The Moderating Effect of Public Accounting Firm Size on Correlation of Organizational-Professional Conflict and Auditor Judgment

Review of Integrative Business & Economics Research

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ABSTRACT

The auditor professionalism has been the subject of discussion in many researches. Professionalism in auditing is arguably more evident during the judgment process for auditors, especially when dealing with the role conflict that might present during their auditing work. The degree of an auditor's professionalism might be determined by the size of the public accounting firm, where the auditing work takes place. This research is aimed to examine the moderating effect of public accounting firms' size on correlation between organizational-professional conflict and professional judgment using moderated regression analysis method. This study is carried out at Public Accounting Firm in Jakarta, Semarang and Yogyakarta. The result indicates that an auditor's affiliation to Public Accounting Firm has a significant effect on the correlation of organizational-professional Conflict and audit judgment. The result of this study provides insight for accounting firm to establish their conflict management policy as well as recommendation for interested companies in selecting public accounting firm to provide accounting services in the future.

Keywords: Organizational–Professional Conflict, Auditor Judgment, Public Accounting Firm Size

1. INTRODUCTION

Since the collapse of Enron in 2001, auditor professionalism has been the subject of many studies (e.g. Shafer, Park, Liao, 2001; Wedemeyer, 2010). The quality of the auditing work is often measured by the professionalism of the auditor. The inherent professional attributes in the profession of public accountant have brought many consequences for the auditing work itself including the demands to deliver high service quality and maintain public interest in general as both outcomes have allowed public accountant professionals to enjoy certain benefits in society, including education, certification and rights to self-regulation (Shafer et.al., 2001).

Nowadays, according to the International Standards on Auditing (ISA), auditor's professional judgment becomes significantly crucial for auditing work. ISA emphasizes the importance of professional wisdom to make auditor's professional judgment, rather than the much-used mathematical approach to the auditing work. Consequently, there is an emerging need for companies to recruit experienced audit partners as ISA requires

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

the exercise of professional judgment while preparing audited financial statements for the financial statements to be in accordance with ISA (Tuanakotta, 2013:12).
On the other hand, auditors usually have two roles in regards to their professional work – roles as a member of professional association and roles as a member of business entity (i.e. public accounting firm). It is fair to assume that the existence of those different roles might come into conflict with one another at some point in the auditors' professional life as auditors attempt to abide both the accounting professional code of conduct and organizational requirements. Sculatellaro (2009) also concurs with the possibility of incompatible demands from clients or managers that pulled auditors in a different direction than their professional judgment while responding to the said demands.

Meyer (2001) as cited in Jamilah, Fanani and Chandarin (2007) explains that there are several possible factors that could determine auditors' judgments including individual behaviour. However, the study of behavioural implications of accounting is still relatively new. Therefore, this study aims to contribute to the current understanding of behavioural implications of accounting as well as providing practical recommendations for public accounting firms, by examining the moderating effect public accounting firms' size on organizational-professional conflict and auditor judgment.

2. LITERATURE REVIEW

2.1 Cognitive Dissonance Theory

Cognitive dissonance theory is first formulated by Festinger in the mid-1950s. The underlying idea of cognitive dissonance theory is rather straightforward – that cognitively, people prefer consistency instead of inconsistency. The incongruity among cognitive elements would lead to dissatisfaction for anyone and eventually, drives individuals to reduce or avoid the increasing dissonance through many mechanisms. However, none of those dissonance can be resolved perfectly (Setiawan and Ghozali, 2006:10)

One of the consequences with the cognitive dissonance is the prediction that the entire decision or selections cause dissonance as far as unselected alternatives contain positive features that make it attractive and selected alternatives containing characteristics that may lead to the rejection. In such condition, someone will try to reduce their cognition is by looking for the facts to confirm his decision. This theory is used to explain the inconsistency relationship among several concepts that are affective component of attitude.

This teory is also a cornerstone in understanding the matter of choosing work as an accountant (Setiawan and Ghozali, 2006: 11). Determining further audit procedures use the judgment could explain that there are some alternatives in auditor's professional work. Those alternatives may lead them to consideration whether it is good or bad to be chosen as desicion based on professional and organizational views. In other way, we can say that theory can be related also into auditing area especially for this study regarding to inconsistencies among professional and organizational values concepts.

2.2 Role Theory and Role Conflict

Role is defined as a "position that has expectations evolving from established norms and people in the modern society sometimes fills numerous other roles at the

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same time" (Luthans, 2011: 290). According to the role theory, incongruity between expected behavior and actual behavior will result in individual's negative experience of stress, dissatisfaction and inadequate work results (Rizzo et. al., 1970)
In the modern society nowadays, auditors usually have more than one role, either as a professional association member or part of business entity. Consequently, there are demands for auditors to act in accordance to code of conducts established by the professional association and the accounting firm where they currently work as well as being monitored by both entities.

However, it is possible for the professional association and the accounting firm to have conflicting sets of values in their code of conducts. The difference between expected value in auditors' professional and organizational role might lead to role conflict during their auditing work (Iswari and Kusuma, 2013).

2.3 Operational Definition

2.3.1 Organizational Professional Conflict

Organization and professional has different kind of values and norms. In organization, those values and norms refer to values and norms of bureaucracy, meanwhile in professional area, those values and norms refer to professional values and norms (Setiawan dan Ghozali (2006:39). Aranya and Ferris (1984) argues that conflict between organizational and professional values will not arise as long as organizationally-directed behavior is consistent with professional ethical code driven behavior.

On the other hand, McGregor, Killough, and Brown (1989) as cited in Utami (2007) explain that bureaucratic organization and professional affiliation usually have different perspectives of regulatory compliance. Therefore, professionals who are employed in high bureaucratic organization often experiences conflict between their professional and organizational values, as suggested by Shafer, Park and Liao (2001), Shafer (2002) and Lait and Wallace (2002). The conflict takes place because their values as professionals are incompatible with those of their employing organization, thus making it hard for auditors to achieve their goals and expectations, both as member of professional association and member of the public accounting firm Lait and Wallace, 2002).

2.3.2 Auditor Judgment

Schumutte and Duncan (2009) describe judgment both in accounting and auditing as " a process of synthesizing the collection of information and resulting the conclusion". Furthermore, Wedemeyer (2010) describes auditor judgment as the process of forming an opinion or evaluation that determines the general ability of financial statements.

ICAS (2012: 11) provides an important framework called Knowledge Gathering and Analysis, Assessment of Accounting and Auditing Guidance, Process for Assessing and Challenging Client's Judgment and Documentation of Judgment, to help auditors make their professional judgment during auditing work. The framework highlights the importance of auditors' knowledge and experience for their professional judgment, which has to be maintained and trained during auditors' professional life.

2.3.3 Public Accounting Firm Size

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According to the 2015 Special Report by Inside Public Accounting (IPA), there are 100 largest accounting firms in the world, including Ernst and Young LLP, PricewaterhouseCoopers, Deloitte LLP and KPMG LLP, that is widely known as the big four. Those accounting firms still holds the place as the four biggest accounting firms in the world based on their net revenue (IPA 100 Firms, 2015). From the data we can conclude that somehow the affiliation of public accounting firm (Big Four or Non-Big Four accounting firm) can reflect its size.

Study by DeAngelo (1981) provides a different view about the influence of the accounting firms' size on the quality of its audit work. He argues that bigger accounting firms usually has a better quality in terms of auditing work because the significant amount of cost that is usually required to carry out their work naturally pushes the firms to strive for a higher quality for the end result (De Angelo, 1981). Furthermore, Francis and Yu (2009) as cited in Francis, Michas, and Yu (2012) states that since Big-Four accounting firm has better expertise and more in-house experience, they usually apply high standards for their clients. Clients of Big Four Accounting Firms are expected to apply GAAP correctly and have fewer restatements.

Based on the explanations above, it is suggested that there might be a difference between Big Four and Non Big Four Accounting firms in terms of the quality of their auditing work since the better quality is determined many factors including firms' expertise, audit methodology and many more. Therefore, public accounting firm size concept here can be represented by its affiliation whether the public accounting firm is affiliated with Big Four or Non-Big Four public accounting firm.

2.4 Hypothesis Development

Prior research by Iswari and Kusuma (2013) found that there is a negative effect on correlation between organizational-professional conflict and auditor judgment. Based on the study conducted by Iswari and Kusuma (2013), the correlation between two variables can be strengthened using two moderating variables including personality type and gender. Moreover, the same study suggests that the next study can also be developed using another moderating variables.

This study aims to investigate the effect of public accounting firm size as another moderating variable on the relationship between organizational- professional conflict and auditor judgments that reflect the quality of their professional work. DeAngelo (1981) as cited in Sawan and Alsaqqa (2012) and Yasar (2013) explains that the size of the accounting firm where an auditor works can be an indicator of the auditing work quality because arguably, the big accounting firms can work more objectively since they are not highly concerned about 'losing the client'. In other words, the Big Four accounting firms is expected to have a better quality in terms of their auditing work, compared to the Non-Big For accounting firms.

Consequently, auditors who for the Big Four accounting firm are expected to gain more experiences with clients who have more complex problems and requires a lot of accounting adjustments. In addition, since the Big Four accounting firms have a higher standard for auditing work, the level of conflict between professional and organizational values that might be experienced by the auditors is expected to be higher. Based on those reasons, the hypothesis can be developed as follows:

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H1: Auditors who work in Big Four Public Accounting Firm are more likely to make biased judgment whenever dealing with organizational-professional conflict than the auditors who work in Non-Big Four Public Accounting Firms

3. RESEARCH METHOD

3.1 Data sampling and Variable Measurement

Sample for this study is gathered by convenience sampling method using auditors in Jakarta, Yogyakarta, and Semarang as respondents. Variables used in this research are: Organizational-Professional Conflict, Auditor Judgment, and Public Accounting Firm Size. Organizational-professional conflict as independent variable is measured using instrument developed by Aranya and Ferris (1984). Auditor Judgment as dependent variable is measured using instrument developed by Jamilah, Fanani, and Chandrarin (2007). Both variables are measured using 1-7 Likert scale. Public Accounting Firm size is measured using dummy variables: 0 for Non-Big Four Public Accounting Firm affiliation, 1 for Big Four Accounting Firm Affiliation.

3.2 Data testing

Data will be tested for its reliability, validity and classical assumption test, except for multicollinearity due to the separation of respondents so there will be no multicollinearity effect occurred. The developed hypothesis is tested using moderated regression analysis by separating respondents based on the affiliation of Public Accounting Firm.

3.3 Research Model

From the developed hypothesis above, the research model the auditors can be figured as follow:

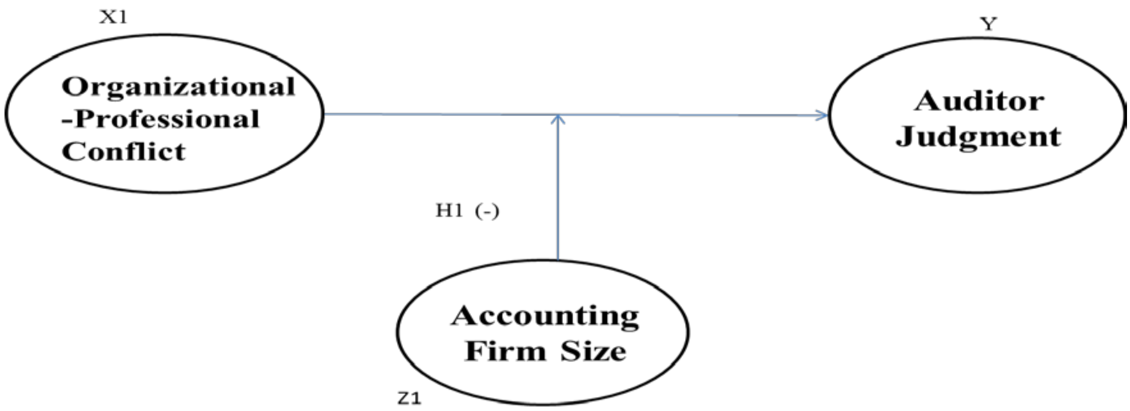

Figure 1 Research Model

4. ANALYSIS AND INTERPRETATION

4.1 Descriptive Statistic

Descriptive statistic is mapped based on: gender, age, professional certification, education level, job position, and audit experience. The respondents' demography can be seen in Appendix 1. In regards to Public Accounting Firm variable, from 137

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

respondents (response rate 72,10%) who filled out the questionnaires, 79 respondents works for Big Four Accounting Firms (Ernst and Young, PricewaterhouseCoopers, and Delloite), while 58 respondents works for Non-Big Four Accounting Firm.

4.2 Reliability, Validity and Classical Assumption Testing

Reliability and validity test are used to measure organizational-professional conflicts and Audit Judgment variables. Those tests are not used to measure accounting firm size since this variable is measured using dummy variable.

According to Hair et. al (2006) as cited in Iswari and Kusuma (2013), Cronbach's Alpha scores above 0,6 (> 0,6) means that the construct or variable is reliable. Cronbach's Alpha scores for both variables are 0.726 and 0.621, which means every item in the instruments used to measure these variables are reliable. The validity of the data tested by correlating the score of each item against the total score (corrected item-total correlation technique). From the test result, it can be seen that the correlation between each indicators for organizational- professional conflict and auditors' professional judgment variables and the total score of the construct shows a significant results, so it can be concluded that the instrument used to measure those variables are valid.

This study uses normality test and heteroskedacity test as classical assumption test. Autocorrelation test and multicolliearity test are not used since the data is not time series in nature and in further testing, accounting firm size will be split into sub samples. Normality test is done using Kolmogorov-Smirnov test, with results as follows:

a. Normality test on the regression model between the organizational–professional conflict and audit judgment shows the significance level on 0.378. The significance value is greater than 0.05. ($P = 0.378 > 0.05$)

b. Normality test on the regression model between the organizational–professional conflict and auditors' judgment with the Big Four Accounting Size as sub sample shows the significance level on 0.480. The significance value is greater than 0.05. ($P = 0.480 > 0.05$).

c. Normality test on the regression model between the organizational–professional conflict and auditors' judgment with the Non-Big Four Accounting Size as sub sample shows the significance level on 0.167. The significance value is greater than 0.05. ($P = 0.167 > 0.05$).

The results on normality test indicate that the hypothesis Ho (Ho: residuals are normally distributed) cannot be denied, or in other words that the residuals are normally distributed.

Heterokedacity test is done using the Park test and shows the following results:

a. Heterokedacity test on the regression model between the organizational–professional conflict and auditors' judgment shows the significance level on 0.082. The significance value is greater than 0.05. ($P = 0.082 > 0.05$)

b. Heterokedacity test on the regression model between the organizational–professional conflict and audit judgment with the Big Four Accounting Size as sub sample shows the significance level on 0.080. The significance value is greater than 0.05. ($P = 0.080 > 0.05$).

c. Heterokedacity test on the regression model between the organizational–professional conflict and audit judgment with the Non-Big Four Accounting Size as sub

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sample shows the significance level on 0.272. The significance value is greater than 0.05. (P = 0.272> 0.05).

The heterokedacity shows that no independent variables from each regression model significantly affect residual absolute value (Ln function of the squared residual variable) from the dependent variable. The significance values above 5% confidence level shows that each model of regression model does not contain any heterokedacity.

4.3 Hypothesis Testing

The proposed hypothesis argues that auditors who work in Big Four accounting firms are more likely to make biased judgment whenever dealing with organizational-professional conflict compared to the auditors working in Non-Big Four accounting firm. Hypothesis testing is done by splitting accounting firm size as moderating variable into two sub samples: Big For and Non-Big Four Accounting Firm. The difference in the regression test between sub samples shows the moderating effect. The result of the hypothesis testing can be seen on the following tables:

Table 1. Regression result on correlation among organization-professional conflict and audit judgment using sub sample: Big Four Accounting Firm

Coefficients[a,b]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	49.081	2.189		22.421	.000
	SUM OPC	-.476	.201	-.261	-2.368	.020

a. Dependent Variable: Sum Professional Judgement
b. Selecting only cases for which Accounting Firm Size = Big Four Accounting Firm

Source: Processed primary data

From the table above, it can be seen that the t-value is -2.368 with significance value of 0.020. From the result, it can be concluded that the Big Four Accounting Firm as sub sample has a significant effect on the correlation between organization-professional conflict and auditors' judgment.

Table 2. Regression result on correlation among organization-professional conflict and audit judgment using sub sample: Non-Big Four Accounting Firm

Coefficients[a,b]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	43.132	3.077		14.017	.000
	SUM OPC	-.102	.261	-.052	-.390	.698

a. Dependent Variable: Sum Professional Judgement
b. Selecting only cases for which Accounting Firm Size = Non-Big Four Accounting Firm

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

Source: Processed primary data

From the table above, it can be seen that the t-value is -0.390 with significance value of 0.698. From the result, it can be concluded that the Non-Big Four Accounting Firm as sub sample has no significant effect on the correlation between organizational-professional conflict and auditors' judgment.

From those testing, the difference in significance value between regression test on sub sample Big Four and Non-Big Four Accounting Firm shows the moderating effect of accounting firm size, which also means that the hypothesis is supported. It means that accounting firm size as moderating variable can strengthen the correlation between organizational-professional conflict and auditors' judgment.

5. CONCLUSION

Based on the hypothesis testing, sub sample Big Four accounting firm is shown to have a significant effect on the correlation between organization-professional conflict and auditor judgment, while on the other hand, the sub sample Non-Big Four Accounting firms shows an opposite result. Thus, it can be concluded that there is a moderating effect of accounting firm size on the correlation between those variables. It can also be concluded that auditors who work in Big Four accounting firms who experience organizational-professional conflict during their work are more likely to make biased judgment, compared to auditors who work in Non-Big Four accounting firm. The limitation of this study includes the fact that most respondents are junior auditors who probably still do not have many experiences in making auditors' judgments yet.

Finally, this study provides insight for any accounting firms in establishing their conflict management policy as well as recommendation for interested companies in selecting public accounting firm to provide accounting services in the future.

APPENDIX

Appendix 1 - Respondent Demography

		Amount	**Percentage**			**Amount**	**Percentage**
Gender	Male	62	45.26	**Education Level**	Undergraduate degree	110	80.29
	Female	75	54.74		Master degree	27	19.71
	Total	**137**	**100**		Doctoral degree	0	0.00
Professional Certification	CPA	8	5.84		**Total**	137	100
	CPA and others	1	0.73				
	Other than CPA	11	8.03				
	No Certification	117	85.40				
	Total	137	100				
Job Position	Junior Auditor	90	65.69	**Audit Experience**	< 2 yrs	75	54.74
	Senior Auditor	37	27.01		2-5 yrs	38	27.74
	Assistant Manager	2	1.46		5-10 yrs	14	10.22
	Senior Manager	5	3.65		> 10 yrs	10	7.30

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

	Director	1	0.73		**Total**	**137**	**100**
	Partner	2	1.46				
	Total	137	100				

Source: Processed primary data

ACKNOWLEDGEMENTS

The authors thank the auditors at Big Four and Non-Big Four Accounting Firm who had participated as the respondents and filling out the questionnaires to support our research. Dr. Intiyas Utami, for every research discussion in behavioural auditing area. We also would like to thank our colleagues in Universitas Atma Jaya Yogyakarta who always provides supports, insight as well as expertise for the research. Finally, last but not least, to the SIBR Commitee and all of its participants who have given us the opportunity to share the research and provide constructive feedback during the SIBR conference for the completion of this research paper.

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