

**THE ROLE OF ORGANIZATIONAL CULTURE IN  
MODERATING THE RELATIONSHIP BETWEEN  
ETHICAL REASONING AND AUDITORS' ACCEDING  
TO CLIENTS' REQUEST**

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## ABSTRACT

Corporate governance (CG) entails legislation, provisions, structures, processes, cultures, and policies, leading to the realization of responsibility, transparency, justice, and observation of beneficiaries' rights. Due to the importance of the auditor's report and audit quality, the external auditor is assumed to be one of the most prominent components of this mechanism. Being ethical would prompt corporate governance to observe beneficiaries' rights and protect them from possible dangers, such as auditor acceding. Acceding to the client's request may jeopardize the auditor's independence and endanger the mechanism of CG. Investigations in the field of ethical decision-making or ethical behavior in the auditing profession are expanded toward the analysis of factors that influence the ethical reasoning abilities of auditors. It helps demonstrate the necessity of reconsidering approaches that would help enhance the ethical judgment of individuals in audit firms. This study compares the auditors' levels of ethical reasoning (as measured by P-scores) among members of the Iranian Association of Certified Public Accountants (IACPA) working in the private and public sectors. It also examines the possible relationship between the levels of ethical reasoning and the extent of auditor acceding for the two groups of auditors in Iran. The study explores the moderating role of the organizational culture in the relationship between ethical reasoning and auditors' response to the client's request (auditor acceding) within the same sample. Rest's DIT-2 instrument was used to measure ethical reasoning, while Organizational Culture Profile (OCP) was used to measure organizational culture. A survey questionnaire method was adopted in this study involving a total of 432 auditors who are members of IACPA. The data were analyzed using SPSS software (v.20).

An inverse relationship was reported between ethical reasoning and auditor acceding for the two groups of auditors, implying that higher levels of ethical reasoning will result in lower levels of acceding to a client's request in a conflict scenario. The findings indicate that the Iranian auditors could remain independent by not acceding to the client's request in a conflicting event. The results demonstrate that organizational culture moderates the relationship between ethical reasoning and auditor acceding. This study makes several contributions. It demonstrates that a higher level of auditors' ethical reasoning reduces the auditor's propensity to accede to the client's request in an ethical dilemma scenario. It was found that the organizational values moderate the relationship between ethical reasoning and auditor acceding. The results contribute to enhancing the understanding of the role of organizational culture in the development of organizational values in auditing firms. Applying the ethical reasoning measurement (DIT-2) in a

developing country context provides a new dimension in understanding the theory of moral reasoning since the majority of previous studies were carried out in developed countries.

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## ABSTRAK

Tadbir urus korporat (CG) merangkumi perundangan, peruntukan, struktur, proses, budaya, dan dasar, yang membawa kepada pencapaian tanggungjawab, ketelusan, keadilan, dan mengambil kira hak-hak benefisiari. Oleh kerana betapa pentingnya laporan juruaudit dan kualiti audit, juruaudit luaran dianggap sebagai salah satu komponen yang paling mustahak dalam mekanisme ini. Beretika akan mendorong tadbir urus korporat untuk mengambil kira hak-hak benefisiari dan melindungi mereka daripada kemungkinan yang tidak baik, seperti auditor yang tunduk kepada tekanan pihak pengurusan pelanggan. Tunduk kepada permintaan pelanggan boleh menjejaskan kebebasan juruaudit dan menjejaskan mekanisme tadbir urus korporat. Kajian dalam bidang pengambilan keputusan etika atau tingkah laku etika dalam profesion pengauditan diperluaskan untuk menganalisa faktor-faktor yang mempengaruhi keupayaan rationaliti etika juruaudit. Kajian ini membantu untuk membuktikan keperluan untuk mengkaji semula pendekatan yang boleh membantu meningkatkan penilaian etika individu dalam firma audit. Kajian ini membandingkan tahap rationaliti etika (seperti diukur oleh skor P) di antara anggota Persatuan Akauntan Awam Bertauliah Iran (IACPA) yang bekerja di sektor swasta dan awam. Ia juga mengkaji kemungkinan hubungan antara tahap rationaliti etika dan sejauh mana juruaudit yang tunduk kepada tekanan pihak pengurusan untuk kedua-dua kumpulan juruaudit di Iran. Kajian ini mengkaji apakah peranan budaya organisasi dalam hubungan antara rationaliti etika dan tindak balas juruaudit kepada permintaan pelanggan (juruaudit yang tunduk kepada tekanan pihak pengurusan pelanggan) dalam sampel yang sama. Rest's DIT-2 digunakan untuk mengukur rationaliti etika, manakala Organizational Culture Profile (OCP) digunakan untuk mengukur budaya organisasi. Kaedah soal selidik telah digunakan dalam kajian ini yang melibatkan sejumlah 432 juruaudit yang merupakan ahli IACPA. Analisa data telah dibuat menggunakan perisian SPSS (v.20).

Hubungan yang bertentangan telah diperolehi di antara rationaliti etika dan juruaudit yang tunduk kepada tekanan pihak pengurusan pelanggan bagi kedua-dua kumpulan juruaudit, memberi implikasi bahawa tahap rationaliti etika yang lebih tinggi akan mengurangkan kemungkinannya bagi juruaudit untuk tunduk kepada permintaan pelanggan dalam persekitaran konflik. Hasil dapatan ini menunjukkan bahawa juruaudit Iran adalah tetap bebas dengan tidak tunduk kepada permintaan pelanggan dalam perkara yang mereka berbeza pendapat. Hasil dapatan menunjukkan bahawa budaya organisasi mempengaruhi hubungan antara rationaliti etika dan juruaudit yang tunduk kepada tekanan pihak pengurusan pelanggan. Kajian ini memberi beberapa sumbangan. Ia menunjukkan bahawa tahap rationaliti etika yang lebih tinggi akan mengurangkan kecenderungan juruaudit untuk tunduk kepada tekanan pihak pengurusan pelanggan dalam persekitaran dilema etika. Hasil dapatan ini menunjukkan bahawa nilai organisasi memberi kesan ke atas hubungan di antara pemikiran etika dan juruaudit yang tunduk kepada tekanan pihak pengurusan pelanggan. Hasil dapatan daripada kajian ini menyumbang kepada peningkatan kefahaman tentang peranan budaya organisasi dalam pembangunan nilai organisasi dalam firma pengauditan. Penggunaan alat pengukur rationality etika (DIT-2) dalam konteks negara membangun memberikan dimensi baru dalam memahami teori rationaliti moral kerana kebanyakan kajian terdahulu telah dijalankan di negara maju.

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## CHAPTER 1: AN OVERVIEW OF THE STUDY

### 1.1 Introduction

Corporate governance (CG) entails legislation, provisions, structures, processes, cultures, and policies that lead to the realization of responsibility, transparency, justice, and observation of beneficiaries' rights (Chen, Ni, & Wu, 2014; Naeem, Hunjra, & Khalid, 2015; Tricker, 2015). When some big companies such as Enron and World Com collapsed in 2001, corporate governance caught the attention of the world, leading to the introduction of various principles, acts and guidelines on corporate governance (Bhagat & Bolton, 2009). The management, board of directors, internal and external auditors are the four essential elements of CG mechanisms that ensure the quality of financial reporting processes.

Management may act towards probably its own interests (Bhojraj & Sengupta, 2003). Therefore, a board of directors has a fiduciary duty to monitor the management performance and shareholders' interests. The external auditor plays a significant role in monitoring the financial reporting quality and, hence, can be viewed as an important participant in the governance process (see Cohen, Krishnamoorthy, & Wright, 2004). This role of the external auditor in corporate governance can be reflected in the auditor's report and his audit quality (Johnstone, Sutton, & Warfield, 2001; Spence & Rinaldi, 2014). The auditor's report gives an assurance to the users of financial statements that they can make appropriate decisions based thereon. He also fulfills the expectations of the beneficiaries (Mednick & Previts, 1987; Walker & Hay, 2013). Therefore, the external auditor is assumed to be one of the more prominent components in this mechanism (see Cohen, Krishnamoorthy, & Wright, 2004).



Recent accounting scandals, such as the one in Enron which caused the sacking of Arthur Andersen, show that it is necessary to reconsider ways of improving and enhancing the ethical behavior and judgment of individuals in auditing organizations. Investigations in the field of ethical decision-making in the audit profession are expanded toward the analysis of factors that influence the ethical reasoning abilities (as measured by P-scores) of auditors (Martinov-Bennie & Mladenovic, 2015).

Ethical practices are regarded as crucial elements in leading the accounting profession to achieve its full potential in interactions with the society as well as in terms of corporate governance. Ethical reasoning is known to be one of the factors that affect the ethical behavior of professional accountants (Jackling, Cooper, Leung, & Dellaportas, 2007; Ponemon, 1992b). It is a process through which accountants can be made ethical. Moreover, it demonstrates the extent to which accountants can develop their ethical behavior (i.e. level of ethical reasoning) (Jones & Ponemon, 1993; Martinov-Bennie & Mladenovic, 2015).

Further attention has been paid to auditor–client relationships, specifically the auditor’s responses to the client’s requests (i.e. auditor acceding). The auditor’s response on whether to accede to a client’s request is a specific situation regarding the auditor’s independence, and there is a need to examine whether or not it is ethical to accede to clients’ request. Being ethical would improve corporate governance and observation of beneficiaries’ rights and prevent auditors from unethical behaviors, such as undue acceding to clients’ requests.

A review of the existing literature established that organizational culture can contribute to decision making in organizations (Loe, Ferrell, & Mansfield, 2000; Nica, 2013). Furthermore, organizational culture determines whether or not a given action is an

acceptable behavior (Büschgens, Bausch, & Balkin, 2013; Jenkins, Deis, Bedard, & Curtis, 2008; Kusters, Damhorst, & Kunz, 2015).

This study examines the relationship between auditors' ethical reasoning (as measured by the P-score) and their acceding to clients' requests (or their ability to resist the client's management). In addition, the study investigates whether the organizational culture can moderate the relationship between auditors' ethical reasoning and their acceding.

The remainder of this chapter provides an overview of the present thesis. The following section (Section 1.2) presents the background of the study, and Section 1.3 describe the problem statement. This is followed by a discussion of objectives of the study in Section 1.4. In Section 1.5, the research process is proposed, and Section 1.6 presents the motivation for the research and its intended contributions. Finally, the organization of the study is given in Section 1.7.

## **1.2 Background of the Study**

Ethical reasoning and auditor's independence have taken a central position in the study of business ethics (Ahmad, Ansari, & Aafaqi, 2005; Mastracchio et al., 2015). They have encouraged a great deal of research in accounting to consider the role of accounting and auditing in the society as well as organizations (Holian, 2002; Martinov-Bennie & Mladenovic, 2015).

So far, researchers have focused on factors affecting the ethical behavior of auditors by considering a psychological framework. These frameworks (e.g., Jones, 1991; Trevino, 1986) are based on an ethical reasoning process that can answer the questions concerning what makes auditors more or less ethical (Abdolmohammadi & Baker, 2006; Cohen & Bennie, 2006; Ponemon, 1995; Tsui, 1996; Tsui & Gul, 1996). Some scholars revealed that there is a relationship between ethical reasoning and auditor's decision-

making (Windsor & Ashkanasy, 1995; 1996). For example, Ponemon (1992a) found that auditors with higher ethical reasoning can independently frame their ethical judgment to confront ethical dilemmas or client's pressure. Similarly, Low et al. (2008) indicated that auditors are expected to behave more ethically when their ethical reasoning is high and, therefore, can decide more independently facing immoral situations.

The literature on corporate governance mechanisms demonstrates the important role of auditors in audit quality. According to DeAngelo (1981), the auditor's competence and independence are the two vital components of audit quality. Furthermore, Koo and Sim (1999) defined a modern society as a society that gives authority to auditors to monitor the financial statements of companies, and the society expects them to play such a role faithfully. Therefore, auditors should act ethically in protecting the rights of investors and try to win public trust (Abdolmohammadi & Ariail, 2009; Mark S Schwartz, 2013).

Lack of auditor's independence leads to low audit quality (Church, Jenkins, McCracken, Roush, & Stanley, 2014; DeAngelo, 1981). Mills and Bettner (1992) mentioned that, although the public expect an auditor to detect and report any fraud in financial statements, some managers expect auditors to ignore it. The auditor may resist a client's pressure (Jenkins & Lowe, 2011; Knapp, 1985), or accede to the client's request (Church et al., 2014; Tsui, 1996).

Culture can be expressed as a determinant of values which, in turn, affects the ethical conduct of an individual (Cooper, Cartwright, & Earley, 2001; Kosters et al., 2015) or the pattern of basic assumptions shared by the members of an organization (Hogan & Coote, 2014; Schein, 1992). It can also indoctrinate the members in the practices and patterns of an organization (Pratt, 1987; Shafritz, Ott, & Jang, 2015). The role of organizational culture in such practices is essential to the developing and fixing of the

cultural countenance of selection and socialization, and it is evidenced by values in organisms and radical behaviors (Reigle, 2001).

Because the role of auditors is that of a gatekeeper in the corporate governance mechanism, identifying the ethical behavior as well as its impact on auditors' acceding can have important consequences for the mechanism. Therefore, this research investigates the impact of organizational culture on the relationship between ethical reasoning and auditors' acceding.

Concisely, this study examines the relationship between ethical reasoning and the auditor's response to the client's request. Specifically, how organizational culture affects this relationship is investigated in the context of Iran.

### **1.3 Problem Statement**

External auditors are one of the significant components of corporate governance mechanisms. The dominant role of the external auditor as a "gatekeeper" consists of helping to promote financial reporting quality, protecting stakeholders' rights, and maintaining public trust. Corporate governance relies on auditors as "gatekeepers" to preserve the stakeholders' and investors' interests (Bonaci, Strouhal, Müllerová, & Roubíčková, 2013; Palmrose, 2006).

In recent decades, the auditing profession has faced several scandals that have placed the profession in danger and have attracted considerable attention from the media. Corporate scandals have led to increased demands for moral behavior (i.e. ethical reasoning) within the auditing profession (Ferrell & Fraedrich, 2014). The role of the auditor has been questioned, and such kinds of corporate scandals cannot occur without the involvement of auditors, specifically those with immoral behavior (Larkin, 2000).

Since auditors have played a prominent role in such scandals, the auditing profession has received much attention (Blake & Gowthorpe, 2013) concerning research pertaining to ethical decision-making. Therefore, the factors that are effective for auditor's independence have been considered for research (Jackling et al., 2007; Ponemon, 1992b), such as auditors' ethical reasoning abilities. Scholars argue that, in recent scandals, the failure of auditors in decision-making can be attributed to "poor ethics" (Abdolmohammadi, Fedorowicz, & Davis, 2009; Agrawal & Cooper, 2014).

Ethical reasoning is defined as "*the process of the sorting out principles that help to determine what is when faced with ethical dilemmas*" (Cook & Hunsaker, 2001, p. 430). Since ethical reasoning has some effects on the style of the decisions made by auditors (Doyle, Frecknall- Hughes, & Summers, 2014; Gail Eynon, Hills, & Stevens, 1997), realizing ethical reasoning seems essential whenever auditors are confronted with dilemmas and conflicts during their audit processing. Flanagan and Clarke (2007, p. 488) for instance, mentioned that auditors and accountants might "lack the ability, the knowledge, and skills to analyze issues effectively, and when confronted with conflicting ethical problems cannot choose the way to move forward that is consistent with their own values" (p. 488).

An audit process may face a conflict between client management and auditors (Knapp, 1985; Patel, 2006). In other words, there is potential for a conflict between auditors and client management in the audit process (Ben Ali & Lesage, 2014; Patel, 2006). Because of the recurring theme of auditor independence, the auditor is not able to resist management pressure. Thus, in audit conflict situations, the role of auditor independence becomes more important (Ianniello, 2015; Knapp, 1985; Patel, 2006).

Moreover, the continuation of the audit profession depends on the auditor's independence ( Mednick & Previts, 1987). Regulators and audit standard setters require

auditors to be independent in their attitudes towards the audit process. However, to identify the auditor's independence, the audit quality should be taken into consideration (Francis, 2011; Francis & Michas, 2013).

As mentioned earlier, audit quality, as defined by DeAngelo (1981), involves two components. The first is the auditor's competence, and the second is the auditor's independence (i.e. withstanding the pressure of the client's management). An auditor's reluctance to disclose the detected flaws may create a conflict. In this situation, the auditors are expected to maintain their independence by withstanding the client's management pressure. On the other hand, a lack of auditor's independence may lead to three results including lower audit quality, poor public trust, and higher cost of the capital premium.

Since the relationship between ethical reasoning and auditor's independence (auditor's decision-making) is of great significance in the audit profession, previous studies have taken it into serious account. Studies on auditor's ethical reasoning have aimed to identify which behaviors and decisions are affected by their level of ethical reasoning and, more prominently, how these behaviors and decisions are affected (Carmichael & Swieringa, 1968; Strobel, Tumasjan, & Welp, 2015; Sweeney & Roberts, 1997). The investigation of this relationship indicates that auditors with a higher level of ethical reasoning make more ethical decisions and behave more ethically. For example, Ponemon (1992a) found that auditors with higher ethical reasoning can independently frame their ethical judgment when confronted by an ethical dilemma or client's pressure.

So far, researchers have examined some potential moderating variables in the relationship between ethical reasoning and decision-making, but no consensus has been obtained concerning suitable moderating variables. Some moderating variables have normally been applied in the accounting profession whereas they have been investigated

more in other fields, such as management. In other words, earlier investigations failed to consider the role of appropriate moderating variables, such as organizational culture. Trevino (1986), Jones (1991), Jenkins et al. (2008), and Curtis and Williams (2014) indicated that organizational culture is a vital element to influence decision-making. There appears to be no specific study with empirical evidence concerning the impact of the moderating role of organizational culture in the relationship between ethical reasoning and auditor's acceding.

It is worth mentioning that there has been no attempt to undertake a study on organizational culture in developing countries (Ahmad et al., 2005), such as in the Middle East region. The studies related to auditors' behavior (specifically ethical reasoning) have received little attention in this part of the world. Furthermore, the studies published in Western countries or other geographical regions would not be directly applicable to Asian countries, particularly the countries in the Middle East. This is because certain unique circumstances exist in the Middle East (Wagdy, 2001).

Omurgonulsen and Omurgonulsen (2009) mentioned that auditors' unethical behavior, such as financial scandals, are not specific to Western countries and may occur anywhere in the world. Wagdy (2001) stated that countries in the Middle East have their unique accounting policies and auditing systems. The standards in Middle Eastern countries are based on economic, social, political, cultural, legal, and environmental factors. Therefore, given the ongoing debate around the world, each country has taken measures to avoid an "Enron-gate" type of crisis (Low et al., 2008). With Asia and the Middle East being cases in question, the Iranian economy is no exception.

A large number of ethical and cultural studies have been conducted in Western countries whereas only a limited number of studies have been undertaken concerning the relationship between ethical reasoning and auditors' decision-making in the Eastern

context, such as Iran. Regarding the rapid growth of the economy and the stock market assets in Iran, the accounting profession is still in a state of flux (Noravesh et al., 2007).

The audit profession in Iran is greatly in need of professional conduct and moral rules for decision-making (discussed in chapter 2 in detail). In the past, the accounting codes of conduct were based on external audit firms (i.e. foreigner and international audit firms) or international regulations concerning professional conduct. However, as these codes are not consistent with the Iranian culture, they need to be amended, especially in terms of moral behavior. This is because several factors including a) the changes in the traditional accounting of Iran, b) auditing based on governmental institutions, c) the lack of a unitary regulation function, d) the lack of consideration for professional ethics, e) a delay in publishing national (or local) standards, and finally f) a delay in issuing guidelines for a professional code of conduct.

Considering the points above, it is necessary to examine the ethical behavior of Iranian auditors as well as their accession to clients' requests. Therefore, this study sheds light on this issue, thereby, filling the gap in the body of knowledge.

#### **1.4 Objectives of the Study**

The review of the literature on the audit profession suggests that auditors' behavior can be introduced by investigating their ethical reasoning. The general purpose of this study is to identify which behaviors and decisions of auditors are affected by their level of ethical reasoning, and, more importantly, how these behaviors and decisions are affected.

Specifically, this study investigates the principal difference between the levels of ethical reasoning (as measured by P-scores) of auditors working in private firms compared to those working in Audit Organization under the control of the government



(discussed in detail in Chapter 2). In particular, the study examines the impact of ethical reasoning on the auditor's decision-making among auditors, whereas, in the literature, most of the samples are students (Martinov-Bennie & Mladenovic, 2015) and little attention has been paid directly to auditors.

Also, the audit process may face conflicts between the client management and auditors. In other words, there is a potential for a conflict situation between auditors and client management in the audit process (Ben Ali & Lesage, 2014; Patel, 2006). Independence of auditors is a recurring theme because they are sometimes not able to resist management pressure. Hence, in audit conflict situations, the role of auditor independence becomes more important (Ianniello, 2015; Knapp, 1985; Patel, 2006). On this basis, this study examines the possible association between auditors' level of ethical reasoning and the extent of their response to clients' requests (auditor acceding) in private and governmental institutions.

So far, empirical studies in the audit profession have tested such moderating variables as climate, gender, and the locus of control, etc., whereas organizational culture has not been specifically examined as a moderating variable in the audit profession. In other words, earlier investigations failed to consider the role of appropriate moderating variables, such as organizational culture. Consequently, the current study investigates whether organizational culture plays any role in the relationship between auditors' ethical reasoning and their acceding.

Keeping the problem and the goal of the study in mind, the following research questions have been formulated:

- 1) Is there a significant difference in the levels of ethical reasoning between auditors who are a member of IACPA working in private firms and auditors of Audit Organization working under the control of the government?
- 2) Is there a significant relationship between the levels of ethical reasoning of the two groups of auditors in Iran and their propensity to accede to clients' requests?
- 3) What is the role of organizational culture in the relationship between the ethical reasoning of the two groups of auditors in Iran and their propensity to accede to clients' requests?

In summary, the specific objectives of the study are:

- 1) To investigate whether there is a significant difference in the levels of ethical reasoning (as measured by P-scores) between auditors who are members of the Iranian Association of Certified Public Accountants (IACPA) working in private firms and auditors of Audit Organization working under the control of the government.
- 2) To examine the relationship between levels of ethical reasoning (as measured by P-scores) and auditors' propensity to accede to the client's request for the two groups of auditors in Iran (i.e. public auditors versus governmental auditors).
- 3) To examine the role of organizational culture in the relationship between the levels of ethical reasoning of the two groups of auditors in Iran and their propensity to accede to the client's request.

## **1.5 Research Process**

Iranian auditors in private and governmental organizations who hold IACPA certificates serve as the study population of this research. A section of the questionnaire is dedicated to identifying the level of ethical reasoning among the respondents. The measurement is performed based on the Cognitive Developmental Theory of Moral Reasoning. Moral development occurs in six stages in a step-by-step upward progression

from the lower stages of self-interest to the middle stages of law abidance, and then to the higher stages of adherence to universal principles of justice and human rights.

The theory owes much of its acceptance to the development of the Defining Issues Test (DIT) instrument by Rest (1979). A shortened version of DIT (DIT-2, Rest & Narvaez, 1998), as a generic instrument to collect data of accountants' moral reasoning, was applied for the first time in the context of Iran and, specifically, in the auditing profession. It produces the Principled Score (P-score), which represents an individual's preference for Kohlberg's high stages of principled moral reasoning.

The researcher modified the questionnaire based on the advice from various academics in the field of auditing. A pilot study was conducted to check the irrelevant items of the questionnaire. The first group of auditors included 255 IACPA firms in Iran in 2012-13 of which 113 firms were trustful in Tehran Stock Exchange (TSE). The second group, the audit organization, included over 1500 auditors who were divided into branches in the major cities in Iran.

The lack of literature on organizational culture, ethical reasoning and audit firm culture was among the constraints of the study. For example, there was no ranking of P-scores to compare the results or the cultural dimensions of audit firms. In fact, at the time of distributing the questionnaire, the target population of auditors was unknown. In summary, the research problem was identified in the first phase. Then, the conceptual and theoretical structures, including causal links and chains, were developed. After that, the theoretical constructs, as well as their relationships, were operationalized and tested by stating specific hypotheses. In the next phase, the research design was constructed and then implemented by sampling and gathering data. To test the hypotheses, the observations were analyzed. Finally, the results were evaluated before the limitations and constraints were specified.

## **1.6 Motivation for and Contribution of the Research**

The studies conducted on auditors' ethical reasoning have sought to identify which behaviors and decisions are affected by the level of ethical reasoning, and, more importantly, how the behaviors and decisions of auditors are affected (Carmichael & Swieringa, 1968; Sweeney & Roberts, 1997). The possible influence of organizational culture on decision-making has also been examined in accounting (see for example Jenkins et al. 2008; Loe et al., 2000). However, empirical studies in respect to organizational culture have received scant attention. In other words, previous investigations did not adequately consider the role of appropriate moderating variables, such as organizational culture in the relationship between ethical reasoning and auditors' responses to clients' requests.

Therefore, this study examines the association between the levels of ethical reasoning of auditors (as measured by P-scores) and the extent of auditors' responses to clients' requests (auditors' acceding) in private and governmental institutions.

Although various studies have been conducted in the field of ethical reasoning and auditors' decision-making in developed countries, the lack of empirical research in developing countries, especially in the Middle East, is evident. Furthermore, recent global corporate failures have damaged public trust. Audit scandals and auditors' unethical behavior is not unique to Western countries. It may occur anywhere in the world. Therefore, researchers suggested further investigation of auditors' behavior, ethical reasoning and their independence in other countries (see for example Low et al., 2008; Omurgonulsen & Omurgonulsen, 2009). Furthermore, given its importance, each country has taken measures to avoid an "Enron-gate" type of crisis (Low et al., 2008). With Asia and the Middle East being cases in point, the Iranian economy is no exception.

Firstly, in the case of Iran, a snapshot in regard to accounting can be shown as follows. There is an integration among Iran's economic, social, political, cultural, legal aspects and its auditing profession (Wagdy, 2001). Therefore, a) Iran can serve as an ideal research setting to add new evidence to the literature; b) the audit profession in Iran is developing; c) there is a lack of proper oversight of the Iranian audit profession; d) the audit standards have not been enforced; and, e) there is an inadequate emphasis on ethical considerations in the auditing literature.

Secondly, the audit profession in Iran provides a unique environment. Two groups of professional auditors can audit the listed companies in Tehran Stock Exchange. The first comprises auditors who work under the control of the government in the audit organization, and the second consists of those who work as members of the Iranian Association of Certified Public Accountants (IACPA) and are regarded as private firms. Furthermore, according to Saffar (2010), most of the auditors tend to work in the audit organization (as a governmental firm) rather than IACPAs, and, more importantly, it seems the companies in Tehran Stock Exchange are more likely to be audited by the audit organization (Saffar, 2010). In fact, although the Iranian government has placed great emphasis on privatization, the Audit Organization, rather than IACPAs, has continued to audits most of the companies in Tehran Stock Exchange in recent years.

Moreover, the public rightly expects government officials to be more ethical (Mujtaba, Tajaddini, & Chen, 2011). Some argue that managers in governmental organizations are more oriented toward stronger ethical values and moral behavior than managers in the private sector, who appear to be more skeptical and indicate lower ethical values (Chen, Berman, West & Eger, 2013; Fryxell & Lo, 2001; Mujtaba et al., 2011; Svensson & Wood, 2004; Thompson, 1992). Working in a governmental organization may increase employees' level of moral maturity, due to the strict rules and regulation applied in these

agencies (Fryxell & Lo, 2001; Mujtaba et al., 2011). Since the moral behavior of auditors reflects their independence, and, as most companies in Tehran Stock Exchange tend to be audited by the audit organization, the question that arises is “Are auditors in the Audit Organization more independent than those in IACPAs?” In other words, “Are auditors in the Audit Organization more ethical than those in IACPAs?” Therefore, the researcher was encouraged to deal with the issue in the context of Iranian accounting to fill the corresponding gaps.

In summary, this thesis contributes to the present body of knowledge by providing insights into the role of organizational culture in auditors’ ethical decision-making in a conflict situation. Moreover, the study supports the aspiration of the government to develop a financial background for privatization.

## **1.7 Organization of the Thesis**

This thesis is organized in three different phases including the review of the literature, data collection process, and discussion of findings (see Figure 1.1). These phases are organized into seven chapters as follows:

### **CHAPTER ONE: AN OVERVIEW**

The chapter provides an overview of the study highlighting the background, statement of the problem, research questions, research objectives, motivation and contribution of the study, and a snapshot of the research.

### **CHAPTER TWO: ENVIRONMENT OF THE STUDY**

Chapter two discusses the history of accounting, auditing profession, national and organizational culture in the context of Iranian auditors. In this chapter, the historical processes that led to the establishment of the audit organization and Iranian Association of Certified Public Accountants are presented. These processes are classified into three periods of time, and a review of the organizational culture is offered of accounting and

auditing firms in Iran. Furthermore, the national culture background and the organizational characteristics of Iranian auditors are discussed in this chapter.

### **CHAPTER THREE: ETHICAL REASONING, AUDITOR ACCEDING, AND ORGANIZATIONAL CULTURE**

This chapter discusses the ethical reasoning in the accounting profession as well as the relationship between ethical reasoning and auditor acceding. A basic understanding of ethical reasoning in audit firms seems to be indispensable, as it provides a general framework to guide the conduct of auditors in conflict situations. Furthermore, this chapter discusses the possible influence of culture on auditors' decision-making.

This chapter also argues the organizational culture in accounting and auditing firms around the world. A theoretical framework for the study is put forward, whereby O'Reilly et al.'s (1991) model of cultural norms and values is discussed. At the end of the chapter, a summary of some pieces of research relevant to ethical reasoning and auditor acceding is given in tables.

### **CHAPTER FOUR: THEORETICAL MODEL AND HYPOTHESES DEVELOPMENT**

Chapter four provides a theoretical model and develops the corresponding hypotheses. Moreover, the relationship between the research questions and the research hypotheses is discussed.

### **CHAPTER FIVE: METHODOLOGY AND RESEARCH DESIGN**

Chapter five introduces the methodology and the research design in which some details are given concerning how the research is conducted. Ontological and epistemological approaches are examined in this chapter. Also, the rationale for using a survey questionnaire as well as applying appropriate statistical methods for data analysis is explained. Finally, a discussion is made on the pilot study carried out in the process of developing the questionnaire.

## **CHAPTER SIX: RESULTS AND DATA ANALYSIS**

Chapter Six reports the empirical findings and the data analysis techniques used in this study. The results entail a preliminary analysis, descriptive statistics, correlational analysis and regression analysis. It provides a brief discussion regarding the analyses above, and the results of the hypotheses testing are presented. The overall findings of the study are also presented in this section.

## **CHAPTER SEVEN: DISCUSSION AND CONCLUSION**

The last chapter presents a comprehensive discussion of the findings and results of this thesis. It raises additional insights into the findings of prior studies. In particular, the findings provide empirical evidence concerning the relationship between the ethical reasoning and auditor acceding. This study investigates the impact of organizational culture as a moderating variable in the relationship between ethical reasoning and auditor acceding. The chapter explains the theoretical, practical, and policy-making contributions of the study. The results of the current study showed that most auditors in both governmental and private firms were less likely to accede to the client's request. Organizational culture as moderating variable was examined at three levels (low, medium, and high). The results demonstrated the significant influence of the organizational culture on the relationship between auditors' ethical reasoning and auditor acceding. Finally, the chapter discusses the limitations of the study, its contributions, and directions for further research. The study attempted to take unique environments of audit profession into consideration. The regulations for accompanying research and collecting data in Iran were very tight.



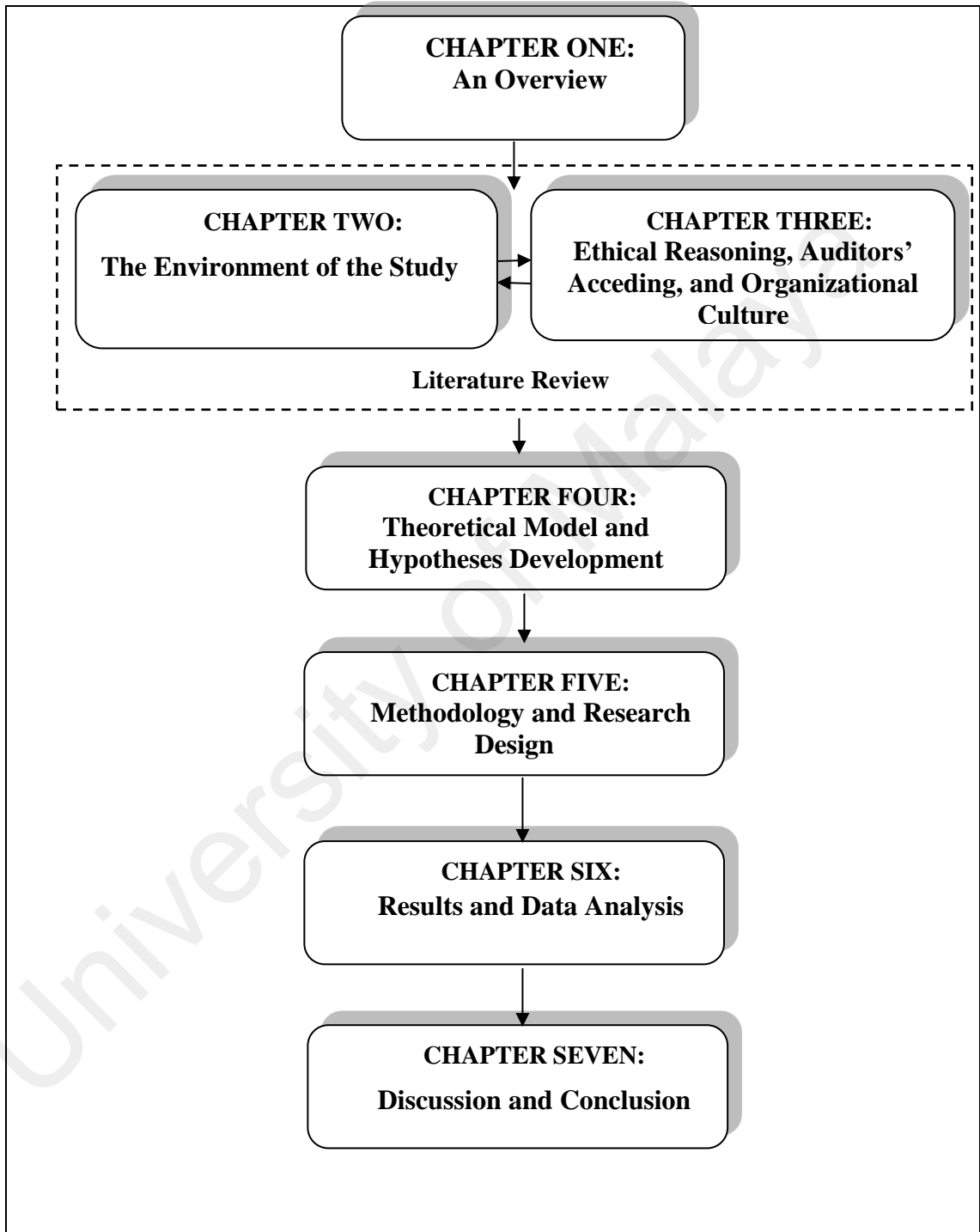


Figure 1. 1: Overview of the Thesis

## CHAPTER 2: THE ENVIRONMENT OF THE STUDY

### 2.1 Introduction

This chapter summarizes the practice of professional accounting and auditing in Iran, and provides an overview of the national and organizational cultural perspective. Iran is the 18th largest country in the world and the largest country in the Middle East<sup>1</sup> (Mashayekhi & Mashayekh, 2008) regarding area (1,648,195 km<sup>2</sup>), is an ethnically diverse country with a population of around 77 million, as shown in Figure 2-1.



Figure 2. 1: The Location of Iran

This chapter is divided into two sections. The first include Sections 2.2 and Section 2.3, where the former discusses the audit profession, while the latter details the role of auditors in Iran. The second section discusses national culture and organizational culture in Iranian audit firms in Section 2.4 and 2.5. This chapter is summarized and concluded in Section 2.6.

<sup>1</sup> “The country is bordered on the north by Armenia, Azerbaijan and Turkmenistan. As Iran is a littoral state of the Caspian Sea, which is an inland sea, Kazakhstan and Russia are also Iran's direct neighbors to the north. Iran is bordered on the east by Afghanistan and Pakistan, on the south by the Persian Gulf and the Gulf of Oman, on the west by Iraq and on the northwest by Turkey”. (<http://en.wikipedia.org/wiki/Iran>).

## **PART ONE: The Audit Profession in Iran**

This subsection discusses the concepts related to the audit profession in Iran, which aims to represent a classification based on the conditions and evolutions dominating the profession in Iran dating back to a century. Other classifications can also be offered based on this era while accounting history in Iran dates back 6000 years (see Mashayekhi & Mashayekh, 2008). Therefore, accounting in Iran involves a prominent part of its history in the context of realizing modern accounting concepts, and this section introduces a simple classification of this history in recent century.

### **2.2 Background of the Audit Profession in Iran**

This section will discuss the background of professional accounting and auditing in Iran. Because the context of this study is Iran, and there is no similar study being conducted herein, carefully discussing its background will contribute to further findings that could be compared to findings pertaining to other cultures. Section 2.2.1 reviews the accounting and auditing history in Iran, which is in turn divided into three phases. Section 2.3 discusses the utilization of auditors and professional accountants in Iran.

#### **2.2.1 Accounting and Auditing History of Iran**

Accounting in Iran dates back 6000 years. The initial accounting documents were dated to 3600 B.C (Mansouri, Priayesh, & Salehi, 2009). From evidence pertaining to ancient Iran, since 500 B.C, all public revenues and costs were documented (Salehi & Rostami, 2010). Evidence of modern accounting and auditing in Iran, however, dates to the early 20th century. The modern evidence reveals that Western financial reporting systems were mostly used on Iran's accounting profession (Salehi & Rostami, 2010).

Accounting history, professional accounting, and auditing in Iran can be classified into three different periods; encompassing pre-1979, during the early stage of the revolution (1979-2001), and the reestablishment period of the accounting profession (2001-present).

### **2.2.1.1 Accounting and Auditing History in Iran Before 1979**

In the first half of the 20th century in Iran, the practice of auditing was traditional. This began to change during the 1940s, when modern auditing practices were introduced. A few Iranian students were educated in UK institutions and obtained the necessary qualifications to be certified accountants (Nasrabadi, 2006). In 1932, the Melli Bank (the Iranian National Bank) sent 12 students to the UK for exactly this purpose (Mirshekary & Saudagaran, 2005; Nasrabadi, 2006; Shafiei & Rusnah, 2014).

In the 1940s, the auditing profession was founded on the basis of the rules and regulations of certain international auditing firms, namely Price Waterhouse, Whinney Murray, and Arthur Young. However, these foreign audit institutions in Iran were unacquainted with the local culture<sup>2</sup>.

Eventually, via the endeavor of some graduates, the National Iranian Oil Company (NIOC) approved the establishment of an accounting academy in 1957. Since then, the Academy, also known as the University of Accounting and financial sciences, has offered courses that are, or on par, with MS in accounting (Previts, Walton, & Wolnizer, 2012). However, students are still being sent to the UK to study accounting, mostly to create a diversified environment in the field of accounting in Iran (Mashayekhi & Mashayekh, 2008). This is reflected in the creation of departments pertaining to accounting in organizations such as Institute of Banking Sciences, Business Faculty, Science Ministry, University of Tehran, and National University.

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<sup>2</sup> Due to the governmental policy after 1979, the Big International Audit Firms (at the moment Big 4) are not allowed to operate in Iran.

Changes in the accounting system are inadequate to initiate auditing in Iran. The functional characteristics of industries, management services, as well as the development of these services in the companies necessitate the emergence of auditing. The goals of auditing are first outlined in the Income Tax Law of 1949.

In 1949, the Commercial Law (Commercial Law for acceptable bills and discounted notes) was ratified by the National Assembly (Previts et al., 2012). The Law of Governmental Accounting and Public Accounting (Audit Law Public Act) gained its approval from the National Assembly in 1950. In the late 1960s and early 1970s, Iran underwent a fast growing economy (Mashayekhi & Mashayekh, 2008; Mirshekary & Saudagaran, 2005), which promoted the industrializations and privatizations of businesses. Subsequently, modern accounting, auditing practice, and education became necessary (Previts et al., 2012). It should also be pointed out that these all took place without a standardized national accounting practice.

The Tax Law, Stock Exchange, and Corporate Law (Mirshekary & Saudagaran, 2005) is vital for the accounting and auditing system. The public accounting and auditing profession were dominated by the Big Eight (Mashayekhi & Mashayekh, 2008). The foreign consultants (Big Eight consultants) provided systematic and technical services to the managers of industrial systems (Khodadoust & Frishkoff, 1979), which prompted tangible evolutions in the accounting systems of industrial institutions. New methods and systems were then introduced to the industry. The continuation of this consultancy demands that the Big Eight establish branch offices in Iran and organizations such as like Coopers & Lybrand, Winy Merry, Pitmarvic, and Price Waterhouse were present and fulfilled this role (Previts et al., 2012).

The emergence of local Iranian auditors trained by the Big Eight, as well as the presence of foreign accountants, contributed immensely to the auditing and accounting

profession in Iran. In fact, this contribution resulted in certain financial and cost accounting systems to be designed for the modern industry in Iran. As a result of this, they played an important role in the extension of new accounting systems in Iran (Mashayekhi & Mashayekh, 2008; Mirshekary & Saudagaran, 2005). Therefore, it can be surmised that modern auditing was established via the practice of numerous international companies and organizations operating in Iran at that time.

In 1961, the Iranian Institute of Advanced Accounting (IIAA) was founded as the first specialized vocational accounting school in the country. They provided educational research and practical training in financial, managerial, and governmental accounting, as well as auditing. This school was the largest private accounting and auditing institution in the Middle East for many years (Previts et al., 2012).

In 1932, the term “inspector” entered the Business Act, and in 1949, it entered the lexicon of the Income Tax Law. This was the first seed that eventually became the practice of auditing. However, neither explicitly introduced the concept of auditing. Thus, auditing was not regarded as a considerable practice for many company types. Controlling revenues and expenditures was the consequence of a constitutional accounting evolution in Iran (Shafiei & Rusnah, 2014). Based on the Direct Tax Law of 1963, the Certified Public Accountants Association was established. Following the Law, the Center of Iranian Official Accountants was founded in 1966 (Mashayekhi & Mashayekh, 2008). In 1972, the Iranian Institute of Certified Accountants was established as a non-governmental association by a group of Iranian founding members, who were also members of the UK’s accounting institutes. In 1967, the Tehran Stock Exchange (TSE) was formed, and they demanded that listed companies present financial statements. These companies were required to be audited by independent public accounting firms (TSE, 2011).

During the 1960s and 1970s, the economic growth in Iran was remarkable, paving the way for the establishment of the Iranian Institute of Chartered Accountants. However, formal training of professional auditors and accountants were routinely ignored. In fact, this growth demanded the formal training of professional auditors. It should be pointed out that this training should be based on the appropriate scientific resources, were obtained from translating foreign resources. Moreover, the fact that translations seemed to be poor in Iran should have also been taken into account, as no formal authority took responsibility for it. This status remained unchanged up to Islamic revolution in 1979.

#### **2.2.1.2 Early Stage of the Revolution (1979-2001)**

After 1979, structural changes took place in Iran with the immediate nationalization and later privatization in the 1980s. In accordance with the laws and regulations approved by the Revolutionary Council, most of the companies became either profit or nonprofit, which were supervised by the government (Noravesh et al., 2007). As a result of this policy, the accounting profession was drastically altered. For instance, the Iranian Institute of Chartered Accountant was terminated, which led to the establishment of auditing institutes that were governmental. However, the nationalization of most industries circumvented this lack of need, and as a result of this, some auditing institutes were established under the auspices of the government.

The Revolutionary Council signed a bill to confiscate many enterprises or place them under direct government supervision in 1979. Back then, private companies and enterprises remained under state control. Subsequently, three audit firms were established to audit and perform a legal examination of these government enterprises. These audit firms are regarded as being a part of the public sector, namely Nationalized Industries and Plan Organization Audit Firm (1980), Mostazafan Foundation Audit Firm (1981), and Shahed Audit Firm (1983) (Previts et al., 2012; Shafiei & Rusnah, 2014).

These government audit firms underwent a merger, forming the audit organization in 1987, in an act ratified by the Iranian national parliament. It was under the control of Ministry of Economic Affairs and Finance. The audit organization served three prominent functions within the accounting realm, including setting national accounting and auditing standards, statutory examination of governmental companies, and auditing private and public companies (see Shafiei & Rusnah, 2014).

For the first 10-15 years after 1979 (the revolution), the audit of profit and nonprofit entities remained in limbo. A system of professional accounting and non-governmental auditing were almost ignored, and only government organizations were audited accordingly (Previts et al., 2012).

The accounting profession did not experience a developing growth vis-à-vis the incompetence of the private auditing sector. Privatization growth, as well as compensation for such incompetency, led to the Act of the Use of Specialized and Professional Services of Qualified Accountants as Certified Public Accountant, which was ratified in 1993. Consequently, the Iranian Association Certified Public Accountants (IACPA) was established in 1994 to provide specialized services and employ officially qualified professional accountants.

### **2.2.1.3 Reestablishment Period of the Accounting Profession (2001-Present)**

In 2001, the Iranian Association Certified Public Accountants (IACPA) began operating. According to Article 2 of “Use of Specialized and Professional Services of Qualified Accountants as Certified Public Accountant Act,” the purpose of the association was based on a set of community aims, which were improving the accounting and auditing profession and professional supervision. Its aim was to monitor the work of certified public accountants. Moreover, it improved and expanded its services via professional assistance, including promoting accounting and auditing standards, financial services, and



professional regulations.

Some professional regulations and basic Iranian accounting standards issued in December 1998 were approved in March 2000. Moreover, according to Noravesh et al. (2007), although the industrial privatization and invitations for foreign investment was supported by the government and made an official policy since 2002 in Iran, accounting has generally been used for tax purposes (if IACPA also utilized auditing in order to avoid tax, it could result in a catastrophe). Therefore, legal responsibilities and accounting information are not transparent, particularly in the private sector, where businesses eschew detailed accounting for fear of increased tax remittance.

The function of IACPA is very similar to AICPA in the USA. In 2002, a new feature was added to the Direct Taxation Act, which explicated the auditors' role in a company. According to this Act, the audit organization or members of IACPA can draw up tax reports. The tax reports will be acceptable to the government without any further exploration of the accounts, and forms the basis for issuing tax assessments (Ministry of Finance and Economic, 2001).

To oversee Iranian financial markets and regulatory activities, the Securities and Exchange Organization (SEO) was founded in 2006 on the basis of the Securities Market Law. This organization was established to regulate activities of financial service firms in compliance with Sharia Law (SEO, 2011).

Existing institutions, such as IACPA and audit organizations, are regarded as practical facets of the accounting profession, as there were no specific institutions that are responsible for accounting research. To promote scientific research pertaining to accounting, the Iranian Accounting Association (IAA) was founded in 1997, and began operations in 2003.

To elucidate economic transactions, expand the tax basis in compliance with consumption, increase tax income reliable for the government and develop tax justice, the law on “Value Added Tax” (VAT) was ratified in 2008. As a result of this, the auditing profession was confronted with a new approach, indicating the need for more auditors for VAT auditing of companies. Since 2008, the audit profession has not undergone any significant legal changes, and it has been more oriented toward scientific theoretical concepts. Therefore, IAA can be formally identified as the one being responsible for research in accounting and auditing fields. Recently, national accounting conferences have been held almost biannually. On April 12, 2014, the national accounting conference was held under the aegis of IAA. In fact, the first International Conference of Accounting in Iran was held in 2010, with the corporation of IAA. The chronology of auditing profession in Iran can be divided into the form shown in Table 2.1

**Table 2. 1: Chronology of the Audit Profession in Iran**

Year	Important events
Before revolution (1979)	Modern accounting started in the 1940s based on the emergence of international institutions, following the rules of international auditing and continued to 1970s.
	During the 1960s and 70s, there was the growth of the economy. As a result, Iranian Institute of Chartered Accountant was established.
Early stage of the revolution (1979-2001)	There was less emphasis on the culture and adaptation of Western accounting and auditing standards.
	Iranian Institute of Chartered Accountant terminated.
	Most of the companies were confiscated and supervised by the government.
	Three existing public audit institutions terminated & merged into one named audit organization (1987).
Reestablishment period of the accounting profession (2001-present)	Iranian Association Certified Public Accountants (IACPA) was established in 1994 and started its activities in 2001.
	Initially, the accounting procedure was revolutionary; later on, it became rule-governed.

### **2.3 The Role of Auditors in Iran**

The members of IACPA and the partners of accounting firms are called “professional accountants.” The members of IACPA are obligated to qualify for valid certificates. Those who hold CPAs can set up audit firms and provide services pertaining to accounting, auditing, and taxes (Ahmadi, 2010; Amani & Davani, 2010; Naderian, 2010).

According to the Direct Tax law, all legal entities (e.g. listed companies in the Stock Exchange, stock firms that want to join the stock exchange, and all real persons) whose turnover exceeds eight billion Rials (USD 800,000) annually, or whose total assets exceed 16 billion Rials, need to be audited by members of the IACPAs (Amani & Davani, 2010; Arab Salehi & Velashani, 2009; Naderian, 2010).

In 2013, there were 255 IACPA firms in Iran, among which 113 firms were trusted by TSE, and only two firms have a total of eight partners (Molkaraee, 2013). The biggest IACPA firm employs less than 200 people, which is a huge personnel gap between them and their foreign counterparts (Naderian, 2010). Furthermore, according to government policy, the Big 4 are not allowed to operate in Iran, and the accounting firms that are in operation in Iran are regarded as being small (Molkaraee, 2013; Naderian, 2010).

In contrast to IACPA firms, the audit organization is regarded as the largest audit firm in the Middle East (Amani & Davani, 2010; Previts et al., 2012), where at least 229 certified public accountants and 1500 auditors are employed (Amani & Davani, 2010; Molkaraee, 2013). Furthermore, the audit organization can audit all listed public firms, public joint stock firms, as well as IACPAs. This is another gap between this organization and international accounting firms in terms of public tasks. However, audit organization plays an important role in the audit profession in Iran (Previts et al., 2012), such as setting the national standards as well as publishing accounting books and journals.

Industrial privatization is likely to increase professionalism, which corresponds to a decrease in legal control. Increasing independent professional influence can lead to a decrease in the uniformity of practice. On the other hand, increased foreign investment may likely result in increasing transparency in accounting practices, with a corresponding decrease in the practice of confidentiality. “Therefore, following the fast growing economy and active stock market in Iran, both cultural and accounting values, already in a state of flux, are expected to continue changing in the future” (Noravesh et al., 2007, p. 269).

## **PART TWO: NATIONAL CULTURE AND ORGANIZATIONAL CULTURE IN IRANIAN AUDIT FIRMS**

Corporate governance consists of legal and cultural orders that determine the orientation of the companies' functions. The available elements in this mechanism include stockholders, the board, management, and other stakeholders and auditors who are provided with the possibility to be somehow effective upon the company's affairs. Auditors are regarded as one of the essential components of this mechanism that carry the cultural values of their organizations. The following subsection introduces the auditors' cultural situation in the context of Iran including national culture and organizational culture in Iranian audit firms.

### **2.4 Iranian National Culture**

Iranian society comprises of a considerable number of ethnicities such as Turks, Turcoman, Persians (large majority), Lors, Baluchese, Kurds, and Arabs (Dastmalchian, Javidan, & Alam, 2001). Although the different ethnicities share similar historical backgrounds, they preserve their respective cultures and languages (Javidan & Dastmalchian, 2003). Farsi (Persian) is the recognized official language. Moreover, Iran is far from ethnically homogenous, which is a common misconception about the country from the perspective of foreigners (Dastmalchian et al., 2001).

Iranian culture is barely a subject of study, and information on Iranian culture is scarcely available in the literature. This is exemplified by the fact that for over 60 years of modern accounting in Iran, there is still a lack of investigation on the accounting and auditing profession (Molkaraee, 2010). A discussion on the Iranian national culture will take into consideration three levels of cultural concepts: macro, meso and micro.

Cultural studies can be classified into two main perspectives: national and organizational. Hofstede (1985) and House et al. (2004) have studied the cultural aspects of the Iranians and the former has pointed out that national culture in Iran is based on the organizational culture of IBM. Hofstede researched cultures of different countries including Islamic Republic of Iran and within the Iranian context proposed a few cultural dimensions, such as power distance (score 58), individualism vs. collectivism (score 41), masculinity vs. femininity (score 43), uncertainty avoidance (score 59), and long-term vs. short-term orientation (score 14). As a matter of fact, subsequent research on the cultural status of Iran have frequently quoted Hofstede's study. The cultural dimensions are defined and described as follows:

**Power distance**, as a dimension of national culture with a score of 58 indicates that Iran belongs to a hierarchical society. In other words, Iranians believe in the hierarchical order within their society in which every person occupies a place designated and which needs no further justification. Hierarchy in such an organizational context is seen to reflect inherent inequalities such as subordinates expect to be told what to do, and the ideal authority is a benevolent autocrat.

**Individualism** is the degree of interdependence a society maintains among its members. It has to do with whether people's self-image is defined as "I" or as "We." Generally, in individualist societies people are expected to take care of themselves and their immediate family. On the other hand, in collectivist societies, people belong to "in

groups” that take care of them in exchange for their loyalty. Iran, with a score of 41 is considered a collectivistic society. The loyalty is manifest in its long-term commitment to the member “in group”, be it a family, an extended family, or extended relationships. Loyalty in a collectivist culture is of paramount importance and over-rides most other societal rules and regulations. Moreover, the society fosters strong relationships in which every person takes responsibility for the fellow members of his or her group. In collectivist societies, offense leads to shame and loss of face, employer/employee relationships are perceived in moral terms (like a family link), hiring and promotion decisions take account of the employee’s in-group, management is the management of groups.

### **Masculinity vs Femininity**

A high score on the dimension of Masculinity indicates that the society will be driven by competition, achievement and success, with success being defined by the winner /the best in the field – a value system that starts in school and continues throughout organizational life. A low score on the dimension of Femininity indicates that the dominant values in society are caring for others and quality of life. A feminine society is one where the quality of life is a sign of success and standing out from the crowd is not admirable. However, what motivates people of a society to make a choice between the two alternatives is not explicit and is perhaps related to a number of factors.

Iran scores 43 on this dimension and is thus considered a relatively feminine society. In feminine societies, the focus is on “working to live”. Managers strive for consensus, people value equality, solidarity, and quality in their working lives. Compromise and negotiation resolve conflicts. Incentives such as free time and flexibility are favored. The focus of a feminine society is on the well-being of its citizens.

**Uncertainty avoidance** is related to the way a society deals with the actual existing state of that society with the assumption that future is unpredictable. This ambiguous condition is associated with anxiety and different cultures have learned to deal with this anxiety in different ways. The extent to which the members of a culture feel threatened by the state of ambiguity or unpredictable situations have led to beliefs and generated institutions that have attempted in avoidance which is reflected in the scores received. Iran scores 59 on this dimension and thus has a high preference for avoiding uncertainty. Countries exhibiting high uncertainty avoidance maintain rigid codes of belief and behavior and are intolerant of unorthodox behavior and ideas. In these cultures, there is a conscious adherence to rules (even if the rules never seem to work), time is money, people have an inner urge to be busy and work hard, precision and punctuality are the norms, innovation may be resisted, and security is an important element in individual motivation.

**Long-term orientation** describes how every society maintains some connection with its past while at the same time dealing with the challenges of the present and the future. But societies prioritize goals differently. Normative societies with a low score for example, prefer to maintain time-honored traditions and norms and view societal change with suspicion. Societies with a high score, on the other hand, take a more pragmatic approach. These societies consistently encourage their people to strive for a better future through their continuous efforts and budgeting. A very low score of 14 within the Iranian context indicates that it has a strongly normative cultural orientation. People in such societies have a strong concern with establishing the absolute truth. They exhibit a great respect for traditions.

The other scholars, House et al (2004), study was designed to replicate and expand on Hofstede's (1980) work and to test the various hypotheses that had been developed in particular on leadership topics. The researchers conducted 127 investigations in 62

countries or regions. Survey questionnaires (namely GLOBE Study) were structured and administered to more than 17000 middle managers in 951 organizations across three specific industries. Furthermore, House et al. (2004) developed nine cultural dimensions across actual society practice (“As Is”) and values (“Should Be”) in different cultural settings. These dimensions are performance orientation, future orientation, gender egalitarianism, assertiveness, institutional collectivism, in-group collectivism, power distance, human orientation and uncertainty avoidance. The dimensions are described as follows:

**Power distance** is the degree to which members of an organization or society expect and agree that power should be shared unequally.

**Uncertainty avoidance** the extent to which members of collectives seek orderliness, consistency, structure, formalized procedures, and laws to cover situations in their daily lives.

**Institutional collectivism** is defined as the level at which a society values and rewards collective action and resource distribution.

**In-group collectivism** reflects the level at which a society values cohesiveness, loyalty, and pride, in their families and organizations.

**Human orientation** refers to ideas and values and prescriptions for behavior associated with the dimension of culture at which a society values and rewards altruism, caring, fairness, friendliness, generosity, and kindness.

**Performance orientation** refers to the level at which a society values and rewards individual performance and excellence.



**Assertiveness** is a set of social skills or a style of responding amenable to training or as a facet of personality.

**Gender egalitarianism** reflects the level at which a society values gender equality and reduces role differences based gender.

**Future orientation** is the extent to which members of a society or an organization believe that their current actions will influence their future, by focusing on investing, in believing that they will have a future that matters, believing in planning for developing their future, and looking far ahead into the future for assessing the effects of their current actions.

There are a number of similarities as well as differences between the two studies in the way the concept of national culture is measured. For example, both studies include the dimensions of uncertainty avoidance and power distance. However, Hofstede's masculinity dimension is measured with the two dimensions of gender egalitarianism and assertiveness in the GLOBE study. Similarly, Hofstede's collectivism is measured with two constructs: institutional collectivism (collectivism I) and in-group collectivism (collectivism II). In contrast, Hofstede's long-term orientation is similar to future direction in the GLOBE study. Furthermore, performance orientation and humane orientation, two additional dimensions of culture in GLOBE are not observed by Hofstede. Thus, there are 18 culture scores for each country in GLOBE versus the five scores as witnessed in Hofstede' study.

It is noteworthy that the GLOBE study separately measures two distinct aspects of national culture – practices and values – for each of the nine dimensions as represented earlier. House et al. (2004) showed that Iran received the lowest score among 62 countries in the “assertiveness” dimension. Iran also acquired the lowest scores in “societal

collectivism,” “uncertainly avoidance,” “future orientation” and “gender egalitarianism” dimensions. In contrast, Iran ranked third in the dimension of “in-group collectivism.” Iran also ranked first in dimensions of “power distance,” “performance orientation,” and “human orientation.”

As previously mentioned, Iran is located in the Middle East, adjacent to Arab countries, and bordered on the north by Turkmenistan, Azerbaijan and Armenia, and on the south by the Persian Gulf and the Gulf of Oman, on the East by Afghanistan and Pakistan, in the West by Iraq, and on the northwest by Turkey. It has a total area of 1,648,195 km<sup>2</sup> and a population of 77 million. The Arabs brought Islam to Iran in the 7th century, and Iran was under Arab Islamic rule for over three centuries. Despite its geographical proximity to Arab countries, culturally, Iran has more in common with South Asian countries such as India, Indonesia, the Philippines, Malaysia and Thailand (Javidan & Dastmalchian, 2003; Shafiei & Rusnah, 2014).

According to House et al. (2004), in the Southern Asia cluster, leadership dimensions are viewed as contributing the most to outstanding leadership that considers charismatic/value-based and team-oriented leadership. In other words people desire leaders who are visionary and inspirational, possess high levels of integrity and are willing to make personal sacrifices. Using their administrative and interpersonal skills, leaders should also be able to engage in the successful building of teams and in creating cohesive working groups. People also believe that performance-oriented and team-building leaders are the most effective and efficient. While participative leadership is viewed positively, it is among the lowest scoring clusters for this leadership dimension. Human-oriented leadership is also viewed positively, and in fact is the highest scoring cluster for this leadership dimension. Self-protective leadership is viewed as having no impact on outstanding leadership, but is the highest of all GLOBE clusters on this

leadership dimension—most other clusters indicate it impedes outstanding leadership. These characteristics are consistent with the cluster’s prominent family and group orientation and high power distance. Overall, the profile of an outstanding Southern Asia leader would be someone who possesses charismatic, team-oriented, and humane-oriented leadership attributes. Such a leader would also be scored relatively high on self-protective behaviors, but would not be noted for elevated levels of participative leadership.

The nine dimensions of GLOBE’s investigation are explained more in House et al. (1999). Table 2.2 shows country and cluster means for GLOBE cultural dimensions adopted from Gupta et.al (2002). The cluster means of Iran, Malaysia, India and Thailand are reported with Iran demonstrating low scores in uncertainty avoidance, future orientation and institutional collectivism with respect to the other nations. Table 2.3 indicates Country and Cluster Means for GLOBE Second-order scale measuring six dimensions.

**Table 2. 2: Country and Cluster Means for GLOBE Cultural Dimensions**

	<b>Iran</b>	<b>Malaysia</b>	<b>India</b>	<b>Thailand</b>
<b>As Is</b>				
Uncertainty Avoidance	3.67	4.78	4.15	3.93
Future Orientation	3.70	4.58	4.19	3.43
Power Distance	5.43	5.17	5.47	5.63
Institutional Collectivism	3.88	4.61	4.38	4.03
Humane Orientation	4.23	4.87	4.57	4.81
Performance Orientation	4.58	4.34	4.25	3.93
Group and Family Collectivism	6.03	5.51	5.92	5.70
Gender Egalitarianism	2.99	3.51	2.90	3.35
Assertiveness	4.04	3.87	3.73	3.64
<b>Should Be</b>				
Uncertainty Avoidance	5.36	4.88	4.73	5.61
Future Orientation	5.84	5.89	5.60	6.20
Power Distance	2.80	2.97	2.64	2.86
Institutional Collectivism	5.54	4.87	4.71	5.10
Humane Orientation	5.61	5.51	5.28	5.01
Performance Orientation	6.08	6.04	6.05	5.74
Group and Family Collectivism	5.86	5.85	5.32	5.76
Gender Egalitarianism	3.75	3.78	4.51	4.16
Assertiveness	4.99	4.81	4.76	3.48

Adopted from Gupta et al. (2002)

Javidan and Dastmalchian (2003) applied cluster analysis to identify the cultural clusters of countries that were similar among themselves and different from those in other clusters. They demonstrated that this may be surprising to untrained observers. It is rooted in close historical ties between Iran and other South Asian countries and particularly India since the early 1500s. The Persian language was predominant in chancery and bureaucratic practices in South Asia and helped create a large Persian-speaking population who transmitted many aspects of Iranian culture in the region.

**Table 2. 3: Country and Cluster Means for GLOBE Second-order scale**

<b>Dimensions</b>	<b>Iran</b>	<b>Malaysia</b>	<b>India</b>	<b>Thailand</b>
Charismatic	5.81	5.89	5.85	5.78
Team-Oriented	5.90	5.80	5.72	5.76
Self-Protective	4.34	6.49	3.77	3.91
Participative	4.97	5.12	4.99	5.29
Humane	5.75	5.24	5.26	5.09
Autonomous	3.85	4.03	3.85	4.28

Adopted from Gupta et al. (2002)

Using Hofstede's cultural dimensions, Sharifian and Moaydi (2010) investigated a sample of 254 employees working in two public and five private organizations, on the dominant organizational culture in Iran. Their study was based on the perceptions of the employees regarding the organizational culture in their work situation. Their perceptions were analyzed on the basis of the ranking provided for each of the cultural dimensions. The results obtained demonstrated the differences between Arab countries and Iran's dominant culture. This study contradicted Hofstede Dimensions for Iran that indicated that Iran may conform more closely to Arab countries. Similar result was reported by Namazi (2003).

The next chapter will consider three levels of culture (macro, meso and micro) that appear to be very significant for the study. According to Erez and Gati (2004), the macro level of the global environment influences the national culture through top-down

processes, and that level further affects the meso level of organizations and groups, which in turn affects individual identity and cultural self-representation.

The country clusters according to GLOBE study adapted from House et al. (2004) is shown in Figure 2.2.

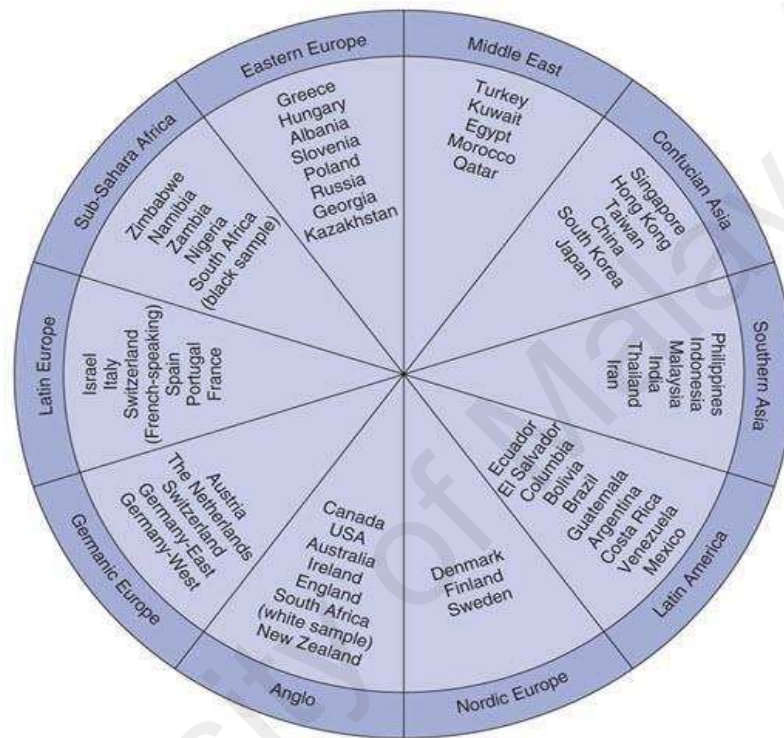


Figure 2. 2: The Country Clusters Adapted from House et al. (2004)

Reciprocally, as presented in Figure 3.1, bottom-up processes also take place.

At a time when most members of the organization share the new cultural norms, the bottom-up processes emerge from the individual level and permeate the group and organizational levels, whereby the modified organizational culture becomes a meso level construct. When the new culture is further shared by all organizations in a region, it becomes a national-level culture.

National culture (as a macro level) is related to deeply-held values such as good vs. bad, normal vs. abnormal. It has been seen as one of the most influential contingent

(situational) factors, which determines organizational phenomena. The national culture of a country is highly dominant and shapes the culture of organizations (as meso level) where they function (Lindholm, 1999). National cultural values may be held deeply but may change slowly from generation to generation. On the other hand, organizational culture includes vast procedures that are rooted in organizational practices learned in the work situation (as a micro level). Hofstede believes that due to the impact of meso level, bringing changes to the organizational culture would be both difficult and time consuming. For instance, in the integration of two or more companies, the underlying personal values of the employees and their perceptions on the corporate culture change is underestimated. It is noteworthy that leaders in any nation contribute continually in establishing the culture of an organization. Subsequently, the behaviors of the leaders are influenced and altered in response to the culture of the organization. That is, organizational culture influences the functions of leaders (House et.al, 1999; Schien, 1992).

The aspects can be adapted to Iranian national culture whereas, the GLOBE study identified Asia group (introduced above) as having a high level of power distance and group and family collectivism. According to their research, countries in this cluster have a strong orientation toward the future and performance. Also, this cluster values charisma, team orientation and humane orientation and self-protective items can be more meaningful features of national culture that may followed by individuals in Iranian organizations.

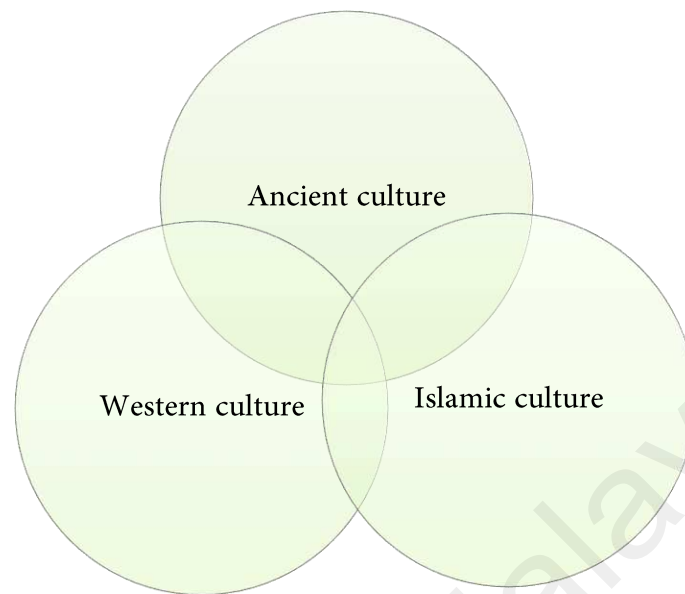
Nazarian, Irani, & Ali, (2013) investigated the relationship between national culture and organizational culture in the private sector of Iran. Using Hofstede's dimensions, they demonstrated that some of the dimensions of national culture are insignificantly related to the dimensions of organizational culture, though the correlations conducted provided

some additional support for the association between these two constructs. In a specific view of clan culture, individualism versus collectivism and power distance dimensions showed a significant relationship, while for the rest of the two dimensions, the relation was not significant in their report. Furthermore, the result of their study showed that all the domains of national culture showed an insignificant relationship with adhocracy culture. In the case of hierarchy culture, only uncertainty avoidance, individualism, and masculinity versus femininity had a significant relationship, while in the case of market culture only uncertainty avoidance had a significant relationship. As highlighted in the results, in the case of Iran, some of the national culture indicators were loosely bound with the organizational culture dimensions.

Namazie (2003) used Hofstede's model to examine Iran and compared it with Hofstede's finding. It is surprising that Namazie's findings indicated that Iranian national culture has drawn close to Western culture in almost all dimensions except collectivism and long-term orientation. It could be concluded that Iran as an ancient civilization has a multifaceted culture with overlapping layers of diverse cultures. It comprises of ancient Iranian culture with almost 6000 years' antiquity (see Dandamaev, Lukonin, & Kohl, 2004), Islamic culture with almost 1400 years' antiquity (see Wilber, 1969) and Western culture with almost 100 years' antiquity (see Mashayekhi & Mashayekh, 2008).

Iran is also endowed with subcultures such as Turkish, Kurdish, and the Arabs. These subcultures are defined by a geographical placement of people in their respective locations and as indigenous groups within a nation. Each of the named subcultures are in turn affected by the three layers of culture (Ancient culture, Western culture, and Islamic culture).

The figure below shows the relationships between three layers.



**Figure 2.3 The Contacts between Ancient, Western, and Islamic culture**

## **2.5 Organizational Culture in Iranian Audit Firms**

Most of the organizational or national culture studies in Iran are based on Hofstede's study, and few investigations have compared their results. Since the main objective of this study was to examine organizational culture by measuring values and norms of audit firms, it was important to explore those studies that had crystallized values of organizations. Studies in management show values and norms established by managements. In audit firms, founders should be auditors, and consequently, they will be the manager of their institutions. According to Schwartz, Dunfee, and Kline (2005), managers play important roles in establishing norms and values in their organizations.

Organizational culture refers to the beliefs and values that have existed in an organization for a long time, to the beliefs of the staff and to their work values that would eventually influence their attitudes and behavior. Administrators usually adjust their leadership behavior to accomplish the mission of the organization, as this could influence their employees' behavior. Leaders shape the way people think and behave—others view



leaders as role models, and employees look around to see if their behavior is consistent with the organization's espoused values and philosophy (Tong, Tak, & Wong, 2015).

House et al. (2004) attempted to justify Hofstede's model relating to organizational cultural studies of Iran. It can be claimed that House et al.'s study is the most comprehensive of organizational culture and leadership. House et al. investigated 62 countries, including Iran. Their findings revealed that "teamwork" and "managers" reluctance to collaborate with "others" were prevalent in Iranian culture. Furthermore, these managers might be defined as out-group members.

Hofstede categorized Iran with Turkey and Greece in the Near Eastern cluster. His results show that Iran scored very high on the 'collectivistic' dimension of National Culture, implying that Iranians cooperate well in a team. Considering that Islamic principles have greatly influenced Iran for the last three decades, which place a strong emphasis on justice, harmony and generosity in the workplace, the high score on the collectivist dimension is not unexpected. Contradicting Hofstede's study, Tayeb (1994) argues that Iran's culture could be better viewed as 'individualistic' rather than 'collectivistic.' In support of her argument, Ali's findings (1996) show that Middle Eastern countries were individualistic. This result has been supported by Ali and Amirshahi (2002) and Javidan and Dastmalchian (2003).

Hadizadeh Moghadam and Assar (2008) examined the relationship between national culture and E-adoption. In this study, Hofstede's Value Survey Module (VSM) was utilized to examine Iranian national culture, where the cultural dimensions proposed by Hofstede were scrutinized. The findings indicated that cultural factors were effective in the acceptance of ICT in many countries. Regarding cultural dimensions, they concluded that the average score of Iran in power distance dimension was lower compared to the first test conducted by Hofstede (score 58). From the perspective of Individualism vs.

Collectivism, they found that there was an increase in score in the Individualism dimension. Furthermore, in the Femininity vs. Masculinity dimension, the results obtained indicated three categories on the Hofstede scale, where two categories demonstrated a higher average score on the Masculinity (MAS) index. Iranians were able to obtain a score for “long-term oriented index” dimension but were unable to do so in this dimension in Hofstede’s model (Iranian score 14).

Hosseini (1999) used Hofstede’s model of cross-national study to investigate the organizational culture of seven Iranian companies. She found that the measure of power distance was similar to Hofstede’s findings. Moradi (1998) studied Iranian managers in public sector organizations relating to their management style and organizational culture. His findings support the general argument that organizational culture has an effect on the management style selection. Although results obtained from national culture investigation can also be used in organizational culture, this study does not indicate the impact of cultural values in the Iranian society. However, the scores achieved in the study can be compared to the earlier research by Hofstede. Other studies on by House et al., (2004).

Javidan and Dastmalchian (1993) investigated the influential criteria of roles associated with managers in Iran and Canada and found significant differences. Based on the works of Kotter (1988) and Conger (1989) a few scholars (e.g. Dastmalchian and Javidan, 1998; Javidan, 1994; Javidan and Dastmalchian, 1995) studied the concepts of the visionary and high-commitment leadership of Iranians. It can be concluded that a visionary leader is an individual with “a mental map who shares a new paradigm, has a global outlook, is enthusiastic and dedicated to his/her vision and is a credible communicator” (Dastmalchian, Javidan & Alam, 2001, p. 537).

Javidan and Dastmalchian (1995) compared Iranian and Taiwanese managers. Their results demonstrated that from the perspective of Iranians, a visionary is a person who has a mental map, a global outlook, shares a new paradigm, committed to his/her imagination, and is an enthusiastic and believable communicator. The findings also proposed that visionary leaders are highly valued and respected by their subordinates.

In another study, Javidan (1996) investigated 100 executive managers. The results showed that managers had been successful in establishing a work environment based on loyalty. Moreover, Dastmalchian, Javidan and Alam (2001) examined the impact of culture and leadership in Iran. They examined 300 middle managers of 60 companies in three industrial groups, telecommunication, food processing, and banking. This study intended to investigate the “emic” and “etic” aspects of leadership in Iran, and in fact, elaborated on Iranian culture mainly through GLOBE categories. The findings revealed that Iranian culture has not only maintained traditional views but it has also adapted to increasing modernization.

Dastmalchian, Javidan and Alam (2001) extracted seven cultural factors in terms of leadership in Iran based on the findings of House et al. (1999), which are listed in Table 2.4.

The first two factors are very similar to House et al. (1999). In other words, these two factors are similar to the charismatic and narcissistic GLOBE dimensions with regards to the leadership. In fact, these two factors are regarded as “etic”, whereas the other five elements involved are “emic”. The third factor, planner, is related to planning in the future, while the fourth factor, familial, considers “interest in the family” as a leadership quality within Iranian organizations.

**Table 2. 4: Cultural Factors of Leadership in Iran**

1. Supportive	The first two factors (supportive and dictatorial) resemble the GLOBE's "value-based" or charismatic and "narcissistic" leadership attributes
2. Dictatorial	
3. Planner	Refers to the future and planning orientation of the leader's behavior.
4. Familial	Refers to an attribute emphasizing one's willingness to sacrifice personal gains for the sake of family interests, enjoying home and family life, and being devoted to home and family.
5. Humble	Refers to the attribute of attaching low estimation to one's importance, using subtle ways of communicating this to others, presenting oneself in a humble and modest way, and being hard-working, caring, and down-to-earth.
6. Faithful	Refers to the leadership attribute of believing in religion, acting according to the standards of religious doctrine and morals, being earnestly religious, preceding self-interest and making personal sacrifices, and following established procedures
7. Receptive	Refers to the leader being: anticipatory, benevolent, clear, amicable, administratively skilled, conscious of status and class in a social setting.

(Adapted from Dastmalchian et al., 2001)

Characteristics such as "familial", "humble" and "faithful" demonstrate the significant role of family and religion in Iranian history (Dastmalchian et al., 2001). "Interest in the family" can be developed to the extent to which an individual can sacrifice herself/himself for the family. Dastmalchian et al. (2001) concluded that this factor is important since a person should have management capabilities to support his/her family and is willing to be sacrificed for them. According to these scholars, this cultural factor can be a reflection of other factors in Iranian managers' leadership and management. This concept can be exemplified in a number of issues, such as the senior male's role in the legitimacy of the family, the role of the female members of the family, and the cultural importance of gender egalitarianism. These values are closely associated with patriarchy, and they are also the result of the role of male leadership in a community. Moreover, these three characteristics are rooted in pre-Islamic and current Iranian culture (Mackey & Harrop, 1996). In their investigations on leadership, Dastmalchian et al. (2001) reanalyzed the cultural dimensions tested by House et al. (2004).

The fifth factor, “humble” refers to features when an individual underestimates his/her importance by applying subtle communication, such as presenting oneself in a modest way, being hard-working, and down-to-earth. The sixth factor, “faithful” refers to the leadership attribute of believing in religion. This factor makes a leader act according to the standards of that religion. The association between leadership and religion has been established in Iranian culture since Zoroastrian (the religion of Iranians before Islam). In fact, from the time of Zoroaster to the rise of Islam, a leader’s charisma has been related to the leader’s status, which reinforces the concepts of goodness, truthfulness, and worship. Moreover, after the emergence of Islam, these features were incorporated into Islam and are currently being practiced. Finally, the seventh factor “receptive”, indicates leadership attributes, such as being anticipatory, benevolent, clear, skilled, and amicable.

Regarding cultural change expectations, the results indicated that Iranians tend to reduce “power distance” and increase aspects of “future orientation” dimensions. The existing weakness in organizational culture studies in professional organizations such as accounting firms in Iran is quite evident, although only a few studies have been conducted in the field of relationship between cultures and accounting, all based on Hofstede’s model of national and organizational cultures.

According to Javidan and Dastmalchian (2003), the most important aspect of Iranian culture are perhaps its family and in-group orientations. They confirmed that Iranians’ score on “in-group collectivism” is very high. They also confirmed a strong preference for a very high level of family loyalty. The results also demonstrated that an eminent feature of Iranian culture is the degree to which Iranians manifest loyalty and cohesiveness toward small groups, such as family and close friends. In other words, in-group collectivism is defined as the degree to which individuals are affiliated with their family and friends.

Furthermore, as Molkaræe (2013) reported, there were 255 IACPA firms in Iran in 2013, among which, only two have eight partners and the largest IACPA firm has less than 200 employees. This may be due to the fact that Iranian auditors have no intention of merging small firms into bigger ones or establishing bigger firms. This dimension demonstrates that Iranians are oriented toward the “team orientation” dimension of their culture, which leads them to adhere to small communities, such as small audit firms. In other words, the in-group collectivism attribute (GLOBE) of their culture results in greater affiliation with small groups, such as friends and family.

Membership in a family or a close group of friends is important (Dastmalchian et al., 2001). Belonging to these groups brings together strong expectations for individuals, such as doing favors or giving special treatments that are acceptable for other group members (Javidan & Dastmalchian, 2003). In other words, team orientation is important in this culture. Javidan and Dastmalchian (2003) pointed out that individuals should be quite meticulous as not to disappoint other members of the group; people need to be careful to satisfy the expectations of others. This may lead to strong feelings within a control group, which is usually implicit and unwritten, although very powerful.

Collectivism, as suggested by Triandis (1982), can be regarded as one of the attributes of Iranian culture. For most Iranians, forming a family (Khanevadeh) is regarded to be of great significance. It is related to observance, interpersonal status, wealth, and shelter. Children form the fundamental unit of families, and this is especially prevalent in the middle class. It should also be pointed out that a family in this context is not only limited to the wife, children or siblings but might include close friends and acquaintances as well (Shafiei & Rusnah, 2014; Yeganeh & Su, 2007).

Few studies have been associated with culture and accounting interactions in Iran. However, there are no comprehensive studies on auditing and cultural interactions. In a

cross-sectional survey, Rezazadeh (2002) studied the relationship between cultural dimensions (power distance, uncertainty avoidance, individualism, and masculinity) and accounting values (conservatism and secrecy) in Iran. The findings indicated that the degree of secrecy decreased despite increased masculinity. The findings, in fact, do not generalize a unified pattern vis-à-vis cultural and accounting values in different countries. In this context, Noravesh et al. (2007) study emphasized conservatism in Iran due to the high inflation rate and inefficient capital markets and does not run in line with Rezazadeh's study.

In a theoretical-analytical study, Pourjalali and Meek (1995) investigated the impact of the Islamic Revolution on the cultural and accounting values in Iran. Some of their findings are:

1. Muslims, as a group, rather than individuals, should be given priority within Iran's Islamic society. Therefore, in the collective culture of post-revolution Iran, specific collective efforts are required to rebuild the society.
2. Since this study was conducted during the Iran-Iraq war, high inflation had devalued the currency. And as the war emphasizes hierarchical order, economic distances increased leading to greater power distance.
3. Their results showed a strong correlation with an uncertain future, due to increased embargoes and reduced savings (cash and assets).
4. Two professional accounting institutions (one a governmental adjunct, the other independent) were terminated as a result of the revolution, resulting in limited professional influence to individuals within the government's established organizations.
5. In post-revolutionary Iran, with the absence of independent professional influence,

such as governmental control, encouraged uniformity of practice.

6. The accounting profession became more conservative in post-revolution economic circumstances. This conservative approach led to lower tax payments and helped deal with future uncertainties.

7. In the post-revolution the need for transparency in accounting practices has decreased and a higher preference for the confidentiality of information increased.

The findings confirmed Gray's hypothesis. From 1970-1990, Iran suffered from a revolutionary war, which destabilized its economy and created uncertainty. Noravesh et al. (2007) investigated the relationship between accounting (as described by Gray) and cultural values (as defined by Hofstede) in Iran. Their findings demonstrated the relationship between cultural and accounting values. However, Gray's model is not supported in Iran. It demonstrated that many issues, such as the abnormal evolution of accounting in Iran, the impact of unstable economics, inappropriate use of accounting methods and procedures which are common among developing countries, the impact of governmental ownership, and the lack of well-developed capital market tradition may be some determining factors.

Moradi and Fakhrabadi (2010) analyzed the impact of cultural factors on auditors' evaluations of internal control and control risk determination. They examined the organizational culture based on Hofstede's model and concluded that each country possesses specific characteristics of Hofstede's dimensions. Therefore, based on statistical analysis, an inverse but insignificant relationship was found between the control risk and uncertainty avoidance dimensions. Moreover, Iranian auditors' evaluations of the internal control system were investigated in their respective companies. The findings revealed that in countries with high individualism, the internal control system of



companies is stronger than in countries with low levels of individualism. However, the impacts of organizational culture on auditors' evaluations of internal control were almost observed in the context of certain aspects.

Noravesh (2003) investigated the cultural values prevalent Iran. They explored the access possibility of providing favorable levels of international accounting standards. The results showed that Iranian accounting statements could not guarantee the realization of central objectives of international accounting standards.

Noravesh and Sepasi (2005) investigated the relationship between cultural values and profit smoothing in listed companies in the Tehran Stock Exchange. Cultural values of individualism, power distance, uncertainty avoidance, and masculinity-femininity (Hofstede's dimensions) were utilized in this study. The results indicated that a significant relationship between cultural values and profit smoothing in firms listed in Tehran Stock Exchange existed.

Shafiei and Rusnah (2014) investigated organizational culture among Iranian auditors. The researchers explored organizational culture, norms, and values in the accounting profession in Iran. They also investigated the impact of ownership on organizational culture in two groups of auditors: auditors in private audit firms (IACPA's) and those who work under control of the government (Audit organization). They applied the Organizational Culture Profile (OCP) questionnaire and factor analysis to clarify the norms and values between different groups of Iranian auditors. Their findings indicated that different ownerships had no significant impact upon organizational culture. The study also demonstrated that although Iran is geographically close to Arab countries, the values and norms of Iranian culture are similar to East Asia (see Shafiei & Rusnah, 2015).

**Table 2. 5: Iranian National and Organizational Culture**

<b>Hofstede' Dimension</b>	<b>National culture</b>	<b>Organizational culture</b>
Power Distance Index (PDI) (score 58)	It is a hierarchical society; this means that people accept a hierarchical order in which everybody has a place and which needs no further justification.	Hierarchy in an organization is seen as reflecting inherent inequalities, centralization is popular, subordinates expect to be told what to do, and the ideal boss is a benevolent autocrat.
Individualism (IDV)  individualism vs. collectivism (score 41)	Iran is considered a collectivistic society. This is manifest in a close long-term commitment to the member 'group', be that a family, extended family, or extended relationships. Loyalty is paramount and overrides most other societal rules and regulations. They foster strong relationships where everyone takes responsibility for fellow members of his or her group.	This society offense leads to shame and loss of face, employer/employee relationships are perceived in moral terms (like a family link), hiring and promotion decisions take account of the employee's in-group, management is the management of groups.
Uncertainty Avoidance Index (UAI)  (score 59)	Iran has a high preference for avoiding uncertainty and maintain rigid codes of belief and behavior and are intolerant of unorthodox behavior and ideas.	There is an emotional need for rules (even if the rules never seem to work), time is money, people have an inner urge to be busy and work hard, precision and punctuality are the norms, innovation may be resisted, and security is an important element in individual motivation.
Masculinity (MAS) masculinity vs. femininity (score 43)	It is considered a relatively Feminine society which the focus is on "working to live", managers strive for consensus; people value equality, solidarity, and quality in their working lives. Compromise and negotiation resolve conflicts.	Incentives such as free time and flexibility are favored. Focus is on well-being, status is not shown.
Long-Term Orientation (LTO) long-term vs. short-term orientation (score 14)	It has a strongly normative cultural orientation. People have a strong concern with establishing the absolute truth; they are normative in their thinking.	They exhibit great respect for traditions, a relatively small propensity to save for the future, and a focus on achieving quick results.

Certain Iranian cultural characteristics were investigated, especially its leadership and accounting realms, and it was revealed that adequate cultural studies are non-existent in auditing in Iran. This deficiency has created many problems for this profession in Iran (Molkaraee, 2010, 2013) since organizational culture is regarded as an important factor

that motivates accountants and auditors. This explains the importance of cultural study in the context of audit that needs to be expanded.

However, empirical studies about cultural influences on organizational subcultures in Iranian enterprises are limited. In fact, there are almost no relevant attempts to examine such phenomena in auditing organizations.

**Table 2. 6: Organizational Culture Aspects of Iran**

Dastmalchian et al. (1991) study of Iranian feature of organizational culture	House et al. (2004) study (GLOBE) of Iranian national culture
Supportive	Power Distance
Dictatorial	Uncertainty Avoidance
Planner	Institutional Collectivism
Familial	In-group Collectivism
Humble	Human Orientation
Faithful	Performance Orientation
Receptive	Assertiveness
	Gender Egalitarianism
	Future Orientation

## 2.6 Summary

The main objective of this chapter was to introduce the environment of the study. At first, the audit profession in Iran is divided into three time periods. Iranian national culture and organizational culture in Iranian auditing firms were illustrated as well.

Consequently, the historical changes of auditing led to two types of auditing institutions: Audit Organization (trustee companies affiliated with the government) and Iranian Association of Certified Public Accountants. This type of auditing, compared to the current auditing practices of other nations, seems to be very specific, and nationally bound to the private and public business sectors of Iran.

Due to the impact of national culture on leadership and consequently their impact on individuals' behavior, the leadership studies in Iran were introduced. As described, national culture shapes the style of leadership and the way leaders function whereas leaders are the main actors in establishing the culture of the organization, which influence the organizational culture on a continual basis. Three levels of culture including macro, meso and micro were introduced briefly to show their impact on individuals in the organization.

Characteristics such as “familial”, “humble” and “faithful” demonstrate the significant role of family and religion in Iranian history and can be concluded that the “Interest in family” factor is regarded as important in national and organizational culture, since the individual should have management capabilities in order to support his/her family to the extent that they are willing to be sacrificed for them. This cultural factor can be a reflection of other factors in Iranian national and organizational culture and management. Additionally, team orientation, human orientation, and self-protective items can be more meaningful features of national culture that may follow by individuals in Iranian organizations. These items are the most important aspects of Iranian culture that make it akin to South Asian countries.

The lack of organizational cultural studies in professional organizations, such as accounting firms in Iran, is quite evident. Although a few studies have been conducted in the context of the relationship between culture and accounting issues, all were based on Hofstede's model of national and organizational cultures. Investigating the organizational values based on the value system patterns can help managers create new patterns. Therefore, at the end of this chapter a summary of a cultural feature of Iranian national culture (according to Hofstede) as well as an organizational culture based on leadership studies (according to House et al.) are presented. Table 2.3 shows the summary of national

culture and Table 2.4 presents the features of organizational culture in Iran.

Undoubtedly, most studies on the auditing profession have been conducted in developed countries, while this is not the case in developing countries. Similarly, Iranian researchers pay adequate attention to the field of organizational culture in the audit profession. The next chapter will discuss specific cultural concepts such as organizational culture in the audit profession for the purpose of providing a perspective to the cultural situation and comparable issues with the environment of the study.

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## **CHAPTER 3: ETHICAL REASONING, AUDITOR ACCEDING, AND ORGANIZATIONAL CULTURE**

### **3.1 Introduction**

The present study intends to determine areas that have not been covered in previous research in the context of ethical reasoning, auditor acceding and organizational culture in the audit field. Therefore, a comprehensive literature review is crucial, as information pertinent to the area of study from the literature will allow the researcher to establish a sound platform and further explore the subject.

Previous studies affirm the prediction that auditors with high ethical reasoning scores will make relatively higher moral judgments. Independent behavior and the endurance of auditors with low ethical reasoning against client management are not analogous to those auditors who possess higher ethical reasoning scores. Consequently, this study will explore whether the relationship between ethical reasoning and auditor response to the client in IACPA firms in Iran are different from the auditors in the governmental organization (audit organization).

Furthermore, the concept of culture is important in understanding the society. It is regarded as the cornerstone of studying organizational culture. Thus, it is logical to possess an insight into the culture before discussing the concept of organizational culture. The reliance of this relationship on organizational culture as a moderator is investigated as well.

Section 3.2 discusses ethical reasoning, while Section 3.3 details auditors' acceding, and Section 3.4 introduces the culture and organization. The chapter will conclude by a summary and identifying the literature gap.

## **3.2 Ethical Reasoning**

This section presents description of Philosophy of Ethics, Accounting Profession and Ethics, The Theory of Ethical Reasoning, and Defining Issues Test (DIT) relevant to ethical reasoning. These elements are important because they can create a dynamic teaching and learning of ethical reasoning in audit firms.

### **3.2.1 Philosophy of Ethics**

Famous philosophers such as Aristotle and Plato devoted their careers to the study of ethics. Scholars in the field of ethics will usually streamline their thoughts and opinions with that of their former instructors or teachers as a mark of loyalty (see Burnyeat, 2015). A number of philosophies are present in the field of ethics. Some of them suggest rules, conflicting ideas, and explanations, which can successively contribute to conflicting appraisal of concepts, such as what is right (wrong), ethical (unethical), or moral (immoral).

The study of ethics encompasses a multitude of disciplines, such as social science, education, and professions. Certain ethical theories that are imperative to its understanding are described in the following paragraph (Cintula, Fermüller, & Noguera, 2015):

Normative ethics is accompanied by the concept of 'ought to'. What is considered as an individual's duty or obligation or what responsibilities an auditor ought to have concerning the client should be taken into account?

Concerning normative ethics, three ethical theories (utilitarian theory, the theory of rights, and theory of justice) have been developed. The utilitarian theory describes and measures the social effects of individual's behaviors and decisions. It also evaluates all aspects of the status to satisfy all parties. Meanwhile, the theory of rights accounted for an individual's entitlements. It declares that a person has respectable important rights,

while the theory of justice deals with the consequences of activities. Decision makers in an organization should be controlled and guided by impartiality, fairness, and equity (Cavanagh, Moberg, & Velasquez, 1981).

Teleological or consequential ethics claims that the basic criteria to ethically classify deeds as right, wrong, or compulsory are the appearance of unethical values.

Business controls try to create regulations, called codes of conduct, for their colleagues. For instance, AICPA has its professional conduct that seeks to realize goals for perfect conducts (deontological ethics).

Deontological or non-consequential ethics, in contrast to teleological or consequential ethics, maintains the approach that outcomes of deeds are of great significance, whether it is judged ethical or unethical when assessing the ethics of behavior or common sense.

### **3.2.2 Accounting Profession and Ethics**

The environment is the key factor for accountants in whom the accounting systems, practices, and profession have been promoted and matured, although differences in operating environment account for multiple sources that shape the professional systems and practices over time.

Accounting output plays a role in influencing political, legal, and economical situations relative to its environment. It also has a substantial role in assessing and transmitting economic conclusions. Users of accounting systems entail managers, personnel, stakeholders, as well as the public and professional firms (Kolb, 2008). This accounting system furnishes information for financial, official, and political purposes (Boyce, 2014). Also, it can modify the action of environmental elements that influence the national, economic, cultural, and behavioral dissimilarities, providing a new



worldwide confrontation in the determination of international accounting systems (Wagdy, 2001).

It can be argued that each business tries to promote its moral standards, which is regarded as a very important treatment in cooperating with accounting practices (Omurgonulsen & Omurgonulsen, 2009). Moreover, promoting moral standards guarantees appropriate moral behaviors. Integrity, objectivity, independence competence, professional behavior, accepting technical standards, public interest, and secrecy enshrines the basic moral codes in the accounting profession (Aly, Taylor, & Karnovsky, 2014; Velayutham, 2003).

In recent years, scandals such as World Com and Enron revealed that there is a lot to be addressed in the context of morals in the accounting profession. The circumstances in these scandals also serve to highlight illegal thoughts and creative practices in accounting (Carnegie & Napier, 2010; Omurgonulsen & Omurgonulsen, 2009). Accordingly, a code of ethics has been established for professional accountants (IFAC, 2009). In the field of auditing and accounting, the goal of ethics is to attract public trust and maintain integrity. Statements of professional ethics could be found in various sources, such as the rules and regulation of the AICPA, the state of accounting communities, the General Accounting Sector and the IFAC.

The relationship between accounting profession and ethical decision-making, including moral behavior, is considered by scholars (e.g., O'Fallon & Butterfield, 2005; Valentine & Hollingworth, 2011) to be an important issue, and in fact, the role of ethics in the current business pattern is emphasized in many works. Shafer (2015) adopted the classic conceptualization of organizational ethical climate, which views the perceived climate as a reflection of management's attitudes and behaviors toward ethics. They argued that when employees perceive an unethical climate in the organization, they are

likely to minimize the importance of corporate ethics and social responsibility to justify or rationalize aggressive earnings management decisions. In contrast, if employees perceive that the ethical climate in their organization is relatively positive or supportive of ethical/socially responsible behavior this should increase their perceptions of the importance of ethics and social responsibility and accordingly lead to more ethical reporting decisions.

Shafer (2015) also demonstrated that organizational characteristics are at least somewhat malleable and may be improved through ongoing efforts that place greater emphasis on the importance of ethical behavior. For example, the importance of ethical reporting decisions that serve the best interests of external stakeholders may also be emphasized through internal training programs for professional accountants. Consequently, the quality of professional accountants' ethical decisions may be improved by efforts to align the values and ethical standards of the organization more closely with the espoused values of the accounting profession.

Corporate scandals have led to increased demands for moral behavior (i.e. ethical reasoning) within the auditing profession. The role of the auditor has been questioned by many scholars (e.g., Williams, 2004), indicating that these kinds of corporate scandals cannot occur without the involvement of auditors and immorality.

Ethical reasoning has been determined as an individual or collective practical reasoning concerning what should ethically be done (Theological), what is true and what should be done (Deontological). In the accounting profession, auditors play a social role in their community, therefore, what auditors are required to do is an important issue (e.g., Windsor & Ashkanasy, 1996). Auditors are expected to maintain public trust and unity, which are regarded as the essential role of ethics in accounting (Curtis, 2015; Kolb, 2008). Even if the rules and regulations fluctuate, accountants are expected to adhere to

professional codes that have a bearing on the moral values of the profession (Loeb, 1971; Shaub & Braun, 2014).

### **3.2.3 The Theory of Ethical Reasoning**

The most salient question to this study is what is ethical reasoning and why is it important? Ethical reasoning is a procedure that mainly concentrates on common sense and social behavior to make informed judgments. It is a prospect that we face frequently and is a quickly informed action, which is usually the key to making good judgment calls when faced with ethical reasoning.

The factors that make ethical reasoning important are:

- Social acceptance does not imply moral acquiescence
- Even if it is standard business practice that is endorsed by corporate culture, this acknowledgment does not imply that it complies with moral standards
- Throughout their career, individuals will face moral and ethical dilemmas, and regulations will not outline the methods of dealing with them
- Overall, to address these problems, rules can be reviewed, altered, or created by the people facing them (Deshpande et al., 2006).

Kohlberg is a theorist of the Cognitive Moral Development (CMD), which is based on Socrates' belief of "justice is ultimately a moral reasoning anyway", as well as on Piaget's qualitative growth stages. In this theory, the quality of growth stages was measured by Kohlberg in the field of ethical reasoning (Diessner & Simmons, 2000). In this model, large groups of children and teenagers aged 10 - 16 years were investigated for 12 years, and interviewed once every three years. Growth levels were divided into pre-conventional, conventional, and post-conventional levels, where each level, in turn, was divided into two stages (see Table 4.1)

Stage 1 is ethics based on compliance, and stage 2 involves ethics based on bonus. Stage 3 proposes ethics of a good boy or a good girl, and stage 4 reveals law-based ethics. Finally, stage 5 denotes ethics based on social contract, and stage 6 is dedicated to ethics corresponding to universal moral principles. Reaching the final stage of moral development is a complex undertaking, but desirable for ethics experts. These six stages will be elaborated in the following paragraphs.

Regarding pre-conventional level, Stage 1 involves punishment and obedience orientation, which is similar to the first stage of Piaget's ethic. In this stage, the individual is subservient to the authorities and avoid breaking the rules, as they will be punished for this from the resulting damage to people and property. Stage 2 involves self-interest and instrumental purposes, where individual rules are taken into consideration to satisfy their temporary personal interest, as well as others' needs in some specific conditions perceived as a contract or reciprocity.

In the second level (conventional), two more stages are taken into account, including voice with others in interpersonal relationships and orientation of good boys and girls. In the former, by definition, good behavior consists of behaviors followed by the approval of others expected by the people. Therefore, it is important to look good. In Stage 4, behaviors should be in accordance with social systems and preventives. In fact, at this stage, ethics is based on law and social policy. At this point, the individual fulfills the obligations they accepted and believes in legal support via their respective behaviors. In fact, laws of the community determine the correct ethical behavior by making the individual responsible for their obligations.

The last level (post-conventional), stage 5, is where ethics is based on the social contract, values, and individual rights. Taking into account the fact that they have diverse values and beliefs, and that most of these values and rules are relative, they must be

neutrally supported, because these are social contracts that are non-relative, such as “life” and “freedom”. In fact, the values should be supported in every society, regardless of majority opinion. Furthermore, Stage 6- Universal ethics follows the “Self-Choice” ethics - is contained in this level, where special laws or social agreements are valid because they have been established based on moral principles. When governmental lawmakers violate these moral principles, an individual will act in accordance with principles that are not governmental laws. These principles are the principles of absolute equality, which includes equality, human rights, and respect for the dignity of the human personality as an individual. As a matter of fact, individual belief is the reason according to which honesty is fulfilled. A reasonable person behaves based on the universal moral principles and a sense of personal commitment to others (see Gaudine, LeFort, Lamb, & Thorne, 2011b; Gaudine & Thorne, 2012).

Through several examples, Kohlberg demonstrated that moral development is still relevant despite the passage of time. Although Kohlberg drew no direct link between moral growth and age, it was recognized that it could not be said that the individual is believed to go from one stage to another at a special age. Moreover, these steps are passed in the same order, for example, to go to stage four, the individual must have passed stages two and three.

According to him, the level of post-conventional ethics is consolidated in a person when individual obtains the ability of abstract thinking and reaches the last stage of mental development. Primarily, each is within his or her main level and simultaneously; some of their moral judgments depend on the next or previous stage of the level where they are (Gaudine, LeFort, Lamb, & Thorne, 2011a; Gaudine et al., 2011b; Gaudine & Thorne, 2012).

Kohlberg, like Piaget and other cognitive psychologists, regarded the evolution process of moral judgments as unavoidable. In his opinion, moral development does not mean compliance with the standards of society. In this view, emphasizing the stage-like nature of moral development and preparations for moral education are regarded as fundamental concepts. According to Kohlberg, encouraging students to discuss various issues helps them wrap their active participation around the content of ethical issues, which is the most important tool in assisting teachers in developing the students' moral judgments. Conversely, advice and sermons, disregarding the views of students, controlling classes in an authoritarian manner, and punishing them for compliance with ethical issues are regarded as the worst conditions for their moral development.

Moral reasoning is a kind of moral thinking, judgment, and behavior used to prove the incompetency of certain amoral behaviors (Ariail, Abdolmohammadi, & Smith, 2012). It has been defined as an individual or collective practical reasoning with regards to what should ethically be done. When you want to indicate what is right or wrong, you will, obligatory or non-obligatory, take advantage of moral reasoning. An important point in this context is whether we can argue that it is possible to achieve moral judgments? The argument here is a sense of intellectual exploration.

Theorists believe (e.g., Rest, 1979) that all moral judgments require moral reasoning. However, what makes an argument ethical? Two issues should be distinguished; first, what leads to the moralization of reasoning, and second, what leads to the judgment being moralized. For the former, if a reasoning outcome involves a moral judgment, it will be moral as well, while for the latter, some disagreements are prevalent. When this happens, a perspective indicates that if the predicate proposition is "good" and "right", this case is a moral issue. Moore, Tetlock, Tanlu, and Bazerman (2006), agreeing with this perspective, conceived the idea that using ethical concepts may result in the moralization

of judgment. Another perspective demonstrates that what causes a judgment to be moralized is a specific purpose that is served by a moral entity. It should also be noted that whether premises of a reasoning can present results of the “ought to” type if they all are based on the reality (Ariail, Emler, & Abdolmohammadi, 2013). For instance, if we posit that God exists, then, it could be stated that we must follow His commands. Therefore, this perspective claims that at least one of the premises of a moral reasoning must necessarily be a norm or value.

Although from another perspective such arguments are not conceived as being deductive, some scholars do regard them as being deductive (Cook & Hunsaker, 2001; Curtis, 2015). Moreover, whether these arguments are regarded as reasoning should be further analyzed. This discussion intends to state that similar to actual arguments, the person who reasons is required to accept the argumentative regardless of their desirability. Whether or not moral arguments can be classified according to this perspective is up for debate (Thorne, 2010).

For instance, suppose that someone is a judge, and finds his child guilty based on incontrovertible evidence. He proves his child is guilty by reasoning and should bear the consequences of this reasoning, though he does not intend to accept this personally. This is a real argument. Is moral reasoning alike? In other words, does the person whom reason intend to accept the argumentative outcome when moral reasoning takes place? Moreover, according to some other scholars (e.g., Granitz & Loewy, 2007), moral reasoning is a practical argument and not an actual one. This means that in moral reasoning, the person whom reason can intend to accept the outcomes as a result of realizing the precise prediction of these results (Bebeau, Rest, & Narvaez, 1999; Bebeau & Thoma, 2003).

The association between moral judgment and the accounting profession has been investigated on the basis of ethical reasoning. Several scholars (e.g., Armstrong, 1987; Ponemon, 1990; Armstrong, 1994; Tsui, 1996) investigated the appropriate P-scores of the general population of auditors.

A psychometric instrument, called the Defining Issues Test (DIT), was developed by Rest (1979) and measures moral reasoning based on Kohlberg's (1969) model of Cognitive Moral Development. The DIT instrument is related to the highest level of post-conventional reasoning, which produces the Principled Score (P-score). The reliability and validity of the measurement have been substantiated as well (Abdolmohammadi & Ariail, 2009). In a nutshell, moral reasoning is a method of dealing with moral issues (see Table 3.1).

**Table 3. 1: Theory of Moral Development**

<b>Level One: Pre-conventional Morality</b>	
Emphasis oneself	
Stage 1	Punishment-Obedience Orientation. "Do what you are told.
Stage 2	Instrumental Relativist Orientation. "Let us make a deal."
<b>Level Two: Conventional Morality</b>	
Emphasis relations	
Stage 3	Good Boy-Nice Girl Orientation. "Be considerate, nice, and kind, and you will get along with people." Good behavior is that which pleases others.
Stage 4	Law and Order Orientation. "Everyone in society is obligated and protected by the law." An orientation toward authority.
<b>Level Three: Post-Conventional Morality</b>	
Emphasis personally held principles	
Stage 5	Social Contract Orientation. The morality of societal consensus: "You are obligated by whatever arrangements are agreed to and by due process procedures."
Stage 6	Universal Ethical Principle Orientation. "How rational and impartial people would organize moral cooperation."

(Adopted from Rest, 1979)

Having the format of a structured interview, the MJI, introduced by Kohlberg, investigates subjects' levels of moral development. The DIT measurement is a paper-and-pencil and a self-administered questionnaire founded on Kohlberg's model of moral



judgment development consisting of six stages. Kohlberg's model primarily consists of three categories, i.e. pre-conventional, conventional and post-conventional, each of which is classified into two stages.

In the model, although some individuals may function at lower levels of the model, they are still able to make appropriate moral judgments. The case for these individuals is that, in certain circumstances, their deficiency of understanding complex issues overshadows their ability to understand complex problems.

Taking a 'dilemma' oriented approach lacks the opportunity to examine the individuals' ability in regard with how they handle their authentic life in which dilemmas seldom occur. Colby and Damon (1966) selected a number of people who were regarded as being 'virtuous moral exemplars'. Virtue ethics indicates individuals' characters and their perspective toward life which cannot be constricted into responding to a limited number of questions involving dilemmas taken out of context—i.e. DIT. The moral exemplars investigated by Colby and Damon did not obtain high scores only reaching stages 3 and 4 on Kohlberg's MJI. Although such findings may point to the available flaws in MJI and DIT, applying them has illustrated how people change in their ethical judgments over time. Specifically, DIT measure has revealed some of these changes.

Rest made an effort to cover some of those problems that had been identified in Kohlberg's work. He converted and reformed the six-stage model of Kohlberg into three schemas in regard with individuals' cooperation within their society. "Personal interest", "maintaining norms" and "post-conventional" are the three schemas in the modified version of Rest's model. The focus of Rest, in particular, is on the two schemes of "maintaining norms" and "post-conventional" in line with the DIT measurement which was initially devised to examine an adolescent's movement through the stages (conventional to post-conventional thinking) which reflect Levels 2 and 3 in Kohlberg's

model. The “maintaining norms” presented by Rest are compatible with Kohlberg’s conventional level. Rest’s scheme of moral judgment is depicted in Table 3.2:

**Table 3. 2: Features of DIT Moral Judgment Schemas**

<b>Schema</b>	<b>Features</b>
Personal interest schema	Arbitrary, impulsive cooperation
	Self-focused
	Advantage to self is primary
	Survival orientation
	Negotiated cooperation
	Scope includes others who are known
	In-group reciprocity
	Responsibility orientation
Maintaining norms schema	Need for norms
	Society-wide view
	Uniform categorical application
	Partial society-wide reciprocity
	Duty orientation
Post-conventional schema	Appeal to an ideal
	Shareable ideals
	Primacy of moral ideal
	Full reciprocity
	Rights orientation

**Adopted from Narvaez and Bock (2002)**

As demonstrated in Table 3.2, some attributes of “ maintaining norms” schema entail (i) the need for norms ( set of norms that limit the necessity to debate every issue), (ii) duty orientation (obeying authority out of respect for the social system), (iii) society-wide scope (recognizing the necessity for a wide system of cooperation in a society), (iv) uniform, categorical application, (that public rules and regulations are set publicly of which everyone is informed), and (v) particular reciprocity (although all individuals may not benefit equally, they are expected to follow certain rules and regulations).

At this level, an accountant would be one who identifies the importance of different tax laws as well as company laws, and standards of auditing and accounting, with which he/she is expected to comply. Complying with these regulations sometimes brings merits and sometimes rises demerits to the accountants. Auditors and accountants follow this policy as they believe this would achieve overall harmony within a community.

Although auditors may ascertain some ideal behaviors while operating at this level, when they are put in controversial situations, whether they can perform as ideal as they used to be not ensured. Furthermore, when business considerations occur outside the range of current laws, norms and standards, whether auditors have the ability to make appropriate decisions are not guaranteed.

The accountant's job is to tell a story providing an account in regard to a series of business activities. The story can be recounted from different perspectives and therefore, can lead to many different consequences. The auditors' role is to apply the accounting standards and laws to decide the perspective to be demanded. Nevertheless, the accounting standards and laws include various ambiguities.

To deal with these disagreeing perspectives, the existing ambiguities among the standards, and the unforeseen incidents occurring in regard to the professional life, a higher level of auditors' realization is expected to which it seems to be difficult to be reached lying in the post-conventional schema.

#### **3.2.4 Defining Issues Test (DIT)**

The DIT is a psychometric instrument, which was suggested and applied by Rest (1979), based on the Kohlberg's theory of Cognitive Moral development. As posited by Kaplan, Newberry, and Reckers (1997), "The DIT is based on the premise that people at different levels of moral development interpret moral dilemmas differently, define the critical issues of the dilemmas differently, and have different intuitions about what is right in a situation" (Kaplan et al., 1997, pp. 45-46).

DIT exploration intends to determine how a group considers issues dealings with 'macro-issues' of common sense. The DIT2 is a substitute of DIT first applied in 1974 and can be utilized to assess an individual's moral reasoning. DIT application is supported

on the supposition that “developmental stages of moral judgment involve distinctive ways of defining social, moral dilemmas and of the evaluating crucial issues in them” (Rest, 1979, p. 85).

Furthermore, DIT is based on Kohlberg’s stages of moral evolution. The formal DIT remained similar for over 20 years and was cited in over 400 published works (Rest et al., 1999). Due to procedural reviews regarding primary DIT, Rest et al. (1999) replanted the DIT2 tool. Typical issues encountered when applying DIT1 in morality search (Rest et al., 1999, p.647) are:

1. Few of the dilemmas in DIT1 were updated, and many of the arguments needed to be rephrased.
2. DIT1 was not elucidated adequately, and thus its reliability was regarded as a matter of uncertainty.
3. DIT1 can eliminate 10% of the sample due to the uncertain participant reliability.

The original DIT has been revised by Rest et al. (1999) to include only five dilemmas instead of six. In this version, clearer instructions were added. The 12 issue statements that correspond to Kohlberg’s stages of ethical development were used after pointing out the hypothetical dilemmas. Respondents should first reply to the 12 issues related to each dilemma, after which they were also required to rank the 12 issues based on their significance via a four-Likert type scale. The five modified dilemmas are listed below:

1. “Famine”- A father responsible for feeding his poor family tries to steal food from a rich man’s warehouse - comparable to the Heinz dilemma in DIT-1.
2. “Reporter”- A reporter must determine whether to report a harmful story regarding a political candidate- similar to the prisoner dilemma in DIT-1.

3. “School Board”- A board of education chairman must determine if they should agree to a contentious and risky open encounter – similar to the newspaper dilemma in DIT-1.
4. “Cancer”- a physician must agree to overdose a weak patient with sedatives- the same to the doctor dilemma in DIT.
5. “Demonstration”- University students protest against U.S. foreign policy- equal to the students’ dilemma in DIT1.

Rest and his colleagues (1999) prepared the N2 measure to compute moral developments. In addition, the DIT-1 and DIT-2 employ various styles to guarantee an applicant’s reliability checks. The DIT-1 concludes four standard checks to evaluate the contributors’ answer. The given validity and reliability outcomes are credited via the DIT-2’s fresh methods of examining it. Rest, et al. (1999) stressed the importance of benefits of empirical studies DIT-2 by proposing that the number of filtered participants associated with DIT-1 be reduced.

As stated earlier, DIT-2 upgrades the issue statements downsize the examination and utilize simpler tools that are similar to DIT1. DIT2 was applied in this study since it has frequently been utilized in the audit profession. The outcome of this research may contribute to moral studies via the provision of additional data on the effectiveness of DIT-2 in accounting ethics.

### **3.2.5 Ethical Reasoning and Auditor Behavior**

Interest in ethical issues concerning auditors and the accounting field has been growing, which is reflected in academia, where the number of researchers focusing on this topic is also increasing. This trend is observed globally, providing a lot of findings that researchers can utilize. This field has expanded beyond its initial community, now having a foothold in philosophy and psychology.

The impact of various individual and situational factors has frequently been investigated on ethical decision-making, behavioral decision-making, professional judgment, and individual behaviors. As a result of this, several models have been created based on those factors to better define moral behavior. Since there has been a great deal of studies exploring the effect of these factors, a comprehensive classification is required to shed light on the route for further investigations. The different models reveal the demand for other classifications in order to shed light on approaches toward further investigations.

Within empirical literature, two important classifications can be introduced, including studies that investigate ethical decision-making and investigations focusing on moral behavior. In the former, the crucial issue would be the classification of studies based on surveys, questionnaires, and models of ethical beliefs, while in the latter, Rest (1986) devised a model based on common attributes, such as moral behavior or moral reasoning, where four steps of ethical decision-making were represented. Different theoretical models advanced the descriptive ethics literature (e.g., Jones, 1991; Rest, 1986; Trevino, 1986) or contingency frameworks (e.g., Ferrell & Gresham, 1985). In fact, Rest (1986) utilized its precedent models to propose a thorough structure, taking into consideration moral decision-making.

Overall, most factors applied in models influencing ethical decision-making consist of similar classifications of individual and situational (organizational) factors, although these categories may vary given literature since it was studied by different scholars from varying perspectives.

The influences of these factors on individuals' decision-making behavior need to be clarified, leading to the creation of ethical decision-making frameworks. These factors were also categorized by some researchers containing a variety of concepts that are

influential upon the decision-making process ( e.g. Ferrell & Fraedrich, 2014; Ford & Richardson, 1994; Loe et al., 2000; O'Fallon & Butterfield, 2005).

**Table 3. 3: Extensive Categories of Ethical Decision-Making Process**

Individual Factors	Personal Attributes	Religion & Nationality
		Sex and Age
	Education & Employment Background	Type of Education
		Years of Education
		Type of Employment
		Years of Employment
	Personality, Beliefs, and Values	Machiavellianism
		Values
		Locus of Control
Other Variables		
Situational Factors	Referent Groups	Peer Group Influence
		Top Management Influence
		Rewards & sanctions
	Codes of Conduct	
	Types of Ethical Decisions	
	Organizational Factors	Organization Effects
		Organization Size
		Organization Level
Industry Factors	Type	
	Business Competitiveness	

Adapted from Ford & Richardson (1994)

As mentioned above, two important classifications include situational (organizational) and individual factors. The first category (situational factors) consists of several variables outlined in different studies. This category, in fact, describes the situation where people make decisions. The second category (individual factors) includes elements related to the individual decision maker. Table 3.3 demonstrates a classification proposed by Ford and Richardson (1994).

In terms of personal attributes, a lack of significant correlation was observed between these factors and ethical beliefs in most studies, however, personal attributes were proven to be related to ethical decision-making and individuals' ethical beliefs in some studies (for nationality, see Abratt, Deon, & Higgs, 1992; for sex and age, see Browning &

Zabriskie, 1983; for religion, see Kidwell, Stevens, & Bethke, 1987).

As indicated in Table 3.3, education and employment background include four individual factors. Overall, type and years of education and employment elements are associated with decision-making behavior and individuals' ethical beliefs, while other studies indicated that decision-making and ethical beliefs are not associated with education and employment factors. Arlow and Ulrich (1980) and Stevens (1984) compared managers and students with regards to education and employment factors and reported that managers are more ethical than students. With a similar methodology, Stevens, Richardson, and Abramowitz (1989) pointed out that few differences were evident among business students, managers, law students, and attorneys with regard to ethical beliefs, however, generally, students' ethical beliefs scored lower than that of professionals.

Another group of factors concerns individual factors entailing personality factors, as well as the decision makers' values and beliefs. Hegarty and Sims (1978, 1979) reported that Machiavellianism explicated significant variations in ethical behavior in their investigations. In terms of value orientation category, the value of political orientation was significant in their study in 1978. Hegarty and Sims (1978) showed significant values in the measure of locus of control, including internal and external, but it was not significant in their study in 1979. In short, the personality attribute of the decision maker is associated with the individuals' ethical beliefs and behavior.

The second category is situational factors, which demonstrate the theoretical framework relating to the current situation. This classification consists of a diversity of situational factors that are theoretically different from individual factors tabulated in Table 3.3. Its first subcategory is the referent group, including peer group and top management, which affect the behavior of ethical decision (see Zey-Ferrell, Weaver &



Ferrell,1979; Zey-Ferrell & Ferrell, 1982). Overall, individuals in their ethical notion and decision-making behavior regard themselves as more ethical than their manager, peers, and colleagues. This category also entails rewards and sanctions.

The top management involves the most significant subcategory, which can impact a decision maker in multiple ways. First, the action of the top management may serve as a typical model for the desired behavior. Second, rewards or punishment meted out by the top management may influence individual behaviors (see Posner & Schmidt, 1984; Vitell & Festervand, 1987).

The second subcategory is the codes of conduct, where its effect upon ethical behavior has been investigated in different studies. Its effect is deemed as being significant. The codes of conduct developed by the top management will positively increase individuals' ethical behavior and decision-making. The utilization of rewards and punishments vis-à-vis the code will enhance the ethical attitude and decision-making process more than the creation of the codes itself (see Gao, 2015; Hunt, Chonko, & Wilcox, 1984; Laczniaak & Inderrieden, 1987).

The third subcategory entails types of ethical decisions. According to Fritzsche and Becker (1983), the nature of ethical problem might be based on the managers' decision-making behavior. Their findings were reported based on scenarios to determine whether dissimilar cases of quandary may lead to variance in management behaviors.

The fourth subcategory, which is organizational factors, contains important elements, including organization effect, organization size, and organization levels. These factors are associated with organizational characteristics, and various organizational effects have been examined as well, such as structure and climate (see Ghosh, 2014).

Using a survey, Delaney and Sockell (1992) reported that teaching programs of ethics in a company exerted a positive influence on ethical behavior. A healthier ethical climate can ameliorate the probability that marketing professionals would conduct ethical management (Ghosh, 2014). Studies conducted on the ethical climate demonstrate that climate and organizational culture has an important effect on the ethical decision behavior (Akaah & Riordan, 1989). The organization size and level, however, are two significant factors affecting individual ethical behaviors. Increasing the size of organization would decrease ethical beliefs and managerial behaviors (e.g., Browning & Zabriskie, 1983; Vitell & Festervand, 1987). Moreover, an increase in the level of employees in an organization might decrease the employees' ethical beliefs (see Delaney & Sockell, 1992; Posner & Schmidt, 1984).

The last category of situational factors, which is industry, included the type of industry and business competitiveness. The results demonstrated that there was no relationship between industry ethical standards and individuals' ethical beliefs, as well as their decision-making behaviors (Boughaba, Hassane, & Roukia, 2014; see Dubinsky & Ingram, 1984; Hegarty & Sims, 1978), although an individuals' decision-making behavior and ethical beliefs might be affected by business competitiveness.

Other classifications were also suggested based on some theoretical models, which were then scrutinized via experimental investigations, such as (e.g., Trevino, 1986), who examined ethical climate/culture and codes of ethics in relation to situational elements. Moreover, Cohen et al. (2001) and Trevino (1986) scrutinized individual factors, such as moral intensity component, magnitude of consequences, and social consensus (e.g., Jones, 1991; Singhapakdi, Vitell, & Franke, 1999).

An additional classification was also mentioned in literature, based on dependent and independent variables, including four steps of Rest (1986), which are moral awareness,

moral judgment, moral intent, and moral behavior. Independent variables used in this recent category are individual factors, organizational factors, moral intensity factors, and dependent variables, all of which were based on the four steps of Rest (1986). These variables are summarized in Table 3.4.

**Table 3. 4: Empirical Investigations of Ethical Decision-Making Process**

	<b>Independent variables</b>	<b>Dependent variables</b>
Individual Factors	Age	Moral awareness
	Awareness	
	Biases	
	CDM Ethical judgment	
	Conflict	
	Ed., Emp., Job Sat. and Work Experience	Moral judgment
	Gender	Moral intent
	Intent	
	Locus of control	
	Machiavellianism	
	Nationality	
	Need for cognition	Moral behavior
	Organizational commitment	
	Other individual effects	
	Philosophy/value orientation	
Professional affiliation		
Religion		
Significant others		
Moral intensity		Moral awareness Moral judgment Moral intent Moral behavior
Organizational factors	Business competitiveness	Moral awareness
	Codes of ethics	
	Ethical climate	
	External environment	Moral judgment
	Industry type	
	Opportunity	
	Organizational climate/culture	Moral intent
	Organizational size	
	Other organizational effects	
	Rewards and sanctions	Moral behavior
	Significant others	
	Subjective norms	
Training		

Adapted from O'Fallon and Butterfield (2005)

As indicated in Table 3.4, certain variables are similar to the ones reported by Ford and Richardson (1994) and Loe et al. (2000). These variables were divided into categories such as individual and organizational factors. The results of individual and organizational factors affecting judgment will help the reviewers reveal different perspectives and the present background of the studies that are associated with individual decision-making, auditors' behaviors, and decision-making.

Wimalasiri, Pavri, and Jalil (1996) investigated individual factors, including age, gender, nationality, religion, education, job satisfaction, and work experience among middle managers using ethical reasoning in Singapore. They reported that factors such as age, levels of education, and nationality could introduce moral development because there were significant differences in moral reasoning among age groups, levels of education, and nationality (Chinese and non-Chinese). Furthermore, a significant relationship between the higher degree of religious commitment and higher stages of moral reasoning was found. Nevertheless, no significant difference was observed between the practicing managers' and students' level of moral reasoning.

Using ethical reasoning, Kennedy and Lawton (1996) studied Ukrainian and American business students. The findings revealed differences with regards to business students' ethical behaviors in both countries. In terms of nationality, Ukrainians were less likely to engage in unethical business practices than Americans. Furthermore, religious respondents were reasonably less willing to pursue unethical behavior.

In another study, Kracher, Chatterjee, and Lundquist (2002) investigated individual factors associated with ethical reasoning, specifically nationality, education, and gender, in the context of comparing Indian and American business students. The findings demonstrated that there was a negative relationship between age and moral development, while education was positively related to ethical reasoning. Furthermore, similar levels

of moral reasoning between males and females were reported, and more interestingly, the scores of moral development between Indian and American participants were not significantly different.

Eynon, Hill, and Stevens (1997) studied factors affecting the ethical reasoning capability of accountants in the audit profession and academia. They proposed that ethical reasoning decrease with age, while Larkin (2000) found no significant results with regards to the relationship between age and ethical reasoning. Moreover, Latif (2000) reported that the scores of moral reasoning in older auditors were significantly lower than younger ones, as opposed to Peterson, Rhoads, and Vaught (2001), who pointed out that the results of ethical issues were lower in the younger respondents.

Valentine and Fleischman (2003) denoted that understanding ethical issues were not related to moral judgment, though the ethical judgment was positively associated with the decision to grant relief.

Au and Wong (2000), in an exploratory investigation among Chinese CPAs, reported that a negative relationship exist between ethical reasoning (measuring cognitive moral development) and ethical judgment, in contrast to other scholars who indicated a positive relationship between ethical judgment and cognitive moral development (e.g., Green & Weber, 1997), as well as the process of ethical decision-making (e.g., Bass, Barnett, & Brown, 1999). Also, it was found that the cognitive moral development affected the decision-making process (e.g., DeConinck & Lewis, 1997).

Green and Weber (1997) examined different groups studying accounting and other business majors to determine whether taking an auditing course may lead to higher ethical reasoning scores. No difference was found in the score of ethical reasoning for those who were not taking an auditing course, although after taking auditing courses, the score of

those studying accounting was higher than the others.

Overall, many factors may influence the ethical decision-making process at different levels, including demographic factors, moral philosophy, personality, and ethical ideologies, which may influence ethical decision makers (Kish-Gephart, Harrison, & Trevino, 2010; Loe et al., 2000; O'Fallon & Butterfield, 2005), while work environment, cultural/climate characteristics, ethics-related values, and professional orientation might influence ethical reasoning (Curtis, 2015; Douglas, Davidson, & Schwartz, 2001; Jennifer J. Kish-Gephart et al., 2010; Singhapakdi, Salyachivin, Virakul, & Veerayangkur, 2000; Valentine, Fleischman, Sprague, & Godkin, 2010). Other factors, such as ethical training and codes of conduct, as policies, have influenced ethical reasoning as well (Adams, Tashchian, & Shore, 2001; Gaudine & Thorne, 2012; Valentine & Fleischman, 2004; Valentine, Godkin, & Lucero, 2002).

Researchers working on these discipline(s) have also pondered the ethical quality of varieties of auditors' judgments (Ponemon, 1993; Ponemon & Gabhart 1990), ethical socialization among accounting associations (Abdolmohammadi & Ariail, 2009; Ponemon, 1992a), and dissimilarity of accountants' ethical behavior in accounting groups (Abdolmohammadi et al., 2003; Abdolmohammadi & Shanteau, 1992; Cohen et al., 2001; Jeffrey, 1993; Shaub, 1994). Accordingly, researchers have investigated the relationship between ethics and types of ethical decision-making.

From the 1970s to the mid-1980s, various institutions concerned with accounting associations have promoted ethics in auditing and accounting through courses and ethical education (Mele, 2005). The increase in these approaches was due to several recent scandals, and the results proved the necessity in considering ethical reasoning (Jenkins et al., 2008).

The rules and regulations of accounting have not been amended for quite some time. Taking into account the significance of the accounting profession, the values of audit profession has received scant attention. (e.g., Jenkins et al., 2008). Accountants are likely to have lower moral reasoning (i.e. P-score) in contrast to individuals with similar levels of education. Lower levels of ethical reasoning centers on rules and norms, and therefore operates at this level (Herron & Gilbertson, 2004).

Given the lower abilities of moral reasoning among accountants, researchers have studied the issue to see whether an emphasis on ethics will result in better ethical reasoning for accountants (Brandon et al., 2007). Similarly, an important thread of investigation in accounting is centered on elements that could affect professional accountants' ethical behavior (Abdolmohammadi & Ariail, 2009; Ponemon, 1990; Ponemon & Gabhart 1990; Shaub, 1994; Tsui,1996). Consequently, recent research has sought to consider a psychological framework to express ethical reasoning procedures. It is beneficial to find the answer to the question "what makes accountants more or less ethical?" (Jones & Ponemon,1993, p. 411).

Research regarding the ethical decision in accounting has mainly focused on assessing the students'<sup>3</sup> or auditors' ability to make ethical decisions in accordance with morality, based on the theory developed by Kohlberg (1969) and Rest (1979). The theory mentions that a higher level of moral reasoning is supposed to affect ethical judgments and decisions.

The researchers usually determine the auditors' or students' existing levels of ethical reasoning before they undergo any training (Dellaportas et al., 2006; Jeffrey, 1993), where these levels demonstrate whether auditors actually apply ethical reasoning in their

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<sup>3</sup> According to Ponemon (1993), moral development has experienced enormous consideration to investigators since it is extremely regarding and concerning with later ethical decision.

judgments and decisions (Dellaportas, 2006), are susceptible to pressure exerted by the clients' management (Karacaer et al., 2009; Tsui, 1996), have the tendency to give in to a client's request (acceding) (Gul & Tsui, 1992; Tsui, 1996), and are highly adaptable to social influence during the decision-making process (Chow, Massey, Thorne & Wu, 2014; Thorne et al., 2004).

Beyond this scope, elements such as economic factors will also play a role in determining the auditors' independence of judgment (DeAngelo, 1981; Windsor & Warming-Rasmussen, 2009). This study intended to address how the auditors view a timely ethical dilemma and react to the clients' management requests. For comparison purposes, the study was conducted on multiple groups of auditors.

This study will examine the auditors' ability to resist the client's management at different levels of ethical reasoning to see whether it is ethical to accede to client management.

### **3.3 Auditors' Acceding**

Since corporate governance is regarded as an important concept, auditors play a significant role in its mechanism vis-à-vis their financial reporting. As a result of this, audit quality is regarded as an assessing indicator of financial reporting. Audit quality has two aspects: auditor competence and independence. The former detects flaws, including violation in the accounting system and finally report error matters, while the latter emphasizes the auditors' ability to resist client pressure (Brazel, Carpenter, & Jenkins, 2010; Church et al., 2014). Therefore, auditor independence includes withstanding the pressure of client's managements on not disclosing their findings.

Auditors' reluctance or inability in the disclosure may create conflict. In this situation, auditors are expected to maintain their independence by resisting management pressure



(Gul, Wu, & Yang, 2013). In contrast, some auditors may accede, as they are unable to cope with pressure from the management.

Acceding in auditing is yielding to another individual's wants or opinions (Patel, 2006). Acceding can be introduced as the auditors' inability to resist the clients' preferred position (Bamber & Iyer, 2007). In other words, acceding is the opposite of independence, and applied to a situation where an auditor is more likely to acquiesce to the client's pressure or preference.

The auditor's ability to resist or accede to the client pressure is stressful (Hatfield, Agoglia, & Sanchez, 2008). Therefore, although all auditor acceding may not be harmful, in general, acceding may emerge once the power of auditor independence is questionable (problematic), and might impair auditor independence (Carmichael & Swieringa, 1968; Cullinan, 2004; Patel, Harrison, & McKinnon, 2002). As a matter of fact, acceding occurrence destroys audit quality, which in turn, leads to unreliable financial reporting. As a result of this, the mechanism of corporate governance will be endangered, and public trust will be ruined.

### **3.3.1 The Relationship Between Ethical Reasoning and Auditors' Acceding**

The literature of auditor acceding is associated with auditor independence and auditor judgment (Church et al., 2014; Knapp, 1985). In fact, independence is a cornerstone of the auditing profession. The concept of auditor independence has been the focus of effort in recognizing and developing auditors' function and behavior in the audit profession (Jenkins & Lowe, 2011; Reiter & Williams, 2004).

Ethical judgment, as a reflection of individual behavior, is examined by Honeycutt, Glassman, Zugelder, and Karande (2001). They reported that a positive relationship existed between ethical judgment and behavior based on the cognitive developmental

theory. This theory indicates a positive association between ethical reasoning and ethical behavior. With the same idea, Abdolmohammadi and Sultan (2002) found that accounting students with lower ethical reasoning (as measured by P-score) has a higher probability of practicing immoral behaviors.

An important part of the auditors' function refers to the relationship between an auditor and the client's management when confronted with a dilemma. When an auditor confronts an ethical dilemma posed by the client's management, they could be forced to cooperate and compromise. This issue has been emphasized by various scholars (e.g. Ponemon & Gabhart, 1990; Tsui, 1996; Windsor & Ashkanasy, 1995), with implications for practitioners (see Gul et al., 2003; Windsor & Ashkanasy, 1995).

Situations that might create conflict between an auditor and a client management can influence the auditors' judgment or behavior. If an auditor resisted the client management's preferences or pressures in those conflict situations, independence would assert itself; otherwise, acquiescence or acceding may occur.

Independent auditor judgment can be difficult in a conflict situation because it involves decisions and decision-making processes that cannot be observed in individual behavior. Some researchers have studied these decisions. For instance, in a sample from Trevino (1986), the complexity of some of the proposed independent auditor's judgment was investigated.

A professional auditor is required to adhere to objectivity while also being obligated to maintain full personal autonomy to provide an independent opinion regarding the accuracy of unbiased financial reports. Mautz and Sharaf (1961) pointed out that judgments about audits' objectivity should be similar to a judge's decision in a lawful court. Hence, being independent depends on the personality, but the invisible decision-

making processes in accounting policy should be objective and without bias, passion, or prejudice (IFAC 2001 visit). Thus, realism is a fundamental concept in the auditor's independence.

The auditors' complex decision-making model proves that they use three hierarchical levels to make individual decisions. The decision-making process at any level is formed in response to a difficult situation. The more ethically difficult a situation is, the more difficult is the audit's decisions, which lead to a slow turnaround on inner beliefs. Finally, two hierarchical levels are involved with high-order interactions. Higher levels of decision translate into higher levels of engagement.

Decisions made at higher levels are reflected in interactions between personal beliefs (at the third level) and type of attitude (at the second level, post-conventional) in a conflict where a decision has to be made. The auditor's responses at the second level are the result of thinking, all of which are affected by attitudes and moral perceptions. Finally, on the third level, the auditor's responses are affected by faith, such as "belief in a just world".

This model evaluates the holistic approach toward personal decisions by combining two aspects of cognitions and individuals' opinions inspired from the individuals' social environment (organization). Kohlberg claims that this approach proposes a better understanding of how these two aspects of personality interact with personal decision-making. As a matter of fact, stage theorists like Kohlberg assume that moral reasoning is static at each stage, but the social learning theorists such as Bandura have questioned this assumption. Bandura (1986) suggests that moral progress stages may be more responsive to social conditions than what is expected by stage theorists (see Opatow, 1990).

Karcher (1996) argued that the ethical problems are integrated into general accounting situations to discover the sensitivity of accounting professionals to them. She defined

ethical sensitivity as the ability to interpret a given situation and to realize that a moral problem exists. Further, she confirmed the presence of a significant positive relationship between ethical sensitivity and age as an individual factor, which in turn influence the auditors' ability to distinguish ethical problems. Furthermore, no significant findings were reported in terms of employment position or levels of education.

The ability of internal auditors to determine ethical dilemmas was investigated by Larkin (2000), alongside auditors' judgment. The results demonstrated that in general, auditors' ability to distinguish unethical behavior was related to their respective experiences. Furthermore, it was concluded that female auditors were more likely to distinguish correct behaviors compared to their male counterparts.

Patel, Harrison, and McKinnon, (2002) examined cultural influences on professional judgments of Australian, Indian and Chinese Malaysian accountants in relation to auditor–client conflict resolution. Their study drew on cultural characteristics of, and differences among, these societies to formulate hypotheses that Australian accountants are less likely to resolve audit conflicts by acceding to clients than Indian and Chinese Malaysian accountants, and are also less accepting of resolving audit conflicts in this way. Their results supported about differences in Australian compared to Indian and Chinese Malaysian professional judgments. Different national culture resulted in different ethical judgment.

Shafer, Morris, and Ketchand (2001) examined the influence of personal values on auditors' ethical decision-making. It was revealed that magnitude of consequences influenced judgment significantly, although age, as an individual factor, did not result in any significant findings, which confirms the supposition of Singhapakdi, Karande, Rao, and Vitell (2001). Singhapakdi et al. (2001) also examined the importance of ethics and social responsibility and determined in terms of intent to engage in unethical behavior,

Australian and American marketers showed significant differences in two out of four scenarios.

Accounting literature on the relationship between ethical reasoning and auditors' response to a client's request suggests that the level of auditors' moral reasoning may influence their sensitivity on ethical issues (Sweeney & Roberts, 1997; Tsui, 1996). This relationship can also be affected by cultural settings (Patel, 2006). Moreover, investigating auditors' ethical reasoning demonstrated what decisions and behaviors are involved in the level of ethical reasoning. Auditors with higher P-scores usually make better moral decisions and behave in a better moral manner compared to those with lower ethical reasoning.

Prior literature in the audit field have been summarized with respect to two audit task and professional judgment. Both types of studies have found similar findings of auditor actions and auditor perceptions with regard to ethical reasoning and the underreporting of audit time. Ponemon (1992a) reported that auditors with relatively low P-scores have more underreported time than those with higher ethical reasoning. The findings revealed that auditors might take dysfunctional actions, depending on the conditions based on the relationship between ethical reasoning and underreporting. Simply put, ethical reasoning is connected to the moral behavior in the auditing practice.

The subsequent studies investigated the auditors' sensitivity (i.e. the degree of characteristics that are conceived throughout the process of decision-making) regarding client managements' integrity and competence (Ponemon & Gabhart, 1990). Specifically, auditors' sensitivity to the normative characteristics of the client management was analyzed, and it was found that auditors were sensitive to the likelihood of deception cover-up, unclear records in financial statements, and wrongful behavior in the client organization.

Green and Weber (1997) found a significant association between levels of ethical reasoning and auditor behavior, specifically in senior levels of population. They maintained that higher levels of ethical reasoning lead to more ethical behavior. The results were in line with those of Mamburg (2001), where higher ethical reasoning was positively related to action-decisions.

According to Ponemon and Gabhart (1993, chapter 6), in assessing the proposed adjustment, auditors were more sensitive (in a higher level of ethical reasoning) with regard to positive and negative information related to the client's management (competence and integrity). Particularly, auditors with higher P-scores evaluated the likelihood of correction being higher than auditors with lower P-scores, when the information given to high moral reasoning auditors was negative, whereas it proved to be lower when the provided information was positive.

Bernardi (1994), applying a median split to form the high and low moral development groups, investigated audit managers in terms of their moral reasoning process via logistic regression. The results determined that more fraud was detected within managers with higher moral reasoning rates than those with lower moral reasoning rates. It was also discovered that with a higher moral reasoning rate, managers were more sensitive to clients' integrity and competence. Since moral reasoning influences an auditor's awareness of the client, it was emphasized that increasing the auditor's awareness of the client's management with regards to integrity and competence was important.

Other studies of ethical reasoning in the auditing and accounting field have focused on auditors' independence and objectivity in resisting pressure from clients. Ponemon and Gabhart (1990) utilized a sample of managers and partners in audit firms. The ability to form independent judgment was determined to be directly related to the level of the auditors' moral reasoning. Auditors with low DIT were more sensitive to the breaking of

independence rules rather than auditors with high DITs. Furthermore, the results indicated that penalty factors considerably influenced auditors with low DIT.

Tsui (1996) examined the relationship between moral reasoning and auditors' acceding to the client's request with respect to the cultural characteristics of auditors in Hong Kong and compared the results with those of auditors in the United States. The study findings demonstrated that auditors with higher P-scores reflected the context of cultural characteristics. Moreover, countries with large power distance, low individualism, and long-term orientation dimensions had fewer ethical reasoning vis-à-vis other countries. In this study, national culture was used as a background for individual behaviors. Auditors in countries with higher P-scores had better judgments and were more independent in their reports. Furthermore, different national background caused different P-scores.

Tsui and Gul (1996) investigated a sample of auditors in Hong Kong and discussed the impact of ethical reasoning as a moderator on the relationship between locus of control and auditor's response to accede to clients' request for auditor acceding. They found that ethical reasoning moderated this relationship. Moreover, it may affect the auditors' ability to resist client pressure in a conflict. Ethical reasoning was an influential element in auditor acceding just for "external locus of control", who assume they have no control over their fates ( see Trevino, 1986). Auditors who were "external" (with high DIT P-scores) were more resistant to clients' pressure.

Sweeney and Roberts (1997) examined the impact of moral reasoning on an auditor's independent judgment. The moderating influence of audit size in the relationship between moral reasoning and auditor independence was investigated as well. The study revealed that auditors with higher levels of moral reasoning were less likely to resolve dilemmas only through technical standards, and also the size of an audit firm proved to be interrelated with the level of ethical reasoning in influencing independent judgment.

Some variations were also found in auditors' ethical behavior, and as a result of this variation, organizational culture could be partially attributable to the differences. The study findings indicated that organizational culture could be differentiated by the size of the audit firm. Furthermore, the ambiance of audit firms played a major role in the outcome of auditors-client issues.

With a somewhat different methodology, Windsor and Ashkanasy (1995) classified auditors based upon DIT scores in three groups. They strongly recommended that moral reasoning affect the auditors' ability to resist client pressure in work-related conflicts. Using a group of Chinese auditors, Gul et al. (2003) applied a model of economic, ethical compliance to analyze the relationship between ethical reasoning, perceived risk of detection, and perceived levels of penalties in a conflict. A considerable negative relationship was observed between ethical reasoning and the probability of unethical behavior. Moreover, the negative relationship was reported as weaker for auditors who perceived higher risks of detection.

The literature on the relationship between ethical reasoning and auditor independence confirms that most auditors with high P-scores had a lower probability of violating their independence compared to auditors with low ethical reasoning. However, it is not possible to generalize these findings, since more research is needed in the context of different cultures.

The effect of ethical reasoning on auditor independence was investigated by Brandon et al. (2007) by examining the level of client risk as a contextual factor in influencing an auditors' judgment. It was stated that the levels of moral reasoning proved to be similar to students in a decision-making situation. Also, a critical issue argued that higher P-scores not necessarily determine moral decision-making, although previous studies confirmed that auditors with high P-scores were inclined to adopt more moral options regarding their



functional ethics (see Bernardi, 1991). In fact, they were more sensitive to the client's condition and features and were more likely to resist client's management pressure.

Kristof (1996) argued that when the features of the organization are in line with their personal characteristics, individuals will be more agreeable and dedicated to their jobs. Hence, Van Vianen (2000) mentioned that individuals "select themselves into and out of organizations" according to "their judgment of the congruence between the characteristics of the organization and their own characteristics".

Confirming the findings above, Fleming et al. (2010), using DIT, compared the P-score between Chinese and American students. The Chinese students demonstrated lower P-scores in two scenarios, whereas American students were reported to have a lower P-score in the third scenario. The findings revealed that these differences are cultural differences. Table 3.5 indicates the different P-scores in Asian countries.

**Table 3. 5: Ethical Reasoning Studies in Asia in terms of P-Score**

<b>Authors</b>	<b>Sample</b>	<b>Study Sample</b>	<b>P-Score</b>
Tsui (1996)	50	Auditors from Big Six	30.10
Tsui & Gul (1996)	80	Four Big Six & Five Non-Big six CPA firms	29.72
Tsui and Windsor (2001)	75	Auditors from Chinese Mainland participants	29.93
Gul et al. (2003)	53	Chinese auditors	14.47
Fleming et al. (2010)	96	Chinese auditors	22.92

Following a similar approach, Ge and Thomas (2008) used the AEDI (Accounting Ethical Dilemma Instrument) instead of the DIT and found that Canadian accounting students exhibited higher audit-specific deliberative ethical reasoning than Chinese accounting students. In general, these studies added useful insights into the effects of culture on auditors' ethical reasoning.

Another reason concerning the low level of ethical reasoning is that the P-score shows the high level of the third stage in the theory of Kohlberg (1969). At the third or “post-conventional” level, individuals see beyond social norms, and make their assessment of right and wrong based on personal values, while at the second level or “conventional” level, behavior conforms to societal or peer group standards. In fact, individuals in different professions do not normally reach the third level; therefore, they cannot reveal a good performance in respect of P-scores.

Herron and Gilbertson (2004) stated that a lower level of ethical reasoning (conventional level/maintaining norms) centers on rules and norms; therefore, auditors operating at this level adhere to the rules the most. Moreover, Ponemon and Gabhart (1990) reported that auditor independence judgment and DIT P scores are related, in that low DIT auditors are more sensitive to penalties than affiliation when framing judgments.

As mentioned earlier, ethical reasoning is known as one of the factors that affect the ethical behavior within professional accountants (Jackling et al., 2007; Ponemon, 1992b). Ethical reasoning is a process by which it is possible to justify what makes accountants ethical and to determine the extent to which (level of ethical reasoning) an accountant should be ethical (Jones & Ponemon, 1993). While ethical reasoning has some effects on the style of the decision made by auditors, realizing ethical reasoning seems essential whenever auditors are confronted with dilemmas and conflicts during audit processing. For instance, Flanagan and Clarke (2007, p. 488) mentioned that auditors and accountants “often lack the knowledge and skills to analyze issues effectively, and when confronted with conflicting ethical problems cannot choose the way to move forward that is consistent with their values”. Therefore, this study aims to examine the association between ethical reasoning and auditor acceding in the context of Iran.

### **3.3.2 The Effect of Auditors' Acceding on Auditor Independence**

Corporate governance (CG) involves a multi-dimensional and significant matter entailing legislations, provisions, structures, processes, cultures, and policies that lead the company to achieve goals, such as responsibility, transparency, justice, and observation of beneficiaries' right (Brennan & Solomon, 2008; Huse, 2005; Man & Wong, 2013). Management, boards of directors, and internal and external auditors, as four important elements of CG mechanism, can ensure the quality of the financial reporting process. Due to the important role of auditor's report and audit quality (see Goodwin & Wu, 2015), the external auditor is assumed to be one of the prominent components of this mechanism (see Cohen, Krishnamoorthy, & Wright, 2004). Playing this important role ethically would compel corporate governance to observe beneficiaries' rights and protect it from possible dangers, such as recent scandals of auditor acceding.

If the external auditors' report is in accordance with the audit quality and auditor's independence, the corporate governance achieves one of its goal, which is beneficiaries' right adjudication. Otherwise, the corporate governance will be endangered, and the result will be revealed as those of recent scandals, that is to say, the auditors accede to the client request. When the auditor accedes to a client request, they, in fact, cannot achieve independence (Francis, 2011), and thus, the corporate governance mechanism would be endangered. In other words, auditor acceding is the antithesis of their independence. This concept is exemplified in Anderson's acceding to the request of Enron, which led to a blemish on corporate governance. It was an amoral behavior that caused the termination of both institutions. Therefore, it is essential to take into account the important role of the external auditor in corporate governance studies and reconsider it regarding ethical behavior, as well as the audit acceding.

Despite the importance of auditor independence, there is no definition of auditor independence and no formal theory that is widely acknowledged as unequivocal in this case. Nevertheless, studies related to audit quality could elucidate the concept of auditor independence. Audit quality involves an important concept containing auditor independence in both fact and appearance (DeAngelo, 1981).

The definition of audit quality in literature emphasizes the perceived ability of an auditor in two aspects. The first one involves analyzing the accounting system to locate failures (i.e. competence), while the second is withstanding clients' request and pressure to disclose a discovered error (i.e. objectivity) (DeAngelo, 1981; Watts & Zimmerman, 1986; 1990).

In terms of auditor's independence, they tend to underreport any discovered flaws, which might result in them being less objective in their tasks (Lowe & Pany, 1995). Furthermore, according to Johnstone et al. (2001), several factors may alleviate the consequence of independence risk on actual or perceived audit quality, including regulatory oversight, corporate governance mechanisms, individual characteristics, audit firm policies, and culture.

Another concept regarding auditor's independence involves the relationship that strengthens the economic adhere between the auditors and clients. There is also the possibility that auditors will not be truthful in their reports (Brazel et al., 2010; Simunic, 1984).

With respect to audit quality, the definition of auditor independence is applied to all users of financial statements. In the absence of an independent audit, no privilege is offered to the company, especially partners and stakeholders, except for an extra abortive cost (Firth, 1997; Guan, Su, Wu, & Yang, 2016 ).

Independence is essentially regarded as auditors' incentives. Independency directs auditors' knowledge and allows them to make a judgment and show knowledge-based

inclinations (Church et al., 2014). Antle et al. (2006) further noted that it seems that the profitability of the services provided by auditors and their legal liability are the two main determinants of auditors' incentives.

The importance of auditor independence, both genuine and as perceived by others, has been widely studied by both by theory makers and regulators. The audited financial statements are valuable, and while it is assumed that auditors are independent of their clients' management, auditors should be independent in both fact and appearance. This synoptic account of auditor independence focuses on the extent to which these theory makers and regulators' recommendations can change the auditor (Goodwin & Wu, 2015). Therefore, the role of auditing in the financial markets is of great significance. Previous scandals and presumed failures score oblige the auditor to be independent, which results in the enhancement of the quality of the audit.

Most researchers investigate how different factors influence individual perceptions of auditor independence (e.g., Beattie et al., 1999; Gul, 1991; Pany & Reckers, 1980). Non-audit services and economic dependence are agreeable factors affecting auditor's independence. Gul (1989) classified the number of factors that influence auditors' perception in an audit environment, including the provision of non-audit services, audit tenure, client's financial condition, the level of audit client competition, and the size of the audit firm. Encouragement, in several instances, impairs an auditor's independence, with regards to investment and loan decisions (Brown et al., 1997; Lowe & Pany, 1995), although some market-based investigations provide limited affirmation for this detection (Frankel et al., 2002), whereas other studies reject such findings completely (Defond et al., 2002; Guan et al., 2016 ).

It was repeatedly mentioned throughout the literature that an honest auditor will take a client head on, and makes ethically opposing decisions, but not based on clients'

preferences. Furthermore, the culture of honesty has been emphasized by many researchers (Knapp, 1985), and it is considered as an indicator of a successful business.

**Table 3. 6: Selected Studies on Ethical Reasoning and Auditor Decision-Making/Acceding**

<b>Author (s)</b>	<b>Description of the study</b>	<b>Major research findings</b>
Armstrong (1984,1987)	DIT and ethical sensitivity survey completed by CPAs and accounting students from the West Coast.	CPAs and accounting students have relatively low DIT P scores in comparison to other populations studied.
Ponemon (1988,1990)	MJI and audit case completed by CPAs at various position levels in public firms in the Northeast.	MJI scores decrease for CPAs at higher positions in public accounting firms.
Ponemon and Gabhart (1990)	DIT survey and between-subject experiment on auditor independence completed by senior-level auditors while attending a national firm's training program.	Auditor independence judgment and DIT P scores are related, wherein low DIT auditors were more sensitive to penalty than affiliation when framing judgment.
Bernardi (1991)	DIT survey and complex experimental study requiring the identification of fraudulent financial information for a large sample of auditors at different experience levels in several large CPA firms throughout the Northeast.	Findings revealed that experienced auditors with a relatively high DIT P-score were best able to detect a material financial statement error and fraud.
Arnold and Ponemon (1991)	DIT survey and between-subject experiment on internal auditors from public (State Government) and private companies located in the Northeast.	Auditors with higher DITs are more likely to disclose sensitive audit findings, even under conditions of retaliation by management.
Ponemon (1992)	DIT survey and experimental lab study of underreporting on a simulated audit exercise for a sample of staff auditors from various practice offices in the United States who were attending a national training program.	Auditors with low DIT P scores are more likely to underreport time, under conditions of peer or time budget pressure than auditors with high DITs.
Jeffrey (1993)	DIT survey of accounting, business, and liberal arts students from one large university in the Midwest.	Accounting students have higher DITs than students in the other programs at the same university.
Ponemon (1993)	DIT survey and experimental study of auditor sensitivity to the ethical characteristic of client management within the context of audit risk and the assessment of fraudulent financial information.	Auditors with high DIT P scores are configured in the processing of competence and integrity cues regarding client management, whereas low DIT auditors are not.
Armstrong (1993)	Pre- and post-DIT survey of ethical development for students who elected to take a one semester course on ethics and professionalism in accounting.	Students who elected to take the one-semester course had higher DITs than the average student population. They also developed higher DIT P scores by the end for the semester

**Table 3.7: Selected Studies Related to Ethical Reasoning and Auditor Decision Making/Acceding**

<b>Author (s)</b>	<b>Description of the study</b>	<b>Major research findings</b>
Windsor and Ashkanasy, (1995)	DIT survey of experienced auditors drawn from a cross-section of large multinational chartered firms located in a single metropolitan center.	Significant main effects for client financial condition, highlight the role played by the personal characteristics and beliefs of auditors. Moral reasoning affects the auditors' ability to resist client pressure in work-related conflicts.
Tsui and Gul (1996)	Using DIT investigated a sample of auditors in Hong Kong and discussed the impact of ethical reasoning as a moderator on the relationship between locus of control and auditor's response to accede to clients' request for auditor acceding.	A lower level of P-score was reported for the Chinese auditors group. Moreover, it was stated that the difference between the P-score of Chinese and Australian auditors could be attributed to the cultural differences between the Australian and Chinese societies.
Tsui, (1996)	DIT survey of auditors in Hong Kong and comparing with US auditors.	Different level of ethical reasoning between auditors. The importance of ethical reasoning for employing auditors in different companies according to their culture.
Sweeney and Roberts (1997)	DIT survey and experimental study of auditor sensitivity to the ethical characteristic of client management within three size categories.	Independence behavior of auditors is affected by their level of cognitive moral development. Audit firm size interacted with moral development level in affecting subjects' independence judgment.
Cohen et al. (2001)	Investigates the differences in individuals' ethical decision-making between Canadian university business students and accounting professionals.	Found few differences between the two student groups, suggesting that their education had minimal effect on raising their awareness of the ethical issues in the vignettes. Indeed, overall, the graduating student's scores were marginally lower than those of the entry level students.
Lord and DeZorort, (2001)	Examination of social influence pressures within the accounting firms whether affect auditors' willingness to sign off on financial statements that were materially misstated.	Moral development measuring, they stated that DIT did not affect responses to social influence pressure.
Abdolmohammadi and Sultan, (2002)	Administration of DIT. Ethical behavior as the dependent variable was measured on a binary scale.	P-score indicated the statistically significant effect on ethical behavior.

**Table 3. 8: Selected Studies Related to Ethical Reasoning and Auditor Decision-Making/Acceding**

<b>Author (s)</b>	<b>Description of the study</b>	<b>Major research findings</b>
Gul et al. (2003)	DIT survey by using a group of Chinese auditors.	The considerable negative relationship between ethical reasoning and the probability of unethical behavior; the negative relationship for auditors who perceive higher risks of detection is weaker.
Herron and Gilbertson, (2004)	Principles-Based standards may not be the panacea sought by the accounting profession. However, the goal of improving auditors' ethical judgments remains worthy of both academic and professional pursuit.	Lower level of ethical reasoning centers on rules and norms, therefore, operate at this level to adhere to the rules.
Lin and Fraser (2008)	Withstanding client pressure in audit conflict situation.	UK auditors are less likely to affect decisions as to whether or not to accept clients preferred accounting treatments than Chinese counterparts. National cultural differences supported the differences of auditors' perceptions.

The basis of audit quality depends on an auditor's competence to distinguish a break in the accounting system. If the auditor lacks independence; the quality of the audit is compromised (Richard, 2006; Simunic, Ye, & Zhang, 2015).

Overall, it is known that from time to time, auditors will encounter difficult ethical or moral issues during their careers. When dealing with this kind of situation, it is important that they are able to make decisions and judgments independently (Huang, Raghunandan, Huang, & Chiou, 2015; McPhail & Walters, 2009).

The majority of studies found that the P-score of populations vary and depend on elements such as national culture, levels of education or personal characteristics. Studies also indicate that for those populations with high P-scores, auditors are configured in the processing of competence and integrity cues regarding client management and they are more likely to disclose sensitive audit findings. Furthermore, the low P-scores of auditors



show that they are more likely to underreport time, under conditions of peer or time budget pressure, than auditors with higher scores.

### **3.4 Culture and Organization**

Before reviewing the literature and definition of culture, it seems to be important to classify culture in three levels including macro level, meso level, and micro level.

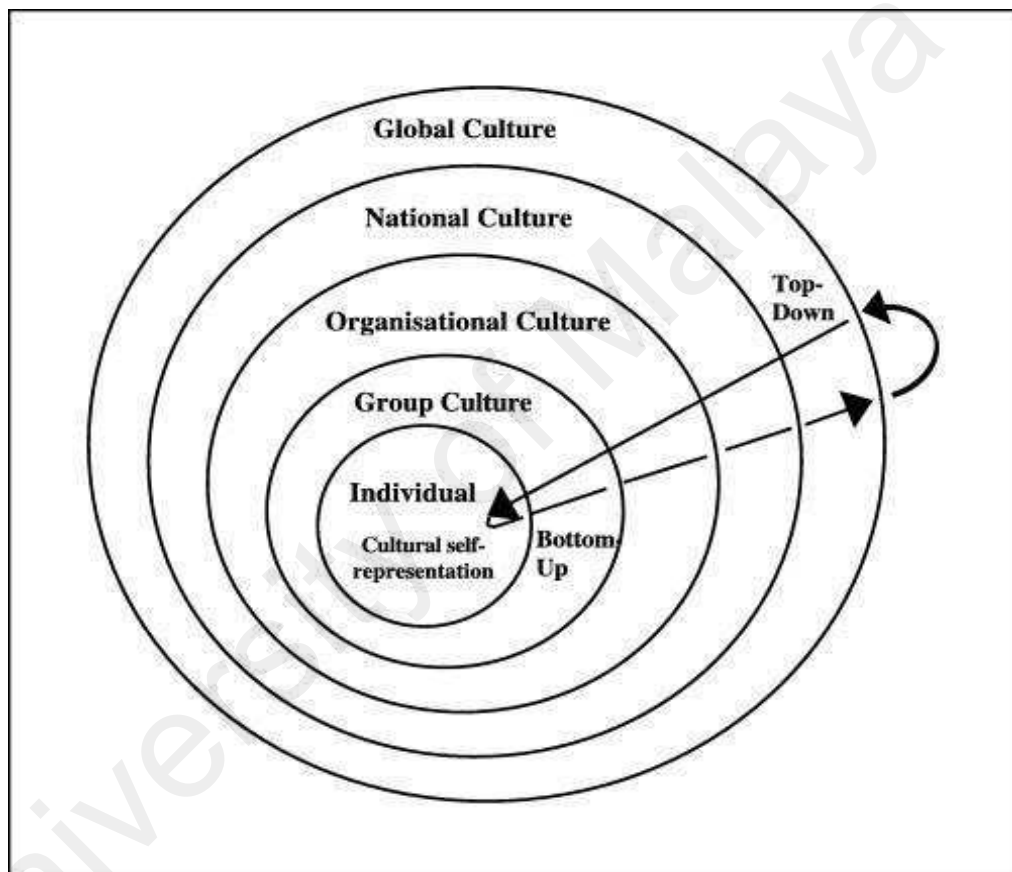
Researchers conduct macro level research (country context) interactions at the broadest level, such as interactions between nations or comparisons across nations. At the meso level, researchers tend to study the experiences of groups and the interactions between groups. At the micro level, scholars examine the smallest levels of interaction; even in some cases, just “the self” alone.

Micro level analyses might include one-on-one interactions between couples or friends. Alternatively, perhaps an academic is interested in how a person’s perception of self is influenced by his or her social context. In each of these cases, the level of inquiry is micro. When researchers investigate groups, their inquiry is at the meso level.

Scholars who conduct meso level research might study how norms of workplace behavior vary across professions or how children’s sporting clubs are organized, to cite two examples (Hipgrave, Alderman, Anderson, & Soto, 2014). At the macro level, researchers examine social structures and institutions. Research at the macro level examines large-scale patterns.

According to Erez and Gati (2004), the structural dimension represents the nested structure of culture from the most macro level of a global culture, through national, organizational and team cultures, and down to the representation of culture at the individual level. The dynamic nature of culture conveys the top-down–bottom-up processes where one cultural level affects changes in other levels of culture.

Drawing on Schein’s model, theories of culture differ in their focus on the various “layers” of culture (will introduce later). Most theories focus on values, the middle level on the continuum between visible and invisible elements of culture (Hofstede, 1980; House et al., 1999). Fewer theories focus on the visible and external layer of behaviors and practices (House et al.,1999) Very few models focus on the invisible and internal level of basic assumptions (see Erez & Gati, 2004).



**Figure 3. 5: The Dynamic of Top-Down–Bottom-Up Processes Across Levels of Culture. Adapted from Erez and Gati (2004)**

Erez and Gati (2004) proposed a multi-level model of a culture characterized by structural and dynamic dimensions (see Figure 3.1). The structural dimension pertains to the hierarchy of levels nested within one another where the most internal level is that of cultural representation at the individual level nested within groups, organizations, nations, and the global culture. Culture as a shared meaning system can be formed at each one of

these levels. The dynamic dimension pertains to the interrelationships among the various levels of culture and the way they impact each other. Through top-down processes of socialization, individuals internalize the shared meaning system of the society to which they belong, and its values are represented in the individual self. Then, through bottom-up processes of aggregation and shared values, higher level entities of culture are formed, at the group, organizational, and national levels.

By and large, the central objects of cultural investigations have been confined to micro-levels of analysis. For example, cultural elements such as symbolic boundaries (e.g., Lamont, 1992), cultural toolkits (e.g., Swidler, 1986), cognitive schemas (e.g., DiMaggio, 1997), and cultural frames (e.g., Benford & Snow, 2000) have been defined as judgments, classifications, or pre-conscious decisions that can only be measured through close readings of texts such as interview transcripts, content analysis of key texts, or ethnographic field notes.

Hsieh (2010) argues that culture is not only one of the most important variables, which influence variables such as follower expectations and norms as well as the type of organizational unit. Several researchers reported that national culture has a much more significant influence on the major managerial assumptions and organizational values than other demographic characteristics such as gender, occupation, and level of education (Hsieh, 2010).

Culture exists at least on three levels such as national culture, group culture, and organizational culture in an organization. Even though the interactions among various levels of culture cause them to impact on each other, national culture strongly shapes group culture and organization culture more than group culture or organization culture influence national culture (Nahavandi, 2006).

### 3.4.1 Definition of Culture

Culture is a naturally attractive notion. The definition of culture has a long history (Barley, Meyer, & Gash, 1988, p. 491), which has been studied extensively in the field of sociology. It mainly suggests that a variety of groups, such as social, religious, national, and collective ones have different corporate cultures within and among the groups in the outside world.

**Table 3. 9: Definitions of Culture**

<b>Seminal studies</b>	<b>Definition</b>
Pettigrew (1979, p. 577)	“man, creates culture and culture makes a man”.
Deal and Kennedy(1982)	Culture consists of a collection of valuable reserves, where community members are involved in their development.
Smirich(1983) and Schein (1985)	Beliefs, values, and assumptions are dominated as the core of culture.
Pratt (1987)	Culture is an expression of shared values by members of an organization, and it can also indoctrinate members in the practices and patterns of an organization. Practices are essential to the developing and fixing of the cultural countenance of selection and socialization.
Hofstede (1991)	A common thought of group members which distinguish these members from the other groups’ members.
	A set of social behavior patterns, arts, beliefs, customs and other human’s products and intellectual features of community or nation. Thus, in his opinion, culture means “collective think planning” that is responsible for shaping “mental programs “or “mental software” in childhood.
Schein (1991)	“A pattern of basic assumptions that are discovered determined and developed by the experience of facing with hidden difficulties in external adaptation and internal integration”.
Schein (1992)	“A pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to their problems.”
Cooke & Rousseau (1998)	A set of cognitions which are shared by members of a group in a social unit.
Cooper et al. (2001)	As a social behavior, which dominates, but resists alteration and facilitates desegregation among parties because it lets humans hold certain expectations about other’s behavior.
Reigle (2001)	Shared staple assumptions, customs, myths, and rituals with inexplicit beliefs which are evidenced by values in organisms and radical behaviors.

To refine the notion of culture, “164 different definitions of culture” have been developed (Fisher, 2000, p. 43). However, defining culture by itself is a complex matter, since it is defined differently by different individuals, and is framed in differing perspectives. The table below shows some definitions of culture proposed by scholars.

Denison (1996) explained that culture is not easily visible and reachable, though it is stronger than any laws. Therefore, individual organizations regard it as being significant. In many organizations, it is of utmost importance that individuals be able to perceive the invisible basis that forms the culture (Fey & Denison, 2003). Culture cannot be transferred via life (inheritance) but is learned via experience and training (Reigle, 2001).

Bodley (2000; 2011) proposed culture in the context of three perspectives: what individuals think, what they do, and what people create or manufacture. Culture is also classified into three basic concepts of mental, behavioral, and material. Moreover, a particularly important role was assigned to beliefs, values, norms and mental processes, all sub-factors of culture. Table 3.10 summarizes these classifications.

**Table 3. 10: Diverse Definition of Culture**

Topical:	Culture consists of everything on a list of topics, or categories, such as social organization, religion, or economy
Historical:	Culture is social heritage, or tradition, that is passed on to future generations
Behavioral:	Culture is shared, learned human behavior and a way of life
Normative:	Culture is ideals, values, or rules for living
Functional:	Culture is the way humans solve problems of adapting to the environment or living together
Mental:	Culture is a complex of ideas, or learned habits, which inhibit impulses and distinguish people from animals
Structural:	Culture consists of patterned and interrelated ideas, symbols, or behaviors
Symbolic:	Culture is based on arbitrarily assigned meanings that are shared by a society

Source: Bodley (2000; 2011)

Although researchers do not agree on certain components of cultural definitions and measurements, they seem to agree on the importance of culture as a factor in influencing how an individual would fit within an organization (O'Reilly et al.,1991).

A great deal of definitions have been proposed with regards to the culture that vary in their central concepts, resulting from diverse researchers' attitudes who proposed these definitions (Sackman, 1992; Shafritz et al., 2015). Therefore, the central concepts may consist of the authors' perspective toward a set of beliefs, basic assumptions, ideologies, and essential values.

Culture, however, is not easy to define. Reigle (2001) pointed out that it is usually recognized as basic assumptions and customs. These components of culture translate the fundamental beliefs and can be demonstrated as a reflection of values in individuals', as well as group behaviors. Culture can identify whether the behavior is acceptable, and is learned via experience and training (Negangard & Jenkins, 2015).

### **3.4.2 Definition of Organizational Culture**

The definition of organizational culture is important because it offers a structure by which members of an organization understand it (Frost & Gillespie, 1998). Therefore, it is essential to recognize what organizational culture is.

Many definitions of organizational culture have been extended hitherto. In fact, the definition of organizational culture in a specific format is not possible (Frost & Gillespie, 1998), which means that no acceptable general definition exists. Therefore, in this chapter, various definitions of organizational culture will be presented from the perspectives of different scholars.

Tarlo, Sussman, and Holness (1997) consider an organizational culture as a set of assumptions and values of the organization that is widely respected, leading to certain

behavioral patterns. In another definition, organizational culture was considered as a pattern of shared and constant values (Schein, 1992; Shafritz et al., 2015) that grow gradually over time. Schein (2004) also pointed out that organizational culture contains values, beliefs, norms, expectations, and assumptions that bind the people and the system.

In another study, Denison (1996) identified organizational culture as a powerful force that determines ways to act. Organizational culture refers to fundamental values, beliefs, and principles that are regarded as a solid foundation to serve the administrative level (Kosters et al., 2015). Moreover, values, beliefs and management system strengthen basic principles. These principles and values are sustainable because they are symbolic to the members. It was further pointed out that the message and the perceptions from corporate culture are closely linked with organizational strategy, and have a dramatic effect on the people who work there (Alzeban, 2015; Kosters et al., 2015).

Organizational culture acts similar to a book system, where it allows its members to observe beliefs that they did not previously experience, and therefore, act in accordance with these observations. Acceptable and particularly unacceptable actions are derived from culture. People derive cultural values from their respective societies, and these values may affect personal beliefs, actions, or decisions. Researchers determined that employees' commitment and job satisfaction are influenced by the degree of shared values within organizations (Deal & Kennedy, 1982; Kosters et al., 2015; Ouchi, 1981; Pettigrew, 1979).

In the context of organizations, culture consists of norms and values that influence the conduct and behavior of their respective members. Therefore, norms or manners can form the outcome of culture and encourage the formation of ethical decisions. Furthermore, commitment and common identity can be guided by organizational culture due to the influence of values (Jenkins et al., 2008; Schmiedel, vom Brocke, & Recker, 2015).

Organizational culture can be recognized as a combination of beliefs, values, and presumptions that exist in the organization. All organization members are more or less equally exposed to it and to a certain extent, they all agree with it. Furthermore, the organization managers, as well as the employees in organizational ambiance can acquire organizational culture.

Many definitions have been proposed in the expression of culture, but in general what can be presented as an overall agreement in the definition of organizational culture is “A set of cognitions shared by members of a social unit” (O'Reilly et al., 1991, p. 491), or a more comprehensive definition: “A system of shared and beliefs that produces norms of behavior and establish organizational way of life” (Koberg & Chusmir, 1987, p. 397).

The latter is regarded as more important, because it illuminates the fact that cultural structure can be explicitly considered in dealing with “important beliefs and values” (Goll & Zeitz, 1991), or alternatively called “norms and behavioral patterns” (Gundry & Rousseau, 1994). In simpler words, organizational culture is a pattern of shared values and beliefs that lead to certain norms and behavior (Smircich, 1983).

### **3.4.3 Characteristics of Organizational Culture**

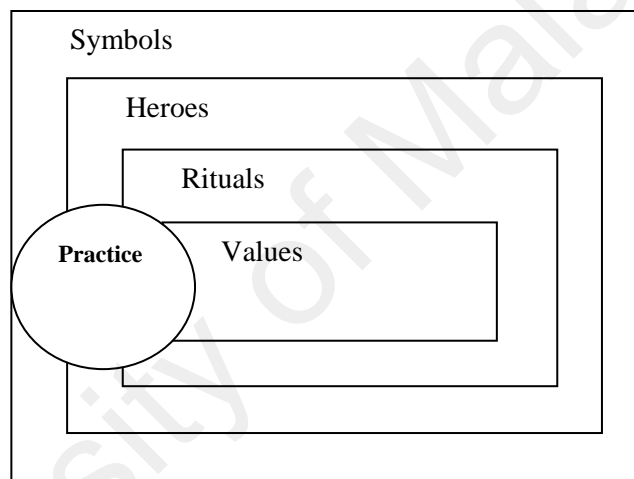
Frost and Gillespie (1998) mentioned that characteristics of organizational culture are vital, which helps people identify with an organization. It can, therefore, ameliorate the quality of organizational management. Like individuals, organizations also have characteristics that shape organizational form.

Organizational culture is reflected in the organization members' cultural identity, beliefs, values, and behavioral norms. As a matter of fact, individuals who join an organization perceive these features, leading to the amalgamation of employees' efforts, intensifying organization commitment, illuminating the philosophy behind the



organization, and materializing organizational orientation. In other words, the remarkable success of organizations lies in powerful intangible factors of organizational culture, as well as in the employees' values and beliefs.

According to Smircich (1983), culture helps resurrect us and gives the courage to speak beyond the technical processes in the organization. It allows us to develop a kind of spirit and mystery within the organization body. An organization can take advantage of its accessible cultures by offering new remedies to perceived hardships.



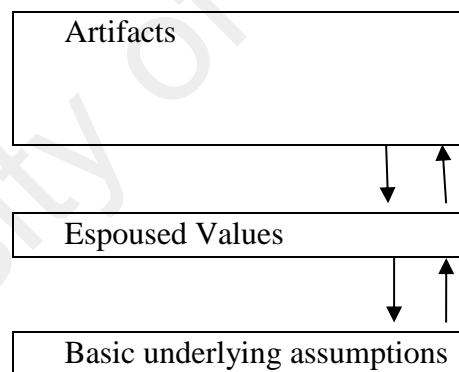
**Figure 3. 6: Elements of Culture**  
(Source: Hofstede 2001)

Smircich and Calds (1987) declared three features associated with organizational culture: a) Business activities are changing their orientation from rational strategies to ethical issues, b) Theory of organizational activities and communications are moving toward social structures, c) In the humanities, organizational changes are being made toward some developmental amendments via the establishment of norms and values.

Moreover, Hofstede (2001) distinguished four concepts in his discussion of cultural levels, including icons (symbols and patterns), heroes and characters, rituals and rites,

and values, where the first three cases involve the utmost manifestations of culture, whereas the last one is the innermost aspect of cultural manifestation.

According to Hofstede (1991), culture involves common thoughts of group members, where they are distinguishable from other groups. In another definition, he further mentioned that culture is defined as a set of social behavior patterns, arts, beliefs, customs, and other human products and intellectual features of a community or a nation. Thus, in his opinion, culture means “collective think planning” that is responsible for shaping “mental programs” or “mental software” during childhood. From this perspective, culture denotes sharing values, concepts, and norms available in an organization, or even in a nation. Furthermore, values in social life are acquired and formed as a result of education and socialization. Also, values are fixed but may change over time.



**Figure 3. 7: Levels of Culture**  
(Source: Schein, 1992)

Schein (1992) defined culture as a pattern of basic assumptions that a social group (group, organization, community) establishes itself to solve two fundamental problems: compliance with the external environment (survival mode) and the creation of internal consistency (staying together). According to him, culture is defined at three levels: a) manifestations of culture, including all phenomena that can be seen, heard, or touched via their senses are difficult to discover, b) the level of support values, norms and behavioral

rules that reflect preferences or things that should be done, c) basic assumptions, including true assumed beliefs perceptions, thoughts, and feelings, which are non-debatable and considered ultimate sources of practical values.

In terms of organizational culture, Deal and Kennedy (1982) underlines five components: 1) Business Environment that has the most impact on shaping organizational culture. 2) Values that are fundamental elements and beliefs of a firm in order to shape the heart of organizational culture. 3) Heroes are real or imaginary people, alive or dead, and possess features respected in a culture. 4) Rites and Rituals involve collective actions that occur routinely in organizations. 5) The cultural network is the communication in an organization that is a casual “carrier” of the organizational values and grand myths.

Pettigrew (1979) recommended that corporate cultures comprise cognitive systems, educating the people on how to believe, reason, and decide. He categorized the organizational culture into symbols, language, ideology and beliefs, ritual, and myth. Hofstede (1991, 2001) also proposed that elements of organizations include values, rituals, heroes, and symbols, all of which are similar to the ones reported by other scholars (e.g., Deal & Kennedy, 1982; Pettigrew, 1979). However, a slight dissimilarity can be observed in Hofstede (1984, p. 19), where values were defined as “a broad tendency to prefer certain states of affairs over others.” Moreover, favorable and unfavorable values were distinguished.

According to Bate (1984), three features of culture can be reviewed in the following form:

Culture underlies an individual’s common sense, though it may be directly unobservable.

Culture is shared in nature. It denotes the idea, values, and sense that people hold in

common individually, as well as collectively. Therefore, the focus lies on the common aspects that bring a shared perspective to the organization's members.

Culture is transferred via socialization. Individuals are required to recognize and follow thinking and acting patterns that might be rooted in the organization.

As a result of this, organizational culture contains the internalization of social conceptions. The features above shape the cornerstone of individuals' attitudes of their organizational world that is distinguishable from its unconscious and unreflecting characteristics.

Scholz (1987) stated that culture is implicit, intrinsic, invisible, and informal in terms of awareness of the organization leading to individual behavior. Therefore, it is hard for those within the organization to settle on an appropriate type and depth of organizational culture.

These definitions regard culture as being made up of multiple layers. As a matter of fact, what we perceive as the objective behavior of individuals in society, is, in turn, based on the specific fundamental values and assumptions of that particular culture. These values and bases are regarded as creators of objective behaviors. Therefore, it has been the objective of many works to determine the respective frameworks to distinguish different cultures via the application of multiple variables in each culture, such as honesty, fairness, and commitment.

Values are regarded as an important factor in distinguishing cultures within societies. It helps justify roles and generalize the behavior of members of an organization (Enz, 1988; Hogan & Coote, 2014). The association that an individual makes with the values of their respective organizations acts as a signboard that signifies their affiliation to the public. However, it should also be pointed out that the entire group might not agree on all

of the values, but they are cognizant of them, and to a certain extent, follow them in their own ways.

Literature reveals that cultural researchers do not agree on a unified definition of culture, which means that fixed beneficial values cannot be determined for individuals. For instance, Enz (1988) and Hofstede et al. (1990) measured values at the subunit level, whereas Weiner (1988) and O'Reilly et al. (1991) examined them at the organization level.

#### **3.4.4 Dimensions of Organizational Culture**

In the past, different dimensions of organizational culture have been studied by many academics (e.g., Deal & Kennedy, 1982; Ouchi, 1979). Recognizing the dimensions of organizational culture can determine the relationship between organizational culture and communication (Schmiedel et al., 2015).

Wallach (1983) mentioned three dimensions, including bureaucratic, innovative, and supportive. Bureaucratic is procedural, hierarchical, structured, ordered, result-oriented, regulated, established, cautious, and power-oriented. The innovative dimension consists of result-oriented, creative, risk-taking, pressurized stimulating, challenging, enterprising, and driving factors. Finally, supportive is categorized as relationship-oriented, collaborative, sociable, encouraging, equitable, safe, and trusting.

According to Scholz (1987), three core dimensions of cultural development can be identified as evolution-induced, internal-induced, and external-induced. Evolution-induced dimension means that the culture develops over time, such as reactive culture, anticipating culture, stable culture, exploring culture, and creative culture. Moreover, internal-induced, as a dimension, involves particular internal conditions functioning among the organization, such as bureaucratic, professional, and production cultures. The

external-induced dimension introduces how the organization reacts to the external conditions, for instance, Bet-your-company, work hard/play hard and, process cultures.

In another study, McDonald and Gandz (1993) suggested four dimensions of organizational culture. They interviewed senior managers and management consultants to identify their shared values. In conclusion, they proposed a relationship-oriented, change-oriented, status quo, and task cultures as their four cultural dimensions.

The relationship-oriented culture underlines the shared values of cooperation, considerations, broad-mindedness, humor, courtesy, fairness, forgiveness, openness, social equality, and moral integrity. The change-oriented dimension highlights the values of autonomy, creativity, adaptability, experimentation, and development. The third dimension (status quo culture) stresses the values of economy, formality, logic, cautiousness, orderliness, and obedience, while the fourth dimension (task culture) emphasizes the values of diligence and initiative aggressiveness.

Westbrook (1993) came up with a subculture, alongside the other four, namely language, artifacts and symbols, patterns of behavior, and basic assumptions.

Hampden-Turner and Trompenaars (1998) divided culture into three layers. The first outer layer includes explicit products that are observable, such as food, building, languages, and houses. The second layer (middle layer) consists of norms and the mutual sense, where group members assess the shared explanation of “good” and “bad” principles. Therefore, when the norms reflect the values of the group, culture is relatively stable. The third layer, which is the most important, involves an assumption regarding existence. As a matter of fact, the core layer contains essential values that assist individuals in their endeavor to survive.

Hodge, Anthony, and Gales (2003) presented another classification where culture

exists at two levels, namely observed and unobserved. The observable level indicates traces or indicators of culture and includes physical features of the organization, such as dress patterns architecture, language, myths, behaviors, stories, formal rules, and ceremonies. As previously mentioned, these levels are merely symbolic indicators of unobservable features. Unobservable level shows beliefs, assumptions, norms, values, and shared perceptions that are agreed upon by the organization's members.

Berg and Wilderom (2004) introduced another classification made up of five dimensions. Autonomy is the first, which is task associated with the stage at which individuals in a workplace decide based on their respective job levels. The second dimension is the external orientation, denoting the fact that organizational divisions are engaged in an external environment. Interdepartmental coordination is the third, as horizontal differentiation may obstruct the productive interactions between the groups. The fourth consists of human resource orientation, which is regarded as an explicit part of the organizational culture. These dimensions have also been underlined by Quinn (1991). The final dimension is improvement orientation, which includes a degree of proactivity proposed to accomplish better organizational results.

Another classification is presented by Schein (2004), who applied a comprehensive perspective upon dimensions of culture. Based on his supposition, during the first phase, the group leader's cultural features are transferred to an entire group, creating a shared plan within the group itself. The group will then commence work based on the belief that they are working to establish an organization based on the leader's vision. The entry of other individuals to the group results in the formation of a group culture. This is based on the accumulation of shared learning from a history of shared experiences. Individuals have attitudes and establish a core group with those having similar attitudes. In general, cultural development comes from a leader's values and norms.

However, in the second phase, some variations can be observed with regards to the group members' shared experience, assumptions, and their background, since group members come from various communities. These divergences lead to the instability of membership, conflicts, and ambiguity within the group.

In the third phase, innovation comes into force to resolve conflicts in accordance with the needs for governing and the stability of the organization. In fact, group members start communicating with other members and share their knowledge, reaching a common language and shared basic assumptions. As a result of this, individuals would endeavor toward integration, as well as the shared goals of the organization. A change in the goals, values, and focus on the organization will instigate the development of organization culture. Therefore, Schein (2004) pointed out that culture is a pattern of basic assumptions that a special team develops to solve problems, enhance self-adjustment, and realize consistency and coherence.

Schein (2004) provided a model where culture is categorized into three different, although related, levels, where every section plays a complementary role for other sections. In the first level of Schein's model, some artifacts are conveniently visible and tangible. The second level consists of shared values that can prognosticate the observable artifacts where social standards, with their intrinsic values, emerge. In the deepest level, basic assumptions, including taking-for-granted beliefs and realities appear, which might not be explainable by the other groups.

Apart from the classification above, O'Reilly et al. (1991) expanded a set of values in different organizations to classify dimensions based on value and norm systems. The initial pool of items consisted over 110 items. Then they devised items, demonstrating the organizational norms, where specialists selected 54 items. In this survey, seven dimensions were elucidated. These seven dimensions included innovation and risk taking,



stability, respect for people, outcome orientation, attention to detail, team orientation, and aggressiveness.

The most considerable agreement with regards to the general definition of organizational culture defines culture as “a set of cognitions shared by members of a social unit” (O'Reilly et al., 1991, p. 491), or “a system of shared values and beliefs that produces norms of behavior and establishes an organizational way of life” (Koberg & Chusmir, 1987, p. 397).

As noted earlier, “values” and “norms” are only the intermediate levels of Schein’s model. Furthermore, artifacts and basic assumptions have usually been analyzed using a qualitative approach, whereas, in this study, a quantitative measurement is used to investigate behavioral patterns.

The primary usefulness of this measurement is its commensurate instrument scheme, where organizational values and individual preferences are assessed alongside similar dimensions. Thus, organizational and individual values possess mutual interactional influence upon one another (Chatman, 1991; Kusters et al., 2015).

Since no study has been conducted in Iran with regards to the norms and values of the organizational culture in the audit profession, no comprehensive information is accessible to the author in Iran. Therefore, the recent classification of cultural dimensions introduced by O’Reilly et al. (1991) is applied in this work. Crystallization of norms and values among Iranian auditors could demonstrate the fundamental structure of organizational culture in Iranian audit firms.

#### **3.4.5 Organizational Culture in Audit Firms**

Investigating organizational culture among accounting firms is crucial since culture affects the motivation, performance, and behavior of participants in accounting and

auditing firms (see Curtis, 2015; Curtis & Williams, 2014; Hood & Koberg, 1991; Pratt & Beaulieu, 1992). Furthermore, organizational culture effects specific actions and decisions, such as auditor independence (Curtis & Williams, 2014; Windsor & Ashkanasy, 1996) and auditors' judgment on materiality (Carpenter, Dirsmith, & Gupta, 1994).

In another opinion, increasing globalization requires taking into account the impact of organizational culture on accounting and auditing firms vis-à-vis merging national boundaries (Dunning, 2014). Therefore, paying attention to the culture of firms is regarded as significant in local views and globalization (Pratt, Mohrweis, & Beaulieu, 1993).

The legislature and the private sector enacted laws pertaining to the significance of ethical behavior for accountants (Carnegie & Napier, 2010). The Anderson Audit Firm's involvement in criminal activity led to the collapse of Enron, which makes these legislations necessary. The organizational culture of the firm also played a major role in its collapse (Jenkins et al., 2008). Similarly, in this context, in both institutions, some serious shortcomings were observed in organizational culture. Although the two organizations colluded in their respective financial reporting, the similarity in organizational culture deficiency played a major role in the collapse of both institutions. The scandals of Enron served as a catalyst for noteworthy changes in enterprise models and organizational cultures, specifically within the audit profession (Jenkins et al., 2008).

As previously mentioned, organizational culture can be described as values shared by members of an organization. It can indoctrinate members in the practices and patterns of an organization, which are essential to the development and fixing of the cultural countenance of selection and socialization (Chatman, Caldwell, O'Reilly, & Doerr, 2014; Pratt & Beaulieu, 1992).

The culture of a firm depends on whether accounting is a high-quality service or a plain artifact (Jenkins et al., 2008). Moreover, whether observable symbols of a culture that are integrated into the organization is of great significance in this context. According to Reigle (2001), professional organizations, membership in a community, and expectations regarding staff working hours and workplace actions are all hinged on the culture and expectations of organizations.

To determine whether an organization attaches importance to culture, O'Reilly (1989) developed the concept of culture in auditing. His classification included culture as control and normative order. He denoted, in terms of culture as control, that if some control systems were not in place to guide or organize actions, little would be obtained by the organizations. This means that organizations will often be considered to be exclusively effective if its control systems work. Similarly, the norms will be relative to what is considered appropriate or inappropriate attitudes or behaviors.

Membership in social groups may be based on individuals' expectation of shared beliefs with group values (Büschgens et al., 2013). Since there are various values associated with the group, various groups may emerge, including private and public groups. Audit firms are a type of social groups that can be divided into private and public groups. Since group culture might vary significantly from one to another, it is assumed that the scope of expectations from each auditor will differ. Therefore, auditors who are involved in either governmental or private sectors of business can anticipate different behaviors within communities, despite their common goals.

According to Willkins and Ouchi (1983), in tribe-like working groups (clan), individuals share their values and beliefs. Clan controls can be defined as an addition to formal quality controls of human resources that operate in auditing firms in encouraging staff to work toward the goal of the firms (Macintosh, 1985) which involves the

recruitment, selection, socialization, job satisfaction, organizational and professional commitment. Willkins and Ouchi (1983) discuss that the values comprise of culture, which steers activities of individuals in the organization via a proper understanding of the purpose and by assisting employees in determining what is in the best interest of organizational collection. People who show a consistent behavior with the group are rewarded, while offenders (violators) may experience social disturbances. This process is also called collective behavior (Büschgens et al., 2013; Fortado, 1994; Westphal & Khanna, 2003).

The measurement of culture in companies is emphasized as an obligation by Schein (1992) and O'Reilly (1989). It was pointed out that a weak culture would cost a company dearly. Schein (2000) noted that managers might be unaware of their organizational culture prevailing scheme formation, which might be disastrous to the organization. Marlow and Carter (2004) confirmed the findings of Schein (2000) by positing that the success of an organization is inexplicably tied to its strong culture.

To understand how people in organizations in different cultures may respond differently to work-related practices and conditions, Chow, Harrison, McKinnon, and Wu (2002) studied national cultural characteristics in Chinese public accounting firms compared to Anglo-American organizations in Taiwan. They examined cultural factors which may facilitate or impede the sharing of informal information in the context of face-to-face meetings in these groups. Their results show that the preparedness to share information in the Australian context was seen to depend on individual differences (such as personality, style, and skills), and to be related to individual assertiveness and personal expression and choice. These considerations were, again, consistent with the behavioral precepts of an individualist culture. In an audit, firm auditors share their information face-

to-face to improve their skills and reports, prompt the development of mechanisms to overcome such impediments.

Chow et al. (2002) examined organizational cultures of public accounting firms with data from US affiliated international accounting firms in Taiwan and Taiwanese local firms. They also studied the impact of the national culture of the US firms on their Taiwanese affiliates, and about cultural differences across function and rank. They analyzed the importance of the fit between preferences of employees and organizational culture in shaping organizational commitment, propensity to remain with the organization, and job satisfaction in local Taiwanese and US-affiliated international accounting firms. They proposed that although culture is influenced by individuals' relatively homogeneous function, some differences were observed across individual ranks.

Johnstone et al. (2001) applied a framework that introduced basic elements affecting independent risk. They determined that culture in auditing firms could be considered as a source that a firm expresses according to which an auditor fulfills his main obligations and advocate themselves as the business partner of the client. Furthermore, it encourages auditors to "add value" to their client's businesses. Therefore, "client advocacy culture" can prepare the framework for organizational culture among audit firms. Finally, they suggested, "research on how auditors resolve judgment-based decision situations with their clients involving difficult accounting issues and materiality decisions is clearly needed" (p.15).

Chatman and Jehn (1994) mentioned that "less variation may occur among firms working on the same tasks, using similar procedures and experiencing similar opportunities". Therefore, organizational culture varies across firms and organizations in different industries, however, even among firms within similar industries, variation is

discernible, such as the case between accounting and auditing firms (Chatman, 1991; Shapiro & Naughton, 2015).

Furthermore, Chatman and Jehn (1994) pointed out that the accounting business provides accounting services, which includes recording an entity's transactions and presenting them in financial statements. They mentioned that clients of public accounting had developed insights vis-à-vis the firms while working with them. Accountants and auditors' work styles, as well as their position, may be the only way to get in touch with these clients. Therefore, auditors should act in tandem with their firms' culture.

In the service sector (e.g. accounting), direct supervision is more difficult because auditors usually operate out of a real working environment; being engaged in multiple perspectives, whereas the professional staff members work in particular working circumstances (Chatman & Jehn, 1994). Furthermore, in public accounting, firms rely heavily on social control mechanisms, which include cultural values that could be instances of members' action approach (O'Reilly, 1989). While the firms internalize shared values, members can choose to apply them to a wide range of suitable behavioral reactions. These reactions, however, may be hard for managers to predict and formalize in unmonitored situations (Ouchi & Johnson, 1978). Furthermore, in public accounting, firms rely heavily on social control mechanisms, which include cultural values that exemplify the members' action approach (O'Reilly, 1989).

Kristof (1996) noted that in a professional organization, employees (such as accountants) are regarded as professionals as well. Therefore, their profession has shaped their responding qualities. In other words, the person and organization should share similar characteristics and satisfy each other's needs. These characteristics reflect similar assumptions and norms established in professional auditing institutions (Hogan & Coote, 2014). Having the same idea, Parkes et al. (2001) investigated organizational value

differences among hospitals and management consultancies installations in Australia and South-East Asia. They measured organizational commitment, job satisfaction, and tenure variables, and concluded that there is an interaction between these three variables, which was regarded as noteworthy in bringing collectivism to influence organizational commitment and tenure.

According to Enz (1988), values come into force as components that determine a culture, including rituals, symbols, norms, and other cultural issues. Organizational culture is present when members of a social unit can contribute and share their respective values (Weiner, 1988). Chatman and Jehn (1994) suggested that nearly all organizations have core values that are shared throughout the entire organization.

Pratt and Belieau (1992) examined the nature of organizational culture in 338 public accounting firms across the United States. They defined organizational culture as terms of values shared by members of an organization (or organizational subunit) that manifest themselves in the practices of that organization. They believed that practices particularly important to the development and maintenance of culture include selection and socialization. They presented different aspects of culture throughout the firms, and found diametrical aspects of organizational culture varying across public accounting firms of dissimilar “size” and “technology”. They further determined that different aspects of organizational culture vary across public accounting firms of different size and technology, and public accountants of different rank and functional area.

They further noted that organizational culture could be differentiated by firm’s size. They distinguished that smaller firms have more contact between lower and upper employment levels and less rigid control system, both of which could easily impact ethical decision-making. They reported that the Management Advisory Services (MAS) and non-MAS departments indicate relatively unique organizational subcultures. If

culture differs across function, this may cause problems for organizational design, coordination, and control. Pratt and Beaulieu (1992) suggested that these problems are possible reasons why some firms have chosen to “spin off” their MAS function.

With the same idea, Hood and Koberg (1991) found that accounting firm partners saw their organizational cultures as being more supportive than did lower levels of staff, while Pratt and Beaulieu (1992) reported lower levels of power distance among higher ranks compared to lower ranks. This latter finding suggested that higher ranks see their organizations’ culture as being more consultative and less autocratic than do lower ranks.

Pratt et al. (1993) studied British, Australian, and U.S. accountants. They reported evidence that the large U.S. firms recruit local accountants in Britain and Australia who possess cultural values similar to those of U.S. accountants. In more details, they noted that selection, as opposed to socialization, was the dominant process, and British accountants appeared to be no more or less homogeneous than their Australian counterparts. According to their study, this self-selective process is an example of cultural influence existing in the international accounting job recruitment environment. The national culture of accountants in Britain, therefore, may be a collection of subcultures, one or more of which appear to be similar to the culture of U.S. accountants. The culture of U.S. accountants, however, may also be somewhat amorphous. They finally concluded that there were not only cultural differences across accountants of different nationalities, but there were also cultural differences across accountants of the same nationality.

Using the same idea with a different method, Chatman and Jehn (1994) examined the relationship between industrial characteristics, including “technology”, “growth” and “organizational culture” in large public accounting firms in the U.S. The accounting firms were regarded as private institutions, while transportation firms were assumed to be Government Institutes. They applied the Organizational Culture Profile to assess



organizational culture. They noticed some variations between the dimensions of private and public sectors. Furthermore, value differences and their respective effects have been determined as prominent factors across similar accounting firms (Chatman, 1991).

Loe et al. (2000) emphasized the fact that cultural influences are capable of adjusting ethical behaviors within organizations. They found that awareness, individuality, and intent are organizational factors in ethical decision-making, while Adams et al. (2001) suggested that if unethical behavior is extensive, organizational culture needs to be investigated so that it can be ameliorated, resulting in the attainment of organizational goals.

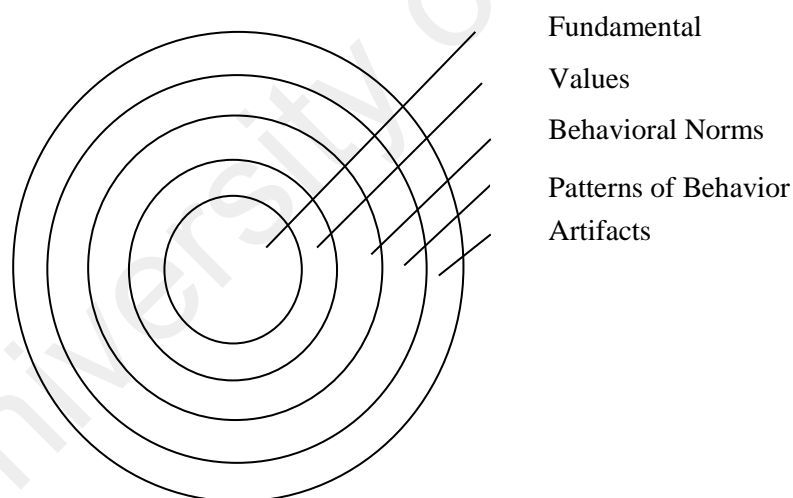
Douglas et al. (2001) examined the relationship between organizational culture, auditors' personal values, and auditor judgments. The study sample consisted of 304 employed accountants, and the results showed that the judgment in institutions was affected by personal values and environmental variables, such as professional ethics and ethical guidelines. Moreover, institutional culture has an indirect effect on moral judgments.

It can be concluded that as organizational culture develops, individual conceptions are transformed into group conceptions. This will take place when the primary and shared experiences of the leader, whose values and conceptions influence the entire group. When someone develops a company, there will presumably be a common plan; that is, a person has an idea and creates a core group that believes in the idea. In order to form an organization, the group begins to work together based on the idea. Finally, other people steps in, and group culture begins to form.

To determine whether or not an organization values culture, O'Reilly (1989) developed the concept of culture in auditing. His classification included culture as a

control and normative order. He denoted culture in terms of control, where if some control systems did not exist to guide and organize actions, the organizations would obtain less control. In other words, organizations are often considered to be exclusively effective, since the control system functions appropriately. Similarly, in terms of normative orders, norms will be relative to what is considered appropriate or inappropriate attitudes and behaviors.

Rousseau (1990) introduced several layers of culture, including fundamental assumptions, values, behavioral norms, patterns of behavior, and artifacts. This study demonstrated that these layers might affect individuals' behaviors, specifically while making decisions. Therefore, since in Rousseau's layers, values are regarded as influential elements in shaping the organizational culture, they can be taken into account as significant elements in decision-making as well (Martin & Siehl, 1983).



**Figure 3. 8: Layers of Culture**  
(Source: Rousseau, 1990)

Rousseau (1990) found that some cognitive and behavioral fundamentals include culture, from unconscious assumptions, values, and behavioral norms to characteristic patterns of behavior related to a workgroup, department, or organization. Rousseau also reports that normative beliefs, elements of culture are assumed to be closely related to organizational performance and member attitudes and perceptions. Normative beliefs,

when shared by group or organization members, become norms that can be powerful forces in shaping member behavior. Audit firms are not excepted, and therefore, beliefs, values, and behavioral norms are parts of the characteristic design in those firms.

Individualistic aspects, such as values and expectations, have been investigated as an important notion of organizational culture by O'Reilly et al. (1991), which interact with facets of situations, such as the incentive systems and norms that affect the individuals' attitudinal and behavioral responses. They examined organizational culture and its implications on work attitudes and behaviors within accountants and found that individual variations in preferences for different organizational cultures are associated with interpretable differences in personality characteristics. Accordingly, values act as the determining concepts on which norms, symbols, and other actions in culture rotates ( Chatman & Jehn, 1994).

Khatri (2009) through his various propositions concludes that employees in high power distance culture are unwilling to participate in decisions and prefer their superiors making decisions for them and giving them instructions, which they could follow passively. Also, jobs in such contexts are narrowly and tightly specified, giving the employees limited discretion. Communication takes place vertically downwards with no or little horizontal communication, and overall communication is anemic.

#### **3.4.6 The Relationship Between Culture and Ethical Reasoning**

According to the literature, there is a reciprocal relationship between ethical reasoning and culture (Cowperthwaite, 2010). Ethical reasoning refers to the rights and wrongs of human behavior. Everybody has his/her standards rooted in his or her personal values which play his or her roles at the time of decision-making and other situations. In this way, culture is related to society as personality is related to the individual. To ensure survival, every society develops its set of values as a response to its situation and needs. So, those values are of this kind: normal, abnormal, safe and dangerous.

To make the point clear, according to Hofstede (2001), “the collective programming of the mind that distinguishes the members of one group or category of people from another” and addressed the cultural values as relative values, not absolute ones. Hofstede studied IBM employees over many years. According to his study, cultural development occurs in response to unique situation and circumstances. Every culture is unique because everybody has his unique personality. In the accounting literature, evidence is existed to suggest that behavior in accounting cannot be culture free and may be nation-specific (see Perera, 1989). Using Hofstede’s dimensions, Harrison (1992) presented cultural differences between Australian and Singaporean managers that the effects of participation on the relationship between a budget emphasis in superior evaluative style and the dependent variables of job-related tension and job satisfaction were generalizable across nations which shared certain cultural characteristics.

Gul and Tsui (1993) reported supporting the hypothesis that since auditors in Australia and Hong Kong were different on the uncertainty avoidance dimension; there would be significant differences in Australian and Hong Kong auditors’ decision attitudes toward the uncertainty audit qualifications. These results support Hofstede’s theory that cultural differences existed and they can affect auditor’s decision-making. With the same idea, precisely, culture can affect auditors’ cognitive process such as ethical reasoning (Gul & Tsui, 1996).

Cowperthwaite (2010) explains that cultural values go from one generation to another, and after being learned, they become an individual’s core values. These values are related to a person’s personality. An anthropologist determined the number of problems, including how the people one culture response to authority, how the people of one culture are related to each other, and how a culture consider a conflict and allows feeling to be stated.

Using Hofstede's framework in numerous disciplines examined the influence of culture on individuals' decision-making (e.g., Lu, Rose, & Blodgett, 1999; Thomas & Bendixen, 2000). Also, accounting studies (e.g., Harrison & McKinnon, 1999; Patel et al., 2002) show that Hofstede's dimensions appear to capture the essence of a national culture in a way that has been useful in academic research.

Using moral reasoning, Tsui (1996) compared two groups of auditors, Us vs. Hong Kong. Her results demonstrated cross-cultural differences between ethical reasoning levels for U.S. and Hong Kong auditors. These studies, however, compared only professional accountants within the United States to other groups to shed more insight into the understanding of cross-cultural ethics. She also reported that auditors with high individualism score have higher P-score of moral reasoning.

As presented previously, ethical reasoning has three levels and each level includes two stages. The theory of moral reasoning explains the reasons why individuals justify a particular ethical choice and provide the basis for empirical evidence on the influence of ethical reasoning on ethical decision-making behavior (Gul et al., 2003). In relation to culture, at the pre-conventional level of moral reasoning two stages (1 and 2) are supposed. At the first stage, regarding their benefits the people make a decision, and do not pay attention to others' needs and feelings. They achieve the rules that are established by powerful people and may disobey if they can abscond. "Wrong" actions are those that are going to be amerced. At the second one, people respect others' needs. They will consider others' need if theirs are considered (you help me, I will help you). They continue to determine right and wrong initially regarding their benefits. So, although individual values come from childhood (Cowperthwaite, 2010), it sounds that rewards and punishment would be more significant for individuals in the moral reasoning theory.

At this level, auditors behave based on their standards. If an auditor's moral development is at the pre-conventional level, he will chase independence standards when he is interested. Cowperthwaite (2010) suggests three cultural dimensions determined by Hofstede which are related to the auditing profession including, how a person react to inequality (i.e. with authority and power), how community react to dubiety and uncertainty, and finally how a person is related to groups of his society and vice versa. He finally deduced that auditors are successful when they work with the same set of standards and various cultural values, although some of them are different.

At conventional levels of moral reasoning, two stages (3 and 4) are set. At the first stage, the people make a decision so that they please others, especially people with high status. They are eager to keep relationships through sharing, trust, and loyalty, and respect others' perspective. At stage four of this level, people look to society as a whole for guidelines about right or wrong. They know rules are necessary for keeping society running smoothly and believe it is their "duty" to obey them. However, they perceive rules to be inflexible; they do not necessarily recognize that as societies need change, rules should change as well. In the other word, they follow the norms of society, work colleagues, local community, and friends.

The post-conventional level which is the last level includes two stages (5 and 6). At stage 5 (social contract) people recognize that rules represent agreements among many individuals about appropriate behavior. Rules are seen as potentially useful mechanisms that can maintain the general social order and protect individual rights, rather than as absolute dictates that must be obeyed simply because they are "the law." People also recognize the flexibility of rules; rules that no longer serve society's best interests can and should be changed. Last stage, universal ethical principle (stage 6) is a hypothetical, "ideal" stage that few people ever reach. People in this stage adhere to a few abstract,

universal principles (e.g., equality of all people, respect for human dignity, commitment to justice) that transcend specific norms and rules. They answer to a strong inner conscience and willingly disobey laws that violate their ethical principles. People make own decisions, may agree with society or not and try to convince others to follow their principles.

Tsui (1996) concluded that auditors in the West with a higher P-score were more independent and less likely to accede to the client's request. With the same idea and methodology, Tsui and Windsor (2001) using Rest's DIT tested the auditors' moral reasoning for two different cultural communities – China and Australia. The study participants consisted of 75 Mainland Chinese and 48 Australian auditors who were investigated in respect of individualism and power distance. The Australian auditors showed higher P-scores compared to the Chinese. The study findings indicated that significant differences were observed in the two cultures. The Chinese were reported to show higher power distance as well as lower individualism in comparison with Australians.

Gul et al. (2003) used the ethical compliance model to examine the association between ethical reasoning, perceived risk of detection, perceived levels of penalties and Chinese auditors' ethical behavior in an audit conflict situation. Using 53 Chinese auditors as subjects, and a survey questionnaire, their study found that there is a significant negative association between ethical reasoning and the likelihood of unethical behavior and that this negative association is weaker for auditors who perceive higher risks of detection.

For auditors, an auditor whose moral development is primarily at the conventional level has a desire to maintain rules and authority and will always be independent if such behavior is consistent with referent group norms. This level of theory of moral reasoning

is very important because of norms and values auditor may follow. That means, at this level, established norms and values that are pertinent with personal attribute will be more important for auditors and individual tend to make those norms in their organization which is more acceptable for their professional decisions.

Prior research (Abdolmohammadi & Baker, 2006; Abdolmohammadi et al., 2003; Armstrong, 1987; Ponemon, 1992b) indicates that auditors score lower on moral reasoning than other professionals and the society in general. Abdolmohammadi and Baker (2006) discuss two reasons for the relative lower scores on the moral reasoning for auditors. The first reason they mentioned is the conformity with rules-based standards of the profession. This reason is confirmed with their study, in which they found a significant inverse relationship between “conformity” values and principled moral reasoning. In other words, auditors who prefer conformity values have lower levels of moral reasoning. This result implies that auditors who conform with rules and standards have lower levels of moral reasoning.

Lin and Fraser (2008) in a cross-cultural investigation, studied the effect of specificity of accounting standard, level of audit tenure, provision of management advisory services and degree of audit market competition on perceptions of auditors’ ability to withstanding client pressure in audit conflict situation. Also, they examined national cultural differences characteristics of UK and Chinses auditors. Their results demonstrate that UK auditors are less likely to affect decisions as to whether or not to accept clients preferred accounting treatments than Chinese counterparts. National cultural differences supported the differences of auditors’ perceptions.

Lord and DeZorort, (2001) examined social influence pressures within the accounting firms as to whether they affect auditors’ willingness to sign off on financial statements that were materially misstated. They also investigated the effect of organizational



commitment, professional commitment, and moral development that all may impact individual responses to social influence pressure. The results of using auditors from one international firm indicated that obedience pressure significantly increased auditors' willingness to sign-off on an account balance that was materially misstated. They also reported that organizational commitment effects are disappearing with the emergence of social influence pressure from within the audit organization while organizational commitment is a dimension of organizational culture (O'Reilly et al., 1991). It shows the importance and the effect of organizational culture in audit firms.

For measuring moral development, they stated that DIT did not affect responses to social influence pressure.

In a comparison of such studies in regard to cross-cultural differences, some other investigations examined the cultural characteristics of single countries or similar society background. For example, Umar and Anandarajan (2004) investigated pressures facing auditors and their reaction to these pressures in the similar cultural environments of the United States and Australia. While these studies identify judgment differences across countries, they are unable to explain the differences from a cultural perspective because the countries researched share similar cultural characteristics.

### **3.4.7 The Effect of Organizational Culture on Auditor Acceding**

An auditor's response to a client's requests (auditor acceding) is a result of auditor behavior (Honeycutt et al., 2001), and consequently, literature on auditor behavior is positively related to auditor acceding.

According to the Loe et al. (2000), ethical behaviors can have cultural influences on organizations. They showed that awareness, individuality, and purpose-orientation are ethical, cultural criteria that help researchers decide what research to follow. Adams et al.

(2001) found that if unethical behavior is observed in the organization, it arises from the existing values in the organization.

Johnstone et al. (2001) used a framework in their research to attract the main factors influencing risk information. As a result of their research in audit institutions, the organizational culture can be regarded as a basis for an auditor stating how he can do his main task, how they act in the presence of client and how they, as a partner, can defend their independence and profession in audit institutions. The auditor could also value add to their client's enterprise if the audit institution has appropriate organizational values.

The audit firms in the accounting profession are dependent on social control mechanisms. These mechanisms include cultural values that represent a practical approach to auditing. Auditors' cultural values, as well as societal and organizational values, amend auditors' behaviors based on their interactions. If individual values are in line with the prevailing values of audit firms, auditors may be more motivated to work toward the goals of the institution (O'Reilly, 1989; Ouchi & Johnson, 1978).

According to Kristof (1996), in a profession such as accounting, auditors are recognized by their respective job tenures. In this mindset, Parkes et al. (2001) believe that values and norms are different in various organizations. This difference is also due to culture, for instance, East Asian countries have different organizational cultures compared to countries such as Australia.

Most researches were conducted according to the Kohlberg concept of cognitive moral development to provide an explanation as to why some individuals behave ethically in an organization, while some do not (Ariail et al., 2013; Fraedrich, Thorne, & Ferrell, 1994). However, other researchers (e.g., Fraedrich & Ferrell, 1992; Weber, 1990) found that

different levels of moral reasoning in a work context may not be good predictors of ethical decision-making.

Individual values and expectations interact with different situations. Individuals' behavioral response and attitude are affected by norms and stimulus systems (O'Reilly et al., 1991). Hood and Koberg (1991, p. 13) mentioned that culture "establishes recognized and accepted premises for decision-making". Therefore, norms or manners can be the outcome of culture and encourage ethical decision. Furthermore, commitment and common identity can be guided by organizational culture due to the influence of values (Jenkins et al., 2008).

Investigations showed that rule orientation (Harrington, 1997), personal values and leniency (Ashkanasy, Falkus, & Callan, 2000), and instrumental values (Roozen, De Pelsmacker, & Bostyn, 2001) have a significant influence on an individuals' judgment.

Some studies investigated environmental factors, such as climate and culture within the organizations, which resulted in different values; for instance, ethical climate (e.g., Razzaque & Hwee, 2002; Verbeke, Ouwerkerk, & Peelen, 1996) positively influenced ethical decision-making, while ethical culture did not reveal any direct influence (e.g., Douglas et al., 2001). In fact, perceived importance of ethics is strongly influenced by ethical climate (e.g., Curtis, 2015; Singhapakdi et al., 2001).

Valentine et al. (2002) and Shafer (2002) found a positive relationship between organizational commitment and organizational values. Also, corporate ethical values showed remarkably different aspects of culture in an ethical context. Furthermore, Valentine et al. (2002) suggested that an increase in an ethical context improved workplace experiences for employees and firms. Moreover, it was recommended that individual perceptions of ethical organization environment should be considered.

Researchers have made several attempts to recognize the behaviors of an individual, as well as a group of firms and organizations with regard to components of culture (e.g., Ouchi & Wilkins, 1985; Smircich, 1983). These efforts have been rooted in theories of sociology, social psychology, and anthropology. While the study of organizational culture reflects mainline concerns of the organizational sociologist field, the study of organizational culture may be seen as a return to some of the most basic concerns about the nature of organizations and the appropriate methods for analyzing them.

As individuals behave in their organizations based on the sociological background, the behavior of individuals may be affected by norms and values in the organizations. Moreover, these efforts have developed the definition of “culture”, a methodology for investigation, and appropriate analysis of those studies. Barley (1983) noted that all studies of culture apply similar terms and constructions, though some variations were observed within investigators with regards to objectivity and subjectivity, both of which used terms and components consciously or unconsciously, resulting in the discovery of genuine factors to their respective works (O'Reilly et al., 1991).

Auditor acceding according to the theory of moral reasoning is a kind of moral decision (Gul & Tsui, 1992) and moral decision is rooted in sociology and social psychology (Ouchi & Wilkins, 1985). Therefore, the relationship between organizational culture and individual's decision-making should be considered in those elements that may affect decision-making in organizations.

Some investigators explored the ethical decision-making process by applying a model consisting of the circumstances of the organization. These models possess latent predictions of an individuals' behavior, and can differentiate moral behavior among organizations (e.g., Bommer et al., 1987; Cohen & Bennie, 2006; Jones, 1991; Trevino, 1986). Models have shown that ethical reasoning is a central factor in the decision-making

process, and subsequent studies have provided a better understanding of moral cognition, which includes moral judgment. They showed that moral reasoning could not solely introduce ethical behavior.

The analysis of reactions to moral dilemmas was examined by Weber (1990), who demonstrated that there was a coherent relationship between stages of ethical reasoning and organization size. It was concluded that in a large bureaucratic organization, individuals are more likely to perceive as having unimportant jobs, and would probably apply lower levels of ethical reasoning.

Literature shows that there are limited studies pertaining to the relationship between organization size and moral decision-making behavior. Overall, ethical beliefs and decision-making behavior is negatively correlated with organization size. When decision-making behavior decreased, the size of organization increased (see Browning & Zabriskie, 1983; Murphy, Smith, & Daley, 1992; Vitell & Festervand, 1987).

The interactions of personal components and situational characteristics have been recommended by Trevino (1986). Trevino's model was applied to show how moral issues might influence individual's judgment or behavior. It was also indicated that organizational culture determines thoughts, beliefs, and behavioral leads. It can contribute to an individual's ethical development via appropriate decision-making and responsible members in an organization.

Trevino (1986) noted that situational variables arise from the immediate job context and broader organizational culture. In this model, using organization culture as a situational factor can modify the cognitive behavior relationship. Also, the important role of the organizational culture in the ethical reasoning of the organizational members was emphasized.

Among the variables investigated in Trevino's model, moral cognition was the first individual factor. It introduced how a person can know and argue ethical issues. "Ego strength", "field dependence", and "locus of control" were some of the other individual characteristics (Trevino, 1986).

Situational factors consist of "immediate job context", "organizational culture", and "characteristics of the work", where each category is further divided into subcategories. The immediate job context involves reinforcement and other pressures. Organizational culture consists of the organization's normative structure, referent others, obedience to authority, responsibility for consequences, while characteristics of the world entail role taking and resolutions of moral conflict (Trevino, 1986, p. 602).

Jones (1991) expanded this model by utilizing some situational factors, such as "moral intensity". In fact, this model was the most synthesized model of ethical decision-making, which integrates previous models of ethical decision-making, representing a comprehensive agreement on the variables that influence ethical decision-making and introduces the concept of "moral intensity". Most importantly, moral intensity includes characteristics that affect moral issues. The study findings demonstrated that ethical reasoning could be moderated by individual and situational components, including "Ego strength", "field dependence", and "locus of control".

Johnstone et al. (2001) applied a framework attempting to introduce basic elements that influence independent risk. In this study, culture in auditing firms could be considered a source is expressing the firm. Moreover, it determines the extent to which an auditor should obey his main obligations. It also advocates auditors as business partners with their clients, and encourage them to "add value" to their client's businesses. Therefore, "client advocacy culture" can prepare the framework for organizational culture among audit firms. Finally, it was suggested that, "research on how auditors resolve judgment-based

decision situations with their clients involving difficult accounting issues and materiality decisions is clearly needed” (p.15).

Cohen and Bennie (2006) applied Jones’ model in accounting and audit profession. They argued the relevance of Jones’ model for accounting ethics studies and concluded that this model involves a combination of other models mentioned in literature, representing an abstruse model to be applied to the auditing profession. It was pointed out that simple models such as the Kohlberg’s moral reasoning model, is still applicable in the field of accounting and auditing.

The results of behavioral studies in the accounting profession (e.g. ethical decision-making) determine the significance of personal differences in terms of two categories, namely psychological process and organization culture. The former explicates the auditors’ behavior, while the latter predicts the auditor’s behavior (Wong-On-Wing & Lui, 2013). As a result, these findings advocated that audit firms usually establish their cultures freely without considering the limit of regulators and marketplace they work in. In other words, there can be a unique culture of firms in the auditing profession (Jenkins et al., 2008).

Auditors are similar to other gregarious humans, in that they have parallel feelings and beliefs influenced by the dominant social and cultural values. According to O’Reilly (1991), individuals (such as auditors) adapt to the cultural values of their surrounding and society; this inadvertently affects their personal decisions, beliefs, and actions. In short, cultural values influence auditors’ decision-making, motivate personal characteristic and consequently, affect auditor’s independence (Church et al., 2014; Windsor & Ashkanasy, 1995).

### **3.4.8 Organizational Culture Moderates Auditor Acceding**

As mentioned earlier, many researchers have attempted to formulate a framework of behavior, decision-making, and moral development in organizations. While a unique model of individuals' behavior is inapplicable for all professions and societies (Cohen & Bennie, 2006), to understand how auditors make decisions or judgments in a conflict, studies can be based on specific characteristics of organizations in different societies (Wagdy, 2001).

Business culture, at the most basic level, represents a deep structure that is rooted in values, beliefs, and assumptions, and is reflected in individual and group behaviors. In contrast, the business climate is often temporary in nature and subject to periodic fluctuations that do not necessarily impact or make their way into deep-rooted culture (Jenkins et al., 2008).

A manager's ethical decision-making such as auditors, a critical component of an organization's climate and culture, is highly influenced by attitudes and social norms of others within an organization (Carpenter & Reimers, 2005). Using the Theory of Planned Behavior, Carpenter and Reimers (2005) demonstrate that changes in attitudes and social norms are related to changes in behavior.

Regulatory capitalism was investigated by prominent figures, such as Windsor and Warming-Rasmussen (2009), while the economical factors were studied by Cushing (1990). Other studies showed that individual and situational factors may moderate the relationship between cognition and action in ethical decision-making in organizations (see, Trevino, 1986).

Investigating the influence of a possible moderating variable, such as organizational culture would distinguish this investigation from previous literature on auditors' response



to clients' management (acceding). Aspects of moral issues might have an outcome on the ethical process facets of the decision-making process (Jones,1991). According to Jones (1991), moral issues influence every part of the moral decision-making and behavior. Furthermore, individuals are more likely to be concerned with the moral dilemma and apply ethical reasoning when making decisions.

Chatman (1989) reported that organizational culture studies focused on interactional models, most of which have overstressed individual or situational factors. She mentioned that both individual and situational factors must be considered for recognition and prediction of the behaviors in an organization, as well as their respective interactions.

A value system of organizational culture is applied to understand the relationships of the individuals within the organization, the individual's personality, the congruence between the individual and organizational goals, and prediction of individual outcomes, such as commitment (see Kristof, 1996). This theory (value system) demonstrates that individuals will be more satisfied and committed to their work when organizational characteristics are in line with their individual personality. Overall, the majority of research on value system were concerned with the resemblance between individual and organizational values (e.g., Chatman,1991; O'Reilly et al., 1991). Therefore, this study examined the impact of organizational culture as a moderator in the relationship between ethical reasoning and auditors acceding.

### **3.5 Summary**

This chapter discussed ethical reasoning, auditor acceding, organizational culture, relationship between culture and ethical reasoning and the moderating effect of organizational culture. Moreover, a brief summary of the literature gap indicated that in the Iranian context, most research studied the effect of culture on audit and accounting by utilizing Hofstede's model and theory. Focus on a value system model to crystallize

norms and values in the audit profession has received scant attention (O'Reilly et al., 1991). This study extends O'Reilly et al.'s (1991) study to investigate the impact of organizational culture in a relationship between ethical reasoning and auditor acceding as a moderating variable between the two groups of auditors in different organizations, namely the Audit Organization as a government audit firm and IACPAs as private audit associations.

A definition and relationship between ethical reasoning and auditors' acceding and the influence of ethical reasoning on auditors' acceding or decision-making was presented to show that a value system of organizational culture can be applied to have a better understanding of the relationships between individuals within the organization. For instance, to Jenkins et al. (2008), the most significant reason for the Arthur Anderson firm collapse was the immorality of this firm, since Anderson's revenue obtained from Enron was not taken into account. A study of literature shows that such scandals demand that the audit professionals should pay more attention to values in terms of organizational culture, auditors' attitude to accede to clients' request, and most prominently, ethical reasoning in different societies, for few researchers mentioned that Enron-gate was not specific to the West. It is certain that a greater number of ethical studies have been conducted in the Western countries, and only a limited number of studies regarding ethical concepts have been conducted in developing countries such as Iran. This lack of ethical studies in Eastern cultures, especially the unique auditing environment of Iran, demands greater consideration.

Norms, values, and beliefs are parts of culture. Motivation, judgment, performance, and behavior of auditors are in a way conditioned by the values and norms of the respective firms. Culture shapes the core values and norms of its members. Values and norms are affected by organizational culture. Culture defined as a set of assumptions and

values of an organization to be followed by its members and managers. For instance, the case of Arthur Anderson firm collapse was caused by the managers and they were eliminated from the auditing profession due to the shortcomings in organizational culture. The importance of organizational culture investigation can be witnessed in audit firms within different Contexts.

Furthermore, this chapter introduced the concept and characteristics of culture, organizational culture, and classifications of cultural dimensions in terms of audit firms. A few studies investigated cross-cultural differences in different countries (e.g., Lin & Fraser, 2008; Patel et al., 2002) while other researchers focused on cultural characteristics of similar society background (e.g., Tsui, 1996; Tsui & Windsor, 2001; Umar & Anandarajan, 2004) to explore cultural differences between auditors that might affect their decision-making in a conflict situation.

Moreover, there is evidence to show the impact of national culture on auditor ethical reasoning / decision-making (e.g., Gul et al., 2003; Lu et al., 1999; Tsui, 1996; Tsui & Windsor, 2001) as well as the impact of organization culture (Douglas et al., 2001). The relationship between ethical reasoning and auditor decision-making (e.g., Windsor and Ashkanasy 1995) is also supported by literature evidence. A summary of a few investigations in regard to ethical reasoning and auditor decision-making/acceding are listed on the tables 3.6, 3.7 and 3.8.

## CHAPTER 4: THEORETICAL MODEL AND HYPOTHESES

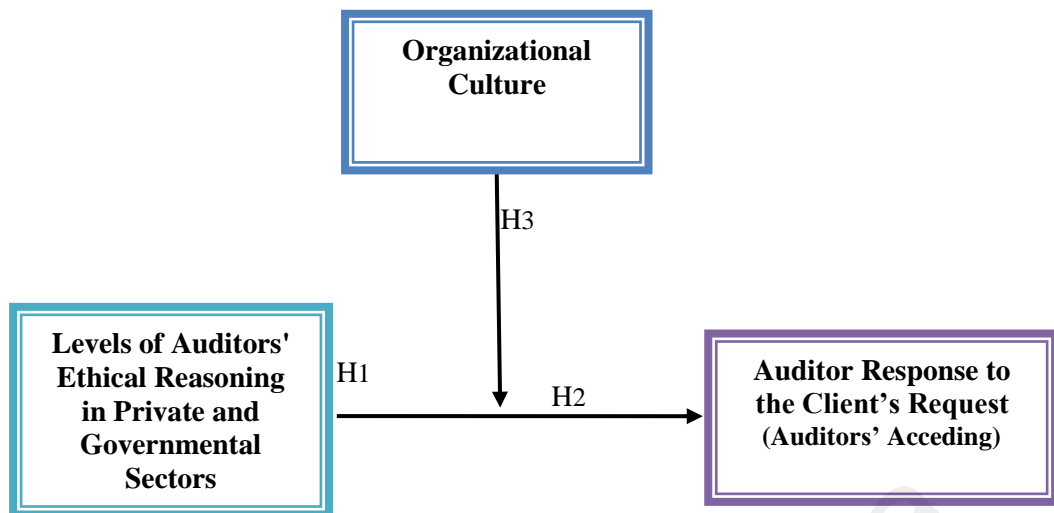
### DEVELOPMENT

#### 4.1 Introduction

The objective of this chapter is to explain the theoretical model of the study as well as the study hypotheses, based on issues identified in the previous chapters. Section 4.2 proposes the theoretical model on the basis of the literature review discussed in the previous chapter. Hypotheses development is presented in Section 4.3, and research questions are introduced in Section 4.4. Section 4.5 concludes the chapter with a summary.

#### 4.2 The Proposed Model

The study model shown in Figure 4.1 introduces the relationship between ethical reasoning, auditor acceding and organizational culture. Based on this model, the auditors' levels of ethical reasoning are examined in terms of auditors' P-scores in governmental and private firms in Iran. Employing Rest's DIT-2, it investigates how auditors reply to moral dilemmas, according to the theory of Kohlberg's Cognitive Moral Development. In this model, the relationship between ethical reasoning and auditor's response to the client's management (auditor acceding) was investigated, and the impact of organizational culture was scrutinized as a moderator variable in this relationship. The relationship between ethical reasoning and auditor acceding to a client's request was measured in a conflict situation. Gul et al. (2003) noted that auditors with higher P-score are less likely to accede to a client's request.



**Figure 4. 2: Proposed Model**

According to Kohlberg's cognitive developmental theory of moral reasoning, moral development occurs in six stages in a step-by-step upward progression from lower stages of self-interest to middle stages of law abidance and then to higher stages of adherence to universal principles of justice and human rights.

The theory owes much of its acceptance to the development of the DIT instrument by Rest (1979). The DIT measures moral reasoning at the highest stages of principled reasoning. The full version of the DIT has six moral dilemmas, each of which has 12 statements (justifications) for a total of 72 questions. The 72-question DIT is now shortened into an instrument called DIT-2 (Rest & Narvaez, 1998). Study on ethical reasoning still applies DIT or DIT-2 in different professions. Woodward et al. (2007) for example is applied DIT-2 to investigate the relationship between ethical decision-making and ethical reasoning in information technology students at Midwestern University while Hren et al. (2006) examined the relationship between psychological constructs related to professional and research integrity and moral reasoning among medical students. In this study, the full version of the DIT-2 was applied as a generic instrument to collect data on accountants' moral reasoning in the context of Iran in which no similar study has been

conducted specifically in regard to the auditing profession. It produces the Principled Score (P-score), which represents an individual's preference for Kohlberg's high stages of principled moral reasoning.

Ethical research in accounting provides additional understanding of accountants' resolutions of ethical conflicts. Ethical research findings can also introduce the effect of proprieties in the accounting and auditing professions. The accountants' ability to discern the presence of ethical problems is also worthy of study.

The stage model employed by Kohlberg and Rest consists of a series of problem-solving strategies that follow a certain line, from simple to complex. In tackling moral problems, as individuals' age, they develop specific cognitive skills which assist them in their reasoning and understanding. In solving a moral issue or problem, people process different ideas and considerations to arrive at the ones recognized most relevant to the solution of the problem.

The controversy surrounding Kohlberg's model involves societal justice and neglect of personal issues, a step-by-step attribute of stage concept, and the scarcity of post-conventional thinking, foundational principal base, and the assumption to produce an agreement. Another controversy regarding Kohlberg's models refers to the inadequacy of applying dilemmas to measure individuals' ethical reasoning. As mentioned earlier, when individuals are put into the situation to make a decision, they are forced into an imaginative scenario with a dilemma. However, the issue of whether this type of measurement is an appropriate one for evaluating a person's ethical approach toward life is a topic yet to be thoroughly investigated.

Rest's schema is expressed via applying the DIT which indicates the results in terms of a P-score. It reflects the importance of subject attributes which are appropriate for

individuals who make judgments by applying the post-conventional schema (Level 3 incorporating Stages 5 and 6 of Kohlberg's six-stage model). In other words, the higher the P-score, the more ability an individual has to make moral judgments in compliance with the moral issues inherent in societal conventions. Although the P-score can be obtained within the range of 0 to 95, it is not customary to have an individual obtaining the score over 60. Ideally, accountants are expected to obtain a high score on this range (of course not over 60).

The post-conventional schema amalgamates the following issues: 1) Recognizing the priority of moral criteria (the individual gets cognizant of the underlying moral norms for guiding his/her action), 2) Proposing an ideal procedure (demonstrates how humans can cooperate), 3) Developing ideals cooperatively (that seem justified to a wider audience and are receptive to rational evaluations), 4) Expanding full reciprocity (denotes the attitude that everyone should take the equal advantage).

Since many dilemmas that accountants confront in DIT offer a wide scope in society (e.g. auditors' lack of independence, auditors' submitting to client pressure for tax evasion), the use of Rest's schema is appropriate within the accounting realm due to its societal basis. Accounting can be regarded as an activity that eases the progress of operation and cooperation in the society. The ethical dilemmas within the accounting domain lie within the scope of that society.

The relationship between the culture and functioning of social organizations has been a recurring theme in the social sciences for over 50 years (Denison & Mishra, 1995). Sociologists, social anthropologists, and social psychologists have often presented culture and ideology as integral features of the functioning of society (House et al., 2004). Sociologists focus on culture as a critical aspect of the adaptation of social organizations and view culture as a system of "socially transmitted behavior patterns that serve to relate

human communities to their ecological settings” (Keesing, 1974). In the current study, the impact of organizational culture dimension as a moderating variable was investigated on the relationship between ethical reasoning and auditor acceding.

### **4.3 Hypotheses Development**

This study examines the auditors’ levels of ethical reasoning in governmental and private firms in Iran while examining the relationship between ethical reasoning and auditor acceding. Employing Rest’s DIT-2, this study investigated how auditors responded to moral dilemmas according to the theory of Kohlberg’s Cognitive Moral Development. Moreover, this study also examined the impact of organizational culture as a moderator variable.

This section discusses the purposes of this study in detail. It develops the hypotheses by explaining ethical reasoning as an independent variable and auditor acceding as a dependent variable. The research question is formulated allowing us to build a sound hypothesis in which we can explore the relationship between ethical reasoning and auditor acceding. The next step involves a thorough and detailed discussion of organizational culture as a moderator variable.

The ethical reasoning was measured by Defining Issues Test (DIT-2) according to Rest (1979). The ethical reasoning theory by Rest (1979) was adapted and according to which a comprehensive model was devised to assess ethical behavior in auditors of CPA field in Iran. Furthermore, this study utilized a scenario to measure an auditor’s acceding based on Gul et al. (2003). Accordingly, the current study attempts to identify the relationship between ethical reasoning and auditor acceding, according to a model of a conflict situation in the Iranian auditors’ community.



A scenario approach was applied in this study to provide a more realistic context for the respondents (Patel, 2006; Tsui, 1996), which was first developed by Knapp (1985). This scenario has frequently been applied by different scholars (e.g., Gul, 1991; Gul et al., 2003; Patel, 2006; Tsui, 1996) to examine auditor acceding. The scenario introduced a case of conflict situation between an auditor-in-charge and a manager of a big company in regard to some unrecorded liabilities discovered by the auditor. Finally, the auditor resolves the conflict by deciding that the unregistered liabilities be dismissed for the goals of the financial statements and the audit report. Respondents were required to assess the auditor's action via responding to a continuous scale of 0 to 100%. The respondents were required to imagine themselves in the auditor's status and judge the likelihood which they would act as the auditor. The higher the likelihood is in regard with ignoring unrecorded liabilities, the more there is the possibility of auditors acceding (the less possibility of auditor's independence).

To measure the organizational culture as the moderator variable, the Organizational Culture Profile (OCP) was used. It originally contains 54 "value statements" utilized in order to measure organizational culture and the fit between organization and individuals among which 26 "value statements" determine the dimensions of organizational culture in the organizations such as innovation and risk taking, stability, respect for people, outcome orientation, attention to detail, team orientation, aggressiveness (O'Reilly et al., 1991). The original questionnaire adapted from O'Reilly et al. (1991) was modified by researchers, and they reduced the items from 54 to 40 and 26 (see Cable & Judge, 1997). In this study, the number of value statements in the questionnaire was reduced based on the Delphi method process and validation of the study's context.

#### **4.4 Research Questions and Hypotheses**

Historical evolutions in Iran caused the Iranian auditor community to be classified into

auditors in audit organization and auditors in IACPA. Since this study aimed to investigate ethical reasoning in audit profession in the context of Iran, it examined the existing differences between two groups of auditors in governmental and private sectors in regard to the ethical reasoning. The related literature demonstrates that managers in governmental organizations rather than private institutions intend to establish ethical values.

According to Trevino, Weaver, Reynolds, (2006) governments have their prescription for organizations in regard to the ethical training programs. They believe that it is necessary for the government to establish ethical issues in governmental organizations because ethical issues and ethical programs affect the ethical culture of organizations. With the same idea, Kish- Gephart, Harrison, & Trevino (2010) introduced that little causal evidence exists on the influence of formal ethics training programs on ethical culture. However, Reynolds (2008) demonstrates that the accessibility of moral concepts is influenced by not only individual differences but also organizational factors (Butterfield, Trevin, & Weaver, 2000). Therefore, it is moral likely that more ethical values can be observed in the governmental sector.

Although the Iranian constitution placed emphasis on privatization, audit organizations are allowed to audit the listed companies in the Tehran Stock Exchange. The ambiguity is whether the auditors in audit organization are more ethical than those of IACPA. This study probed if the auditors presented a substantial difference in their responses to moral dilemmas with regard to the background of their organizations. Studies concerning auditors' behavior in accounting have focused on assessing auditors' capability for ethical decision-making (cognitive moral development). Briefly, a higher level of ethical reasoning is assumed to result in more ethical decisions (ethical judgment), but in some cases it not necessary to have higher P-scores (see Brandon et al.,

2007). Keeping the problem and the goal of the study in mind, more specifically, the research questions are as follows:

**Research Question 1:**

Is there a significant difference in the levels of ethical reasoning between auditors who are members of IACPA working in private firms and auditors of Audit Organization working under the control of the government?

The first hypothesis concerns the difference of ethical reasoning between two different groups of auditors. Research on the auditors' moral reasoning has aimed at identifying which decisions and behaviors are affected by the level of moral reasoning, and how they are affected. For a wide variety of judgments and behaviors, auditors with higher moral reasoning have made more ethical decisions and acted in a more ethical manner than those with lower moral development (Brandon et al., 2007; Ponemon & Gabhart, 1990).

Given that some believe (see Chen et al., 2013; Fryxell & Lo, 2001) that governmental organizations may be more strict in rules and regulations and are more oriented toward the ethical values and moral behavior therefore, it is expected that audit organization have different scores of ethical reasoning rather than private audit firms. Furthermore, Mujtaba et al. (2011) argue that public expect governmental organizations to be more ethical. However, the first hypothesis tends to find a different level of ethical reasoning as measured by P-scores in different groups.

**H1:** There is a significant difference in the levels of ethical reasoning between auditors in private and governmental organizations in Iran.

Two studies (Gul & Tsui, 1992; Harrison, 1992) report similar results on the relationship of moral development and the auditors' underreporting of time, in which in one study, auditor actions and in another, auditor perceptions have been taken into

consideration. Ponemon (1992b) stated that auditors whose moral reasoning is rather low according to a median split on P-score underreported time more than those with a rather high moral reasoning. A subsequent study investigated auditors' perceptions of underreporting, slacking and premature sign-offs (Ponemon & Gabhart, 1993, chapter 5). It is worth mentioning that in this study, auditors were separated into two groups based on their P-score.

Auditors' objectivity and independence have also been areas of focus regarding moral reasoning research in accounting (particularly, resisting the pressure exerted by client's management). Arnold and Ponemon (1991) investigated the influence of moral reasoning on internal auditors' decisions to reveal sensitive findings. In this study, internal auditors were classified according to median P-score, and it was found that auditors with high moral reasoning were more likely to disclose sensitive audit findings than auditors with low moral reasoning.

In a more direct test of independence, Ponemon and Gabhart (1990) applied a median split on P-score for a sample of partners and managers and found that auditors with low moral reasoning were more likely to violate independence rules than those with high moral reasoning. With a sample of experienced auditors from Hong Kong, Tsui and Gul (1996) found that ethical reasoning moderated the relationship between locus of control and auditors' ability to resist management pressure.

Moral reasoning was a determining factor in an auditor's acquiescence to management only for "externals" (individuals who believe they have no control over what happens to them). Specifically, "external" auditors with high moral reasoning were more resistant than those with low moral reasoning. Ethical reasoning seems to be regarded as a prominent concept when auditors may confront ethical dilemmas" (Cook & Hunsaker, 2001, p. 430). In other words, there is a potential conflict situation between auditors and

client's management in the audit process (Gul, 1991; Patel, 2006). In conflict situations, the role of auditor independence is highlighted (Knapp, 1985; Patel, 2006). Therefore, this study intended to probe the following question in regard to auditors' independence and auditor acceding:

**Research Question 2:**

Is there a significant relationship between the levels of ethical reasoning of the two groups of auditors in Iran and their propensity to accede to the client's request?

Windsor and Ashkanasy (1995) used a slightly different methodology to separate auditors according to P-scores, by dividing them into three groups (rather than two using a median split). Their results suggested that auditors with low moral reasoning were the least resistant to the client's economic power. These studies provide support that often auditors with high moral reasoning are less likely to accede to the client's request and therefore, their independence gets enhanced compared to auditors with low moral reasoning. In other words, the former hypothesis is a measure of ethical judgment and the latter is of behavioral intentions.

Moreover, in this study, the relationship between ethical reasoning and auditor acceding was measured in the context of Iranian auditing. Gul et al. (2003) noted that there is a relationship between auditors' higher P-score and lower likelihood of acceding to the client's request. Therefore, the second study hypothesis in compliance with the second research question has been formulated based on the concepts above as follows:

**H2:** There is a negative relationship between ethical reasoning and auditors' acceding to the client's request.

**H2-1.** There is a negative relationship between ethical reasoning and auditors' acceding to client's request among auditors in governmental organizations.

**H2-2.** There is a negative relationship between ethical reasoning and auditors' acceding to client's request among auditors in private firms (IACPAs).

A number of studies have recognized the important role that cultural environment plays in influencing ethical decision-making and ethical issue recognition. Some have empirically examined the ethical issues in various cultural settings (see Armstrong, 1996; Ferrell and Gresham, 1985; Hanson and Tranter, 2006; Lysonski and Gaidis, 1991; Mele' et al., 2006; Oumlil & Balloun, 2009; Vitell et al., 1993). However, based on the extensive literature review, most business and marketing ethical frameworks and models were developed for the U.S. Given the recognized impact that culture has on the ethical decision-making process, this Western framing preference may lead to an incomplete understanding of business/ethics outside the U.S. context.

Ethical development is not adequate to conquer the pressure exerted by social influence. Literature argues that organizational culture can contribute to better managing of decisions in organizations (Loe et al., 2000). For instance, Trevino (1986) and Jones (1991) indicated that organizational culture could be considered as a vital element in regard to its influence on decision-making. Therefore; organizational culture demonstrates the consideration of acceptable and unacceptable behavior (Jenkins et al. 2008). Therefore, in the current study, the role of organizational culture was investigated on the relationship between auditors' ethical reasoning and auditors' acceding as formulated in the third research question.

### **Research Question 3:**

What is the role of organizational culture in the relationship between the ethical reasoning of the two groups of auditors in Iran and their propensity to accede to the client's request?

A number of scholars are proposed that organizational culture and value system would have an impact on employees' behaviors (e.g., Armstrong, 1996; Buono et al. 1985; Harris & Moran, 1981; Kirkman & Shapiro, 1997). Theories which link culture to ethical perceptions have not been an ignored research area. Positivist theories have been developed by Ferrell and Gresham (1985) and Hunt and Vitell (1986), which hypothesize a relationship between the cultural environment and ethical perceptions. These theories are consistent with Kohlberg's (1969) model of cognitive moral development that proposes that the environment plays a large part in the process of ethical decision-making. While most theorists develop a relationship between the cultural environment and ethical perceptions, few studies have been conducted to examine the role of organizational culture in the relationship between ethical reasoning and auditor decision-making.

Singhapakdi and Vitell (1990) examined the relationship between the relative influences of ethical policies of the organizational environment (i.e., Machiavellianism) and individual personal experiences i.e., locus of control on decision-making components involving ethical issues. They did not test the cultural environment due to the "potential difficulty of operationalizing" the construct.

Vitell et al. (1993) stated that there is a "significant gap" in the conceptualization of business ethics within different cultural influences and that few researchers have addressed how culture influences ethical decision-making, this study aimed at investigating the role of organizational culture in the relationship between ethical reasoning and auditor acceding.

According to Jones (1991) and Trevino (1986), the relationship between ethical reasoning and auditor acceding is likely to be more complex than a simple relationship. The literature claims that a complete understanding of the relationship above arises from examining the effect of the moderating variables (e.g., gender, experience, individual or

environmental factors). In other words, the magnitude of the relationship between ethical reasoning and auditor acceding depends on the moderating effect of the third variable. Therefore, based on the literature regarding culture interactions with the other two variables mentioned in this study, namely auditor acceding and auditor ethical reasoning, the third research hypothesis is as follows:

**H3:** Organizational culture moderate the relationship between ethical reasoning and auditors' acceding to the client's request.

**H3.1:** Organizational culture moderate the relationship between ethical reasoning and auditors in governmental organization acceding to the client's request.

**H3.2:** Organizational culture moderate the relationship between ethical reasoning and auditors in private firms (IACPAs) acceding to the client's request.

#### **4.5 Summary**

In this chapter, the theoretical model and the framework of the research were discussed. The main theory, according to which the model in this study was developed, is moral reasoning. Ethical reasoning is associated with auditor acceding investigated as a dependent variable in this model in which P-score measures the levels of ethical reasoning. According to this theory, individuals make different decisions in different situations. Different environments such as pressure situations may force the individual to make unexpected decisions. Auditors are not exceptions who may be put in such pressure situations as client's request. They may agree to clients' requests and destroy their independence.

The theory of moral reasoning also places emphasis on moral behavior and introduces the differences between law and ethics. The role of organizational culture in the relationship between ethical reasoning and auditor acceding as a moderating variable constituted another point of the attention in a theoretical model of this study which



examined auditors' organizational culture based on a contingency theory. Furthermore, studies conducted on organizational culture have utilized different theories based on the objectives of different studies. In the current study, the cultural dimensions were obtained by values and norms as determined by the author.

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## CHAPTER 5: METHODOLOGY AND RESEARCH DESIGN

### 5.1 Introduction

This chapter introduces the methodology and research design of the study based on the review of literature discussed in chapters two, three and four. It provides a summary of how the research was designed, and which methods were adopted to collect and analyze the data. The study applied a quantitative approach using a survey questionnaire, to meet the research objectives. The research philosophy is discussed in Section 5.2. Section 5.3 introduces the research paradigm while the research design is presented in Section 5.4. Data collection methods are illustrated in Section 5.5. Data analysis and interpretation are discussed in Section 5.6. The chapter concludes in Section 5.7.

In this section, the research questions as well as research objectives are reviewed to give the readers the related overview for developing the research design.

**Table 5. 1: Research Questions and Objectives**

<b>Research Questions</b>	<b>Research Objectives</b>
Is there a significant difference in the levels of ethical reasoning between auditors who are members of IACPA working in private firms and auditors of Audit Organization working under the control of the government?	To investigate whether there is a significant difference in the levels of ethical reasoning (as measured by P-Scores) between auditors who are a member of the Iranian Association of Certified Public Accountants (IACPA) working in private firms, and auditors of Audit Organization working under the control of the government.
Is there a significant relationship between the levels of ethical reasoning of the two groups of auditors in Iran and their propensity to accede to the client's request?	To examine the relationship between levels of ethical reasoning (as measured by P-scores), and auditors' propensity to accede to the client's request for the two groups of auditors in Iran (public auditors versus governmental auditors).
What is the role of organizational culture in the relationship between the ethical reasoning of the two groups of auditors in Iran and their propensity to accede to the client's request?	To examine the role of organizational culture in the relationship between the levels of ethical reasoning of the two groups of auditors in Iran and their propensity to accede to the client's request.

## 5.2 Research Philosophy

Research denotes a systematical investigation to discover the response to a problem (Burns, 2000). Sekaran (2006) defines research as an organized, systematic, critical, data-based, and objective scientific necessity or a deep investigation into a scientific problem aiming to discover a logical response to a scientific problem. Kerlinger (2011), in a more comprehensive study, indicated that scientific problem results from a process in which a natural phenomenon is investigated and, in fact, the relations among such phenomena are probed as well guided by research theory and hypothesis. Abdel-Khalik and Ajinkya (1979) considered research as a process of forming a search as well as establishing a theory. Therefore, regarding research definitions in compliance with the authors above 'views, research can be regarded as an organized and systematic investigation process in which a researcher compiles the requisite information for his/her subject of interest.

Every research is operationalized based on its unique methodology. Babbie (2015) regards methodology as a science to logically find the necessary data. "Methodology" term is derived from the word "method" that simply denotes the research technology or the instruments utilized to glean the research data. According to Hussey and Hussey (1997), methodology consists of a general approach in regard to the research process which is underlain by the research theory as well as the quality of gleaning and analyzing data. Kerlinger (2011) expressed methodology as ways to indicate the research problems, hypothesis, observation methods, data collection procedures, and measurement variables and data analysis techniques.

According to Laughlin (1995), scientific research methods have been applied within the accounting realm before the 1970s since accounting was traditionally regarded as a technology (Chua, 1986). Since the 1970s, research in accounting has been oriented toward a more descriptive trend. Therefore, a shift in research paradigms seems to be

necessitated to enhance research practices in accounting. As Laughlin (1995) demonstrated prior to conducting any empirical research, it is worth taking into account a sound understanding in regard to methodological as well as theoretical issues. Therefore, this section is followed by outlining different research approaches and paradigms within the accounting realm to facilitate reader's understanding of paradigms via discussing their merits and demerits.

### **5.3 Research Paradigm**

Prior to choosing the research approach, it is necessary to consider some underlying assumptions about how to perceive knowledge in regard to conducting an appropriate research. Iivari, Hirschheim, and Klein (1998) have developed a widely accepted paradigmatic framework, which proposes four major paradigmatic assumptions:

- Ontology refers to the structure and properties of what is assumed to exist.
- Epistemology is concerned with the nature of knowledge and how knowledge can be obtained.
- Research methodology refers to the procedures or research methods that are used to acquire knowledge.
- Ethics refers to assumptions about the responsibility of a researcher for the consequences of his or her research approach and its results.

Based on the epistemological assumption (underlying assumptions) about how knowledge can be obtained, Kalof, Dan, & Dietz (2008) proposed three categories: positivist, interpretive and critical. It is arguable that these three paradigms can be adopted independently or in combination. On the other hand, Iivari et al. (1998) distinguished between positivism and anti-positivism.

Moreover, regarding research in accounting, Chua (1986) introduced the mainstream accounting process as a set of grounded philosophical assumptions. These assumptions

include “Knowledge”, “Empirical World” and the “Relationship between Theory and Practice”. Chua refers to classification of accounting view in research literature which has been done by Cooper, (1983) and Hopper and Powell, (1985) based on Burrell and Morgan’s (1979) social work. They divided accounting literature to two major sets of “social science” and “society”. First, the “social science” category includes assumptions related to:

- Ontology discusses “Realism” versus “Nominalism”.
- Epistemology which refers to “Positivism” Vs. “Anti-positivism”.
- Human nature which includes “Determinism” Vs. “Voluntarism”.
- The methodology which conceptualizes “Nomothetic” Vs. “Ideographic”.

Second, assumptions related to “society” involve cases that are considered orderly as well as subject to the fundamental goal of conflicts. Based on Burrell and Morgan’s (1979) study, these two sets of assumptions result in four paradigms of “functionalist”, “interpretive”, “radical humanist”, and “radical structuralist”. Table 5.2 presents Burrell and Morgan’s classification as follows:

**Table 5.2: Assumption about the Nature of Social Science**

The subjectivist approach to social science	The objectivist approach to social science
Nominalism	Realism
Anti-positivism	Positivism
Voluntarism	Determinism
Ideographic	Nomothetic

Source: Burrell and Morgan (1979)

In contrast, after criticizing the presented classification by Burrell and Morgan (1979), Chua (1986) introduced another classification based on social concepts. She perceived the knowledge as man-made resulted from individuals' sufferings who seek to create and enhance their well-fare. In other words, knowledge is created by people, it is for people, and it concerns people as well as their physical and social environments. She deemed that accounting is not separate from people's knowledge, like other subjects, it is based on experience, and it seeks to mediate the interaction between people and their needs and their ambiance.

Adopting a feedback relationship, changes in the individuals, their ambiance as well as their need perceptions may result in a change in accounting. With regard to the mutual interaction between knowledge and humans, the knowledge production is restricted to man-made laws describing the knowledge range, the empirical phenomena as well as the relationship between these two. As a result, three sets of beliefs illuminate observation and research in our world. First, the beliefs pertain to the knowledge concept which can be classified into two categories of epistemological and methodological. The former category deals with specifying criteria so that it is possible to determine the acceptable truth whereas the latter concerns the appropriate research methods to glean reliable and valid data. Second, this set of beliefs consists of assumptions related to the object of study which elaborates on the essence of the phenomenon being studied. As a matter of fact, they consist of three elements of ontological, human intention and rationality, societal order and conflict. Third, the beliefs pertain to the association between knowledge and empirical world. These assumptions denote the aim of knowledge in the practical world and indicate how this knowledge serves to ameliorate individuals' welfare.

**Table 5.3: Classification of Assumptions**

<b>A. Beliefs About Knowledge</b>
Epistemological
Methodological
<b>B. Beliefs About Physical and Social Reality</b>
Ontological
Human Intention and Rationality
Societal Order/Conflict
<b>C. Relationship Between Theory and Practice</b>

**Source: Chua (1986)**

The present study aimed to investigate organizational phenomena including ethical reasoning and auditor acceding. It intended to explore the social phenomena of organizational culture affecting the relationship between ethical reasoning and auditor acceding. Hence, this study is considered positivist as the author views the social world as the world of natural phenomena. In other words, it is assumed that social realities such as attitudes, satisfaction, beliefs and behaviors can be objectively measured through the use of traditional scientific methods by independent observers (outsiders). As a result, this study typically uses quantitative measurement and statistical analysis. In other words, the current study adopted a positivist approach (scientific approach) strongly recommended by Abdel-Khalik and Ajinkya (1979) by forming formal propositions, quantifiable measures of variables, hypothesis testing, and the drawing of inferences in regard to the studied phenomenon from the sample to a stated population.

#### **5.4 Research Design**

Researchers are required to choose a proper research paradigm and appropriate methodology for collecting the data. Sarantakos (1998) recommended a 3-step procedure with a view to choosing an appropriate design of research study including selecting an appropriate paradigm, selecting a methodology and selecting a set of methods.

Moreover, Abdel- Khalil and Ajinkya (1979) offered a series of logical steps to be taken into consideration in conducting a research mentioned as below:

1. Identify the research problem
2. Develop the conceptual and theoretical structure including casual links and chains
3. Operationalize the theoretical constructs as well as their relationships via stating the specific hypotheses to be tested
4. Construct the research design
5. Implement this design by sampling and gathering data
6. Analyze observations to test the hypotheses
7. Evaluate the results
8. Consider and specify limitations and constraints

Steps 1 and 2 demonstrate the process of theory construction, whereas steps 3-8 refer to the theory-verification process of research. Babbie (2015) depicted several stages for the research concepts which this paradigm commences with a theory followed by stages of hypothesis formation, choice of research method, observation, data processing, and analysis. Furthermore, some subsidiary steps were recommended which is demonstrated in the below Figure 5.1

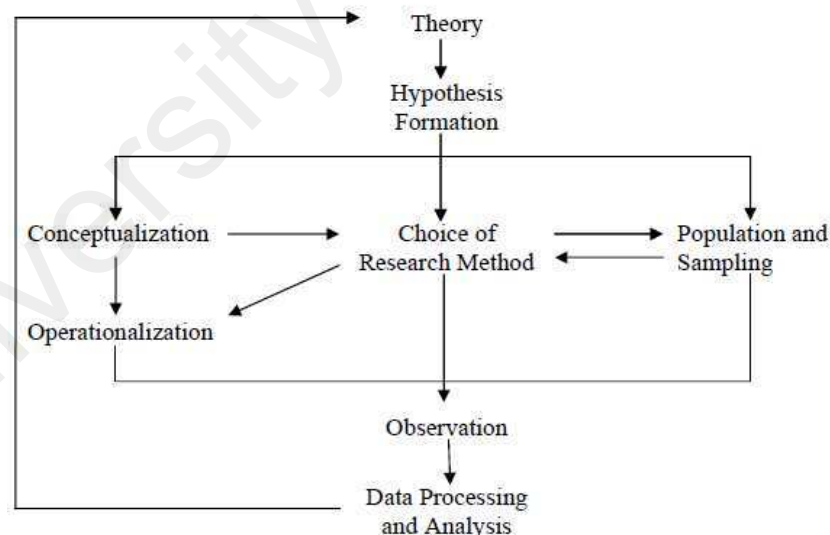


Figure 5. 1: Stages of Research Concepts (Source: Babbie, 1986, 2012)

## 5.5 Data Collection Method

According to Hussey and Hussey (1997), there exist different types of research approaches including descriptive, exploratory, analytical, predictive, qualitative, quantitative, deductive and inductive. They stated that it is not important which research category is opted for by the researcher, two concepts should be concentrated which reflect



responding to these two questions. First, which methodology is appropriate to be applied in research; second, how should the researchers justify their choice regarding these methodologies and methods. The researchers' justification in regard with utilizing such methodology and methods lead them into the requisite research assumptions (Crotty, 1998).

Gleaning the data is a process by which some data are collected in regard with variables applied in the hypotheses to examine the hypotheses. Three main methods can be regarded with a view to glean the data in research surveys namely interview, questionnaire, observation (Sekaran, 2006). On the other hand, some recommend that questionnaires and interviews involve specific methodologies applied to lead the survey research (Burnette & Williams, 2005).

Research approaches are categorized as either quantitative or qualitative (Bernard & Bernard, 2013) known as the scientific empirical and the naturalistic phenomenological approaches, respectively (Creswell, 2013). The appropriateness of using quantitative or qualitative approaches depends on a specific set of assumptions adopted in undertaking the research (Neuman & Neuman, 2006). A positivist paradigm typically uses a quantitative approach, whereas an interpretive paradigm traditionally utilizes a qualitative approach. Crotty (1998) stated that the distinction between quantitative and qualitative approaches occurs at the level of methods, or type of data employed. It is worth mentioning that this distinction does not lie at the level of epistemology either in theoretical perspectives.

Similarly, regarding the data presentation, as Yauch and Steudel (2003) discussed, quantitative methods such as surveys or other measurements produce data in the form of numbers, whereas qualitative methods such as interviews, focus groups, and participant observations take into consideration individualistic attributes such as participants'

attitudes. The quantitative approach is based on a scientific method for data collection and analysis in numerical form, a perspective based on positivism or objectivism. The quantitative approach typically tends to discover 'what' and 'how' via applying the frequency and percentage, or proportion of responses. In other words, the quantitative approach involves collecting objective or numerical data that can be charted, graphed, tabulated, and analyzed using statistical methods.

A quantitative approach is inclined to be deductive. Deductive work begins with a general theory and ends with specific observations. This is in contrast with inductive reasoning, in which a researcher is not influenced by prior theories but aims to generate new ones based on available evidence. In other words, in deductive methodologies, a researcher determines in advance what theories could explain the data. The traditional quantitative technique is the survey questionnaire, administered by mail, face-to-face, or more recently by the Internet to a stratified or random sample of the population. The other common techniques of quantitative approach are laboratory experiments, formal methods (e.g., econometrics) and numerical methods (e.g., mathematical modeling) (Kalof et al., 2008).

This study cannot employ qualitative methods for several reasons. First of all, qualitative methods tend to be more appropriate in the early stages of research (exploratory research) and for building theory, whereas this is a confirmatory research which some relevant theories were established already. Second, the research does not want to transform whatever has been observed, reported or registered into written words as is the case in the qualitative approaches. Third, qualitative research tends to rely on detailed, and thorough descriptions of events, people or organization and they are often associated with small-scale studies. The current research should utilize quantitative methods for a number of reasons. First of all, in this study the theory is well-developed, and it aims to examine the existing theory. Second, this research seeks to quantify

relationships between variables of interest, to formulate and test hypotheses derived from theories that may, therefore, be either accepted or rejected on the basis of statistical analyses.

This study aimed to investigate the difference in auditors' levels of ethical reasoning in the audit profession in Iran. It examines the relationship between ethical reasoning and auditor acceding as well. Moreover, the role of organizational culture as a moderator variable in the relationship between ethical reasoning and auditors acceding is probed.

To investigate the extent of auditors acceding, a related questionnaire was utilized which was first devised by Knapp (1985) and later developed by other scholars (e.g., Gul et al., 2003; Patel, 2006; Tsui, 1996). This questionnaire is devised on the basis of a scenario determining the extent of auditor acceding.

As demonstrated in the research literature, organizational culture can be investigated from different aspects (perspectives) of which one involves investigating values and norms dominating the organizations. Values constitute the basis to form the organizational culture in organizations; therefore, if these values are conveniently established, a convenient organizational culture can be made as well. In this study, the organizational culture questionnaire was based on the value statements devised by O'Reilly et al. (1991). This questionnaire has already been applied by studies conducted on organizational culture in audit institutions (e.g., Chatman & Jehn, 1994; Windsor & Ashkanasy, 1996) which intended to probe the dimensions associated with organizational culture.

### **5.5.1 Survey questionnaire**

Overall, surveys mainly aim at exploring the relationship between the variables prevalent within the statistical population via applying statistical techniques so that some generalizations can be offered regarding the research objectives (Sekaran, 2006). Hussey

and Hussey (1997) believed that a questionnaire entails a list of questions selected after considerable testing to extract the respondents' attitudes. Moreover, the main purpose of a survey questionnaire is exploring what the participants do, contemplate or feel.

In a research survey, the data may be collected on the basis of a statistical sample representative of the statistical population. These data may incorporate interviews (personal and telephone), and postal questionnaire. In accounting studies, the postal questionnaire is frequently utilized as a common method to glean the study data (Matthews, 2002). Applying this technique enables the researcher to collect the data in a short period with a little cost (Kalof et al., 2008). This section proposes the quality of questionnaire operationalization via elaborating research instruments, questionnaire design, questionnaire examination, questionnaire rationalization and questionnaire administration, as well as the process by which respondents are chosen. Before any further explanation about research instruments as well as questionnaire administration, first some reasons are proposed clarifying applying questionnaires as a research instrument for the current study.

As mentioned earlier, this study aims at exploring the relationship between auditors' ethical reasoning and auditors' acceding as well as investigating the moderating role of organizational culture in this relationship. In line with research variables and objectives, the questionnaire was applied as an appropriate research instruments in this study. Utilizing questionnaires offers some merits to the study which is elaborated as follows (Babbie, 2015; Hussey & Hussey, 1997):

- 1) More individuals can be investigated via utilizing questionnaires
- 2) Written questionnaires cost cheaper than interviews
- 3) Respondents reply more honestly since their names are not known

- 4) Using questionnaires facilitates receiving corresponding responses, since, in contrast to interviews, several interviewers are not applied and thus, the problems related to the interviewers and respondents do not exist.

However, there some demerits to the questionnaires among which the following items can be mentioned:

- 1) There is the possibility of lack of same understanding and perceptions of the different subjects in regard to the questionnaire questions since there is a low probability in preparing a number of questions, all of which are articulate and accessible to each participant. To overcome this defect, it is recommended to perform a smaller pilot study prior to conducting questionnaires among the study participants, in which the questions would be evaluated and in fact, incomprehensible questions would be eliminated and replaced by more appropriate questions. Eventually, the questionnaire can be operationalized within the main participants.

- 2) The other disadvantage of questionnaires (postal questionnaires) involves the low percentage of their return. This not only limits the sample, but also it affects the results and probably reduces the possibility of result generalizability.

- 3) Questionnaires rely on the individuals' preferences that are to say a questionnaire can examine what the individual reports whereas what an individual does may differ from the items she/he mentions in the questionnaire.

It is worth mentioning that the above disadvantages were taken into consideration in the current study and it was endeavored to reduce their effect while implementing the questionnaire. In this regard, the first version of the questionnaire was piloted to alleviate any obstacles or ambiguities of the questionnaire. Although controlling the participants and in fact how they responded to the questionnaire appeared to be hard, the participants

'background information presented in the following section revealed that participants intended to fill the questionnaire out enthusiastically.

#### **5.5.1.1 Survey Sample**

As mentioned earlier, this study survey aimed to investigate auditors working in the audit profession of Iran. The population of Iranian auditors can be divided into three groups, namely, auditors in private firms that have IACPA certification, auditors in audit organizations which work under the control of the government that may have IACPA certification, and finally, auditors who do not have IACPA certification and work in private firms or are self-employed. Since the auditors are many in number, it may not be possible to have access to all of them to distribute the questionnaire. Therefore, a sample was selected on the basis of a shared attribute that is to say those auditors who are members of IACPAs, as well as those who held IACPA certification were selected as the study sample.

The researcher applied stratified random sampling in the current study. It is common for people who are conducting statistical analysis to want to obtain information about key subsections of a population. Stratified random sampling is a technique which involves dividing a population or sampling frame into several, non-overlapping 'strata' (subgroups) according to a particular characteristic which reflects the variables of interest. Once the population or sampling frame is divided appropriately, simple random samples would then be selected from within each stratum. This is preferable than simple random sampling when selecting samples for strata. Examples of usual stratification characteristics are an age group, gender, income bracket and ethnic origin (Malhotra, 2008; Zikmund, Babin, Carr, & Griffin, 2013).

The advantages of stratified random sampling are that it ensures better, more representative coverage of the population of interest and enables the important subgroups

to be properly accounted for. Stratification will allow greater precision than simple random sampling so long as (i) members of the same stratum are as similar as possible to one another in relation to the stratification characteristic, and (ii) the differences between each separate stratum are as big as possible.

This technique can also make the sampling strategy more efficient. Without stratification, it may be necessary, and therefore more costly, to have a very large sample in order to ensure that each subgroup of the population is included in the analysis. By stratifying and ensuring that each group will have sufficient representation in the sample, it is possible to achieve more precise and reliable results.

However, a disadvantage of stratified random sampling is that it can take longer to prepare and develop samples, due to difficulties in identifying appropriate strata and the analysis can be quite complex. Furthermore, a good knowledge of the population is required.

The study participants can be classified into two members of IACPAs as private auditors and auditors in audit organizations as governmental auditors. The information regarding the number of auditors who participated in the study, the number of questionnaires distributed and the response rate received is listed in Table 5.4:

**Table 5. 4: Analysis of Response Rate**

<b>Descriptions</b>	<b>Number</b>	<b>Percent</b>
Total questionnaires distributed	1000	100
Total questionnaires received	450	45.0
Unusable	18	
Total usable responses	432	43.2
Responses in Private Group P 240		
Responses in Governmental Group G 190		

#### **5.5.1.2 Questionnaire Design**

#### **5.5.1.2.1 Language**

In this study, since the respondents showed a better perception in regard to their mother language, Persian, compared to English, Persian was opted as the medium for respondents to reply to the questionnaires whereas the original questionnaire was in English. The latest version of the questionnaire was translated into Persian and re-translated into English. Such back-translation into English was applied to compare the correspondence between English and Persian versions. Moreover, it was regarded essential to avoid the incorrect understanding of translated words.

#### **5.5.1.2.2 Types of Questions**

Questionnaires consist of two different types: (1) regular or closed questionnaires, 2) free or open questionnaires. In the former, the researcher provides several responses holding a logical association to the question which the respondent is required to identify one of them as the correct response, whereas in the latter, merely the question is posed by the researcher and the respondent can respond freely within the range he/she is asked for.

The first setting of closed questions is rather time-consuming, though respondents spend less time while replying the questions. Moreover, the valuation, analysis, and interpretation of regular or closed questionnaires are considered easier compared to free or open questionnaires due to its uniformity and specificity to all respondents. Instead, designing open questions appear to be easier whereas more time will be spent by the researcher reading and extracting the individual responses. In this study, the researcher compiled a closed-ended questionnaire. The merits of close-ended questions are that they can be distributed via little direct confrontation and respondents can reply the questions based on a stronger validity, specifically when there exist various respondents (Fowler, 2013).

Furthermore, closed-ended questionnaires are relatively easier and faster to be responded to. Respondents are not required to write or define anything. It is worth



mentioning that closed questionnaires were utilized in this study to increase participants' response rate as well as to enhance the uniformity of the questionnaire. However, in the last part of the questionnaire respondents were required to comment on the number of conflicts encountered during the auditing on which they were supposed to provide a little explanation as well.

#### **5.5.1.2.3 Bases for Questionnaire Development**

It is very important to pay attention to how the questionnaire appears. A neat and attractive questionnaire with an appropriate introduction and a well-dressed series of questions and answers will make the task easier for respondents. A good introduction has been provided to clearly reveal the identity of the researcher, to communicate the intention of the survey and to ensure the confidentiality of information presented by respondents. This introduction provides less biased responses by respondents. Also, the introduction has been completed on a courteous note; thanking the respondent for taking the time to respond to the questionnaire.

The questions were organized in a logical and orderly manner in the appropriate section. Instructions were provided on how to respond to the items in each section to help participants answer them without difficulty and with minimal time and effort. The questions were organized efficiently and reasonably in appropriate sections. In addition, instructions were provided on how to respond to the items in each section to help the participants answer them without any trouble and with minimal time and effort.

To evaluate ethical reasoning the first part of the questionnaire was borrowed from Rest, Narvaez, Thoma, and Bebeau (1999). The next two parts were developed based on the "Delphi Method", believing that through the process of a structured group, better decisions can be made, rather than decisions taken by individuals. As mentioned earlier, three types of questionnaires were adopted and adapted as measuring instruments of the study.

## **Contents of the Questionnaire**

To glean the research data, three questionnaires were applied. The first questionnaire aimed to obtain information in regard to auditors' moral reasoning as well as their levels of moral reasoning, known as the DIT2 questionnaire. This questionnaire was a standard one that could not be reduced or extended, and it was classified into several sections. First, some instructions on how to fill the questionnaire out were provided. Moreover, in this section, some instances were given by which the respondents' minds can concentrate on the questionnaire. Second, it was followed by DIT-2 stories including five stories after which the respondents were required to reply to some questions. Third, respondents' demographic characteristics appeared at the end of questionnaire due to observing its standard format whereas such characteristics are normally elicited at the beginning of a questionnaire. DIT2 probed such demographic characteristics as age, gender, level of experience, education, and extent of respondents' liberality.

The second questionnaire concerns the information related to organizational culture in which the respondents were required to rate the importance of each value statement. Moreover, this section intended to determine the dimensions of organizational culture.

In the third questionnaire, studying a scenario, respondents were supposed to put themselves in the place of the auditor of a scenario and determine the extent to which an auditor can accede to his clients' requests. At the final part of the questionnaire, respondents were asked to declare whether they have had the same experience as that of the auditor in the scenario. Moreover, they were asked to state the number of times they have been in such situations.

### **5.5.1.3 Pilot Study**

Each survey questionnaire has its difficulties before finalizations. To develop

appropriate questionnaires, according to Oppenheim (1992), the composed questionnaires should be tried out, then revised and tried out again. Ideally, the questionnaire should be tested between people who are similar to the target population or at least within friends and colleagues (Hussey & Hussey, 1997). Moreover, it is not regarded essential for the participants of the pilot study to be representative of the sample though they should bear some relevance to the questionnaire. Oppenheim (1992) argues that studies that have been piloted inappropriately or have not been piloted would face complex circumstances that, in fact, waste the attempts and the desired responses and results would not be obtained.

A pilot study conducted to test the instrument before its distributing to the full sample, increases the likelihood that the main study will be successful. “The pilot test served as a trial run of the survey’s protocols and procedures with participants similar to those who will complete the survey once deployed” (Babbie, 2007, p. 120). In this regard, to apply an appropriate questionnaire, several steps should be taken for which having a pilot is regarded as one of the crucial constitutes.

According to Babbie (2007, p. 127), “the principle of using pilot studies extends to replicating the measures other researchers have used. It is, therefore, necessary for the researcher to test the early versions of the questionnaire to find out whether respondents can understand what is asked and what is required”.

Moreover, in the present study, three questionnaires were applied in compliance with the three research objectives mentioned earlier namely DIT2, OCP, and acceding questionnaire. Since the applied questionnaires have not already been tested in the Iranian society, it was regarded necessary for the questionnaires to benefit from the experts ‘views in the required parts. In other words, believing that better decisions can be made through the process of a structured group discussion rather than decisions taken individually, the questionnaires benefited from the Delphi method except for standard

DIT2 questionnaire which does not demonstrate adequate flexibility to be changed (see Appendices A & B.)

In general, to measure the viability of the questionnaires, the researcher consulted with a panel of experts in regard to the validity of questionnaires. They were four qualified and experienced accountants whose recommendations were taken into consideration. Next, the revised version of the questionnaire was sent to two academic specialists who were experts in the field of accountancy and their suggestions were applied as well. In short, these steps were taken to substantiate the validity of the questionnaire as well as to provide a degree of convenience to the respondents to complete the questionnaires as easily as possible.

#### **5.5.1.3.1 The Delphi Technique**

Delphi is a systematic research approach or method to extract views of a group of experts on a topic or a question (Kalof et al., 2008). In other words, it can be regarded as reaching a group consensus through a series of stages preserving the panel members' anonymity, which relies on feedback comments of the panel members. According to Linstone and Turoff (1975), Delphi tool is a beneficial communicative instrument within a group of experts that facilitates this group members' expression of opinions. Wissema (1982), emphasizing the importance of Delphi procedure, regards it as a method for "an exploration of univariate" to forecast the future of technologies. Moreover, this study indicated that the Delphi method could be applied with a view to facilitate the experts' discussion. Therefore, the impact of negative social interaction resulting in obstacles in regard to forming opinions and attitudes can be avoided in group discussions.

Scholars (see Hasson, Keeney, & McKenna, 2000; Kennedy, 2004; Linstone & Turoff, 1975) suggested the below stages for the Delphi method:

- (1) Forming a performing team to monitor the implementation of Delphi.
- (2) Choosing one or more panels to participate in activities. Members of the panel consist of experts of research realm.
- (3) Setting up activities for arranging the first round of questionnaires.
- (4) Evaluating the questionnaire in regard to its written ground (eliminating inferential ambiguities).
- (5) Sending the first questionnaire to the Panel members.
- (6) Analysis of the responses received in the first round.
- (7) Prepare questionnaires of the second round (with the required revision).
- (8) Sending the questionnaire of the second round to the panel members.
- (9) Analysis of the responses received in the second round (In Steps 7 to 9, achieving consistency is continued in received responses).
- (10) Preparing the report by the team processor.

According to Kalof et al. (2008), regarding Delphi technique in ideal circumstances, even groups of four can reveal an appropriate performance that is to say the number of panel members depend on the design of the research. In the current study, the panel members consisted of eight specialists categorized into four groups of (1) Dean of IACPA; (2) Executive Vice of audit organization (3) Experts in the auditing profession; and (4) Academic experts. The features of these panel members are elaborated in Table 5.5 As follows:

**Table 5. 5: Features of Panel Members**

	Number	Gender	
		Male	Female
Dean of IACPA	1	1	-
Executive Vice of audit organization	1	1	-
Experts in the auditing profession	2	2	-
Academic Experts	4	3	1
Total	8	7	1

Panel members were required to rate the study instruments on a five-point Likert-type scale ranging from 1 (not required) to 5 (required). Once finished, the panel members sent the questionnaires back to the researcher via mail in an enclosed stamped, self-addressed envelope. Moreover, panel members were asked to make comments/suggestions to justify their evaluations and ratings. Panelists demonstrated to be thoroughly experienced in accountancy issues notably areas related to auditing, ethics, and organizational culture. As a matter of fact, the expert panel members evaluated whether the variables and components in the questionnaire sufficiently depicted some form of relevancies and appropriateness of the related measures questionnaires were supposed to examine.

Being appropriately revised based on the panelists' recommendations, the reformed questionnaires were returned to the panelists. Once they were eventually approved, the author personally distributed the questionnaires among two groups of auditors including 100 questionnaires per group. Finally, 60 questionnaires (30 per group) were returned as the pilot testing measurements. Then the gathered data was submitted into SPSS software (version, 20) and analyzed accordingly.

#### **5.5.1.3.2 Reliability and Validity of the Survey Instrument**

Churchill (1979) mentioned that reliability is concerned with how well all items of a variable relate to each other. Sekaran (2006) remarked that the reliability of a measure indicates the degree to which the measure is bias free (error free) and thus presents consistent measurement in regard to time and various items in the instrument. According to Sekaran (2006), the reliability has two aspects: stability (reliability across time) and consistency (reliability across various items) with which the "goodness" of a measure can be assessed.

Four types of methods can be utilized to test the reliability, which constitutes the test-retest, parallel-form, split-half and internal consistency (Babbie, 2015) among which the latter appears to be an appropriate choice for a field of study. Therefore, in this study, the internal consistency method was applied to test the reliability of the measures. In fact, the internal consistency of measures demonstrated the homogeneity of the items in the measurement that tap the construct (Sekaran, 2006).

The level of consistency can be tested by the Split-Half Reliability test and the Interitem Consistency Reliability. The Cronbach Alpha reliability coefficient involves the most prototypical known test of Interitem Consistency Reliability (Hair, Black, Babin, Anderson, & Tatham, 2006). In this research, the internal consistency method tested by Interitem Consistency Reliability test of Cronbach Alpha reliability coefficients was employed (ranges from 0 to 1) to test the reliability of the measurements. It is worth noting that reliability is a necessary, though not sufficient condition to examine the appropriateness of a measure. A reliable measure can be established demonstrating high consistency and stability, though the instrument may not measure the construct under the examination (Sekaran, 2006). These issues can be elaborated in regard to significant concept validity which pertains to the research questionnaires that is.

The validity concept of scales mirrors whether the instrument examines the intended construct it purported to test. Salkind (2003) ascertained that the validity of an instrument intends to demonstrate how accurately an instrument assesses a certain construct which is being explored. Moreover, validity is a quality of a test denoting what it planned to do.

There exist three types of validity tests to demonstrate the appropriateness of measures including content validity, criterion-related validity and construct validity. First, Content validity concerns with “how much a measure covered the range of meanings included within the concept” (Babbie, 2007, p. 156). Second, criterion-related validity refers to the

ability of the measure to differentiate individuals on a criterion it was expected to predict. Finally, “the construct validity test is based on the logical relationships that exist among variables” (Babbie, 2007, p. 159).

In this study, a team of accounting specialists were asked to substantiate the validity of the questionnaires which were modified accordingly, and their ambiguities and obstacles were eliminated. In other words, the applied measures demonstrated a good degree of validity since the development of the measurement items were mainly based on extensive review of the literature and were also subject to detailed evaluations and validations by these specialists.

#### 5.5.1.3.3 The Results of Pilot Testing

Table 6.6 presents the reliability coefficients results for each variable measured in the questionnaires using Cronbach’s Alpha for the pilot study. Cronbach’s Alpha for dimensions of ethical reasoning, organizational culture, and auditor acceding exceeded 0.6 (the minimum acceptable range: 0.6 - 0.7). The measures, therefore, are reliable instruments consistently measuring the constructs and thus, provide meaningful findings to the research.

**Table 5. 6: Reliability of the Scales for Pilot Study**

Variable	Alpha (Pilot Test N=60)	Separate groups	
		Group G	Group P
Ethical Reasoning	0.755	0.716	0.698
Organizational Culture	0.876	0.910	0.842

#### 5.5.1.4 Rationales for the Questions

##### a) Introduction to the questionnaire

The first page of the questionnaire explains the questionnaire’s purpose and indicates the necessary time to respond to make motivation for the respondents to fill out the



questionnaire enthusiastically. Moreover, some other points were mentioned to assist the respondents in completing the questionnaire. The contact information of the researcher was presented so that the respondent could contact and ask questions. Finally, it should be noted that the questionnaire had a good cover design appropriate to the study ground.

### **Section1: Defining Issues Test (DIT-2)**

This section concerns the ethical reasoning commencing with an introduction that explained how the respondents should define issues in a social problem. Following the introduction, an instance of a story was presented and how to fill in the answer sheet was elaborated. Since the DIT2 questionnaire has three parts after each story, guidelines were provided demonstrating how respondents are expected to complete it.

In DIT2, several stories (five) were described in regard to the issues in a social problem after which a list of questions was posed. These questions, following each story, express different issues and may indicate a problem. In other words, the questions (issues) show the different ways of decision-making, proposing what is important in a timely decision-making in regard to a social problem.

Before answering the main questions of each story, involving a dozen questions, participants were asked first to express their opinion on the social problem that whether they agree, disagree or cannot decide on this ground. Then 12 questions were presented relating to the social problem that each question offered an issue. Respondents replied these questions according to a 5-point Likert-type. In other words, at the end of each story, respondents were required to rank the importance of 12 questions from 1-4 according to their opinion. Eventually, excluding the questions related to the demographic characteristics of respondents, 85 questions were posed. At the end of the Persian version of DIT2 questionnaire, respondents' characteristics were elicited which in addition to the usual questions such as age, education, and experience, such issues as respondents'

liberality extent, citizenship of America (according to the original version of DIT2), as well as their mother language were explored. This information is one of the measurements of P-score (see guideline for measuring DIT-2, published by University of Minnesota).

## **Section 2: Organizational Culture**

The second part of the questionnaire concerns organizational culture which included 24 value statements. According to Chatman and Jehn (1994), since every individual is unique, a classification of organizational culture, based on a value system allows comparisons across multiple boundaries. Since such approach takes every individual into account, it necessitates developing a large number of items or descriptors that comprehensively describe these various individuals in their specific situations (O'Reilly et al., 1991). Therefore, 110-items were devised by O'Reilly et al. (1991) pertaining to successful ideal person's value across various situations. After various iterations, a set of 54 values were preserved (see O'Reilly et al., 1991).

Some researchers have modified this questionnaire. As an example, Cable and Judge (1997) revised and shortened the list of OCP to 40 items. In (1996), Windsor and Ashkanasy modified OCP to a set of 26 items and Sarros et al. (2005) edited the OCP to a final 28 items from original 54 items of O'Reilly et al. (1991).

The questionnaires were then compared to Windsor and Ashkansay (1996). This questionnaire included 26 items and was examined in the CPA. Compared with the original questionnaire, the experts (including scholars and professions) concluded that Windsor and Ashkansay's (1996) questionnaire is more suitable based on the OCP value system in the Iranian society. Based on the pilot study, the questionnaire was modified and reviewed at the end of 24 items.

After a brief introduction and definition of organizational culture, respondents were required to determine the extent to which they value the statements. To respond to

value statements, a 5-point Likert-type was utilized shown as below:

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>				
<b>Not at all</b>	<b>To small extent</b>	<b>To moderate extent</b>	<b>To a great extent</b>	<b>To a very great extent</b>				
				1	2	3	4	5

### **Section 3: Auditor Acceding**

This section of the questionnaire assessed the extent to which auditors accede to their client's request in a conflict situation. A scenario was presented in which the auditor of a company while auditing explored an item of company liability not reflected in the accounts. The financial manager of the company believed that the discovered liabilities were not so important and thus opposes with the auditor's opinion. Since the auditor must act in accordance with auditing standards and regulations, a high conflict was caused by the auditor and the company manager. Scenario points that "in your opinion, if you were the auditor of this company, how likely would you avoid reporting this discovered liability". Respondents expressed their likelihood via responding to ten-point Likert-based on percentage. At the end of this section, there existed a contingency question in which the respondents were required to state whether they had any experience confronting the same conflict situations and they were asked to mention the number of such conflict situations they have experienced.

#### **5.5.1.5 Administration of Questionnaire**

Before distributing the questionnaire for the pilot study, the researcher started the communication with the Center for the Study of Ethical Development in the University of Alabama to understand the process of the acceptance of translation, having a permit for it and receiving their agreement in this regard. The Center asked the researcher to complete forms including Memorandum of Agreement DIT-2 (Appendix B) Translation and Story Change. After filling the Agreement DIT-2 Translation, it was sent back to the

Center for the processing. Filling the other form (Story Change) was not imperative because no professional change was done in the original version. The approval from Center for the Study of Ethical Development in the University of Alabama is obtained in July 2011. Moreover, the final data collected was sent for scoring in March 2013.

The questionnaire in this study involved a postal one (sent by mail) so that full advantage can be taken regarding time and financial constraints. A list of IACPA accountants along with their e-mails and addresses were provided to make it possible to mail the questionnaire to them. Moreover, a great number of the questionnaire forms were distributed personally by the researcher through visiting audit firms as well as the audit organization to eliminate the ambiguities respondents may face in regard to filling out questionnaires.

This process took a lot of time. The researcher had to make appointments with auditors in both groups. For the governmental group, traveling to five cities made the respondents more confident filling in the questionnaires. The researcher introduced the questionnaire to all participants because it was a new type of question in the field of accounting and auditing. Private audit firms were in the same situation. According to Zikmund, Barry J, Carr, and Griffin, (2013, P. 67) “the researcher must be personally detached and free of bias in attempting to find truth. If bias enters into the research process, the value of the research is considerably reduced.”

It should also be mentioned that questionnaires were also e-mailed to those audit firms where visiting or mailing a questionnaire was not accessible. The questionnaire included a cover letter mentioning a basic explanation as well as the purpose of the questionnaire. All the questionnaires were distributed during September to November in 2011. A total of 1000 questionnaires were sent to the two groups of auditors.

The average response time for respondents to complete the questionnaire is from five to seven days. All respondents for the completed questionnaires received responded within the average time stated. Therefore, the data is not affected by non-response bias.

## **5.6 Data Analysis and Interpretation**

To codify the responses, a codebook was prepared to assist the researcher in the research process specifically data entry stage. Moreover, received questionnaires were examined for those questionnaires inconsistent with the research objectives to be removed. The codified data was submitted into the Excel software to be changed into more neat and orderly data and was then submitted to SPSS software. Standard statistical analysis techniques were utilized to analyze the questionnaire data via applying SPSS software (Version 20). The accuracy, normality, as well as reliability of the data, were scrutinized as well. The analysis consisted of descriptive analysis including frequency, mean, ranking and distribution of responses. Moreover, factor analysis was conducted to demonstrate whether the items applied to measure the variables are valid. The analysis techniques utilized to examine the variable are explained in detail in the following section.

### **5.6.1 Variable Measurement**

This study consists of three main variables that were examined in accordance with the research questions and hypotheses. Research questions and hypotheses have been elaborated in Chapter 5 mentioned in this section to discuss the related statistical techniques. This study utilized the Defining Issues Test (DIT-2) to measure auditors' ethical reasoning in private and governmental audit organizations in Iran. Furthermore, auditor acceding was examined via utilizing a scenario, and organizational culture was tested by Organizational Culture Profile (OCP).

The first hypothesis concerns the differences in the level of auditors' moral reasoning in Iran. As it was mentioned earlier, DIT2 was utilized to test the moral reasoning

variable. This version has five stories, with 12 statements of issues following every dilemma reflecting the different stages of moral reasoning. It is worth mentioning that reliability, as well as the validity of DIT2, 4 has already been confirmed.

To measure the ethical reasoning variable, the data of DIT-2 (a measure of the moral reasoning ability of the test taker) was sent to the University of Alabama via email for assessment. The score represents the portion of selected answers based on principle and is, therefore, referred to the post-conventional score or P-score (<http://ethicaldevelopment.ua.edu/>) which offers the researcher a summary of statistical results. For scoring the DIT2 questionnaire, some steps should be taken. First, permission was obtained to translate the original version of Defining Issues Test (DIT-2) questionnaire into the Persian language. The original text and its translation were sent to the Center. Finally, they approved with the translated text in Persian and issued the permission for its distribution.

According to the format proposed by this Center, to calculate the score out of the raw data, all the required data were entered into the Excel software and then sent to the Center. After receiving the information, the Center started the scoring and sent the results to the researcher including data mean in the levels, maintain norms and P-score. However, if some drawbacks had existed in the calculations, they could have been resolved through correspondence. Therefore, in this study, the P-score involved the criterion to measure the difference in levels of moral reasoning.

The second hypothesis concerned the relationship between auditors' moral reasoning

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<sup>4</sup>This basic measurement (DIT) has shortened by Rest and Narvaez, (1998) into an instrument called DIT-2. For a detailed review of the literature on the DIT see Rest et al. (1999). These authors report that in over 20 years of study, the DIT have high reliability scores as it has produced Cronbach alpha indexes in the 0.70 s to 0.80 s. (Abdolmohammadi & Ariail, 2009).

and auditor acceding in a conflict situation.

To test this hypothesis, linear regression was used, and the strength of this relationship was scrutinized as well. Correlation in research projects involving several variables aims to determine the relationship between a variable with other variables that is to say we need to know the nature, direction, and significance of variable relationships. In fact, it is obtained as the result of assessing the change of a variable caused by changes in other variables which normally range between +1 and -1.

The third hypothesis of this study was to investigate the effect of organizational culture as the moderator variable on the relationship between ethical reasoning and the auditor acceding. To test this hypothesis, hierarchical multiple regression was utilized. Multiple regression analysis with its hierarchical approach is performed in three sequential steps. In the third step, the product of the organizational culture with ethical reasoning after centering the variables was created and entered into the model. This has been done to assess whether or not there is a moderating effect of organizational culture on the relationship between ethical reasoning and auditor acceding.

### **5.6.2 Hierarchical Regression**

This section introduces how researchers will follow to examine and test the variables based on methodology and techniques. Therefore, a short definition of the model could be understandable the results.

Regression is the analysis or measure of the association between one variable (the dependent variable) and one or more other variables (the independent variables), usually formulated in an equation in which the independent variables have parametric coefficients, which may enable future values of the dependent variable to be predicted.

Multiple regression is an extension of simple linear regression. It is used when we want

to predict the value of a variable based on the value of two or more other variables. The variable we want to predict is called the dependent variable (or sometimes, the outcome, target or criterion variable).

A hierarchical regression is a way to show if variables explain a statistically significant amount of variance in a dependent variable (DV) after accounting for all other variables.

A moderator variable, commonly denoted as just M, is a third variable that affects the strength of the relationship between a dependent and independent variable. In correlation, a moderator is a third variable that affects the correlation between two variables. In a causal relationship, if x is the predictor variable and y is an outcome variable, then z is the moderator variable that affects the casual relationship of x and y. Most of the moderator variables measure causal relationship using regression coefficient. The moderator variable, if found to be significant, can cause an amplifying or weakening effect between x and y. In ANOVA, the moderator variable effect is represented by the interaction effect between the dependent variable and the factor variable.

This study uses moderating variable. The formula of the regression concerning the moderating variable is as follows:

$$\begin{aligned} Y &= \alpha + \beta_1 X \\ Y &= \alpha + \beta_1 X + \beta_2 Z \\ Y &= \alpha + \beta_1 X + \beta_2 Z + \beta_3 XZ + e_1 \end{aligned}$$

Where Y is the dependent variable (auditor acceding), X is the independent variable (ethical reasoning), Z is the moderator variable (organizational culture), and XZ is the interaction of the moderator and the independent variable;  $e_1$  is a residual, and  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  represent the relation between the dependent variable and the independent variable, moderator variable, and moderator by independent variable interaction, respectively. The moderating variable XZ is the product of X and Z where X and Z are



often centered (centered means that the average is subtracted from each observed value of the variable). If the XZ interaction is statistically significant, the source of the significant interaction is often explored by examining conditional effects with contrasts and plots (Rothman, Greenland and Lash, 2008)

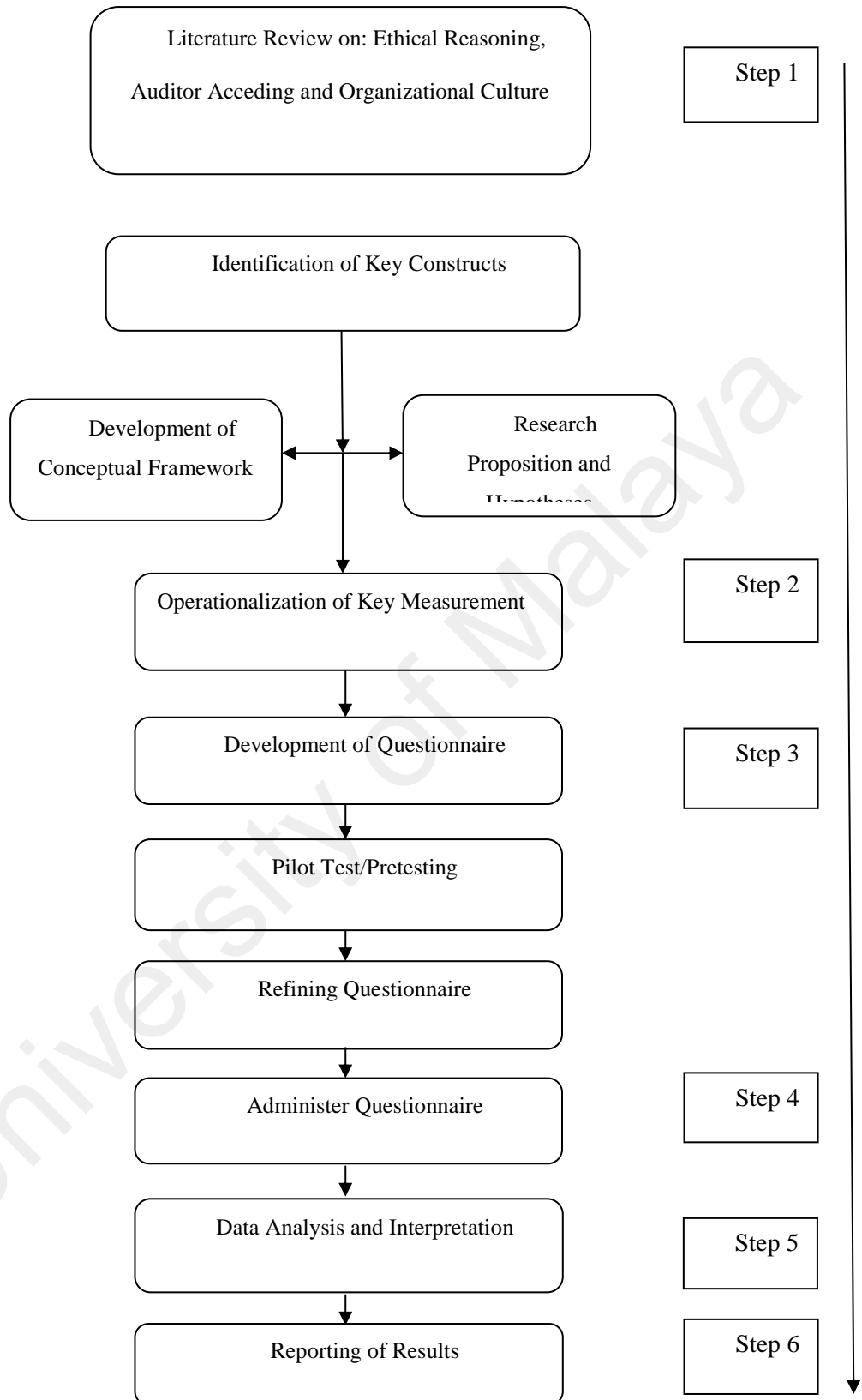
In the hierarchical multiple regressions, the researcher determines the order by which predictive variables enter the model as two sets. Hence, using this procedure, the model quality and effect of variable or group of variables can be investigated after controlling the variables of the first stage.

## **5.7 Summary**

This chapter proposed the research methodology and design beginning with a discussion of research philosophy as well as research paradigms. It was followed with details of the procedures related to the data analysis. Figure 5.2 proposes the research process of this study by depicting the research design. The next chapter represents the research findings.

**Table 5. 7: Summary of Measurement**

Questions	Purpose	Variables	Source	Test	Expect to Achieve
<b>Section One</b>					
Stories: one to five 60 questions	The differences between the ethical reasoning levels of auditors who are members of IACPA and those who are members of audit organization	Independent variable (ethical reasoning)	Defining Issues Test(DIT-2)(Rest & Narvaez, 1998; Rest et al., 1999)	P-Scores indicate a statistical significance	Differences between levels of ethical reasoning of auditors in private and governmental organizations in Iran.
<b>Section Two</b>					
Ranking 24 value statement items	The role of organizational culture in the relationship between ethical reasoning and auditor acceding in governmental organization and private firms (IACPAs)	Moderator variable (organizational culture)	Organizational Culture Profile (OCP) (O'Reilly et al.,1991)	Reliability analysis Factor analysis Pearson Correlation Regression	Differences between the organizational culture in private and governmental organizations in Iran.
<b>Section Three</b>					
2 Questions	Whether the auditors accede to the client's request in a conflict situation or not (which auditor group is or is not independent)	Dependent variable (auditor acceding)	Auditors' Decision-Making Questionnaire (Tsui, 1996); (Tsui & Gul, 1996)	Expose the respondents to a scenario and ask them to show their decision by choosing a score from 0 to 100	Differences between auditor acceding among auditors in private and governmental organizations in Iran.



**Figure 5. 2: Research Design**

## CHAPTER 6: DATA ANALYSIS AND RESULTS

### 6.1 Introduction

Chapter seven presents data analysis and results regarding three main variables including ethical reasoning following Kohlberg's (1969) and Rest's (1979)'s theory using Defining Issues Test (DIT-2) questionnaire, auditor acceding and organizational culture based on the Organizational Culture Profile (OCP) questionnaire. Data analysis is performed through a series of sequential steps. Data analysis procedure, multivariate analysis assumption testing, profiles of respondents, descriptive statistics, inferential statistics and schematic hypotheses results are presented in Sections 6.2, 6.3, 6.4, 6.5, 6.6 and 6.7 respectively.

### 6.2 Data Analysis Procedure

After collecting data for the survey questionnaire, before entering data into the computer for analysis, a code was assigned to each respondent following a categorization scheme. The code operates as a recognition label for each respondent for the purpose of controlling their responses in case of a problem with the quality of collected data (e.g., missing data, an outlier, etc.).

The data were analyzed using the Statistical Package for the Social Sciences (SPSS) 20.0 program. To fulfill the three research objectives and respond to the three research questions, the collected data were summarized, analyzed, interpreted and presented. Several statistical techniques appropriate for analyzing the hypothesized relationships in the study were also applied. The statistical analyses were mainly driven by the acquisition plan and also a set of measurements were used to operationalize the variables.

### 6.3 Testing Multivariate Analysis Assumption

Several assumptions must be met for multivariate analysis. A number of problems ranging from inaccurate results of significant coefficients to biased and wrong predictions

of the hypothesized relationships can be created as a result of violating the assumptions (Hair et al., 2006). Furthermore, in accomplishing the above statistical analyses, firstly it is important to make sure that the multivariate analysis assumptions are met. According to Ho (2006), the statistical inferences about the relationship between the variables in the population are based on the assumptions that the data are taken from (i) a normally distributed population and (ii) a population with constant/equal variance. These assumptions must be met to establish the appropriateness of the selected test for hypotheses and model building using the multivariate analyses such as multiple regressions. In conducting appropriate statistical analysis to test these assumptions, an alpha level of 0.05 was set.

### 6.3.1 Normality Assumption

The following normality hypothesis was developed and tested to check the first assumption that the data are taken from a normally distributed population:

H0: Sample is selected from a normally distributed population.

If  $p > 0.05$ , then the null hypothesis is not rejected, that is, the population is not normally distributed. The normality test employed is the Lilliefors's Significance Correction test (based on Kolmogorov-Smirnov test for a large sample size,  $n > 50$ ) for all the three main variables, as shown in Table 7.1. Since all the p-values were not significant ( $p > 0.05$ ), it indicates that the distribution of the data was normal for all the three measured variables.

**Table 6.1: Kolmogrov-Smirnov Statistics of Normality Test**

<b>Variables</b>	<b>Statistic</b>	<b>Sig. (p-value)</b>
Ethical Reasoning	1.317	0.062
Organizational Culture	1.167	0.131
Auditor Acceding	1.263	0.082

### 6.3.2 Variance Equality Assumption

Regarding the second assumption, the equality of variance hypothesis was examined

using the Levene's Test of Homogeneity of Variance and results show that the population is of constant/equal variances.

H0: Sample is selected from a population with constant/equal variances.

If  $p > 0.05$ , the null hypothesis is not rejected, that is, the sample has equal variances. To check the equality of variance assumption, ANOVA test was conducted for all variables (i.e., ethical reasoning, organizational culture, and auditor acceding). For this purpose, the results of Levene's Test of Homogeneity of Variance were examined.

The variance analysis for all variables in six different cities namely Yazd, Tehran, Mashhad, Shiraz, and Esfahan indicates that the variances were equal (see Table 7.2) because p-value is above 0.05. This suggests that H0 failed to be rejected, and the sample's variances were equal.

**Table 6.2: Leven's Test of Homogeneity of Variance**

<b>Variables</b>	<b>Levene Statistic</b>	<b>Sig.(p-value)</b>
Ethical Reasoning	0.042	0.837
Organizational Culture	0.246	0.620
Auditor Acceding	1.285	0.285

### **6.3.3 Factor Analysis**

The six factors on 20-point OC Scale were subjected to principal components analysis (PCA) using SPSS Version 20.0. Before performing PCA, the suitability of data for factor analysis was measured. Assessment of the correlation matrix revealed the presence of many coefficients of 0.4 and above. The Kaiser-Meyer-Olkin value was 0.794 which exceeds the recommended value of 0.6 (Ho, 2006) and the Bartlett's Test of Sphericity (Ho, 2006) showed a statistical significance ( $\chi^2 = 3022.172$ ,  $p\text{-value} = .000 < .05$ ), supporting the factorability of the correlation matrix (see Table 6.3).

**Table 6.3: KMO and Bartlett's Test: Organizational Culture Scale**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.794
Bartlett's Test of Sphericity	Approx. Chi-Square	3022.172
	Df	190
	Sig.	0.000

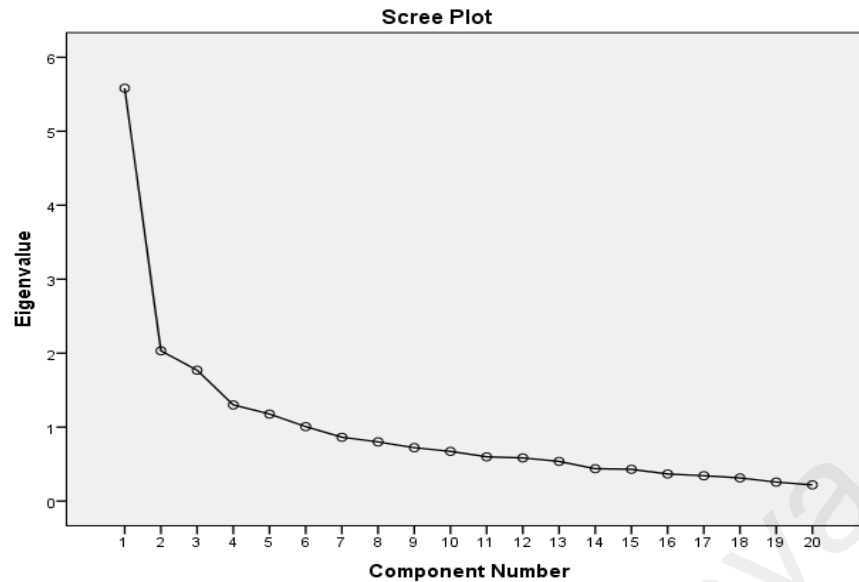
Principal components analysis revealed the presence of six components with eigenvalues above 1; which explain 27.90%, 10.15%, 8.84%, 6.49%, 5.88% and 5.03% of the variance respectively (see Table 7.4).

**Table 6.4: Factor Analysis for Organizational Culture**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.581	27.906	27.906	5.581	27.906	27.906	2.802	14.009	14.009
2	2.031	10.155	38.062	2.031	10.155	38.062	2.443	12.216	26.224
3	1.769	8.843	46.904	1.769	8.843	46.904	2.258	11.291	37.515
4	1.300	6.498	53.403	1.300	6.498	53.403	2.151	10.757	48.272
5	1.177	5.883	59.286	1.177	5.883	59.286	1.698	8.488	56.759
6	1.006	5.032	64.317	1.006	5.032	64.317	1.512	7.558	64.317
7	.863	4.314	68.631						
8	.800	3.999	72.630						
9	.722	3.608	76.239						
10	.671	3.356	79.595						
11	.598	2.991	82.586						
12	.584	2.919	85.504						
13	.536	2.682	88.186						
14	.437	2.187	90.373						
15	.429	2.147	92.520						
16	.366	1.832	94.352						
17	.343	1.714	96.066						
18	.312	1.562	97.628						
19	.256	1.280	98.908						
20	.218	1.092	100.000						

**Extraction Method: Principal Component Analysis.**

Examination of the Scree Plot revealed a clear break after the sixth component (see Figure 7.1). Using Catell's (1966) Scree test, it was decided to keep the six components for further investigation.



**Figure 6. 1: Scree Plot for Organizational Culture**

To support the interpretation of these six components, Varimax rotation was performed. The rotated solution revealed the presence of simple structure, with six components showing a number of strong loadings and all variables loading substantially on only one component.

As can be seen from the Table 6.4, the six-component solution explained 64.317% of the variance, Component 1 contributing 14.009%, Component 2 contributing 12.216%, Component 3 contributing 11.291%, component 4 contributing 10.757%, component 5 contributing 8.488 and finally Component 6 contributing 7.558%.

The interpretation of six components was consistent with previous research on OCP, with four items loading strongly on Component 1 (respect for people), four items on Component 2 (team orientation), four items on Component 3 (attention to detail), three items on Component 4 (Outcome Orientation), three items on Component 5 (Risk - Taking) and finally two items on Component 6 (See Table 6.5).



**Table 6.5: Factor Analysis after Varimax Rotation**

Dimensions	Items	Component					
		1	2	3	4	5	6
Respect for People	Respect for individual rights	0.813					
	Tolerance	0.774					
	Fairness	0.773					
	Socially responsible	0.610					
Team Orientation	Team orientation		0.758				
	People orientation		0.757				
	Collaboration		0.699				
	Opportunities		0.619				
Attention to Detail	Rule orientation			0.819			
	Careful			0.753			
	Precise			0.661			
	Attention to detail			0.536			
Outcome Orientation	Results orientation				0.771		
	Achievement orientation				0.753		
	Competitive				0.667		
Risk -Taking	Risk taking					0.846	
	Experimenting					0.628	
	No rules					0.537	
Stability	Security						0.773
	Stability						0.699

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

In statistics, a Varimax rotation is used to simplify the expression of a particular subspace in terms of just a few major items each. Varimax is so called because it maximizes the sum of the variances of the squared loadings (squared correlations between variables and factors).

To control for the potential for common method bias, based on the recommendation of Williams, Edwards, and Vandenberg (2003), Harman's single factor test was used to test for common method bias. This test involved performing exploratory factor analysis on a moderating variable using unrotated principal components factor analysis and principal component analysis with Varimax rotation to determine the number of factors that are necessary to account for the variance in the variables. If a substantial amount of common method variance is present, either a single factor will emerge from factor analysis or one general factor will account for a majority of the covariance among

variables. The unrotated principal component analysis and principal component with Varimax rotation revealed the presence of six distinct factors with eigenvalue greater than 1.0, rather than a single factor which is consistent with the research model.

In this research, the organizational culture was subjected to confirmatory factor analysis with Varimax rotation to determine the extent to which each item measures the factor. The result of organizational culture indicated that the items measuring all constructs exhibited sufficient validity (see Appendix D).

#### 6.4 Respondents' Profile

In this section, the respondents' profile and the background information on the respondents are presented. Then, the descriptive discussions on profiles of the respondents are provided in the following subsections.

**Table 6.6: Characteristics of Respondents**

Measure	Categories	Frequency	Percent	Cumulative Percent
Gender Group G	Male	148	77.1	77.1
	Female	44	22.9	100.0
	Total	192	100.0	
Gender Group P	Male	198	82.5	82.5
	Female	42	17.5	100.0
	Total	240	100.0	
Total Sample	Male	346	80.1	80.1
	Female	86	19.9	100.0
	Total	432	100.0	
Education Group G	B.S	126	65.6	65.6
	M.A	58	30.2	95.8
	PhD	8	4.2	100.0
Education Group P	B.S	186	77.5	77.5
	M.A	49	20.4	97.9
	PhD	5	2.1	100.0
Total Sample	B.S	312	72.2	72.2
	M.A	107	24.8	97.0
	PhD	13	3.0	100.0
Age Group G	Below 30 years old	64	33.3	33.3
	31-40 years old	60	31.3	64.6
	41-50 years old	46	24	88.5
	Over 50 years old	22	11.5	100.0

**Table 6.6: Characteristics of Respondents Cont....**

Measure	Categories	Frequency	Percent	Cumulative Percent
Age Group P	Below 30 years old	119	49.6	49.6
	31-40 years old	67	27.9	77.5
	41-50 years old	31	12.9	90.4
	Over 50 years old	23	9.6	100.0
Age Total Sample	Below 30 years old	183	42.4	42.4
	31 - 40 years old	127	29.4	71.8
	41 - 50 years old	77	17.8	89.6
	Over 50 years old	45	10.4	100.0

#### 6.4.1 Gender

As shown in Table 6.6, the respondents included 346 (80.1%) males and 86 (19.9%) females. The statistics in Table 6.6 shows that the majority of the respondents were males. This percentage of male and females exemplifies the current number of auditors in audit organization and IACPAs firm most of whom are males.

#### 6.4.2 Education Level

On education level, 72.2% of the respondents (312) held university degrees, while 24.8% of respondents (107) held postgraduate degrees. Furthermore, 3% of respondents held Ph.D. degrees. The results indicated that auditors were highly educated and this is reflected in the positions held by them.

#### 6.4.3 Age

As shown in Table 6.6, the majority of the respondents were in the age group of below 30 years old. This group consisted of 183 respondents that constituted 42.4% of the sample. The second largest age group consisted of 127 respondents between 31 - 40 years old that constituted 29.48% of respondents of the sample. In the 41 - 50 years age group, there were 77 (17.8 %) respondents. The smallest age group was over 50 years old who consisted of 45 respondents or 10.4 % of the sample. Finally, the mean of the total sample is 35.75. For more information on age statistics, Table 7.6 presents a categorization of two different groups including governmental and private groups of auditors.

## 6.5 Descriptive Statistics

In general, there are four classes of descriptive techniques. First, frequency distributions are used to display information about where the scores in a data set fall along the scale going from the lowest score to the highest score. Second, measures of central tendency, or averages, provide the best single numbers to use in representing all of the scores on a particular measure. Third, measures of variability provide information about how spread out a set of scores are. Fourth, the original raw scores one collects are often transformed to other types of scores to provide the investigator with different types of information about the research participants in a study. The descriptive statistics of the main variables including ethical reasoning, organizational culture, and auditors acceding is discussed in the following sections.

Table 6.7 shows the characteristics of the variables namely, the average value (mean), Median, Mode, standard deviation, Skewness, Kurtosis, Minimum, and Maximum. Average level refers to the central place that sample data are comparatively centralized in statistics. However, its representativeness is influenced by the degree of each observation data's variation. Standard deviation is used to compute the degree of each observation data's variation, namely the difference of sample data.

**Table 6.7: The Characteristics of the Variables**

	<b>Acceding</b>	<b>Organizational Culture</b>	<b>Ethical Reasoning (P-Score)</b>
<b>N</b>	432	432	432
<b>Mean</b>	25.9583	3.9290	26.1353
<b>Median</b>	20.0000	4.0000	25.0000
<b>Mode</b>	10.00	4.00	27.00
<b>Std. Deviation</b>	23.34823	0.50816	12.80801
<b>Skewness</b>	1.361	-1.063	.412
<b>Kurtosis</b>	1.067	2.623	-.379
<b>Minimum</b>	.00	1.79	4.00
<b>Maximum</b>	100.00	5.00	69.00

### 6.5.1 Ethical Reasoning

This variable is the most important independent variable used in this study. The main score of this variable is scored in term of P-score. The following table indicates a summary of characteristics of the independent variable. The total mean score for ethical reasoning was used in computing the ethical reasoning with P-score. Table 6.8 shows the summary of the descriptive statistical analysis for overall ethical reasoning in two categories (i.e., government and private). As such, the mean, the median, and standard deviation, the minimum, maximum values, range, kurtosis, and skewness scores were used in the analysis.

**Table 6.8: The Characteristics of the Ethical Reasoning**

	Ethical Reasoning		Ethical Reasoning	
	Total	Group G	Group P	Group P
<b>N</b>	432	192	240	
<b>Mean</b>	26.13	26.7	25.68	
<b>Median</b>	25.0	27.0	25.0	
<b>Std. Deviation</b>	12.8	12.85	12.78	
<b>Skewness</b>	0.412	0.489	0.353	
<b>Kurtosis</b>	-0.379	-0.107	-0.605	
<b>Minimum</b>	4.0	4.0	4.0	
<b>Maximum</b>	69.0	69.0	60.0	

According to the five-point Likert-type scale and five scenarios following Rest, (1979) the minimum overall ethical reasoning rating and maximum range were 4.0 and 69.0 respectively. The mean ethical reasoning rating was 26.135 implying that overall level of ethical reasoning is higher than the average level in the accounting profession. The median ethical reasoning rating value was 25.0 with a standard deviation of 12.8. The skewness value was 0.412, which indicates that the distribution is normal, given that a skewness value between  $\pm 1.0$  is considered as a perfect normal distribution (George & Mallery, 2003).

Regarding the governmental group, the minimum overall ethical reasoning rating, and maximum range were 4.0 and 69.0 respectively. The lowest average value 4.0 is not appropriate in a profession, especially in the accounting profession whereas, value 69.0 shows the highest level of P-score in an Eastern country. The median ethical reasoning rating value was 27.0 with a standard deviation of 12.85. The mean ethical reasoning rating was 26.7, implying that overall level of ethical reasoning is high. The skewness value was 0.489, which indicates that the distribution is normal.

Regarding private group, the minimum overall ethical reasoning rating, and maximum range were 4.0 and 60.0 respectively. Almost the same results happened to the private group while the lowest mean indicates the 4.0 and the highest score shows the 60.0. The median ethical reasoning rating value was 25.0 with a standard deviation of 12.78. The mean ethical reasoning rating was 25.68 implying that overall level of ethical reasoning is almost high. The skewness value was .353, which indicates that the distribution was normal.

## **Discussion**

The results of this study led to interesting recognition, comprehension, and preferences. The mean value for the total sample is 26.13 for two groups of Iranian auditors. P-score indicates the level of moral reasoning according to the theory of moral/ethical reasoning. This score is based on the third level and sixth stage of the theory that introduced by Rest (1979). The mean value of ethical reasoning is important because in accounting profession uses to evaluate auditor decision-making or how extent an auditor is likely to accede to the client request. The lowest level of P-score for two groups surprisingly were 4.0 and the highest average value showed closed. Although the mean of the total sample and each group were not appropriate and high, it seems that no differences can be predicted. It was expected to have different P-score (is discussed later)

while the mean of two groups is very closed. An auditor whose moral development is primarily at the pre-conventional level will follow independence standards only when it is to his/her immediate benefit. An auditor whose moral development is primarily at the conventional level tends to comply with rules and authority and will always be independent if such behavior is consistent with referent group norms.

The behaviors of auditors who reason primarily at the post-conventional level (P-score) will conform to organizational and/or independence standards when such standards are consistent with their internal beliefs (Ponemon & Gabhart, 1990; 1993).

In this study, the average level of auditors in group P and G were 26.7 and 25.68 respectively while the P-score of the total sample was 26.13.

### **6.5.2 Organizational Culture**

Organizational culture as a moderating variable plays an important role in this study and studies of behavioral research in the accounting profession. Understanding cultural values help managers apply structures and systems for better performance. In the current study, the overall mean score for organizational culture was used in computing the organizational culture. Table 6.9 shows the schematic summary of the descriptive statistical analysis of overall organizational culture in the sample as well as two governmental and private categories. As such, the mean, the median, standard deviation, the minimum, maximum values, range, kurtosis, and skewness scores were used in the analysis.

According to the five-point Likert-type scale, the minimum overall organizational culture rating and maximum ranges were 1.79 and 5.00 respectively. The median organizational culture rating value was 4.0 with a standard deviation of 0.50816. The mean organizational culture rating was 3.92 implying that overall level of organizational culture is high. The skewness value was -1.063, which indicates that the distribution is

normal given that a skewness value between  $\pm 1.0$  is considered as a perfectly normal distribution (George & Mallery, 2003).

**Table 6.9: Distribution of Organizational Culture**

	Organizational Culture		
	Total sample	Group G	Group P
<b>N</b>	432	192	240
<b>Mean</b>	3.9	3.9	3.94
<b>Median</b>	4.0	4.0	4.0
<b>Std. Deviation</b>	0.50	0.52	0.49
<b>Skewness</b>	-1.06	-1.06	-1.06
<b>Kurtosis</b>	2.623	2.423	2.874
<b>Minimum</b>	1.79	1.98	1.79
<b>Maximum</b>	5.0	5.0	5.0

Regarding the governmental group, the minimum overall organizational culture rating, and maximum range were 1.98 and 5.00 respectively. The median organizational culture rating value was 4.0 with a standard deviation of 0.5207. The mean organizational culture rating was 3.90 implying that overall level of organizational culture is high. The skewness value was -1.061, which indicates that the distribution is normal.

Regarding the private group, the minimum overall organizational culture rating, and maximum range were 1.79 and 5.0 respectively. The median organizational culture rating value was 4.0 with a standard deviation of 0.4983. The mean organizational culture rating was 3.94 implying that overall level of organizational culture is high. The skewness value was -1.066, which indicates that the distribution is normal.

## **Discussion**

In general, the results of this study showed the auditors' background and attitude about values and norms for the different groups. In this study, organizational culture is shown as norms and values that are applied in audit firms both private and governmental. Auditors presented values of their interest or values visible in their firms. A simple comparison of means for two groups shows that both groups obtained almost similar rate



indicating agreement with important values. To be close to means may also describe that both groups tend to values and norms were interested in them and were almost similar. 432 auditors participated in this study, responded to the value-based questionnaire. The selection of values and norms in the questionnaire was ranked according to the auditor's attitudes.

### 6.5.3 Auditors Acceding

The overall mean score for auditor acceding was used in computing the auditor acceding. Table 6.10 shows the overall summary of the descriptive statistical analysis for overall auditor acceding in two governmental and private categories. As such, the mean, the median, standard deviation, the minimum, maximum values, range, kurtosis, and skewness scores were used in the analysis.

**Table 6.10: Distribution of Auditor Acceding**

	<b>Total</b>	<b>Group G</b>	<b>Group P</b>
<b>N</b>	<b>432</b>	<b>192</b>	<b>240</b>
<b>Mean</b>	25.95	17.55	32.68
<b>Median</b>	20.0	10.0	25.0
<b>Std. Deviation</b>	23.34	16.18	25.91
<b>Skewness</b>	1.361	1.890	.965
<b>Kurtosis</b>	1.067	3.642	-.099
<b>Minimum</b>	.00	.00	5.00
<b>Maximum</b>	100.00	80.00	100.00

According to the 0-100 Likert-type scale used, the minimum overall auditor acceding rating and maximum range were 0.0 and 100.0 respectively. The median auditor acceding rating value was 20.0 with a standard deviation of 23.34. The Likert scale included a minimum of 0 to maximum 100 which shows an average of 50. The mean of auditor acceding rating was 25.95 implying that overall level of auditors acceding is less than the average of scale. While auditors did not accede to the client' request, they tended lower level of scale. The skewness value was 1.361, which indicates that the distribution is

normal given that a skewness value between  $\pm 1.0$  is considered as a perfectly normal distribution (George & Mallery, 2003).

Regarding the governmental group, the minimum overall auditor's acceding rating and maximum range were 0.0 and 80.0 respectively. The median auditor's acceding rating value was 10.0 with a standard deviation of 25.9. The mean auditor acceding rating was 17.5 implying that overall level of auditors acceding for this group is not higher than average level of scale. The skewness value was 1.890, which indicates that the distribution is normal.

Concerning the private group, the minimum overall auditor's acceding rating, and maximum range were 5.00 and 100.0 respectively. The median auditor's acceding rating value was 25.0 with a standard deviation of 16.180. The mean auditor's acceding rating was 32.68 implying that overall level of auditors acceding is not higher than average level of scale. The skewness value was 0.965, which indicates that the distribution is normal.

## **Discussion**

In general, the results of this study demonstrated that the auditors in the two groups indicated a mean less than the average which is 50 (0-100). The auditor acceding to the client request was not the tendency of auditors in two groups. It means that in general auditors are less likely to accede to the client's request in a conflict situation. They are less likely to accede to the client request of auditors because it shows the degree of auditor independence. Therefore, it can be said that auditors in the two groups (private and governmental) maintain their independence when confronting a conflict situation. Auditor acceding is important in accounting because it indicates the way auditors accept a client's request in a conflict situation. Acceding is the opposite of auditor independence. Therefore, a lower rank in Likert scale shows auditor independence and indicates less of auditor acceding to a client's request or pressure.

## 6.6 Inferential Statistics

This section presents the results of inferential statistics of the study. First, the results of the bivariate correlations between the main variables and its dimensions are presented, followed by the results of the hierarchical multiple regressions, which test the study hypotheses, are presented.

### 6.6.1 Bivariate Correlations

The first step in inferential analyses was to examine the bivariate correlation among all of the variables in the hypothesis tests. Pearson product-moment correlation coefficient ( $r$ ) was used to examine the bivariate relationships between the variables of the study.

A Pearson correlation measures the strength of the linear relationship between two continuous variables. A linear relationship is one that can be captured by drawing a straight line on a scatterplot between the two variables of interest. The value of the correlation provides information both about the nature and the strength of the relationship.

The sign of the correlation describes the direction of the relationship. A positive sign indicates that as one variable gets larger, the other also tends to get larger, while a negative sign indicates that as one variable gets larger the other tends to get smaller. The magnitude of the correlation describes the strength of the relationship. A zero correlation would indicate that the two variables are not related to each other at all.

Usually, a variable always has a perfect correlation with itself, so the diagonals of this matrix will always have value of 1. The other cells in the table provide the correlation between the variable listed at the top of the column and the variable listed to the left of the row. Below this is a p-value testing indicating whether the correlation differs significantly from zero or not. Finally, the bottom value in each box is the sample size

used to compute the correlation. Two sets of analyses were performed in accordance with the formulated hypotheses. First, the correlations among all of the main variables (independent, moderating and dependent variables) and then the correlations among the dimensions of the main variables were computed.

Range was adopted from Cohen and Cohen (1983) to interpret the correlation coefficients:

Small correlation: from -0.10 to -0.29 and from +0.10 to +0.29

Medium correlation: from -0.30 to -0.49 and from +0.30 to +0.49

Large correlation: from -0.50 to -1.00 and from +0.50 to +1.00

**Table 6.11: Bivariate Correlations for Total Sample**

		<b>Acceding</b>	<b>Organizational Culture</b>	<b>Ethical Reasoning</b>
<b>Acceding</b>	Pearson Correlation	1	-0.180**	-0.357**
	Sig. (2-tailed)		0.000	0.000
<b>Organizational Culture</b>	Pearson Correlation	-0.180**	1	0.073
	Sig. (2-tailed)	0.000		0.131
<b>Ethical Reasoning</b>	Pearson Correlation	-0.357**	0.073	1
	Sig. (2-tailed)	0.000	0.131	

As shown in Table 6.11, first there is a significant negative relationship between ethical reasoning and auditor's acceding ( $r = -0.357, p < 0.000$ ). Second, there is also a significant negative relationship between organizational culture and auditor's acceding ( $r = -0.180, p < 0.000$ ).

Correlations only measure the strength of linear relationship between the two variables. If a line accurately describes the relationship between two variables, the ability to predict the value of one variable from the value of the other will be directly related to the correlation between them. The Pearson correlation assumes that three variables have normal distributions. If this is not the case, then it might be considered a Spearman rank-

order correlation instead. This means that changes in one variable are correlated with changes in the second variable. This means that as one variable increases in value, the second variable also increases in value. Similarly, as one variable decreases in value, the second variable also decreases in value. This is called a positive correlation. In the current study, the Pearson's  $r$  value was negative. This means that as one variable increases in value, the second variable decreases in value. This is called a negative correlation.

This study measures the relationship between ethical reasoning and auditor acceding. Based on the results of above table, a negative relationship indicates that as one variable gets larger (ethical reasoning), the other (auditor acceding) tends to get smaller. Therefore, when ethical reasoning increases, auditor acceding will decrease accordingly.

In other words, this study tends to investigate the levels of ethical reasoning affecting auditor acceding. A higher score of ethical reasoning is associated with lower auditor acceding to the client request. However, it can be assumed that auditors may not respond in the predicted direction such as a lower level of independence. Under different levels of ethical reasoning, auditors in two groups do not differ in resisting management request (pressure). This confirms that auditors are independent in their profession both in governmental and private firms.

**Table 6.12: Bivariate Correlations for Two Groups**

			<b>Acceding</b>	<b>Organizational Culture</b>	<b>Ethical Reasoning</b>
<b>Group G</b> <b>N=192</b>	Acceding	Pearson Correlation Sig. (2-tailed)	1	-0.432** 0.000	-0.500** 0.000
	Organizational Culture	Pearson Correlation Sig. (2-tailed)	-0.432** 0.000	1	0.202** 0.005
	Ethical reasoning	Pearson Correlation Sig. (2-tailed)	-0.500** 0.000	0.202** 0.005	1
<b>Group P</b> <b>N=240</b>	Acceding	Pearson Correlation Sig. (2-tailed)	1	-0.093 0.152	-0.310** 0.00
	Organizational Culture	Pearson Correlation Sig. (2-tailed)	-0.093 0.152	1	-0.033 0.609
	Ethical reasoning	Pearson Correlation Sig. (2-tailed)	-0.310** 0.000	-0.033 0.609	1

As shown in Table 6.12, first there is a significant negative relationship between organizational culture and auditor's acceding in group G ( $r = -0.432$ ,  $p < 0.000$ ). Second, there is also a significant negative relationship between ethical reasoning and auditor's acceding in group G ( $r = -0.500$ ,  $p < 0.000$ ).

As shown in Table 6.12, first there is a significant negative relationship between organizational culture and auditor's acceding in group P ( $r = -0.093$ ,  $p < 0.000$ ). Second, there is also a significant negative relationship between ethical reasoning and auditor's acceding in group G ( $r = -0.310$ ,  $p < 0.000$ ).

Table 6.12 demonstrates that a negative relationship existing between independent and dependent variables for two groups of auditors confirms that auditors are less likely to accede to the client request in a conflict situation. An increase in an independent variable means increase in levels of ethical reasoning of auditors in both groups. Such increase demonstrates that acceding of auditors will be at the lower level of acceding. Low acceding introduces auditor independence. In this study, it was supposed that auditors in the lower level of acceding are not likely to follow the client's request. Furthermore, it

shows that auditors in higher levels of ethical reasoning are more independent in their decision-making.

The results of correlation and current information will be useful when the study measures the moderating variable in a multiple regression. Multiple regression is an extension of simple linear regression. It is used when the researcher predicts the value of a variable based on the value of two or more other variables. The variable that the researcher seeks to predict is called the dependent variable. In this study, multiple regression analysis was used to test the hypothesized relationships and relevant statistics for the dependent and independent variables used in the regression model. A t-test is necessary to recognize the differences between the P-scores of two groups of auditors.

### 6.6.2 T-test Analysis

This section reports the results of hypotheses tests of the study. The three main hypotheses and their sub-hypotheses were tested using the hierarchical multiple regressions analyses. The first hypothesis tests whether a significant difference exists between the ethical reasoning of auditors in two groups. The mean of two groups after the testing hypothesis are 26.70 and 25.68 for governmental and private firms respectively. Therefore, a t-test analysis was performed to show the significant differences between means.

#### 6.6.2.1 Significant difference between the auditors' ethical reasoning in private and governmental organizations in Iran (H1).

**Table 6.13: The t-test of Difference between Auditors' Ethical Reasoning**

Difference between auditors' ethical reasoning	T value	df	Sig. (2-tailed)	Mean		95% Confidence Interval of the Difference	
				GroupG (N=192)	GroupP (N=240)	Lower	Upper
	0.820	430	0.413	26.70	25.68	-1.42	3.46

According to the above table,  $p\text{-value} > 0.05$ . Therefore, there is no evidence of the existence of a significant difference between the auditors' ethical reasoning in private and governmental organizations in Iran. Therefore, the first hypothesis is rejected by this test.

### **Discussion**

Although one of the means (group G) is higher than the group P, the researcher needed a statistical test that tells whether this higher mean is a large enough difference to be genuine or whether it could be just due to chance. The t-test is a confirmatory statistic that tests whether the differences between means are real, or statistically significant. There is no significant difference between the auditors' ethical reasoning in the two groups.

Most research on ethical reasoning has been done in the West, and the results are usually compared with these findings. Few studies were done in Asia, and these investigations showed lower P-score. Ponemon and Gabhart, (1990) found the range of P-score in a group of national firm managers and partners as 32.60 and Massay, (2002) for entry level and experienced auditors reported 33.30. The range of P-score in this study was up to 60.00 for some auditors in two groups, but the mean stated in current study indicates 25.68 and 26.70.

This study measured auditors in a unique environment. There is not much related literature on moral reasoning in Iranian audit profession and moreover very little literature is available in the other fields.

Therefore, the lack of differences between these two groups is perhaps due to cultural reasons. As it is presented in the literature review, the macro level of culture (country context), affects the meso (organizational level). The national culture of Iranian auditor based on Hofstede's and House et al. (2004) study indicates that power distance as an



example is a national characteristic of Iranian auditors. The score of power distance dimension of Iran is 58 which is considered intermediate. It can be interpreted as a hierarchical society which means that Iranian people such as auditors accept a hierarchical order in the society.

In such a society, an organizational context is seen as reflecting certain characteristics such as inequalities, centralization is popular, subordinates expect to be told what to do, and the ideal boss is a benevolent autocrat. Furthermore, according to Ponemon and Gabhart (1990), in the second level of theory of moral reasoning, individuals follow the norms of their society. While auditors follow the norms of their society and their national culture, following national culture dimension such as power distance may be a reason of similarity of P-scores.

More importantly, according to Javidan and Dastmalchian (2003), in-group collectivism introduces the degree to which individuals are affiliated with their family and friends. This attitude of auditors is related to the background of their national culture that tends toward team orientation. These groups have strong expectations from each other. Team orientation which reflects the collectivism dimension of Iranian society, is important for Iranian auditors and while both groups are at low levels of ethical reasoning, they need to follow their standards and rules (Ponemon & Gabhart, 1990), cultural elements affecting Iranian auditors indicate no significant difference in their P-scores.

Tsui (1996) demonstrated that lower P-scores for auditors in non-Western contexts is found to be significantly lower than the samples studied in USA and this can be explained by significant differences in culture. As Wagdy (2001) emphasized, the accounting profession in the Middle East is different from all parts of the world, and the context of Iran is no exception.

### **6.6.2.2 A negative relationship between ethical reasoning and auditor's acceding to the client's request (H 2).**

The next hypothesis tested the relationship between ethical reasoning and auditor's acceding. The hypothesis states, "There is a negative relationship between ethical reasoning and auditors' acceding to the client's request". Results of this hierarchical regression analysis are shown in Table 6.14. Furthermore, two sub-hypotheses are tested in the model.

#### **6.6.2.2.1 A negative relationship between ethical reasoning and auditor's acceding in the governmental organization (H 2-1).**

The first sub-hypothesis tested the relationship between ethical reasoning and auditor's acceding in governmental organization. The hypothesis states, "There is a negative relationship between ethical reasoning and auditors' acceding to client's request among auditors in governmental organizations". Results of this hierarchical regression analysis are found in Table 6.14.

#### **6.6.2.2.2 A negative relationship between ethical reasoning and auditors in private firms (IACPAs) acceding to the client's pressure (H 2-2).**

The second sub-hypothesis tested the relationship between ethical reasoning and auditors acceding in private auditing firms (IACPAs). The hypothesis states, "There is a negative relationship between ethical reasoning and auditors' acceding to client's request among auditors in private firms (IACPAs)". Results of this hierarchical regression analysis are found in Table 6.14.

**Table 6.14: Coefficients for Relationship Between Ethical Reasoning and Auditor Acceding**

Model	Unstandardized Coefficients		St Coeffic	t	R <sup>2</sup>	Adjus R <sup>2</sup>	Sig.	Collinearity Statistics		ANOVA	
	B	Std. Error	Beta					Tolerance	VIF	F	Sig.
(Constant)	60.31	20.813		2.898	0.225	0.216	0.004			24.71	0.000
ER	-.631	0.078	-0.346	-8.082			0.000	0.993	1.007		
Group	-14.213	2.055	-0.303	-6.915			0.000	0.949	1.054		
Year	-0.948	0.137	-0.303	-6.915			0.000	0.949	1.054		
Age	-0.061	0.101	-0.027	-0.605			0.545	0.923	1.084		
Edu	-1.034	1.940	-0.023	-0.533			0.594	0.962	1.040		
Gender	1.067	2.577	0.018	0.414			0.679	0.935	1.070		

a. Dependent Variable: Acceding

SPSS regression analysis was performed using hierarchical regression analysis. The researcher further analyzed the relationship between independent and dependent variables using control variables including gender (sex), age and level of education. The results for two groups (using dummy variables for groups in regression) is shown in Table 6.14. The results indicate the significant negative relationship between independent and dependent variables. R<sup>2</sup> in new test is 0.225;  $p = 0.000 < 0.05$  and Beta of -0.346 ( $t = -8.082$ ). Therefore, hypothesis 2 is supported.

The regression shows there is a negative relationship between independent and dependent variables. As bivariate correlation analysis indicates, there is a negative relationship between independent and dependent variable. The regression test further uses multicollinearity (also collinearity), a phenomenon in which two or more predictor variables, in a multiple regression models are highly correlated, meaning that one can be linearly predicted from the others with a substantial degree of accuracy. This analysis does not reduce the predictive power or reliability of the model as a whole, at least within the sample data set; it only affects calculations regarding individual predictors. The variance inflation factor (VIF) measures the impact of collinearity among the variables in a regression model. The variance inflation factor (VIF) is  $1/\text{Tolerance}$ ; it is always greater

than or equal to 1. In this test, as can be seen in the table above, the results of Tolerance and VIF is 1.00.

## **Discussion**

The test of this hypothesis showed that there is a negative relationship between ethical reasoning and auditor acceding of auditors for two groups. Following literature using control variables (see Tsui, 1996; Tsui and Gul, 1996) the relationship between ethical reasoning and Iranian auditors acceding is a negative association. As expected from and supported by the literature, the positive or negative relationship is based on the dependent variables. In studies, wherein the auditor independence was measured, a positive relationship was found. This study examined how ethical reasoning extends to the auditors' response to the client's request (acceding). Therefore, the negative relationship means that auditors are not likely to accede to the client's request or client pressure in a conflict situation.

The results show that higher levels of ethical reasoning lead to lower acceding. In addition, Iranian auditors are independent in their decision-making in a conflict situation or to a client request (pressure). Since independence is a crucial concept in the accounting profession, this finding has important implications concerning ethical behavior of auditors in private and governmental organization in the context of Iran. With higher ethical reasoning levels, the accounting profession can assure that professionals will act independently in an audit conflict.

The P-score of Iranian auditors is not high and in the range of literature examined and expected in the West. However, the results show that Iranian auditors with low P-scores have independence in an Eastern country.

The results showed that the two different groups of auditors are less likely to accede to the client's request in a conflict situation.

### **6.6.2.3 Moderating effect of organizational culture on the relationship between ethical reasoning and auditor's acceding to the client's request (H3).**

The third hypothesis tested the potential moderating effect of organizational culture on the relationship between ethical reasoning and auditor's acceding. The hypothesis states, organizational culture moderate the relationship between ethical reasoning and auditors' acceding to the client's request.

To test the hypothesis, hierarchical moderated regression analysis was performed using SPSS regression method. To test the hypothesis, two multiple regressions were performed. By using hierarchical regression analyses, the main effect on acceding can be estimated. A moderator is a variable that affects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable (Zikmund et al., 2013). A moderator variable is a third variable that changes the nature of a relationship between the original independent and dependent variables. To test the model, first without using any control variables, then by controlling variables such as age, gender (sex) and level of education, the model was tested. In fact, the process includes steps as follow.

Step 1 involved entering ethical reasoning, as well as the main effect of the moderator variable (organizational culture) by a mean-centering procedure for the independent and moderating variables to minimize multicollinearity, control variables including age, education, gender also entered. In step 2, a composite variable, the product of an organizational culture with ethical reasoning after centering the variables was created and entered. This was aimed at assessing whether or not there is a moderating effect on organizational culture on the relationship between ethical reasoning and auditor's acceding. Results of hierarchical moderated regression analysis are found in Table 6.15.

**Table 6.15: Table Model Summary of Hierarchical Moderated Regression Analysis for Organizational Culture as Moderator**

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std. Error of the Estimate	Change Statistics					Durbin-Watson	ANOVA	
					R Square Change	F Change	df1	df2	Sig. F Change		F	Sig
1	0.371 <sup>a</sup>	0.138	0.130	21.78071	0.138	17.067	4	427	0.000		17.067	0.000
2	0.417 <sup>b</sup>	0.174	0.156	21.44432	0.036	3.700	5	422	0.003		9.881	0.000
3	0.456 <sup>c</sup>	0.208	0.182	21.12225	0.034	3.594	5	417	0.003	1.407	7.831	0.000

a. Predictors: (Constant), Gender, ER\_C, Edu, Age

b. Predictors: (Constant), Gender, ER\_C, Edu, Age, F2\_C, F3\_C, F4\_C, F1\_C, F5\_C

c. Predictors: (Constant), Gender, ER\_C, Edu, Age, F2\_C, F3\_C, F4\_C, F1\_C, F5\_C, F1\_ER, F2\_ER, F4\_ER, F3\_ER, F5\_ER

d. Dependent Variable: Acceding

In this study, the F statistic was significant ( $p = 0.000$ ) (see Table). Therefore, moderation effect exists, and Hypothesis 3 (that organizational culture moderates the relationship between ethical reasoning and auditor's acceding) is supported.

Organizational culture was applied in the hierarchical regression model as a moderating variable. This variable included five common factors that have been introduced previously and can be seen in Appendix D. The researcher applied factors in the model to measure which one of those factors may affect the relationship between ethical reasoning and auditor acceding. These factors are as follows:

**Table 6.16: Dimensions of Factor Analysis Applied in Hierarchical Regression Model**

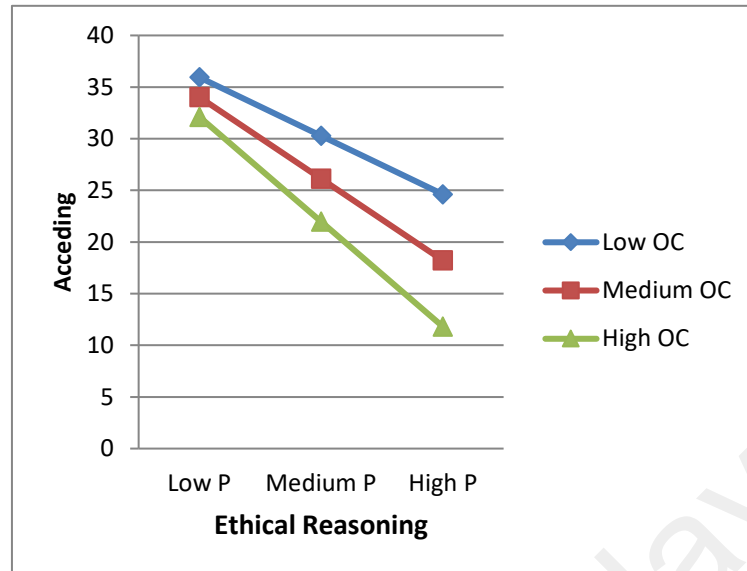
Factors	Factors' name	Items (Subgroup)
F1	Respect for People	Socially Responsible, Respects for Individuals Rights, Fairness, Tolerance
F2	Attention to Detail	Precise, Careful, attention to detail, Rule Orientation, Stability, Security
F3	Outcome Orientation	Competitive, Achievement Orientation, Results Orientation
F4	Team Orientation	Team Orientation, Collaboration, People Orientation
F5	Innovation and Risk Taking	Experimenting, Risk Taking, Action Oriented

**Table 6.17: Results of Hierarchical Moderated Regression Analysis for Organizational Culture as Moderator (Total Sample)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	61.797	21.526		2.871	.004		
	ER_C	-.659	.082	-.362	-8.034	.000	.996	1.004
	Age	-.172	.105	-.076	-1.640	.102	.947	1.056
	Edu	-2.765	2.027	-.062	-1.364	.173	.978	1.022
	Gender	-.999	2.696	-.017	-.370	.711	.947	1.056
2	(Constant)	59.507	21.313		2.792	.005		
	ER_C	-.667	.081	-.366	-8.248	.000	.995	1.005
	Age	-.196	.105	-.086	-1.875	.062	.920	1.088
	Edu	-2.385	2.007	-.053	-1.189	.235	.968	1.034
	Gender	-1.448	2.668	-.025	-.543	.588	.938	1.067
	F1_C	.476	.563	.044	.845	.399	.732	1.367
	F2_C	-1.258	.408	-.146	-3.084	.002	.873	1.145
	F3_C	.397	.716	.029	.555	.579	.738	1.355
	F4_C	-1.888	.779	-.119	-2.425	.016	.812	1.231
	F5_C	.381	.716	.029	.533	.595	.681	1.468
3	(Constant)	52.994	21.256		2.493	.013		
	ER_C	-.639	.080	-.350	-7.962	.000	.980	1.020
	Age	-.183	.103	-.081	-1.776	.076	.916	1.091
	Edu	-1.797	1.999	-.040	-.899	.369	.946	1.057
	Gender	-1.495	2.634	-.026	-.568	.571	.934	1.071
	F1_C	.434	.557	.040	.779	.437	.726	1.377
	F2_C	-1.099	.410	-.128	-2.684	.008	.841	1.189
	F3_C	.191	.718	.014	.266	.790	.711	1.407
	F4_C	-1.805	.773	-.114	-2.335	.020	.800	1.250
	F5_C	.455	.715	.034	.637	.525	.662	1.511
	F1_ER	-.039	.047	-.043	-.830	.407	.713	1.402
	<b>F2_ER</b>	<b>0.074</b>	<b>0.033</b>	<b>0.107</b>	<b>2.242</b>	<b>0.025</b>	<b>0.834</b>	<b>1.199</b>
	F3_ER	-.011	.054	-.010	-.198	.843	.726	1.377
	<b>F4_ER</b>	<b>0.176</b>	<b>0.061</b>	<b>0.140</b>	<b>2.878</b>	<b>0.004</b>	<b>0.806</b>	<b>1.240</b>
	F5_ER	-.050	.064	-.042	-.779	.436	.658	1.520

a. Dependent Variable: Acceding

As seen in the table, in the third step, there is an interaction between ethical reasoning and organizational culture with a Beta of 0.074 ( $t = 2.24$ ;  $p = 0.025$ ) for factor number 2 (attention to detail) and a Beta of 0.176 ( $t = 2.87$ ;  $p = 0.004$ ) for factor 4 (team orientation). A significant positive relationship was found between the ethical reasoning-organizational culture link and auditor's acceding. Furthermore, according to Baron and Kenney (1986), moderation effect occurs when a significant change occurs in the F statistic.



**Figure 6.2: Moderating Role of Organization Culture (Total Sample)**

Figure 6.2 shows the interaction plot of ethical reasoning and organizational culture for dependent variable (auditor's acceding). As seen in figure, the relationship between ethical reasoning and auditor's acceding is stronger at higher levels of organizational culture than low levels.

To measure and show this plot using Excel, the researcher replaced the mean of X and Z instead of X and Z value to evaluate Y in the regression equation. The result shows the middle line of the plot. To check which level of organizational culture may affect the relationship between ethical reasoning and auditor acceding, by increasing a unit measurement of standard deviation ( $\sigma$ ), the y value moves up, and the higher level of the plot will be shown. Again, by decreasing a unit measurement of standard deviation ( $\sigma$ ) the lower level of the plot will be presented. Therefore, for total sample, the equation will be as follow.

$$Y = -7.9025x + 41.926 \text{ for medium level of organizational culture}$$

$$Y = -5.6571x + 41.596 \text{ for low level of organizational culture}$$

$$Y = -10.148x + 42.257 \text{ for high level of organizational culture}$$



**6.6.2.3.1 Organizational Culture moderate the relationship between ethical reasoning and auditors in governmental organization acceding to the client’s request (H<sub>3-1</sub>).**

**Table 6.18: Model Summary of Hierarchical Moderated Regression Analysis for Governmental Organization (Group G)**

Model	R	R Square	Adjusted R <sup>2</sup>	Std. Error of the Estimate	Change Statistics					Durbin-Watson	ANOVA	
					R Square Change	F Change	df1	df2	Sig. F Change		F	Sig.
1	.491 <sup>a</sup>	0.241	0.225	14.2431	0.241	14.871	4	187	0.000		14.871	
2	.576 <sup>b</sup>	0.332	0.298	13.5519	0.090	4.913	5	182	0.000		10.030	
3	.642 <sup>c</sup>	0.413	0.366	12.8829	0.081	4.878	5	177	0.000	1.753	8.877	0.000

a. Predictors: (Constant), Gender, ER\_C, Edu, Age

b. Predictors: (Constant), Gender, ER\_C, Edu, Age, F3\_C, F1\_C, F2\_C, F4\_C, F5\_C

c. Predictors: (Constant), Gender, ER\_C, Edu, Age, F3\_C, F1\_C, F2\_C, F4\_C, F5\_C, F1\_ER, F3\_ER, F2\_ER, F4\_ER, F5\_ER

d. Dependent Variable: Acceding

In this study, the F statistic was significant (P = 0.000) (see Table 6.18). Therefore, moderation effect exists, and Hypothesis 3<sub>1</sub> (that organizational culture will moderate the relationship between ethical reasoning and auditors acceding in the governmental organization) is supported.

As seen in the table 6.19, in the third step, there is an interaction between ethical reasoning and organizational culture in governmental organization with a Beta of 0.091 (t = 2.24; p = 0.026) for factor number one (respect for people), Beta of 0.203 (t = 3.369; p = .001) for factor number 4 (team orientation) and finally a Beta of -0.133 (t = -2.157; p = 0.032) for factor number 5 (Innovation and Risk Taking).

**Table 6.19: Results of Hierarchical Moderated Regression Analysis for Organizational Culture (Group G)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	30.831	20.055		1.537	.126		
	ER_C	-.617	.080	-.490	-7.691	.000	.998	1.002
	Age	.014	.112	.008	.123	.902	.927	1.079
	Edu	-1.248	1.820	-.044	-.686	.494	.996	1.004
	Gender	-.691	2.542	-.018	-.272	.786	.925	1.081
2	(Constant)	26.525	19.542		1.357	.176		
	ER_C	-.546	.080	-.434	-6.828	.000	.910	1.099
	Age	.066	.109	.039	.605	.546	.881	1.135
	Edu	-1.098	1.757	-.039	-.625	.533	.967	1.034
	Gender	.579	2.466	.015	.235	.815	.891	1.123
	F1_C	-.094	.480	-.013	-.197	.844	.805	1.242
	F2_C	-1.237	.684	-.128	-1.809	.072	.736	1.358
	F3_C	.626	.511	.083	1.225	.222	.793	1.261
	F4_C	-2.991	.816	-.264	-3.664	.000	.708	1.412
	F5_C	.509	.644	.058	.791	.430	.682	1.467
3	(Constant)	22.760	18.820		1.209	.228		
	ER_C	-.591	.079	-.469	-7.452	.000	.838	1.194
	Age	.033	.106	.020	.311	.756	.838	1.194
	Edu	-.710	1.698	-.025	-.418	.676	.936	1.068
	Gender	.788	2.356	.021	.335	.738	.882	1.134
	F1_C	.027	.464	.004	.059	.953	.779	1.284
	F2_C	-1.479	.709	-.153	-2.085	.039	.618	1.618
	F3_C	.647	.498	.086	1.300	.195	.756	1.323
	F4_C	-3.211	.786	-.283	-4.086	.000	.691	1.447
	F5_C	.535	.620	.061	.862	.390	.665	1.504
	<b>F1_ER</b>	<b>0.091</b>	<b>0.041</b>	<b>0.147</b>	<b>2.244</b>	<b>0.026</b>	<b>0.775</b>	<b>1.290</b>
	F2_ER	.019	.043	.030	.440	.661	.714	1.400
	F3_ER	-.010	.048	-.016	-.216	.829	.647	1.546
	<b>F4_ER</b>	<b>0.203</b>	<b>0.060</b>	<b>0.227</b>	<b>3.369</b>	<b>0.001</b>	<b>0.730</b>	<b>1.370</b>
	<b>F5_ER</b>	<b>-0.133</b>	<b>0.062</b>	<b>-0.159</b>	<b>-2.157</b>	<b>0.032</b>	<b>0.611</b>	<b>1.637</b>

a. Dependent Variable: Acceding

A significant positive relationship was found between the ethical reasoning-organizational culture link and auditor's acceding in governmental organization. Furthermore, according to Baron and Kenney (1986), the moderation effect occurs when a significant change occurs in the F statistic.

To measure and show the plot of moderating effect for the governmental group the same process was done according to the procedure above. The figure shows the interaction plot of ethical reasoning and organizational culture for dependent variable (auditor's acceding) in governmental organization. As shown in Figure 6.3, the relationship between ethical reasoning and auditor's acceding in a governmental organization is stronger at low levels of organizational culture than high levels.

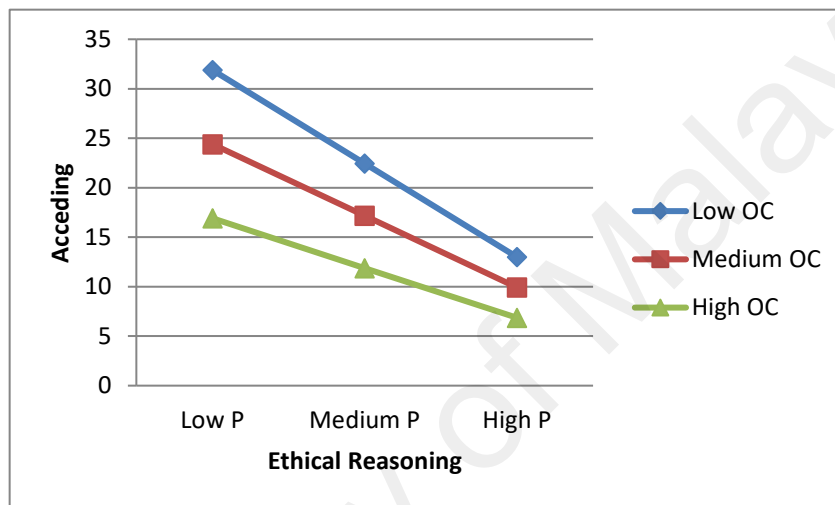


Figure 6.3: Moderating Role of Organization Culture (Group G)

### 6.6.2.3.2 Organizational culture moderate the relationship between ethical reasoning and auditors in private firms (IACPAs) acceding to the client's request (H3-2).

Table 6.20: Model Summary of Hierarchical Moderated Regression Analysis for Private Firms (Group P)

Model	R	R Square	Adjusted R <sup>2</sup>	Std. Error of the Estimate	Change Statistics					Durbin-Watson	ANOVA	
					R <sup>2</sup> Change	F Change	df1	df2	Sig. F Change		F	Sig
1	0.317 <sup>a</sup>	0.100	0.085	24.78868	0.100	6.561	4	235	0.000		6.561	
2	0.396 <sup>b</sup>	0.157	0.124	24.25741	0.056	3.081	5	230	0.010		4.757	
3	0.458 <sup>c</sup>	0.210	0.161	23.74308	<b>0.053</b>	3.015	5	225	0.012	2.094	4.269	0.000

a. Predictors: (Constant), Gender, ER\_C, Age, Edu

b. Predictors: (Constant), Gender, ER\_C, Age, Edu, F1\_C, F4\_C, F2\_C, F3\_C, F5\_C

c. Predictors: (Constant), Gender, ER\_C, Age, Edu, F1\_C, F4\_C, F2\_C, F3\_C, F5\_C, F4\_ER, F3\_ER, F2\_ER, F1\_ER, F5\_ER

d. Dependent Variable: Acceding

In this study, the F statistic was significant ( $p = 0.000$ ) (see Table 6.20). Therefore, moderation effect exists, and Hypothesis 3<sub>2</sub> (that organizational culture moderates the relationship between ethical reasoning and auditors acceding in private firms) is supported.

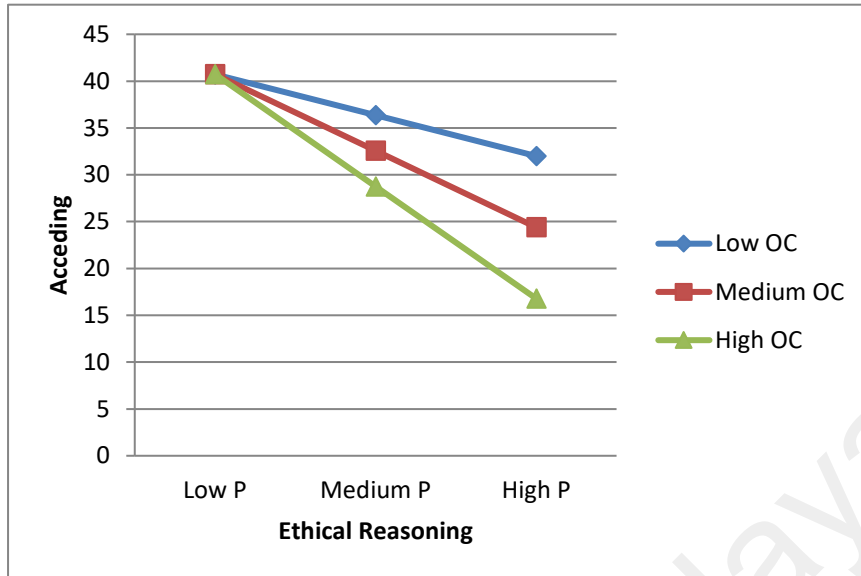
As seen in the table 6.21, in the third step, there is an interaction between ethical reasoning and organizational culture in private firms (IACPAs) with a Beta of 0.143 ( $t = 2.95$ ;  $p = 0.003$ ) for factor 2 (attention to detail). A significant positive relationship was found between the ethical reasoning-organizational culture link and auditor's acceding. Furthermore, according to Baron and Kenney (1986), there is a moderation effect when a significant change occurs in the F statistic.

**Table 6.21: Results of Hierarchical Moderated Regression Analysis for Organizational Culture (Group P)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	28.072	27.531		1.020	.309		
	ER_C	-.622	.127	-.307	-4.909	.000	.980	1.020
	Age	-.122	.156	-.050	-.785	.433	.933	1.072
	Edu	.572	2.562	.015	.223	.823	.907	1.102
	Gender	2.542	4.435	.037	.573	.567	.902	1.109
2	(Constant)	30.098	26.993		1.115	.266		
	ER_C	-.590	.125	-.291	-4.720	.000	.965	1.037
	Age	-.111	.155	-.046	-.718	.473	.910	1.099
	Edu	.237	2.515	.006	.094	.925	.902	1.109
	Gender	2.474	4.356	.036	.568	.571	.895	1.117
	F1_C	-.383	.882	-.031	-.434	.665	.717	1.395
	F2_C	2.067	.614	.224	3.368	.001	.828	1.208
	F3_C	.717	1.089	.046	.659	.511	.740	1.352
	F4_C	-3.075	1.195	-.173	-2.574	.011	.810	1.235
	F5_C	-.490	1.112	-.033	-.441	.660	.672	1.488
3	(Constant)	24.775	26.581		.932	.352		
	ER_C	-.515	.125	-.254	-4.115	.000	.921	1.086
	Age	-.103	.153	-.042	-.675	.501	.894	1.119
	Edu	.815	2.475	.021	.329	.742	.892	1.122
	Gender	1.413	4.297	.021	.329	.743	.881	1.135
	F1_C	-.199	.872	-.016	-.228	.820	.703	1.422
	F2_C	2.174	.606	.236	3.590	.000	.815	1.228
	F3_C	.377	1.082	.024	.348	.728	.718	1.392
	F4_C	-2.872	1.177	-.162	-2.441	.015	.800	1.250
	F5_C	-.685	1.100	-.046	-.623	.534	.658	1.521
	F1_ER	-.077	.072	-.078	-1.079	.282	.666	1.503
	<b>F2_ER</b>	<b>0.143</b>	<b>0.048</b>	<b>0.189</b>	<b>2.955</b>	<b>0.003</b>	<b>0.862</b>	<b>1.160</b>
	F3_ER	-.047	.095	-.035	-.492	.624	.708	1.412
	F4_ER	.151	.096	.102	1.579	.116	.845	1.183
F5_ER	.091	.093	.072	.975	.331	.638	1.567	

a. Dependent Variable: Acceding

Figure 6.4 shows the interaction plot of ethical reasoning and organizational culture for dependent variable (auditor's acceding) in private firms (IACPAs). As shown in Figure 6.4, the relationship between ethical reasoning and auditor's acceding in private firms (IACPAs) is stronger at higher levels of organizational culture than low levels.



**Figure 6.4: Moderating Role of Organization Culture (Group P)**

Additional statistical analysis was performed to measure the effect of “Year” as another control variable in the study. Using Hierarchical Regression, the results can be seen in table 6.22.

**Table 6.22: Model Summary of Hierarchical Moderated Regression Analysis for Year**

Model	R	R <sup>2</sup>	Adj R <sup>2</sup>	Std. Error of the Estimate	Change Statistics					Durbin Watson	ANOVA	
					R <sup>2</sup> Change	F Change	df1	Df2	Sig. F Change		F	Sig.
1	0.474 <sup>a</sup>	0.225	0.216	20.676	0.225	24.715	5	426 <sup>a</sup>	0.000		24.71	0.000 <sup>b</sup>
2	0.500 <sup>b</sup>	0.250	0.233	20.453	0.026	2.869	5	421 <sup>b</sup>	0.015		14.06	0.000 <sup>c</sup>
3	0.532 <sup>c</sup>	0.283	0.257	20.119	0.033	3.818	5	416 <sup>c</sup>	0.002	0.406	10.96	0.000 <sup>d</sup>

a. Predictors: (Constant), ER\_C, Age, Edu, Year, Gender

b. Predictors: (Constant), ER\_C, Age, Edu, Year, Gender, F1\_C, F2\_C, F4\_C, F3\_C, F5\_C

c. Predictors: (Constant), ER\_C, Age, Edu, Year, Gender, F1\_C, F2\_C, F4\_C, F3\_C, F5\_C, F2\_ER, F3\_ER, F1\_ER, F4\_ER, F5\_ER

d. Dependent Variable: Acceding

As seen in the table 6.23, the effect of “Year” is significant with a Beta of -0.286 ( $t = -6.603$ ;  $p = 0.000$ ). The interaction for factor 2 (attention to detail) with a Beta of -0.100 ( $t = -2.209$ ;  $p = 0.028$ ) and factor 4 (team orientation) with a beta of -0.098 ( $t = -2.106$ ;  $p = 0.036$ ) are observed.

**Table 6.23: Results of Hierarchical Moderated Regression Analysis for Impact the Year**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	
1	(Constant)	58.050	20.442		2.840	0.005		
	Year	-0.948	0.137	-0.303	-6.915	0.000	0.949	1.054
	Age	-0.061	0.101	-0.027	-.605	0.545	0.923	1.084
	Edu	-1.034	1.940	-0.023	-.533	0.594	0.962	1.040
	Gender	1.067	2.577	0.018	.414	0.679	0.935	1.070
	ER_C	-0.631	0.078	-0.346	-8.082	0.000	0.993	1.007
2	(Constant)	55.818	20.336		2.745	0.006		
	Year	-0.895	0.137	-0.286	-6.548	0.000	0.933	1.072
	Age	-0.082	0.101	-0.036	-.806	0.421	0.892	1.121
	Edu	-0.783	1.929	-0.018	-.406	0.685	0.952	1.050
	Gender	0.572	2.564	0.010	.223	0.823	0.924	1.082
	ER_C	-0.638	0.077	-0.350	-8.264	0.000	0.991	1.009
	F1_C	0.445	0.537	0.041	.828	0.408	0.732	1.367
	F2_C	-1.003	0.391	-0.116	-2.564	0.011	0.865	1.156
	F3_C	0.251	0.683	0.018	.368	0.713	0.737	1.357
	F4_C	-1.639	0.744	-0.103	-2.203	0.028	0.810	1.234
	F5_C	.087	0.684	0.007	.128	0.898	0.678	1.475
3	(Constant)	50.957	20.249		2.516	0.012		
	<b>Year</b>	<b>-0.894</b>	<b>0.135</b>	<b>-0.286</b>	<b>-6.603</b>	<b>0.000</b>	<b>0.920</b>	1.086
	Age	-0.069	0.100	-0.031	-.694	0.488	0.889	1.125
	Edu	-0.346	1.917	-0.008	-.180	0.857	0.933	1.071
	Gender	0.420	2.525	0.007	.166	0.868	0.922	1.085
	ER_C	-0.612	0.077	-0.336	-7.995	0.000	0.978	1.023
	F1_C	0.395	0.531	0.036	.745	0.457	0.726	1.378
	<b>F2_C</b>	<b>-0.865</b>	<b>0.392</b>	<b>-0.100</b>	<b>-2.209</b>	<b>0.028</b>	<b>0.834</b>	1.199
	F3_C	0.101	0.684	0.007	.148	0.882	0.711	1.407
	<b>F4_C</b>	<b>-1.553</b>	<b>0.737</b>	<b>-0.098</b>	<b>-2.106</b>	<b>0.036</b>	<b>0.798</b>	1.253
	F5_C	0.091	0.683	.007	.134	0.894	0.658	1.520
	F1_ER	-0.054	0.045	-.060	-1.210	0.227	0.711	1.406
	<b>F2_ER</b>	<b>0.076</b>	<b>0.032</b>	<b>.109</b>	<b>2.393</b>	<b>0.017</b>	<b>0.834</b>	1.199
	F3_ER	-0.035	0.052	-.033	-.679	0.497	0.722	1.384
	<b>F4_ER</b>	<b>0.162</b>	<b>0.058</b>	<b>0.129</b>	<b>2.784</b>	<b>0.006</b>	<b>0.805</b>	1.242
F5_ER	-0.026	0.061	-0.022	-.429	0.668	0.655	1.526	

To confirm the validity of the results, multicollinearity and homoscedasticity analysis were tested. Multicollinearity occurs as a problem encountered in multiple regression analysis where two or more predictor variables are highly correlated with one another so that it is impossible to disaggregate the unique effects of these variables. The effect of multicollinearity is to produce inflated and unreliable R2 coefficients. Multicollinearity can be understood best by a hierarchical assignment of priorities, but the collinearities

indicate the presence of underlying (latent) variables that are responsible for the shared contributions (Tabachnick & Fidell, 1996).

In statistics, the variance inflation factor (VIF) quantifies the severity of multicollinearity in an ordinary least squares regression analysis. It provides an index that measures how much the variance (the square of the estimate's standard deviation) of an estimated regression coefficient is increased because of collinearity. A VIF of 5 or 10 and above indicates a multicollinearity problem (O'Brien, 2007).

In statistics, a collection of random variables is heteroscedastic if there are sub-populations that have different variabilities from others. Here "variability" could be quantified by the variance or any other measure of statistical dispersion. Thus, heteroscedasticity is the absence of homoscedasticity. The existence of heteroscedasticity is a major concern in the application of regression analysis, including the analysis of variance.

The assumption of homoscedasticity (literally, same variance) is central to linear regression models. Homoscedasticity describes a situation in which the error term (that is, the "noise" or random disturbance in the relationship between the independent variables and the dependent variable) is the same across all values of the independent variables. Heteroscedasticity (the violation of homoscedasticity) is present when the size of the error term differs across values of an independent variable. The impact of violating the assumption of homoscedasticity is a matter of degree, increasing as heteroscedasticity increases. Many statistical methods that can be used to determine whether a model is free from the problem of heteroscedasticity or not, such as White Test Park, and Test Glejser. SPSS test will introduce one of heteroscedasticity test that can be applied in SPSS, namely Test Glejser test conducted by regressing absolute residual value of the independent variable with regression equation is:  $U_t = A + B X_t + v_i$ . Therefore, if values Sig.> 0.05,



then there is no problem of heteroscedasticity. The following hypothesis was developed and tested to check the heteroscedasticity in the model (see Appendix D).

H0: Sample is selected from heteroscedasticity distribute population.

Based on output coefficients the obtained value of Sig. variables  $> 0.05$ , it can be concluded that there is no heteroscedasticity problem.

## **Discussion**

The interaction effects of ethical reasoning and organizational culture on auditor acceding in a conflict situation were examined using multiple regression analysis. Variables including age, gender and level of education were added to the model to control for their possible confounding effects on the dependent variable (Kleinbaum, Kupper, & Muller, 1988). Results demonstrated that organizational culture moderated the relationship between ethical reasoning and auditors' ability to withstanding client pressure. It can be assumed that ethical reasoning and organizational culture are significant determinations of auditors' action in an ethical dilemma situation.

The results of multicollinearity analysis indicate that there is no impact of multicollinearity between independent and the moderating variable exists. Therefore, regression model application can explain the relationship and interaction of variables as well.

The statistical results also show that organizational culture can moderate the relationship between ethical reasoning and auditors acceding in two different groups as well as the total sample. The organizational culture questionnaire was based on value system measurement. This measurement used some dimensions among groups of auditors which are in harmony with the national culture as discussed in the next chapter.

The effect of organizational culture on the relationship between ethical reasoning and auditor acceding means culture is an important element in increasing or decreasing of the likelihood of acceding by auditors. That means although the association of ethical reasoning and auditor acceding show that auditors are not likely to accede to the client request, the organizational culture can affect this likelihood to be decreased. In other words, ethical reasoning and organizational culture provides a better explanation for differences in auditors' ethical decision-making.

More importantly, this study drew a plot using results of regression analysis in Excel software to show the impact of moderator variable in different levels. This analysis can help readers to understand that auditors tend to which norms and values existed in their organization or firms.

The plot of the total sample indicates that organizational culture affected the relationship between ethical reasoning and auditor acceding at a higher level. The results are different for the two groups. For example, the relationship between ethical reasoning and auditor acceding in a governmental organization is stronger at the lower level of organizational culture while in the private group is at the higher level. In fact, the impact of organizational culture in the governmental group is convergence whereas for a private group is divergence.

For governmental group, such dimensions of respect for people, team orientation and innovation and risk taking were more important while for private firm's attention to detail dimension was significant and vital.

Another test performed by the researcher was to investigate the degree of level impact on the two groups (convergence for group G and divergence for group P). As it was reported in the literature, the history of audit organization dates back to 30 years while

for IACPA it is 15. Using “Year” as a dummy and control variable in the whole model shows that the impact of year is significant for groups.

It shows that audit organizations with a longer history tend to change the norms and values within the organization and audit firms are more interested in establishing norms and values that may be absent in their firms.

## 6.7 Schematic Hypotheses Results

The results of the hypotheses testing are summarized in Table 6.24 as follows:

**Table 6.24: Results of Hypotheses Testing**

H <sub>1</sub>	There is a significant difference in the levels of ethical reasoning between auditors in private and governmental organizations in Iran.	Not Supported
H <sub>2</sub>	There is a negative relationship between ethical reasoning and auditors' acceding to the client's request.	Supported
H <sub>2-1</sub>	There is a negative relationship between ethical reasoning and auditors' acceding to client's request among auditors in governmental organizations.	Supported
H <sub>2-2</sub>	There is a negative relationship between ethical reasoning and auditors' acceding to client's request among auditors in private firms (IACPAs).	Supported
H <sub>3</sub>	Organizational culture moderate the relationship between ethical reasoning and auditors' acceding to the client's request.	Supported
H <sub>3-1</sub>	Organizational culture moderate the relationship between ethical reasoning and auditors in governmental organization acceding to the client's request.	Supported
H <sub>3-2</sub>	Organizational culture moderate the relationship between ethical reasoning and auditors in private firms (IACPAs) acceding to the client's request.	Supported

## **CHAPTER 7: DISCUSSION AND CONCLUSION**

### **7.1 Introduction**

This final chapter summarizes the findings and expresses the research conclusions in four sections. The first section (Section 7.2) summarizes the findings and provides explanations of the tested relationships. Section 7.3 highlights the prominent contributions to the body of knowledge as well as the practical implications. The third section (Section 7.4) presents the limitations of the study. The penultimate section (Section 7.5) proposes directions for future research. Finally, Section 7.6 presents the conclusion of this chapter.

### **7.2 Summary of Findings**

In this section, a summary of the research findings is presented and discussed in line with the research objectives. The findings are discussed in compliance with the research questions of the study to ease the discussion and interpretations. In summary, the research objectives are presented as below:

- 1) To investigate whether there is a significant difference in the levels of ethical reasoning (as measured by P-scores) between auditors who are members of the Iranian Association of Certified Public Accountants (IACPA) working in private firms and auditors of the Audit Organization working under the control of the government.
- 2) To examine the relationship between levels of ethical reasoning (as measured by P-scores) and auditors' propensity to accede to the client's request for the two groups of auditors in Iran (i.e. public auditors versus governmental auditors)
- 3) To examine the role of organizational culture in the relationship between the levels of ethical reasoning of the two groups of auditors in Iran and their propensity to accede to the client's request

### **7.2.1 Investigation of Significant Differences Between Levels of Ethical Reasoning**

Article 44 of the Iranian Constitution focuses on privatization, and, in recent years, the government has been obliged to provide the necessary background to establish privatization. Increasing privatization results in an increase in the need for CPAs (Molkaraee, 2010). Nevertheless, in 2013, the number of auditors in CPA and the quality of audit services in Iran was very low as compared to other countries. However, a large number of accountants prefer to work in the audit organization with more than 1500 auditors working in different boards of auditing (as a governmental firm) rather than in IACPA firms (Banimahd and Vafaei, 2012).

More importantly, the companies in Tehran Stock Exchange are more likely to be audited by the audit organization (Saffar, 2010). The audit organization has audited most of the companies listed in Tehran Stock Exchange in recent years as compared to IACPAs. In fact, the Audit Organization audited 46.5% of the companies in Tehran Stock Exchange in 2009, whereas 188 IACPA firms audited 44.5% of the companies. According to these statistics, most companies tend to be audited by the audit organization. The question that arises is “Are auditors in the Audit Organization more independent than those in IACPAs?”

Furthermore, the public rightly expects government officials to be more ethical (Ferrell & Fraedrich, 2014; Mujtaba et al., 2011). Working in a governmental organization may increase the level of moral maturity among employees due to the strict rules and regulations applied in these organizations (Fryxell & Lo, 2001; Mujtaba et al., 2011). Moreover, some scholars (e.g., Chen et al., 2013; Fryxell & Lo, 2001; Mujtaba et al., 2011; Svensson & Wood, 2004; Thompson, 1992) argue that managers in governmental organizations are more oriented towards stronger ethical values and moral behavior in their organizations as compared to managers in the private sectors, who appear to be more

skeptical and establish a lower cultural and organizational values in their institutions. In other words, the question posed, “Is there any difference between the two groups of auditors in terms of ethical behavior?”

The first objective of this study was to investigate the difference in the level of ethical reasoning (measured by P-scores) between the auditors in IACPAs, as private firms, and those in the Audit Organization, which is under the control of the government. Therefore, in the current study, two different groups of auditors were scrutinized with respect to ethical reasoning based on the theories of Kohlberg (1969) and Rest (1979). The first group consisted of auditors who belonged to the governmental sector, while the other group consisted of auditors who worked in private audit firms. Due to the unique environment of the audit profession in Iran, it was assumed that scrutinizing these two groups would show different P-scores as representatives of their levels of moral reasoning. However, the mean P-scores did not reveal any statistically significant difference between the two groups; hence, the first research hypothesis was not supported.

Prior studies showed higher statistical means with respect to the mean auditors’ P-score in the Western context (e.g., Ponemon, 2002; Ponemon & Gabhart, 1993). It should be noted that, in the current study, the P-scores for governmental auditors and auditors in private firms were found to be lower than those of Ponemon (1988). According to Kohlberg and some other scholars in Eastern cultures (e.g., Tsui, 1996), different cultures may demonstrate different results for the P-score with respect to ethical reasoning. Furthermore, the results of DIT in the accounting and auditing profession showed a difference of auditors’ P-scores between Western culture and an Eastern culture (e.g., Tsui, 1996). Although this study investigated a unique auditing environment with respect to auditors in the private and governmental sectors, this unique environment is not easy to be compare with similar situations (if any) in the other parts of the world.

As mentioned above, the mean P-score did not reveal any statistically significant difference between the two groups. This similarity of P-scores in the two groups of Iranian auditors might demonstrate the effect of the national culture and integrity. According to House et al. (1999), national culture shapes the way leaders function, and the way these leaders influence the organizational culture on a continual basis.

As discussed in the previous chapter, as an example, power distance is one of the national cultural backgrounds of Iranians. In terms of power distance dimension, the score of Iranians is 58. The Iranian national culture in this dimension is a hierarchical society. People in such a society accept a hierarchical order, and auditors are not the exception.

In a workplace with a high power distance, the subordinates are willing to accept their inferior positions. The boss, in turn, may not be asked for broad participation in the process of decision-making. For instance, even though employees may want to be promoted, it is entirely their boss's decision, and they have no say in it. Countries with high-power-distance cultures hold that there is nothing wrong with inequality and, thus, everyone can be situated in specific positions.

With regard to the influence of power distance norms, one characteristic of the group membership among Iranians is that the group members are dutiful and obedient in following the rules of the profession and in obeying their bosses in their organizations.

In addition, the two groups of Iranian auditors mentioned in the current study have been formed on the basis of historical evolution. The national culture constitutes one of the important aspects of this evolution (Dastmalchian et al., 2001; Noravesh et al., 2007). Since organizational culture reflects the national culture of every country, it can be claimed that the similarity of mean P-scores within Iranian context results from the integrity of the Iranian national culture as introduced above. Eastern research studies

(e.g., Tsui & Gul, 1996) found different P-scores for Chinese auditors between the Big Six and Non-Big Six firms. Similar to Iranian auditors, the Chinese were reported to have low mean P-scores in this regard. Therefore, the role of culture can be stated to be of significant influence on the reduction of mean P-scores in Eastern contexts, specifically in the Middle East.

It should be stated that DIT 2 involves a scale which measures P-scores. Its reliability and validity have been substantiated in the Western context. Moreover, this questionnaire is in English and the items are in compliance with English language and culture. Therefore, as mentioned in the DIT2 guide (guideline for measuring DIT-2, published by University of Minnesota), another reason for low mean P-scores might be the difference between the respondents' language and the DIT2 language, which may have a moderate effect on the results.

Piaget's theory directly reinforces research on moral development, having sprung into existence from his general theory of cognitive development. Later, Kohlberg, inspired by Piaget's theory, stated that moral development continues as individuals grow. Accordingly, he conducted many research studies in this regard and arrived at valuable findings. Similar to Piaget, Kohlberg believes that the order and succession of moral development are constant and unchangeable in different cultures although they might be accelerated or decelerated due to individual or cultural differences. In other words, individuals vary in arriving at the highest level of moral development. From Kohlberg's viewpoint, environmental factors play a very important role in developing an individual's aptitudes (Karami Nuri & Moradi, 1990; Trevino, 1986). In fact, Kohlberg indicated that moral development is essentially based on moral reasoning.

Ethical reasoning was formed based on the theory of Kohlberg (1969), which indicates that individuals' ethical reasoning operates at three levels. At the first level or "pre-



conventional” level, individuals are mostly concerned with immediate rewards and/or punishment. The second level or “conventional” level entails behavior conforming to societal or peer group standards. Finally, at the third or “post-conventional” level, individuals exceed the social norms and make their assessments of right and wrong based on personal values. In recent studies, such as Abdolmohammadi & Ariail (2009); Lampe and Finn (1992); Ponemon (1992b), and Ponemon and Gabhart (1990), moral reasoning development has been successfully utilized in the accounting context. In particular, Ponemon and Gabhart (1990) found that lower levels of moral reasoning are associated with sensitivity to penalty sanctions.

Ponemon and Gabhart (1990) found a mean of 32.60 for the P-score of managers and partners in national firms. Furthermore, Massey (2002) reported a mean P-score of 33.30 for entry-level and experienced auditors, whereas the normal range for the mean P-score was reported to be 38.94 for practicing accountants over 1987-2003 (Abdolmohammadi & Ariail, 2009). Also, Rest (1979) stated a P-score of 40.00 for adults in general. Therefore, it can be understood that mean P-scores may be different (even lower than 40) in different professions.

Although some of the ethical issues, such as honesty, have been widely discussed, the terms “fairness” and “appropriateness of behavior” may be regarded as confusing concepts and interpreted differently in various cultures. The difference in interpreting these concepts may be due to the effects of individuals’ moral inclination and decision-making. In this regard, a clear recognition of cultural differences among countries can result in a better understanding of cultural concepts. Moreover, it may result in a more accurate implementation of international morality conceptions, specifically in the audit profession.

Tsui (1996) examined the level of ethical reasoning of auditors in Hong Kong using the Rest Theory based on DIT measurements. In this study, applying Hofstede's theory, a sample of 50 Chinese auditors was compared with 127 American auditors based on the national cultural differences between the two countries the results of the study revealed higher individualism as well as lower power distance among American auditors. Therefore, it was concluded that these two factors must have caused a high P-score for the Americans. The results suggest further independence of American auditors than Hong Kong auditors who were reported to have lower P-scores.

In this study, "fairness" and "justice" referred to as cultural factors have been evaluated in Rest's theory using DIT. Moreover, individuals' interactions with social organizations, moral rules of the society, and social expectations of the society are also related to "fairness" and "fair judgment". Based on this theory, individuals adjust their moral judgment in compliance with the theory level in which they are placed with respect to differences in socio-moral development.

Tsui (1996) concluded that auditors in the West with a higher P-score were more independent and less likely to accede to the clients' request. Tsui and Windsor (2001) used Rest's DIT and tested the auditors' moral reasoning for two different cultural communities, China and Australia. The study participants consisted of 75 Mainland Chinese and 48 Australian auditors who were investigated with respect to individualism and power distance. The Australian auditors showed higher P-scores compared to the Chinese. In this study, significant differences were observed in the two cultures. The Chinese were reported to show a higher power distance and lower individualism in comparison with Australians.

However, this study examined governmental and private auditors in ethical reasoning. Since the study context is a unique context, no similar study was accessible which could be compared to the results. The study demonstrated that there is no significant difference between auditors' levels of ethical reasoning in private and governmental organizations; hence, the first hypothesis is rejected.

### **7.2.2 The Association Between Ethical Reasoning and Auditors' Acceding**

The second objective of this study was to examine the possible association between the levels of ethical reasoning in terms of the P-score and the extent of auditor acceding for the two groups of auditors in Iran (i.e. public auditors vs. governmental auditors).

The investigation of the association between ethical reasoning and auditor acceding aims at how auditors are more or less likely to accede to the clients' request in a conflict situation, how they make decisions, and how they can resist client pressure to maintain their independence. The results of the current study show that most auditors in both governmental and private firms are less likely to accede to the clients' request. These results are in line with some other investigations that measured the association between ethical reasoning and auditor acceding (e.g., Tsui 1996). The association indicates correlation between two variables. A negative relationship was observed. Furthermore, for the total sample and for each group of auditors, negative relationships could be found as well. Studies such as Ponemon (1990), Ponemon and Gabhart (1990; 1993), and Gul et al. (2003) are examples in this case. Ponemon (1990) and Windsor and Ashkanasy (1996) found a positive relationship while Tsui (1996), Tsui and Windsor (2001), and Tsui and Gul 1996) found negative relationships.

As Table 7.1 indicates, several studies have been conducted in the Eastern context concerning the relationship between ethical reasoning and auditor acceding. The mean scores of auditor acceding in these studies lie in almost the same range, suggesting that,

although the P-scores of these studies (Table 7.1) are lower than those in Western countries, Eastern auditors are less likely to accede to their clients' requests.

Moreover, the findings of the present study are discussed in terms of a range of 0-20 percent selected for both the governmental and private groups. In the total sample, in general, 61.8% of auditors were less likely to accede to their clients' requests, whereas, regarding the two study groups, 77.1% of the governmental group and 49.65% of the private firms were less likely to accede. A comparison of the two groups indicated that the governmental group demonstrated a better score (77.1%). In other words, auditors in the Audit Organization demonstrated more power to resist the client pressure and were more cognizant of the conflict situation than the auditors in private firms.

The means for auditor acceding, as reported in different studies, are listed in Table 7.1. The table is intended for a comparison of mean scores for auditor acceding with the one obtained in the present study.

**Table 7. 1: Studies Conducted on Auditor Acceding**

Authors	Sample	Group Studies	Mean of Acceding
Tsui, (1996)	50	Auditors from Big Six	24.60
Tsui and Gul,(1996)	80	Four Big Six &Five Non-Big six CPA firms	24.06
Gul et al., (2003)	53	Chinese auditors	2.9
The current study	432	Iranian auditors	25.95

According to DeAngelo (1981), audit quality has two characteristics including auditor competence and auditor independence. Auditor competence is related to auditors' discovery of flaws including a violation in the accounting system. Therefore, an auditor needs to report the flaws discovered in the audit practice. Auditor independence demands that the auditors contemplate, act, and report independently (i.e. to resist pressure from the client managers). Lack of auditors' independence and their inability to report the flaws

will lead to lower audit quality, poor public trust, and higher cost of the capital premium (DeAngelo, 1981; Johnstone et al., 2001). Therefore, auditors who are not likely to accede to the client's request can maintain their independence. In this research, the findings indicate that Iranian auditors are independent according to the definition of audit quality proposed by DeAngelo (1981).

### **7.2.3 The Role of Organizational Culture as a Moderator Variable**

The third variable investigated in this study was organizational culture that acted as a moderating variable, which was examined in Iranian public and private auditing associations in the relationship between ethical reasoning and auditors' responses to clients' requests (auditor acceding).

Organizational culture is an important factor that can affect people's beliefs (Morris, 2014; Smith & Hume, 2005). It is usually defined as the designs and patterns within an organization that are directly related to the individuals' shared values. Moreover, organizational culture shapes an organization unit (Pratt & Beaulieu, 1992) and is known as the "organizational value system" (Wiener, 1988). In fact, it entails shared values that suggest that the foundation of participatory culture, that is to say, organizational culture, involves the organizational beliefs and practices that are the core values available for changes and reforms (Windsor & Ashkanasy, 1996).

Organizational culture is important because it offers a high potential for the direct impact on employment trends (Abdolmohammadi & Sarens, 2011), such as motivation, behavior, work improvement, satisfaction and organizational commitment (Übius & Alas, 2015). Windsor and Ashkanasy (1996), who investigated Australian Certified Public Accountants, concluded that there is a significant relationship between organizational culture and ethical reasoning, which confirms the findings of the current study.

The moderating effect of organizational culture was examined at three levels (low, medium, and high), which demonstrates the significant influence of the organizational culture on the relationship between auditors' ethical reasoning and auditor acceding. It should be noted that the high and low levels were focused on in the present study. In fact, the role of the high level of organizational culture was found to be more significant. Overall, the results revealed the significant impact of organizational culture on the relationship between ethical reasoning and auditor acceding at the high level. The respondents of the organization culture questionnaire for both levels, high and low, marked those values in the questionnaire that were in line with the value system existing in their organization.

Organizational culture impacts differently on different groups. In the governmental group (Figure 6.3), the relationship between ethical reasoning and auditor acceding in governmental organizations is stronger at low levels of organizational culture than at high levels (Group G is convergence). In private firms (Figure 6.4), the relationship between ethical reasoning and auditor acceding (IACPAs) is found to be stronger at higher levels of organizational culture than at low levels (Group P is divergence).

Furthermore, regarding the governmental group, when the organizational culture is at a low level, the relationship between auditors' acceding and auditor ethical reasoning proves to be stronger. Among the private group of auditors, when the organizational culture is high, the effect of auditors' ethical reasoning on their acceding is found to be higher. Therefore, it can be concluded that different groups demonstrate different perceptions of values in their organizations.

The difference between high and low levels of auditors' organizational culture reflects the difference of their cultural backgrounds. In the audit organization, the effect of organizational culture was found low and convergent, which demonstrated that the

organizational culture and the expected values of individuals could provide adequate grounds to enhance the cultural integrity. In contrast, in IACPA firms, the organizational culture exerted its influence on the low level, which was revealed to be divergent. Therefore, it can be inferred that organizational culture, as well as the expected values of individuals, can be regarded as appropriate, even though the existing organizational culture cannot preserve convergence and provides the grounds for divergence to occur.

It seems that the element of “time” can be regarded as important in formulating the organizational culture (see Table 6.22). Since the effect of culture is conceptualized within quite a lengthy period, the organization members are not likely to accept the cultural change within a short time. The audit organization was established almost 30 years back in 1987, whereas IACPAs is almost 15 years old. The concept of “time” in the governmental group, in contrast to the private group of IACPAs, could establish appropriate grounds to develop cultural integrity with regard to the effectiveness of organizational culture.

The findings pertaining to the effect of organizational culture can be illuminated with regard to the development of cultural values in an organization. In the Audit Organization, due to its experienced auditors, the effect of organizational culture even at a low level affects more efficiently than the less experienced auditors of IACPAs. It can be inferred that individuals in large organizations either expect cultural values in their organizations be developed, or a set of new values be established. In IACPAs auditors are led to perceive that a new set of values need to be established in their organization to cover up their deficiencies.

The auditors of the governmental sector perceived that they needed to create the values listed in the questionnaire (e.g. tendency towards family or in-group solidarity), while the auditors in the private sector sought to promote the existing values . In fact, governmental

sector is expected to offer more systematic values to their employees. Previts et al. (2012), and Amani and Davani (2010) noted that the Audit Organization is the largest audit firm in the Middle East with 1500 auditors and employees at work. Although this organization has been under the control of the government for a long time, it has not succeeded in creating appropriate values. Thus, the members of this organization tend to create the norms and values of their own organizational system.

The organizational culture questionnaire considers a value system. The respondents were asked to rank the values on the scale. The respondent's choice of values indicated a tendency towards that value. For instance, "Fairness" a value in the questionnaire is reflected in the cultural background.

"Team Orientation" and "Attention to Details" were two important items among organizational dimensions measured in this study. They were more important than the other items because their effect was more than that of the other dimensions. The items related to "Team Orientation" included "Team Oriented", "Collaboration", and "People oriented". The items of "Attention to Details" were "Precise", "Careful", "attention to detail", and "Rule Orientation". These two dimensions reflect the national culture of the respondents.

As it was discussed in the literature review, the studies conducted on the cultural aspects in Iran also demonstrated that an eminent feature of Iranian culture is the degree to which Iranians manifest loyalty and cohesiveness towards small groups like families and close friends (team orientation). Another attribute of Iranian culture is "high-performance orientation" (Namazie & Frame, 2007;Soltani, 2010;Soltani et al.,2012), which is in compliance with "attention to detail" dimension detected in the current study as an organizational dimension.



The findings of the present study also propose that Iranian auditors tend to follow team orientation, which is in line with in-collectivism denoting the degree to which individuals are affiliated with their families and friends. Belonging to these groups brings a series of strong expectations. For instance, friends are expected to do favors or offer special treatment to each other (Javidan & Dastmalchian, 2003). Concisely, team orientation is regarded to be an important attribute of this culture.

This study supports Molkaræe (2013) who stated Iranian auditors are not likely to merge in IACPAs firm as a big partnership. The reason could be the cultural feature of Iranians who prefer small firms. “Team orientation”, a cultural feature of Iranian auditors, leads them to establish and work in small audit firms.

According to the Person-organization Fit Theory, individuals are more satisfied and committed to their jobs when their organizational characteristics are compatible with their personal characteristics (Kristof, 1996). Thus, individuals “select themselves into and out of organizations” based on “their judgment of the congruence between the characteristics of the organization and their characteristics” (Van Vianen, 2000, p. 115).

Hofstede’s study presented that the dimensions conform more closely to Muslim countries, namely Arab countries (Sharifian & Moaydi, 2010). In a later Hofstede’s study, Iran is identified in the near Eastern cluster including Turkey and Greece (Ronen & Shenkar, 1985). However, in a more recent research conducted by the GLOBE group, Iran is regarded as part of the South Asian cultural cluster (see Table 2.2 and 2.3) consisting of countries such as India, Thailand and Malaysia (Gupta et al., 2002; Javidan and Dastmalchian, 2003). The similarities of dimensions are presented in Tables 2.2 and 2.3.

The House et al. (2004) or GLOBE investigation emphasized the values (i.e. what should be) grown out of an anthropological tradition of culture assessment (Kluckhohn & Strodtbeck, 1961). This approach to the assessment of culture grows out of a psychological/behavioral tradition, in which it is assumed that shared values are enhanced in behaviors, policies, and practices.

Javidan and Dastmalchian (2003) reported that the country's culture is distinguished by its seemingly paradoxical mixture of strong family ties and connections and a high degree of individualism. Societal or institutional collectivism is not a strong feature of Iranians. The country's culture also bestows excessive privilege and status on those in positions of power and authority and does not tolerate much debate or disagreement.

The results of this study are in line with the GLOBE presentation, and it is in contrast with Hofstede's findings (1984). The findings of the present study depict Iran as an Islamic/Middle Eastern country quite different from what is currently imagined in the Middle East. It is also suggested that similar qualities are often attributed to Iran as those of its Arab neighbors. The findings also suggest that there is a significant relationship between moral reasoning and the capacity to engage in moral behavior. Thus, these findings confirm those of Rest and Thoma (1986) and Rest et al. (1999).

### **7.3 Contributions of the Study**

Based on the research findings of this study, some contributions are offered in terms of theory, practice and policymaking. This study contributes by providing the required information not only regarding how corporate ethical values are related to the personal moral philosophies of the auditors but also about how the organizational culture influences the degree of auditor acceding. This can have far-reaching managerial implications for developing appropriate management policies and organizational/corporate culture.

### 7.3.1 Knowledge Contributions

The main theoretical contribution of this study was the development of an integrative auditing model. Moreover, the relationship between ethical reasoning and auditor acceding was investigated. Also, an important gap existed in other studies concerning the role of organizational culture as a moderating variable, which was examined in the present study; the corresponding results have demonstrated the important effects of this moderating variable.

Innovation and risk taking, respect for people, outcome orientation, attention to details, and team orientation were found to be the five important cultural dimensions of Iranian auditors. These dimensions were tested to find their impact on organizational culture in the association between ethical reasoning and auditor acceding. For the governmental group, which is a big institute of audit partnership, respect for people, team orientation and innovation and risk taking are three important dimensions. For a private group of IACPAs, attention to details is a vital element. The results of the study show that these dimensions of organizational culture can affect the auditor's decision-making in a conflict situation.

Therefore, the findings are suggestive of how the interaction of values in auditing firms can moderate an auditor acceding in a conflict situation. The results also contribute to audit firms by enhancing the understanding of the role of organizational culture. Furthermore, this study indicates that individual values need more attention within auditing practice in both governmental and private institutions. The findings contribute to the field of auditing by providing information regarding ethical reasoning and auditor acceding issues in the context of Iran. By using organizational culture as a moderating variable in the operationalization and measurement of auditor acceding, additional evidence is provided in this approach showing that auditors carry the values of their firms

out of their institutions, fit the organizational and individual values, and protect the auditors against clients' pressure.

The findings of this study also add to the body of knowledge in the area of auditing by examining the moderating effects of culture on the relationship between ethical reasoning and auditor acceding. The study has adapted a model on ethics, although, according to Ford and Richardson (1994), the studies on ethics do not need additional and complicated models of ethical behavior.

Applying ethical reasoning can improve the theory of moral reasoning. Moreover, it can add to the viewpoint that, although Asian auditors do not have high P-scores in terms of ethical reasoning, they follow audit standards and are independent in their decision-making. Furthermore, collecting data with respect to DIT2 enables different P-scores of auditors in dissimilar cultures to be compared with scores of auditors engaged in ethical reasoning investigations.

The findings of this research are in line with other findings regarding Iranian culture. As the results indicate, the cultural dimensions of organizational culture in the auditing profession in Iran indicate the background of Iranian national culture. Furthermore, it contradicts Hofstede's (1984) classification when considering Iran versus Arab countries. Researchers identified a resemblance between Iranian and South East Asian auditors with respect to their organizational culture.

### **7.3.2 Practical Contributions**

Beyond the aforementioned direct contributions of our study to the body of knowledge, our study has several important implications for practitioners.

As stated by Jenkins et al. (2008), the organizational culture in audit firms has been neglected in previous studies. However, organizational culture affects the implementation

of the auditing practice system, particularly in culturally different environments (Übius & Alas, 2015). The empirical evidences in this study suggest that organizational culture is a significant factor that effectively moderates the relationship between ethical reasoning and auditor acceding.

The findings showed the different perceptions of Iranian auditors including private and governmental ones with regard to their organizational culture. The effect of high organizational culture in private firms may indicate that auditors in this sector are more likely to enhance their existing values as well as create new values and norms that can enhance the audit practice. As Molkaræe (2013) indicated, IACPAs need to be controlled through different dimensions such as spreading accounting culture and paying attention to the organizational culture of audit firms, which is supported by the findings of the present study.

As for organizations, they need to select people who fit a given situation, which is likely to include some combination of task and cultural requirement. Therefore, ethical reasoning, as well as the organizational culture, can be determined as prominent factors in enhancing employees' selection and socialization (Abdolmohammadi & Ariail, 2009), according to which educational programs can be scheduled. The selection-socialization process is the process in which auditors select and hire colleagues who have similar levels of moral reasoning (Abdolmohammadi & Baker, 2006). In brief, applying a course of ethics or organizational behavior in accounting education seems to be necessary.

### **7.3.3 Policymaking Contributions**

Apart from its theoretical and practical contributions, this study can be used by Iranian policymakers to design schemes for auditing. The study outcomes are beneficial to the accounting profession in Iran when considering the professional code of conduct.

The findings can also be considered relevant to standard setters and regulators in developing accounting standards for future trends. The results may be beneficial to auditors' partners in audit firms in comprehending ethical behavior. Moreover, supervising as well as implementing these standards can be enhanced by applying the findings of the current study.

Accountants and auditors who aim to improve the quality of accounting and auditing performance need to comprehend ways to improve the merits that organizational culture may have on their decision-making. Equally important, the empirical findings of this study need to be of interest to accounting and auditing researchers since this study provided information regarding a unique audit environment. In fact, the study findings demonstrate the rapid development of accounting and auditing in the Middle East, specifically in the context of Iran. Also, the knowledge regarding levels of ethical reasoning and values of audit firms provide important insights to regulators of Tehran Stock Exchange for policy debates on cross-listing requirements.

#### **7.4 Limitations of the Study**

This study suffers from several limitations. Firstly, the study attempted to take unique environments into consideration for each of the selected groups of auditors in order to study the ethical reasoning and organizational culture in the accounting profession. However, rules and regulations for conducting research and collecting data in Iran are very constrained and become even more difficult when it comes to some sensitive issues such as culture. In the case of Iran researcher had to seek permission from Ministry of Education or the head of the field. When the permission was refused, the researcher had to approach some influential people to obtain approval and collaboration. Furthermore, respondents were assured of confidentiality and anonymity of their response. Traveling to five cities to meet auditors in governmental and private firms was difficult especially

when the researcher had to take permission of firms or branches of the Audit Organization in different cities.

Secondly, several critical success factors were not incorporated in the research model due to practical restrictions, such as cost, time and the unfamiliarity of the respondents to the questionnaire designed in Western countries. Thirdly, the survey questionnaire seemed to be lengthy, entailing some critical factors that took respondents considerable time to complete. Consequently, the respondents were likely not to agree to participate. Even when they had participated in filling in the questionnaire, the reliability of the responses was influenced by the exhaustion of respondents. Also, it was not easy to detect what issues were perceived as significant and what issues were considered as insignificant by the participants. In addition, since professional accountants are usually conservative, it had been difficult to obtain the right and sincere answers to our questions. Furthermore, the dimensions of the cultural features needed to be limited to make it possible for investigation.

## **7.5 Future Research Directions**

Since there are perhaps few or no empirical studies examining the role of organizational culture in the relationship between ethical reasoning and auditor acceding in developing countries, there are many directions for the expansion of this research in future studies.

First, the results of this research can be generalized if replicated and validated in other regions and contexts. This research revealed the auditors' viewpoints in Iran in the Middle East region. It is suggested that future research also utilize the same model in other developing nations as the one used in Iran to test the generalizability and applicability of the model in other parts of the world.

Second, this research utilized a survey methodology and a cross-sectional sample to collect the required data. Other research methods (e.g. case study) can provide more thorough insights, and, thus, they ought to be considered in prospective research. Potential in-depth investigations, probably qualitative ones, might be carried out to gain additional insights into the factors related to moral reasoning, decision-making process, and organizational culture.

Third, according to Kohlberg (1969), religion constitutes one of the crucial elements in ethical decision-making. As the current study was conducted in Iran, which is a Muslim country, scholars could endeavor to investigate the impact of religion on the relationship between ethical reasoning and auditor acceding in the unique context of Iran.

Fourth, the questionnaire applied in this study was value-based and adopted from O'Reilly et al. (1991). Further studies can be conducted based on a longer version of this questionnaire to find the organization-person fit with respect to the audit profession in Iran. Finally, ethical decision-making is regarded as an important concept in examining auditors in different situations. Therefore, other models of decision-making can be conducted in the context of Iran to investigate whether the findings match those of other studies.

## **7.6 Conclusion**

The findings of the study showed that there was no significant difference between auditors in governmental and private firms in terms of ethical reasoning (P-score). The auditors in both groups got a DIT-2 score that is almost similar to that in other countries in South East Asia. This might be attributed to the similarity of the cultural backgrounds in the two different parts of the world. The Iranian auditors' score in DIT2 was similar to those of non-native English participants. The effect of cultural environment in audit firms might be another reason for this.



Furthermore, there was a negative relationship between ethical reasoning and auditors' responses to clients' requests for the two groups of auditors, which indicates that both types of auditors were not much likely to accede to clients' requests in a conflict situation. The findings also suggest that, although the auditors did not reveal high ethical reasoning regarding their P-scores as compared to Western countries, they could maintain their independence in their behavior by not acceding in a conflict situation.

This study also revealed the impact of organizational culture on auditors' decision-making regarding their acceding. As mentioned earlier, according to DeAngelo (1981), auditors' competence and independence are perceived as noteworthy factors regarding audit quality. In other words, lack of auditors' independence and their inability would lead to low audit quality, poor public trust, and the high cost of the capital premium (DeAngelo, 1981; Johnstone et al., 2001). Therefore, those auditors who are not likely to accede to clients' requests can maintain their independence. In this research, the findings indicated that Iranian auditors are independent according to the definition of DeAngelo (1981).

The most important finding of this study is the effect of organizational culture on the relationship between Iranian auditors' ethical reasoning and their response to their clients' requests (acceding). In fact, the results indicated that organizational culture can moderate this relationship. Also, the national cultural background affects the organizational culture, and auditors are oriented to show their values among their associations in the governmental and private sectors. Furthermore, using a value-based questionnaire demonstrated that dimensions such as "team orientation" and "attention to details" are closer to the cultural characteristics of auditors in the context of Iran. In-group collectivism and family loyalty are regarded as strongly prominent factors in highlighting the Iranian cultural background. In other words, these two aspects can be observed in the

auditors' responses to the questionnaire, which is in line with the other findings proposed by different scholars (Dastmalchian et al., 2001; House et al.; 2004; Javidan & Dastmalchian, 2003) in this field.

Although the trust in the audit profession can depend on auditors' independence, it should be noted that the culture of audit firms is regarded as being more important than auditors' independence. Therefore, the consistency between individual's values and organization's values should also be taken into account.

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University of Malaya

## **PUBLICATIONS FROM THIS RESEARCH**

### **Articles**

- Shafiei, A., & Rusnah, M. (2015). Audit Conflict: A Case of Iranian Auditors Ability to Resist Client Pressure in a conflict Situation. *International Journal of Recent Advances in Multidisciplinary Research*, 2(10), 0795-0800 (ProQuest, EBSCO indexed Journal).
- Shafiei, A., & Rusnah, M. (2015). Different Ownership, Same Organizational Culture: A Case of Iranian Auditors. *Management and Administrative Sciences Review*, 4(4), 708-721 (ProQuest, EBSCO and ISC indexed Journal).
- Shafiei, A., & Rusnah, M. (2014). Organizational Culture in Accounting Profession in Iran. *Indian Journal of Fundamental and Applied Life Sciences*, 4, 1253-1261 (ISI Indexed Journal).

### **Confrences Attending**

- Shafiei, A., & Rusnah, M. (2014). Organizational Culture in Accounting Profession in Iran. 1st International conference on Economics Management, Accounting and Social Science, Rasht- Iran, 21 June 2014.
- Shafiei, A., & Rusnah, M. (2014). Different Ownership, Same Organizational Culture: A Case of Iranian Auditors. The third international conference of Ghadir culture pattern of management Saruggle, Tabriz – Iran, 16 Sept 2014.
- Shafiei, A., & Rusnah, M. (2014). Auditors' Ethical Reasoning: a Case of Iranian Auditors. The third international conference of Ghadir culture pattern of management Saruggle, Tabriz – Iran, 16 Sept 2014.
- Shafiei, A., & Rusnah, M. (2014). Cultural Values within Iranian Audit Firms. The third international conference of Ghadir culture pattern of management Saruggle, Tabriz – Iran, 16 Sept 2014.
- Shafiei, A., & Rusnah, M. (2014). Cultural Values and Iranian Audit Firms' Culture. The Accounting , Economics and Financial Management Conference, Tehran, Iran, 26-27 October 2014.



**APPENDIX (A)**

**Research Questionnaire Set**

**English Version**

**Section One ethical reasoning**

(Defining Issues Test DIT-2)

**Section Two Organizational Culture**

**Section Three Auditors' Decision Making**

**The Role of Organizational Culture in the Relationship between  
Ethical Reasoning and Auditor Acceding**

**QUESTIONNAIRE**

**(Fourth draft)**

**Abdolreza Shafiei**



**Department of Financial Accounting and Auditing**

**Faculty of Business and Accountancy**

**University Malaya**

**Kuala Lumpur**

## **Dear respected respondent**

I am a PhD. student in auditing field at University Malaya and I am doing my research in the area of ethical reasoning and organizational culture, specifically the role of organizational culture in the relationship between ethical reasoning and auditor acceding.

In this regard, we would like to invite you to be a part of this research study by sharing your valuable experience and opinion about ethical reasoning and organizational culture usage in your business. This study will require about 15-20 minutes of your valuable time to complete.

All the information provided will be treated with strictest confidentiality and only the aggregate data will be analyzed for academic purposes only. Your active participation is greatly appreciated.

### **In making you rating, please remember the following points**

1. Please, follow the instruction of the first section of questionnaire.
2. Please, answer each of the statement by ticking next to the number that best describe your answer.
3. Some of the questions may appear to be similar, but they do address somewhat different issues. Please read each question carefully.
4. Be sure to answer all items – do not omit any.
5. Please, do not tick more than one number on a single scale.

Thank you very much for your time and cooperation.

Yours sincerely,

Abdolreza Shafiei

PhD candidate

# Section One

## Ethical Reasoning

(Defining Issues Test DIT-2)

### Instructions

This questionnaire is concerned with how you define the issues in a social problem. Several stories about social problems will be described. After each story, there will be a list of questions. The questions that follow each story represent different issues that might be raised by the problem. In other words, the questions/issues raise different ways of judging what is important in making a decision about the social problem. You will be asked to rate and rank the questions in terms of how important each one seems to you.

This questionnaire is in two parts: one part contains the INSTRUCTIONS (this part) and the stories presenting the social problems; the other part contains the questions (issues) and the ANSWER SHEET on which to write your responses. Here is an example of the task:

#### Presidential Election

Imagine that you are about to vote for a candidate for the Presidency of the United States. Imagine that before you vote, you are given several questions, and asked which issue is the most important to you in making up your mind about which candidate to vote for. In this example, 5 items are given. On a rating scale of 1 to 5 (1=Great, 2=Much, 3=Some, 4=Little, 5=No) please rate the importance of the item (issue) by filling in with a pencil one of the bubbles on the answer sheet by each item.

Assume that you thought that item #1 (below) was of great importance, item #2 had some importance, item #3 had no importance, item #4 had much importance, and item #5 had much importance. Then you would fill in the bubbles on the answer sheet as shown below.

1	2	3	4	5	
G	M	S	L	N	
r	u	O	I	o	
e	c	M	T		
a	h	e	T		
t			L		
			e		
					Item#
<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	1. Financially are you personally better off now than you were four years ago?
<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	2. Does one candidate have a superior personal moral character?
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	3. Which candidate stands the tallest?
<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	4. Which candidate would make the best world leader?
<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	5. Which candidate has the best ideas for our country's internal problems, like crime and health care?

Further, the questionnaire will ask you to rank the questions in terms of importance. In the space below, the numbers at the top, 1 through 12, represent the item number. From top to bottom, you are asked to fill in the bubble that represents the item in first importance (of those given you to choose from), then second most important, third most important, and fourth most important. Please indicate your top four choices. You might fill out this part, as follows:

Item number:	1	2	3	4	5	6	7	8	9	10	11	12
Most important item	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Second most important	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Third most important	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fourth most important	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Note that some of the items may seem irrelevant to you (as in item #3) or not make sense to you—in that case, rate the item as "No" importance and do not rank the item. Note that in the stories that follow, there will be 12 items for each story, not five. Please make sure to consider all 12 items (questions) that are printed after each story.

In addition you will be asked to state your preference for what action to take in the story. After the story, you will be asked to indicate the action you favor on a seven-point scale (1=strongly favor some action, 7=strongly oppose that action).

In short, read the story from this booklet, then fill out your answers on the answer sheet. Please use a #2 pencil. If you change your mind about a response, erase the pencil mark cleanly and enter your new response.

[Notice the second part of this questionnaire, the Answer Sheet. The Identification Number at the top of the answer sheet may already be filled in when you receive your materials. If not, you will receive instructions about how to fill in the number. If you have questions about the procedure, please ask now. Please turn now to the Answer Sheet]

## **Famine — (Story #1)**

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The small village in northern India has experienced shortages of food before, but this year's famine is worse than ever. Some families are even trying to feed themselves by making soup from tree bark. Mustaq Singh's family is near starvation. He has heard that a rich man in his village has supplies of food stored away and is hoarding food while its price goes higher so that he can sell the food later at a huge profit. Mustaq is desperate and thinks about stealing some food from the rich man's warehouse. The small amount of food that he needs for his family probably wouldn't even be missed.

[If at any time you would like to reread a story or the instructions, feel free to do so. Now turn to the Answer Sheet, go to the 12 issues and rate and rank them in terms of how important each issue seems to you.]

---

## **Reporter — (Story #2)**

Molly Dayton has been a news reporter for the Gazette newspaper for over a decade. Almost by accident, she learned that one of the candidates for Lieutenant Governor for her state, Grover Thompson, had been arrested for shop-lifting 20 years earlier. Reporter Dayton found out that early in his life, Candidate Thompson had undergone a confused period and done things he later regretted, actions which would be very out-of-character now. His shoplifting had been a minor offense and charges had been dropped by the department store. Thompson has not only straightened himself out since then, but built a distinguished record in helping many people and in leading constructive community projects. Now, Reporter Dayton regards Thompson as the best candidate in the field and likely to go on to important leadership positions in the state. Reporter Dayton wonders whether or not she should write the story about Thompson's earlier troubles because in the upcoming close and heated election, she fears that such a news story could wreck Thompson's chance to win.

[Now turn to the Answer Sheet, go to the 12 issues for this story, rate and rank them in terms of how important each issue seems to you.]

---

### **School Board — (Story #3)**

Mr. Grant has been elected to the School Board District 190 and was chosen to be Chairman. The district is bitterly divided over the closing of one of the high schools. One of the high schools has to be closed for financial reasons, but there is no agreement over which school to close. During his election to the School Board, Mr. Grant had proposed a series of "Open Meetings" in which members of the community could voice their opinions. He hoped that dialogue would make the community realize the necessity of closing one high school. Also he hoped that through open discussion, the difficulty of the decision would be appreciated, and that the community would ultimately support the school board decision. The first Open Meeting was a disaster. Passionate speeches dominated the microphones and threatened violence. The meeting barely closed without fist-fights. Later in the week, school board members received threatening phone calls. Mr. Grant wonders if he ought to call off the next Open Meeting.

[Now turn to the Answer Sheet, go to the 12 issues for this story, rate and rank them in terms of how important each issue seems to you.]

---

### **Cancer — (Story #4)**

Mrs. Bennett is 62 years old, and in the last phases of colon cancer. She is in terrible pain and asks the doctor to give her more pain-killer medicine. The doctor has given her the maximum safe dose already and is reluctant to increase the dosage because it would probably hasten her death. In a clear and rational mental state, Mrs. Bennett says that she realizes this; but she wants to end her suffering even if it means ending her life. Should the doctor give her an increased dosage?

[Now turn to the Answer Sheet, go to the 12 issues for this story, rate and rank them in terms of how important each issue seems to you.]

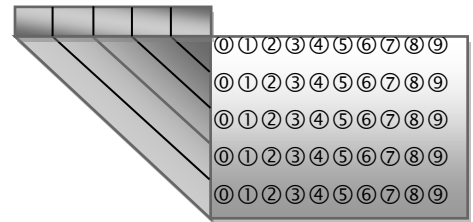
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### **Demonstration — (Story #5)**

Political and economic instability in a South American country prompted the President of the United States to send troops to "police" the area. Students at many campuses in the U.S.A. have protested that the United States is using its military might for economic advantage. There is widespread suspicion that big oil multinational companies are pressuring the President to safeguard a cheap oil supply even if it means loss of life. Students at one campus took to the streets in demonstrations\* tying up traffic and stopping regular business in the town. The president of the university demanded that the students stop their illegal demonstrations. Students then took over the college's administration building, completely paralyzing the college. Are the students right to demonstrate in these ways?

[Now turn to the Answer Sheet, go to the 12 issues for this story, rate and rank them in terms of how important each issue seems to you.]

---



Please read story #1 in the INSTRUCTIONS booklet.

**Famine –(story #1)**

What should Mustaq Singh do? Do you favor the action of taking the food? (Mark one.)

- ① Should take the food    ② Can't decide    ③ Should not take the food

GREAT  
MUCH  
SOME  
LITTLE  
NO

**Rate the following 12 issues in terms of importance (1-5)**

- ①②③④⑤ 1. Is Mustaq Singh courageous enough to risk getting caught for stealing?
- ①②③④⑤ 2. Isn't it only natural for a loving father to care so much for his family that he would steal?
- ①②③④⑤ 3. Shouldn't the community's laws be upheld?
- ①②③④⑤ 4. Does Mustaq Singh know a good recipe for preparing soup from tree bark?
- ①②③④⑤ 5. Does the rich man have any legal right to store food when other people are starving?
- ①②③④⑤ 6. Is the motive of Mustaq Singh to steal for himself or to steal for his family?
- ①②③④⑤ 7. What values are going to be the basis for social cooperation?
- ①②③④⑤ 8. Is the epitome of eating reconcilable with the culpability of stealing?
- ①②③④⑤ 9. Does the rich man deserve to be robbed for being so greedy?
- ①②③④⑤ 10. Isn't private property an institution to enable the rich to exploit the poor?
- ①②③④⑤ 11. Would stealing bring about more total good for everybody concerned or wouldn't it?
- ①②③④⑤ 12. Are laws getting in the way of the most basic claim of any member of a society?

Rank which issue is the most important (item number).

- Most important item    ①②③④⑤⑥⑦⑧⑨⑩⑪⑫ Third most important    ①②③④⑤⑥⑦⑧⑨⑩⑪⑫  
 Second most important    ①②③④⑤⑥⑦⑧⑨⑩⑪⑫ Fourth most important    ①②③④⑤⑥⑦⑧⑨⑩⑪⑫

Now please return to the Instructions booklet for the next story.

**Reporter —(Story#2)**

Do you favor the action of reporting the story? (Mark one.)

- ① Should report the story    ② Can't decide    ③ Should not report the story

GREAT  
MUCH  
SOME  
LITTLE  
NO

**Rate the following 12 issues in terms of importance (1-5)**

- ①②③④⑤ 1. Doesn't the public have a right to know all the facts about all the candidates for office?
- ①②③④⑤ 2. Would publishing the story help Reporter Dayton's reputation for investigative reporting?
- ①②③④⑤ 3. If Dayton doesn't publish the story wouldn't another reporter get the story anyway and get the credit for investigative reporting?
- ①②③④⑤ 4. Since voting is such a joke anyway, does it make any difference what reporter Dayton does?
- ①②③④⑤ 5. Hasn't Thompson shown in the past 20 years that he is a better person than his earlier days as a shop-lifter?
- ①②③④⑤ 6. What would best serve society?
- ①②③④⑤ 7. If the story is true, how can it be wrong to report it?
- ①②③④⑤ 8. How could reporter Dayton be so cruel and heartless as to report the damaging story about candidate Thompson?
- ①②③④⑤ 9. Does the right of "habeas corpus" apply in this case?
- ①②③④⑤ 10. Would the election process be more fair with or without reporting the story?
- ①②③④⑤ 11. Should reporter Dayton treat all candidates for office in the same way by reporting everything she learns about them, good and bad?
- ①②③④⑤ 12. Isn't it a reporter's duty to report all the news regardless of the circumstances?

Rank which issue is the most important (item number).

- Most important item    ①②③④⑤⑥⑦⑧⑨⑩⑪⑫ Third most important    ①②③④⑤⑥⑦⑧⑨⑩⑪⑫  
 Second most important    ①②③④⑤⑥⑦⑧⑨⑩⑪⑫ Fourth most important    ①②③④⑤⑥⑦⑧⑨⑩⑪⑫

Now please return to the Instructions booklet for the next story





**School Board — (Story #3)**

Do you favor calling off the next Open Meeting? ①Should call off the next open meeting ②Can't decide ③Should have the next open meeting

**Rate the following 12 issues in terms of importance (1-5)**

GREAT  
Much  
SOME  
LITTLE  
NO

- ① ② ③ ④ ⑤ 1. Is Mr. Grant required by law to have Open Meetings on major school board decisions?
- ① ② ③ ④ ⑤ 2. Would Mr. Grant be breaking his election campaign promises to the community by discontinuing the Open Meetings?
- ① ② ③ ④ ⑤ 3. Would the community be even angrier with Mr. Grant if he stopped the Open Meetings?
- ① ② ③ ④ ⑤ 4. Would the change in plans prevent scientific assessment?
- ① ② ③ ④ ⑤ 5. If the school board is threatened, does the chairman have the legal authority to protect the Board by making decisions in closed meetings?
- ① ② ③ ④ ⑤ 6. Would the community regard Mr, Grant as a coward if he stopped the open meetings?
- ① ② ③ ④ ⑤ 7. Does Mr. Grant have another procedure in mind for ensuring that divergent views are heard?
- ① ② ③ ④ ⑤ 8. Does Mr. Grant have the authority to expel troublemakers from the meetings or prevent them from making long speeches?
- ① ② ③ ④ ⑤ 9. Are some people deliberately undermining the school board process by playing some sort of power game?
- ① ② ③ ④ ⑤ 10. What effect would stopping the discussion have on the community's ability to handle controversial issues in the future?
- ① ② ③ ④ ⑤ 11. Is the trouble coming from only a few hotheads, and is the community in general really fair-minded and democratic?
- ① ② ③ ④ ⑤ 12. What is the likelihood that a good decision could be made without open discussion from the community?

**Rank which issue is the most important (item number).**

Most important item ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫ Third most important ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫  
 Second most important ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫ Fourth most important ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫

**Now please return to the Instructions for the next story**

**Cancer — (Story #4)**

Do you favor the action of giving more medicine? ①Should give Mrs. Bennett an increased dosage to make her die ②Can't decide ③ Should not give her an increased dosage

**Rate the following 12 issues in terms of importance (1-5)**

Much  
Some  
Little  
Great  
No

- ① ② ③ ④ ⑤ 1. Isn't the doctor obligated by the same laws as everybody else if giving an overdose would be the same as killing her?
- ① ② ③ ④ ⑤ 2. Wouldn't society be better off without so many laws about what doctors can and cannot do?
- ① ② ③ ④ ⑤ 3. If Mrs. Bennett dies, would the doctor be legally responsible for malpractice?
- ① ② ③ ④ ⑤ 4. Does the family of Mrs. Bennett agree that she should get more painkiller medicine?
- ① ② ③ ④ ⑤ 5. Is the painkiller medicine an active hallo tropic drug?
- ① ② ③ ④ ⑤ 6. Does the state have the right to force continued existence on those who don't want to live?
- ① ② ③ ④ ⑤ 7. Is helping to end another's life ever a responsible act of cooperation?
- ① ② ③ ④ ⑤ 8. Would the doctor show more sympathy for Mrs. Bennett by giving the medicine or not?
- ① ② ③ ④ ⑤ 9. Wouldn't the doctor feel guilty from giving Mrs. Bennett so much drug that she died?
- ① ② ③ ④ ⑤ 10. Should only God decide when a person's life should end?
- ① ② ③ ④ ⑤ 11. Shouldn't society protect everyone against being killed?
- ① ② ③ ④ ⑤ 12. Where should society draw the line between protecting life and allowing someone to die if the person wants to?

**Rank which issue is the most important (item number).**

Most important item ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫ Third most important ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫  
 Second most important ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫ Fourth most important ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫

**Now please return to the Instructions booklet for the next story**

**Demonstration — (Story #5)**

Do you favor the action of demonstrating in this way?

① Should continue demonstrating in these ways ② Can't decide ③ Should not continue demonstrating in these ways

Much  
Some  
Little  
Great  
No

**Rate the following 12 issues in terms of importance(1-5)**

- ①②③④⑤ 5. Do the students have any right to take over property that doesn't belong to them?
- ①②③④⑤ 6. Do the students realize that they might be arrested and fined, and even expelled from school?
- ①②③④⑤ 7. Are the students serious about their cause or are they doing it just for fun?
- ①②③④⑤ 8. If the university president is soft on students this time will it lead to more disorder?
- ①②③④⑤ 9. Will the public blame all students for the actions of a few student demonstrators?
- ①②③④⑤ 10. Are the authorities to blame by giving in to the greed of the multinational oil companies?
- ①②③④⑤ 11. Why should a few people like Presidents and business leaders have more power than ordinary people?
- ①②③④⑤ 12. Does this student demonstration bring about more or less good in the long run to all people?
- ①②③④⑤ 13. Can the students justify their civil disobedience?
- ①②③④⑤ 14. Shouldn't the authorities be respected by students?
- ①②③④⑤ 15. Is taking over a building consistent with principles of justice?
- ①②③④⑤ 16. Isn't it everyone's duty to obey the law, whether one likes it or not?

**Rank which issue is the most important (item number).**

Most important item ①②③④⑤⑥⑦⑧⑨⑩⑪⑫ Third most important ①②③④⑤⑥⑦⑧⑨⑩⑪⑫  
 Second most important ①②③④⑤⑥⑦⑧⑨⑩⑪⑫ Fourth most important ①②③④⑤⑥⑦⑧⑨⑩⑪⑫

**Please provide the following information about yourself:**

**1. Age in years**

①	①
②	②
③	③
④	④
⑤	⑤
⑥	⑥
⑦	⑦
⑧	⑧
⑨	⑨

**2. Sex(mark one)**  Male  Female

**3. Level of education (mark highest level of formal education attained, if you are currently working at that level [e.g., Freshman in college] or if you have completed that level [e.g., if you finished your Freshman year but have gone on no further].)**

- Grade 1 to 6
- Grade 7,8,9
- Grade 10,11,12
- Vocational/ technical school (without a bachelor's degree) (e.g., Auto mechanic, beauty school, real estate, secretary, 2-years nursing program).
- Junior college (e.g., 2-years college, community college, Associate Arts degree).
- Freshman in college in bachelor degree program.
- Sophomore in college in bachelor degree program.
- Junior in college in bachelor degree program.
- Senior in college in bachelor degree program.
- Professional degree (Practitioner degree beyond bachelor's degree) (e.g., MD.,MBA., Bachelor of Divinity, D.D.S. in Dentistry, J.D. in law , Masters of Arts in teaching, Masters of Education [in teaching], Doctor of Psychology, Nursing degree along with 4-year Bachelor's degree)
- Masters degree (in academic graduate school)
- Doctoral degree (in academic graduate school, e.g., Ph.D. or Ed.D.)
- Other Formal Education. (Please describe:-----)

**4. In terms of your political views, how would you characterize yourself (mark one)?**

- Very Liberal
- Somewhat Liberal
- Neither Liberal nor Conservative
- Somewhat Conservative
- Very Conservative

**5. Are you a citizen of the U.S.A.?**

- Yes  No

**6. Is English your primary language?**

- Yes  No

## Section Two

### Organizational Culture

Every organization has its own culture, which is a set of values that might be expected or implicitly required of members of that organization. Most of the following statements listed below are values that have been found prevalent in accounting firms.

<b>Please use the response options to indicate clearly in the boxes below the extent to which you value?</b>										
1	2	3	4	5						
Not at all	To small extent	To a moderate extent	To a great extent	To a very great extent						
Fairness				1	2	3	4	5		
Respect for the individual's right				1	2	3	4	5		
Tolerance				1	2	3	4	5		
Being socially responsible				1	2	3	4	5		
Being competitive				1	2	3	4	5		
Achievement orientation				1	2	3	4	5		
Having high expectations for performance				1	2	3	4	5		
Being results oriented				1	2	3	4	5		
Being analytical				1	2	3	4	5		
Being people oriented				1	2	3	4	5		
Being team oriented				1	2	3	4	5		
Working in collaboration with others				1	2	3	4	5		
Action orientation				1	2	3	4	5		
A willingness to experiment				1	2	3	4	5		
Not being constrained by many rules				1	2	3	4	5		
Opportunities for professional growth				1	2	3	4	5		
Being innovative				1	2	3	4	5		
Risk taking				1	2	3	4	5		
Being careful				1	2	3	4	5		
Paying attention to detail				1	2	3	4	5		
Being precise				1	2	3	4	5		
Being rule oriented				1	2	3	4	5		
Security of employment				1	2	3	4	5		
Stability				1	2	3	4	5		

## Section Three

### Auditors' Decision Making Questionnaire

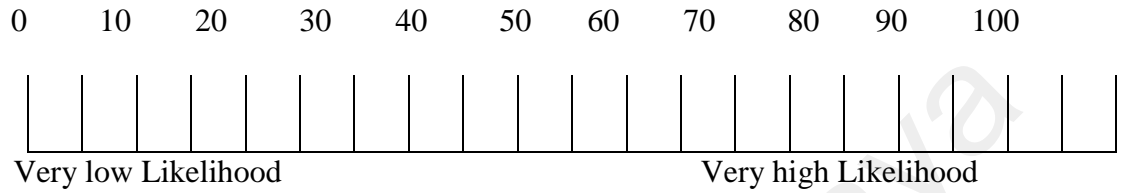
#### **Scenario:**

Omega Manufacturing is a publicly owned producer of dairy products. Assume that you are the auditor of the company. In the current year's audit, a dispute has arisen between the management of Omega and you as the auditor over the materiality of certain unrecorded liabilities discovered. The unrecorded liabilities consist primarily of expenses incurred in 1999 that were neither paid nor recorded in Omega's financial statements until 2000. Omega's financial controller argues that the total amount of unrecorded liabilities is immaterial and it is therefore unnecessary to adjust the financial statements in this regard. You feel that the amount is material and that the 1999 financial statements should be adjusted accordingly. Technical accounting standards provide very little guidance in determining the materiality of given amounts in the financial statements, and thus, Omega's management believes it should know as well as anyone what financial statement readers would or would not deem to be a material amount.

Please read question no. 1 first and answer that question before reading questions no. 2 and After answering questions no. 2 and please do not go back to change the answer of question no.1.

**Question 1**

In your view, given the above information, how likely is it that you will ignore the unrecorded liabilities for purposes of financial statements as well as auditor's report, which is the alternative that the management of Omega desires? Provide your answer by circling the most appropriate number on the following equal interval scale.



**Question 2**

As the auditor, have you encountered cases that are similar to Q. 1 above in which you were involved in an audit conflict situation with client management?

**YES**  If so, please indicate approximately how many cases? -----Please describe briefly the most memorable audit conflict case which you have encountered. ---  
-----  
-----.

**NO**

**Thank You.**

**APPENDIX (B)**  
**MEMORANDUM OF AGREEMENT**  
**For DIT2**  
**UNIVERSITY OF ALABAMA**

## APPENDIX B: MEMORANDUM OF AGREEMENT

### MEMORANDUM OF AGREEMENT DIT-2 TRANSLATION

The Office for the Study of Ethical Development at the University of Alabama grants Abdolreza Shafiei (Name) permission to translate the DIT-2 into Farsi (Language) and to use the DIT-2 with these conditions:

- (1) Permission is given for the specific project described in the letter of "The role of organizational culture in the relationship between ethical reasoning and auditor acceding" (Name). This permission does not extend to additional projects nor to other researchers at other institutions beyond those specifically mentioned in this letter.
- (2) Permission is given for one year. At the time of expiration, the applicant may reapply to the Office.
- (3) The applicant is responsible for duplicating copies of the translated DIT-2 and for affixing the appropriate copyright information on each form, as follows: "©Copyright by James Rest and Darcia Narvaez, 1998. All Rights Reserved." The applicant may wish to add an additional copyright claim for the translation, but this should not replace the original copyright.
- (4) Once you have translated the DIT-2, you have 2 choices for scoring. You may purchase scoring sheets from us (the scan forms in English) and transfer the data from your forms onto our forms, and then send them in for scoring. On the other hand, you may send us a diskette with your data in the exact format described in the Guide. The latter choice means that the data must be in perfect order. Any extra time we need to spend on preparing the data will be charged to you at \$30/hour.
- (5) The applicant agrees not pass on the DIT-2 in translation that is being used, and will provide the Office with copies of reports of this research as they become available.
- (6) The applicant will provide the Office with a copy of the DIT-2 in translation that is being used, and will provide the Office with copies of reports of this research as they become available.
- (7) If a third party approaches the Office for the DIT-2 in translation, the Office will not provide the translated copy to the third party, but will refer that party to the applicant. If the applicant approves use of the DIT-2 in translation by the third party, the third party will then make application to the Office. In other words, both the Office and the applicant will maintain dual control of the DIT-2 in translation.

Signed, on behalf of the Office, [Name] 

[Date] 8/25/11

\* Applicant, [Name] Abdolreza Shafiei

\* [Date] August 25, 2011

\* Institutional Affiliation: N/A

\* Address: shafiee.r@gmail.com

Complete lines that begin with \*. Return both copies. One will be returned to you with official signature.

## APPENDIX (C)

### Research Questionnaire Set

#### Persian Version

Section 1: Defining Issues Test (DIT-2)

Section 2: Organizational Culture

Section 3: Auditors' Decision Making

نقش فرهنگ سازمانی بر رابطه بین منطق اخلاقی

و تمکین حسابرس

بخش اول تست مبانی اخلاقی

بخش دوم فرهنگ سازمانی

بخش سوم تصمیم گیری حسابرس ( تمکین حسابرس )





نقش فرهنگ سازمانی بر رابطه بین منطق اخلاقی و تمکین حسابرس

(پرسشنامه)

عبدالرضا شفیعی



دپارتمان حسابداری مالی و حسابرسی

دانشکده حسابداری و بازرگانی

دانشگاه دولتی مالایا

کوالالامپور

## پاسخگوی محترم

پرسشنامه پیش رو برای جمع آوری داده های تحقیق در پروژه دانشگاهی مربوط به دوره دکتری حسابداری دانشگاه مالایا طراحی شده است و هدف آن گرد آوری اطلاعات مربوط به اثر فرهنگ سازمانی بر رابطه بین منطق اخلاقی و تمکین حسابرس است. در این رابطه از شما دعوت میشود ضمن شرکت در این تحقیق نظرات و تجربیات ارزنده خود را از طریق تکمیل این پرسشنامه ارائه فرمایید. پاسخگویی به این پرسشنامه بیش از ۲۵ تا ۳۰ دقیقه از وقت گرانبهای شما را نخواهد گرفت و تمام پاسخ های شما کاملاً محرمانه خواهند ماند و مجموعه داده ها برای پاسخگویی به سوال تحقیق صرفاً توسط محقق مورد استفاده قرار خواهد گرفت. از همکاری ارزشمند شما بسیار سپاسگزارم.

با احترام

عبدالرضا شفیعی

دانشجوی دکتری حسابداری

دانشگاه مالایا

[shafiee.r@gmail.com](mailto:shafiee.r@gmail.com)

### در پاسخگویی به سوالات لطفاً به موارد زیر دقت فرمایید:

- ۱- لطفاً دستورات ویژه مربوط به بخش اول را به دقت مطالعه کنید.
- ۲- برای پاسخگویی به هر سوال لطفاً تنها عددی را که بهتر از همه در مورد شما صادق است علامت بزنید.
- ۳- لطفاً هر سوال را به دقت مطالعه فرمایید چون برخی از سوالات ظاهراً شبیه اند ولی مطالب مختلفی را بیان میکنند.
- ۴- لطفاً به کلیه سوالات پاسخ دهید.
- ۵- برای هیچ یک از سوالات بیش از یک گزینه را انتخاب نکنید.

تست مبانی اخلاقی ۲

باجازه ترجمه و تطبیق از

**The Office for the Study of Ethical Development at the  
University of Alabama**

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دستورالعمل

این پرسشنامه نحوه ی برداشت شما را از جنبه های مختلف یک مشکل اجتماعی می سنجد. چندین داستان در مورد مشکلات اجتماعی بیان میشوند، بعد از هرداستان فهرستی از سوال هادراختیار شما قرار میگیرند. این سوالات هر کدام نشانگر جنبه های مختلف هر مشکل اجتماعی است. به عبارت دیگر پاسخ به هر کدام از این سوالات نشان میدهد که جنبه های مختلف هر مشکل اجتماعی برای شما به چه میزان مهم است. شما باید سوالات را بر حسب میزان اهمیت آنها از دیدگاه خودتان ارزیابی و رتبه بندی کنید. این پرسشنامه شامل دو بخش است بخش اول راهنمای پاسخ گویی به پرسشنامه به همراه داستانهایی است که مشکلات اجتماعی را بیان می کند و بخش دیگر سوالات و پاسخنامه است. در اینجا نمونه ای ارائه میشود:

انتخابات ریاست جمهوری

تصور کنید میخواهید در انتخابات ریاست جمهوری رای دهید و قبل از رای دادن از شما پرسیده میشود که کدام یک از ویژگی های مربوط به هر کاندیدا در تصمیم گیری شما مهم است. در این مثال ۵ مورد از موضوعات در قالب سوال مطرح میگردد. لطفاً موضوعات را به ترتیب اهمیت از ۱ تا ۵ مشخص کنید (عدد ۱ بسیار با اهمیت، عدد ۲ با اهمیت، عدد ۳ تا حدودی با اهمیت، عدد ۴ کم اهمیت و عدد ۵ بی اهمیت) و بنا به درجه اهمیت، پرسشنامه ها را با مداد تکمیل نمایید. فرض کنید سوال یک که در پایین آمده از اهمیت بالایی برخوردار است، سوال دو از اهمیت نسبی، سوال سه فاقد اهمیت، سوال چهار دارای اهمیت بالا و سوال پنج نیز مانند سوال چهار از اهمیت بالایی برخوردار است. سپس خانه های مربوط به هر سوال را در پرسشنامه مانند نمونه زیر تکمیل نمایید.

موضوعات	بسیار با اهمیت	با اهمیت	نسبتاً با اهمیت	کم اهمیت	بی اهمیت
۱- آیا از نظر مالی شخصاً وضعیت بهتری نسبت به چهار سال پیش دارید؟	①	②	③	④	⑤
۲- آیا یکی از کاندیداها برتری اخلاقی ویژه ای دارد؟	①	②	③	④	⑤
۳- کدام نامزد از بقیه بلندقد تر است؟	①	②	③	④	⑤
۴- کدام یک از نامزدها قدرت بهتری دارد؟	①	②	③	④	⑤
۵- کدام یک از نامزدها نظرات بهتری برای مشکلات داخلی کشور مثل جرایم و خدمات بهداشتی درمانی دارد؟	①	②	③	④	⑤

به علاوه، این پرسشنامه از شما میخوهد تا سوالات را براساس اهمیت دسته بندی کنید. در قسمت پایین اعداد ۱ الی ۱۲ بیانگر دوازده سوال مربوط به هر داستان میباشد. از شما خواسته شده است تا خانه های زیر هر سوال را به ترتیب اهمیت پر کنید. ابتدا سوالی که بیشترین اهمیت را دارد و سپس سوالاتی که در درجه دوم، سوم و چهارم اهمیت هستند را انتخاب نمایید.

شما می توانید گزینه ها را مانند زیر تکمیل نمایید.

موضوع شماره:	۱	۲	۳	۴	۵
بیشترین اهمیت	●	○	○	○	○
درجه دوم اهمیت	○	○	○	○	●
درجه سوم اهمیت	○	○	○	●	○
درجه چهارم اهمیت	○	○	○	○	○

توجه: ممکن است برخی سوالات برای شما نامربوط یا بدون مفهوم باشند (مانند سوال ۳) در این صورت آن سوال را جواب ندهید. توجه نمایید که برای هر موضوعی که در زیر آمده ۱۲ سوال مطرح شده لطفاً اطمینان حاصل کنید که هر ۱۲ سوال را پس از هر داستان بررسی کرده اید.

در صورتیکه سوالی دارید، لطفاً همین الان مطرح کنید.

### داستان اول - قحطی

روستای کوچکی در شمال هندوستان بارها کمبود مواد غذایی را تجربه کرده اما قحطی سال جاری بدتر از سالهای قبل بوده است. بعضی خانواده ها به علت فقر غذایی حتی کوشیده اند تا از طریق تهیه سوپ با استفاده از پوست برخی درختان تغذیه نمایند. خانواده مستاق سینک به علت فقر غذایی در شرف موت میباشند. او شنیده است که ثروتمندی از روستایشان مقدار زیادی مواد غذایی احتکار نموده است تا پس از افزایش بهای مواد غذایی آن را به قیمت گزافی بفروشد. مستاق به شدت محتاج است و در این فکر است که قدری مواد غذایی از انبار آن مرد سرقت نماید. او فکر میکند که با دزدیدن مقدار ناچیزی مواد غذایی از انبار آن مرد چیزی از آن مرد ثروتمند نمی کاهد.

(شما میتوانید داستان را در صورت لزوم دوباره بخوانید. سپس به بخش پاسخنامه مراجعه کنید و بر اساس درجه اهمیتی که برای سوالات قایل هستید آنها را رتبه بندی نمایید).

## داستان دوم - خبرنگار

مولی دیتون برای بیش از یک دهه گزارشگر خبری روزنامه گارت بوده است. تقریباً به صورت تصادفی متوجه شد که یکی از کاندیداهای ایالتی به نام "گروور تامپسون" ۲۰ سال پیش سابقه سرقت از مغازه داشته است. خبرنگار "دیتون" همچنین متوجه شد که وی گذشته خوبی نداشته و اعمال غیر انسانی را انجام داده که بعداً از انجام آنها پشیمان گشته است. سرقت از مغازه در مقایسه با سایر جرایم وی جرم کوچکی محسوب میشود. اما تامپسون نه تنها از آن موقع به بعد دست از اعمال خلاف برداشته بلکه در این مدت کارهای عام المنفعه زیادی نیز انجام داده و از خود نام نیکی برجای گذاشته است. هم اکنون دیتون، تامپسون را آدم موجهی میداند که قرار است در امور حکومتی کار مهمی به دست گیرد. گزارشگر دیتون مردد است که مسائل گذشته تامپسون را در مطبوعات گزارش کند زیرا این کار ممکن است باعث شکست تامپسون در انتخابات شود.

## داستان سوم - شورای مدرسه

آقای گرانت به عنوان ریس انجمن مدارس ناحیه انتخاب شده است. در این ناحیه نسبت به تعطیل شدن یکی از دبیرستان‌ها به شدت بحث بالا گرفته است. یکی از دبیرستانها به دلایل مالی باید تعطیل شود اما بر سر اینکه کدام دبیرستان باید تعطیل شود توافقی صورت نگرفته است. در هنگام مبارزات انتخاباتی اش آقای گرانت پیشنهاد داده بود که بهتر است بحث آزادی تشکیل شود تا افراد اجتماع بتوانند نظراتشان را مطرح نمایند. وی امیدوار است که بحث آزاد اعضا را نسبت به بستن یکی از دبیرستان‌ها متقاعد کند و مشکل تصمیم‌گیری در چنین موردی را برای اعضا روشن سازد تا در نهایت اعضا از تصمیم انجمن حمایت کنند. اولین جلسه، سرانجام خوبی نداشت. جلسه بحث برانگیز بود و صحبت‌های تندی ردوبدل گشت. با این حال جلسه بدون زدو خورد خاتمه یافت. اواخر هفته اعضای انجمن تماس‌های تهدید آمیزی را دریافت کردند. آقای گرانت نمی‌داند که آیا جلسه بعدی باید برگزار شود یا نه.

## داستان چهارم - سرطان

خانم بنت ۶۲ ساله با سرطان وخیم روده دست و پنجه نرم میکند. درد وی شدید است و پیوسته از پزشک خویش درخواست مسکن بیشتر میکند. دکتر وی حداکثر مسکن مجاز را برایش تجویز کرده است و دیگر تمایلی به افزودن مسکن برای وی ندارد چون احتمال میدهد که افزایش مسکن باعث مرگ زودرس بیمار شود. خانم بنت میداند که افزایش داروی مسکن ممکن است برای وی مخاطره آمیز باشد اما میخواهد به این درد و آلام خاتمه بخشد حتی اگر به قیمت جانش تمام شود. آیا پزشک باید به وی مسکن بیشتری بدهد؟

## داستان پنجم - راهپیمایی

عدم ثبات اقتصادی و سیاسی یکی از کشورهای آمریکای جنوبی، ریس جمهور امریکا را بر آن داشته تا نیروی نظامی به منطقه گسیل دارد. دانشجویان بسیاری از دانشکده های امریکا با این باور که دولت امریکا برای منافع اقتصادی از قدرتش استفاده میکند دست به اعتراض زدند. این شک و تردید در همه جا گسترده شده است که شرکتهای بزرگ نفتی بین المللی ریس جمهور را تحت فشار قرار داده اند تا عرضه ی نفت ارزان قیمت را تضمین نماید حتی اگر منجر به تلفات انسانی شود. دانشجویان یک دانشکده برای اعتراض به سمت خیابانها راهپیمایی کردند و باعث ترافیک و تعطیلی بازار شدند. ریس دانشگاه از دانشجویان خواست تا به تظاهرات غیرقانونی خویش خاتمه دهند. دانشجویان متقابلاً بخش اداری دانشگاه را احاطه کردند و عملاً دانشکده را به تعطیلی کشاندند. آیا دانشجویان حق دارند اینگونه اعتراض و راهپیمایی کنند؟

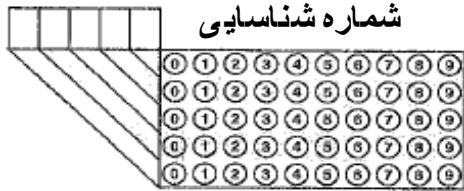
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پاسخنامه تست مبانی اخلاقی ۲

قحطی... (داستان اول)

مستاق سینک چه باید میکرد، آیا شما با دزدیدن غذا موافقت میکنید؟

بله  نظری ندارم  خیر



شماره شناسایی

بسیار با اهمیت	با اهمیت	نسبتاً با اهمیت	کم اهمیت	بلا اهمیت	دوازده مورد زیر را بر اساس اهمیت رده بندی کنید
①	②	③	④	⑤	۱- آیا مستاق سینک جرات کافی برای پذیرفتن خطر دستگیری به دلیل دزدی را دارد؟
①	②	③	④	⑤	۲- آیا عمل دزدی توسط پدری که عاشق خانواده خود است امری طبیعی نیست؟
①	②	③	④	⑤	۳- آیا قوانین جامعه نباید رعایت شوند؟
①	②	③	④	⑤	۴- آیا مستاق سینک روش تهیه سوپ از پوسته درخت را میدانند؟
①	②	③	④	⑤	۵- آیا مرد ثروتمند مجاز به ارتکاب غذا می باشد در حالی که مردم گرسنگی می کشند؟
①	②	③	④	⑤	۶- نیت مستاق سینک دزدی برای شخص خود میباشد یا برای خانواده اش؟
①	②	③	④	⑤	۷- ارزشهای اساسی جهت همیاری اجتماعی چه می باشند؟
①	②	③	④	⑤	۸- آیا ارتکاب دزدی برای خوردن غذا قابل قبول است؟
①	②	③	④	⑤	۹- آیا درست است که از مرد ثروتمند به دلیل طمعکاریش دزدی شود؟
①	②	③	④	⑤	۱۰- آیا اموال خصوصی ایزاری جهت اقتدار ثروتمندان برای سوء استفاده از فقرا نیست؟
①	②	③	④	⑤	۱۱- آیا دزدی برای همه به میزان کافی غذا و وسیله فراهم میکند یا نه؟
①	②	③	④	⑤	۱۲- آیا قوانین مانعی بر سر راه هر فرد جامعه برای رسیدن به احتیاجات اولیه خود می باشد؟

مشخص کنید که کدامیک از موضوعات دارای بیشترین اهمیت هستند (شماره آنها مشخص شود).

بیشترین اهمیت (① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫) در درجه سوم (① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫)  
در درجه دوم (① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫) در درجه چهارم (① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫)

گزارشگر... (داستان دوم)

آیا شما با گزارش ماجرا موافق هستید؟

بله  نظری ندارم  خیر

بسیار با اهمیت	با اهمیت	نسبتاً با اهمیت	کم اهمیت	بلا اهمیت	دوازده مورد زیر را بر اساس اهمیت رده بندی کنید
①	②	③	④	⑤	۱- آیا مردم مستحق دانستن تمامی حقایق در مورد تمامی کاندیداها نمی باشند؟
①	②	③	④	⑤	۲- آیا انتشار خبر به آینده حرفه ای گزارشگر دایتون کمک می کند؟
①	②	③	④	⑤	۳- آیا اگر دایتون خبر را گزارش نکند، امکان ندارد که گزارشگر دیگری این کار را انجام دهد و اعتبار آن را نصیب خود سازد؟
①	②	③	④	⑤	۴- از آنجاییکه رای گیری امری مسخره است، آیا عمل گزارشگر دایتون چیزی را عوض می کند؟
①	②	③	④	⑤	۵- آیا عملکرد تامپسون در ۲۰ ساله اخیر نشان دهنده این نیست که او نسبت به زمانی که دزدی را انجام داد اکنون فردی بهتر است؟
①	②	③	④	⑤	۶- چه کاری بهترین خدمت به جامعه است؟
①	②	③	④	⑤	۷- اگر خبر واقعی باشد گزارش کردن آن تا چه اندازه اشتباه است؟
①	②	③	④	⑤	۸- چگونه امکان دارد گزارشگر دایتون آنقدر بی رحم باشد که داستان بی آبرویی آقای تامپسون را گزارش کند؟
①	②	③	④	⑤	۹- آیا فراخواندن وی به دادگاه در این مورد امکان پذیر است؟
①	②	③	④	⑤	۱۰- آیا روند رای گیری با گزارش کردن این خبر منصفانه تر است؟
①	②	③	④	⑤	۱۱- آیا رفتار گزارشگر دایتون نسبت به تمامی کاندیداها باید یکسان باشد و او هر چه را که می داند، بد یا خوب، باید گزارش کند؟
①	②	③	④	⑤	۱۲- آیا این وظیفه یک گزارشگر نیست که تمامی اخبار را بدون در نظر گرفتن جوانب آن گزارش کند؟

مشخص کنید که کدامیک از موضوعات دارای بیشترین اهمیت هستند (شماره آنها مشخص شود).

بیشترین اهمیت (① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫) در درجه سوم (① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫)  
در درجه دوم (① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫) در درجه چهارم (① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ⑪ ⑫)

شورای مدارس... (داستان سوم)

آیا شما با لغو جلسه بحث آزاد بعدی موافقت می‌کنید؟

بلی  نظری ندارم  خیر

دوازده مورد زیر را بر اساس اهمیت رده بندی کنید

بسیار با اهمیت	با اهمیت	نسبتاً با اهمیت	کم اهمیت	بی اهمیت	
①	②	③	④	⑤	۱- آیا آقای گرانر قانوناً ملزم به برگزاری جلسات بحث آزاد در مورد تصمیم گیری های مهم شورای مدرسه می باشد؟
①	②	③	④	⑤	۲- آیا آقای گرانر وعده های انتخاباتی اش را با لغو جلسه بعدی بحث آزاد زیر پا خواهد گذاشت؟
①	②	③	④	⑤	۳- آیا افراد اجتماع با توقف جلسات بعدی بحث آزاد خشمگین تر می شوند؟
①	②	③	④	⑤	۴- آیا تغییر برنامه ها مانع ارزیابی علمی میباشد؟
①	②	③	④	⑤	۵- اگر شورای مدرسه مورد تهدید قرار گیرد، ایا ریس شورا از نظر قانونی جهت حفاظت شورا می تواند جلسات را تعطیل کند؟
①	②	③	④	⑤	۶- آیا افراد اجتماع آقای گرانر را ترسو قلمداد میکنند اگر او جلسات آزاد را متوقف کند؟
①	②	③	④	⑤	۷- آیا آقای گرانر راه حل دیگری برای شنیدن نظرات مختلف در نظر دارد؟
①	②	③	④	⑤	۸- آیا آقای گرانر حق اخراج اخلاک‌گراها و یا ممنوع کردن سخنرانی های طولانی آنها را دارد؟
①	②	③	④	⑤	۹- آیا بعضی از مردم عمداً با اعمال نفوذ قدرت سعی بر تضعیف شورای مدرسه را دارند؟
①	②	③	④	⑤	۱۰- متوقف کردن بحث های آزاد چه تاثیری بر توانایی جامعه برای حل مشکلات آتی از راه گفتگو خواهد داشت؟
①	②	③	④	⑤	۱۱- آیا فقط معدود افراد نا آرام و ناشکیبا مشکل ساز هستند و اجتماع مردم در کل دمکراتیک و روشنفکر می باشد؟
①	②	③	④	⑤	۱۲- احتمال رسیدن به تصمیمی مناسب بدون بحث های آزاد در اجتماع مردم چقدر است؟

مشخص کنید که کدامیک از موضوعات دارای بیشترین اهمیت هستند (شماره آنها مشخص شود).

بیشترین درجه سوم  ①  ②  ③  ④  ⑤  ⑥  ⑦  ⑧  ⑨  ⑩  ⑪  ⑫

در درجه دوم  ①  ②  ③  ④  ⑤  ⑥  ⑦  ⑧  ⑨  ⑩  ⑪  ⑫

در درجه چهارم  ①  ②  ③  ④  ⑤  ⑥  ⑦  ⑧  ⑨  ⑩  ⑪  ⑫

سرطان... (داستان چهارم)

آیا شما با افزایش مقدار دارو موافقت می‌کنید؟

بلی  نظری ندارم  خیر

دوازده مورد زیر را بر اساس اهمیت رده بندی کنید

بسیار با اهمیت	با اهمیت	نسبتاً با اهمیت	کم اهمیت	بی اهمیت	
①	②	③	④	⑤	۱- آیا دکتر مثل هر فرد دیگر پاینده به قانون، اگر مقدار دارو را از حد مجاز اضافه تر کند باعث کشتن اونمی شود؟
①	②	③	④	⑤	۲- آیا جامعه ای بدون این همه باید ها و نبایدها برای پزشکان جامعه ای بهتر نیست؟
①	②	③	④	⑤	۳- اگر خانم بنت بمیرد، آیا دکتر از نظر قانونی مسئول میباشد؟
①	②	③	④	⑤	۴- آیا خانواده خانم بنت موافق دادن داروی ضد درد بیشتر به او هستند؟
①	②	③	④	⑤	۵- آیا داروی ضد درد یک داروی موثر هلیوترایپیک است؟
①	②	③	④	⑤	۶- آیا دولت این حق را دارد که افراد را مجبور به ادامه زندگی نماید؟
①	②	③	④	⑤	۷- آیا کمک به پایان یافتن زندگی مریض با تمایل خودش شراکت در جرم محسوب میشود؟
①	②	③	④	⑤	۸- آیا دکتر با دادن دارو به خانم بنت با او احساس همدردی میکند؟
①	②	③	④	⑤	۹- آیا دکتر احساس گناه نمیکند اگر او به خانم بنت آنقدر دارو بدهد که منجر به مرگ وی شود؟
①	②	③	④	⑤	۱۰- آیا فقط خدا باید برای پایان زندگی افراد تصمیم بگیرد؟
①	②	③	④	⑤	۱۱- آیا جامعه نباید از کشته شدن افراد جلوگیری نماید؟
①	②	③	④	⑤	۱۲- جامعه چگونه باید مرز بین حفاظت کردن از زندگی افراد و اجازه دادن به آنهايي که میخواهند بمیرند را مشخص کند؟

مشخص کنید که کدامیک از موضوعات دارای بیشترین اهمیت هستند (شماره آنها مشخص شود).

بیشترین درجه سوم  ①  ②  ③  ④  ⑤  ⑥  ⑦  ⑧  ⑨  ⑩  ⑪  ⑫

در درجه دوم  ①  ②  ③  ④  ⑤  ⑥  ⑦  ⑧  ⑨  ⑩  ⑪  ⑫

در درجه چهارم  ①  ②  ③  ④  ⑤  ⑥  ⑦  ⑧  ⑨  ⑩  ⑪  ⑫

راهپیمایی... (داستان پنجم)

آیا شما با تظاهرات بدین شکل موافقت می‌کنید؟



بلی O

نظری ندارم O

خیر O

دوازده مورد زیر را بر اساس اهمیت رده بندی کنید

بسیار بااهمیت	بااهمیت	نسبتاً بااهمیت	کم اهمیت	بیرون اهمیت
①	②	③	④	⑤
①	②	③	④	⑤
①	②	③	④	⑤
①	②	③	④	⑤
①	②	③	④	⑤
①	②	③	④	⑤
①	②	③	④	⑤
①	②	③	④	⑤
①	②	③	④	⑤
①	②	③	④	⑤
①	②	③	④	⑤
①	②	③	④	⑤
①	②	③	④	⑤
①	②	③	④	⑤

مشخص کنید که کدامیک از موضوعات دارای بیشترین اهمیت هستند (شماره آنها مشخص شود).

بیشترین درجه سوم درجه دوم

① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩

در درجه سوم درجه دوم

① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩ ① ② ③ ④ ⑤ ⑥ ⑦ ⑧ ⑨ ⑩

لطفا اطلاعات زیر را درباره خودتان ارائه دهید:

۱. سن :..... سال      ۲. جنس:      مرد O      زن O

۳. سطح تحصیلات (اگر شما در حال حاضر در سطح خاصی مشغول به تحصیل هستید (مثلا دانشجوی سال اول دانشگاه) یا اگر آن سطح را تمام کرده اید (مثلا سال اول را تمام کرده اید ولی قصد ادامه تحصیل ندارید)، بالاترین سطح تحصیلاتی خود را مشخص نمایید)

- O مقطع ابتدایی
- O مقطع راهنمایی
- O مقطع دبیرستان
- O آموزشگاه فنی / حرفه ای
- O دانشجوی سال اول دانشگاه در دوره لیسانس
- O دانشجوی سال دوم دانشگاه در دوره لیسانس
- O دانشجوی سال سوم دانشگاه در دوره لیسانس
- O دانشجوی سال آخر دانشگاه در دوره لیسانس

۴. بر حسب دیدگاههای سیاسی، خودتان را چگونه فردی توصیف می کنید؟ (یک مورد را علامت بزنید)

O بسیار آزادی خواه      O نه آزادی خواه و نه محافظه کار

O تاحدی آزادی خواه      O بسیار محافظه کار

۵. زبان مادری شما چیست؟ O عربی      O فارسی      O کردی      O ترکی      O لری      O سایر (لطفا مشخص کنید)

۶. اسم دانشگاه محل تحصیل (در صورت دانشجو بودن):

## فرهنگ سازمانی

هر سازمان فرهنگ خاص خود را دارد که می تواند مجموعه ای از ارزشهایی باشد که ممکن است مورد انتظار افراد در سازمان بوده یا به طور تلویحی توسط اعضای سازمان ایجاد شده باشند. موارد مطرح شده ذیل ارزش هایی هستند که ممکن است در بسیاری از سازمان ها رایج باشند. لذا لطفا مشخص نمایید هر یک از موارد زیر چقدر از نظر شما ارزش واقعی تلقی می شود؟ آن را از شماره یک تا ۵ رتبه بندی نمایید.

۱	۲	۳	۴	۵			
به هیچ وجه	تا اندازه ای کم	تا اندازه ای مناسب و معتدل	تا اندازه زیاد	تا اندازه خیلی زیاد			
ردیف	۱=کمترین ۵=بیشترین		میزان ارزش از نظر شما				
۱	انصاف		۱	۲	۳	۴	۵
۲	احترام به حقوق فردی		۱	۲	۳	۴	۵
۳	صبوری، بردباری، شکیبایی		۱	۲	۳	۴	۵
۴	مسئولیت پذیری اجتماعی		۱	۲	۳	۴	۵
۵	رقابت پذیری		۱	۲	۳	۴	۵
۶	توفیق طلبی		۲	۳	۴	۵	۶
۷	داشتن انتظارات بالا		۱	۲	۳	۴	۵
۸	نتیجه گرایی		۱	۲	۳	۴	۵
۹	تحلیل گرایی		۱	۲	۳	۴	۵
۱۰	جمع گرایی		۱	۲	۳	۴	۵
۱۱	گروه گرایی		۱	۲	۳	۴	۵
۱۲	تشریک مساعی		۱	۲	۳	۴	۵
۱۳	عملگرایی		۱	۲	۳	۴	۵
۱۴	تجربه گرایی		۱	۲	۳	۴	۵
۱۵	دریند قانون نبودن		۱	۲	۳	۴	۵
۱۶	فرصت پیشرفت		۱	۲	۳	۴	۵
۱۷	نوآوری، خلاقیت		۱	۲	۳	۴	۵
۱۸	خطرپذیری		۱	۲	۳	۴	۵
۱۹	مراقب بودن		۱	۲	۳	۴	۵
۲۰	جزیی نگری		۱	۲	۳	۴	۵
۲۱	دقیق بودن		۱	۲	۳	۴	۵
۲۲	قانون گرایی		۱	۲	۳	۴	۵
۲۳	امنیت شغلی		۱	۲	۳	۴	۵
۲۴	ثبات		۱	۲	۳	۴	۵

## بخش سوم

### پرسشنامه تصمیم گیری حسابرِس (تمکین حسابرِس)

شما به عنوان حسابرِس شرکت لبنیاتی اومگا در سال جاری با مدیریت شرکت در رابطه با موضوعی اختلاف نظر پیدا کرده اید. موضوع اختلاف نظر مربوط به عدم ثبت یک بدهی معین است که توسط شما کشف گردیده است. این بدهی مربوط به هزینه های رخ داده در سال ۱۳۸۸ است که نه تنها پرداخت نشده بلکه در دفاتر شرکت نیز ثبت نگردیده است و در صورت های مالی منتهی به سال ۱۳۸۸ نیز نشان داده نشده است. رئیس حسابداری شرکت مدعی است که مبلغ بدهی ثبت نشده از ارقام بی اهمیت است لذا در این رابطه نیازی به تعدیل صورت های مالی نمی باشد. از نظر شما این مبلغ از موارد با اهمیت است و صورت های مالی سال ۱۳۸۸ می بایست از این حیث تعدیل شوند. استانداردهای حسابداری رهنمود و دستورالعمل مختصری در خصوص تعیین ارقام با اهمیت ارائه میدهد و به همین جهت مدیریت شرکت معتقد است که همانند سایر مدیران خود توانایی تشخیص اهمیت ارقام مذکور را (با توجه به اثر آنها در تصمیم گیری استفاده کنندگان از صورت های مالی) داراست.

لطفاً به سوالات زیر به ترتیب پاسخ دهید:

**سوال یک.** با توجه به اهداف صورت های مالی و گزارش حسابرِس، به نظر شما تا چه حد چشم پوشی از بدهی فوق منطقی به نظر میرسد؟ پاسخ خود را در محدوده اعداد زیر مشخص نمایید

۰	۱۰	۲۰	۳۰	۴۰	۵۰	۶۰	۷۰	۸۰	۹۰	۱۰۰

خیلی کم خیلی زیاد

**سوال دو.** به عنوان حسابرِس آیا شما هرگز با شرایطی مشابه با سوال یک روبرو بوده اید؟

بلی  اگر پاسخ مثبت است لطفاً تعداد تقریبی موارد مشابه را بنویسید..... لطفاً یکی از

موارد این چینی را که بیشتر در خاطرتان است، به طور مختصر توضیح دهید.....

با تشکر مجدد

خیر

## **APPENDIX (D)**

### **1 RESEARCH ANALYSIS OUTPUT**

- ✓ **Normality Tests**
- ✓ **Factor Analyses**
- ✓ **Comparing the Current Results with Original Questionnaire**
- ✓ **Hypotheses Testing**
- ✓ **Test for impact of the Year**
- ✓ **Test Heteroscedasticity**

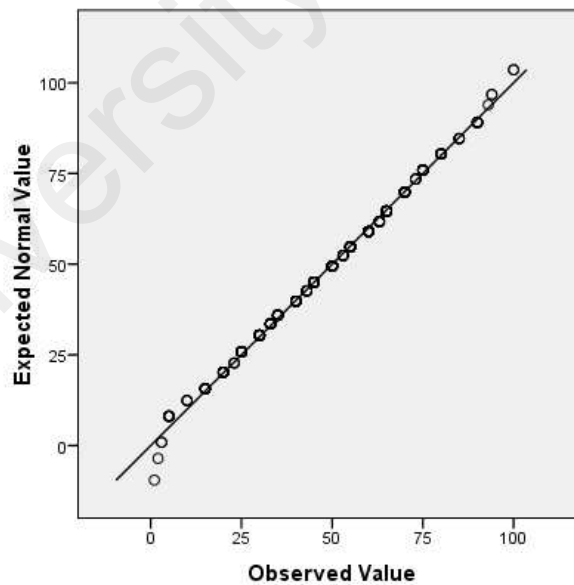
## Normality Tests

### One-Sample Kolmogorov-Smirnov Test

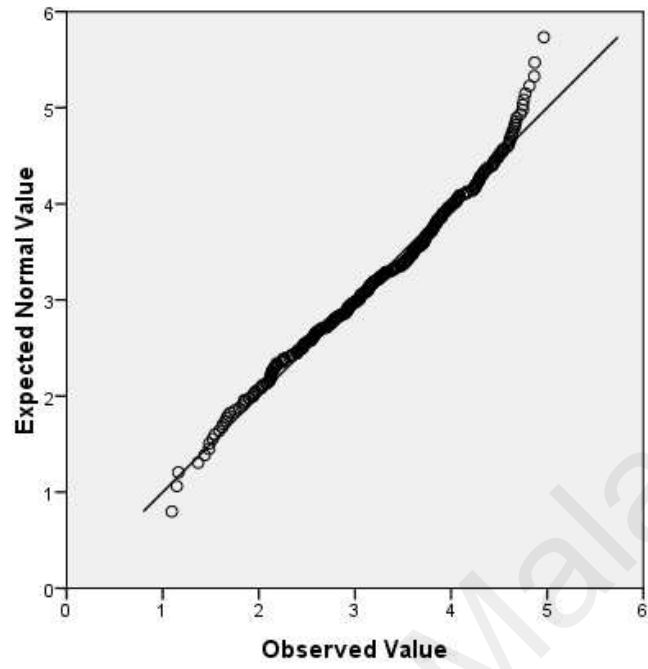
		Ethical Reasoning	Organizational Culture	Acceding
N		432	432	432
Normal Parameters <sup>a</sup>	Mean	26.13	3.9290	25.95
	Std. Deviation	12.80	0.508	23.348
Most Extreme Differences	Absolute	0.063	0.062	0.061
	Positive	0.063	0.037	0.042
	Negative	-0.043	-0.062	-0.061
Kolmogorov-Smirnov Z		1.317	1.167	1.263
Asymp. Sig. (2-tailed)		0.062	0.131	0.082

a. Test distribution is Normal.

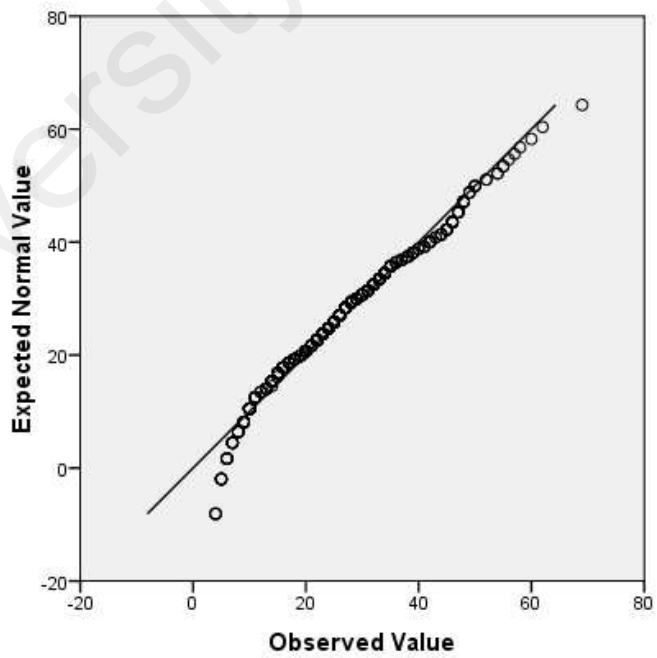
Normal Q-Q Plot of Acceding



Normal Q-Q Plot of PC



Normal Q-Q Plot of P



## Factor Analyses

**The results of Factor Analyses for Total Sample**

<b>Factors</b>	<b>Item loadings</b>	<b>Eigen value</b>	<b>Explained variance</b>	<b>Cronbach alpha</b>
<b>Factor 1: Respect for people</b>		5.581	27.906	0.817
Respect for individual rights	0.813			
Tolerance	0.774			
Fairness	0.773			
Being Socially Responsible	0.610			
<b>Factor 2: Team Orientation</b>		2.031	10.155	0.778
Being People Orientation	0.757			
Being Team Orientation	0.758			
Working in collaboration with others	0.699			
Opportunities	0.619			
<b>Factor 3: Attention to Detail</b>		1.769	8.843	0.702
Being Rule Orientation	0.819			
Being Careful	0.753			
Being Precise	0.661			
Paying attention to detail	0.536			
<b>Factor 4: Outcome Orientation</b>		1.300	6.498	0.575
Results Orientation	0.771			
Achievement Orientation	0.753			
Being Competitive	0.667			
<b>Factor 5: Risk taking</b>		1.177	5.883	0.555
Risk taking	0.846			
Experimenting	0.628			
Not Being Consist	0.537			
<b>Factor 6: Stability</b>		1.006	5.032	0.688
Security Employee	0.773			
Stability	0.699			
<b>Total variance explained</b>		<b>64.317</b>		

## Factor Analysis for two groups

**Table 4 KMO and Bartlett's Test**

		<b>Group G</b>	<b>Group P</b>
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.800	0.792
Bartlett's Test of Sphericity	Approx. Chi-Square	1318.593	1542.622
	df	190	171
	Sig.	0.000	0.000

**Total Variance Explained Groups G and P**

Component	Initial Eigen values <b>Group G</b>			Extraction Sums of Squared Loadings <b>Group G</b>		Initial Eigen values <b>Group P</b>			Extraction Sums of Squared Loadings <b>Group P</b>	
	Total	% of Variance	Cumulative %	Total	% of Variance	Total	% of Variance	Cumulative %	Total	% of Variance
1	5.663	28.313	28.313	5.663	28.313	5.299	27.891	27.891	5.299	27.891
2	1.967	9.837	38.150	1.967	9.837	2.125	11.184	39.076	2.125	11.184
3	1.789	8.945	47.095	1.789	8.945	1.663	8.754	47.829	1.663	8.754
4	1.303	6.517	53.612	1.303	6.517	1.285	6.763	54.592	1.285	6.763
5	1.076	5.382	58.994	1.076	5.382	1.155	6.079	60.672	1.155	6.079
6	1.047	5.237	64.231	1.047	5.237	--	---	---	---	----



### Comparing the Current Results with Original Questionnaire

O'Reilly et al. (1991)	Items	Windsor & Ashkansay (1996)	Group G	Group P
1- Innovation and Risk Taking	Innovation Opportunities Experimenting Risk Taking	Innovation Opportunities Experimenting Risk Taking Action Oriented No Rules	Experimenting Risk Taking No Rules	Experimenting Risk Taking Action Oriented
2- Stability	Careful Rule Orientation Stability Predictability Security	Stability  Security	Action Oriented Stability  Security	N/A
3- Respect for People	No Rules Respect for Individual Fairness Tolerance	Socially Responsible Respect for Individual Fairness Tolerance	Socially Responsible Respect for individual rights Fairness Tolerance	Socially Responsible Respect for individual rights Fairness Tolerance
4- Outcome Orientation	Achievement Oriented Action Oriented High Expectation Results Oriented	Competitive Achievement Oriented High Expectation Results Oriented Analytical	Competitive Achievement Orientation  Results Orientation	Competitive Achievement Orientation  Results Orientation
5- Attention to Detail	Precise Attention to Detail Analytical	Precise Careful Attention to Detail Results Oriented	Precise Careful Attention to Detail Rule Orientation	Precise Careful Attention to Detail Rule Orientation Stability Security
6- Team Orientation	Team Oriented Collaboration People oriented	Team Oriented Collaboration People oriented	Team Orientation Collaboration People Orientation	Team Orientation Collaboration People Orientation
7- Aggressive	Aggressive Competitive Socially Responsible	N/A	N/A	N/A

# Hypotheses Testing

## H1

**Group Statistics**

	Group	N	Mean	Std. Deviation	Std. Error Mean
Ethical reasoning	G	192	26.7003	12.85097	.92744
	P	240	25.6833	12.78236	.82510

**Independent Samples Test for Ethical Reasoning**

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Ethical reasoning	Equal variances assumed	0.042	0.837	0.820	430	0.413	1.01693	1.24060	-1.42147	3.4553
	Equal variances not assumed			0.819	408.49	0.413	1.01693	1.24134	-1.42329	3.4571

## H2

**Model Summary<sup>b</sup> Analysis for Relationship Between Ethical Reasoning and Auditor Acceding**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.474 <sup>a</sup>	.225	.216	20.67662	1.300

a. Predictors: (Constant), Gender, ER, Group, Edu, Age

b. Dependent Variable: Acceding

**ANOVA<sup>b</sup> Analysis for Relationship Between Ethical Reasoning and Auditor Acceding**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	52830.582	5	10566.116	24.715	.000 <sup>a</sup>
	Residual	182124.668	426	427.523		
	Total	234955.250	431			

a. Predictors: (Constant), Gender, ER, Group, Edu, Age

**Model Summary<sup>b</sup> Analysis for Relationship Between Ethical Reasoning and Auditor Acceding**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.474 <sup>a</sup>	.225	.216	20.67662	1.300

b. Dependent Variable: Acceding

**Coefficients for Relationship Between Ethical Reasoning and Auditor Acceding**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	60.319	20.813		2.898	.004		
ER	-.631	.078	-.346	-8.082	.000	.993	1.007
Group	-14.213	2.055	-.303	-6.915	.000	.949	1.054
Age	-.061	.101	-.027	-.605	.545	.923	1.084
Edu	-1.034	1.940	-.023	-.533	.594	.962	1.040
Gender	1.067	2.577	.018	.414	.679	.935	1.070

a. Dependent Variable: Acceding

### H3

**Model Summary<sup>d</sup> Analysis for Organizational Culture (Total Sample)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.371 <sup>a</sup>	.138	.130	21.78071	.138	17.067	4	427	.000	
2	.417 <sup>b</sup>	.174	.156	21.44432	.036	3.700	5	422	.003	
3	.456 <sup>c</sup>	.208	.182	21.12225	.034	3.594	5	417	.003	1.407

a. Predictors: (Constant), Gender, ER\_C, Edu, Age

b. Predictors: (Constant), Gender, ER\_C, Edu, Age, F2\_C, F3\_C, F4\_C, F1\_C, F5\_C

c. Predictors: (Constant), Gender, ER\_C, Edu, Age, F2\_C, F3\_C, F4\_C, F1\_C, F5\_C, F1\_ER, F2\_ER, F4\_ER, F3\_ER, F5\_ER

d. Dependent Variable: Acceding

**ANOVA<sup>d</sup> Analysis for Organizational Culture (Total Sample)**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	32386.704	4	8096.676	17.067	.000 <sup>a</sup>
	Residual	202568.546	427	474.399		
	Total	234955.250	431			
2	Regression	40894.744	9	4543.860	9.881	.000 <sup>b</sup>
	Residual	194060.506	422	459.859		
	Total	234955.250	431			
3	Regression	48911.018	14	3493.644	7.831	.000 <sup>c</sup>
	Residual	186044.232	417	446.149		
	Total	234955.250	431			

a. Predictors: (Constant), Gender, ER\_C, Edu, Age

b. Predictors: (Constant), Gender, ER\_C, Edu, Age, F2\_C, F3\_C, F4\_C, F1\_C, F5\_C

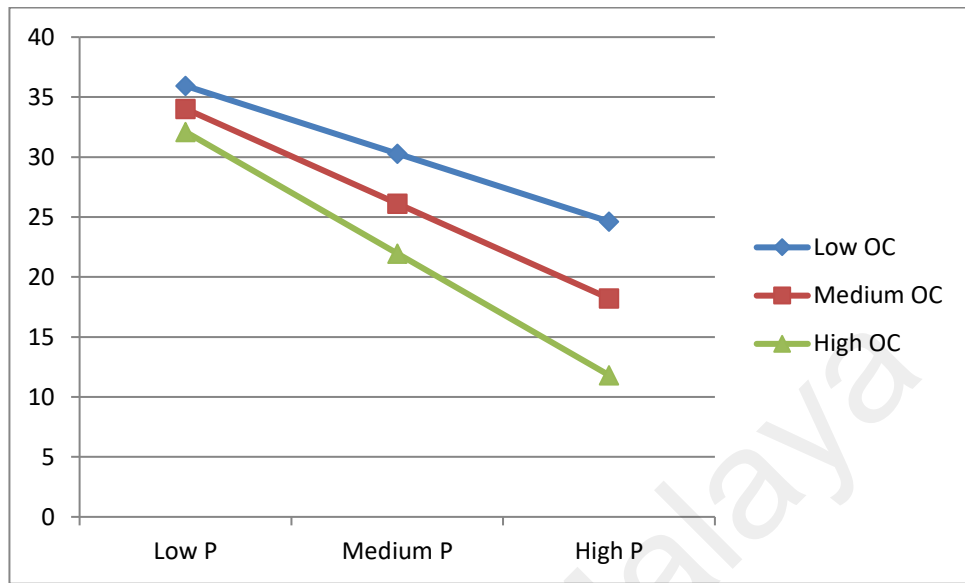
c. Predictors: (Constant), Gender, ER\_C, Edu, Age, F2\_C, F3\_C, F4\_C, F1\_C, F5\_C, F1\_ER, F2\_ER, F4\_ER, F3\_ER, F5\_ER

d. Dependent Variable: Acceding

**Results of Hierarchical Moderated Regression Analysis for Organizational Culture (Total Sample)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	61.797	21.526		2.871	.004		
	ER_C	-.659	.082	-.362	-8.034	.000	.996	1.004
	Age	-.172	.105	-.076	-1.640	.102	.947	1.056
	Edu	-2.765	2.027	-.062	-1.364	.173	.978	1.022
	Gender	-.999	2.696	-.017	-.370	.711	.947	1.056
2	(Constant)	59.507	21.313		2.792	.005		
	ER_C	-.667	.081	-.366	-8.248	.000	.995	1.005
	age	-.196	.105	-.086	-1.875	.062	.920	1.088
	Edu	-2.385	2.007	-.053	-1.189	.235	.968	1.034
	Gender	-1.448	2.668	-.025	-.543	.588	.938	1.067
	F1_C	.476	.563	.044	.845	.399	.732	1.367
	F2_C	-1.258	.408	-.146	-3.084	.002	.873	1.145
	F3_C	.397	.716	.029	.555	.579	.738	1.355
	F4_C	-1.888	.779	-.119	-2.425	.016	.812	1.231
	F5_C	.381	.716	.029	.533	.595	.681	1.468
3	(Constant)	52.994	21.256		2.493	.013		
	ER_C	-.639	.080	-.350	-7.962	.000	.980	1.020
	age	-.183	.103	-.081	-1.776	.076	.916	1.091
	Edu	-1.797	1.999	-.040	-.899	.369	.946	1.057
	Gender	-1.495	2.634	-.026	-.568	.571	.934	1.071
	F1_C	.434	.557	.040	.779	.437	.726	1.377
	F2_C	-1.099	.410	-.128	-2.684	.008	.841	1.189
	F3_C	.191	.718	.014	.266	.790	.711	1.407
	F4_C	-1.805	.773	-.114	-2.335	.020	.800	1.250
	F5_C	.455	.715	.034	.637	.525	.662	1.511
	F1_ER	-.039	.047	-.043	-.830	.407	.713	1.402
	F2_ER	.074	.033	.107	2.242	.025	.834	1.199
	F3_ER	-.011	.054	-.010	-.198	.843	.726	1.377
	F4_ER	.176	.061	.140	2.878	.004	.806	1.240
F5_ER	-.050	.064	-.042	-.779	.436	.658	1.520	

a. Dependent Variable: Acceding



### H3-1

**Model Summary<sup>d</sup> of Hierarchical Moderated Regression Analysis for Governmental Organization (Group G)**

Model	R	R Square	Adjusted R <sup>2</sup>	Std. Error of the Estimate	Change Statistics					Durbin-Watson	ANOVA	
					R Square Change	F Change	df1	df2	Sig. F Change		F	Sig.
1	.491 <sup>a</sup>	0.241	0.225	14.2431	0.241	14.871	4	187	0.000		14.871	
2	.576 <sup>b</sup>	0.332	0.298	13.5519	0.090	4.913	5	182	0.000		10.030	
3	.642 <sup>c</sup>	0.413	0.366	12.8829	0.081	4.878	5	177	0.000	1.753	8.877	0.000

a. Predictors: (Constant), Gender, ER\_C, Edu, Age

b. Predictors: (Constant), Gender, ER\_C, Edu, Age, F3\_C, F1\_C, F2\_C, F4\_C, F5\_C

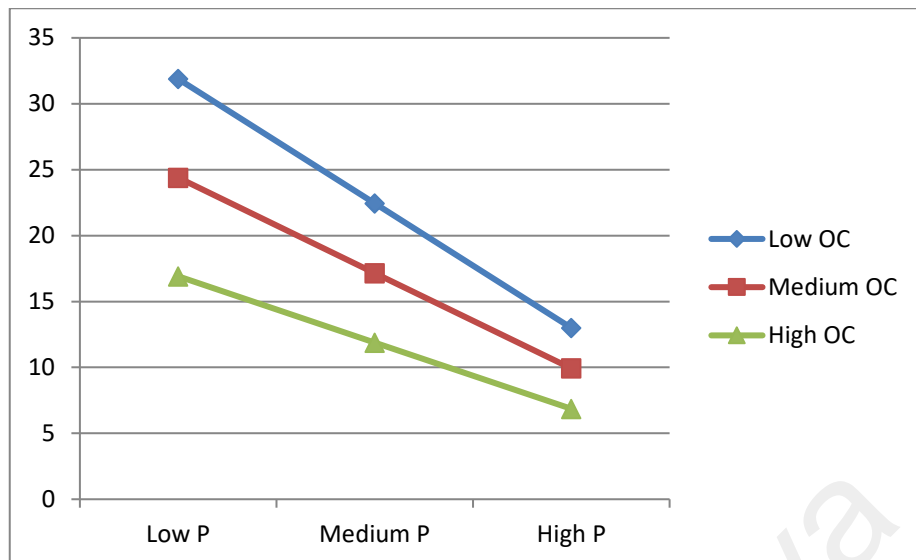
c. Predictors: (Constant), Gender, ER\_C, Edu, Age, F3\_C, F1\_C, F2\_C, F4\_C, F5\_C, F1\_ER, F3\_ER, F2\_ER, F4\_ER, F5\_ER

d. Dependent Variable: Acceding

**Results of Hierarchical Moderated Regression Analysis for Organizational Culture (Group G)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	30.831	20.055		1.537	.126		
	ER_C	-.617	.080	-.490	-7.691	.000	.998	1.002
	Age	.014	.112	.008	.123	.902	.927	1.079
	Edu	-1.248	1.820	-.044	-.686	.494	.996	1.004
	Gender	-.691	2.542	-.018	-.272	.786	.925	1.081
2	(Constant)	26.525	19.542		1.357	.176		
	ER_C	-.546	.080	-.434	-6.828	.000	.910	1.099
	Age	.066	.109	.039	.605	.546	.881	1.135
	Edu	-1.098	1.757	-.039	-.625	.533	.967	1.034
	Gender	.579	2.466	.015	.235	.815	.891	1.123
	F1_C	-.094	.480	-.013	-.197	.844	.805	1.242
	F2_C	-1.237	.684	-.128	-1.809	.072	.736	1.358
	F3_C	.626	.511	.083	1.225	.222	.793	1.261
	F4_C	-2.991	.816	-.264	-3.664	.000	.708	1.412
	F5_C	.509	.644	.058	.791	.430	.682	1.467
3	(Constant)	22.760	18.820		1.209	.228		
	ER_C	-.591	.079	-.469	-7.452	.000	.838	1.194
	Age	.033	.106	.020	.311	.756	.838	1.194
	Edu	-.710	1.698	-.025	-.418	.676	.936	1.068
	Gender	.788	2.356	.021	.335	.738	.882	1.134
	F1_C	.027	.464	.004	.059	.953	.779	1.284
	F2_C	-1.479	.709	-.153	-2.085	.039	.618	1.618
	F3_C	.647	.498	.086	1.300	.195	.756	1.323
	F4_C	-3.211	.786	-.283	-4.086	.000	.691	1.447
	F5_C	.535	.620	.061	.862	.390	.665	1.504
	<b>F1_ER</b>	<b>0.091</b>	<b>0.041</b>	<b>0.147</b>	<b>2.244</b>	<b>0.026</b>	<b>0.775</b>	<b>1.290</b>
	F2_ER	.019	.043	.030	.440	.661	.714	1.400
	F3_ER	-.010	.048	-.016	-.216	.829	.647	1.546
	<b>F4_ER</b>	<b>0.203</b>	<b>0.060</b>	<b>0.227</b>	<b>3.369</b>	<b>0.001</b>	<b>0.730</b>	<b>1.370</b>
<b>F5_ER</b>	<b>-0.133</b>	<b>0.062</b>	<b>-0.159</b>	<b>-2.157</b>	<b>0.032</b>	<b>0.611</b>	<b>1.637</b>	

a. Dependent Variable: Acceding



### H3-2

**Model Summary<sup>d</sup> of Hierarchical Moderated Regression Analysis for Private Firms (Group P)**

Model	R	R Square	Adjusted R <sup>2</sup>	Std. Error of the Estimate	Change Statistics					Durbin-Watson	ANOVA	
					R <sup>2</sup> Change	F Change	df1	df2	Sig. F Change		F	Sig
1	0.317 <sup>a</sup>	0.100	0.085	24.78868	0.100	6.561	4	235	0.000		6.561	
2	0.396 <sup>b</sup>	0.157	0.124	24.25741	0.056	3.081	5	230	0.010		4.757	
3	0.458 <sup>c</sup>	0.210	0.161	23.74308	<b>0.053</b>	3.015	5	225	0.012	2.094	4.269	0.000

a. Predictors: (Constant), Gender, ER\_C, Age, Edu

b. Predictors: (Constant), Gender, ER\_C, Age, Edu, F1\_C, F4\_C, F2\_C, F3\_C, F5\_C

c. Predictors: (Constant), Gender, ER\_C, Age, Edu, F1\_C, F4\_C, F2\_C, F3\_C, F5\_C, F4\_ER, F3\_ER, F2\_ER, F1\_ER, F5\_ER

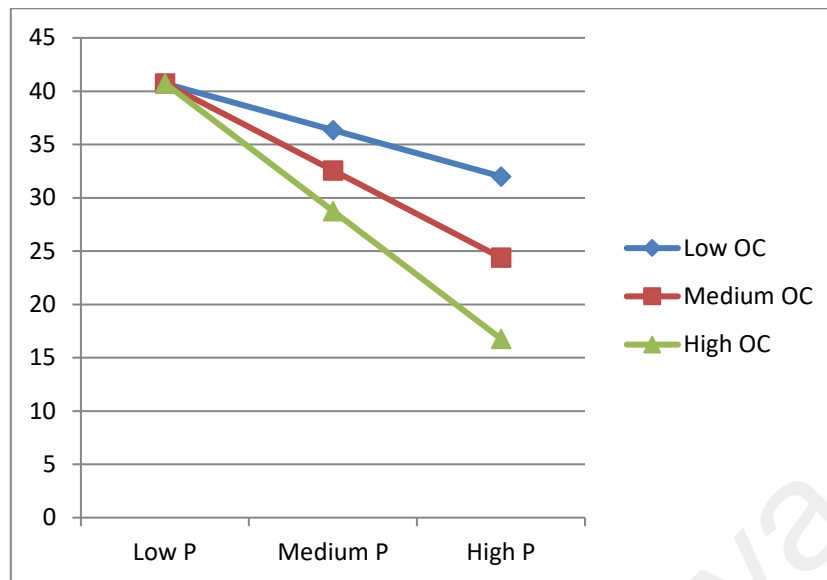
d. Dependent Variable: Acceding

**Results of Hierarchical Moderated Regression Analysis for Organizational Culture (Group P)**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	28.072	27.531		1.020	.309		
	ER_C	-.622	.127	-.307	-4.909	.000	.980	1.020
	Age	-.122	.156	-.050	-.785	.433	.933	1.072
	Edu	.572	2.562	.015	.223	.823	.907	1.102
	Gender	2.542	4.435	.037	.573	.567	.902	1.109
2	(Constant)	30.098	26.993		1.115	.266		
	ER_C	-.590	.125	-.291	-4.720	.000	.965	1.037
	Age	-.111	.155	-.046	-.718	.473	.910	1.099
	Edu	.237	2.515	.006	.094	.925	.902	1.109
	Gender	2.474	4.356	.036	.568	.571	.895	1.117
	F1_C	-.383	.882	-.031	-.434	.665	.717	1.395
	F2_C	2.067	.614	.224	3.368	.001	.828	1.208
	F3_C	.717	1.089	.046	.659	.511	.740	1.352
	F4_C	-3.075	1.195	-.173	-2.574	.011	.810	1.235
	F5_C	-.490	1.112	-.033	-.441	.660	.672	1.488
3	(Constant)	24.775	26.581		.932	.352		
	ER_C	-.515	.125	-.254	-4.115	.000	.921	1.086
	Age	-.103	.153	-.042	-.675	.501	.894	1.119
	Edu	.815	2.475	.021	.329	.742	.892	1.122
	Gender	1.413	4.297	.021	.329	.743	.881	1.135
	F1_C	-.199	.872	-.016	-.228	.820	.703	1.422
	F2_C	2.174	.606	.236	3.590	.000	.815	1.228
	F3_C	.377	1.082	.024	.348	.728	.718	1.392
	F4_C	-2.872	1.177	-.162	-2.441	.015	.800	1.250
	F5_C	-.685	1.100	-.046	-.623	.534	.658	1.521
	F1_ER	-.077	.072	-.078	-1.079	.282	.666	1.503
	<b>F2_ER</b>	<b>0.143</b>	<b>0.048</b>	<b>0.189</b>	<b>2.955</b>	<b>0.003</b>	<b>0.862</b>	<b>1.160</b>
	F3_ER	-.047	.095	-.035	-.492	.624	.708	1.412
	F4_ER	.151	.096	.102	1.579	.116	.845	1.183
F5_ER	.091	.093	.072	.975	.331	.638	1.567	

a. Dependent Variable: Acceding





## Test for impact of the Year

### H2

**Coefficients for Relationship Between Ethical Reasoning and Auditor Acceding**

Model	Unstandardized Coefficients		St Coeffic	t	R <sup>2</sup>	Adjus R <sup>2</sup>	Sig.	Collinearity Statistics		ANOVA	
	B	Std. Error	Beta					Tolerance	VIF	F	Sig.
(Constant)	60.31	20.813		2.898	0.225	0.216	0.004			24.71	0.000
ER	-.631	0.078	-0.346	-8.082			0.000	0.993	1.007		
Group	-14.213	2.055	-0.303	-6.915			0.000	0.949	1.054		
Year	-0.948	0.137	-0.303	-6.915			0.000	0.949	1.054		
Age	-0.061	0.101	-0.027	-0.605			0.545	0.923	1.084		
Edu	-1.034	1.940	-0.023	-0.533			0.594	0.962	1.040		
Gender	1.067	2.577	0.018	0.414			0.679	0.935	1.070		

a. Dependent Variable: Acceding

### H3

**Model Summary<sup>d</sup> of Hierarchical Moderated Regression Analysis for Year**

Model	R	R <sup>2</sup>	Adj R <sup>2</sup>	Std. Error of the Estimate	Change Statistics					Durbin Watson	ANOVA	
					R2 Change	F Change	df1	Df2	Sig. F Change		F	Sig.
1	0.474 <sup>a</sup>	0.225	0.216	20.676	0.225	24.715	5	426 <sup>a</sup>	0.000		24.71	0.000 <sup>b</sup>
2	0.500 <sup>b</sup>	0.250	0.233	20.453	0.026	2.869	5	421 <sup>b</sup>	0.015		14.06	0.000 <sup>c</sup>
3	0.532 <sup>c</sup>	0.283	0.257	20.119	0.033	3.818	5	416 <sup>c</sup>	0.002	0.406	10.96	0.000 <sup>d</sup>

a. Predictors: (Constant), ER\_C, Age, Edu, Year, Gender

b. Predictors: (Constant), ER\_C, Age, Edu, Year, Gender, F1\_C, F2\_C, F4\_C, F3\_C, F5\_C

c. Predictors: (Constant), ER\_C, Age, Edu, Year, Gender, F1\_C, F2\_C, F4\_C, F3\_C, F5\_C, F2\_ER, F3\_ER, F1\_ER, F4\_ER, F5\_ER

**Results of Hierarchical Moderated Regression Analysis for Impact the Year**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	
1	(Constant)	58.050	20.442		2.840	0.005		
	Year	-0.948	0.137	-0.303	-6.915	0.000	0.949	1.054
	Age	-0.061	0.101	-0.027	-.605	0.545	0.923	1.084
	Edu	-1.034	1.940	-0.023	-.533	0.594	0.962	1.040
	Gender	1.067	2.577	0.018	.414	0.679	0.935	1.070
	ER_C	-0.631	0.078	-0.346	-8.082	0.000	0.993	1.007
2	(Constant)	55.818	20.336		2.745	0.006		
	Year	-0.895	0.137	-0.286	-6.548	0.000	0.933	1.072
	Age	-0.082	0.101	-0.036	-.806	0.421	0.892	1.121
	Edu	-0.783	1.929	-0.018	-.406	0.685	0.952	1.050
	Gender	0.572	2.564	0.010	.223	0.823	0.924	1.082
	ER_C	-0.638	0.077	-0.350	-8.264	0.000	0.991	1.009
	F1_C	0.445	0.537	0.041	.828	0.408	0.732	1.367
	F2_C	-1.003	0.391	-0.116	-2.564	0.011	0.865	1.156
	F3_C	0.251	0.683	0.018	.368	0.713	0.737	1.357
	F4_C	-1.639	0.744	-0.103	-2.203	0.028	0.810	1.234
	F5_C	.087	0.684	0.007	.128	0.898	0.678	1.475
3	(Constant)	50.957	20.249		2.516	0.012		
	<b>Year</b>	<b>-0.894</b>	<b>0.135</b>	<b>-0.286</b>	<b>-6.603</b>	<b>0.000</b>	<b>0.920</b>	1.086
	Age	-0.069	0.100	-0.031	-.694	0.488	0.889	1.125
	Edu	-0.346	1.917	-0.008	-.180	0.857	0.933	1.071
	Gender	0.420	2.525	0.007	.166	0.868	0.922	1.085
	ER_C	-0.612	0.077	-0.336	-7.995	0.000	0.978	1.023
	F1_C	0.395	0.531	0.036	.745	0.457	0.726	1.378
	<b>F2_C</b>	<b>-0.865</b>	<b>0.392</b>	<b>-0.100</b>	<b>-2.209</b>	<b>0.028</b>	<b>0.834</b>	1.199
	F3_C	0.101	0.684	0.007	.148	0.882	0.711	1.407
	<b>F4_C</b>	<b>-1.553</b>	<b>0.737</b>	<b>-0.098</b>	<b>-2.106</b>	<b>0.036</b>	<b>0.798</b>	1.253
	F5_C	0.091	0.683	.007	.134	0.894	0.658	1.520
	F1_ER	-0.054	0.045	-.060	-1.210	0.227	0.711	1.406
	<b>F2_ER</b>	<b>0.076</b>	<b>0.032</b>	<b>.109</b>	<b>2.393</b>	<b>0.017</b>	<b>0.834</b>	1.199
	F3_ER	-0.035	0.052	-.033	-.679	0.497	0.722	1.384
	<b>F4_ER</b>	<b>0.162</b>	<b>0.058</b>	<b>0.129</b>	<b>2.784</b>	<b>0.006</b>	<b>0.805</b>	<b>1.242</b>
F5_ER	-0.026	0.061	-0.022	-.429	0.668	0.655	1.526	

## Test Heteroscedasticity Glesger

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.328 <sup>a</sup>	0.108	0.097	13.24271

**ANOVA<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	9017.582	5	1803.516	10.284	.000 <sup>b</sup>
1 Residual	74707.310	426	175.369		
Total	83724.892	431			

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	52.162	14.038		3.716	.000
1 Age	.122	.064	.090	1.908	.057
1 Edu	-2.205	1.232	-.083	-1.789	.074
1 Gender	-.031	1.640	-.001	-.019	.985
1 Organizational culture	-2.320	1.259	-.085	-1.843	.066
1 Ethical Reasoning	-.316	.050	-.291	-6.322	.065