T for the past four years and is the senior in-charge of the Greenwood Manufacturing Company audit. Greenwood is a manufacturer of household furniture and a division of a large, publicly traded corporation. With annual sales of approximately \$40 million, Greenwood is in good financial health and the corporation has received unqualified audit opinions in recent years. While visually inspecting the accounting records of Greenwood in a search for unusual appearing transactions, Chris discovered an uncoded cash disbursement of \$25,000. Chris decided to discuss the situation with the controller, Ed Johnson. Ed Johnson first worked for Greenwood Manufacturing when it began operations in 1970. Mr. Johnson has held the controllers' position for eight years and is generally regarded as one of the most competent and highly respected executives at Greenwood. Mr. Johnson has always been cooperative and professional during the course of the audit. Ed Johnson was along in his office when Chris Gibson entered and referred to the \$25,000 disbursement. Mr. Johnson asked Chris to close the door, pulled a file from his desk, and then began the following conversation:

"I expected you might be dropping by to discuss that withdrawal. The disbursement is my personal responsibility and I repaid it the next day. You can verify the receipt by examining the bank statement. I have copies of all supporting documents in this file.

"I withdrew those funds from the company account after receiving a phone call that afternoon from my son, a student at the university. At the time, I was unaware he had developed a severe gambling problem. He told me that he had substantial losses which he was unable to pay. Furthermore, he had been threatened with bodily harm if he didn't pay \$25,000 in gambling debts by that night. The only way I could obtain that much cash in a matter of hours was to access company funds. I repaid the amount the following day with personal funds. My son has since obtained counselling and treatment for his gambling problem. "You are the only person I've confided in; you must realize that I will lose my job if this matter becomes public."

Instruction: Using your best judgment and in a percentage form, please allocate points to the following three scenarios relating to the case and explain why. Unless you are in absolute agreement with the auditor's decision, do not allocate 100% points. 1,000 points to that category. For example, if you are about 80% in agreement with the auditor's decision, allocate 80% points to category A and 20% points to category B, and don't forget to explain why you allocate more marks in one category than the other.

Scenario 1: Chris is certain that the disbursement will not be subsequently examined by any other auditor.

A: Chris should NOT have disclosed the disbursement in his report. _____ POINTS, Explain

B: Chris should have disclosed the disbursement in his report. _____ POINTS, Explain

Scenario 2: Chris is aware that the disbursement will be subsequently examined by another auditor

A: Chris should NOT have disclosed the disbursement in his report. _____ POINTS, Explain

B: Chris should have disclosed the disbursement in his report. _____ POINTS, Explain:

Scenario 3: Chris is aware that the disbursement may be subsequently examined by another auditor

A: Chris should NOT have disclosed the disbursement in his report. _____ POINTS, Explain

B: Chris should have disclosed the disbursement in his report. _____ POINTS, Explain:

Scenario 4: Chris knows that by not heeding to the accountant's advice and subsequently disclosing the information will lead to him being punished.

A: Chris should NOT have disclosed the disbursement in his report. _____ POINTS, Explain

B: Chris should have disclosed the disbursement in his report. _____ POINTS, Explain

Scenario 5: Chris knows that disclosing the information may destroy the cordial relationships and corporation he has in the work environment

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A: Chris should NOT have disclosed the disbursement in his report. _____ POINTS, Explain

B: Chris should have disclosed the disbursement in his report. _____ POINTS, Explain

Scenario 6: *Chris knows that not disclosing the information contradicts His personally held ethical principles*

A: Chris should NOT have disclosed the disbursement in his report. _____ POINTS, Explain

B: Chris should have disclosed the disbursement in his report. _____ POINTS, Explain

Appendix 3. Corporate Ethical Culture

We would like to ask you some questions about the general climate in your organization. Please answer the following in terms of how it really is in your organization, *not* how you would prefer it to be. Please be as candid as possible; remember, all your responses will remain strictly anonymous.

- 1) How are organizational leaders perceived in terms of their integrity? Is ethics part of the leadership agenda?
- 2) How are ethics-related behaviors modeled by organizational leaders?
- 3) Are workers at all levels encouraged to take responsibility for the consequences of their behavior? To question authority when they are asked to do something that they consider to be wrong? How?
- 4) Does a formal code of ethics and/or values exist? Is Distributed? How widely? Is it used? Is it reinforced in other formal system such as reward and decision-making systems?
- 5) Are whistle-blowers encouraged, and are formal channels available for them to make their concerns known confidentially
- 6) Is misconduct disciplined swiftly and justly in the organization, no matter what the organizational level?
- 7) Are people of integrity promoted? Are means as well as ends important?
- 8) Is integrity emphasized to recruits and new employees?
- 9) Are managers directed to the values of the organization in orientation programs? Are they trained in ethical decision making?
- 10) Are ethical considerations a routine part of planning and policy meetings, new venture reports? Is the language of ethics taught and used? Does a formal committee exist high in the organization for considering ethical issues?

The Effects of Business and Work Ethics

on Organizational Performance

Abstract

Work ethics is very vital in every organization because employees play crucial role towards the achievement of organizational goals and performance standards of the organization. The study examines primarily the prevailing work ethics and its impact on organizational performance. The study was centered on the staff of SG- SSB, Fidelity Bank, South Akim Rural Bank and Merchant Bank Limited, Koforidua, Ghana. Data collected through secondary and primary sources revealed that ethics and performance were positively related. 100 % of the respondents agreed that ethical behaviour was a consideration during employee appraisal and good work ethics was rewarded. Primary data also indicated that ethical behaviour of employees helped reduce losses to the organization, improved communication and also inter- personal relationship between clients as well as co-workers. The study recommends that management educate and manage employees on work ethics in order to achieve meaningful result.

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Keywords: Business, Work Ethics, Organizational Performance.

Introduction

—Ethics is fast becoming an essential aspect of business in the modern world. We see ethical practices promoted in advertising, and the lack of ethical behavior condemned in the media. From scandals focused on Government agencies to private firms; business ethics are being increasingly scrutinized.

But why does this matter? Scandals in the food, health, journalism and banking sectors have made the (already discerning) public more aware of issues of ethics and, consumers, consider ethics when choosing a brand, supplier or service. Having a good ethical reputation can be what sets a business apart.

What happened to employees who believed in working hard, working smart and working business hours? What has happened to hard work and diligence? What happened to business adherence to work ethics? Some employers have argued that the attitudes of employees have begun to deteriorate and that if efforts to arrest the situation is not quickly initiated, there may be problems. Numerous surveys and studies have concluded that majority of —work time is spent on instant messaging friends, surfing the net, viewing dating sites, selling personal items in the work premises and engaging in cell phone social talk. The result of this is a reduction in performance and productivity levels. The rest of the time seems to be dedicated to some crucial work projects, ten minutes break, lunch, visits with other coworkers and some minimal amount of work; just to get by on each work day. Employers today are just expecting their employees to be honest, punctual and loyal among other virtues that are supposed to be displayed at work. Not everyone exhibits a good work ethic. It therefore implies that there are certain situations or circumstances that can also lead to the exhibiting of negative work ethics such as being hostile, selfish, late to work, and careless, irresponsible, negligent, rude, behaviours. Information and insight into such issues would enable managers to understand the target and to direct their training efforts. (Smith, A (1776/ 1952)

Business ethics has both normative and descriptive dimensions. As a corporate practice and a career specialization, the field is primarily normative. Academics attempting to understand business behaviour employ descriptive methods. The range and quantity of business ethical issues reflects the interaction of profit-maximizing behaviour with non-economic concerns. Interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major corporations

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and within
academia

(Wikipedia 2013).

For example,

today most major

corporations

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promote their commitment to non-economic values under headings such as ethics codes and social responsibility charters. Adam

Smith said, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." Governments use laws and regulations to point business behaviour in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behaviour that lie beyond governmental control. The emergence of large corporations with limited relationships and sensitivity to the communities in which they operate accelerated the development of formal ethics regimes.

Business ethical norms reflect the norms of each historical period. As time passes norms evolve, causing accepted behaviors to become objectionable. Business ethics and the resulting behavior evolved as well. Business was involved in slavery, colonialism, and the cold war.

The term 'business ethics' came into common use in the United States in the early 1970s. By the mid-1980s at least 500 courses in business ethics reached 40,000 students, using some twenty textbooks and at least ten casebooks along supported by professional societies, centers and journals of business ethics. The Society for Business Ethics was started in 1980. European business schools adopted business ethics after 1987 commencing with the European Business Ethics Network (EBEN). In 1982 the first single-authored books in the field appeared (Wikipedia 2013)

Firms started highlighting their ethical stature in the late 1980s and early 1990s, possibly trying to distance themselves from the business scandals of the day, such as the savings and loan crisis. The idea of business ethics caught the attention of academics, media and business firms by the end of the Cold War. However, legitimate criticism of business practices was attacked

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for infringing the "freedom" of entrepreneurs and critics were accused of supporting communists. This scuttled the discourse of business ethics both in media and academia.

Business ethics reflects the philosophy of business, one of whose aims is to determine the fundamental purposes of a company. If a company's purpose is to maximize shareholder returns, then sacrificing profits to other concerns is a violation of its fiduciary responsibility. Corporate entities are legally considered as persons in USA and in most nations. The 'corporate persons' are legally entitled to the rights and liabilities due to citizens as persons.

Economist Friedman (1970) writes that corporate executives' "responsibility... generally will be to make as much money as possible while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom" Friedman (1970) also said, "the only entities who can have responsibilities are individuals ... A business cannot have responsibilities. So the question is, do corporate executives, provided they stay within the law, have responsibilities in their business activities other than to make as much money for their stockholders as possible? And my answer to that is,

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no, they do not." A multi-country 2011 survey found support for this view among the "informed public" ranging from 30 to 80%. Duska (2007) views Friedman's argument as consequentiality rather than pragmatic, implying that unrestrained corporate freedom would benefit the most in long term. Similarly author business consultant Peter Drucker (1981) observed, "There is neither a separate ethics of business nor is one needed", implying that standards of personal ethics cover all business situations. However, Peter Drucker (1981) in another instance observed that the ultimate responsibility of company directors is not to harm—*primum non nocere*. Another view of business is that it must exhibit corporate social responsibility (CSR): an umbrella term indicating that an ethical business must act as a responsible citizen of the communities in which it operates even at the cost of profits or other goals. In the US and most other nations corporate entities are legally treated as persons in some respects. For example, they can hold title to property, sue and be sued and are subject to taxation, although their free speech rights are limited. This can be interpreted to imply that they have independent ethical responsibilities. Duska (2007) argues that stakeholders have the right to expect a business to be ethical; if business has no ethical obligations, other institutions could make the same claim which would be counterproductive to the corporation.

Ethical issues include the rights and duties between a company and its employees, suppliers, customers and neighbors, its fiduciary responsibility to its shareholders. Issues concerning relations between different companies include hostile take-overs and industrial espionage. Related issues include corporate governance; corporate social entrepreneurship; political contributions; legal issues such as the ethical debate over introducing a crime of corporate

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manslaughter; and the marketing of corporations' ethics policies (Wikipedia 2013).

Statement of The Problem

Finance management is often mistaken to be a discipline free from ethical burdens. The 2008 financial crisis caused critics to challenge the ethics of the executives in charge of U.S. and European financial institutions and financial regulatory bodies. Finance ethics is overlooked for another reason—issues in finance are often addressed as matters of law rather than ethics. Most financial institutions / Banks are faced with issues of low performance levels every now and then. This becomes a major concern when there is a high level of competition in the industry and the company is struggling to have or maintain its competitive edge. Work ethics considers an individual's moral values, beliefs and principles, based on the ideals of hard work and discipline. Building a reliable work ethics means training oneself to follow these values. An employee's work ethic is an important determinant of organizational performance. The study aims to analyse the prevailing work ethics and its impact on organizational performance within financial institutions using 4 selected banks in Koforidua as a case study.

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THE ROLE OF INTERNAL AUDIT DEPARTMENT IN QUALITY HEALTH DELIVERY AT ST. DOMINIC ORTHOPAEDIC HOSPITAL

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ABSTRACT

The study seeks to identify internal audit practices and to assess the role of internal audit in quality health delivery at St. Dominic Orthopaedic Hospital, Akwatia. The study documented and reviewed the internal audit practices of JOH. The research design used was a descriptive research approach which essentially presents and describes quantitatively internal audit practices at DOH. Questionnaires were designed and administered to internal audit staff and patients of DOH. The population of study is 30 internal audit staff and over 193 patients per day. For staff the purposive and random sampling method was used in selecting the sample size of 17 internal audit staff and for patients I used accidental and convenience method of 100 patients of DOH. From the study, it was found 17 respondents, 1 representing 5.9% strongly disagrees, 5 respondents representing 29.4% are neutral, 10 respondents representing 58.8 % agree, and the remaining 1 respondent representing 5.9 strongly agree. From this analysis, it can be concluded that, the current structure of internal audit promotes objectivity, consistency and, business understanding. Based on the findings, I recommended that management should continue to make sure that internal auditors are generally free from intervention in performing its duties without any interference. Furthermore management should make sure that internal audit activities, power and duties, and reporting lines of internal audit which are clearly defined in the internal audit charter/policy and the current structure of internal audit which have led to the promotion of objectivity, consistency and, business understanding are always improved so that, organization will continue to achieve its goals.

Keywords: Internal audit, Quality health delivery, St Dominic Orthopaedic Hospital, etc

BACKGROUND

The Institute of Internal Auditors (IIA) defined internal auditing as „independence, objective assurance and consulting activity designed to add value and improve an organization’s

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Further adds that, internal auditing helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. Internal auditing is a catalyst for improving an organization's governance, risk management and management controls by providing insight and recommendations based on analyses and assessment of data and business processes. With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice. Professionals called internal auditors are employed by organizations to perform the internal auditing activity.

The primary role of internal auditing is directed at improving internal control in relation to effectiveness and efficiency of operations, safeguarding of assets, reliability and integrity of financial and operational information, and compliance with applicable laws and regulations.

Internal auditing is done by professionals called internal auditors. With the growing focus on corporate governance issues, organizations are increasingly exploring the potential benefits to be gained from establishing an effective internal audit function. An internal audit function would undertake an important role in risk assessment, by initiating quality improvements and finding opportunities for obtaining new profits. If implemented well, internal audit function is the primary method for continuously monitoring a company's quality management system and its feedback is invaluable to the success of every company.

INTERNAL AUDIT EFFECTIVENESS

As noted above, only a few academic studies have examined the effectiveness of IA, and even fewer have dealt with the issue empirically. In one of the very few studies that examined the effect of internal auditing on organisational performance, Eden and Moriah (1996) assigned 224 bank branches to experimental conditions (audited or not audited) and monitored their performance for a year. Their findings showed that performance significantly improved during the half year following the audit in the experimental branches, while the control branches experienced a decline due to poor general business conditions. It should be reiterated that Eden and Moriah are nearly alone in developing and testing an explanatory model of IA effectiveness. While that study offers a useful jumping-off point for understanding how good auditing can improve a company's performance, it does not go far enough in explaining when and why IA works, and the conditions that facilitate or impede it. Helping to bridge this gap will be one of the main contributions of this study. There are two main approaches to the concept of IA effectiveness. According to the first approach, the effectiveness of internal auditing is determined by the fit between the audit and some set of universal standards extrapolated from the characteristics of IA (White 1976). Such an approach was presented by Sawyer (1988), who advanced five standards for internal auditing: interdependence, professional proficiency, the scope of work, the performance of the audit and management of the internal audit department. This approach was also followed by Anderson (1983) and Glazer and Jaenike (1980).

The second approach, which will be used here, follows the arguments of Ransan (1966) and Albrecht et al. (1988) that the effectiveness of internal auditing is not a computable reality, but rather is determined by the subjective evaluations assigned to this function by management. In other words, the success of any internal audit can only be measured against the expectations of the relevant stakeholders (Albrecht et al. 1988). This approach requires the development of systematic and generally valid measures by which to gauge IA effectiveness (Schneider 1984; Dittenhofer 2001). One of the early efforts in this regard is that of Hoag (1981), who designed a questionnaire to elicit managerial feedback for each internal auditing activity in an organisation. The questionnaire covered four issues: planning and preparation; the quality of the audit report; the timing of the audit; and the quality of communication between the relevant actors. Based on managers' responses, an average score was calculated for the effectiveness of a given auditing task.

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Albrecht et al. (1988), in a study sponsored by the Institute of Internal Auditors (IIA), identified 15 criteria used by 13 large private organisations to evaluate the effectiveness of internal auditing. They concluded that effectiveness is determined mainly by the fit between the auditing work and the goals set by managers, the qualifications of the internal auditor, management support for the internal auditing staff, and several characteristics of the internal auditing department.

Lampe and Sutton (1994) identified 15 factors that contribute to an effective audit and categorised them into three stages of the auditing process: planning, fieldwork, and reporting and review. They suggested measurements they considered valid and reliable for these factors. More recently, Ziegenfuss (2000) developed a questionnaire that includes 84 criteria for effectiveness categorised into four main areas: the environment of the internal audit, input into the audit, the auditing process and the output of the audit.

This brief review shows the need for a more comprehensive study of the issue of internal audit effectiveness. The papers noted above may deal with the issue qualitatively (White 1976; Glazer and Jaenike 1980), quantitatively (Schneider 1984), or both (Dittenhofer 2001). But only Lampe and Sutton (1994) and Albrecht et al. (1988) attempt to design a comprehensive scale that can be validated by examining its factor structure and reliability, or by exploring its relationship to conceptual correlates. Yet even those studies did not test their suggested scales empirically using valid and reliable scales. The current study takes this line of research a step further by designing and testing such a scale. However, before moving on to this goal, we must first present the explanatory model advanced here.

2.3 DETERMINANTS OF INTERNAL AUDIT EFFECTIVENESS

2.3.1 Private sector versus Public sector

The first variable considered here is the sector of the organisation. This study anticipates that the effectiveness of IA will be influenced by whether the organization is private or public. This variable will be treated here as a control variable, but its effect is also conceptual.

Therefore, it was necessary to examine the possibility that, in addition to its main effect, this variable will interact with the other conceptual determinants in how it affects the effectiveness of internal auditing. The categorisation of public versus private sector is based on the goals of the organisation. Private organisations are generally interested in maximizing their profits, while public organisations focus on improving their services. Goodwin (2003, 2004), in two studies dealing with internal auditors in Australia and New Zealand, identified several important differences between IA in the private versus the public sector. Goodwin (2004) notes two main points where public and private organisations diverge. First, public sector agencies operate in a rigid framework where the organisation's activities must be authorised by legislation. Second, these agencies are service-oriented, and hence attach lower priority to cost factors and issues associated with profitability. In the earlier of the two studies, examining the relationship between the audit committee and the internal audit function, Goodwin (2003) found several differences between the public and the private sectors, and recommended further examination of sector differences in IA.

Spraakman (1985) argued that internal auditing is both more common and perceived as more important in public organisations than in private ones – a finding supported by Goodwin (2004), who similarly found that public sector IA functions have a higher status than their private sector counterparts. However, other arguments point to the opposite conclusion. There are grounds for saying that private organisations, in general, have greater need for the control and supervision that internal auditing entails. Pfeffer and Leblebici (1973) argued that organizations which operate in a competitive business environment face more pressure than public ones, and one way they react to this pressure is by strengthening their systems of internal control. While the environment of the 1970s is far different from that of today, more recent studies offer similar reasoning. For instance, Thomas (1996) argues that control systems play a more important role in private organizations because of their dynamic and complex environments, which generate more risks for the organisation. Therefore, internal auditing should be both more important and more effective in private than in public organisations.

PROFESSIONAL PROFICIENCY OF INTERNAL AUDITORS

Appropriate staffing of an internal audit department and good management of that staff are keys to the effective operation of an internal audit. An audit requires a professional staff that collectively has the necessary education, training, experience and professional qualifications to conduct the full range of audits required by its mandate (Al-Twaijry, Brierley and Gwillian 2003). Auditors must comply with minimum continuing education requirements and professional standards published by their relevant professional organisations and the IIA (2008). Bou-Raad

(2000) argued that auditors must have a high level of education in order to be considered a human resource. The diversity of skills required, according to Bou-Raad, represents a major challenge to professional bodies, tertiary institutions and management.

The few studies that have looked into this issue have found that the greater the professional qualifications of the internal auditors in a given department, defined by the length of their professional training and educational level, the greater the effectiveness of this department (Albrecht et al. 1988; Ratliff 1996). Nanni (1984) found that auditor experience had a positive effect on evaluations of internal accounting control.

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RESEARCH METHODOLOGY

RESEARCH DESIGN

Research design is the strategy, plan and structure of conducting a research project (Kweit and Kweit, 1981, in Leedy, 1993). In this study, the descriptive approach would be employed. In this method, it is possible that the study would be cheap and quick. It could also suggest unanticipated hypothesis. Nonetheless, it would be very hard to rule out alternative explanations and especially infer causations.

POPULATION

Sciendler (2001) defined population as the total collection of element about which we wish to make some inferences. The population of the study is the internal audit staff and patients of St. Joseph Dominic Hospital (DOH). The internal audit staff of JOH is 30. The population of patients is about 200 per day.

SAMPLING TECHNIQUES

For staff, purposive and random sampling methods were used to arrive at the sample. The simple random sampling focused on a selected population that provided every sampling of a given size an equal probability of being selected. The researcher administrated questionnaires and interviewed respondents to solicit for needed information. For patients, the researcher used accidental and convenience sampling method. These involve the research selecting members who are willing and available to answer the questions from the population.

SAMPLE SIZE

The sample size of one hundred and seventeen (117) was drawn from the targeted population. This is made up of 17 respondents from the internal audit Department and 100 patients.

DATA COLLECTION METHODS

Questionnaires used were both structured and unstructured. This made use of open ended and close-ended questions. The questionnaires were self-constructed. Data was gathered directly from JOH through the use of structured and unstructured questionnaires drafted for respondents to answer. This was in the form of open and close ended questions where comments and suggestions are given when necessary. **Interviews** Management who had a busy scheduled and could not answer the questionnaires were interviewed.

DATA ANALYSIS

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The questionnaires that were answered and retrieved were coded and analysed using the Statistical Programme for the Social Sciences (SPSS). Tables, charts, graphs, frequencies and percentages were used to demonstrate the response that was obtained from the respondents. Both qualitative and quantitative methods of investigations were employed in the analysis and interpretation of data for the study. Based on the analysis and their interpretations, conclusions were drawn and recommendations given.

LIMITATION

Some of the challenges encountered when administering of the questionnaires include: Situations where respondents were not met at all or even those present had misplaced their questionnaires and new ones had to be given them. Some respondents having been assured of their anonymity of their personalities declined to offer any assistance to me.

OBJECTIVE ONE: TO IDENTIFY THE INTERNAL AUDIT PRACTICES AT DOH

Table 1 Internal audit is free from intervention in performing its duties

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No Response	1	5.9	5.9	5.9
	Disagree	1	5.9	5.9	11.8
	Neutral/ Undecided	1	5.9	5.9	17.7
	Agree	12	70.5	70.5	88.2
	Strongly agree	2	11.8	11.8	100.0
	Total	17	100.0	100.0	

Source: Field survey, May 2014

Table 1 shows that internal audit is free from intervention in performing its duties. Out of a total of 17 respondents, 1 representing 5.9% gave no response, 1 respondent representing 5.9% also disagree, and 1 respondent representing 5.9% is neutral. However, 12 respondents representing 70.5% agree, and the remaining 2 respondents representing 11.8% strongly agree. From this analysis, it can be concluded that the Hospital's internal audit is generally free from intervention in performing its duties.

Table 2 Internal auditors freely include any audit findings in their audit report

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral/ Undecided	1	5.9	5.9	5.9
	Agree	12	70.6	70.6	76.5

Strongly agree	4	23.5	23.5	100.0
Total	17	100.0	100.0	

Source: Field survey, May 2014

Table 2 shows that internal auditors freely include any findings in their audit report. Out of the 17 respondents, 1 representing 5.9% is neutral, 12 respondents representing 70.6% agree, and the remaining 4 respondents representing 23.5% strongly agree. From this analysis, it can be concluded that internal auditors at DOH freely include any audit findings in their audit report.

Table 3 Internal auditors can audit operational areas for which they have previously had executive or management responsibility within the last year

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral/Undecided	1	5.9	5.9	5.9
	Agree	13	76.5	76.5	82.4
	Strongly agree	3	17.6	17.6	100.0
	Total	17	100.0	100.0	

Source: Field survey, May 2014

Table 3 shows that internal auditors can audit operational areas for which they have previously had executive or management responsibility within the last year. Out of a total of 17 respondents, 1 representing 5.9% is neutral, 13 respondents representing 76.5% agree, and the remaining 3 respondents representing 17.6% strongly agree. From this analysis, it can be concluded that DOH's internal auditors can audit operational areas for which they have previously had executive or management responsibility within the last year

Table 4 The internal audit function has strategic position to contribute to organizational strategy performance.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral/Undecided	3	17.6	17.6	17.6
	Agree	11	64.7	64.7	82.4
	Strongly agree	3	17.6	17.6	100.0
	Total	17	100.0	100.0	

Source: Field survey, May 2014

Table 4 shows that, the internal audit function has strategic position to contribute to organizational strategy performance. Out of a total of 17 respondents, 3 representing 17.6% are

neutral, 11 respondents representing 64.7% agree, and the remaining 1 respondent representing 5.9% strongly agree. From this analysis, it can be concluded that, the internal audit function has strategic position to contribute to organizational strategy performance.

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Table 5 Internal auditors undertake subsequent audits of a system, which they have previously been involved in consultancy on systems design.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	5.9	5.9	5.9
	Neutral/Undecided	4	23.5	23.5	29.4
	Agree	11	64.7	64.7	94.1
	Strongly agree	1	5.9	5.9	100.0
	Total	17	100.0	100.0	

Source: Field survey, May 2014

Table 5 shows that, the internal auditors undertake subsequent audits of a system, which they have previously been involved in consultancy on systems design. Out of a total of 17 respondents, 1 representing 5.9% disagrees, 4 respondents representing 23.5% are neutral, 11 respondents representing 64.7% agree, and the remaining 1 respondent representing 5.9 strongly agree. From this analysis, it can be concluded that, the internal auditors undertake subsequent audits of a system, which they have previously been involved in consultancy on systems design.

Table 6 The current structure of internal audit promotes objectivity, consistency and business understanding

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	1	5.9	5.9	5.9
	Neutral/Undecided	5	29.4	29.4	35.3
	Agree	10	58.8	58.8	94.1
	Strongly agree	1	5.9	5.9	100.0
	Total	17	100.0	100.0	

Source: Field survey, May 2014

Table 6 shows that, the current structure of internal audit promotes objectivity, consistency and business understanding. Out of a total of 17 respondents, 1 representing 5.9% strongly disagrees, 5 respondents representing 29.4% are neutral, 10 respondents representing 58.8 % agree, and the remaining 1 respondent representing 5.9 strongly agree. From this analysis, it can be concluded that, the current structure of internal audit promotes objectivity, consistency and, business understanding.

Table 7 Internal audit activities, power and duties and reporting lines of internal audit are clearly defined in the internal audit charter/policy/.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	1	5.9	5.9	5.9
	Neutral/ Undecided	4	23.5	23.5	29.4
	Agree	8	47.1	47.1	76.5
	Strongly agree	4	23.5	23.5	100.0
	Total	17	100.0	100.0	

Source: Field survey, May 2014

Table 7 shows that the Hospital"s internal audit activities, power and duties, and reporting lines of internal audit are clearly defined in the internal audit charter/policy/. Out of a total of 17 respondents, 1 representing 5.9% disagrees, 4 respondents representing 23.5% are neutral, 8 respondents representing 47.1% agree, and the remaining 4 respondents representing 23.5% strongly agree. From this analysis, it can be concluded that St. Dominic Orthopedic Hospital"s internal audit activities, power and duties, and reporting lines of internal audit are clearly defined in the internal audit charter/policy/.

RESEARCH OBJECTIVE 2: TO ASSESS THE ROLE OF INTERNAL AUDIT IN QUALITY HEALTH DELIVERY AT ST DOMINIC ORTHOPAEDIC HOSPITAL

Table 8 Internal audit service plays a role in quality health service delivery

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral/ Undecided	6	35.3	35.3	35.3
	Agree	8	47.1	47.1	82.4
	Strongly agree	3	17.6	17.6	100.0
	Total	17	100.0	100.0	

Source: Field survey, May 2014

4.4.1 Internal audit service plays a role in quality health service delivery

Table 4.33 shows that the internal audit service plays a role in quality health service delivery. Out of a total of 17 respondents, 6 representing 35.3% are neutral, 8 respondents representing 47.1% agree, and the remaining 3 respondents representing 17.6% strongly agree. From this analysis, it can be concluded that the Hospital"s internal audit service plays a role in quality health service delivery.

Table 2 Internal audit service improves the quality health service delivery

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Neutral/ Undecided	4	23.5	23.5	23.5
Agree	10	58.8	58.8	82.4
Strongly agree	3	17.6	17.6	100.0
Total	17	100.0	100.0	

Source: Field survey, May 2014

4.4.2 Internal audit service improves the quality health service delivery

Table 4.34 shows that the institution"s internal audit service improves the quality health service delivery. Out of a total of 17 respondents, 4 representing 23.5% are neutral, 10 respondents representing 58.8% agree, and the remaining 3 respondents representing 17.6% strongly agree. From this analysis, it can be concluded that the Hospital"s internal audit service improves the quality health service delivery.

SUMMARY OF THE STUDY

Based on table1, it was found that17 respondents, 1 representing 5.9% gave no response, 1 respondent representing 5.9% also disagree, and 1 respondent representing 5.9% is neutral. However, 12 respondents representing 70.5% agree, and the remaining 2 respondents representing 11.8% strongly agree. From this analysis, it can be concluded that the Hospital"s internal audit is generally free from intervention in performing its duties.

Based on table 2, it was found that17 respondents, 1 representing 5.9% is neutral, 12 respondents representing 70.6% agree, and the remaining 4 respondents representing 23.5% strongly agree. From this analysis, it can be concluded that internal auditors at DOH freely include any audit findings in their audit report. Based on table 3, it was found that17 respondents, 1 representing 5.9% is neutral, 13 respondents representing 76.5% agree, and the remaining 3 respondents representing 17.6% strongly agree. From this analysis, it can be concluded that DOH"s internal auditors can audit operational areas for which they have previously had executive or management responsibility within the last year. Alsofrom table 4, it was found that17 respondents, 3 representing 17.6% are neutral, 11 respondents representing 64.7% agree, and the remaining 3 respondents representing 17.6% strongly agree. From this analysis, it can be concluded that, the internal audit function has strategic position to contribute to organizational strategy performance.

Again from table 5, it was found that 17 respondents, 1 representing 5.9% disagrees, 4 respondents representing 23.5% are neutral, 11 respondents representing 64.7% agree, and the remaining 1 respondent representing 5.9 strongly agree. From this analysis, it can be concluded that, the internal auditors undertake subsequent audits of a system, which they have previously been involved in consultancy on systems design.From table 6 it was found that17 respondents, 1

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representing 5.9% strongly disagrees, 5 respondents representing 23.4% are neutral, 10 respondents representing 58.8 % agree, and the remaining 1 respondent representing 5.9 strongly agree. From this analysis, it can be concluded that, the current structure of internal audit promotes objectivity, consistency and, business understanding. From table 7, it was found that 17 respondents, 1 representing 5.9% disagrees, 4 respondents representing 23.5% are neutral, 8 respondents representing 47.1% agree, and the remaining 4 respondents representing 23.5% strongly agree. From this analysis, it can be concluded that St. Dominc Orthopedic Hospital's internal audit activities, power and duties, and reporting lines of internal audit are clearly defined in the internal audit charter/policy. From table 8, it was found that 17 respondents, 6 representing 35.3% are neutral, 8 respondents representing 47.1% agree, and the remaining 3 respondents representing 17.6% strongly agree. From this analysis, it can be concluded that the Hospital's internal audit service plays a role in quality health service delivery.

From table 9, it was found that 17 respondents, 4 representing 23.5% are neutral, 10 respondents representing 58.8% agree, and the remaining 3 respondents representing 17.6% strongly agree. From this analysis, it can be concluded that the Hospital's internal audit service improves the quality health service delivery.

CONCLUSION

The primary role of internal auditing is directed at improving internal control in relation to effectiveness and efficiency of operations, safeguarding of assets, reliability and integrity of financial and operational information, and compliance with applicable laws and regulations.

Internal auditing is done by professionals. in an organization where the internal audit activities, power and duties, and reporting lines of internal audit are clearly defined in the internal audit charter/policy and the current structure of internal audit are effective it led to the promotion of objectivity, consistency and, business understanding which makes, organization achieved it goals. The internal audit function has strategic position contribute to organizational strategy performance

RECOMMENDATIONS

Management should continue to make sure that internal auditors are generally free from intervention in performing its duties without any interference.

Since the internal auditors at JOH has the freedom to include any audit findings in their audit report, management should also make sure that the internal auditors do not misuse their freedom because when freedom are misuse it lead to different thing all together.

Since the internal audit function has strategic position to contribute to organizational strategy performance. Management should make sure all the internal audit function strategic are well implemented so that organization continue to o achieved it goals.

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There is always room for improvement so management should make essential internal audit activities, power and duties, and reporting lines of internal audit which are clearly defined in the internal audit charter/policy and the current structure of internal audit which have led to the promotion of objectivity, consistency and, business understanding are always improved so that, organization will continue to o achieved it goals.

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